BUSINESS ORGANISATION AND MANAGEMENT

UNIT-I: INTRODUCTION AND FORMS OF BUSINESS ORGANISATIONS: Concepts of Business, Trade, Industry and Commerce - Objectives and Functions of Business - Social Responsibility of a Business - Forms of Business Organization - Meaning, Characteristics, Advantages and Disadvantages of Sole Proprietorship – Meaning, Characteristics, Advantages and Disadvantages of Partnership - Kinds of Partners - Partnership Deed - Concept of Limited Liability Partnership – Meaning, Characteristics, Advantages and Disadvantages of Hindu Undivided Family – Meaning, Advantages and Disadvantages of Co-Operative Organization

UNIT-II: JOINT STOCK COMPANY: Joint Stock Company - Meaning - Definition - Characteristics - Advantages and Disadvantages - Kinds of Companies - Promotion - Stages of Promotion - Promoter - Characteristics - Kinds - Preparation of Important Documents - Memorandum of Association - Clauses - Articles of Association - Contents – Prospectus - Contents – Red herring Prospectus- Statement in lieu of Prospectus (As per Companies Act, 2013)

UNIT-III: INTRODUCTION TO FUNCTIONS OF MANAGEMENT: Management - Meaning - Characteristics - Functions of Management - Levels of Management – Skills of Management- Scientific Management - Meaning - Definition - Objectives - Criticism – Fayol's 14 Principles of Management

UNIT-IV: PLANNING AND ORGANISING: Meaning - Definition - Characteristics - Types of Plans - Advantages and Disadvantages – Approaches to Planning - Management by Objectives (MBO) - Steps in MBO - Benefits – Weaknesses - Definition of Organizing – Organization - Process of Organizing - Principles of Organization - Formal and Informal Organizations - Line, Staff Organizations - Line and Staff Conflicts - Functional Organization - Span of Management - Meaning - Determining Span - Factors influencing the Span of Supervision

UNIT-V: AUTHORITY, COORDINATION AND CONTROL: Meaning of Authority, Power, responsibility and accountability - Delegation of Authority - Decentralization of Authority - Definition, importance, process, and principles of Coordination - techniques of Effective Coordination - Control - Meaning - Definition – Relationship between planning and control - Steps in Control - Types (post, current and pre-control) - Requirements for effective control

Unit1

INTRODUCTION AND FORMS OF BUSINESS ORGANISATION

Q. Define business and explain the nature/characteristics of business?

The word business literally means a state of being busy. It may be defined as an activity concerned with the production and exchange of goods and services with the objective of earning profits.

Definition of business:

According to LH Haney "Business may be defined as human activity directed towards providing or acquiring wealth through buying and selling of goods ".

Features/characteristics/ nature of business:

1. **Entrepreneu**r: The person who recognizes the need for a product or service and combines various factors of production and starts the business is called an entrepreneur.
2. **Economic activity:** Business includes only economic activities. The activities related to the production and distribution of goods and services are called economic activities. These are undertaken with profit motive.
3. **Exchange of goods and services:** A business must involve exchange of goods and services. The exchange of goods and services is undertaken with a profit motive.
4. **Profit Motive:** The profit motive is an important element of business. Any activity undertaken without profit motive is not business. The objective of starting a business is to earn profits.
5. **Risk and Uncertainty:** The business involves element of risk and uncertainty. The factors on which business depends are never certain. There may be shift in demand, fall of price etc. If a business man is able to foresee future uncertainties and is also able to bear them, then he will be successful otherwise he may be forced out of business.
6. **Continuity of transactions**: In business only those transactions are included which have regularity and continuity. An isolated transaction will not be called business. For example a person builds a house for himself and later on he sells it for a profit is not a business. On the other hand, if a house building society builds houses and sells them, then it will be called a business.
7. **Creation of Utility**: business creates various types of utilities in goods so that the consumer uses them. The utilities may be form, time, place utilities.
8. **Organization:** Every enterprise needs an organization for its successful working. An organization creates the frame work for managerial performance and helps in coordinating various business activities. A proper organization is essential for the smooth running of the business and helps to achieve its objectives.
9. **Financing**: Every business requires finance. Finance is required for providing fixed and working capital. The availability of other factors of production also depends upon the availability of finance. After estimating the financial requirements the businessman has to find out the sources of finance.
10. **Consumer satisfaction**: The ultimate aim of business is to supply goods to the consumers. If the consumer is satisfied he will purchase the same thing again. Otherwise, he will go for an alternative commodity. So, a business man should produce the goods according to the requirements of the consumer. The commodities should also be made available In the market as and when they are required.

11. **Satisfying social needs**: The business man should aim at serving social needs at large.

Q. What are the functions of business?

Note: write meaning and definition of business

1. **Production function**: Production function involves transformation of raw materials into goods and services. A number of inputs such as labour, capital, machinery are necessary to carry out this function. The production has become a specialized function in modern business. A number of other factors like plant location, layout, production planning and control, quality control, industrial engineering, repairs and maintenance, material management etc., too need a special treatment.
2. **Marketing Function:** marketing is a process involving activities ranging from getting goods from producers and sending them to ultimate consumers. It involves an effort to create customers for the products and provide maximum satisfaction to them. This function involves the development of marketing mix consisting of product, price, promotion and physical distribution. This mix has to be decided by keeping in view the business environment on a particular time. Marketing also involves decisions like product design, package, brand name, pricing policies, distribution channels, advertising methods etc.
3. **Personnel Function**: Personnel function is concerned with people at work and their relationship within enterprise. This function is concerned with employment, development and compensation of the personnel and the provision of working conditions and welfare measures to maintain a good working force in the organization. The entrepreneur should endeavour to make proper utilization of human resources. This will require an attractive wage policy, incentive plans and proper motivational approach. The success of a business is directly related to the efforts of its man power.
4. **Finance Function**: Finance function is the important of all business functions. A business needs finance for developing and expanding an enterprise. The funds will have to be raised from various sources. The sources will be selected in relation to the implications attached with them. The receiving of money is not enough, its utilization is more important. The money once received will have to be returned. The management should have an idea of using the money profitably. The in-flows and out-flows of funds should be properly matched.

Q. What are the objectives of business?

The word business literally means a state of being busy. It may be defined as an activity concerned with the production and exchange of goods and services with the objective of earning profits.

Definition of business:

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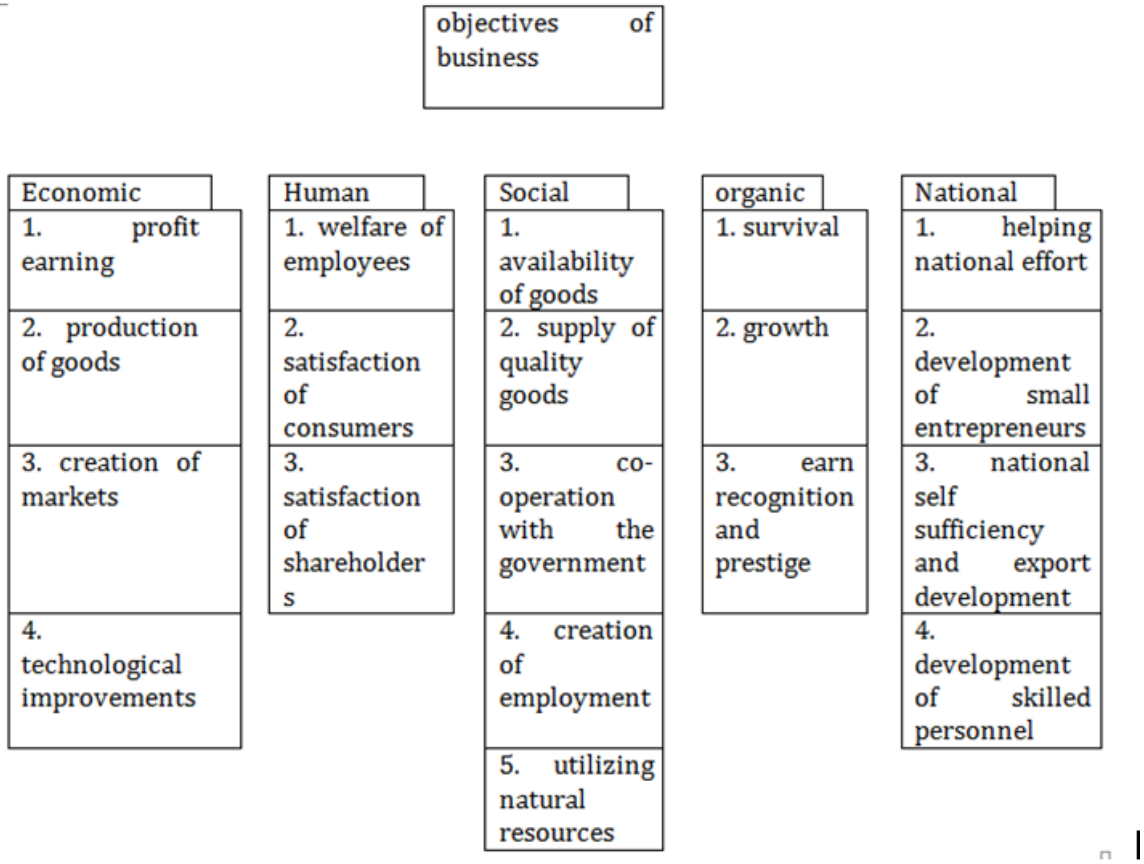


ECONOMIC OBJCTIVES:

1. Profit earning: Profit is the basic incentive to business. Profits are needed to face various uncertainties like business cycles, changes in demand and fluctuations in money market. A business needs profit not only for its existence but also for expansion and diversification.

2. Production of goods: The profits can be earned only when exchange of goods and services takes place. So, the objective of business is to produce more goods and sell them to the consumers. The produces have to estimate the demand for goods and produce goods accordingly.

3. Creating market: The aim of the business is to sell products. Marketing consists of those efforts which involves transfer of ownership. The businessman searches for new consumers for increasing sales. He should also take necessary steps to retain existing consumers by supplying better quality products at reasonable prices.

4. Technological improvements: A business man should always try to use latest methods of production. In the present competitive world every business man has to sell his products by offering good quality products at lower prices. This is possible only when latest technology is used for producing goods.

HUMAN OBJECTIVES:

1. **Welfare of employees:** The employees of an enterprise help in increasing the profitability. So, the employees should be looked upon as human beings and they must be given a due share in profits. It may be in the form of bonus, allowances or by providing various welfare measures like physical comforts, medical facilities, promotion, recognition etc.

2. **Satisfaction of consumers:** The consumers should be provided quality of goods at reasonable prices. The tastes and requirements of the consumers should be given weightage before designing a product. For a businessman, the business is for consumers and satisfying their needs.
3. **Satisfaction of shareholders**: Shareholders are part owners of the business. The management should give reasonable return on the money invested by the shareholders. The shareholders should feel that their money is not misused by the management.

SOCIAL OBJECTIVES:

1. **Availability of goods**: The business should ensure the supply of goods to meet the requirements of the society. Every business should estimate the total demand and supply goods accordingly.
2. **Supply of quality goods:** The supply of quality goods and services to consumers at reasonable price is the responsibility of business. The supply of adulterated goods, inferior goods will be against business ethics. Therefore it is the duty of a businessman to study the wants and needs of consumers and provide them with good quality goods at reasonable prices.
3. **Co-operation with government:** Business should always cooperate with the Government in helping it to achieve the objective of socialistic pattern of society. The Govt. of India has devised rules for both public and private sectors. The Government has enacted major policies for the growth and development of the nation. The business community should have positive approach towards policies of the Government.
4. **Creation of more employment:** The business can help the society by creating more and more job opportunities. The expansion of business not only helps in employing more persons but also has other advantages to the society.
5. **Utilizing natural resources**: A business man should utilize the natural resources in a best possible way. Wastage of resources not only to the business but also to nation.

ORGANIC OBJECTIVES

1. **Survival**: The first objective of every business is to survive in the market. It has to take up those activities which are beneficial to the society. The business should try to create demand for its products and is be able to earn profits.
2. **Growth**: A business unit passes through various phases during its existence. A business unit tries to utilize its resources properly so that it is able to retain some of its profits for further expansion and diversification.
3. **Earn recognition and prestige**: A business enterprise always aims to get recognition in the society. It should have good rapport with dealers and suppliers by making prompt payment and supply of goods. The consumers should be supplied good quality products at reasonable prices.

NATIONAL OBJECTIVES

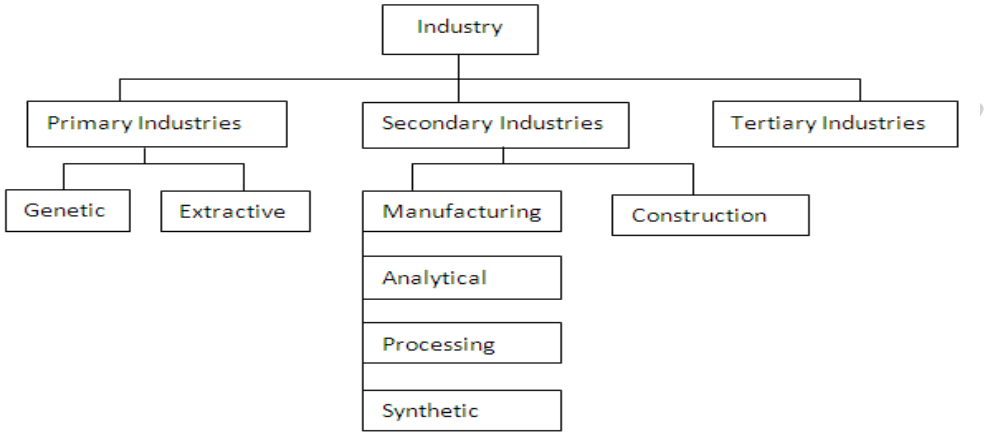
1. **Helping national effort**: A business aims at helping the national effort of improving economic position of the society. It is the duty of the business enterprises to produce goods on the basis of needs but not on the basis of profit margins.
2. **Development of small entrepreneurs**: Big business houses should help in the development of small undertakings. They should not treat small entrepreneurs as competitors. Big units may also help by encouraging small units to sell their products to them and arranging industrial inputs for them.

3. **National self sufficiency and export development:** Every business can play an important role in making a country self sufficient. It should produce all those goods which are imported from outside and should also be made to produce those goods which find ready market in foreign countries. This will help in earning foreign exchange.
4. **Development of skilled personnel**: Every country needs trained and skilled personnel for the development of its industries. Business houses can provide technical knowledge and training their employees. In India some business houses have set up engineering and technology institutes will supply trained personnel to the nation.

Q. What are the different types of Industries?

Meaning: Industry is concerned with making or manufacturing of goods and services. It involves converting raw materials to the finished goods. The goods produced may be either consumer goods or producer's goods.

Classification of industries:



A. **Primary Industry**: Primary industry relates to all those activities which are connected with the extraction, producing and processing of natural resources. These industries may be classified as **(1). Genetic and (2) Extractive**
   1. **Genetic Industry:** genetic industry is related to the re-producing and multiplying of certain species of animals and plants with the objective of earning profits from their sales. Nurseries, fish hatcheries, poultry farms etc are the examples of genetic Industry.

   2. Extractive Industry: The extractive industry is engaged in raising some form of wealth from the soil, climate, air, water or from beneath the surface of the earth. Mining, fishing, and hunting are some of the examples of this industry.

   b. Secondary Industry: secondary industries are related to the processing of materials which have already been produced at the primary stage. These industries cover activities like manufacturing and construction activities.

b**. Secondary Industry**:

1. **Manufacturing Industry:** This Industry is engaged in the conversion of raw materials into semi-finished and finished goods. This industry creates form utility in goods. The products of extractive industry are normally used as raw materials by manufacturing industry.
   I. **Analytical Industry:** in this industry a product is analysed and many products are received as final products. In the processing of petrol we will get kerosene, petrol, gas and diesel etc.

II. **Processing Industry**: In this industry a product passes through various processes to become a final product. The finished product of one process becomes the raw material of next process. Sugar and paper industry are other examples of processing industry.

III. **Synthetic Industry**: In this industry raw materials are brought together in manufacturing process to make a final product. In manufacturing cement, rocks, gypsum, coal etc. are required. Soap making, paints are other examples of synthetic industry.

2. **Construction Industry:** This industry is engaged in the creation of infrastructure for the smooth development of the economy. It is concerned with the construction, erection or fabricating of products. These industries are engaged in the construction of buildings, roads, dams, bridges, and canal. These industries use the product of other industries such as cement, iron, bricks, wood etc.

c. Tertiary or Service Industry: Tertiary or service sector deals with all those activities which smoothen the flow of goods and services from the manufacturer/ producers to the consumers. Service industries are back bone of all business activities. These activities include:(i) Transport, (ii)Banking (iii) Insurance (iv) Warehousing (v) Advertising

(i) **Transport**: Movement of goods from the places of production to the places of their requirement.

(ii) **Banking:** Extending of all types of financial services required for production as well as commercial activities.

(iii) **Insurance:** Covers all types risks related to business.

(iv) **Warehousing:** Storing of raw materials as well as finished goods.

(v) **Advertising:** It provides information to consumers about various goods and services produced.

d. On the basis of size and investment:

(i) **Large scale Industry**: the industries investing more than one crore rupees in plant and machinery in manufacturing industries are covered in large scale sector.

(ii) **Small scale industry:** the units having an investment of less than one crore in plant and machinery are small scale units.

e. On the Basis of technology used:

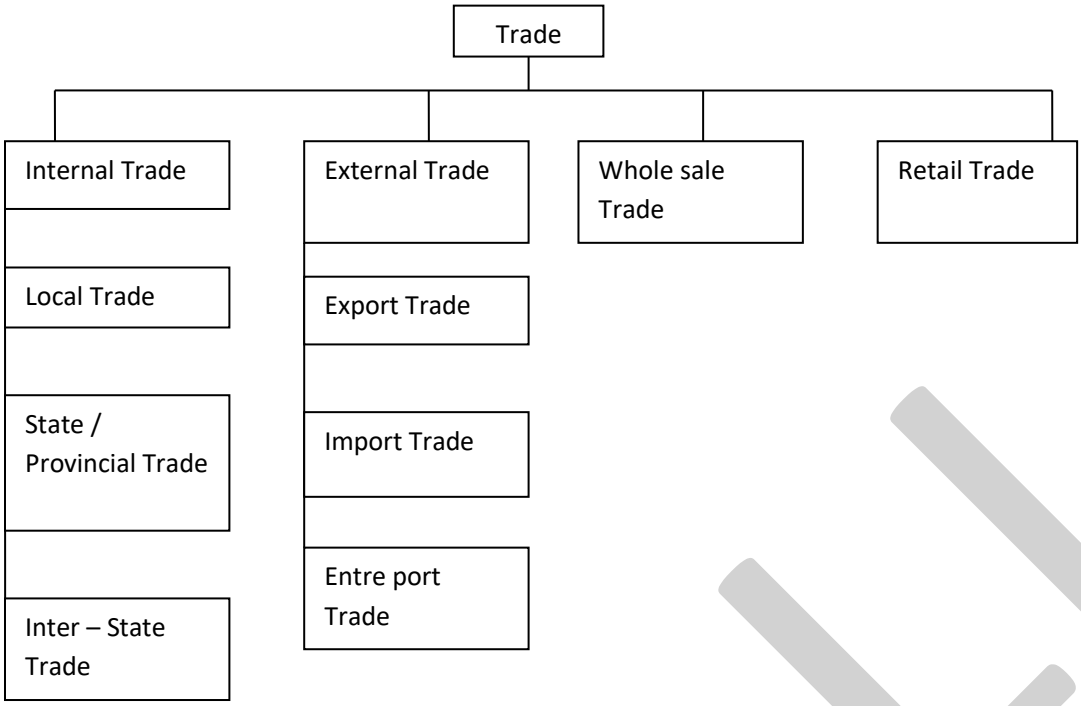
(i) **Heavy Industry:** The industry engaged in the production of machinery, steel, power generation are called heavy industry. These units need heavy investment and employment of complex technology in production.

(ii) **Light Industry:** Industries engaged in the production of consumer goods are called light industries.

Q. EXPLAIN THE CLASSIFICATION OF TRADE?

Meaning of trade: Trade refers to the act of buying and selling of goods. It is the means by which goods are exchanged between the producers and the consumers. Trade eliminates hindrances of person.

Classification of trade:



1. Internal or Home trade: the purchase and sale of goods inside the country is called internal trade.

- **Local Trade**: when the demand for a product is limited only to a particular place, it is called Local trade. Goods are produced according to the local needs of the consumers. The goods traded in local markets are generally goods of perishable nature. The goods are vegetables, milk, bread etc.
- **Provincial or state trade**: the trade takes place within the boundaries of a state. Sometimes Government may put restrictions on the sale of goods outside the state also. The goods traded are generally of durable nature. The goods are produced according to the needs, requirements or customs of a region.
- **Inter- state trade**: the trade conducted throughout the country but within the national boundaries is called Inter-state trade. The goods traded are of durable nature and can be used for a longer period of time.

2. External Trade: When trade takes place between two countries, it is called external trade or foreign trade. External trade generally requires permission from the respective countries. Types of external trade:

- **Export trade**: when goods are exported other countries it is called export trade.
- **Import Trade:** when goods are purchased from other countries it is called import trade.
- **Entreport Trade**: when goods are imported from other countries with the intension of selling/ exporting them to other countries it is called enter pot trade.

3. Whole sale Trade: In whole sale trade, goods are purchased in large quantities and are sold to retailers. A wholesaler is a link between the producer and the retailer. This helps the producers in making bulk production and selling in large quantities. A wholesaler does not come into direct contact with the consumer.

4. Retail Trade: Retail trade involves selling goods to final consumers. The goods are sold in small quantities to the consumers. A retailer purchases goods from the wholesaler and sells them to the consumers. He acts as a link between the wholesaler and the consumer.

Q. Explain auxiliaries (Aids) to trade Hindrances of trade?

Auxiliaries/ Aids to trade mean activities which assist business and trade. They provide proper infrastructure for the smooth conduct of business and remove obstacles in the exchange of goods and services. Business infrastructure included transport, banking, warehousing etc.

1. **Transport**: Goods may be produced at places where they are in less demand. These goods are to be taken to the places of consumption. With the help of various modes of transportation like roads, rail, sea, air the goods are transported to various places. Thus, transportation creates place utility in goods.
2. **Distribution:** The producers of goods may not be able to come into direct contact with the consumers. A chain of middle men acts between the producers and consumers. The middlemen purchase goods from the producers and take them to the consumers. The chain of wholesalers, retailers, brokers, agents etc. operate between the producer and the consumers and remove the hindrance of persons.
3. **Banking:** there is always a time gap between production and sale of goods. It takes time to collect money after sales. There is a need to finance trade activities. The commercial banks help trade in the shape of overdrafts, loans, cash credits etc.. the banks play an important role in international trade where trading parties are not known to each other. The documents are sent through banks who release the documents after collecting the dues. So banks help in overcoming financial problems.
4. **Ware housing**: Goods are produced in the anticipation of demand. They may also be produced at a time when there are not needed. So there is a need to store goods until there is a demand for the goods. The hindrance of time is overcome with the help of warehouse.

f. **Advertising and salesmanship:** The consumers may not be aware of the availability of various goods in the market. The absence of information about goods is a great hindrance in advertisement and salesmanship help in informing the consumers about the availability and usefulness of various products in the market.

g. **Insurance:** There is a risk involves in transporting goods from one place to another. There can be risk due to fire or theft. The fear of loss of goods due to any cause acts as an obstacle in the development of trade. The insurance companies provide coverage for all types of losses of goods.

h. **Communication**: The buyers and sellers at whole sale and retail level need the services of various agencies which communicate their message among themselves. The producers intimate to their customers about the production of goods. The intending buyers send orders to the producers for supply of goods. The services of post office, telephones, telegraphs, etc are utilized for communication purpose.

Q. EXPLAIN THE DIFFERENCE BETWEEN BUSINESSES, PROFESSION & EMPLOYMENT?

a. **Profession:** A profession is an occupation which involves the rendering of personal services of a specialized nature. The services is based on professional education, knowledge etc.. These people are members of professional bodies and should conduct their activities according to the standards set by these bodies. For example, a person practicing law profession has to obey the standards set by Bar council of India.
b. **Employment or service**: When a person undertakes to render personal services under an employment agreement he is said to be in service or employment. The service is rendered for a salary or wage.
c. **Business**: Business may be defined as an activity concerned with the production and exchange of goods and services with the objective of earning profits.

Basis	Business	Profession	Employment
(1) NATURE OF WORK.	It involves production & exchange of goods & services.	Providing specialized personal service.	Performing the work assigned by the employer.
(2)QUALIFICATIONS.	No specific qualifications are required.	Specialized qualifications prescribed for the profession will be required.	Qualifications are linked to the nature of work to be undertaken.
(3)ESTABLISHMENT.	Legal formalities, if required will be performed.	Membership of professional body is needed.	Appointment will be sufficient to take up the job.
(4)INVESTMENT.	Investments are needed as per the nature & scale of operations.	Some investments are needed to set up office.	No investment is required.
(5)REWARD.	Profit is the reward for business.	Professional fee is charged from the clients for service.	Salary or wage is the reward for service.
(6)RISK.	It is faced by lots of risk.	Risk is limited.	There is no risk.
(7)CODE OF CONDUCT.	It may follow the code of conduct devised by business or trade associations.	Following of code of conduct of professional body is essential.	Only rules & regulations related to the job are followed.
(8)MOTIVE.	Profit earning is the motive.	Service of society & earning of income or fees is the motive	Earning of salary or wage is the motive.

Q) Difference between trade, industry & commerce?

Meaning of trade: Trade refers to the act of buying and selling of goods. It is the means by which goods are exchanged between the producers and the consumers. Trade eliminates hindrances of person.

Meaning of Commerce: commerce is concerned with the exchange of goods and services. It includes all those activities which are related to the transfer of goods from the place of production to the ultimate consumer. Commerce includes trade and aids-to-trade

Meaning of Industry: Industry is concerned with making or manufacturing of goods and services. It is that constituent of production which involves changing the form of goods from raw materials to the finished goods.

Basis	TRADE	COMMERCE	INDUSTRY
meaning	Trade means sale or transfer of the ownership of goods & services from the producer to the consumer.	Commerce is the process of distribution of goods & services produced by the industrial sector.	Industry is concerned with the production of goods & services as per the consumer's needs.
Nature	Trade represents exchange of goods & services i.e., both demand & supply.	Commerce represents only the demand side of goods & services.	Industry represents only the supply side of goods & services.
Creation of utility	Trade creates possession utility through the exchange of goods & services.	Commerce creates place & time utility by moving goods from one place to another.	Industry creates form utility by converting raw materials into finished goods.
Place of Operation	Trading operations are carried out in & around consumption centers i.e., market places.	Commercial activities operate between the production centers & the consumption centers.	Industrial activities are carried out at the production centers such as factories & workshops.
capital investment	Trade requires a limited capital investment for maintaining stock.	Various aids-to-trade require huge capital investment during their initial stage.	Industrial units too require huge capital investment especially during initial stage. .

Scope	Trade has a narrow scope. It includes home trade & foreign trade.	Commerce has a wider scope than trade. It includes trade & aids–to-trade	Industry encompasses all the activities needed to convert raw-materials into final output
Degree of Risk	Risks involved in the trading activities are limited	Commercial activities too involve limited risks.	Production activities involve higher risks

Q. Explain the Differences between trade and aids to trade?.

Meaning of trade: Trade refers to the act of buying and selling of goods. It is the means by which goods are exchanged between the producers and the consumers. Trade eliminates hindrances of person.

Meaning of Auxiliaries/ Aids: - Auxiliaries/ Aids to trade mean activities which assist business and trade. They provide proper infrastructure for the smooth conduct of business and remove obstacles in the exchange of goods and services. Business infrastructure included transport, banking, warehousing etc.

Basis	Trade	Aids to Trade
Meaning	Exchange of goods and services between buyer and seller	Facilitating smooth flow of goods and services from producers to consumers
Purpose	Enabling producers to sell goods and services to those who require them.	Removing obstacles in the flow of goods and services.
Scope	It includes internal and External Trade	It includes transporters, bankers, insurers, advertisers, etc.
Parties Involved	Buyers and Sellers	Agencies dealing with transport, insurance, warehousing, banking, communication, advertising, etc.

SOCIAL RESPONSIBILITY OF BUSINESS

What are the obligations of the business towards society?

The social responsibility of business means various obligations or responsibilities or duties that a business-organization has towards the society within which it exists and operates from.

The social responsibility of business comprises of the following obligations:

1. A business must give a proper dividend to its shareholders or investors.
2. It must provide fair wages and salaries with good working conditions.
3. It must provide a regular supply of good quality goods and/or services to its consumers/customers at reasonable prices.
4. It must abide by all government rules and regulations, supports its business-related policies and should pay fair taxes without keeping any delays or dues.
5. It must also contribute in betterment of a local community by doing generous activities like building schools, colleges, hospitals, etc.
6. It must take immense care to see that its activities neither directly nor indirectly create havoc on the vitality of its surrounding environment.
7. It should maintain a stringent policy to curb or control pollution in regard to contamination of air, water, land, sound and radiation leakages. Here, to do so, it must hire experienced professional individuals who are experts in their respective fields.
8. It should also offer social-welfare services to the general public.

Q. Explain the objectives of social responsibility of business?

The social responsibility of business means various obligations or responsibilities or duties that a business-organization has towards the society within which it exists and operates from.

1. It is a concept that implies a business must operate (function) with a firm mindset to protect and promote the interest and welfare of society.
2. Profit (earned through any means) must not be its only highest objective else contributions made for betterment and progress of a society must also be given a prime importance.
3. It must honestly fulfill its social responsibilities in regard to the welfare of society in which it operates and whose resources & infrastructures it makes use of to earn huge profits.
4. It should never neglect (avoid) its responsibilities towards society in which it flourishes.

Q. Explain the Social responsibility of business towards society?

The social responsibility of business means various obligations or responsibilities or duties that a business-organization has towards the society within which it exists and operates from.

Figure No. 1 Social Responsibility of Business Towards Society.

1. Shareholders or investors: Social responsibility of business towards its shareholders or investors is most important of all other obligations.

If a business satisfies its funders, they are likely to invest more money in a project. As a result, more funds will flow in and the same can be utilized to modernize, expand and diversify the existing activities on a larger scale. Happy financiers can fulfill the rising demand of funds needed for its growth and expansion.

2. Personnel: Social responsibility of business towards its personnel is important because. Without their support, the business organisation can't function .

If an employee is satisfied then he will be motivated to work hard and helps in improving the efficiency and productivity of working people. A good remuneration policy attracts new talented professionals who can further contribute in its growth and expansion.

3. Consumers or customers: Social responsibility of business towards its consumers or customers matters a lot from sales and profit point of view. Its success is directly dependents on their level of satisfaction. Higher the rate of satisfaction greater is the chances to succeed.

If a business rolls out good-quality products and/or delivers better quality services that too at reasonable prices, then it is natural to attract lots of customers. If the quality-price ratio is maintained well and consumers get worth for their money spends, this will surely satisfy them. In a long run, customer loyalty and retention will grow, and this will ultimately lead to profitability.

4. Government: Social responsibility of business towards government's regulatory bodies or agencies is quite sensitive from the license's point of view. If permission is not granted or revoked abruptly, it can result in huge losses to an organization. Therefore, compliance in this regard is necessary.

Furthermore, a business must also function within the rules and policies formulated by the government of state or nation.

Some examples of activities a business can do in this regard:

1. Licensing an organization,
2. Seeking permissions wherever necessary,
3. Paying fair taxes on time,
4. Following labor, environmental and other laws, etc.

5. Local community: Social responsibility of business towards the local community of its established area is significant. This is essential for smooth functioning of its activities without

any agitations or hindrances. So, as a compensation for their hardship, an organization must do something or other to alleviate the intensity of suffering.

As a service to the local community, a business can build:

1. A trust-run hospital or health center for local patients,
2. A primary and secondary school for local children,
3. A diploma and degree college for local students,
4. An employment center for recruiting skilled local people, etc.

Such activities to some-extend may satisfy the people that make local community and hence their chances of agitations against an establishment are greatly reduced. This will ensure the longevity of a business in a long run.

6. Environment: Social responsibility of business with respect to its surrounding environment can't be sidelined at any cost. It must show a keen interest to safeguard the vitality of the nature. A business must take enough care to check that its activities don't create a negative impact on the environment. For example, dumping of industrial wastes without proper treatment must be strictly avoided. Guidelines as stipulated in the environmental laws must be sincerely followed. Lives of all living beings are impacted either positively or negatively depending on how well their surrounding environment is maintained (naturally or artificially).

7. Public : Finally, social responsibility of business in general can also contribute to make the lives of people a little better.

Some examples of services towards public include:

1. Building and maintaining devotional or spiritual places and gardens for people,
2. Sponsoring the education of poor meritorious students,
3. Organizing events for a social cause, etc.

Such philanthropic actions create a goodwill or fame for the business-organization in the psyche of general public, which though slowly but ultimately pay off in a due course of time.

Forms of Business Organisation

Explain the various forms of business undertakings?

The various forms of business undertakings are:

a. Private undertakings
b. Public under takings
c. Joint sector undertakings

Private sector undertakings are classified as:

1. **Sole trader**: The sole trader is an individual who owns and manages a business. The sole trader brings his own or borrowed capital, manages the business himself, bears all the risks alone, enjoys all the profits, and suffers all the losses. Thus, only one person is the sole owner, manager, controller, risk bearer, and financier. He takes all business decisions, uses his own skill and intelligence in managing all business operations.
2. **Partnership**: A partnership is an association of two or more persons to carry on business as co-owners, and to share its profits and losses. The partner may come into expansion of the sole trading concern or by means of an agreement between two or more persons desirous of forming the partnership. This form of organisation grew essentially out of the failures and limitations of sole proprietorship.
3. **Joint Hindu family business:** This form of organisation is prevalent only in India and that too among Hindus. The business of joint Hindu family is controlled under the Hindu Law. The membership in this form can be acquired only by birth or by marriage to a

male person who is already a member of Joint Hindu Family. The JHF business is managed by the head of the family known as 'Karta'

4. **Joint stock Company:** these are large association of many persons and require compulsory registration under the companies Act 1956. The certificate of incorporation gives the company a separate legal entity.
5. **Co-operative societies:** UB one of the oldest forms of business enterprise is co-operatives. It is run with service motive. They are established with the objective of getting self help and mutual help. Co-operative enterprises are united, collective, and jointly act for the general benefit of all members.

Public sector undertakings

1. **Government companies**: The company owned and managed by central and/ or state government is called Government company. Either whole of the capital or majority of the shares are owned by the government. Government companies are registered both as public limited and private limited companies but the management remains with the government in both the cases.
2. **Public corporation:** This is a business unit created by special act of parliament or state legislature. The board is formed by the Government. All executive and management powers are given to them. They are directly accountable to parliament or state legislature. The examples of public corporations are Food Corporation of India, oil and natural gas commission (ONGC) etc.
3. **Departmental organisation:** Departmental form of organisation works as a part of government and management in the hands of civil servants. The secretary of the department acts as a chief executive under the control and direction of the minister. The minister is accountable to parliament for the working of the department. This form of organisation is suitable for public utility services and strategic industries. Examples of this form of organisation are railways, telegraphs, television etc.

Joint sector undertakings:

Joint sector consists of business undertakings wherein the ownership, control and management are shared jointly by the Government, the private entrepreneurs and the public at large. According to the guidelines laid down by the Government of India, the share capital of a joint sector undertaking (without foreign participation) is to be divided as follows: government 26 per cent, private businessmen 25 per cent and the public 49 per cent. No single individual or organization can hold more than 25 per cent of the paid-up capital of a joint sector enterprise without the permission of the Central Government. Maruti Udyog, Cochin Refineries and Gujarat State Fertilizers are examples of joint sector undertakings in our country.

Sole proprietorship

Q. **Define sole proprietorship? What are the characteristics of sole proprietorship?**

Meaning: sole trading is the oldest and most commonly used form of business organisation. Sole proprietorship is also known as individual proprietorship, single entrepreneurship. In sole trade organisation, an individual makes all the investments, shares all risks, takes all profits, manages and controls the business himself. A sole trader mainly depends upon his own resources, so the business is generally on a small scale basis. The business is normally run with the help of family members but he may employ persons to look after the day to day activities of the business. The liability of sole trader is unlimited. In case of loss, the creditors have a claim on his private property.

Definition: According to LH HANEY "the individual entrepreneurship is the form of business organisation on the head of which stands an individual as the one who is responsible, who directs its operations, who alone runs the risk of failure"

Characteristics of sole proprietorship:

1. **Single ownership:** The sole proprietor is the sole owner of the firm. He fully owns the business.
2. **One man control:** in a sole proprietorship the owner himself acts as the manager and controller of the enterprise. A sole proprietor carries on business exclusively by and for himself.
3. **No separate legal entity of the firm**: A sole proprietorship firm has a legal existence separate from its owner. No distinction is made between the assets and liabilities of the owner and those of the firm. The proprietor and the firm are one and the same in the eyes of law.
4. **Undivided risk:** the profit and losses of sole proprietorship belong exclusively to the proprietor. Nobody shares his risk or losses.
5. **Unlimited liability:** the liability of the sole proprietor extends beyond the capital invested in the firm. His private property may be attached in case the firm fails to meet the claims of its creditors.
6. **Full freedom from government control:** sole proprietorship is free from legal formalities and regulations.

Q. What are the advantages and disadvantages of sole proprietorship?

Note:- Write meaning and definition of sole proprietorship

Merits/ Advantages of sole proprietorship:

a. **Ease of formation**: sole proprietorship is easiest to form as no legal formalities are required for starting it. The registration of the form is not required. However, a formal license may be required from the municipal corporation or health department in some cases, e.g. liquor, drugs etc. similarly, a sole proprietorship can be dissolved easily without any legal formalities.
b. **Direct motivation**: This proprietor has sole claim on profits and is required to share them with others. There is direct relationship between effort and reward so that the proprietor is motivated to give his best effort to the firm.
c. **Flexibility in operations:** The sole proprietorship is the simplest to operate. The proprietor can easily change the nature and strategy of the business.
d. **Absolute control**: The sole proprietor has complete control on the affairs of his firm. He is free to prepare any plans and to execute them. The sole proprietor is the supreme judge of all matters pertaining to his business.
e. **Quick decisions**: Sole proprietor is his own boss and need not consult others with regard to business decisions. Therefore, he can take action with maximum speed and maximum friction. Quick decisions and prompt action enable the proprietor to take full advantage of the opportunities which may arise in business from time to time.
f. **Business secrecy:** A sole proprietor can keep his affairs to himself. There is no body to share his business secrets and no reports are to be published.
g. **Personal touch**: A sole proprietor can keep intimate personal contacts with his customers and employees. Personal attention to customers results in high sales and good will of the firm. If the proprietor has adequate resources, his credit – standing will be high.

h. **Minimum government regulations:** The proprietary concern is subject to minimum control by the government. The sole proprietor does not require to submit any reports to the government and there is no interference in the day to day affairs of business.

i. **Social utility**: A sole proprietorship is socially desirable due to:
   - **Independent living:** sole proprietorship provides an independent and honorable way of life those who want to be their own boss and take pride in ownership and control of their own business.
   - **Diffusion of economic power:** sole proprietorship helps in reducing concentration of economic power in a few hands through wider distribution of business ownership. It also promotes decentralization of industry.
   - **Development of personality**: sole proprietorship provides opportunity for the development of personal and social virtues like self – reliance, initiative, responsibility etc.

Demerits/ Disadvantages of sole proprietorship:

a. **Unlimited liability:** A great drawback of sole proprietorship is its unlimited liability. The sole proprietor has to bear the entire risk of his business. If the business fails, the proprietor has to lose everything. Unlimited liability discourages the expansion of business.

b. **Limited financial resources:** The financial resources of a sole proprietor are limited. He makes investment from his family sources only. The financial capacity of an individual is usually limited so the business cannot be operated on a large scale to achieve economies of scale.

c. **Uncertain continuation**: there is little continuity of operations in sole proprietorship. The death, inability of the sole proprietor may limit the continuity of sole proprietor business.

d. **Limited scope for growth**: Due the limited financial and managerial resources and uncertain duration, the expansion or growth of the firm is restricted. The area of operations is mainly local.

e. **More risk**: A sole proprietor is to take all decisions by himself. So there is a possibility of taking wrong decisions.

f. **Unbalanced management:** the sole proprietor cannot be an expert in all the areas of purchasing, production, marketing, financing, etc. he has to handle a wide range of managerial, operational problems and therefore, his decisions are likely to be unbalanced. Due to limited finances, it is usually not possible to employ trained professional managers. As a result, benefits of specialization and expertisation are not possible.

Q. Suitability of sole proprietorship

1. Where the risk involved is moderate, eg. Automobile repair shops
2. Where small financial and managerial resources are required, e.g., a retail shop, a small bakery
3. Where personal attention to individual tastes and preferencesof customers is necessary, e.g., tailoring, cosmetic dealers, beauty parlours, etc.
4. Where expert personal skills and prompt decisions are essential, e.g., stock brokers, doctors, lawyers and other professional services
5. Where demand is temporary, seasonal and local, e.g., vegetable and fruit sellers, etc.,
6. Where fashion changes quickly e.g., art goods, hair dressing saloons etc.

PARTNERSHIP

Q. Define partnership? Explain its characteristics?

A partnership is an association of two or more persons to carry on, as co – owners, a business and to share its profits and losses. The partnership may come into existence either as a result of the expansion of the sole – trading concern or by means of an agreement between two or more persons desirous of forming a partnership.

Characteristics of Partnership

1. **Association of two or more persons**: in partnership, there must be at least two persons. The partnership Act does not specify the maximum limit on the number of partners. But the companies Act 1956 lays down that the maximum number of members in case of banking business is 10 and in any other business 20.
2. **Contractual relationship:** A partnership is a contractual relationship arising out of an agreement among the partners. Since partnership is the outcome of contract, persons who are incompetent to enter into a contract, e.g., minors, lunatics, insolvents etc. cannot become partners. The partnership agreement may be oral or written but it is always desirable to make an agreement in writing. The partnership agreement must satisfy all the requirements of a valid contract.
3. **Lawful business:** The agreement between partners must be to carry on some lawful business. An agreement to carry on an illegal activity cannot be called partnership.
4. **Sharing of profits**: The agreement must provide for the sharing of profit and losses of the partnership business. A charitable institution is not a partnership as no sharing of profits involved.
5. **Implied authority:** there is an implied authority that any partner can act on behalf of the firm. The business will be bound by the acts of partners.
6. **Unlimited liability:** every partner is liable jointly and severally for all debts and obligations of the firm. In case the assets of the firm are not sufficient to meet the claims of the creditors, The creditors can claim their dues from the partners. The partners are liable individually and collectively.
7. **Utmost good faith:** The very bases of the partnership business are good faith and mutual trust. Each and every partner is supposed to act with honesty and fairness to all partners in the conduct of the business of the firm.
8. **Restrictions on transfer of shares:** No partner can sell or transfer his share to anybody else without the consent of other partners. In case any partner does not want to continue in the partnership. He can give a notice for dissolution of the firm.
9. **No separate legal existence:** The partnership firm is a voluntary association and it has no separate legal entity of its own. The firm and the partners are one and same in the eyes of law. Management and control of the vests in the hands of partners who are the owners also.

Q. what are the advantages and disadvantages of partnership?

Note: - write meaning and definition of business

Merits/advantages of partnership:

1. **Ease of formation:** A partnership is easy to form as no legal formalities are involved. An agreement is necessary and the procedure for registration is very simple. Registration of the firm is not essential and the partnership agreement can be oral or written.
2. **Larger financial resources:** The resources of more than one person are available for the business. The credit worthiness of the firm is also higher because every personally and

jointly liable for the debt of the business. There is greater scope for expansion or growth of the firm. More partners can be added if capital needs are more.

3. **Greater managerial talent:** the partners may be assigned duties according to their talent. Different functional departments may be managed and controlled by different partners. The talent, expertise and knowledge of partners in different fields can be used for the welfare of the business. This will help to increase the efficiency of the business resulting in more profits.
4. **Promptness in decision making**: The partners meet frequently and they can take prompt decisions. The firm will not lose any business opportunities because of delay in taking a decision.
5. **Sharing Risk**: The risk of business is shared by more persons. The burden of every partner will be much less as compared to the burden of sole trade.
6. **Relationship between work and reward:** The partners try to put more labour to earn more and more profits. There is a direct relationship between reward and work. More they work more they be benefitted.
7. **Close supervision**: the partners themselves look after the business; so they can avoid wastages. They have direct access to the employees and encourage them for more production.
8. **Business secrecy**: important secrets of business remain confined to the partners and are unknown to outsiders. It is not compulsory for a partnership firm to publish and file its accounts and reports.
9. **Protection of minority interest:** Every partner has a right to participate in the management of the business. All important decisions are taken by the consent of all partners. If a majority decision is enforced on minority then effected partners can get the business dissolved.
10. **Easy dissolution:** The partnership can be dissolved on lunacy, or death of a partner. If partnership is at will. Then any partner can get the firm dissolved by giving notice to other partners. No legal formalities are required to fulfill at the time of dissolution. So it is easy to start and dissolve a partnership concern.
11. **Better human and public relations**: Due to a number of partners of the firm, it is possible to have personal touch with employees, customers, government and the general public. Healthy relations with the public help to enhance the goodwill of the firm and pave the way for steady progress of the business.
12. **Flexibility of operations**: There is no statutory obligation to seek approval from government before making major changes in the business set – up. There can be change in managerial set – up, capital and scale of operations. These changes can be easily made depending upon the business opportunities.

Demerits/ Disadvantages of partnership firm:

1**. Unlimited liability:** the liability of partners is unlimited. They are not only liable their business investments but their private properties can also be taken for business liabilities. This hampers the entrepreneurial spirit as partners may hesitate to venture into new lines of business for fear of losses.

2**. Limited resources:** In partnership the business resources are limited to the personal funds of the partners. The number of partners cannot exceed 10 in banking business and 20 in other types of business. Therefore, partnership form of ownership is not suitable to undertake business involving huge investment of capital.

3. Risk of implied authority: The acts of a partner are binding on the firm as well as on other partners. An incompetent or dishonest partner may lead the business into difficulties. Other partners will have to meet the obligations incurred by the partner. The provision of implied authority may create problems for the business.

4. Lack of harmony: the success of partnership depends upon mutual understanding and co-operation among the partners. Continued disagreement among the partners may lead to dissolution of the partnership.

5. Lack of continuity: A partnership comes to an end with the retirement, incapacity, insolvency and death of a partner.

6. Non transferability of interest: No partner can transfer his share in the firm without the consent of all other partners. If a partner wants his share back it will not be possible without the approval of other partners or without dissolution of partnership firm.

7. Public distrust: A partnership firm lacks the confidence of public because it does not require publishing its accounts. So public is unaware of the exact position of the business.

Q. Explain the contents of partnership deed?

Meaning: partnership deed forms the basis of partnership. "Partnership deed is a document containing all the matters according to which mutual rights, duties and liabilities of the partners in the conduct and management of the affairs of the firm are determined." It includes all important clauses like – name of business, contribution of capital, sharing of profits, mode of management, etc. The deed must be signed by the partners. The partnership deed can both be oral or in writing. However, a written agreement should be preferred because nobody can dispute the contents.

CONTENTS:

Some of the important clauses to be included in a partnership deed are:

1. **The name of the firm:** The name of the firm should be given in the partnership deed.
2. **Names and addresses and other details of partners**:-a partnership deed should give complete details of the partners like their names, qualifications, address, etc.
3. **Nature of business proposed to carry on by the firm**: the nature of business operations should be given in the partnership deed.
4. **The total amount of capital and contribution by each partner**: - the amount of capital contributed by the partners should be given in the partnership deed.
5. The extent to which partners are to take part in the management of the business;
6. **Amount of withdrawals to be allowed to each partner**: the Indian partnership Act allows the partners o withdraw a part of their capital. The details of withdrawal limit should be given.
7. **The profit sharing ratio:** - normally the profit sharing ratio depends on the capital contributed by the partners. The profit sharing ratio of the partners should be clearly specified. If nothing is specified then the profits will be distributed equally among the partners.
8. **Types of partners:** the partnership deed should mention the different types of partners and their rights, duties and obligations.
9. **The amount of salary or commission payable to any partner for the services rendered to the business**: - no partner is entitled to receive any salary but partners who take managerial role will be paid salary or commission. Details of Such salary or percentage of commission should be given in the partnership deed.
10. Rate of interest to be allowed on capital as well as rate of interest to be charged on drawings;

11. Division of powers and duties among partners;
12. **The method of evaluating goodwill**: normally goodwill of the firm will be evaluated at the time of admitting a new partner or at the time of retirement or death of a partner. The partnership deed should indicate the method of goodwill calculation.
13. **Procedure for dissolution of the firm and settlement of the accounts**:- the partnership deed should mention the mode of settlement of accounts after the dissolution of the partnership firm.
14. **Maintenance of books of accounts and audit accounts:** - the partnership deed gives the details of methods of accounting to be followed and types of audit system to be followed.
15. **Arbitration clause for settlement of disputes among the partners: -** The arbitration clause specifies the method of settling the disputes among the partners.

Q. What are the different types of partnership?

Kinds / Types of partnership

A partnership can be of two types **1. General partnership 2. Limited partnership**

1. **General or unlimited partnership**: A partnership in which the liability of all the partners is unlimited is known as unlimited partnership. In such a partnership all the partners have the right to take part in the management of the firm.

Types of general or unlimited partnership

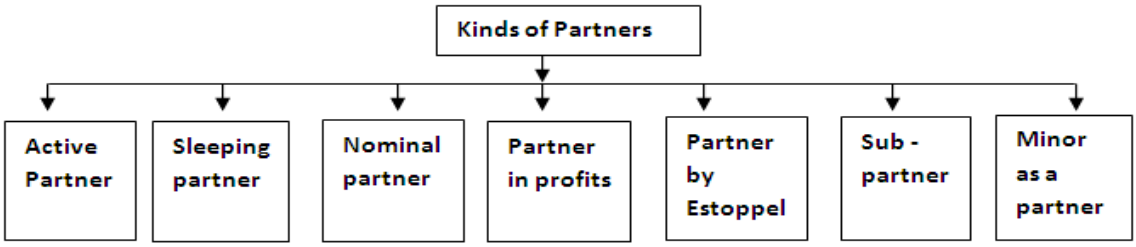
1. **Partnership at will:** partnership at will is a partnership which formed to carry on business without specifying any period of time. It is formed for an indefinite period of time and no provision is made so as to when and how the partnership will come to an end. The life of the partnership will continue as long as the partners are willing to continue. It can be dissolved when any partner gives 14 days' notice to the firm withdrawing from the partnership or terminating the partnership agreement.
2. **Particular partnership**: it is established for a stipulated period of time or for the completion of a specified venture. It automatically comes to an end with the expiry of the stipulated period or on the completion of the specified venture, as the case may be.
3. **Joint venture:** A joint venture is a temporary partnership which formed to complete specific venture or job during a specified period of time. In such a partnership, the right of management is delegated to one of the partners. No partner can withdraw his interest in the firm before the completion of the venture. Its existence is not terminated on the lunacy, insolvency or death of a partner.

2. **Limited partnership**: in limited partnership the liability of some of the partners is limited while the liability of some partners is unlimited. The partners with limited liability are called special partners while those with unlimited liability are called general or active partners. The liability of special partners is limited only to their capital in the business while the liability of general partners can go beyond their capital. The limited partnership is not prevalent in India and is not allowed under partnership Act.

3. Limited liability partnership: Limited Liability Partnership enterprise is in India by enacting the Limited Liability Partnership Act, 2008. LLP Act was notified on 31.03.2009. A Limited Liability Partnership, known as LLP combines the advantages of both the Company and Partnership into a single form of organization. Limited Liability Partnership (LLP) is a new corporate form that enables professional knowledge and entrepreneurial skill to combine, organize and operate in an innovative and proficient manner.

Q. What are the different kinds of partners?

Meaning: A partnership is an association of two or more persons to carry on, as co – owners, a business and to share its profits and losses. The partnership may come into existence either as a result of the expansion of the sole – trading concern or by means of an agreement between two or more persons desirous of forming a partnership.



1. **Active partner**: A partner who contributes capital and takes active part in the management of the partnership firm is known as active partner or sleeping partner. His liability is unlimited for the debts of the firm.
2. **Sleeping or dormant Partner**: A sleeping partner is one who contributes capital , shares profits and contributes to the losses of the business but does not take part in the working of the concern. His liability is unlimited. He is not known to the public as a partner. So he may be called as a secret partner.
3. **Nominal partner:** A nominal partner is one who lends his name to the firm. He does not contribute capital nor does he shares profits o the business. He is known as a partner to the third parties. On the strength of his name, the business may get more credit in the market or may promote its sales. A nominal partner is liable to the third parties who give credit to the firm on the assumption of that person being a partner of the firm.
4. **Partner in profits:** A person may become a partner for sharing the profits only. He contributes capital and is also liable to the third parties. He does not take active part in the management of the business. Such partners are associated for their money and goodwill.
5. **Partner by estoppel or Holding out**: When a person is not a partner but poses himself as a partner, either by words or writing or by his acts, he is called a partner by estoppel or holding out. A partner by estoppel or holding out shall be liable to the third parties who deal with the firm on the presumption of that person being a partner in the business even though he is not a partner and does not contribute anything to the business.
6. **Sub - Partner**: A Partner may associate anybody else in his share in the firm. He gives a part of his share to the stranger. The relationship is not between the sub – partner and the firm but between him and the partner. The sub-partner is not liable for the debts of the firm.
7. **Minor as a partner**: A minor is a person who has not yet attained the age of majority. A minor cannot enter into a contract according to the Indian contract Act because a contract by a minor is null and void. However, a minor may be admitted to the benefits of an existing partnership with the consent of all partners. The minor

liability is limited to the extent of his share in the business but it will not extend to his private property.

Limited Liability Partnership

Q. What is limited liability partnership? Explain the nature/characteristics of LLP

Limited Liability Partnership enterprise is in India by enacting the Limited Liability Partnership Act, 2008. LLP Act was notified on 31.03.2009. A Limited Liability Partnership, known as LLP combines the advantages of both the Company and Partnership into a single form of organization. Limited Liability Partnership (LLP) is a new corporate form that enables professional knowledge and entrepreneurial skill to combine, organize and operate in an innovative and proficient manner.

Characteristics of an LLP:

1. LLP is governed by the Limited Liability Partnership Act 2008, which has come into force with effect from April 1, 2009. The Indian Partnership Act, 1932 is not applicable to LLP.
2. LLP is a body incorporate and a legal entity separate from its partners having perpetual succession, can own assets in its name, sue and be sued.
3. The partners have the right to manage the business directly, unlike corporate shareholders.
4. One partner is not responsible or liable for another partner's, misconduct or negligence.
5. Minimum of 2 partners and no maximum limit.
6. Should be 'for profit' business.
7. The rights and duties of partners in an LLP, will be governed by the agreement between partners and the partners have the flexibility to devise the agreement as per their choice. The duties and obligations of Designated Partners shall be as provided in the law.
8. Limited liability of the partners to the extent of their contributions in the LLP. No exposure of personal assets of the partner, except in cases of fraud.
9. LLP shall maintain annual accounts. However, audit of the accounts is required only if the contribution exceeds Rs. 25 lakh or annual turnover exceeds Rs. 40 lakh. A statement of accounts and solvency shall be filed by every LLP with the Registrar of Companies (ROC) every year.

Q. What are the advantages and disadvantages of LLP

Note: write introduction of LLP

Advantages of LLP:

1. The process of formation is very simple as compared to Companies and does not involve much formality. Moreover, in terms of cost, the minimum fee of incorporation is as low as f 800 and maximum is f 5600.
2. Just like a Company, LLP is also body corporate, which means it has its own existence as compared to partnership. LLP and its Partners are distinct entities in the eyes of law. LLP is known by its own name and not the name of its partners.
3. An LLP exists as a separate legal entity different from the lives of its partners. Both LLP and persons, who own it, are separate entities and both function separately. Liability for repayment of debts and law suits incurred by the LLP lies on it and not different from the lives of its partners, the owner. Any business with potential for lawsuits should consider LLP form of organisation and it will offer an added layer of protection.
4. LLP has perpetual succession. Notwithstanding any changes in the partners of the LLP, the LLP will remain the same entity with the same privileges, immunities, estates and

possessions. The LLP shall continue to exist till it is wound up in accordance with the provisions of the relevant law.

5. LLP Act 2008 gives an LLP flexibility to manage its own affairs. Partners can decide the way they want to run and manage the LLP, as per the form of LLP Agreement. The LLP Act does not regulate the LLP to large extent rather than allows partners the liberty to manage it as per their agreement.
6. It is easy to join or leave the LLP or otherwise it is easier to transfer the ownership in accordance with the terms of the LLP Agreement.
7. An LLP, as legal entity, is capable of owning its Separate Property and funds. The LLP is the real person in which all the property is vested and by which it is controlled, managed and disposed off. The property of LLP is not the property of its partners. Therefore, partners cannot make any claim on the property in case of any dispute among themselves.
8. Another main benefit of incorporation is the taxation of a LLP. LLP is taxed at a lower rate as compared to Company. Moreover, LLP is also not subject to Dividend Distribution Tax as compared to company, so there will not be any tax while you distribute profit to your partners.
9. Financing a small business like sole proprietorship or partnership can be difficult at times. An LLP being a regulated entity like company can attract finance from Private Equity Investors, financial institutions etc.
10. As a juristic legal person, an LLP can sue in its name and be sued by others. The partners are not liable to be sued for dues against the LLP.
11. Under LLP, only in case of business, where the annual turnover/contribution exceeds Rs. 40 lakh Rs. 25 lakh are required to get their accounts audited annually by a chartered accountant. Thus, there is no mandatory audit requirement.
12. In LLP, Partners, unlike partnership, are not agents of the partners and therefore they are not liable for the individual act of other partners, which protects the interest of individual partners.
13. As compared to a private company, the numbers of compliances are on a lesser side in case of LLP.

Disadvantages of LLP:

1. An LLP cannot raise funds from Public.
2. Any act of the partner without the other may bind the LLP.
3. Under some cases, liability may extend to personal assets of partners.
4. No separation of Management from owners.
5. The framework for incorporating a LLP is in place but currently registrations are centralized at Delhi.

JOINT HINDU FAMILY

Q. Define Joint Hindu family? What are the advantages and disadvantages of JHF?

Joint Hindu family business is prevalent only in India and among Hindus. The membership of this can be acquired only by birth or by marriage to a male person who is a member of a joint Hindu family. All the affairs of the JHF is controlled by the head of the family. The head of the family is called KARTA and the members of the family are called 'coparceners'. The liability of Karta is unlimited whereas the liability of 'coparceners' is limited to the extent of their share in the business.

The JHF is governed by Mitakshara and Dayabhaga school of Hindu Law

Mitakshara: it applies to whole India except to the states of Assam and Bengal. According to it when a male child is born in a family, he acquires an interest in the property of JHF. Only members of the family are eligible to get the share in the property of the family.
Dayabhaga: It is applicable to the states of Assam and Bengal. According to it the property can only be inherited. Under this both male and female members get the share in the property of family. The share of each member is specified and does not fluctuate with the birth or death of a family member. Further any member can transfer his share of property in family.

Features of joint Hindu family

1. **Governed by Hindu Law:** The control and management of the JHF firm is done according to codified or uncodified Hindu law.
2. **Membership by birth**: the membership of this business can be acquired only by birth. Whoever is born in the family becomes a member of the business. A person can also become a member by adaptation, by marrying a person who is a member of the business.
3. **Management**: The family affairs are managed by the Karta. The coparceners have no right to participate in the management and even to inspect the books of accounts.
4. **Liability:** The liability of Karta is unlimited whereas the liability of coparceners is limited to their interest in the Joint Hindu Family Business.
5. **Implied authority**: Karta has an implied authority to bind all coparceners in the course of the business. However, an act of a coparcener will not bind the Karta. Coparceners have no right to act as an agent of the firm.
6. **Continuous existence:** The JHF business is not the result of agreement but of operation of law. It is not affected by death or insolvency of coparceners. It comes to an end only when partition of property takes place.
7. **Number of members**: There is no limit to the number of members of Joint Hindu Family Business. Even a minor by virtue of his birth becomes a member of JHF business.

Advantages of Joint Hindu Family Business:

1. **Centralized Management:** The management of a joint Hindu Family is centralized in the hands of Karta. Karta takes all decisions and gets them implemented with the help of other family members.
2. **Utmost Secrecy**: Karta manages all the affairs of JHF. He can do it with utmost secrecy. He can keep a thing secret even from the members of the family.
3. **Quick Decisions:** In JHF firm Karta is the only decision maker. So he can take the decisions quickly without losing the business opportunities.
4. **Credit Facilities**: the liability of Karta is unlimited. There is also an obligation on the part of sons of Karta to satisfy even the unsatisfied debts raised by him during his life time, so the creditworthiness for JHF firm is more.
5. **Work according to capacity:** In JHF firm, the work is assigned to the members according to their capacity. A person who is stronger than the other may be assigned work of physical nature; a physically challenged person may be assigned a little work or no work at all. This is a great advantage of JHF firm.
6. **Natural love between members**: In JHF firm, it is the natural love and affection among the members, which binds them together. Due to this, the members ignore the shortcomings of each other and help to run the business more smoothly and efficiently.
7. **Limited liability:** The liability of all the members of the JHF firm is limited to their undivided share in the property of the family. However, the liability of the Karta is unlimited.

Disadvantages of Joint Hindu Family Firm:

1. **No reward for efficiency**: in JHF firm, the Karta shoulders more responsibility. But the profits of the business are enjoyed by all coparceners. Thus, the Karta has no incentive to work hard.
2. **Limited capital**: The Joint Hindu Family firm completely depends upon the personal capital of the Karta and small borrowings from friends and relatives. This restricts the scope of activities of the Joint Hindu Family firm.
3. **Limited managerial ability:** The Karta plans, organizes, directs and controls the firm. However efficient the Karta may be, he is bound to suffer from limitations with regard to knowledge of management and decision making skills.
4. **No managerial powers:** the coparceners have no right to participate in the management of the business. They have no right to inspect the books of accounts. Thus, the coparceners lack managerial powers.
5. **Less creditworthiness:** The Joint Hindu Family business has a lower credit standing as compared to a partnership firm, due to limited liability of coparceners, only the liability of Karta is unlimited.
6. **No right to females**: A female cannot become Karta of the Joint Hindu family firm. The right to become Karta is only given to male members of Hindu family. Hence it is a male domination form of business organization.

CO-OPERATIVE SOCIETY

Q. Explain the meaning and characteristics of co – operative society?

The term co-operation is derived from the Latin word co-operari, where the word co means 'with' and operari means 'to work'. Thus, co - peration means working together. It means those who want to work together with some common economic objective can form a society which is termed as "co-operative society". It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help.

CHARACTERISTICS OF CO-OPERATIVE SOCIETIES

i. Open membership: The membership of a Co-operative Society is open to all those who have a common interest. A minimum **of ten** members are required to form a co- operative society. Membership is not restricted on the basis of caste, sex, colour or religion, but may be limited to the employees of a particular organisation.

ii. Voluntary Association: Members join the co-operative society voluntarily, that is, by choice. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.

iii. State control: To protect the interest of members, co-operative societies are placed under state control through registration. While getting registered, a society has to submit details about the members and the business it is to undertake. It has to maintain books of accounts, which are to be audited by government auditors.

iv. Sources of Finance: In a co-operative society capital is contributed by all the members. However, it can easily raise loans and secure grants from government after its registration.

v. Democratic Management: Co-operative societies are managed on democratic lines. The society is managed by a group known as "Board of Directors". The members of the board of directors are the elected representatives of the society. Each member has a single vote, irrespective of the number of shares held

vi. Service motive: Co-operatives are not formed to maximise profit like other forms of business organisation. The main purpose of a Co-operative Society is to provide service to its members.

vii. Separate Legal Entity: A Co-operative Society is registered under the Co-operative Societies Act 1912. After registration a society becomes a separate legal entity, with limited liability of its members. It has continuous existence. It can enter into agreements with others and can purchase or sell properties in its own name.

viii. Distribution of Surplus: Profit generated by the cooperative society is distributed to its members not on the basis of the shares held by the members (like the company form of business), but on the basis of members' participation in the business of the society

ix. Self-help through mutual cooperation: Co-operative Societies works on the principle of mutual help. They are the organisations of financially weaker sections of society. Co-operative Societies convert the weakness of members into strength by **adopting the principle of self-help through mutual co-operation**. It is only by working jointly on the principle of "**Each for all and all for each**", the members can fight exploitation and secure a place in society.

Q2. What are the different types of co- operative societies?

Note: Write meaning of co-operative societies

Types of Co-operative Societies

1. Consumers' Co-operative Society: These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They buy goods directly from the producers or manufacturers and thereby eliminate the middlemen in the process of distribution. Kendriya Bhandar, Apna Bazar and Sahkari Bhandar are examples of consumers' co-operative society.

2. Producers' Co-operative Society: These societies are formed to protect the interest of small producers by making available items of their need for production like raw materials, tools and equipments, machinery, etc. Handloom societies like APPCO, Bayanika, Haryana Handloom, etc., are examples of producers' co-operative society.

3. Co-operative Marketing Society: These societies are formed by small producers and manufacturers who find it difficult to sell their products individually. The society collects the products from the individual members and takes the responsibility of selling those products in the market. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.

4. Co-operative Credit Society: These societies are formed to provide financial support to the members. The society accepts deposits from members and grants them loans at reasonable rates of interest in times of need. Village Service Co-operative Society and Urban Cooperative Banks are examples of co-operative credit society.

5. Co-operative Farming Society: These societies are formed by small farmers to work jointly and thereby enjoy the benefits of large-scale farming. Lift-irrigation co-operative societies and pani - panchayats are some of the examples of co-operative farming society.

6. Housing Co-operative Society: These societies are formed to provide residential houses to members. They purchase land, develop it and construct houses or flats and allot the same to members. Some societies also provide loans at low rate of interest to members to construct their own houses. The Employees' Housing Societies and Metropolitan Housing Co-operative Society are examples of housing co-operative society.

Q3. Explain the advantages and disadvantages of co – operative societies?

Note: Write meaning of co-operative societies

ADVANTAGES OF CO-OPERATIVE SOCIETY

I . Easy Formation: Formation of a co-operative society is very easy compared to a joint stock company. Any ten adults can voluntarily form an association and get it registered with the Registrar of Co-operative Societies.

ii. Open Membership: Persons having common interest can form a co-operative society. Any competent person can become a member at any time he/she likes and can leave the society at will.

iii. Democratic Control: A co-operative society is controlled in a democratic manner. The members cast their vote to elect their representatives to form a committee that looks after the day-to-day administration. This committee is accountable to all the members of the society.

iv. Limited Liability: The liability of members of a co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietors and partners the personal properties of members of the co-operative societies are free from any kind of risk because of business liabilities.

v. Elimination of Middlemen's Profit: Through co-operatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.

vi. State Assistance: Both Central and State governments provide all kinds of help to the societies. Such help may be provided in the form of capital contribution, loans at low rates of interest, exemption in tax, subsidies in repayment of loans, etc.

vii. Stable Life: A co-operative society has a fairly stable life and it continues to exist for a long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members.

LIMITATIONS OF CO-OPERATIVE SOCIETY

i. Limited Capital: The amount of capital that a cooperative society can raise from its member is very limited because the membership is generally confined to a particular section of the society. Again due to low rate of return the members do not invest more capital. Government's assistance is often inadequate for most of the co-operative societies.

ii. Problems in Management: co-operative societies do not function efficiently due to lack of managerial talent. The members or their elected representatives are not experienced enough to manage the society. Again, because of limited capital they are not able to get the benefits of professional management.

iii. Lack of Motivation: Every co-operative society is formed to render service to its members rather than to earn profit. This does not provide enough motivation to the members to put in their best effort and manage the society efficiently.

iv. Lack of Co-operation: The co-operative societies are formed with the idea of mutual co-operation. But it is often seen that there is a lot of friction between the members because of personality differences, ego clash, etc. The selfish attitude of members may sometimes bring an end to the society.

v. Dependence on Government: The inadequacy of capital and various other limitations make cooperative societies dependant on the government for support and patronage in terms of grants, loans subsidies, etc. Due to this, the government sometimes directly interferes in the management of the society and also audit their annual accounts.

UNIT 2
JOINT STOCK COMPANY, PROMOTION

Q. Define Joint Stock Company and what are the features/ characteristics of Joint Stock Company.

The limitations of sole trading and partnership form of ownership gave birth to joint stock company form of organization. Joint Stock Company was started first in Italy in 13th century. During 17th and 18th centuries, joint stock companies were formed in England under Royal charter or Act of parliament. In India the first company Act was passed in 1850. In 1956 a comprehensive bill was passed which is known as companies Act 1956. The firms incorporated under this Act are known as 'Companies'

Definitions:

Section 3 of the companies Act 1956 defined it as **"A company means a company formed and registered under this Act."**

According to Prof L H Haney "A joint stock company is a voluntary association of individuals for profits, having a capital divided into transferable shares, the ownership of which is the condition of membership"

Characteristics

1. **Association of persons**: A company is an association of persons joining hands with a common motive. A private company must have at least 2 persons and a public limited company must have at least 7 members to get it registered. The maximum shareholders should not exceed 50 in private companies and there is no limit for the members in a public company.
2. **Independent Legal entity**: the company is created under law. It has a separate legal entity apart from its members. The company is not bound by the acts of its members and members do not act as the agents of the company. The life of the company is different from the lives of its members. The company can sue and can be sued in its own name.
3. **Limited liability:** the liability of partners is limited to the extent of unpaid balance on their shares. However, shareholders of a limited company have unlimited liability. In case of company limited by guaranty the liability of shareholders is limited to the guaranteed amount.
4. **Common seal:** A company being an artificial person cannot put signatures. The law requires every company to have a seal and get its name engraved in it. The seal of the company is affixed on all important documents and contracts as a token of signature. The directors must witness the affixation of seal.
5. **Transferability of shares:** the shares of company can be transferred by its members. Whenever the members' wants dispose off the shares, they can do so by following the procedure devised for this purpose. However private companies can restrict the transfer of shares.
6. **Separation of ownership and management:** the shareholders of a company are widely scattered. They cannot manage the company. The companies are managed by the board of directors, who are elected representatives of the shareholders. Therefore the ownership and management are in two separate hands.
7. **Perpetual existence:** The Company has a permanent existence. The shareholders may come or go, but the company will go on forever. The continuity of the company is not affected by death, lunacy or insolvency of its shareholders. The company can be wound up only by the operation of the law.
8. **Corporate finance**: A joint stock company generally, raises large amounts of funds. The capital is divided into shares of small denominations. A large number of members purchase

shares and contribute to the capital of the company. Since there is no limit on the number of members in public companies , large amounts can be raised from the public.

9. **Centralized and delegated management**: A joint stock company is an autonomous and self governed body. The shareholders being large in number they cannot look after the day –to –day activities of the company. They elect board of directors for managing the company. All important decisions are taken in a democratic way. The centralized management and democratic functioning brings in unity of action.
10. **Publication of accounts**: A joint stock company is required to file annual statements with the registrar of companies at the end of a financial year.

Q. What are the different types of companies?

According to section 3 of the companies Act 1956, "**A company means a company which is registered under this Act".**

1. According to incorporation

According to incorporation companies can be divided into 3 categories. They are:

i. **Charted company:** These co0mpanies are incorporated under a special charter issued by king or queen or head of the state. The activities of these companies are governed by the state. Charted companies are popular in England in the 19th century. The East India Company, The charted bank of India was incorporated under Royal charter. These companies are no longer found in any country.

ii. **Statutory company**: These companies are formed under a special Act of Parliament or of a state legislature. The objects, powers, rights and responsibilities of these companies are clearly defined in this Act. Generally, companies for public utility services are formed under special statuettes. Examples of these companies are RBI, Industrial Finance Corporation of India, State Trading Corporation of India etc.

iii. **Registered Companies:** These are the companies formed under the provisions of companies Act, 1956. The method of formation, management and liquidation are given under various clauses of the Act. Registered companies may be limited by shares, limited by guarantee, unlimited companies.

2. According to liability

According to liability companies can be divided into 3 categories. They are:

i. **Company limited by shares**: The companies limited by shares have a share capital. The capital is divided into shares. The shareholders pay the money in one time or by number of installments. In case of loss the liability of the share holders is limited to the extent to the nominal value of their shares.

ii. **Company limited by guarantee**: These companies are formed under the companies Act 1956, with a stipulation in the memorandum clause that members are guaranteed to pay a certain amount of money in case of its winding up. The amount which the members undertake to pay is called guarantee money. A guarantee company generally formed to promote art, science, culture, sports etc.

iii. **Unlimited liability:** The companies registered without limiting the liability of members to the value of shares held by them are called unlimited companies. All the members will be liable to meet the liability of the company to an unlimited extent.

3. According to transferability

According to transferability companies can be divided into 2 categories

i. **Private company**: A private company can be formed with the association of at least 2 members but the maximum number of people should not exceed 50. Such a company must use the name 'private' in its name. it is a company which by its articles of association restricts:

a. The rights of its members to transfer its shares, if any
b. Limits the number of its members to 50 excluding members who are or were in the employment of the company.
c. Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

ii. **Public company:** Sec (1) (IV) of the companies Act 1956, says that all companies other than private companies are called public companies. It is a company which

1. Lays down no restrictions on the transfer of its shares;
2. Does not limit the maximum number of its members
3. Can invite public for subscribing to its shares and debentures.

On the basis of ownership

On the basis of ownership, companies can be divided into 3 categories. They are

i. **Government company:** it is a company in which 51% or more of the paid up share capital is held by the central or state Government .It may be partly or fully owned by the Government. Hindustan steels Ltd, Hindustan Machine Tools Ltd etc. are some of the examples of a Government company.

i. **Holding company:** A company is known as a holding company when it controls the management of and / or majority ownership in another company. Holding companies may have any number of subsidiaries.

ii. **Subsidiary company:** it is a company in which another company i.e. a holding company -

a. Holds more than half of the shares in the company
b. Has more than half voting powers
c. Control the formation of board of directors
d. Is the subsidiary of another subsidiary company

On the basis of nationality of the company:

On the basis of nationality companies can be divided into 2 categories. They are:

i .National company: A company incorporated in India under the companies Act 1956, whether operating within India or outside India is called an Indian/ National / Domestic company.

ii. Foreign company: A foreign company means a company which is incorporated outside India but has a place of business in India through its branches or agencies. Such companies have to fulfill the formalities required by the registrar of companies in India.

Q. What are the advantages and disadvantages of Joint Stock Company?

The limitations of sole trading and partnership form of ownership gave birth to joint stock company form of organization. Joint Stock Company was started first in Italy in 13th century. During 17th and 18th centuries, joint stock companies were formed in England under Royal charter or Act of parliament. In India the first company Act was passed in 1850. In 1956 a comprehensive bill was passed which is known as companies Act 1956. The firma incorporated under this Act are known as 'Companies'

Definitions:

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Merits of Joint Stock Company

1. **Accumulation of large resources**: A company can collect large sum of money from large number of share holders. There is no limit on the number of shareholders in a public company. If need for more funds arise, the number of shareholders can be increased. Joint Stock companies are suitable for those businesses where large resources are required.
2. **Limited resources**: The liability of members in a company form of organization is limited to the nominal value of the share they acquired. The limited liability encourages many persons to invest in shares of Joint stock companies.
3. **Continuity of existence:** When a company is incorporated, it becomes a separate legal entity. It is a entity with perpetual succession. The members of a company may go on changing from time to time but that does not affect the continuity of a company. The death or insolvency of member does not affect the corporate existence of the company.
4. **Efficient Management**: In company form of organization, ownership is separate from management. It enables the company to appoint expert and qualified persons by offering higher salaries for managing various business functions.
5. **Economies of large scale production:** with the availability of large resources, the company can organize production on a big scale. The increase in scale and size of operations will result in economies in production, marketing and management etc. these economies will enable the company to produce goods at a lower cost, thus resulting in more profits.
6. **Transferability of shares**: the shares of a public company are freely transferable. The shareholders can easily sell their shares through stock exchange markets. The facility of transfer of shares encourages many persons to invest. This provides liquidity to the investor and stability to the company.
7. **Ability to cope with changing business environment:** the present business enterprises operate under uncertain economies and technological environments. To cope with the changing economic environment every business is required to invest money on research and developmental programmes. A joint stock company can afford to invest money on research projects. It will enable them to cope with changing business conditions.
8. **Diffused Risk:** In joint stock Company, the risk is shared among a large number of persons.
9. **Democratic setup:** The value of shares is generally small. This enables persons with low incomes to purchase the shares of the companies. Shareholders come from all walks of life. Every individual has an opportunity to become a shareholder. Secondly, the board of directors is elected by the members. So members have a say in deciding the policies of the company. The company form of organization is democratic both from ownership and management side.
10. **Social benefit:** The company form of organization mobilizes scattered savings of the community. These savings can be better used for productive purposes. It also enables the utilization of natural resources for better productive uses. Large scale economies results in low cost of production and the companies can supply better quality goods at low cost.

Demerits of company form of organization

1. **Difficulty of formation:** a number of legal formalities are required to be followed for registration of a firm. A number of persons should be ready to associate for getting a company incorporated. promotion of a company is both expensive and risky.

2. **Separation of ownership and management**: The ownership and management of a public company is in different hands. The owners i.e., shareholders play an insignificant role in the working of the company. On the other hand, control is in the hands of board of directors. The management may indulge in speculative business activities. There is no direct relationship between efforts and rewards. The profits of the company belong to the shareholders and directors are paid only a commission. The management does not take interest in the working of the company.
3. **Speculation in shares:** The joint stock companies facilitate speculation in the shares at stock exchanges. The speculators try to fluctuate the prices of shares according to their suitability. The management of joint stock companies also encourages speculation in shares for their personal gains.
4. **Fraudulent management**: The management is in the hands of those who have not invested much in the company. So the promoters and directors may indulge in fraudulent practices.
5. **Lack of secrecy:** The management of companies remains in the hands of many persons. Everything is discussed in the meetings of board of directors. The trade secrets cannot be sustained.
6. **Delay in decision making**: in company form of organization no single individual can make a policy decision. All important decisions are taken either by the board of directors. This leads to delay in decision making and the company may lose business opportunities also.
7. **Concentration of economic power:** The company form of organization has leads to concentration of economic power in a few hands because some persons become directors in number of companies and try to formulate policies which promote their own interest. The shares of companies are purchased to create subsidiary companies. Interlocking of directorship and establishment of subsidiary companies has facilitated concentration of economic power in the hands of a few business houses.
8. **Excessive state regulation**: A large number of rules and regulations are framed for the internal working of the companies. The government tries to regulate the working of the companies because large public money is involved. The formalities are many and the penalties for non-compliance are heavy. This often detracts companies from their main objectives for which they have been formed.

Q. What are the differences between public and private company?

Meaning of Public Company: Sec (1) (IV) of the companies Act 1956, says that all companies other than private companies are called public companies. It is a company which

1. Lays down no restrictions on the transfer of its shares;
2. Does not limit the maximum number of its members
3. Can invite public for subscribing to its shares and debentures.

Meaning of Private Company: A private company can be formed with the association of at least 2 members but the maximum number of people should not exceed 50. Such a company must use the name 'private' in its name. it is a company which by its articles of association restricts:

1. The rights of its members to transfer its shares, if any
2. Limits the number of its members to 50 excluding members who are or were in the employment of the company.
3. Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

Differences between public and private companies:

Basis	Public Company	Private Company
Number of Members	The minimum number of members required to form a public company is 7 and maximum is unlimited.	The minimum number of members required to form a private company is 2 and maximum number members is 50.
Name	The name must include the word "Limited"	The name must include the word "private Limited"
Number of directors	Minimum – 3	Minimum - 2
Articles of association	A public company does not compulsorily prepare and file articles of association but can adopt Table A of Schedule 1 of the companies Act.	Must prepare and must file its own articles.
Prospectus	A public company must file prospectus with the registrar of companies before inviting the general public to subscribe for its shares and debentures.	A private company is not required to file a prospectus with the registrar of the companies.
Public subscription	Generally invites public to subscribe its shares and debentures	Cannot invite public to subscribe to its shares and debentures.
Allotment of shares	Cannot allot shares without raising minimum subscription and without fulfilling other legal formalities.	No restrictions on allotment of shares. No binding on further issue of shares
Commencement of business	A public company can start its operations only after acquiring certificate of commencement.	A private company can commence its operations immediately after acquiring certificate of incorporation.
Transfer of shares	The shares of a public company are easily transferable	The shares of the private company cannot be transferred
Statutory meeting	Must hold a statutory meeting and file a statutory report	Not required to hold statutory meeting or file a statutory report

Company Promotion and documentation

Q. Explain the various stages in the promotion of a company?

Meaning: promotion refers to those activities which are undertaken to bring a business enterprise into existence. It is the process of exploration, investigation, planning and organizing of necessary resources with the objective of setting up a new business.

Definition: According to L H Haney "Promotion may be defined as the process of organizing and planning the finance of a business enterprise under the corporate form".

Stages in the promotion of a company:

1. **Discovery of business idea:** the process of promotion begins with conception of an idea or business opportunity. The idea may relate to the starting of a new business or taking over of an existing undertaking. The idea of starting a new business may come from an unsatisfied demand, an unexploited resource, an inferior product or from a new invention awaiting commercial exploitation. At this stage a preliminary analysis is also made to ensure that the idea deserves the time and cost o detailed investigation. Many new enterprises fail because the conception of the idea on which they were based was faulty.
2. **Investigation and verification:** once the idea has been conceived, a thorough investigation is made to establish the soundness of the proposition in terms of technical feasibility and commercial viability. detailed investigation involves study of market demand, availability and cost of raw materials, machinery, and other factors of production, probable selling price and profits, etc. such investigation may be conducted by expert engineers, financial analysts, values etc.

   After the investigation is completed, a project report or feasibility report is prepared. The report helps in judging whether the proposition will be successful or not. The report is also useful for obtaining licenses and finance from Government.
3. **Assembling**: Once the promoter is convinced of the feasibility and profitability of the proposition, he proceeds to assemble the requirements. Assembling involves making contracts for the purchase of raw materials, building, machinery, tools, capital etc. decisions have to be made regarding the size, location, layout, etc. of the enterprise. Plans are prepared for the procurement of required workers and executives.
4. **Financing the proposition:** At this stage, financial plans are prepared with respect to capitalization, capital structure, time and method of capital issue etc. Prospectus is issued to the public; agreements are made with underwriters, stock brokers, stock exchange authorities, etc. The process of promotion comes to an end with the actual marketing of securities.

Q. What are the different kinds of promoters?

Meaning: A promoter conceives an idea for setting up a particular business at a given place and performs various formalities required for starting a company. A promoter may be an individual, firm, association of persons or a company.

Definitions:

According to Justice C.J. Cokburn "A promoter is one who undertakes to form a company with reference to a given object and sets it going and takes the necessary steps to accomplish that purpose"

Characteristics of a Promoter:

1. A promoter conceives an idea for the setting up a business
2. He makes preliminary investigation and ensures about the future prospects of the business.
3. He brings together various persons who agree to associate with him and share the business responsibilities.
4. He prepares various documents and gets the company incorporated
5. He raises the required finances and gets the company going.

Kinds of promoters:

1. **Professional promoters**: These are the persons who specialize in promotion of companies. They hand over the companies to shareholders when the business starts. In India, there is a dearth of these promoters in India.
2. **Occasional Promoters:** These promoters take interest in floating some companies. They are not in promotion work on a regular basis but take up the promotion of some company and go to their earlier profession. For instance, Engineers, Lawyers, etc. may float some companies.
3. **Financial resources**: financial or investment promoters float new enterprises during favourable conditions in securities markets. They are interested mainly in making gains from favourable investment climate rather than in the commercial success of the enterprise.
4. **Technical Promoters:** These promoters promote new enterprises on the basis of their knowledge and training in technical fields. They charge fees for their services. Technicians, consultants and engineers may also promote enterprises to make commercial use of their inventions.
5. **Managerial agents as promoters:** In India, Managing agents played an important role in promoting new companies. These persons used to float new companies and then got their managing agency rights. Managing agency system is abolished in India.

Important Documents to be filed for the promotion of a company

Q. Explain the contents of memorandum of association?

Memorandum of association is the most important document of a company. It serves as the constitution of the company. It lays down the objects, powers of the company and defines its relations with outside public. The purpose of memorandum of association is to enable the shareholders, creditors and others which deal with the company to know its permitted range of activities. Any activity of the company beyond the powers mentioned in the memorandum is said to be ultra vires and therefore not binding on the company.

Memorandum should be printed, divided into paragraphs, numbers consecutively, signed by each subscriber and duly attested by a witness. It is a public document and its copies have to be supplied upon the payment of a nominal charge.

Definition:

Section 2(28) of the companies act defines memorandum as **" the memorandum of association of a company as originally framed or as altered from time to time in pursuance of any previous laws or of this Act." The contents of memorandum are explained in section B of the Act.**

Contents of memorandum of association:

The memorandum of association contains the following particulars:

Name clause: this clause contains the name of the company. A company can choose any name it likes, however they have to follow certain conditions:

1. The proposed name should not be identical or similar to the name of an existing company.
2. The proposed name should not use the names objectionable under the provisions of emblems and names Act 1950.

The name of the company must appear on the outside of every office and place of business.

Domicile Clause: This clause specifies the name of the state in which the registered office of the company is to be situated. This is necessary to determine the domicile of the company i.e.

the place of its registration and the legal jurisdiction. There is no statutory binding to give the exact address of the registered office in the memorandum of association. But in practice address of the registered office is given along with the name of the state.

Object clause: this is the core of the memorandum of association because it defines the powers of the company and scope of its activities. From this clause, shareholders and creditors can find out the purpose for which their money is to be utilized. A company can make alterations in the objects clause only with the approval of the company law.

Liability clause: This clause states that the liability of members is limited to the amount, if any, unpaid on the shares held by them. In case of "companies limited by guarantee" this clause will state the amount which every member undertakes to contribute in the event of its winding up. A company registered with unlimited liability is not required to give this clause in its memorandum of association.

Subscription or association clause: This clause contains the names and addresses of the subscribers to the memorandum. The subscribers make declaration under their signatures duly attested by witness that they desire to be formed into a company and agreed to take qualification shares, if any. There must be at least 7 signatories in case of a public company 2 in case of private company.

Q. Explain the contents of articles of association

An article of association is a document that describes the rules and regulations which are framed for the internal working of the company. The articles are framed to achieve the objectives set out in memorandum of association. It is a supplementary document to the memorandum.

According to Sec 2(2) of the companies Act, "Articles of Association of a company as originally framed or altered from time to time in pursuance of any previous company law or of the Act".

The private companies must have their own articles of association. **As per section 26 of the companies Act, for a public limited company it is optional**. However, the public limited companies may adopt any or all of the regulations contained in the model set of articles given in **Table A** in schedule I of the companies Act. It means that the company can partly frame its own articles and partly incorporate some of the regulations given in Table A.

The Articles should not contain anything contrary to the companies Act and also memorandum of association. The articles must be printed, divided into paragraphs and numbered consecutively. Each subscriber to the memorandum must sign the articles in the presence of at least one witness.

Nature of Articles of Association:

1. Articles of Association are subordinate to memorandum of association
2. The articles are controlled by memorandum
3. Articles help in achieving the objectives laid down in the memorandum of association.
4. Articles are only internal regulations over which the members exercise control.
5. Articles lay down the regulations for governance of the company.

Contents of Articles of Association:

1. The amount of share capital issued, different types of shares, calls on shares, forfeiture of shares, transfer of shares and right and privileges of different categories of shareholders.
2. The appointment of directors, powers, duties and their remuneration.
3. Powers to alter as well as reduce share capital.

4. The appointment of manager, managing director, etc.
5. The procedure for holding and conducting of various meetings.
6. Matters relating to maintaining of accounts, declaration of dividend and keeping reserves etc.
7. Procedure for winding up of the company.

Q. what is Red Herring Prospectus and what are the contents of Red Herring Prospectus?

As per Section 32 of the companies Act 2013 a company can issue RED HERRING PROSPECTUS subject to certain conditions. The term Red Herring derives from the bold disclaimer in Red on the cover page of the preliminary prospectus. This disclaimer states that a registration statement relating to the securities being offered has been filed with SEC but has not yet become effective. The information contained in the prospectus is incomplete and may be changed, the securities may not be sold and offers to buy may not be accepted before the registration of statement becomes effective. The red herring does not state price or issue size.

The company shall file Red Herring Prospectus with the registrar of the companies at least 3 days before opening of the subscription list and the offer. A Red Herring Prospectus shall carry the same obligation as are applicable to a prospectus. Upon the closing of the offer of securities, the prospectus shall be filed with the registrar and the Securities & Exchange Board of India.

Contents of Red Herring Prospectus:

1. Purpose of the issue
2. Disclosure of any option agreement
3. Underwriters commission and discounts
4. Promotion expenses
5. Net proceeds to the issuing company
6. Balance Sheet
7. Earnings statements for last 3 years, if available
8. Names & addresses of all officers, directors, underwriters &stock holders owning 10% or more of the current outstanding stock
9. Copy of the underwriting agreement
10. Legal opinion on the issue
11. Copies of the certificate of incorporation of the issuer.

Q. What are the contents of Prospectus?

Prospectus is a document containing detailed information n about the company and an invitation to the public to invest in the shares and debentures of the company, only public companies can issue prospectus. Section 2 (36) of the companies Act defines Prospectus as " A prospectus means any document described or issued as prospectus and include any notice , circular, advertisement or other document inviting deposits from public or inviting offers from the public for the subscription or purchase of any shares or debentures of a body corporate."

Essentials of prospectus

i. There must be an invitation to the public
ii. The invitation must be made on behalf of the company
iii. The invitation must be to subscribe or purchase
iv. The invitation must relate to shares or debentures

A prospectus must be filed with the registrar of the companies before it is issued to the public. The issue of prospectus is essential when the company issues the public to purchase its shares

and debentures. A prospectus duly dated and signed by all the directors must be filed with the registrar of the company. When the company can arrange money from other sources then it need not issue prospectus. In such case the promoters prepare "Statement in lieu of prospectus" A prospectus brings to the notice of the public that a new company has been formed. It outlines the terms and conditions on which the shares or debentures have been issued to the public. Every prospectus contains an application form. The investor who wants to purchase shares or debentures of the company fills the form and submits it to the company. A company must get minimum subscription within 120 days from the date of issue of prospectus. If the company fails to obtain minimum subscription within the specified time it has to refund the already received money.

Contents of prospectus:

1. Name and full address of the company
2. Full particulars about the signatories to the memorandum of association and the number of shares taken up by them.
3. Name, address and occupation of members of the board of directors
4. The nature and extent of interest of every promoter in the promotion of the company.
5. The minimum subscription fixed by the company after taking into account all financial requirements.
6. The full address of underwriters, and the opinion of directors that the underwriters have sufficient resources to meet their obligations.
7. The time of opening the subscription list.
8. The allotment payable on application, allotment and calls
9. Particulars about reserves and surplus
10. The name address of the auditor
11. The particulars regarding the voting rights at the meeting of the company
12. The amount of preliminary expenses
13. A report by the auditor regarding the profits and losses of the company.

Q. Define statement in lieu of prospectus?

When public company is not raising the capital by public issue of shares or debentures, then it does not require to issue prospectus. In such case, the company may collect the capital privately and shares may be allotted by mutual agreement of a few people. Such companies must prepare a statement in lieu of prospectus and file it with the registrar of the companies within three days before the first allotment of shares or debentures. The contents of the statement in lieu of prospectus are more or less similar to the prospectus. It should be signed and dated by the directors.

The prospectus or a statement in lieu of the prospectus should not contain any false statement. Misinterpretation or misstatement of facts in such documents is punishable under the companies Act 1956.

Q. What are the differences between Memorandum of Association and Articles of Association?

Meaning of Memorandum of Association: Memorandum of association is the most important document of a company. It serves as the constitution of the company. It lays down the objects, powers of the company and defines its relations with outside public. The purpose of memorandum of association is to enable the shareholders, creditors and others which deal with the company to know its permitted range of activities. Any activity of the company beyond the

powers mentioned in the memorandum is said to be ultra vires and therefore not binding on the company.

Meaning of Articles of Association: Articles of association is a document that describes the rules and regulations which are framed for the internal working of the company. The articles are framed to achieve the objectives set out in memorandum of association. It is a supplementary document to the memorandum. According to Sec 2(2) of the companies Act, "Articles of Association of a company as originally framed or altered from time to time in pursuance of any previous company law or of the Act".

Differences between Memorandum of Association and Articles of Association

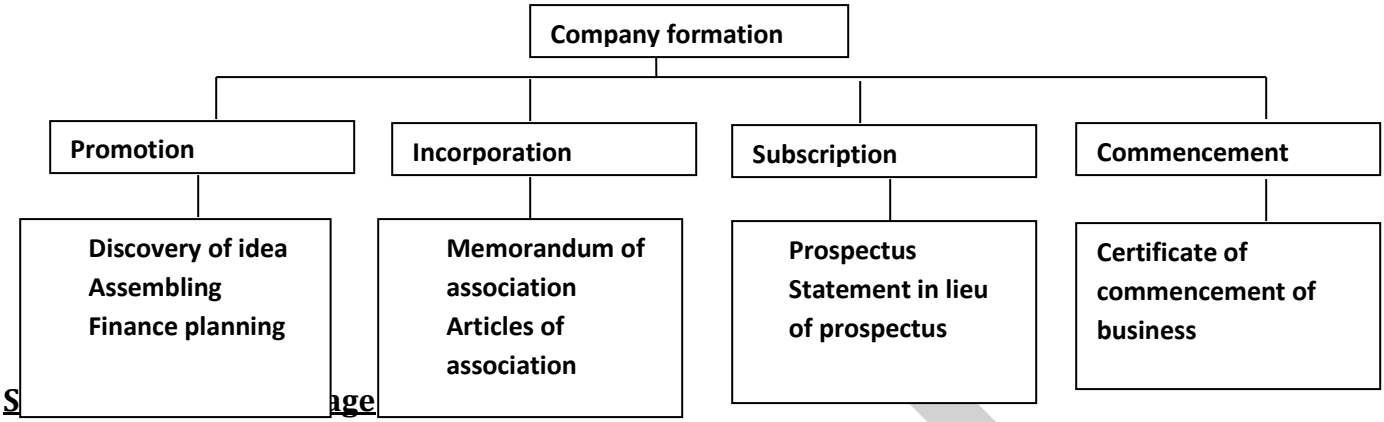
Memorandum of association	Articles of association
1. The Memorandum of Association is constitution of the company. The company has to work within the framework of memorandum of association.	**1. The articles of association contain by-laws for the day to day working of the company. Articles are framed within the scope of memorandum of association**
2. The Memorandum of Association is a must for getting a company registered.	**2. Public limited companies may not have their own articles, but can adopt Table A of Schedule I as its articles. Private limited companies must have their own articles.**
3. The Memorandum cannot contain anything contrary to companies Act.	**3. The Articles of Association are subordinate to the memorandum and companies Act and cannot contain anything contrary to both.**
4. A company cannot do anything beyond the scope of the Memorandum. Any Act beyond its a scope done will be void.	**4. Anything done beyond the scope of articles will not be void and it can be ratified by passing special resolution.**
5. It regulates the relationship between company and the members of the public.	**5. It defines relationship between the company and the members and among members themselves.**
6. Memorandum can be altered only under special circumstances and involve many formalities.	**6. Alteration of articles is not difficult. It can be altered by passing special resolution.**

Q. What are the various steps involved in the formation of company?

Promotion may be defined "as the discovery of business opportunities and the subsequent organization of property, funds and managerial ability into a business concern for the purpose of making profits there from."

According to L H Haney "**promotion may be defined as the process of organizing and planning the finance of a business enterprise under the corporate form".**

Promotion of a company is a tedious task and involves a number of inter-related steps and formalities as under:



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a) **Discovery of business opportunities**: the discovery of business opportunities involves the following sub stages:
    a. **Conception of Idea:** The first stage in company promotion is the conception of a new idea. A person visualizes that there are opportunities for a particular type of business and it can be profitably run.
    b. **Investigation**: Before executing any idea, it is necessary to carry out a detailed investigation of the commercial viability of the idea. This task is undertaken b y the experts, who undertakes a detailed investigation and prepare a report thereof.
    c. **Verification**: The report submitted by experts will be further analyzed by technical experts. If they are satisfied then the idea is taken up for commercial exploitation.

b) **Assembling the requirements**: during this stage, the promoters give a proper shape to their idea, by assembling various resources such as managerial and technical ability and physical resources. Assembling includes activities such as selection of site, purchase or lease of land, construction of buildings, purchase of equipment, securing of patent rights, entering into a contract with persons for technical, managerial, office and factory jobs, etc.

c) **Preparation of financial plan**: In this stage promoters undertakes financial planning for the proposed project in order to ensure its financial viability. Financial planning means determining an ideal capital structure, sources and application of funds and maintaining adequate cash flow. Promoters may enter into a contract with underwriters, bankers and financial institutions for raising necessary loans for meeting working capital requirements.

Stage II – Incorporation Sage:

Incorporation stage means the process of giving birth to a new company, i.e., undertaking various steps to get the company registered with the registrar of companies. This is a legal stage through which a company gets separate legal entity. The company can be registered either as a private limited company or a public limited company. This requires filing of the following documents with the registrar of the firm.

1) **Memorandum of Association**: Memorandum of Association is the most significant document for the company form of organisation. It is the constitution of the company and provides the foundation on which its structure is built. It is the principal document without which the company cannot be registered. It defines the scope of the company's activities as well as its relation with the outside world. In case of public limited company,

at least seven persons has to subscribe their names to the memorandum, with each promising to purchase at least one share. In case of private limited company at least 2 persons have to subscribe their names to the memorandum.

2) **Articles of Association:** Articles of association consists a set of rules, regulations and bye laws made by the company, for its internal management. The articles are framed to help the company in achieving its objectives set out in memorandum of association. It is a supplementary document to the memorandum of association. A public limited company may prepare its own articles or it may adopt Table A of schedule I of the companies Act 1956. Articles of association is a must for private companies with unlimited liability, and companies with liability limited by guarantee.
3) **List of directors and their written consent to act as directors:** A list of directors has to be filled, with their names in full, their addresses, occupations and ages. If a company does not file a separate list of directors, then the subscribers to the memorandum are deemed to be the first directors.
4) **Address of the registered office**: it is also necessary to file a notice of the address at which the registered office of a company will be situated. If it is not filed at the time of registration, it must be filed within 28 days of the registration.
5) **Statutory Declaration**: A statutory declaration, either by the secretary or the solicitor or any other person who has taken part in the formation of the company, to the effect that all provisions of the companies Act, with regard to registration, have been compiled with.
6) **Qualification Shares**: The directors of the company are required to give a declaration in writing regarding qualification of shares. It is an undertaking signed by the directors stating that they have agreed to purchase and pay for the prescribed qualification of shares.

Stage III- Subscription Stage:

The third stage in the formation of a company is the raising of capital. In the case of a company, capital is contributed by its members by mutual consent. A public cannot start functioning unless minimum subscription as stated in the prospectus has been subscribed. The amount stated for allotment should be duly received in cash and allotment has been made properly.

Stage IV – commencement of business:

A private company can commence its operations immediately on acquiring the certificate of incorporation. However, a public company can commence its operations only on acquiring the certificate of commencement of business.

Q. What are the important documents to be filed for the registration of a company?

1) **Memorandum of Association**: Memorandum of Association is the most significant document for the company form of organisation. It is the constitution of the company and provides the foundation on which its structure is built. It is the principal document without which the company cannot be registered. It defines the scope of the company's activities as well as its relation with the outside world. In case of public limited company, at least seven persons has to subscribe their names to the memorandum, with each promising to purchase at least one share. In case of private limited company at least 2 persons have to subscribe their names to the memorandum.

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UNIT 3
INTRODUCTION TO FUNCTIONS OF MANAGEMENT

Q. Explain the nature / Characteristics of management?

Management is the art of getting things done through others and with people formally organized in groups. It is also defined as the art and science of decision making. It is the creation and maintenance of an internal environment in an enterprise where individuals working in groups, can perform efficiently and effectively towards the attainment group goals.

Definition:
According to Mary Parker Follett" Management is the art of getting things done through others ".

FEATURES OF MANAGEMENT

1. **Multidisciplinary**: management draws knowledge and concepts from various disciplines such as sociology, psychology, economics; statistics operations research etc. management integrates these ideas and concepts from these disciplines and use them for improving the efficiency of the organization.
2. **Management is a group activity:** management is an essential part of a group activity. Wherever there is an organised group of people working towards a common goal, some type of management becomes essential. Management makes people realize the objectives of the group and directs their efforts towards the achievement of these objectives.
3. **Management is a goal – oriented:** management aims to achieve economic and social objectives. It exists to achieve some definite goals. Group efforts in management are always directed towards the achievement and accomplishment of some pre-determined goals.
4. **Management is a factor of production:** management is not an end in itself but a means to achieve the group objectives. Just as land, labour and capital as a factor of production, management is also a factor of production.
5. **Management is universal in character**: Management is applicable in all types of organization. The basic principles of management has universal applicability and can be applied in all organizations whether they are business, social, religious, cultural, politics or military.
6. **Management is a social process**: management involves getting things done through others. This involves dealing with people. The efforts of human beings have to be co-ordinate and regulated by management in order to achieve desired results. It is in that management is regarded as a social process.
7. **Management is a system of authority:** authority is the power to get the work done from others and to compel them to work in a certain manner. Management cannot perform in the absence of authority. There is a chain of authority and responsibility among people working at different levels of the organization. There cannot be efficient management without well defined lines of authority or superior – subordinate relationships at various levels of decision making.
8. **Management is a dynamic function**: Management is a dynamic function and it has to b performed continuously. It is constantly engaged in the moulding of the enterprise in an ever changing business environment.
9. **Management is an art as well as a science**: Management is a science because it has developed certain principles which are of universal application. But the results of management depend upon the personal skill of managers and in this sense management is an art.
10. **Management is a profession**: In the present days management is recognized as a profession. It has a systematic and specialized body of knowledge consisting of principles, techniques and laws that can be taught as a separate discipline.

Q. What are the objectives of management?

Management is the art of getting things done through others and with people formally organized in groups. It is also defined as the art and science of decision making. It is the creation and maintenance of an internal environment in an enterprise where individuals working in groups, can perform efficiently and effectively towards the attainment group goals.
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OBJECTIVES OF MANAGEMENT: -

1. **Proper utilization of resources**: The main objective of management is to use various resources of the enterprise in a most economic way. The proper use of men, materials, machines and money will help a business to earn sufficient profits to satisfy various interests.
2. **Improving performance**: management should aim at improving the performance of each and every factor of production. The environment should be so congenial that workers are able to give their maximum to the enterprise. The fixing of objectives of various factors of production will help them in improving their performance.
3. **Mobilizing best talent**: the management should try to employ specialists of various fields to achieve better results. The employment of specialists in various fields will increase the efficiency of various factors of production. There should be a proper environment which should encourage good persons to join organization.
4. **Planning for future**: Another important objective of management is to prepare plans. Future plans should take into consideration what is to be done next. Future performance will depend upon present planning.

Q. Explain the Scope or branches of management?

Management is an all pervasive function since it is required in all types of business organizations. The scope of management includes – planning, organizing, staffing, directing, co-ordinating and controlling.
The operational aspects of business management, called the branches of management, are:

1. **Production management**: production means conversion of raw materials into finished products. Production management involves plant location and layout, production policy, type of production, plant facilities, material handling, production planning and control, repair and maintenance, research and development, simplification and standardization, quality control and value analysis etc.
2. **Marketing Management:** marketing is a sum total of physical activities which are involved in the transfer of goods and services and which provide for their physical distribution. Marketing management refers to the planning, organizing, directing and controlling the activities of people working in the marketing department. Marketing management involves market analysis, marketing policy, brand name, pricing, channels of distribution, sales promotion, sales – mix, after sales service, market research etc.
3. **Financial management**: financial management is concerned with the managerial activities pertaining to the procurement and utilization of funds or finance for business purposes. The functions of financial management includes:

i. Estimation of capital requirements
ii. Ensuring a fair return to investors
iii. Determining the suitable sources of funds
iv. Laying down the optimum and suitable capital structure for the enterprise.
v. Coordinating the operations of various departments

vi. Preparing, analyzing and interpretation of financial statements
vii. Laying down a proper dividend policy, and
viii. Negotiating outside finance

4. **Personnel management:** personnel management involves effective control and use of manpower. Personnel management is concerned with managerial and operative functions. Managerial functions of personnel management include:

i. Personnel planning
ii. Organizing by setting up the structure of relationship among jobs, personnel and physical factors to contribute towards organization goals
iii. Directing the employees
iv. Controlling

The operative functions of personnel management are:

i. Procurement of right kind and number of persons
ii. Training and development of employees
iii. Determining of adequate and equitable compensation
iv. Integration of the interests of the personnel with that of enterprise; and
v. Providing good working conditions and welfare services to the employees.

5. **Office management:** the concept of management when applied to office is called 'office management'. Office management is the technique of planning, co-ordinating and controlling office activities. One of the functions of management is to organise the office work in such a way that it helps in achieving organizational goals.

Q. Define management and explain the functions of management?

Management is the art of getting things done through others and with people formally organized in groups. It is also defined as the art and science of decision making. It is the creation and maintenance of an internal environment in an enterprise where individuals working in groups, can perform efficiently and effectively towards the attainment group goals.

Definition: *According to Mary Parker Follett"Management is the art of getting things done through others ".*

Functions of management

Planning:- planning means the determination what is to be done, how and where is to be done, who is to do it and how the results are to be evaluated.

Planning consists of:-

a. Establishing objectives
b. Formulating rules and regulations
c. Developing programs
d. Scheduling
e. Budgeting

2. **Organizing:-** it means identification and grouping the activities to be performed and dividing them among the individuals and creating authority and responsibility relationships among then for the accomplishment of organizational objectives.

It consists of:-

a. Determination of objectives and identification of activities necessary to achieve the objectives
b. Delegation of authority and relationship among individuals.
c. Coordination of activities and assignment of duties.
d. Division of activities into different units or departments

3. **Staffing: -** human resources management is a process consisting of the acquisition, development, motivation and maintenance of human resources.

It consists of:-

a. Manpower planning to determine the quality and quantity of employees required for the jobs to b done
b. Recruitment for attracting qualified persons
c. Selection of best candidate
d. Placement of the right man for the right job
e. Training and development to increase new skills, knowledge and competency to do job
f. Motivation of employees
g. Evaluation performance of employees
h. Employees welfare

4. Directing: - direction embraces those activities which are related to guiding and supervising subordinates.

It consists of:-

a. Supervising the subordinates
b. Communicating the information
c. Providing effective leadership
d. Motivating employees

5. Controlling: - controlling is the process of monitoring activities to ensure that they are being accomplished as planned and of correcting any significant deviations.

It consists of:-

a. Determination of standard performance
b. Measurement of actual performance
c. Compares the actual performance with the standard
d. Analyzes deviations
e. Take corrective actions if necessary.

Q. Explain the 14 principles of management?

Management is the art of getting things done through others and with people formally organized in groups. It is also defined as the art and science of decision making. It is the creation and maintenance of an internal environment in an enterprise where individuals working in groups, can perform efficiently and effectively towards the attainment group goals.

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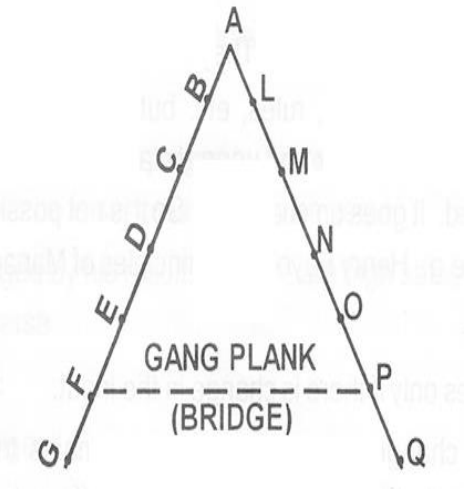
Henry fayols 14 principles / principles of management

1. **Division of work**: Division of work implies division of the total task in order to reduce the burden and to promote specialization so that one person does only one thing rather than doing everything himself. This helps to avoid wastage of time and effort from one work to another. Fayol has suggested that this principle of division of work shall be applied to all kinds of work – technical as well as managerial.
2. **Parity of authority and responsibility:** This principle states that authority and responsibility should go side by side. A person can be accountable only if he has been given authority for getting the work done. Responsibility and authority should be commensurate with each other. Authority without responsibility leads to irresponsible behavior and responsibility without authority makes a person ineffective.

3. **Discipline:** Discipline means obedience, respect of authority and observance of the established rules. Discipline is essential for the smooth functioning of business. According to Fayol good supervision at all levels, clarity of rules and built in system of reward and punishment help to maintain discipline.
4. **Unity of command**: this principle states that one person should receive orders from only one superior. If one person receives orders from more than one boss then the subordinate fails to understand whose orders to be followed.
5. **Unity of direction:** the principle states that each group of activities having the same objectives must have one plan of action and must be under the control of one superior.
6. **Subrogation of individual interest to general interest**: it is an essential function of management to make people realize the objectives of the group and direct their efforts towards the achievement of these objectives. The interest of group must always prevail over individual interest. When the individual interest and group interest differ, it is the duty of the management to reconcile them.
7. **Fair remuneration to workers:** Fayol was of the view that the remuneration paid to the workers should always be fair and should give maximum satisfaction to the employees and employer.
8. **Effective centralization**: centralization means concentration of authority in the hands of few, i.e. top management. Everything which goes to increase the importance of subordinate's role is called decentralization and everything that goes to reduce the importance of subordinate is called centralization. The degree of centralization may be different in different cases, but a balance should be maintained between centralization and decentralization of authority to attain the best possible results.
9. **Scalar chain:** Scalar chain is the formal line of authority which moves from highest to lowest rank in a straight line. This chain specifies the route through which the information is to be communicated to the desired location/person. Fayol emphasized that every information in the organization must flow according to this chain. Fayol also stated that there should be no overlapping of steps during the communication process.



Fayol introduced the concept of 'Gang Plank'. The scalar chain in an organization is represented by the double ladder GAQ. Any communication from F to P will flow upward A throw E, D, C, and B; and then downwards through L, M, N, and O. it will take a long time. Hence in order to reduce the delay involved in communication, a gang plank between F and P may be created as shown by a dotted line. However this should not be used under normal course of time.

10. **Order**: the principle of order implies that right man in right job and right material in the right place.
11. **Equity**: equity means justice and kindliness. Fayol was of the opinion that there should neither be nepotism nor favouritism and all should be given just and treatment.
12. **Stability of tenure of personnel**: stability of tenure of a personnel is very essential because it takes time to use to a job. Fayol was of view that instability of tenure of personnel is both the cause and effect of bad management. Instability of tenure increases cost of selection and training and brings bad name to the organization. To secure loyalty of workers, it is very essential to provide security of service to the workmen.
13. **Initiative**: initiative implies the power of thinking out a plan and ensuring its successful implementation. The manager should encourage or inspire the confidence of his subordinates so that they show initiative.
14. **Espirit –de-corps:** this principle implies that there should be co-operation and team work among the members of an organization. Literally speaking, Espirit-de-corps means the spirit of loyalty and devotion to the group to which one belongs.

Q. What are the various levels of management and what are the functions of various levels of management?

Management is the art of getting things done through others and with people formally organized in groups. It is also defined as the art and science of decision making. It is the creation and maintenance of an internal environment in an enterprise where individuals working in groups, can perform efficiently and effectively towards the attainment group goals.

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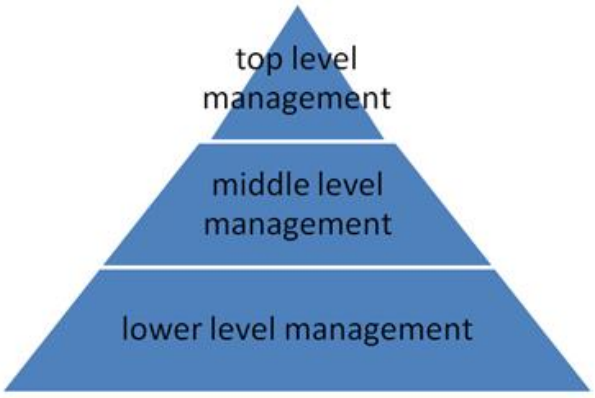
Levels of management and functions



1. Top level management:- It includes board of directors, chief executive or general managers , senior strategist, decision making, directors . Corporate level goals, missions and objectives are determined. The major functions of this level are:-

A. To formulate and determine the objectives and define the goals of the business
B. To establish policies and prepare plans to attain the goals
C. To set up an organizational structure to conduct the operations as per the plans
D. To provide the overall direction in the organization

E. To assemble the resources necessary for the attainment of the policy and execution of the paln
F. To control effectively the business operations
G. To judge and evaluate the results

2. Middle level management: - It includes departmental managers, divisional heads and section officers. It acts as a bridge between top level management and lower level management. The major functions of this level are:-

A. To implement the task set up by top management
B. To implement the policies framed by the top management
C. To run the organizations effectively and efficiently
D. To cooperate for the smooth functioning of the organizations
E. To coordinate between different departments
F. To recruit, select and train the employees for the better functioning of the departments
G. To issue the instructions to the lower level management
H. To motivate the workers and staffs for higher productivity and to reward them.
I. To lead the departments and build up an organizational spirit
J. To report and make suitable recommendations to the top level management for the better execution of the plans and policies

3. **Lower level management:-** It includes supervisors, foremen and workers. it is also known as supervisory level of management in which the supervisors or foreman like sales officers , account officers etc take responsibilities of the implementation and control of the operational plans developed by the middle level managers. The function of this level are: –

A. To issue the orders and instruction to the workers to supervise and control the performance
B. To plan the activities of the sections.
C. To direct and guide the workers about the work procedures
D. To provide job training to the workers
E. To arrange the necessary tools, equipment, materials from the workers and look after their proper maintenance
F. To solve the problem of workers
G. To develop sense of cooperation and high group spirit among the workers
H. To advise the middle level about the work environment
I. To inform the unsolved problems of the workers to the middle level management

Q. **Explain the managerial skills?**

1. Managerial skills :A skill is an acquired and learned ability to translate knowledge into performance. A manager has to achieve organizational objectives through the proper use of available human and material resources. All managers need to possess various skills which are necessary to carry out their jobs successfully.

2.Technical skills: technical skills basically involve the use of knowledge, methods and techniques in performing the jobs effectively. Technical skills are necessary to accomplish or understand the specific kind of working done in an organization. Engineers, scientists, computer programmers etc. are the persons who have technical skills in their areas and these skills are acquired through education and training. Technical skills are essential for first line managers who have to clarify the subordinate's doubts regarding work.

3. **Human skills**: Human skills are the ability to work with others in a co-operative manner. Human relations skill is necessary at every level of management. A manager with good human skills can build trust and co-operation and motivate others.

4. **Analytical skills**: Analytical skills are also called diagnostic skills. Analytical skills refer to the ability of logically and objectively investigating and analyzing a problem and reaching an appropriate decision. Analytical skills help a manager to establish cause and effect relationship. These skills also help a manager for problem identifying, solving and decision making.

5. **Decision making skills:** Every manager has to make decisions every day. It is an essential element of management. It is the process of reaching a point. It is the process of choosing best alternative among available alternatives. A manager may use various techniques for taking decisions. Manager's decision can make or mar the future of the company. The quality of decisions will improve if a manager possesses decision making skills.

6. **Conceptual skills:** it is the ability to view the organization as a whole and as a total entity as well as a system comprised of various parts and subsystems integrated into a single unit. Managers should have the ability to understand the overall working of the organization and harmonise the working of the sub-systems for reaching the organizational objectives. these skulls are essential for top level managers who has to keep the whole system under focus.

7. **Communication skills:** communication is an important element of interpersonal skills. It is essential for implementation of orders. Proper communication eliminates delays, misunderstanding, and confusion and improves co-ordination and control. Communications skills are essential at every level of management.

8. **Political skills:** it is an approach to establish right connections and impressing the right persons and then using these connections for the full advantage of the orgaisation. These skills are important at the middle level of management because these level managers always aspire to reach the top level of management.

Q. What are the differences between Leader and Manager?

Basis	Leader	Manager
Following	He is followed by others because of his qualities to influence others.	he is obeyed because of status and position in the organisation
Trait	it is one of the component f directing function	Leadership is one of the trait of a successful manager
Focus	leadership focuses on vision and purposes of the organization	A manager focuses on the operational side and helps in getting the policies and programmes implemented.
Moulding Behaviour	leader has the potential of moulding the behaviour of followers	A manager tries to get things done in a routine way. He undertakes supervision to see that results are achieved as per the targets.
Approach	leadership tries to mouls the behaviour of the people for bringing a change in their behaviour	A manager adopts transactional approach which involves assigning of responsibilities and then evaluating the performance.

Power	A leader commands respect and following because of his personal abilities and influence over others	a manager derives power from his formal position in the organization
Areas of work	Leadership is generally used in the content of political organisations, military organisations and administrative set up.	A manager works in an enterprise concerned with earning profits.
Degree of Loyalty	a leader commands loyalty because of his abilities.	A manager commands loyalty of subordinates because of his position in the organisation.

Q. What are the Differences between management and administration?

Meaning of administration: Administration means overall determination of policies, setting of major objectives, the identification of general purposes and lying down of broad programmes and projects". It refers to the activities of higher level. It lays down basic principles of the enterprise.

Meaning of Management: Whereas, management involves conceiving, initiating and bringing together the various elements; coordinating, actuating, integrating the diverse organizational components while sustaining the viability of the organization towards some pre-determined goals. In other words, it is an art of getting things done through & with the people in formally organized groups.

Basis	Administration	Maagement
Nature of Work	It is primarily concerned with tge determination of objectives and broad ppolicies. It is a thinking function	it is a doing function. It involves the implementation of plans and policies.
Scope	it takes major decisions and is a wider term than management	it takes the decision within the framework of administration
Level of Authority	it is a top management function	It is a lower level management function
Status	it consists of the owners of an enterprise	it consists of managerial personnel with specialised knowledge who may be the employees
Nature of organisation	Generally, it is used in relation to government, military, educational and religious organisations	it is used mainly in business firms which have economic motives
Influence	its decisions are influenced by external factors such as social, political, legal etc.	its decisions are influenced by internal factors such as values, beliefs and opinions

Q. Define scientific management and explain the nature and objectives of scientific management?

Scientific management implies the application of science to the job management of an industrial concern. It aims at replacement of traditional techniques by scientific techniques. Scientific management is a thoughtful, organized human approach to the job of management as contrasted with hit or miss, rule of thumb. "It is the art of knowing exactly what you want men to do and then seeing that they do it in the best and cheapest way."

Definition**: "Scientific management is the substitution of exact scientific investigations and knowledge for the old individual judgment or opinion in all matters relating to the work done in the shop".** —F.W. Taylor

Characteristics of Scientific Management:

(i) It is a systematic, analytical, and objective approach to handle management problems.
(ii) It implies scientific techniques in method of work, recruitment, selection and training of workers.
(iii) It rejects the age old method of rule of thumb' or 'hit or miss' approach.
(iv) It attempts to discover the best method of doing the work at the lowest cost.
(v) It attempts to develop each worker to his greatest efficiency.
(vi) It involves a complete change in the mental attitude of the workers as well as of the management.

Objectives to Scientific Management:

(a) Higher Productivity: Increase in the rate of production by use of standardized tools, equipment's, methods and training of the workers.
(b) Cost Reduction: Reduction in the cost of production by rational planning and regulation, and cost control techniques.
(c) Elimination of Wastes: Elimination of wastes in the use of resources and methods of manufacturing.
(d) Quality Control: Improvement in the quality of output by research, quality control inspection devices.
(e) Right Men for Right Work: Placement of right persons on the right jobs through scientific selection and training of workers.
(f) Incentive Wages: Relating wage payments to the efficiency of the workers, i.e., giving wages at the higher rates to the efficient workers.

Q. What are the principles / elements of scientific management?

Principle / elements of scientific management

1. **Scientific task setting and rate setting:** under scientific management, management should determine the task for every worker through careful scientific investigation. The standard task set by the management should neither be higher than the average capacity nor lower than his capacity. The scientific technique of task setting is known as work study.
The main aspects of work study are:

i. **Method study**: motion study aims at simplifying the production process by reducing the number of operations. On the basis of such a study '**a process chart'** setting out the various operations is prepared.

ii. **Routing and Scheduling**: The work passes through various shops before completion. Sometimes the work is passed through certain unnecessary shops where no operation is performed. Therefore, there is a need for routing and scheduling. Routing determines the shops where the work is to be done and also the sequence of operations. A **route sheet** may be prepared for each work indicating the exact route to be followed and the man and machine to operate upon it.

iii. **Motion study:** it involves the study of movement of operations of a worker. It aims to eliminate unnecessary movements so as to perform the work in the best possible manner.

iv. **Time study**: time study may be defined as the art of observing time required to do a particular job. It relates to the fixing of time for doing a job under given conditions.

v.**Fatigue study:** workers are prone to fatigue on account of over work, stress and strain, etc. A fair standard task can be fixed only when it is set after providing for measures to eliminate or minimize fatigue of all kinds, viz.., physical, psychological, mental and nervous fatigue.

vi. **Rate setting**: Taylor suggested 'differential piece – wage system'. Under this system, standard hourly or daily output of a worker is fixed and there are two piece rates. Workers performing the standard output are paid a much higher rate per unit than those who are inefficient and are not able to achieve the standard output. Workers who achieve more than the standard output may be given some extra incentives. This system of wage payment is very helpful in increasing the efficiency of workers.

2. **Scientific selection, placement and training of workers:** selection is the process of choosing a person for a job. Under the old system of management, a worker is selected by the foreman according to his discretion. Taylor felt that the selection of a right type of a worker for right job is very important. Taylor advocated setting up of a 'central personnel department', which looks after selection, placement, training and development programmes.

3. **Standardization and simplification:** simplification is the process of determining a limited number of types, sizes, varieties and grades of articles of production with the object of better control and elimination of waste resulting in ultimate economy and ease in manufacture'. Under the scientific management a worker is expected to achieve a standard task/output given to him. For achieving the standard output, standardization of materials, tools and equipment, method of work, speed and conditions of work etc., should be provided.

4. Specialization:

(a) **Functional foremanship:** Taylor has suggested the introduction of functional foremanship. According to Taylor, the two functions planning and doing should be separated. Planning section should concentrate on planning the task and issuing instructions to the workshop for implementing them. Taylor suggested eight functional specialists, the first four are attached with planning the work, and the next four with the shop work:

- **Route clerk**: concerned with laying down sequence of operations and direct the workers to follow them.
- **Instruction card clerk:** lays down the exact method of doing a work, use of tools and equipments, and the optimum speed at which machines are to be worked, etc.
- **Time and cost clerk:** concerned with maintaining records of time spent by different workers on different jobs and associated rates.
- **Shop disciplinarian**: deals with breach of discipline and absenteeism.

- **Gang boss:** assembles and set up various equipments and tools to enable the workers begin their work immediately after entering the shop.
- **Speed boss**: ensures that machines are run at their optimum desired speed.
- **Repair boss**: ensures regular cleaning, servicing, and repair of machines to keep them in efficient working order.
- **Inspector**: ensures that the workmen do the work of the requisite quality and the jobs are executed as per specifications.

B. management by objectives: Taylor advocated that the managers should leave the routine matters to specialists at lower levels and concentrate on important policy matters. This is known as management by objectives.

5. Introduction of system of cost accounting: another important element of scientific management is the introduction of cost accounting system. As a tool of scientific management, cost accounting helps – to ascertain cost of each product, process, and helps managers in planning, taking crucial decisions, to set standard costs, preparation of budgets, eliminate wastage etc.

6. Mental revolution – New mental attitude: The techniques of scientific management cannot be applied unless there is complete harmony and co-operation between the workers and management. This calls for a total revolution in the outlook and attitude of both the management and the workers.

Q. Explain the principles of management?

Scientific management implies the application of science to the job management of an industrial concern. It aims at replacement of traditional techniques by scientific techniques. Scientific management is a thoughtful, organized human approach to the job of management as contrasted with hit or miss, rule of thumb. "It is the art of knowing exactly what you want men to do and then seeing that they do it in the best and cheapest way."

Definition:"Scientific management is the substitution of exact scientific investigations and knowledge for the old individual judgment or opinion in all matters relating to the work done in the shop". **—F.W. Taylor**

(1) Science, Not Rule of Thumb: This principle says that we should not get stuck in a set routine with the old techniques of doing work; rather we should be constantly experimenting to develop new techniques which make the work much simpler, easier and quicker.

(**2) Harmony, Not Discord:** As per this principle, such an atmosphere should be created in the organisation that labour (the major factor of production) and management consider each other indispensable.

Taylor has referred to such a situation as a 'Mental Revolution'. Taylor firmly believed that the occurrence of a mental revolution would end all conflicts between the two parties and would be beneficial to both of them.

(3) Cooperation, Not Individualism: According to this principle, all the activities done by different people must be carried on with a spirit of mutual cooperation. Taylor has suggested that the manager and the workers should jointly determine standards. This increases involvement and thus, in turn, increases responsibility. In this way we can expect miraculous results.

(4) Development of workers: According to this principle, the efficiency of each and every person should be taken care of right from his selection. A proper arrangement of everybody's training should be made.

It should also be taken care that each individual should be allotted work according to his ability and interest. Such a caring attitude would create a sense of enthusiasm among the employees and a feeling of belongingness too.

Q. Explain the criticism of scientific management?

1. Criticism by Workers:

a) **'Speeding Up' of Workers:** Scientific management is responsible for speeding up of workers expecting maximum output from them thereby creating a lot of mental and physical strain on them. But it may be pointed out that scientific management aims at providing reasonable working hours with rest-pauses and other proper conditions of work. It also provides standardised materials, tools and equipment's etc., and undertakes time, motion and fatigue studies which are in the best interest of the worker.

b) **Loss of workers skill and Initiative:** The initiative of workers is adversely affected on account of separation of 'thinking' from 'doing'. The work methods and operations are standardised. The worker has to act in accordance with the instructions of the foreman. He cannot take initiative and suggest better method of work.

c) **Monotony**: Scientific management reduces worker to the status of a machine by separating the function of thinking from him. The thinking or the planning aspect is taken over by the management. A worker has to carry his work strictly in accordance with the plan. The methods of work are standardised and the worker has to repeat the same performance time and again. This leads to monotony and kills his initiative and skill.

d) **Unemployment**: The adoption of labour saving devices or application of machines leads to unemployment. But this argument does not hold good in the long run. This is because increased efficiency of labourers will lead to lesser cost of production and higher productivity.

e) **Exploitation of Workers**: The gains of increased productivity are not shared with the workers. They get little share in profits. The major proportion is taken away by the investor in the form of higher profits. But this argument does not carry weight.

f) **Discrimination between workers:** Under the scheme of scientific management, efficient workers get more wages as compared to the inefficient ones due to differential wage incentive system.

g) **Undemocratic In Nature**: Scientific management is undemocratic in nature. The attitude of the functional bosses is autocratic. The workers operate strictly under their control and guidance. The workers have to obey the order of the bosses without giving any suggestion. This creates lot of resentment among them, and gives the worker no voice in hiring and discharge in setting the task, in determining the wage rate or determining the general conditions of employment".

h) **Weaker Trade Unions**: Important matters like regulation of working hours, fixation of wages etc., are decided by the management itself, the workers are not consulted at all. This weakens the process of collective bargaining and formation of trade unions. **Scientific management strikes at the very root of the trade unionism.**

2. Criticism by Employers:

a) **Expensive:** The installation of scientific management involves huge funds on account of introduction of standardisation of materials, equipments, tools and machinery etc. It also undertakes time, motion and fatigue studies which are expensive techniques.

b) **Reorganization**: In order to introduce scientific management, the old set up has to be changed. The work has got to be suspended due to re-organisation. It is both time consuming and expensive.

c) **Not Suitable For Small Concerns**: On account of paucity of financial resources, small concerns cannot afford to introduce the system of scientific management. But even this contention is untenable. There is a scope for improvement in every organisation big or small.

d) **Over-Production**: The techniques of scientific management followed by all firms in one industry may lead to over production or glut in the market. Recession is bound to take place which is not in the interest of the business units.

e) Difficulties in Getting Trained Personnel: The organisations which are scientifically managed need expert and qualified staff. Sometimes it becomes very difficult to get the trained staff.

3. Criticism by Psychologists:

a) **Mechanical in Nature:** The main criticism advanced against scientific management by the psychologists is that it is mechanical in approach. The worker has to operate strictly in accordance with the instructions issued to him by his foreman .He has practically no say in determining the policies with regard to work. His status is like a machine. There is no initiative and creativity on the part of a worker. The industrial psychologists have been stressing for the human approach towards the workers. This would be very helpful in initiating and motivating the workers for better performance.

b) **Speeding Up of Workers:** Scientific management is responsible for speeding up or 'intensification' of workers resulting in a lot of strain and tiredness on the worker's mind and body leading to accidents and stoppage in work etc. The psychologists are of the view that the work should be made easy and interesting for the workers.

c) **Creation of Monotony**: Over-specialization and repetition of jobs under scientific management makes them monotonous. The workers work as cogs in the machines which shatters their interest in work. This further reduces their efficiency.

d) **Absence of Non-Wage Incentives**: Another drawback of scientific management is the absence of non-monetary incentives. Various non monetary incentives include job security, praise, workers participation in management, social recognitions and urge for self expression etc. In the opinion of psychologists these incentives play an important role in inspiring workers for better performance.

e) **Developing 'One Best Way' of Work**: Scientific management is primarily concerned with developing 'one best way' of doing the work. That way is expected to be followed by every worker working in the organisation but psychologists are of the view that every worker has his own style of doing the work. If one particular way is imposed on the worker, he will not be able to perform properly and his efficiency is bound to be affected adversely.

UNIT 4

Planning and Management by objectives

Q. Define planning? Explain the nature/ characteristics of planning?

Planning helps in determining the course of action to be followed for achieving various organizational objectives. It is a decision in advance, what to do, when to do, how to do and who will do a particular task. Planning is a process which involves "Thinking before doing".

Definition: **Louis Allen "Management planning involves the development of forecasts, policies, programmes, procedures, schedules and budgets."**

Characteristics of planning:

1. **Planning is an intellectual process**: Planning is an intellectual process. A planner must visualize the situations likely to develop in future and should develop a future course of action to be taken for implementation of plans.
2. **Primacy of planning:** Planning is the first function of a planner. Other functions like organizing, staffing, directing, controlling, etc. are followed by planning. Without planning no other functions can be performed.
3. **All managers plan**: Every in an organization has a planning function to perform. Planning is not only done at top level, but also at middle and lower level of management.
4. **Planning - A rational approach:** Planning is a rational approach to the achievement of organizational goals. An action is rational if it is objectively and intelligently divided. The aim of management is to reach the goals with the application of appropriate resources. Planning suggests a number of alternatives for reaching the goals. Planning helps in taking rational decisions for achieving the goals of the enterprise.
5. **Focus on objectives**: An organization employs a number of persons. Each one of them has different personality and attitudes. Planning focuses attention on setting Up organizational objectives and suggests way to achieve them.
6. **Leads to Efficiency and economy:** Planning involves the efficient utilization of various resources like capital, labor, machines, materials, etc. Every factor of production is put to efficient and economical use so that the result will be more than the efforts employed. An effort is made to achieve organizational objectives with minimum resources. Planning helps in controlling duplication of effort which also ensures economy.
7. **Limiting factors:** A planner should consider limiting factors like money, manpower, materials, market etc. before taking up planning. If a planner ignores limiting factors then planning is bound to fail. The planning should start only after considering the availability of limiting factors.
8. **Co-ordination:** co-ordination is essential for harmonious working of the organization. Planning coordinates – what, who, how and when of planning
9. **Flexibility**: Planning process should be adaptable to the changing business environment. Planning s a dynamic process and it adjusts with the needs and requirements of the situations.
10. **Realistic**: Planning is based on future forecasts. Though the future is uncertain but the predictions should be as realistic as possible. If planning is based on wishful thinking, then it will not be possible to achieve the goals.
11. **Planning is continuous**: Planning is a never ending activity of manager. Generally, managers follow the practice of re – examining plans regularly and modify them, if necessary, in view of the new situations.

Q. Explain the process of planning?

Planning helps in determining the course of action to be followed for achieving various organizational objectives. It is a decision in advance, what to do, when to do, how to do and who will do a particular task. Planning is a process which involves "Thinking before doing".

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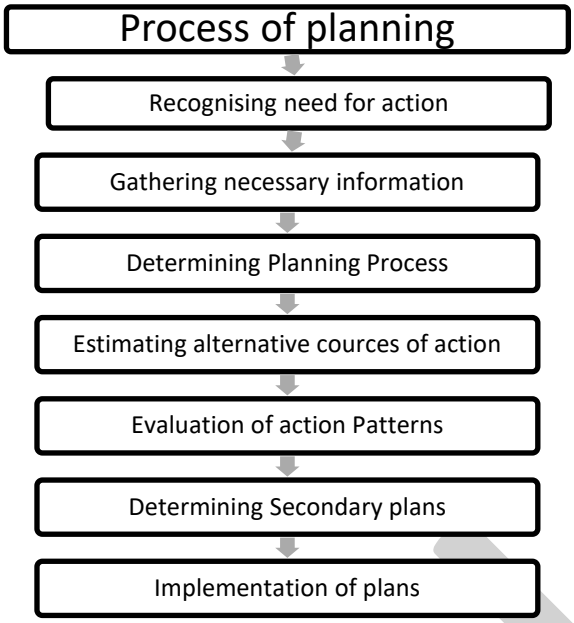


1. **Recognising the need for action:** The first step in planning process is the awareness of business opportunity and need for taking action. Present and future opportunities must be found so that planning may be undertaken for them.
2. **Gathering necessary information**: Before actual planning is initiated, all information relating to operations of the business should be collected in detail. The type of customers to deal with, the circumstances under which goods are to be provided, value of the products to the customers etc, should be studied in detail. The facts and figures collected will help in framing realistic plans.
3. **Laying down objectives**: Objectives are the goals which the management tries to achieve. Planning starts with the determination of objectives. Objectives are guides to employees. It is essential that objectives should be properly formulated and communicated to all members of the organization.
4. **Determining planning premises**: Planning is always for uncertain future. While formulating certain assumptions have to be made. These assumptions become the premises for planning. Forecasts are essential for planning.

   Forecasts will generally be made for the following:

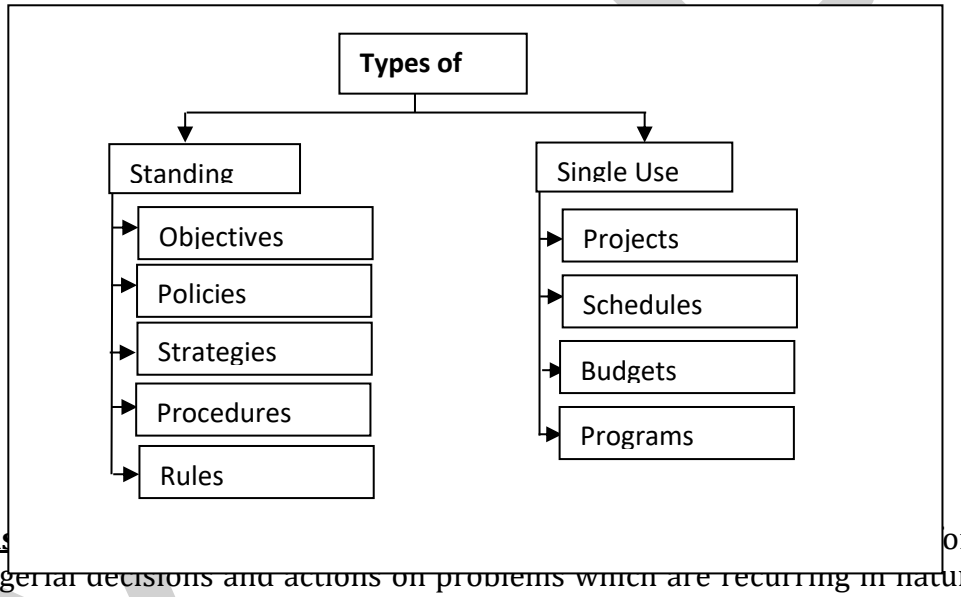
   a. The expectation for the products.
   b. The likely volume of production
   c. The anticipation of costs and the likely prices at which products will be marketed.
   d. The supply of labour, raw materials etc.
   e. The economic policies of the government .
   f. The changing pattern of consumer preference
   g. Impact of technological changes on production process
   h. The sources of supply of funds
5. **Estimating alternative courses of action:** The next step in planning will be choosing the best course of action. There are a number of ways of doing a thing. The planner should study all the alternatives and then a final selection should be made.

6. **Evaluation of action patterns**: After choosing a course of action, the next step will be to make an evaluation of those courses of action. Evaluation will involve the study of performance of various actions. The evaluation of various action patterns is essential for proper planning.
7. **Determining secondary Plans:** Once a main plan is formulated then a number of supportive plans are required. Secondary plans are meant for the implementation of principle plan. All secondary plans are part of the main plan.
8. **Implementation of plans:** The last step in planning process is the implementation part. The planning should be put into action so that business objectives may be achieved. The implementation will require establishment of policies, procedures, standards and budgets.

Q. What are the different types of planning?

Planning helps in determining the course of action to be followed for achieving various organizational objectives. It is a decision in advance, what to do, when to do, how to do and who will do a particular task. Planning is a process which involves " Thinking before doing".

Definition: **Louis Allen "Management planning involves the development of forecasts, policies, programmes, procedures, schedules and budgets**



Standing plans ormulated to guide managerial decisions and actions on problems which are recurring in nature. These plans provide ready guidelines for tackling situations arising at various levels of the enterprise. Standing plans include objectives, policies, procedures, methods, rules and strategies.

1. **Objectives:** Objectives or goals are the ends towards which every activity is aimed. They are the results to be achieved. No planning is possible without setting up of objectives. Enterprise objectives are the basic plans of the firm while departmental objectives will contribute to the attainment of enterprise objectives.
2. **Policies**: Policies are general statements or understandings which provide guidance in decision – making to various managers. These are standing plans providing guidance to management in the conduct of managerial operations. Policies define boundaries with in which decisions can be made and decisions are directed towards the achievement of objectives. Policies also help in deciding issues before they become problems.
3. **Strategies**: A strategy is a comprehensive and integrated plan designed to assure that business objectives are accomplished. The long term objectives of the enterprise are

determined and requisite resources are allocated and deployed to achieve desired results. Strategies do not attempt to outline the programmes for achieving objectives but they furnish a framework for guiding, thinking and action.

4. **Procedures**: Procedures are details of action or guidelines for the achievement of business objectives. Procedures give details of how things are to be done.
5. **Rules**: Rules are rigid and definite plans that specify what is to be done or not done in given situations. A rule provides no scope for discretion and judgement. It is a prescribed guide to code or action. No deviation is expected from the rule. Rules help to regulate behavior and to facilitate communication.

Single Use Plans: These plans are made for handling non-recurring problems. Single use plans are also referred to as "Single plans". Since they are means to solve a particular problem. Examples of these plans are projects, programmes, budgets, schedules

1. **Projects:** A project is a distinct set of functions and facilities for a definite purpose. It is designed and executed as a distinct plan. It is integrated into a unity and is designed to achieve a stated objective. A project is defined in terms of capital investment, specific objective, interdependence of tasks.
2. **Schedule:** A Schedule specifies time limits within which activities are to be completed. Scheduling is the process of establishing a time sequence for the work to be done. Schedules are essential for ensuring continuity of operations. A schedule lays down a time table fixing starting and finishing dates for different activities.
3. **Budgets:** A Budget is a statement of expected results expressed in numerical terms for a definite period of time in the future. It expresses a plan in precise terms. Budgets serve as means of co-ordination and control. They provide clarity, direction and purpose in the activities of an organization by laying down verifiable and measurable goals for a specified period of time.
4. **Programmes:** A programme is a concrete scheme of action designed to accomplish a given task. It specifies the steps to be taken, records to be used, time limits for each step and assignment of task. It is a sequence of action steps arranged in the priority necessary to implement a policy and achieve objectives. A programme is thus a combination of objectives, policies, budgets.

Q. Explain the approaches of Planning?

All organizations plan; the only difference is their approach. Prior to starting a new strategic planning process it will be necessary to access the past planning approach that has been used within the organization and determine how the organizations cultural may have been affected. Addressing these cultural issues is critical to the success of the current planning process.

The four possible approaches to planning are:

1. **Reactive - past oriented**
   Reactive planning is an active attempt to turn back the clock to the past. The past, no matter how bad, is preferable to the present. And definitely better than the future will be. The past is romanticized and there is a desire to return to the "good old days." These people seek to undo the change that has created the present, and they fear the future, which they attempt to prevent.
2. **Inactive - present oriented**
   Inactive planning is an attempt to preserve the present, which is preferable to both the past and the future. While the present may have problems it is better than the past. The expectation is that things are as good as they are likely to get and the future will

only be worse. Any additional change is likely to be for the worse and should therefore be avoided.

3. **Preactive - *predict* the future**
   Preactive planning is an attempt to predict the future and then to plan for that predicted future. Technological change is seen as the driving force bringing about the future, which will be better than the present or the past. The planning process will seek to position the organization to take advantage of the change that is happening around them.
4. **Proactive - *create* the future**
   Proactive planning involves designing a desired future and then inventing ways to create that future state. Not only is the future a preferred state, but the organization can actively control the outcome. Planners actively shape the future, rather than just trying to get ahead of events outside of their control. The predicted changes of the pre-active planner are seen not as absolute constraints, but as obstacles that can be addressed and overcome.

Q. What are the advantages and disadvantages of planning?

Note: write meaning and definition

Advantages of Planning:

1. Planning provides Direction: Planning is concerned with predetermined course of action. It provides the directions to the efforts of employees. Planning makes clear what employees have to do, how to do, etc. By stating in advance how work has to be done, planning provides direction for action. Employees know in advance in which direction they have to work. This leads to Unity of Direction also. If there were no planning, employees would be working in different directions and organisation would not be able to achieve its desired goal.

2. Planning Reduces the risk of uncertainties: Organizations have to face many uncertainties and unexpected situations every day. Planning helps the manager to face the uncertainty because planners try to foresee the future by making some assumptions regarding future keeping in mind their past experiences and scanning of business environments. The plans are made to overcome such uncertainties. The plans also include unexpected risks such as fire or some other calamities in the organization. The resources are kept aside in the plan to meet such uncertainties.

3. Planning reduces over lapping and wasteful activities: The organizational plans are made keeping in mind the requirements of all the departments. The departmental plans are derived from main organizational plan. As a result there will be co-ordination in different departments. On the other hand, if the managers, non-managers and all the employees are following course of action according to plan then there will be integration in the activities. Plans ensure clarity of thoughts and action and work can be carried out smoothly.

4. Planning Promotes innovative ideas: Planning requires high thinking and it is an intellectual process. So, there is a great scope of finding better ideas, better methods and procedures to perform a particular job. Planning process forces managers to think differently and assume the future conditions. So, it makes the managers innovative and creative.

5. Planning Facilitates Decision Making: Planning helps the managers to take various decisions. As in planning goals are set in advance and predictions are made for future. These predictions and goals help the manager to take fast decisions.

6. Planning establishes standard for controlling: Controlling means comparison between planned and actual output and if there is variation between both then find out the reasons for

such deviations and taking measures to match the actual output with the planned. But in case there is no planned output then controlling manager will have no base to compare whether the actual output is adequate or not.

7. Focuses attention on objectives of the company: Planning function begins with the setting up of the objectives, policies, procedures, methods and rules, etc. which are made in planning to achieve these objectives only. When employees follow the plan they are leading towards the achievement of objectives. Through planning, efforts of all the employees are directed towards the achievement of organizational goals and objectives.

Limitations of Planning:

1. Planning leads to rigidity: Once plans are made to decide the future course of action the manager may not be in a position to change them. Following predefined plan when circumstances are changed may not bring positive results for organisation. This kind of rigidity in plan may create difficulty.

2. Planning may not work in dynamic environment: Business environment is very dynamic as there are continuously changes taking place in economic, political and legal environment. It becomes very difficult to forecast these future changes. Plans may fail if the changes are very frequent.

3. It reduces creativity: With the planning the managers of the organization start working rigidly and they become the blind followers of the plan only. The managers do not take any initiative to make changes in the plan according to the changes prevailing in the business environment. They stop giving suggestions and new ideas to bring improvement in working because the guidelines for working are given in planning only.

4. Planning involves huge Cost: Planning process involves lot of cost because it is an intellectual process and companies need to hire the professional experts to carry on this process. Along with the salary of these experts the company has to spend lot of time and money to collect accurate facts and figures. So, it is a cost-consuming process. If the cost of planning is more than the benefits of planning then it should not be carried on.

5. It is a time consuming process: Planning process is a time-consuming process because it takes long time to evaluate the alternatives and select the best one. Lot of time is needed in developing planning premises. So, because of this, the action gets delayed. And whenever there is a need for prompt and immediate decision then we have to avoid planning.

6. Planning does not guarantee success: Planning only provides a base for analysing future. It is not a solution for future course of action. Sometimes managers have false sense of security that plans have worked successfully in past so these will be working in future also. There is a tendency in managers to rely on pretested plans. It is not true that if a plan has worked successfully in past, it will bring success in future also.

7. Lack of accuracy: Planning involves thinking in advance and planning is concerned with future only and future is always uncertain. In planning many assumptions are made to decide about future course of action. But these assumptions are not 100% accurate and if these assumptions do not hold true in present situation or in future condition then whole planning will fail.

Q. Explain the significance or importance of planning

Note: write meaning and definition

Importance/Significance of Planning:

1. Planning provides Direction: Planning is concerned with predetermined course of action. It provides the directions to the efforts of employees. Planning makes clear what employees

have to do, how to do, etc. By stating in advance how work has to be done, planning provides direction for action. Employees know in advance in which direction they have to work. This leads to Unity of Direction also. If there were no planning, employees would be working in different directions and organization would not be able to achieve its desired goal.

2. Planning Reduces the risk of uncertainties: Organisations have to face many uncertainties and unexpected situations every day. Planning helps the manager to face the uncertainty because planners try to foresee the future by making some assumptions regarding future keeping in mind their past experiences and scanning of business environments. The plans are made to overcome such uncertainties. The plans also include unexpected risks such as fire or some other calamities in the organization. The resources are kept aside in the plan to meet such uncertainties.

3. Planning reduces over lapping and wasteful activities: The organizational plans are made keeping in mind the requirements of all the departments. The departmental plans are derived from main organizational plan. As a result there will be co-ordination in different departments. On the other hand, if the managers, non-managers and all the employees are following course of action according to plan then there will be integration in the activities. Plans ensure clarity of thoughts and action and work can be carried out smoothly.

4. Planning Promotes innovative ideas: Planning requires high thinking and it is an intellectual process. So, there is a great scope of finding better ideas, better methods and procedures to perform a particular job. Planning process forces managers to think differently and assume the future conditions. So, it makes the managers innovative and creative.

5. Planning Facilitates Decision Making: Planning helps the managers to take various decisions. As in planning goals are set in advance and predictions are made for future. These predictions and goals help the manager to take fast decisions.

6. Planning establishes standard for controlling:

Controlling means comparison between planned and actual output and if there is variation between both then find out the reasons for such deviations and taking measures to match the actual output with the planned. But in case there is no planned output then controlling manager will have no base to compare whether the actual output is adequate or not.

7. Focuses attention on objectives of the company:

Planning function begins with the setting up of the objectives, policies, procedures, methods and rules, etc. which are made in planning to achieve these objectives only. When employees follow the plan they are leading towards the achievement of objectives. Through planning, efforts of all the employees are directed towards the achievement of organizational goals and objectives.

MANAGEMENT BY OBJECTIVES

Q. Define Management by objectives? What are the characteristics/features/nature of MBO?

The concept of MBO was introduced by Peter Drucker in 1954 as a means of using goals to improve people rather than to control them. This concept of MBO is also known as Goal management. It is based upon the assumption that involvement leads to commitment. MBO is a process whereby both managers and subordinates work together in identifying goals and setting up objectives and makes plans together in order to achieve these objectives.

Definitions Of Management By Objectives:-

According to George Odiome, MBO is "a process whereby superior and subordinate managers of an Organisation jointly define its common goals, define each individual's major areas of responsibility in terms Of results expected of him and use these measures as guides for operating the unit and assessing the contribution of each of its members."

Features/Nature/characteristics of Management by Objectives:-

1. **Superior-subordinate participation:** MBO requires the superior and the subordinate to recognize that the development of objectives is a joint project/activity. They must be jointly agree and write out their duties and areas of responsibility in their respective jobs.
2. **Joint goal-setting:** MBO emphasizes joint goal-setting that are tangible, verifiable and measurable. The subordinate in consultation with his superior sets his own short-term goals. However, it is examined both by the superior and the subordinate that goals are realistic and attainable.
3. **Joint decision on methodology**: MBO focuses special attention on what must be accomplished (goals) rather than how it is to be accomplished (methods). The superior and the subordinate mutually devise methodology to be followed in the attainment of objectives. They also mutually set standards and establish norms for evaluating performance.
4. **Makes way to attain maximum result**: MBO is a systematic and rational technique that allows management to attain maximum results from available resources by focusing on attainable goals. It permits lot of freedom to subordinate to make creative decisions on his own. This motivates subordinates and ensures good performance from them.
5. **Support from superior:** When the subordinate makes efforts to achieve his goals, superior's helping hand is always available. The superior acts as a coach and provides his valuable advice and guidance to the subordinate. This is how MBO facilitates effective communication between superior and subordinates for achieving the objectives/targets set.

Q. What are the advantages and disadvantages of MBO?

Note: write meaning and definition of MBO

Advantages of Management By Objectives:-

1. **Develops result-oriented philosophy**: MBO is a result-oriented philosophy. It does not favor management by crisis. Managers are expected to develop specific individual and group goals, develop appropriate action plans, properly allocate resources and establish control standards. It provides opportunities and motivation to staff to develop and make positive contribution in achieving the goals of an Organisation.
2. **Formulation of dearer goals**: Goal-setting is typically an annual feature. MBO produces goals that identify desired/expected results. Goals are made verifiable and measurable which encourage high level of performance. They highlight problem areas and are limited in number. The meeting is of minds between the superior and the subordinates. Participation encourages commitment. This facilitates rapid progress of an Organisation. In brief, formulation of realistic objectives is me benefit of MBO.
3. **Facilitates objective appraisal:** MBO provides a basis for evaluating a person's performance since goals are jointly set by superior and subordinates. The individual is given adequate freedom to appraise his own activities. Individuals are trained to

exercise discipline and self-control. Management by self-control replaces management by domination in the MBO process. Appraisal becomes more objective and impartial.

4. **Raises employee morale:** Participative decision-making and two-way communication encourage the subordinate to communicate freely and honestly. Participation, clearer goals and improved communication will go a long way in improving morale of employees.
5. **Facilitates effective planning**: MBO programmes sharpen the planning process in an Organisation. It compels managers to think of planning by results. Developing action plans, providing resources for goal attainment and discussing and removing obstacles demand careful planning. In brief, MBO provides better management and better results.
6. **Acts as motivational force**: MBO gives an individual or group, opportunity to use imagination and creativity to accomplish the mission. Managers devote time for planning results. Both appraiser and appraise are committed to the same objective. Since MBO aims at providing clear targets and their order of priority, employees are motivated.
7. **Facilitates effective control:** Continuous monitoring is an essential feature of MBO. This is useful for achieving better results. Actual performance can be measured against the standards laid down for measurement of performance and deviations are corrected in time. A clear set of verifiable goals provides an outstanding guarantee for exercising better control.
8. **Facilitates personal leadership**: MBO helps individual manager to develop personal leadership and skills useful for efficient management of activities of a business unit. Such a manager enjoys better chances to climb promotional ladder than a non-MBO type.

Limitations of Management By Objectives MBO :-

1. **Time-consuming**: MBO is time-consuming process. Objectives, at all levels of the Organisation, are set carefully after considering pros and cons which takes lot of time. The superiors are required to hold frequent meetings in order to acquaint subordinates with the new system. The formal, periodic progress and final review sessions also consume time.
2. **Reward-punishment approach:** MBO is pressure-oriented programme. It is based on reward-punishment psychology. It tries to indiscriminately force improvement on all employees. At times, it may penalize the people whose performance remains below the goal. This puts mental pressure on staff. Reward is provided only for superior performance.
3. **Increases paper-work:** MBO programmes introduce ocean of paper-work such as training manuals, newsletters, instruction booklets, questionnaires, performance data and report into the Organisation. Managers need information feedback, in order to know what is exactly going on in the Organisation. The employees are expected to fill in a number of forms thus increasing paper-work. In the words of Howell, "MBO effectiveness is inversely related to the number of MBO forms.
4. **Creates organizational problems**: MBO is far from a panacea for all organizational problems. Often MBO creates more problems than it can solve. An incident of tug-of-war is not uncommon. The subordinates try to set the lowest possible targets and superior the highest. When objectives cannot be restricted in number, it leads to obscure

priorities and creates a sense of fear among subordinates. Added to this, the programme is used as a 'whip' to control employee performance.

5. **Develops conflicting objectives**: Sometimes, an individual's goal may come in conflict with those of another e.g., marketing manager's goal for high sales turnover may find no support from the production manager's goal for production with least cost. Under such circumstances, individuals follow paths that are best in their own interest but which are detrimental to the company.
6. **Problem of co-ordination:** Considerable difficulties may be encountered while coordinating objectives of the Organisation with those of the individual and the department. Managers may face problems of measuring objectives when the objectives are not clear and realistic.
7. **Lacks durability:** The first few go-around of MBO are motivating. Later it tends to become old hat. The marginal benefits often decrease with each cycle. Moreover, the programme is deceptively simple. New opportunities are lost because individuals adhere too rigidly to established goals.
8. **Problems related to goal-setting**: MBO can function successfully provided measurable objectives are jointly set and it is agreed upon by all. Problems arise when: (a) verifiable goals are difficult to set (b) goals are inflexible and rigid (c) goals tend to take precedence over the people who use it (d) greater emphasis on quantifiable and easily measurable results instead of important results and (e) over-emphasis on short-term goals at the cost of long-term goals.
9. **Lack of appreciation:** Lack of appreciation of MBO is observed at different levels of the Organisation. This may be due to the failure of the top management to communicate the philosophy of MBO to entire staff and all departments. Similarly, managers may not delegate adequately to their subordinates or managers may not motivate their subordinates properly. This creates new difficulties in the execution of MBO programme.

Q. What are the steps involved in the process of MBO? Note: write meaning and definition of MBO

The basic steps that are common in all the processes of management by objective (MBO) are:-

1. Central goal setting: defining and verifying organizational objectives is the first step in MBO process. Generally these objectives are set by central management of the organization but it does so after consulting other managers. Before setting of these objectives, an extensive assessment of the available resources is made by the central management. It also conducts market service and research along with making a forecast. Through this elaborate analysis, the desired long run and short run objectives of the organization are highlighted. The central management tries to make these objectives realistic and specific. After setting these goals it is the responsibility of the management that these are known to all members and are also under stood by them.

2. Development and individual goal setting: After organization objectives are established by the central management, the next step is to establish the department goals. The top management needs to discuss these objectives with the heads of the departments so that mutually agreed upon objectives are established. Long range and short range goals are set by

each department in consultation with the top management. After the department goals are established, the employees work with their managers to establish their own individual goals which relate with the organization goals. These participative goals are very important because It has been seen that employees become highly motivated to achieve the objectives established by them. These objectives for individuals should be specific and short range. These should indicate the capability of the unit of the individual. Through this process all the members of the organization become involved in the process of goal setting.

3. Revision of job description: In the process of MBO resetting individual goals involves a revision of job description of different positions in the organization which in turn requires the revision of the entire structure of the organization. The job description has to define the objectives, authority and responsibility of different jobs. The connection of one job with all other jobs of the organization also needs to be established clearly.

4. Matching goals: The establishment of objectives cannot be fruitful unless the resources and means required to achieve these objectives are provided. Therefore the subordinates should be provided required tools and materials which enable them to achieve the objectives efficiently and effectively. Resource requirements can be measured precisely if the goals are set precisely. This makes the process of resource allocation relatively easy. Resource allocation should be made after consulting the subordinates.

5. Freedom implementation: The task team of manager and his subordinates should be given freedom in deciding the way to utilize their resources and the way to achieve their objectives. There should be very little or no interference by the seniors as long as the team is working with in the framework of organization policies.

6. Establishing check points: The process of MBO requires regularly meetings between the managers and their subordinates to discuss the progress achieve in the accomplishment of the objective established for the subordinates. For this purpose the mangers need to establish the standards of performance or check points to evaluate the progress of their subordinates. These standards need to be specified as for as possible quantitatively and it should also be ensured that these are completely understood by the subordinates. This practices needs to be followed by all managers and these should lead to an analysis of key results has the targets are represented in terms of the results. The analysis of key results should be recorded in writing and it generally contains information regarding: :

(i) the overall objectives related with the job of subordinates.
(ii) The key results which must be achieved by the subordinate to fulfill his objectives.
(iii) The long term and short term priorities, a subordinate needs to adhere to.
(iv.) The extent and scope of assistance expected by a subordinate from his superior and other departmental managers and also the assistance, the subordinates is required to extend to other departments of his organizations.
(v.) Nature of information and the reports receive by the subordinate to carry out self-evaluation.
(vi.) The standards use to evaluate the performance of the subordinate.

7. Performance appraisal: An informal performance appraisal is generally conducted in routine by the manager; a periodic review of performance of the subordinates should also be conducted. Periodic reviews are required as the priorities and conditions change constantly

and need to be monitored constantly. These reviews help the mangers as well as the subordinates to modify the objectives or the methods whenever require. This significantly increases the chances of achieving the goals and also ensures that no surprises are found at the time of final appraisal. Periodic performance appraisal needs to be based on measurable and fair standards so that these are completely understood by the subordinates and there are also aware of the degree of performance required at each step.

8. Counseling: Periodic performance review helps the subordinates in improving his future performance.

ORGANISATION

Q. Define Organisation and explain the nature/ characteristics of organization?

Organisation is the structural framework of duties and responsibilities of individuals performing various functions with a view to achieve business goals through organization.

Definition: **Louis Allen " Organisation is the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives."**

Characteristics/ nature of organization:

1. **Division of work**: organization deals with the whole task. The total work of the enterprise is divided into activities and functions. Various tasks are assigned to various people for effective accomplishment. This brings division of labour and which in turn leads to specialization.
2. **Co-ordination:** co- ordination is essential as it helps in integrating and harmonising various activities. Co-ordination also avoids duplication and delays in work.
3. **Common objectives**: An organization structure is a means towards the achievement of organizational goals. Every organization should have a common and clear cut objective and the various segments or departments should work towards the achievement of these objectives.
4. **Co-operative relationship**: An organization creates co-operative relationships among various members of the group. An organization can not be constituted by a single person .there should be at least two or more persons. Organization is a system which helps in creating meaningful relationships among people. The relationship should be both vertical and horizontal among members of various departments.
5. **Well-defined Authority – Responsibility Relationships:** An organization consists of various positions arranged in a hierarchy with well defined authority and responsibility relationships. There is a central authority from which a chain of authority and responsibility relationships stretches throughout the organization.

Q. Explain the various steps in the process of organization?

Note: write meaning and definition

1. **Division of work**: the job is divided into various functions. These functions may be called production, financing, marketing, staffing etc. all business activities are divided and sub divided into various categories. The purpose of the division is to specialize individuals into different roles.

2. **Classification of activities:** the activities are classified into various categories. All similar activities are grouped together. For example anything related to production may be grouped into production department.
3. **Appointing suitable Persons:** after the classification of activities the next step is to appoint suitable persons for various jobs. Experts are appointed as departmental heads and other people are appointed for different types of positions.
4. **Delegation of Authority**: a person will be able to do the job only when he is given adequate authority. If the work is assigned without the delegation of authority then it will be meaningless. The top management should delegate authority to lower levels of management. A person can be responsible only when he is given required authority. Authority and responsibility should always go together.
5. **Co – ordinating Activities:** the activities and efforts of different individuals are co-ordinated for better results. Such co-ordiantion is necessary for effective performance of various functions. Inter-relationship between different jobs and individuals should be clearly defined so that everybody knows from whom they have to take orders and to whom they are answerable.
6. **Providing physical facilities:** The success of organization depends upon the provision of proper physical facilities and right environment besides having right person at right job.
7. **Structural relationship for control**: it is essential to establish well defined and clear cut structural relationships among individuals and groups. It will ensure control over the working of all departments and co-ordinating the activities of all towards the achievement of organizational goals.
8. **Control and corrective action**: there should be an inbuilt control system which helps in timely location of deviations, identifying the causes for deviation and to take corrective action.

Q. Define Organisation and explain the principles of organization?

Note: write meaning and definition

Principles of organization:

1. **Principle of objective:** The enterprise should have a common goal and every department should work to achieve the common goals. In the absence of a common objective, various departments will setup their own goals and there is possibility of setting up of conflicting objectives for different departments. So there must be an objective for the organization.
2. **Principle of specialization:** The organization should be set up in such a way that every individual should be assigned a duty according to his skill and qualification. The person should continue to do the same work so that he specializes in that work.
3. **Principle of co-ordination:** co-ordination of various activities is an important function of organization. There must be some mechanism to coordinate the activities of various departments. In the absence of co-ordination there is a possibility of setting up different goals by different departments. The ultimate aim of the organization can be achieved only if proper co-ordination is done for different departments.
4. **Principle of authority and responsibility:** the authority flows downward in the line. Every individual is given authority to get the work done. Though authority can be delegated but responsibility cannot be delegated. it lies with the superior only.

5. **Principle of definition:** the scope of authority and responsibility should be clearly defined. Every person should know exactly what are his duties and responsibilities and should know his work with definiteness. The relationship between different departments should be clearly defined.
6. **Span of Control**: pan of control means how many subordinates a superior can supervise. The number of subordinates should be such that the superior can control effectively
7. **Principle of Balance:** According to this principle the assignment of work should be such that every person should be given only that much work which he can perform well. If some person is overworked and the other is under worked, the work will suffer in both the situations.
8. **Principle of continuity:** The organization should be dynamic and not static. The organization should be amendable according to the changing situations. There should always be a possibility of making necessary adjustments.
9. **Principle of Uniformity:** The organization should provide for the distribution of work in such a manner that the uniformity is maintained. Each officer should be incharge of his respective area so as to avoid dual subordination and conflict.
10. **Principle of Unity of command:** There should be unity of command in the organization. A person should be answerable to only one superior only. If a person is under the control of more than one person then there is a likelihood of confusion. This principle creates a sense of responsibility to one person.
11. **Principle of Exception:** This principle states that top management should interfere only when something goes wrong. The management should leave routine things to be supervised by lower cadres. This principle relieves top management of many botherations and routine things. The principle of exception allows top management to concentrate on planning and policy formulation.
12. **Principle of simplicity:** the organization structure should be simple and is to understand. The authority, responsibility and positions of every person should be clear so that there will be clarity about these things. A simple organization structure helps in smooth running of the organization.
13. **Principle of efficiency**: The organization should be able to achieve organizational goals at minimum cost. The organization should also try to provide job satisfaction to its employees.
14. **Scalar Principle:** This principle refers to the vertical placement of superiors starting from top and going to the lower level. The scalar chain is a pre-requisite for effective and efficient organization.

FORMAL ORGANISATION AND INFORMAL ORGANISATION

Q. What is formal organiastion? What are the features of formal organization?

Formal organization refers to the structure of well – defined jobs, each bearing a definite measure of authority, responsibility and accountability. The structure is consciously desidned to the people of the organization to work together in achieving organizational objectives.

Definition: **According to Chastard Barnard "A formal organization comes into existence when the activities of two or more persons are consciously co – ordinate towards a common objective."**

Features of formal organization:

1. **Officially Created structure**: Formal organization is a well prepared document for the smooth and systematic working of the enterprise.
2. **Based on rules and procedures:** Since many persons are involves in day to day activities, specific rules and procedures are prepared for guiding various actions.
3. **Balance between Authority and Responsibility:** There is always a balance between authority and responsibility. Authority should be delegated as per the task assigned to a person otherwise he will not be able to get it done.
4. **Based on division of work:** Formal organization is based on proper division of work. The whole work in the organization is divided into similar activities and then put under different sections or departments.
5. **Organization chart:** for the guidance of employees every organisation prepares organization chart. Every employee can see his position and also the positions of others working in the organization. The organization chart not only explains relationships between various departments but also inter- departmental relationships.
6. **Provides specialization:** Since division of work leads to specializing in same type of work, it helps people in acquiring in-depth knowledge of their work.

Q. What is formal organization and what are the advantages and disadvantages of formal organization?

Note: write meaning and definition

Advantages of formal organization:

1. **Specialization:** IN formal organization work is divided into small parts and each part is repeatedly performed by a person. A person performing the same work regularly, he becomes specialist in it. The organization gets the benefit of specialization.
2. **No over lapping of work**: In this type of organization every work is properly planned and assigned. There will not be overlapping of work if work is planned properly.
3. **Better co-ordination:** Since duties and responsibilities of every person are specified and relationships among employees are established, there will be a co-ordination.
4. **Proper evaluation of work**: The work to be done by each person is specified, it will be easy to evaluate the performance. It will be easy to distinguish between efficient and inefficient persons.
5. **Obtaining objectives:** In formal Organization, objectives are easily obtained since the work of every person is co-ordinate in such a way that organizational goals are reached.
6. **Helpful in control:** The comparison of actual performance with pre-determined objectives helps in controlling the work of employees. It helps in better and effective control.

Disadvantages of formal organization:

1. **Mechanical system**: Division of work makes the work mechanical in nature. The doing of same work repeatedly leads to monotony. Since employees are to perform what they are to perform what they have been told, they do not take new initiatives.
2. **Rigorous regulations:** The employees remain under pressure for following the rules and regulations. The officers only emphasize the implementation of rules and regulations. This type of system leads to Inefficiency instead of improving the performance.
3. **Delay in work:** The strict implementation of rules and regulations lead to delay in decision making and their implementation.

Q. what is informal organization? What are the features of informal organization?

Informal organization refers to the relationship between people in an organization based not on formal hierarchy but on personal attitudes, likes, and so on. Informal organisation is not deliberately created by the top management.

Definition: **According to Chastard Barnard "Informal organization is joint personal activity without conscious common purpose through contributing to joint results. It arises from social interaction among people inside and outside the enterprise."**

Features of Informal Organisation:

1. **Relations not planned**: As the name suggests, informal organization is not planned. Informal relations are spontaneous and do not follow any pattern.
2. **No written rules and regulations:** there are no written rules and regulations in informal organization. With the passage of time some norms may be established by the informal group and these are supposed to be followed.
3. **Natural process**: Informal organisation is a natural process which takes place of its own. The persons meeting at informal gatherings establish informal relationships and discuss things of common interests.
4. **Common Interests:** Informal organizations are formed when people have some common interests, similar thinking, same language or religion etc. they come together and discuss and deliberate the issues of common interests.
5. **Voluntary membership:** The membership of informal organizations is voluntary. The members have the liberty to join or leave the organization.
6. **Lack of stability**: Informal groups are generally not stable. People become members of many informal groups at the same time or they leave the group at his discretion. The membership of such groups keeps floating.

Q. What is informal organization? What are the advantages and disadvantages of informal organization?

Note: write meaning and definition

Advantages of informal organization:

1. Informal organization provides support to the formal organization
2. Informal channel is faster than the formal one. Therefore, it can be used for making quick decisions.
3. If used effectively, informal channels can largely contribute to the organizational goals.
4. Such organiastion satisfies the social needs of workers such as friendship, care, concern etc.
5. Informal organization operates in free environment. Thus, it promotes creativity and better exchange of ideas.

Disadvantages of informal organization:

1. Informal organization is used by workers as a protective device against management.
2. It is generally used to pressurize the management to fulfill their demands.
3. The grapevine channel often dispenses false information, rumours etc.
4. In most cases, informal organization do not operate in the interest of enterprise.

Q. What are the differences between formal and informal organization?

Meaning of Formal organization: Formal organization refers to the structure of well – defined jobs, each bearing a definite measure of authority, responsibility and accountability. The

structure is consciously designed to the people of the organization to work together in achieving organizational objectives.

Definition: **According to Chastard Barnard " A formal organization comes into existence when the activities of two or more persons are consciously co – ordinate towards a common objective."**

Meaning of Informal organization: Informal organization refers to the relationship between people in an organization based not on formal hierarchy but on personal attitudes, likes, and so on. It refers to what people actually do based not on procedures and regulations but on some taste, culture etc. informal organizations are not created but they appear at their own in a natural way in the formal organization.

Definition: According to Chastard Barnard "Informal organization is joint personal activity without conscious common purpose through contributing to joint results. It arises from social interaction among people inside and outside the enterprise."

Basis	Formal organization	Informal organisation
Formation	Formal organisation is the result of conscious and deliberate efforts of the top management. It is formed out of the deliberate managerial planning and organisational efforts.	Informal organisation develops unconsciously among the people working together. These people associate with each other on the basis of common views, likes and dislikes.
Formal set up	A formal orgsnisation is represented on the organiasation chart. It follows certain predetermined rules, channels of communication and lines of authority- responsibility.	In an informal organisation, there are no such rules or channels of communication. Even a lower level subordinate can associate with an officer at the higher level.
Delegation of authority	A formal organisation is based on delegation of authority, which is necessary for the effective functioning of the organiastion system.	The concept of delegation of authority has no relevance in an informal organisation as all the members of informal groups at par.
Rationality	A formal organisation is set up on rational and scientific basis rather than emotions and sentiments.	In an informal organiastion, it is difficult to find any rationality as it is the result of association of like - minded people.
Identity of members	Its members do not have any separate identity from what they have been accorded in the organisation.	Its members have an opportunity to develop their own identity according to their personal, mental or physical abilities.
Nature of organisation	Formal organisations are in written form and they are contained in the manual or the handbook of enterprise.	Informal organisations are not in written form. They develop naturally within the framework of formal organisation.

Existence	Formal organisation exists independently of the informal organiastion.	Informal organisation develops within the framework of the formal organisation.
Managerial planning	Managerial Planning is necessary to bring a formal organisation structure into existence	No planning or efforts are necessary for an informal organisation as it evolves on its own.

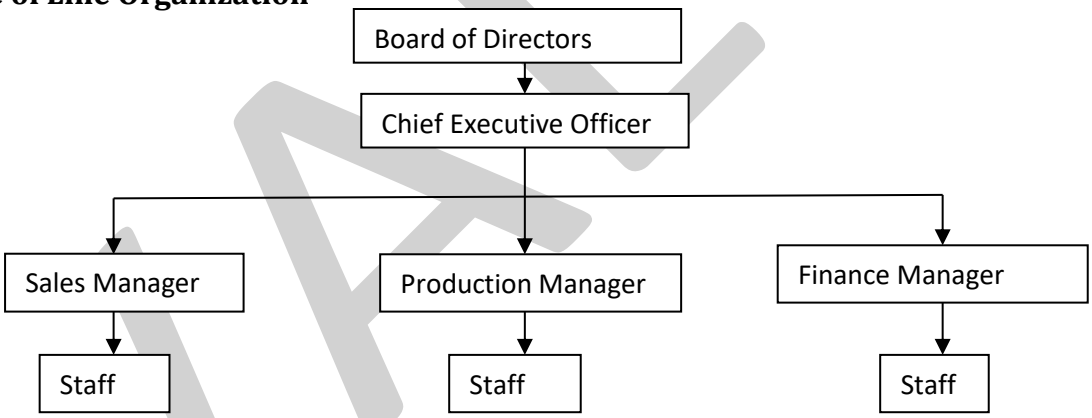
Q. what is Line organization? What are the advantages and disadvantages of line organization?

Line organization is the simplest and the oldest form of organization structure. It is also known as the 'Military', 'traditional', or 'scalar' type of organization. In a line form of organization, there is a direct chain or line of command, flowing from top to bottom. This is also known as 'Scalar chain'. In the line organization, authority flows directly from the top of the organiastion down to the lower levels of the management hierarchy; whereas authority flows downward, and responsibility flows upward.

definition:

Louis Allen defined line organization as " Organizationally, the line is the chain of command that extends from the board of directors through the various delegations and redelegations of authority and responsibility to the point where the primary activities of the enterprise are performed".

Structure of Line Organization



Features of Line Organisation:

The features of line organization are classified into Fundamental and other features.

Fundamental feature:

1. **Line as a chain of command:** Line organization indicates the chain of command that flows from the highest level of authority down to the level in the organization. Each member knows from whom he receives orders and is responsible for the work of his unit.
2. **Line as chain of command**: Line organiastion indicates the line or channel of communication in the organization. Chester I. Barnard considers the line as a line of communication. Co – ordination, delegation and the entire process of management is dependent upon smooth flow of communication. Thus, line organization denotes a channel through which communication can proceed effectively.
3. **Line as a carrier of accountability:** Line organization is also referred to as the line of accountability. It clearly indicates the extent to which each individual or department is responsible and accountable for the achievement of predetermined organizational objectives.

Other Features:

1. **Simplest form of organization:** Straight – forwardness and simplicity are the two main characteristics of the line form of organization. It is simple to design, understand and operate for all types of organizations.
2. **Tall organization structure:** In line organization, there are many levels of management depending upon the Scale of business and decision making ability of managers.
3. **Absence of staff**: In a line form of organization structure, there are no staff experts. Therefore, all important decisions are taken departmental heads in their individual capacities.
4. **Narrow span of control:** In the line organization, there is a limit on the number of subordinates under each departmental head due to his limited individual capacities and absence of staff assistance.
5. **Suitability:**
    a. In the industries where the scale of operations is small and the number of subordinates are limited.
    b. In the processing industries such as sugar industries
    c. In the industry where operations are fully automated
    d. In the enterprises where the work is purely routine in nature.

Merits of line organization:

1. **Line organization is the simplest form of organization:** straight-forwardness and simplicity are the two main characteristics of line organization. It is simple to design, simple to understand and operate.
2. **It promotes two – way flow of communication**: The scalar chain is the back bone of the line organization. It permits two – way communication in the organization i.e., downward and upward communications. This helps in the development of good superior – subordinate relationships in the organization.
3. **It facilitates quick decisions and prompt actions**: Each manager in the line organization enjoys independent status. This facilitates quick decisions and prompt actions and can exploit new opportunities and prepare itself for potential threats.
4. **It clearly defines authority and responsibility:** line organisastion follows the principle of unity of command. It clearly defines authority, responsibility of each individual or department in the organization.
5. **It leads smooth flow of work:** in the line organization authority – responsibility is clearly defined and each worker receives orders and instructions from a definite superiors, which leads to smooth flow of work without interruptions and conflicts.
6. **It results in effective management:** in line organization, span of control strictly followed. Span of control results in more efficient and effective management.
7. **It promotes flexibility in operations:** A line organization permits flexibility of operations. Depending upon the environmental factors – more managers or departments could be added or deleted to the existing structure. Such flexibility of operations is not possible in the complex form of structure.
8. **It is the most economical form of organization:** A line organiastion economical in operations, because there is no provision for expert specialists, who are to be paid highest salary. This reduces not only administrative costs but also confusion and conflict.

Demerits of Line organization:

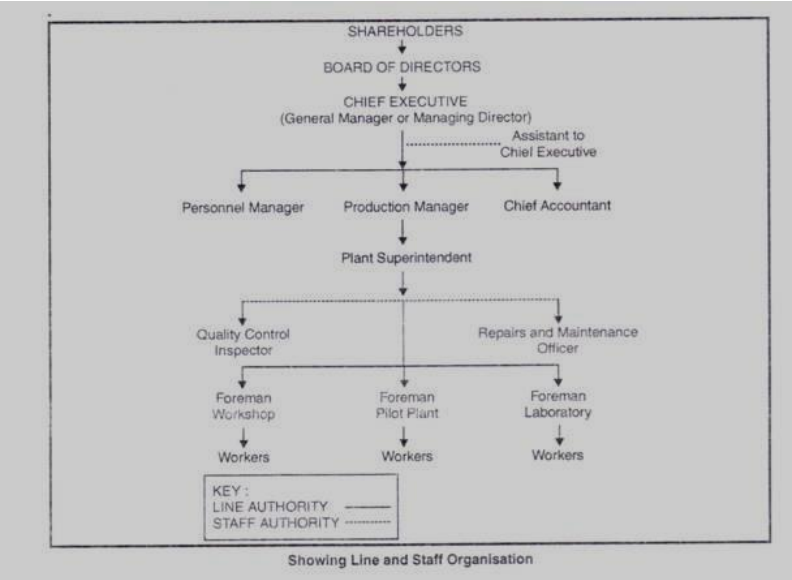
a. **Line organization puts heavy burden on line managers:** in a line organization a manager has to do a wide variety of functions. As such, a manager does not have much time to devote to the creative thinking and administration.
b. **It lacks specialization**: in a line organization a manager manages everything in a very ordinary manner. As a result, the operating efficiency of a line manager is very low.
c. **It generally believes in dictotarial management approach**: because of unity of command, there is excessive centralization of authority. Managers may therefore, adopt dictatorial approach towards their subordinates.
d. **It is a subjective approach:** In a line organization, most of the managers lack expertise to manage and their decisions lack scientific basis. As such, there are chances of managers indulging in favoritism. This affects workers and management relations.
e. **It follows one – way communication chain**: due to the dictatorial approach the superiors may discourage upward communication i.e. communication from subordinates to superiors. This may lead to superior – subordinate conflict.
f. **It lacks co-ordination at the macro – level:** The general managers may face the problem of co-ordination of activities of various departments as managers may be more interested in the well- being of their own subordinates and departments rather than the organization.
g. **Not suitable for present day environment:** Line organization is not suitable for a small – scale business organizations; operating in the modern turbulent environmental forces; which require a technologically based specialized organizational structure.
h. **Causes monotony**: in a line organization, all major decisions are taken by the higher authority without consulting their subordinates. Workers feel bored and lose interest due to routine work. This kills the initiative and adversely affects their morale and efficiency.

LINE AND STAFF ORGANISATION

Q. What are the advantages and disadvantages of Line and staff organization?

Line and staff organization is a modification of line organization and it is more complex than line organization. These organisations have direct, vertical Relationships between different levels and also specialists responsible for advising and assisting line managers. Such organizations have both line and staff departments. Staff departments provide line managers with advice and assistance in specialized areas.

Definition: According to Louis Allen "Line refers to those positions and elements of an organization who have the responsibility and who are accountable for the accomplishment of the primary objectives. Staff elements are those who have responsibility and authority for providing advice and services to the line officers in the attainment of objectives.



Showing Line and Staff Organisation

Advantages of Line and Staff Organization

1. Specialization: This type of organisation is based on planned specialisation and brings about the expert knowledge for the benefit of the management.

2. Better decisions: Staff specialists help the line manager in taking better decisions by providing them adequate information of right type at right time.

3. Lesser Burden on line officers: The work of the line officers is considerably reduced with the help of staff officers. Technical problems and specialised matters are handled by the Staff and the routine and administrative matters are the concern of Line Officers.

4. Advancement of research: As the work under this type of organisation is carried out by experts, they constantly undertake the research and experimentation for the improvement of the product. New and economical means of production are developed with the help of research and experimentation.

5. Training for line officer: Staff services have proved to be an excellent training medium for Line Officers.

Disadvantages of Line and Staff Organisation:

1. Conflict between line and staff authorities: There may be chances of conflict between line and staff authorities. Line Officers resent the activities of staff members on the plea that they do not always give correct advice. On other hand staff officials complain that their advice is not properly carried out.

2. Problems of line and staff authority: There may be confusion on the relationship of line and staff authorities. Line Officers consider themselves superior to Staff Officers. The Staff Officers object to it.

3. Lack of responsibility: As the staff specialists are not accountable for the results, they may not perform their duties well.

4. The system is quite expensive: The appointment of experts involves a heavy expenditure. Small and medium size organisations cannot afford such a system.

5. More reliance on staff: Some of the line officers excessively rely on the staff. This may considerably reduce the line control.

LINE AND STAFF CONFLICT

Q. what are the reasons for line and staff conflict and how to resolve them?

Introduction: Due different positions and type of authority within a line and staff organization, conflict between line and staff personnel is inevitable. There are many reasons for the conflict between line and staff and they can be grouped under 1**. Complaints from line against staff; and 2. Complaints from staff against line.**

1. **Complaints from line against staff:**

a. **Staff encroaches upon the authority of line personnel:** staff personnel get the approval for their suggestions from the higher authority who in turn enforces such suggestions in the form of commands over the line personnel.

b. **Staff ideas and suggestions are theoretical and impractical**: Line personnel deal with the practical situation who often find difficult to implement the idealistic suggestions of the staff.

c. **Staff personnel steal away the credit**: staff personnel steal away the credit of successful implementation of their ideas while the blame for the failure is leveled against the line managers for one or the other reason.

d. **Staff people suffer from superiority complex**: Due to their specialization, staff personnel suffer from the superiority complex and prefer to have an upper hand over the line personnel and dominate them.

e. **Staff people are careless and irresponsible:** staff personnel are careless and irresponsible because they are not directly responsible for the attainment of organizational objectives. They simply have an advisory role.

f. **Staff personnel waste lots of time in planning:** staff personnel undertake in-depth analysis of a problem before arriving at some conclusions. This leads to delayed and costly decisions.

2. **Complaints of the staff against line:**

a. **Staff lacks authority:** Staff personnel are provided with advisory staff positions. They do not possess any line authority. They have power to recommend but not to enforce. This generates frustration in them.

b. **Line resists innovative ideas**: Line personnel generally adopt a conservative approach and try to maintain status quo. They discourage innovative ideas of the swtaff, which may unnecessarily increase their burden.

c. **Staff feeling utter frustration**: when innovative ideas of the staff are rejected, it kills their initiative and they are de motivated.

d. **Line personnel consult staff only as a matter of last resort:** Staff personnel are approached only when some extraordinary situation arises. In such a situation, it becomes difficult for them to suggest quick remedies.

e. **Line people want short term and temporary ideas**: Line personnel generally favour short – term and temporary ideas which are easy to implement and designed to yield quick results.

f. **Line personnel are jealous of the status of staff**: Staff enjoys a higher status in the organiastion due to its expertise. As a result, line personnel may be jealous of staff personnel.

Measures / remedies for line and staff conflict

a. **Committee organization:** one of the best methods of resolving line and staff conflict is to appoint a committee consisting of line and staff personnel on controversial issues. This will provide them a platform for exchange of ideas between the two.

b. **Clear definition of authority and responsibility:** there should be a clear definition of authority - responsibility areas and the manner of functioning of line and staff personnel. This will reduce misunderstanding, conflicts and controversies between them.
c. **Regular consultation:** A system of regular consultation should be developed between line and staff personnel. The line should not consult the staff as a measure of last resort. Regular meetings will help in developing understanding between them and will reduce conflict.
d. **Mutual respect:** Line must respect the suggestions of the staff in the overall interest of the organization. Similarly, the staff must understand the practical difficulties of the line personnel while implementing the suggestions and ideas put forth by them.
e. **Overcome resistance to change:** The higher authority should devise plans to overcome resistance to change on the part of line personnel through participation, motivation and incentives. The staff personnel should be given incentives whenever they give some fruitful and innovative ideas.
f. **Free flow of communication:** The higher authority should promote free exchange of ideas, views and suggestions between the staff and the line personnel. This will reduce friction between them and will result in better relations.
g. **Right to appeal**: In case of conflict between line and staff personnel over certain issues, both should have an equal right to appeal to higher *authorities* for guaidance. The higher authorities should hear both sides before arriving at any conclusion.

SPAN OF MANAGEMENT

Q. What are the factors influencing span of control?

Or

Q. What are the factors affecting span of control?

Or

Q. Factors determining span of control?

Meaning: Span of management or span of control refers to the number of subordinates which a manager can supervise and control effectively. It is also known as span of supervision. There is a limit to the number of persons which a person can supervise and control effectively. Span of control means the number of people reporting directly to a position. The principle of span of control implies that no single executive should have more people looking to him for guidance & leadership, than he can reasonably be expected to supervise.

It is said that control is efficient when number of subordinates reporting directly to a manager is small. If the number of subordinates reporting directly to one superior is large, *supervision* & control becomes loose.

FACTORS AFFECTING SPAN OF CONTROL

The span of management can be determined on the basis of a number of relationships that a manager can manage. There are number of factors that influence or determine the span of supervision are:

1. **The capacity and ability of the executive:** The characteristics and abilities such as leadership, administrative capabilities; ability to communicate, to judge, to listen, to guide and inspire, physical ability etc. differ from person to person. A person having better abilities can manage effectively a large number of subordinates as compared to the one who has lesser capabilities.
2. **Competence and training of subordinates:** Subordinates who are skilled, efficient, knowledgeable, trained and competent require less supervision, and therefore, the

supervisor may have a wider span in such cases as compared to inexperienced and untrained subordinates who requires greater supervision.

3. **Nature of Work:** Nature and importance of work to be supervised is another factor that influences the span of supervision. The work involving routine, repetitive, unskilled and standardized operations will not call much attention and time on the part of the supervisor.
4. **Time available for supervision:** The capacity of a person to supervise and control a large number of persons is also limited on account of time available at his disposal to supervise them. The span of control would be generally narrow at the higher level of management because top manager have to spend their major time on planning, organising, directing and controlling and the time available at their disposal for supervision will be less.
5. **Degree of Decentralization and Extent of Delegation:** If a manager clearly delegates authority to undertake a well-defined task, a well trained subordinate can do it with a minimum of supervisor's time and attention.
6. **Effectiveness of communication system:** Faulty communication puts a heavy burden on manager's time and reduces the span of control.
7. **Quality of Planning:** Effective planning helps to reduce frequent calls on the superior for explanation, instructions and guidance and thereby saves in time available at the disposal of the superior enabling him to have a wider span.
8. **Degree of Physical Dispersion:** If all persons to be supervised are located at the same place and within the direct supervision of the manager, he can supervise relatively more people as compared to the one who has to supervise people located at different places.
9. **Assistance of Experts:** the span of supervision may be wide where the services of experts are available to the subordinate on various aspects of work. In case such services are not provided in the organisation, the supervisor has to spend a lot of time in providing assistance to the workers himself and as such the span of control would be narrow.

Q. What are the different types of span of supervision?
Note:- write meaning of span of supervision.
Broadly speaking there are two types, of span of supervision:
(a)Wider span of supervision (b) Narrow span o f supervision.

(a) **Wider Span of Supervision:** In this type of span, the supervisor controls and guides the activities of subordinates directly under his control. Wider span or supervision is favored where workers are competent and trained.

(b) **Narrow Span of Supervision**: under this type of supervision, there are many levels and more supervisors are required to perform the job of guidance and control for different activities. It increases the efficiency of supervision but the cost of supervision is very high as compared to wider span of supervision. This type of supervision is favoured at higher levels of management where all the other activities of planning, organising, directing, and controlling are also to be performed. But more the levels of supervision, more difficult is the task of coordinating the activities of various groups of people.

UNIT 5
AUTHORITY, COORDINATION AND CONTROL

Authority, power, responsibility and Acountability:

An organization cannot exist without proper assignment and detailing of authority throughout the organization. Authority flows downwards as the top management provides it to the managers and executives at different levels of management. It needs to be accepted from the below too, i.e, from the subordinates.

Definition of Authority

As per **Henri Fayol**, "Authority is the right to give orders and the power to exact obedience."

Characteristics of Authority

1. Authority is considered as a relationship between the two people – the subordinates and their superior. The people with superiority frames the decision and transmits it. They think that the subordinates will accept these decisions and executes them.
2. The person who is given a position of authority is legitimate and legal. This position is supported by law, tradition, and standards of authenticity. Thus, authority is also considered as formal.
3. Authority is necessary for achieving the organizational goals. Thus, the basic use of authority is to influence the attitude and behavior of the subordinates in terms of doing the right things at the correct time.
4. So, the organizational goals are achieved by the subordinates. The person who has authority influence the behavior of individuals who otherwise might do the thing.
5. The person who has a position of authority does not enjoy it unlimitedly. There are limits and extents to which the position of authority can be attained. It is predefined. The person with the authority is expected to use it within the rules, policies, and regulations.
6. Authority also gives the person a right to make a decision. Furthermore, a manager can only decide his orders about what his subordinate should or should not do. Thus, authority is exercised using the decision and looking when they are carried out.

Power

- **Power** is easy to feel but difficult to define. It is the potential ability of a person or group to influence another person or group. It is the ability to get things done the way one wants them to be done. Both formal and informal groups and individuals may have **power**; it does not need an official position or the backing of an institution to have **power**. power can be measured in his ability to-
- Punish the individuals
- Withdraw the rewards
- Provide rewards, etc.

Thus, the main sources of power can be considered as the dominating personality, expertise, rewards, etc.

Responsibility

Responsibility is nothing but the duty that comes along with the job. In other words, it is the obligation of the person to complete the task given to him/her.

It becomes his responsibility. Moreover, it shows that the authority is properly used and work is done accordingly. Under this, a person is eligible to delegate the work to the subordinate but not the ultimate accountability.

That means, even if he transfers his work, he will remain responsible for the obligation of the accomplishment of the work.

Definition of Responsibility

As per **Davis**, "Responsibility is an obligation of an individual to perform assigned duties to the best of his ability under the direction of his leader." In the words of Theo Haimann, "Responsibility is the obligation of a subordinate to perform the duty as required by his superior".

As per **McFarland,** responsibility means, "the duties and activities assigned to a position or an executive".

Characteristics

1. Its importance lies in the creation of the obligation to perform the work.
2. It arises from the superior-subordinate relationship.
3. Unlike Authority, it flows from bottom to top.
4. It is always in the form of a continuing obligation.
5. No one can delegate responsibility.

Accountability

It is nothing but the liability created for the transfer of authority. Accountability creates the obligation of the subordinate and makes him answerable for the work done by him/her. Hence, it is the answerability for the performance of the assigned duties. Once a person accepts authority, he deems to accept Responsibility and Accountability at that time only.

Definition of Accountability

As per **McFarland**, "accountability is the obligation of an individual to report formally to his superior about the work he has done to discharge the responsibility."

DELEGATION OF AUTHORITY

Q. Define delegation and explain the nature/ characteristics of Authority?

Meaning: Delegation is an administrative process of getting things done by others by giving them responsibility. All important decisions are taken at top level by Board of Directors. The execution is entrusted to Chief Executive. The Chief Executive assigns the work to departmental managers who in turn delegate the authority to their subordinates. Every superior delegates the authority to subordinates for getting a particular work done. The process goes to the level where actual work is executed.

According to Louis Allen delegation is "The entrustment of a part or responsibility and authority to another and the creation of accountability for performance."

Characteristics /Features of delegation of authority:

1. Delegation takes place when a manager grants some of his powers to subordinates
2. Delegation occurs only when the person delegating the authority himself has that authority i.e. a manager must possess what he wants to delegate.
3. Only a part of authority is delegated to subordinates.
4. A manager delegating authority can reduce, enhance or take it back. He exercises full control over the activities of the subordinates even after delegation.

Objectives of Delegation of Authority

1. To reduce the excessive burden on the superiors i.e., executives and managers functioning at different levels.
2. To provide opportunities of growth and self development to junior executives.
3. To create a team of experienced and matured managers for the Organisation. It acts as a technique of management and human resource development.
4. To improve individual as well as overall efficiency of the Organization.

Q. What are the Elements of Delegation?

Note: write meaning and definition o delegation

Delegation involves following three elements:

1. Assignment of Responsibility: The first step in delegation is the assignment of work or duty to the subordinate i.e. delegation of authority. The superior asks his subordinate to perform a particular task in a given period of time. It is the description of the role assigned to the subordinate. Duties in terms of functions or tasks to be performed constitute the basis of delegation process.

2. Grant of Authority: The grant of authority is the second element of delegation. Authority is derived from responsibility. It is the power, to order or command,. The delegator grants authority to the subordinates so that the assigned task is accomplished. The delegation of responsibility with authority is meaningless. There should be a balance between authority and responsibility. The superior should delegate sufficient authority to do the assigned work.

3. Creation of Accountability: Accountability is the obligation of a subordinate to perform the duties assigned to him. The delegation creates an obligation on the subordinate to accomplish the task assigned to him by the superior. When a work is assigned and authority is delegated then the accountability is the by-product of this process. Authority flows downward whereas accountability flows upward. The downward flow of authority and upward flow of accountability must have parity at each position of management hierarchy. The subordinate should be made accountable to only one superior. Single accountability improves work and discipline.

Q. What are the different types of Delegation?

Note: write meaning and definition o delegation

Delegation types:

1. **General or Specific Delegation:**

When authority is given to perform general managerial functions like planning, organizing, directing etc., the subordinate managers perform these functions and enjoy the authority required to carry out these responsibilities. The chief executive exercises overall control and guides the subordinates from time to time.

The specific delegation may relate to a particular function or an assigned task. The authority delegated to the production manager for carrying out this function will be a specific delegation. Various departmental managers get specific authority to undertake their departmental duties.

2. **Formal or Informal Delegation:**

Formal delegation of authority is the part of organizational structure. Whenever a task is assigned to a person then the required authority is also given to him. This type of delegation is part of the normal functioning of the organization. Every person is automatically given authority as per his duties. When production manager gets powers to increase production then it is a formal delegation of authority. Informal delegation does not arise due to position but according to circumstances. A person may undertake a particular task not because he has been assigned it but it is necessary to do his normal work.

3. **Lateral Delegation:**

When a person is delegated an authority to accomplish a task, he may need the assistance of a number of persons. It may take time to formally get assistance from these persons. He may indirectly contact the persons to get their help for taking up the work by cutting short time of formal delegation. When the authority is delegated informally it is called lateral delegation.

4. **Reserved Authority and Delegated Authority:**

A delegator may not like to delegate every authority to the subordinates. The authority which he keeps with him is called reserved authority and the authority which is assigned to the subordinates is delegated authority.

Q. What is the need for Delegation of Authority?

1. Delegation enables a manager to contribute his work load among his subordinates. Through delegation an executive can transfer routine work to subordinates and thereby concentrate on more important tasks.
2. Delegation pushes authority near the point of action. As a result decisions can be taken more quickly and without referring to higher authorities,
3. Delegation helps to improve the motivation and morale of subordinates. It helps to satisfy their needs for recognition and responsibility.
4. Delegation is means of training and developing subordinate executives. They acquire skills through experience.
5. Delegation facilitates the growth and expansion of the organization. In the absence of delegation, a firm cannot expand and grow.

Q. What are the Principles of delegation?

Note: write meaning and definition o delegation

1. **Functional Definition:** The functions to be performed by a subordinate must be defined clearly and precisely. The limits of authority of every subordinate should also be clearly defined.
2. **Unity of Command:** Every subordinate must at a time receive orders and be accountable to only one superior. No individual can serve more than one boss at the same time.
3. **Delegation by results expected:** Authority should be delegated according to the results expected of subordinates. This will enable the subordinates to know by what standards their performance will be judged.
4. **Absoluteness of responsibility:** Responsibility can never be delegated. By delegating authority a manager. Becomes responsible for the actions of his subordinates.
5. **Parity of authority and responsibility**: Authority and responsibility should be co – exist. Responsibility without authority causes frustration and authority without responsibility results in misuse of power. There needs to be balance of authority and responsibility.

Q. Explain the Barriers in the process of delegation of Authority?

Note: write meaning and definition o delegation

On the part of the superior:

Lack of willingness to let go: A manager may desire to dominate the work of his subordinates. He may not delegate authority toke his presence felt everywhere. He has a passion for power and is of an autocratic nature.

1. **Lack of receptiveness:** He may feel that he can do the job better than anyone else. "I can do it better myself" attitude hampers effective delegation of authority. Such a manager is overcautious and conservative and cannot tolerate mistakes.

2. **Lack of confidence on subordinates:** The superior may not have confidence in the ability, capacity and dependability of subordinates. He does not, therefore, want to give them any chance to make mistakes and learn decision – making.
3. **Lack of ability to direct:** A manager may not delegate authority because he does not know how to direct the behavior of subordinates.
4. **Fear of subordinates:** An executive may be afraid of his subordinates. He thinks that he they may overshadow him effectively discharging their responsibilities. He may not delegate authority feeling that it will undermine his influence and prestige in the organisation. Such a manager is overcautious an too conservative to take chance.
5. **Lack of controls:** Delegation of authority does not reduce the accountability of the executives and, therefore, he must ensure that delegated authority is being properly used by the subordinates. When the manager does not have adequate controls that can warn him of coming troubles, he is reluctant to delegate authority.

On the part of subordinates:

1. **Lack of self confidence**: A diffident subordinate lacking in self confidence will avoid responsibility.
2. **Fear of criticism:** subordinates may have been victim of undue criticism for committing mistakes.
3. **Dependence on the boss**: Some people prefer to depend upon the superior for decision making and, therefore, avoid accepting authority.
4. **Lack of information**: Subordinates may hesitate to take authority where required information and facilities are not available or when effective communication is lacking in the organization.
5. **Inadequacy of incentives:** there may not be sufficient positive incentives, e.g., recognition and reward for successful delegation. Subordinates will not accept delegation when they are already overworked or feel that delegation will merely increase burden on them.

On the part of the organization:

1. Inadequate planning
2. Lack of clear cut authority – responsibility relationships.
3. Lack of unity of command.
4. Absence of effective control mechanism.

Q. Explain the Guide lines or measures to make delegation effective?

NOTE: WRITE MEANING AND DEFINITION OF DELEGATION

1. **Establishment of objectives:** Clear cut objective and standards of performance should be established so that subordinates know why their work is both necessary and important.
2. **Definite Responsibility:** The authority and responsibility of every subordinate should be defined precisely so that the subordinate knows his job well and can perform it within prescribed limits.
3. **Motivating the subordinates:** Proper incentives, resources and information should be provided to motivate the subordinates and to help them to carry out assigned duties successfully.
4. **Training the subordinates:** Subordinate should be given orientation and training in accepting and discharging authority.
5. **Proper Guidance to subordinates:** Proper guidance should be provided and subordinates should be required to complete their assignments.

6. **Establishment of adequate controls**: Adequate controls should be established to enable subordinates to measure and evaluate their own performance.
7. **Proper communication**: there should be proper flow of information between superior and subordinates. The subordinates should be provided with proper information to take decisions and implementing them correctly. Therefore, communication is essential for making delegation effective.
8. **Strict Adherence to the principles of delegation**: strict adherence to the principles of delegation like Parity of authority and responsibility, unity of command and absoluteness of accountability is essential for making delegation effective.
9. **Superiors attitude towards delegation:** The most important prerequisite for making delegation effective is attitude of superiors.

- The superiors must be willing to delegate authority to the subordinates.
- For effective delegation there should be climate of trust and confidence among superiors and subordinates.
- The superiors should have faith in their subordinates and should help them in learning the job properly.
- The superiors may feel that the subordinates may overshadow them , if they are given additional responsibility. This is the most important obstacle in the process of delegation. The superiors should avoid such kind of thinking and have positive attitude towards workers.

Q. What are the factors influencing degree of delegation?

Note: write meaning and definition o delegation

1. **Company's History:** The history of the company influences the degree of delegation. A company grown over a period of time has a tendency to centralize powers. When a concern is small then most of the decision-making is done by the owner. With the growth of business, the tendency to centralize powers remains. On the other hand if a concern is the outcome of a merger, amalgamation or combination there may be a great amount of decentralization. If a company is working on a decentralized pattern it will be run in the same way even on its acquisition. So the growth history a concern influences the degree of delegation.

2. Availability of Capable Persons: The element of delegation is linked to the availability of subordinate managers. If sufficient persons are available who can take responsibility then delegation can easily be done. Generally, managers complain that sufficient subordinate managers are not available who can be assigned important duties. Unless subordinates are delegated the powers they will not learn the art of management. A subordinate may be given small powers in the beginning. As he develops his managerial capabilities he can be assigned more important work.

3. **Importance and Costliness of Decisions:** The importance and costliness of decisions greatly influences the degree of delegation. Generally speaking, the costlier and more important the decisions, are made at the upper level of the managerial hierarchy. Because Any wrong decision on such important matters can damage the enterprise beyond control.

4. Size of the Enterprise: The extent of delegation is linked to the size of the enterprise. In a large unit more decision making is needed at various levels of management. Otherwise The problems of communication and co-ordination often arises in such units. If decision-making is closer to the place of action it will save time, paper work is reduced, misunderstandings in communication can largely be eliminated. There is a tendency to decentralize in big units for avoiding many difficulties.

5. Available Controls: A manager who delegates his authority wants to be sure that it is used in accordance with his intentions and the general objectives of the organization. In order to achieve this there must be some control devices. In the absence of such controls managers hesitate to delegate.

6. Types of Enterprise: The degree of delegation of authority may also be influenced by the type of enterprise. In case of rapidly expanding industry, as in the electronic field, top management will have to delegate otherwise it will be over burdened with many decisions. On the other hand, In case of a static industry, all decision-making is done at the central level. So delegation of authority depends upon the nature of the enterprise.

7. **Environmental Factors**: In addition to internal factors delegation may be influenced by external factors too. These factors may be natural unions, government control over business and tax policies.

DECENTRALISATION

Q. Define decentralization? What are the advantages and disadvantages of decentralization?

Meaning: Decentralization implies dispersal of decision making power at lower levels of management. When the power to take decisions and formulate policies does not lie with one person at the top but is passed on to different persons at various levels, it will be a case of decentralization.

Definitions:

According to **Allen** "Decentralization refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at the central points.

Advantages of decentralization:

1. **Reduces burden of top executive:** in decentralization decision – making power is delegated to the lower levels relieving top executives of some of their burden. Under this system top executives will retain only that work which requires their personal attention otherwise everything is assigned to persons at appropriate levels. This will reduce the burden of top executives and they will be able to devote more time for planning etc.
2. **Quick decisions:** Under decentralized system decision – making powers are delegated to the level of actual execution. Whenever there is a need for taking a decision, the concerned executive will decide the things immediately.
3. **Facilitates diversification:** Decentralisation gives enough authority to persons at various levels for carrying out required task. Decentralized system will be more suitable for expanding enterprises.
4. **Motivation of subordinates**: Under decentralization subordinates get opportunity for taking decisions independently. Subordinates will realize their importance in the organization. They will try to put their maximum efforts so that their performance improves. They get a chance to take initiative and to try new ideas. The subordinates feel motivated under decentralized set – up.
5. **Sense of competition:** Under decentralized system different departments or units are made separate profit centres. The employees of different departments will compete with each other to show better results. The sense of competition will improve the performance of all departments.
6. **Division of work:** The enterprise is divided into a number of departments under decentralization. Management can experiment new ideas at one department without disturbing other departments. This will reduce the risk if things go adverse. Once the

experiment is successful it can be used in other segments also. So risk element can be limited under decentralized system.

7. **Effective control and supervision:** With the delegation of authority, span of control will be effective. Since executive at lower levels will have the full authority to take important decisions, they will recommend awards or punishment as per their performance. This will improve supervision and control.

Disadvantages of Decentralisation:

1. **Lack of coordination**: under decentralization, each department has the power to formulate their own policies and programmes. It becomes difficult to co-ordinate the activities of various segments.
2. **Difficulty in control**: since different units work independently it becomes difficult to control their activities.
3. **Costly:** decentralization system involves heavy overhead expenses. Every decentralized division has to be self – sufficient for its activities like production, marketing, accounting, personnel, etc. a number of persons will be employed to man various activities. These persons are paid higher salaries involving huge costs. Decentralization system is suitable for overhead expenses.
4. **Lack of able managers:** decentralized system will successes only id competent persons are employed to manage various jobs in different segments. Competent persons are not sometimes available as per the requirements. The system will fail if competent personnel are not available.

5. Q. What are the differences between delegation and decentralization?

Meaning of delegation: Delegation is an administrative process of getting things done by others by giving them responsibility. All important decisions are taken at top level by Board of Directors. The execution is entrusted to Chief Executive. The Chief Executive assigns the work to departmental managers who in I urn delegate the authority to their subordinates. Every superior delegates the authority to subordinates for getting a particular work done. The process goes to the level where actual work is executed. The person who is made responsible for a particular work is given the requisite authority for getting it done

Meaning of decentralization: Decentralization implies dispersal of decision making power at lower levels of management. When the power to take decisions and formulate policies does not lie with one person at the top but is passed on to different persons at various levels, it will be a case of decentralization.

Differences between Delegation and Decentralization

BASIS	DELEGATION	DECENTRALISATION
Nature	Delegation is individualistic. It involves two persons, superiors and subordinates.	Decentralisation is totalistic in nature. It involves delegation from top management to the department or division level.
Control	Control rests with the delegator or superior.	In this system top management exercise minimum control. All powers are given to concerned departments or divisions.

Need	Delegation is essential to get things done by others. Unless otherwise authority is delegated it will be difficult to assign responsibility.	Decentralisation is optional because it is the philosophy of management. Top management may or may not disperse authority.
Responsibility	In delegation, responsibility remains with the delegator. He can delegate authority and not responsibility.	In decentralisation, head of the department is responsible for all activities under him. He is required to show better performance of the whole department.
Significance	Delegation is required as a routine act of managing. Work is delegated to subordinates as a measure to reduce burden on the head of the unit.	Decentralisation is a vital decision to prepare organisation for handling major expansion plans. It is also essential to cope with the complexities of changes in technological, competitive and other conditions in the environment.
Freedom of Action	A delegator continues to supervise the activities of subordinates even after delegation of authority. He exercises control over the behaviour and performance of his subordinates.	In a centralsed system, managers have greater freedom of action. They are not kept under close watch by superiors. They are required to manage as per the guidelines.
Dependence	Decentralisation is not essential for Delegation	Delegation is essential for decentralisation. Decentralisation is dependent on delegation.
Permanance	Delegation of authority may be temporary. It may be taken back at a later date.	Under decentralisation authority is given permanently.
Scope	Delegation may be a limited transfer of authority and hence its scope is limited.	Decentralisation shows wide distribution of authority, therefore, the scope is wide.
Feature	Delegation is an essential aspect of managing and organising. An organisation cannot be functional without delegation	Decentralisation may not be an essential feature of managing and organising. An organisation may be working without decentralisation.

CENTRALISATION

Q. Define centralization? What are the advantages and disadvantages of centralization?

Centralization is a common occurrence in small enterprises. This is possible because the operations are limited and the proprietor is able to devote personal attention to every activity of the business. This type of management is useful where emergency decisions are to be taken.

Advantages of centralization:

1. **Standardization of procedures ad systems:** centralization enables standardization of procedures and systems. It facilitates smooth working in the organization.

2. **Facilitates Evaluation:** when same policies are used for all segments of the enterprise their performance can easily be evaluated. It helps in comparing the results of different departments. This will bring a sense of competition among various segments. Ultimately overall performance will improve.
3. **Economies:** centralization of management will bring in economies of large scale. There will be a centralized buying and selling. This will result in economies of scale.
4. **Co – ordination of activities:** co-ordination of activities of various segments is also facilitated by centralized management. In the absence of centralization, different segments may pursue their independent policies. This may result in disunity and disintegration. Centralized management will help in co – ordinating the work of different segments in such a way that organizational goals are achieved.

Disadvantages of Centralisation:

1. **Destroys individual initiative:** centralization resolves around one person only. One man takes all the decisions and decides the modes of implementing them. No one is given the authority to use his own judgment. this destroys initiative of subordinates.
2. **Over burden on few:** centralization gives all the responsibilities to few persons in the organization. They remain over – burdened with routine work while subordinates do not have sufficient work.
3. **Slows down the operations:** The operations of the enterprise are slowed down under centralized set – up. All decisions are taken only by one person and his unavailability keeps the matter pending. Even clarifications about decisions are referred to the top which destroys invaluable time in formalities. Things move very slowly in a centralized set up because everything has to pass through the manager.
4. **Distance from the customer:** the customers do not come into contact with policy makers. They meet only those officials who do not have the powers to take decisions. Moreover one person cannot meet and know the reactions of customers regarding products and services. This also comes in the way of understanding of market situations by the chief executive.
5. **No scope of specialization:** centralization does not offer any scope for specialization. All decisions are taken by one person and he may not be a specialist in all the areas.

Co – ordination

Q. Why Coordination is Necessary?

Co ordination means to integrate (bring together) all the activities of an organization. It is done for achieving the goals of the organization. There must be proper co-ordination throughout the organization.

Definition:

McFarland defined co-ordination as" co-ordination is a process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of a common purpose."

Importance of Coordination – why co-ordination is necessary

1. Coordination encourages team spirit: There exists many conflicts and rivalries between individuals, departments, between a line and staff, etc. Similarly, conflicts are also between individual objectives and organizational objectives. Coordination arranges the work and the objectives in such a way that there are minimum conflicts and rivalries. It encourages the employees to work as a team and achieve the common objectives of the organization. This increases the team spirit of the employees.

2. Coordination gives proper direction: There are many departments in the organization. Each department performs different activities. Coordination integrates (bring together) these activities for achieving the common goals or objectives of the organization. Thus, coordination gives proper direction to all the departments of the organization.

3. Coordination facilitates motivation: Coordination gives complete freedom to the employees. It encourages the employees to show initiative. It also gives them many financial and non-financial incentives. Therefore, the employees get job satisfaction, and they are motivated to perform better.

4. Coordination makes optimum utilization of resources: Coordination helps to bring together the human and material resources of the organization. It helps to make optimum utilization of resources. These resources are used to achieve the objectives of the organization. Coordination also minimizes the wastage of resources in the organization.

5. Coordination helps to achieve objectives quickly: Coordination helps to minimize the conflicts, rivalries, wastages, delays and other organizational problems. It ensures smooth working of the organization. Therefore, with the help of coordination an organization can achieve its objectives easily and quickly.

6. Coordination improves relations in the organization: The Top Level Managers coordinates the activities of the Middle Level Managers and develop good relations with them. Similarly, the Middle Level Managers coordinate the activities of the Lower Level Managers and develop good relations with them. Also, the Lower Level Managers coordinate the activities of the workers and develop good relations with them. Thus, coordination, overall improves the relations in the organization.

7. Coordination leads to higher efficiency: Efficiency is the relationship between Returns and Cost. There will be higher efficiency when the returns are more and the cost is less. Since coordination leads to optimum utilization of resources it results in more returns and low cost. Thus, coordination leads to higher efficiency.

8. Coordination improves goodwill of the organization: Coordination helps an organization to sell high quality goods and services at lower prices. This improves the goodwill of the organization and helps it earn a good name and image in the market and corporate world.

Q. What is co-ordination and explain the principles of co-ordination?

Co ordination means to integrate (bring together) all the activities of an organization. It is done for achieving the goals of the organization. There must be proper co-ordination throughout the organization.

Definition: McFarland defined co-ordination as" co-ordination is a process whereby an executive develops an orderly pattern of group efforts among his subordinates and secures unity of action in the pursuit of a common purpose."

Four Principles of Coordination Given By Mary Parker Follett

Mary Parker Follett gave four main Principles of Coordination. These four principles of co-ordination are called are Follett's Principles of Coordination. These four principles must be followed to make co-ordination effective.

Mary Parker Follett's Four Principles of Coordination

1. Principle of Early Stage: According to this principle, coordination must start at an early stage in the management process. It must start during the planning stage. This will result in making the best plans and implementing these plans with success. If coordination is started early only then all the management functions will be performed successfully. Thus by initiating proper coordination the organisation will achieve all its objectives easily and quickly.

2. Principle of Continuity: According to this principle, coordination must be a continuous process. It must not be a one-time activity. The process of coordination must begin when the organisation starts, and it must continue until the organisation exists. Coordination must be done continuously during the management process. It must be done during planning, organising, directing and controlling.

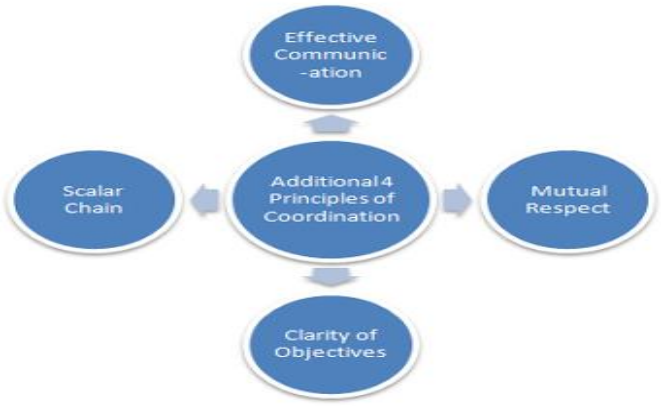
3. Principle of Direct Contact: According to this principle, all managers must have a Direct Contact with their subordinates. This will result in good relations between the manager and their subordinates. This is because direct contact helps to avoid misunderstandings, misinterpretations and disputes between managers and subordinates. It enables the managers to coordinate all the different activities of their subordinates effectively and efficiently.

4. Principle of Reciprocal Relations: The decisions and actions of all the people (i.e of all managers and employees) and departments of the organisation are inter-related. So, the

decisions and actions of one person or department will affect all other persons and departments in the organisation. Therefore, before taking any decision or action all managers must first find out the effect of that decision or action on other persons and departments in the organisation. This is called the Principle of Reciprocal Relations. Co-ordination will be successful only if this principle is followed properly.

Additional Principles of Coordination

After Mary Parker Follett, modern management experts have extended her list by adding four additional principles of coordination. These additional or supplementary principles of coordination are explained as follows:-



Additional Four Principles of Coordination

1. **Principle of Effective Communication:** Co-ordination will be successful only in the presence of an effective communication. Good communication must be present between all departments, within employees themselves and even between managers and their subordinates. All communication barriers and gaps must be avoided and fixed. Good communication helps to avoid misunderstandings in the organisation. This overall helps in coordination.
2. **Principle of Mutual Respect**: Coordination will be successful only if there exist a mutual respect throughout the organisation. All managers working at different levels (top, middle or lower) must respect each other. Similarly, all employees must show a friendly attitude and should respect each other during interactions. There must also exist a feeling of brotherly hood among managers and employees. The managers must respect the feelings and emotions of the employees. On the other hand, employees too must understand and acknowledge their bosses. Without mutual respect, coordination may not survive, and it will eventually fail.
3. **Principle of Clarity of Objectives**: Co-ordination will be successful only if the organization has set its clear objectives. Everyone in the organisation must know the objectives very clearly. No one must have any doubts about the objectives of the organisation. Clear objectives can be achieved easily and quickly.
4. **Principle of Scalar Chain**: scalar chain refers to the line of authority from the highest to the lowest executive in the organization for the purpose of communication.

Q. Explain the techniques / process of effective coordination?

Note: write meaning and definition

The main techniques / process of co - ordination are:

1. Sound planning: Unity of purpose is the first essential condition of coordination. Therefore, the goals of the organization and goals of its units must be clearly defined. Every member of the

organization must understand fully how his job contributes to the overall objectives. Planning is the ideal stage for coordination. Clear-cut objectives, harmonized policies and integrated procedures ensure uniformity of action. Various plans should be integrated properly. Precise policies and comprehensive programmers facilitate coordination of activities and individuals. Standard procedures and rules create uniformity in repetitive operations.

2. Simplified organization: A simple and sound organization is an important means of coordination. The line of authority and responsibility from top to the bottom of the organisation structure should be clearly defined. Clear-cut definition of authority and responsibility of ach department and individual helps to avoid conflicts.

3. Effective communication: clear two-way communication is a pre-requisite for successful co-ordination. Personal or face-to-face contacts are the most effective means of communication and coordination. Personal or face-to-face communication may be supplemented by written communication. Informal communication can also be utilized for the purpose of coordination.

4. Effective leadership and supervision: Effective leadership ensures coordination of efforts both at the planning and the execution stage. A good leader can continuously guide the activities of his subordinates in the right direction and can inspire them to come together for the accomplishment of common objectives. Effective leadership reduces the dependence on such formal means of coordination as authority, rules and procedures. In fact, no technique of coordination can replace effective leadership

5. Chain of Command: Exercise of authority through the chain of command or hierarchy is the traditional means of coordination. Chain of command brings together the different parts of an organization and relates them to a central authority. Coordination between interdependent units can be secured by putting them under one boss. Because of his organizational position, a superior has the authority to issue orders and instructions to subordinates. He can resolve inter-positional and intergroup conflicts.

6. Indoctrination and incentives: Indoctrinating organizational members with the goals and mission of the organization can transform a neutral body into a committed body. Similarly, incentives may be used to rebate mutuality of interest and to reduce conflicts.

7. Liaison departments: liaison officers may be employed, where frequent contact between different organizational units is necessary. For instance, a liaison department may ensure that the production department is meeting the delivery dates and specifications promised by the ales department.

8. General staff: In large organizations, a centralized pool of staff experts is used for coordination. A common staff group serves as the clearing house of information and specialized advice to all the departments of the enterprise. Such general staff is very helpful in achieving inter-departmental or horizontal coordination.

9. Voluntary coordination: When every organizational unit appreciates the working of related units and modifies its own functioning to suit them, there is self-coordination. Self-coordination or voluntary coordination is possible in a climate of dedication and mutual cooperation. It results from mutual consultation and team-spirit among the members of the organization.

Q. Why co-ordination is called essence of management?

"Co-ordination is the Essence of Management." The meaning of this sentence implies, Co-ordination affects all the functions of management. In other words, Co-ordination affects Planning, Organizing, Staffing, Directing, Communication, Leading, Motivating and Controlling.

1. Planning and Coordination: According to Harold Koontz and Cyril O'Donnell, "Planning is deciding in advance what to do, how to do it, when to do it and who is to do it."
There are many departmental plans in a business. These include, Purchase Plan, Sales Plan, Production Plan, Finance Plan, etc. All these plans must be coordinated (brought together) and one Master Plan must be made for the full business. Therefore, Planning is affected by Coordination.

2. Organizing and Coordination: There are many steps in Organising. All these steps must be coordinated, for achieving the objectives of the business. The Top Level Managers must coordinate the efforts of the Middle Level Managers. Similarly, the Middle Level Managers must coordinate the efforts of the Lower Level Managers. Furthermore, the Lower Level Managers must also coordinate the efforts of the workers. Therefore, Organisation is affected by Coordination.

3. Staffing and Coordination: Staffing involves Recruitment and Selection, Training, Placement, Promotion, Transfer, etc. All these steps must be properly coordinated. Similarly, the efforts of all the individuals, groups and departments must be coordinated for achieving the objectives of the business. Therefore, Staffing is affected by Coordination.

4. Directing and Coordination: Directing means giving necessary information, proper instructions and guidance to sub-ordinates. This results in coordination. Therefore, Direction is affected by Coordination.

5. Communicating and Coordination: Many types of communication methods are used in a business. These methods include, Formal communication, Informal Communication, Upward Communication, Downward Communication, Oral Communication, Written Communication, etc. It is important to note that, all these types of communication must be properly coordinated. Lack of proper coordination will hinder the smooth functioning of the

communication process. Furthermore, it will also restrict the important information flow and cause many economic problems to the business. Thus, Communication is affected by Coordination.

6. Motivating and Coordination: There are many types of Motivation. These are, Positive Motivation, Negative Motivation, Financial Motivation, and Non-Financial Motivation. All these types of Motivation must be properly coordinated. Therefore, Motivation is affected by Coordination.

7. Leading and Coordination: Every manager must be a good leader. He must coordinate the efforts of his subordinates for achieving the objectives. That is, he must coordinate the human resource. He must also coordinate the material and financial resources of the organisation. In short, a leader cannot survive without coordination. In other words, leadership cannot be performed without coordination. Therefore, Leadership is affected by Coordination.

8. Controlling and Coordination: In Controlling the standards are first fixed. Then the performances are measured. Performances are compared with the standards, and the deviations are found out. Then the deviations are corrected. So, controlling involves many steps. All these steps must be properly coordinated. If coordination is not proper, Control will surely fail. Therefore, Control is also affected by Coordination.

CONTROLLING

Q. Defines controlling? Explain the process of controlling?

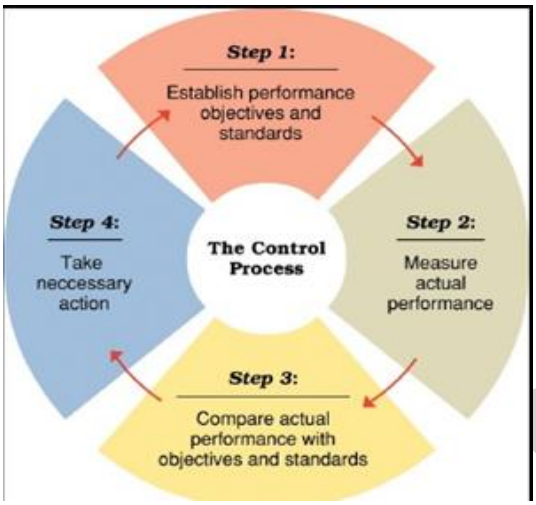
Controlling is one of the important functions of a manager. Controlling means ensuring that activities in an organisation are performed as per the plans. Controlling ensures that an organization's resources are being used effectively and efficiently for the achievement of predetermined goals.

According to Koontz and O'Donnell "The management function of controlling is the measurement and correlation of the performance of activities of the subordinates in order to make sure that the enterprise objectives and plans devised to attain them are being accomplished".

PROCESS / STEPS IN CONTROLLING

The various steps in controlling may broadly be classified into four parts:

1. establishment of control standards;
2. measurement of performance,
3. comparison between' performance and standards, and
4. Take necessary action.



1. **Establishment of Control Standards-** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-
    a. **Measurable or tangible** - Those standards which can be measured and expressed are called as measurable standards. They can be in form of :
        i. Physical standards – unit of production and sales .
        ii. Monetary standards – cost of production, sales, revenue, profit
        iii. Time standard – man-hours, machine – ours
        iv. Capital standards – Rate of return on investment or current ratio.
    b. **Non-measurable or intangible**- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.

Controlling becomes easy through establishment of these standards because controlling is exercised on the basis of these standards.

2. Measurement of Performance: This step involves measuring the performance of a work in terms of control standards. The measurement of performance against standards should be done on a forward-looking basis so that deviations may be detected in advance of their occurrence and avoided by appropriate actions. .

According to Petor Drucker, it is desirable to have clear and common measurements in all key areas of business. In his opinion, measurement must be (i) clear, simple, and rational, (ii) relevant, (iii) direct attention and efforts, and (iv) reliable, self-announcing, and understandable without complicated interpretation or philosophical discussions.

3. Comparing Actual, and Standard Performance: The third major step in control process is the comparison of actual and standard performance.

It involves two steps:

1. finding out the extent of deviations, and
2. Identifying the causes of such deviations.

When adequate standards are developed and actual performance is measured accurately, any variation will be clearly revealed

4. Correction of Deviations: This is the last step in the control process, which requires that actions should be taken to maintain the desired degree of control in the system or operation. Control action may be:

1. review of plans and goals and change therein on the basis of such review;
2. change in the assignment of tasks;

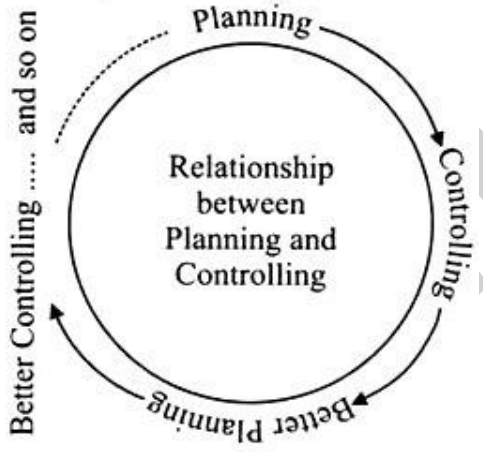
3. change in existing techniques of direction;
4. change in organization structure; provision for new facilities, etc

In fact, correction of deviation is the step in management control process, which may involve either all or some of the managerial functions. Due to this, many persons hold the view that correcting deviations is not a step in. the control process. It is the stage where other managerial functions are performed. Koontz and O'Donnell have emphasized that the overlap of control function with the other merely demonstrates the unity of the manager's job. It shows the managing process to be an integrated system.

Q. Explain the relationship between planning and control?
Or planning and controlling are Siamese twins' explain?
Note: Write meaning and definition of controlling

<u>Relationship between Planning and Controlling</u>

If planning is looking ahead; controlling is looking back'. By the former part of the adage that planning is looking ahead, one naturally implies that planning is future oriented and sets objectives and best alternative courses of action to be accomplished in future.



Planning and controlling are inseparable functions of management. Once a plan becomes operational, controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans. Thus, planning without controlling is meaningless. Similarly, controlling is blind without planning. If the standards are not set in advance, managers have nothing to control. When there is no plan, there is no basis of controlling. Planning is clearly a prerequisite for controlling.

Planning seeks consistent, integrated and articulated programmes while controlling seeks to compel events to conform to plans. Planning is basically an intellectual process involving thinking, articulation and analysis to discover and prescribe an appropriate course of action for achieving objectives. Controlling, on the other hand, checks whether decisions have been translated into desired action. Planning is thus, prescriptive whereas, controlling is evaluative. It is often said that planning is looking ahead while controlling is looking back. However, the statement is only partially correct. Plans are prepared for future and are based on forecasts about future conditions.Therefore, planning involves looking ahead and is called a forward looking function. On the contrary, controlling is a backward-looking function. However, it should be understood that planning is guided by past experiences and the corrective action initiated by control function aims to improve future performance. Thus, planning and controlling are both backward-looking as well as a forward-looking function. Thus, planning and controlling are interrelated and, in fact, reinforce each other in the sense that

1. Planning based on facts makes controlling easier and effective; and
2. Controlling improves future planning by providing information derived from past experience.

Q. What are essentials or requirements for effective control?

Note: Write meaning and definition of controlling

1. **Suitable:** The control system must be suitable for the kind of activity intended to serve. Apart from differences in the systems of control in different business, they also vary from department to department and from one level in the organization to the other. A system of control useful at a higher level of management will be different in scope and nature from that in use at the operative level. Several techniques are available for control purposes such as budgets, break-even points, financial ratios and so on. The manager must be sure that he is using the technique appropriate for control of the specific activity involved
2. **Understandable:** The system must be understandable, i.e., the control information supplied should be capable of being understood by those who use it. A control system that a manager cannot understand is bound to remain ineffective. The control information supplied should be such as will be used by the managers concerned. What may be considered valuable and understandable to one manager may not be so to another. It is, therefore, the duty of the manager concerned to make sure that the control information supplied to him is of a nature that will serve his purpose.
3. **Economical:** The system must be economical in operation, i.e., the cost of a control system should not exceed the possible savings from its use. The extent of control necessary should be decided by the standard of accuracy or quality required.
4. **Flexible:** The system of control must be flexible. In case the control systems can work only on the basis of one specific plan, it becomes useless if the plan breaks down and another has to be substituted. A good control system would be sufficiently flexible to permit the changes so necessitated.
5. **Expeditious:** Nothing can be done to correct deviations, which have already occurred. It is, therefore, important that the control system should report deviations from plans expeditious. No useful purpose can be served by a deviation detected months after its occurrence. The objective of the control system should be to correct deviations in the immediate future. This requires that the lime-lag between the occurrence of a deviation and its reporting be kept at the minimum possible.
6. **Forward Looking:** The control system must, therefore, be forward looking, as the manager cannot control the past. In fact, the control system can at times be so devised as to anticipate possible deviations, or problems. Thus deviations can be forecast so that corrections can be incorporated even before the problem occurs. Cash forecasts and cash control is an example in point where a financial manager can forecast the future cash requirements and provide for them in advance.
7. **Organizational Conformity:** Since people carry on activities, and events must be controlled through people, it is necessary that the control data and system must conform to the organizational pattern. The control data must be so prepared that it is possible to fix responsibility for the deviations within the areas of accountability.
8. **Indicative of Exceptions at Critical Points:** The management principle of exception should be used to show up not only deviations but the critical areas must also be fixed for most effective control.

9. **Objectivity:** As far as possible, the measurements used must have objectivity. While appraising a subordinate's performance, the subjective element cannot be entirely removed. Here the personality of both the manager as well as his subordinate would be reflected in the final judgment. The use of indefinite terms can frustrate the subordinate like being told that he is not doing a good job.

10. Suggestive of Corrective Action: Finally, an adequate control system should not only detect failures must also disclose where they are occurring, is responsible for them and what should be done to correct them.

Q. What are the METHODS/ TECHNIQUES OF CONTROLLING?

Techniques of controlling:

1. Direct Supervision and Observation: - 'Direct Supervision and Observation' is the oldest technique of controlling. The supervisor himself observes the employees and their work. This brings him in direct contact with the workers. So, many problems are solved during supervision. The supervisor gets first hand information, and he has better understanding with the workers. This technique is most suitable for a small-sized business.

2. Financial Statements: - All business organizations prepare Profit and Loss Account. It gives a summary of the income and expenses for a specified period. They also prepare Balance Sheet, which shows the financial position of the organization at the end of the specified period. Financial statements are used to control the organization. The figures of the current year can be compared with the previous year's figures. They can also be compared with the figures of other similar organizations.

Ratio analysis:- can be used to find out and analyse the financial statements. Ratio analysis helps to understand the profitability, liquidity and solvency position of the business.

3. Budgetary Control: - A budget is a planning and controlling device. Budgetary control is a technique of managerial control through budgets. It is the essence of financial control. Budgetary control is done for all aspects of a business such as income, expenditure, production, capital and revenue. Budgetary control is done by the budget committee.

4. Break Even Analysis: - Break Even Analysis or Break Even Point is the point of no profit, no loss. For e.g. when an organization sells 50K cars it will break even. It means that, any sale below this point will cause losses and any sale above this point will earn profits. The Break-even analysis acts as a control device. It helps to find out the company's performance. So the company can take collective action to improve its performance in the future. Break-even analysis is a simple control tool.

5. Return on Investment (ROI): - Investment consists of fixed assets and working capital used in business. Profit on the investment is a reward for risk taking. If the ROI is high then the financial performance of a business is good and vice-versa.

ROI is a tool to improve financial performance. It helps the business to compare its present performance with that of previous years' performance. It helps to conduct inter-firm comparisons. It also shows the areas where corrective actions are needed.

6. Management by Objectives (MBO): - MBO facilitates planning and control. It must fulfill following requirements :-

- Objectives for individuals are jointly fixed by the superior and the subordinate.
- Periodic evaluation and regular feedback to evaluate individual performance.
- Achievement of objectives brings rewards to individuals.

7. Management Audit: - Management Audit is an evaluation of the management as a whole. It critically examines the full management process, i.e. planning, organising, directing, and

controlling. It checks the efficiency of the management, the company's plans, objectives, policies, procedures, personnel relations and systems of control. Management auditing is conducted by a team of experts. They collect data from past records, members of management, clients and employees. The data is analysed and conclusions are drawn about managerial performance and efficiency.

8. Management Information System (MIS): - In order to control the organisation properly the management needs accurate information. They need information about the internal working of the organisation and also about the external environment. Information is collected continuously to identify problems and find out solutions. **MIS** collects data, processes it and provides it to the managers. MIS may be manual or computerised. With MIS, managers can delegate authority to subordinates without losing control.

9. PERT and CPM Techniques : - Programme Evaluation and Review Technique (**PERT**) and Critical Path Method (**CPM**) techniques were developed in USA in the late 50's. Any programme consists of various activities and sub-activities. Successful completion of any activity depends upon doing the work in a given sequence and in a given time. Importance is given to identifying the critical activities. Critical activities are those which have to be completed on time otherwise the full project will be delayed.

So, in these techniques, the job is divided into various activities / sub-activities. From these activities, the critical activities are identified. More importance is given to completion of these critical activities. So, by controlling the time of the critical activities, the total time and cost of the job are minimized.

10. Self-Control: - Self-Control means self-directed control. A person is given freedom to set his own targets, evaluate his own performance and take corrective measures as and when required. Self-control is especially required for top level managers because they do not like external control.

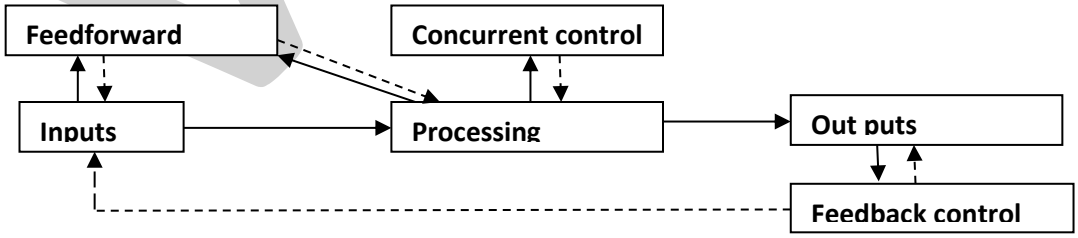
The subordinates must be encouraged to use self-control because it is not good for the superior to control each and everything. However, self-control does not mean no control by the superiors. The superiors must control the important activities of the subordinates.

Q. What are the different types of controlling?

Note: Write meaning and definition of controlling

Depending on the stage at which control is exercised, control may be of three types:

Control at various stages of action – Types of control



1. **Past – action control, based on feedback from the action, known as feedback control;**
2. **Control of inputs that are required in action, known as feedforward control; and**
3. **Control at different stages of action process, known as concurrent, real – time or steering control**

1. **Feedback control:** feedback control is based on the measurement of the results of an action. Based on this measurement if any deviations are found between actual performance and performance standards corrective action must be taken.
2. **Feed-backward control:** Feed forward control involves evaluation of inputs and taking corrective action before a particular sequence of operations is completed. Thus, it attempts to remove the limitations of time lag in taking corrective action. Feed forward control monitors inputs into a process to determine whether the inputs are as planned, corrective action is taken to adjust the inputs according to plan so that desired results are achieved within the planned inputs.

Requirements of feed-forward control:

a. Thorough and careful analysis of the planning and control system must be made, and the more important input variable identified.
b. A model of the system should be developed
c. The model should be reviewed regularly to see whether the input variables identified and their relationship still represent realities.
d. Data on input variables must be regularly collected and put into the system
e. The variations of actual input data from planned inputs must be regularly assessed and their impacts on expected results are evaluated.
f. Action must be taken to show people problems and the measure required to solve them.

3. **Concurrent control** : Concurrent control is exercised during the operation of a programme. It provides measures for taking corrective action or making adjustments while the programme is still in operation and before any major damage is done.

Subject: Business Organization and Management
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1. Industry engaged in extracting wealth from soil, air, water
   a. Extractive Industry b. Primary industry
   b. Construction industry d. none of the above
2. In analytical industry
   a. Product is analyzed and many products are received as final product
   b. A product passes through various processes
   c. Is concerned with manufacturing goods
   d. None of the above
3. Manufacturing industry is concerned with conversion of raw materials into finished goods
4. Commerce means exchange of goods and services for money
5. Entrepot trade means trade in which the imported goods are exported
6. Profession involves
   a. **Rendering of personal services** b.Undertaking a business activity
   c. Undertaking a contract d. None of the above
7. Economic activities can be classified into
   a. Trade , commerce b.Industry and commerce
   c.Business, profession and employment d. None of the above
8. Business may be defined as
   a. Production and exchange of goods and services
   b. Providing services of specialized nature

c. Conversion of raw materials into finished goods
d. None of the above

9. On the basis of technology Industry can be classified into
   a. Heavy and light industry
   b. Large scale and small scale industry
   c. Genetic and extractive industry
   d. None of the above
10. Joint sector is a kind of partnership between government & private sector
11. Partnership deed is an agreement among partners
12. A sole trade business is started by
   a. At least 2 persons b. At least 7 persons
   c**. Any one person** d. None of the above
13. The liability of a sole trader is
   a. Limited to his investment in the business
   b. Limited to total property of the business
14. Sole proprietorship is suitable for
   a. Large scale concerns b. medium scale concerns **c. small scale concerns** d. All the above
15. A partnership concern can be registered under partnership Act
   a. 1949 b. 1956 c**. 1932** d. 2008
16. A minor can be admitted as a partner
   a. With the consent of managing partners
   b. With the consent of the court
   c. With the consent of all partners
   d. None of the above
17. Partner who takes active role in the business is called
   a. Active partner
   b. Sleeping partner
   c. Nominal partner
   d. Partner by Estoppel
18. Special partner's liability is
   a. **Limited** b. Unlimited c. Not liable d. none of the above
19. A partnership firm requires at least
   a. **2 persons** b. 7 persons c. 20 persons d. Un unlimited
20. Particular partnership will be dissolves
   a. After the expiry of time
   b. When the purpose is served
   c. When a partner gives notice to other partners
   d. Both a & b
21. The registration of limited liability partnership is
   a. Optional **b. Mandatory** c. Not necessary d. None of the above
22. If limited liability partnership is not registered the it is treated as
   a. **General partnership** b. Partnership at will
   c. Particular partnership d. Limited liability partnership
23. The working of limited liability partnership is governed by **LLP Act -2008**
24. In limited partnership there must be
   a. **A general and a special partner** b. Active and nominal partner

c. Sleeping and dormant partner d. secret and working partner

25. Partnership deed should be
    a. Written b. Oral **c. Oral and written** d. None of the above
26. Arbitration clause in partnership deed gives the procedure for
    a. Dissolution
    b. Settlement of disputes among the partners
    c. Admission of partner
    d. Evaluation of good will
27. The membership of a joint Hindu family can be acquired
    a. **By birth** b. By agreement c. By contract d. None of the above
28. The in charge of joint Hindu family is known as
    a. Managing partner **b. Karta** c. Proprietor d. co - owner
29. Liability of coparceners is
    a. **Limited** b. Unlimited c. Not liable d. None of the above
30. Joint Hindu Family is dissolved due to
    a. The death of Karta b. Death of coparcener c. **Partition of Joint Hindu Family** d. None of the above
31. The members of the joint Hindu family are called **co - parceners**
32. Mitakshara is prevalent in all the India except west Bengal
33. Dayabhaga is prevalent in West Bengal
34. Registration of cooperative society is
    a. **Must** b. Optional c. Not necessary d. None of the above
35. Cooperative societies are managed by **board of directors**
36. Example of cooperative marketing society
    a. Gujarat cooperative milk marketing federation
    b. Haryana handloom
    c. Lift irrigation cooperative society
    d. Employees cooperative society
37. The motive of cooperative society is
    a. To earn profits b. **To serve its members** c. None of the above

UNIT 2

38. Which are the basic documents for formation of a company –
    a. MOA b. AOA c. Prospectus **d. all of the above**
39. A person or group of persons who conceives the idea of setting up of business is
    a. **Promoter** b. Director c. Manager d. None
40. Maximum number of members in a public company
    a. 7 b. 2 c. **unlimited** d. 200
41. The document containing the rules and regulations for the internal working of the company
    a. MOA b. **AOA** c. Prospectus d. None
42. the company which holds and controls other companies is known as **holding company**
43. A document inviting deposits or offers from the public for purchase of shares or debentures of a company is known as **prospectus**
44. The principal document in the formation of a company is **Memorandum of Association**
45. A company registered under companies Act is called a **Joint stock company**
46. A company incorporated by passing a special Act in the parliament or legislature is called

a. Public company b. Private company c. statutory company d. none of the above

47. Red herring Prospectus is a **preliminary Prospectus**
48. A private company can start its operations after obtaining
    a. **Certificate of incorporation** b. certificate of commencement of business
    c. on receipt of minimum subscription d. None of the above
49. A public company can start its operations after getting **certificate of commencement of business**
50. A public company not going for public subscription should file **Statement – in - lieu of prospectus .**
51. The owners of the company are
    a. **Share holders** b. debenture holders c. creditors d. Directors
52. Company is an **Artificial person**
53. East India company is the example of
    a. Private company b. public company c. charted company d. statutory company

UNIT-3

INTRODUCTION TO FUNCTIONS OF MANAGEMENT

54. **Management** is the art of getting things done through others.
55. Planning means determination of what is to be done now and what is to be done, who is to do it.
56. Organising means identification and grouping the activities to be performed and dividing them among the individuals.
57. Staffing is the process of recruiting, selecting and placing human resources.
58. Father of scientific management: F.W.Taylor.
59. Father of modern management: Peter F.Drucker.
60. Functions of management can be divided into operational and managerial functions.
61. No subordinate in an organisation should report to more than one boss is the principle of unity of command.
62. According to which principle one head and one plan for a group of activities.
    a. Unity of direction b. Order c. Unity of command d. Scalar chain
63. Scalar chain is the chain of authority ranging from the ultimate authority to the lowest rank.
64. Founder of scientific management was:
    a. Fedrick Taylor b. Henry Fayol c. Elton Mayo d. Chestard Bernard
65. Ensuring that everything is carried out according to plan is part of the process of
    a. Planning b. **controlling** c .Organising d. Co-ordinating
66. Work study examines:
    a. Method b. Duration of work **c. Both a & b** d. None of the above
67. **Espirit de corps** means spirit of loyalty to the group to which one belongs
68. Some of the following principle of management suggested by Henry Fayol are.....
    a. Unit of command b. Unit of Direction c. Scalar chain d**. All the above**
69. The function which help in recruiting the suitable personnel is.....
    a. Organizing b. Planning c. **Staffing** **d.** Decision making

UNIT 4
PLANNING AND ORGANISING

70. Planning involves development of
    a. forecasts b. policies c. programmes **d. all of the above**
71. Single use plans are used to solve only a particular problem.
72. Plans which are used again and again are called **Standing Plans**.
73. Procedures are the details of action for the achievement of business activities.
74. Schedule specifies the time within which activities are to be completed.
75. The concept of MBO was introduced by **Peter F Drucker.**
76. MBO means **management by objectives.**
77. **MBO** requires superior and subordinate participation in setting objectives.
78. Budget refers to **statement of expected results expressed in numerically**
79. ..... plans fulfill the needs at institutional level
    a. Hierarchical plans b. Operational plans c. Standing plans st**rategic plans**
80. Peter ducker initiated management by objectives (MBO) in the year .....
    a. 1952 b. **1954** **c.** 1956 d.1958
81. The structure of **organizing** includes identification and classification of required activities.
82. In a formal organisation 'Power' is associated with **position.**
83. Delegation is **granting the right to command.**
84. Line organisation is also known as **scalar** organisation.
85. Organizing refers to **delegation of authority.**
86. The degree to which an organization relies on rules and procedures to direct the behaviour of employee is:
    a. complexity b. formalization c. centralization d. motivation
87. Line organisation is also known as
    a. miltary b. scalar c. traditional d. all the above
88. In line organization authority flows from top to bottom.
89. In line organization the span is narrow.
90. Informal organistions are formed when people have common likes.
91. Span of management is also called as span of control.
92. **Span of control** means number of subordinate a superior can effectively control.
93. Factors determining span of management are :
    a. capacity of superior
    b. capacity of subordinate
    c. degree of decentralization
    d. all the above