MBA

Management Studies

(SEMESTER – I)

MBA 1102
MANAGERIAL ECONOMICS

BLOCK - 1

The University of Burdwan
Centre for Distance and Online Education
Golapbag, Burdwan – 713104
West Bengal, India

MBA
(Management Studies)
(Semester – I)

MBA 1102

Managerial Economics (ME)

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MANAGERIAL ECONOMICS
(M E)

BLOCK – 1

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Managerial Economics (ME)

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MBA

Management Studies

(SEMESTER – I)

MBA 1203
ORGANISATIONAL BEHAVIOUR
BLOCK - 1

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Centre for Distance and Online Education
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West Bengal, India

MBA

(Management Studies)

(Semester – I)

MBA 1203

ORGANISATIONAL BEHAVIOUR

BLOCK - 1

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ORGANISATIONAL BEHAVIOUR (OB)

BLOCK -I

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MBA - 1203

Block – I

This block comprises of three units and aims to provide an introduction to the study of Organizational Behaviour.

Unit 1:

Human Behaviour

Defining Human Behaviour – Nature & Process of Human Behaviour – Need to study human behaviour from an organizational perspective.

Unit 2:

Organizational Behaviour

Concept of Organizational Behaviour – Foundational perspective – Models of Organizational Behaviour – Challenges and opportunities.

Unit 3:

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Meaning and Concept – Process of Perception – Role of Perception in making judgements about others – Perception in Management – Perceptual Organization – Information Processing and Individual Decision Making.

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UNIT- 1

HUMAN BEHAVIOUR

UNIT- 1: HUMAN BEHAVIOUR

1.0. OBJECTIVES

After mastering the contents of this Unit, you should be able to:

- Define the concept of human behaviour.
- Provide an overview of the characteristics of human behaviour.
- Describe the different models of man and show how these models can be used to understand and manage human behaviour.
- Identify the biographical characteristics that influence human behaviour in organisations.

1.1. INTRODUCTION

Understanding individual behaviour is one of the most important goals of organisational behaviour. The knowledge of individual behaviour in an organisational setting enables the managers not only to guide the activities of their subordinates in the direction of desired results but also to improve the overall climate of the organisation for greater efficiency and effectiveness.

Behaviour is the most important manifestation of human thinking, perception and decision-making. It is simply defined as the observable action of an individual. The factors influencing individual behaviour in organisations are many. However, through systematic studies, it is possible to identify the specific factors that cause behaviour in a particular situation. The ability to understand and predict those factors can immensely contribute to the efficiency and effectiveness of management.

There are several theories that attempt to explain the characteristics of individual behaviour. In addition, various models of man and the assumptions underlying them help us predict behaviour with a measure of accuracy. Moreover, the biographical characteristics of employees along with their abilities and skills can provide vital data as to how to improve their productivity. performance and job satisfaction. The information is also useful for reducing absenteeism and turnover in organisations leading to their increased efficiency and effectiveness. This unit will provide a new perspective for understanding individual behaviour in the context of organisations.

1.2. CHARACTERISTICS OF HUMAN BEHAVIOUR

Organisational behaviour (OB) focuses on the study of human behaviour in organisations. An organisation is basically an association of human beings and the most important problem facing today's managers is how to maximize the efforts and contributions of these human beings. Since managers are concerned with getting things done through the efforts of other people, it is imperative that they understand the nature of human behaviour in the organisational setting. The knowledge of human behaviour will enable them not only to guide the activities of their subordinates in the direction of desired results but also to improve the overall climate for greater efficiency and effectiveness of their organisations.

Behaviour is any human activity that can be observed, measured and studied. In the language of psychology, it is defined as a person's response to a stimulus in his environment. A stimulus is any event that an individual can sense through one or more of his five sense organs. A response is what the individual does because of the stimulus received or in expectation of the stimulus to be received. Thus, behaviour is a function of stimulus and response (S-R) or response and stimulus (R-S) for an individual.

Human beings are extremely complex. While their interests and abilities vary, they have many common characteristics. It is almost impossible to generalise their behaviour completely. Nevertheless, some remarkable efforts by way of scientific studies have been made to understand the way people usually behave. Accordingly, Leavit in his book "Managerial Psychology" has set the basic assumptions about human behaviour in the form of a simplified structure. The structure shows behaviour to be:

(1) Caused, (2) Motivated, and (3) Goal-directed, implying thereby that human behaviour is not random.

It does not occur without cause or reason. There must be an external stimulus that causes behaviour. Motivation means some internal force that drives the organism to respond to the stimulus. Finally, the behaviour is again not random in that there is some result towards which the organism points its activity. It, therefore, follows that behaviour is orderly, not arbitrary; systematic, and not random. The assumptions of Leavitt are still unchallenged.

It is clear from the above discussion that human behaviour at all levels is caused. Thus, to understand the nature of human behaviour, it is necessary to know the causes behind the behaviour. If we can understand the reasons behind behaviour and if there is a degree of stability to the cause-and-effect relationships underlying the behaviour, then we can employ our understanding as a basis for prediction. The manager's job, of course, goes beyond the task of prediction. He must influence behaviour in the direction of desired outcomes.

But it should be distinctly understood that a person's behaviour is caused not by a single factor but by a large number of factors. At any particular point in time, a person's behaviour is influenced by multiple causes located in his genetic makeup, his past experience, and the current situation in which he finds himself. Thus, a person's behaviour is caused by several factors both lying within himself and outside him, that is, in the total environment of which he is but a part. For example, he is affected by the behaviour of others as well as the structure, culture and technology of the organisation. At the same time, he also influences the behaviour of others.

There is another interpretation of human behaviour which may be called the antithesis of the concept that behaviour is caused. It is the idea that an individual is an autonomous moral agent whose behaviour can be explained only in terms of moral values like good or bad, right or wrong.

The autonomous concept of human behaviour is based on the assumption that human beings are free to choose their actions within broad limits in the environment. As they choose their actions, they will be solely responsible for their consequences. If the actions prove to be good, they are praised; if they turn out to be wrong; they are punished. The concept owes its origin to moral philosophy, cultural heritage and legal systems that are the underlying forces of human civilization.

1.3. MODELS OF MAN

Despite many individual differences, management theorists have tried to identify the common characteristics of men in terms of their basic nature, behaviour and tendencies. This has led to the development of various models of man which reflect the variety of managerial views and assumptions about human behaviour. In the following lines, different models of man are briefly discussed to give an idea of the perspectives of managers about the behaviour of employees.

(i) Rational and Emotional Models of Man

Some theorists see the individual as a highly rational person who possesses computer-like characteristics. According to this view, while making a decision, this person will gather all the available information about the subject and analyse it. He will evaluate every course of action in the light of the cost-benefit ratio associated with each, and then choose the one which offers the greatest benefit. The rational model presents man as a serious, computational kind of creature with almost unlimited ability to know almost anything under the sun.

At the opposite extreme of the rational model stands the emotional model of man. This model is based on the Freudian interpretation of human behaviour According to this model individuals are heavily controlled by their emotions, many of which are unconscious responses. These behavioural assumptions are directly tied to what Freudians call the three major subsystems of the individual's personality. The three subsystems are the id, the ego, and the super-ego.

ii) Behavioristic and Humanistic Models of Man

Some scholars believe that the individual can be described solely in terms of behaviour. These theorists are interested only in observable behaviour as distinguished from thoughts and feelings. In its most radical form, this model assumes that all behaviour is environmentally controlled.

The humanistic view of man is more philosophical than scientific. Humanists see the individual as capable of surmounting irrational behaviour through conscious reasoning. In their view, man controls his own destiny and his potential cannot be underestimated. This model offers a great deal of hope and comfort to many, although empirical research to data has failed to substantiate many of its tenets.

(iii) Economic, Administrative and Self-Actualising Models of Man

The economic model is one of the earliest models of man. It views the individual as an economic man who uses his reason primarily to calculate exactly how much satisfaction he may obtain from the smallest amount of effort. The model shows economic man as having the following characteristics:

1. He has complete knowledge of the alternatives available to him in a situation of choice.
2. He knows the consequences of each alternative.
3. With some yardstick of utility (usually money), he can assign an order to his preferences of alternatives.
4. He can choose the alternative that has the greatest utility or monetary return.

A modified version of the economic man has been suggested by Herbert A. Simon. He has developed a model of man which is known as Administrative Man. The Administrative man has the following characteristics:

1. He lacks complete knowledge of the alternatives available to him.
2. He does not always know the consequences of each alternative.
3. In choosing between alternatives, he attempts to look for the one which appears to be "satisfying" or good enough.
4. He recognizes that the world he perceives is a drastically simplified version of the real world which is much more complicated. He is. however, content with the simple world of his own.

Basically, this simplified model says that an administrative man is willing to make choices when he does not have complete information and is willing to accept something less than the optimum solution. The antithesis of the economic model is found in the self-actualising model. Many psychologists believe that people are motivated by the opportunity to grow, mature, and become all they are capable of becoming. They are of the opinion that the individual cannot be adequately described by economic considerations alone. According to Maslow, man strives for higher goals like self-actualisation. Self-actualisation refers to the desire for self-fulfilment. It is the inherent tendency within the individual to become everything that he is capable of becoming. Thus, in the words of Maslow. "A musician must make music, an artist must paint, a poet must write if he is to be ultimately happy. What a man can be, he must be." This is the true goal of man. While he may be temporarily sidetracked in his quest for self-fulfilment, he will eventually return to it. The challenge of the organization, therefore, is to provide the proper conditions for satisfying the self-actualisation needs of employees.

(iv) Theory X and Theory Y Models of Man

Another model was offered by Douglas McGregor in his famous Theory X and Theory Y. In these two theories, he presented two opposite sets of assumptions about human nature which he thought were implicit in most approaches to supervision and management. Theory X and Theory Y can be regarded as the two extremes or boundaries of a continuum of assumptions. Within these two boundaries, there exists a large number of possible combinations of the two sets. Therefore, McGregor expected that valid operational theories would be developed by managers between the two extremes of Theory X and Theory Y. The basic assumptions of the two theories are the following:

(iv) Theory X and Theory Y Models of Man

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(a) Theory X Assumptions

1. The average human being has an inherent dislike for work and he will avoid it if he can.
2. Because of their dislike for work, most people will have to be coerced or threatened with punishment to get them to work.
3. The average person likes to be directed and wants to avoid responsibility.
4. He has little ambition and wants security above all.

(b) Theory Y Assumptions

1. Work is as natural as play or rest and people do not inherently dislike it.
2. Coercion or threats of punishment are not the only ways to get people to work.
3. Under the right conditions, people not only seek responsibility but are willing to pursue organisational goals.
4. The ability to exercise a relatively high degree of imagination, ingenuity and creativity in the solution of organisational problems is widely distributed in the population.

Theory X depicts the individual as lazy, inactive and in need of constant guidance. Theory Y views the individual as having a great deal of potential which, if handled properly, can be channelled towards the achievement of organizational goals. Therefore, depending upon each individual manager's philosophy of human behaviour, there may be a divergence of managerial approaches and practices in organizations.

1.4. BIOGRAPHICAL CHARACTERISTICS

People join the organization with their abilities and skills. They also bring to the workplace some personal factors like age, gender, marital status and length of service. These factors are generally known as biographical characteristics of employees. Research studies confirm that biographical characteristics have an influence on turnover, absenteeism, productivity and satisfaction. Obviously, an understanding of the implications of these factors for performance and productivity can improve the predictive power of managers.

(i) Age

Age is an important personal variable because it affects important dependent variables or OB like turnover, absenteeism, productivity and job satisfaction. The issue of age is attracting more attention because of the general belief that performance declines with age. This is, however, not always supported by evidence. As far as turnover is concerned, the studies show that the younger employees are likely to leave their jobs more frequently than the older ones. In regard to absenteeism, studies show that older employees have lower rates of avoidable absence than do younger employees. However, they demonstrate higher rates of unavoidable absence because of poor health associated with aging. As regards productivity, the studies show that age and job performance are not related.

(i) Gender

There is an age-old debate on whether men perform better than women in work place. The research evidences suggest that there are practically no important differences between men and women that affect their job performance. There are, for instance, no consistent differences between male and female employees in problem-solving ability, analytical skills, competitive drive, motivation, sociability and learning ability. Psychological studies have shown that women are more willing to obey authority and that men are more aggressive. But these differences have no significant impact on individual performance.

(iii) Marital Status

The marital status of employees affects absenteeism, turnover, and satisfaction. Research evidences consistently show that married people have fewer absences, less turnover and more job satisfaction in comparison with their unmarried co-workers. This is because marriage imposes increased responsibilities that tend to make jobs more valuable and important. However, more studies are required to reach a conclusion in this regard.

(iv) Tenure

Tenure is the total length of service that an employee has put in the company It is the determinant of his seniority which has an important influence on productivity which has an important influence on productivity, absenteeism, turnover and satisfaction. Research evidence has consistently found a positive relationship between seniority and job productivity. The research findings about the impact of seniority on absence show a negative correlation between the two.

1.5. LET US SUM UP

Human beings are complex creatures. They differ from one another in many ways. Naturally, it is very difficult to develop universal theories that explain their behaviour in toto. Nevertheless, some remarkable theories have been developed on the basis of scientific studies to explain why people behave the way they do in organisations. Harold J. Leavitt offers a theory that seeks to explain individual behaviour in terms of cause and effect. According to him, every human behaviour is caused, motivated and goal-directed. This means that a person in an organisation never acts without a reason. This theory of human behaviour forms the basis of studying OB. Another way of explaining human behaviour is to consider an individual as an autonomous being with a set of values. He is aware of the consequences of his actions and is free to decide what he should do and what he should not do. This approach is not acceptable to OB specialists for many reasons.

Despite individual differences, managers for long have been trying to identify the common characteristics of people in terms of their basic nature, behaviour and tendencies. This has led to the development of several models of man. These models essentially reflect various managerial assumptions about human behaviour. The important models of man that have been identified so far include:

(i) Rational and humanistic models of man,

(ii) Economic,

(iii) Administrative and self-actualising models of man, and

(iv) Theory X and Theory Y models of man.

Employees bring to their jobs a number of biographical characteristics like age, gender, marital status and length of service. Research studies show that these variables have an important influence on turnover, absenteeism, productivity and job satisfaction. It is, therefore, important for managers to understand the likely impact of biographical characteristics on the performance criteria of organisations.

1.6. SELF-ASSESSMENT TEST

1. "Human behaviour is caused, motivated and goal-directed". Discuss with justification whether you agree or disagree with the statement.
   a. Explain the cause-and-effect view and autonomous view of human behaviour.
   b. Why is the former approach more acceptable to the managers than the latter?
2. What do you mean by human behaviour? How does it occur?
3. Make a list of the biographical characteristics that influence human behaviour in organisations.
4. Give a brief account of the different models of man. Which model is more realistic in your view?

1.7. KEY WORDS

- **Behavior :** Behaviour is the most important manifestation of human thinking, perception and decision- making. It is simply defined as the observable action of an individual.
- **Ability :** An individual’s capacity to perform various cognitive tasks.
- **Skill :** Level of proficiency with which an individual can perform the various tasks in a job.
- **Intelligence :** Ability to understand complex ideas, to adapt effectively to the environment, to learn from experience, to engage in various forms of reasoning and to overcome obstacles by careful thought.

UNIT: 2

ORGANISATIONAL BEHAVIOUR

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UNIT 2: ORGANISATIONAL BEHAVIOUR

STRUCTURE

2.0. OBJECTIVES

After reading this unit, you should be able to:

- Explain the concept of organisational behaviour.
- Highlight the nature and importance of organisational behaviour.
- Gain insight into the levels of analysis in organisational behaviour.
- Discuss the models of organisational behaviour.
- Understand the limitations of organisational behaviour.
- Distinguish between organisation theory and organisational behaviour.

2.1. INTRODUCTION

Modern society is an organisational society. We depend on organisations for the supply of goods and services to fulfil our needs and expectations. They come in different forms and different sizes. Some of these organisations are business enterprises, government and political organisations, transport companies, hospitals and welfare societies. The efficiency and effectiveness with which these organisations work are a matter of vital importance to us because they affect the quality of our collective life and pace of development. The efficiency of organisations,in turn, depends on the efficiency of their managers. The knowledge of organisational behaviour (OB) can greatly contribute to the efficiency of managers by increasing their ability to understand, predict and manage human behaviour in organisations. OB is the study of human behaviour in organisations. It studies behaviour at three levels: (a) the individual level, (b) the group level, and (c) the organisation level. The results of these studies provide managers with an improved insight and understanding of the behaviour of people in the organisation. This unit will provide an introductory framework for understanding the complex issues of OB.

2.2. CONCEPT AND DEFINITION OF ORGANISATIONAL BEHAVIOUR

Organisational Behaviour (OB) is basically a study of the behaviour of people working in organisations. It provides the basis for understanding why people behavethe way they do in organisations and how their behaviour affects organisational performance. As an emerging field of study, the concept of OB is still in the making. It has yet no universal definition. There are, of course, some definitions. But they vary according to the perceptions of writers. The following two definitions will helpus understanding the concept of OB.

According to Fred Luthans (2002: 23), OB is concerned with understanding, prediction and management of human behaviour in organisations. This definition makes it clear that OB seeks to explain why people behave the way they do in organisations. Besides, the definition shows that the knowledge of OB can be used for prediction and management of human behaviour for better organisational performance.

Stephen P. Robbins (2002: 6) defines OB as “a field of study that investigates the impact that individuals, groups and structure have on behaviour within organisations for the purpose of applying such knowledge towards improving an organisation’s effectiveness”. The definition shows that OB is a distinct field of study with a common body of knowledge. It studies three determinants of behaviourin organisations: individuals, groups and structure. Moreover, OB uses the knowledge gained about individuals, groups and structure to increase the effectiveness of the organisation.

2.3. CHARACTERISTICS OF ORGANISATIONAL BEHAVIOUR

The important characteristics of organisational behaviour are as follows:

i) OB is a distinct field of study with a common body of knowledge backed by empirical research. It is a study of the behaviour of people in organizations at three levels. The levelsare individuals, groups and the organisation itself.

ii) OB is application-oriented. It is practically an applied field of social science. Theknowledge gained about the behaviour of individuals, groups and organization can be applied for the solution of the problems of organisations.

iii) OB is based on the assumption that people are the most important resource of an organisation and that managing people is the most important function of management.

iv) OB takes has distinctly humanistic approach. It underlines the importance of need fulfilment, self-development, personal growth and good human relations for increasing the motivation and efficiency of employees. It is practically the human side of management.

v) OB has a micro perspective. It does not study the whole organisation. Rather, it concentrates on the behaviour of people and represents the behavioural approach to management.

vi) It is a multi-disciplinary subject. It draws heavily on a number of applied behavioural sciences such as psychology, sociology, social psychology and anthropology. Besides, it borrows ideas from economics, political science, history and law.

2.4. IMPORTANCE OF ORGANISATIONAL BEHAVIOUR

Organisational behaviour (OB) is a relatively young field of study with tremendous potential for increasing the productivity of people and the effectiveness of organisations. It can play a major role in improving the quality of human resource management of organisations through effective motivation, supervision, leadership,communication and control processes.

There are no two opinions on the fact that people are the most important resource of an organisation. Since Hawthorne's investigation, study after study has shown that excellent companies put their people first. This is because the capacity of people to improve productivity is almost unlimited and they can really bring competitive advantage to the organisations. Managing people for higherproductivity is one of the key functions of management.

OB enables an individual not only to understand the behaviour of others but alsoto know his or her own behaviour. This can considerably improve interpersonal relations in organisations. Moreover, the analysis of individual behaviour in terms ofpersonality, perception, learning, attitudes, job satisfaction and motivation can lead to improved leadership styles, better supervision and increased motivation.

Finally, OB as a growing field of study can open up exciting job opportunities byincreasing the interpersonal, human and behavioural skills of young learners. A large part of the success in any managerial position lies in developing good interpersonalskills. It is no wonder then that companies wanting to hire fresh graduates consider interpersonal skills as the most important qualification (Robbins, 2002: 2). Therefore, it is extremely important to study OB to increase their interpersonal and human skills which are essential to managerial success.

2.5. LEVELS OF ANALYSIS IN ORGANISATIONAL BEHAVIOUR

There are three levels of analysis in Organisational Behaviour (OB). These levels are known as individual level, group level and organisation level. At the first level of analysis, OB concentrates on the behaviour of individuals working in the organisation for the achievement of individual and organisational goals. At the second level, OB focuses on the behaviour of people working in the organisation asmembers of teams, groups and departments. At the final level, OB seeks to study how the organisation as a whole behaves in relation to the environment. Each of these three levels of analysis contributes a unique perspective and generates its insight into the nature and functioning of organisations.

(a) The Individual Level

An organisation is, first of all, an association of people. Therefore, the most logical approach to the study of OB is to analyse the behaviour of individual members. For individual-level analysis, OB draws heavily on the core discipline ofpsychology to develop theories and concepts about why people behave the waythey do in response to different management policies, styles, procedures and practices. Individual–level analysis mainly includes the study of personalities, biographical characteristics, perceptions, attitudes and job satisfaction of employees. It also studies the implications of values, learning and motivation for human behaviour in organisations.

(b) The Group Level

People rarely work alone in organisations. Most often, they work as members of a group or a unit for the achievement of sectional and corporate goals. The groupis also known as a team, task force, committee or department. Understanding group behaviour is very important because it is more complex than individual behaviour. Although people think at the individual level, their perceptions and behaviour are often modified by group pressure. Evidently, the actions and reactions of groups have an important influence on organisationalbehaviour. The major issues of OB at the group level are group dynamics, leadership styles,power and politics, communication and conflict.

(c) The Organisation Level

Instead of taking a narrow view of individuals and groups within organisations, some behavioural scientists prefer to focus on the organisation as a whole. For this level of analysis, OB specialists borrow heavily from concepts and theories of the discipline of sociology. In this macro analysis, OB seeks to understand the dynamicsof relationships between the organisation and its environment. Special emphasis is placed on understanding how technology, structure and design are related to the environment and how they influence the effectiveness of organisations.

The three levels of analysis in the study of OB are not contradictory. In fact, they are complementary to one another. Each level of analysis creates a distinct set of knowledge and insight which provides a unique perspective in the study of OB. Combining knowledge from three levels of analysis, OB provides a complete body of knowledge consisting of theories, principles and concepts for understanding the complexities of human behaviour in organisations.

2.6. MODELS OF ORGANISATIONAL BEHAVIOUR

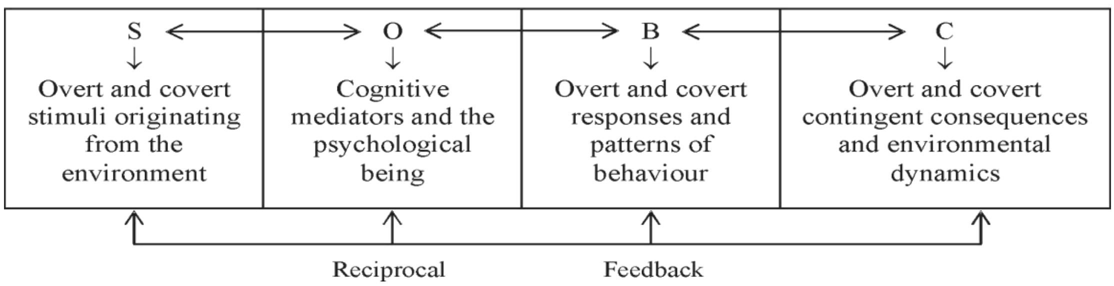
Developing an OB model is not an easy task. It demands the presentation of the wholeknowledge of OB in a compact form that is easy to understand and convenient to use. The model itself is an obstruction of reality. In social science, it is done by presenting the conceptsin the form of symbols and arranging them in a way that shows how concepts are interrelated inpractice (Bobbit Jr, et al, 1978: 11). Putting the entire knowledge of humans behaviour at workinto a short symbolic form is certainly a difficult task, if not impossible. Nevertheless, noted authors have tried to develop OB models according to their own perception and insight. In thisUnit, we shall present two important models for understanding OB. The models are: (i)Luthans' S-O-B-C model; and (ii) Robbins' OB model.

Luthans' S-O-B-C Model

The S-O-B-C model has been developed by Fred Luthans (1989: 14-15) forunderstanding Organisational Behaviour (OB). The model identifies four important variables of OB and shows how they relate to one another. The four variables are stimulus, organism, behaviour and consequence. The initial letters of these variables are arranged in a sequential order to form the S-O-B-C model.

The Luthans' S-O-B-C model is largely based on the social learning theory developed by Albert Bandura. The four variables of the model are practically derived from the three variable identified in the social learning framework. The three basic variables of social learning theory are environment, organism and behaviour. Let us now see how these three variables have been expanded into four variables to form the S-O-B-C Model.

Figure 2.1 : The S-O-B-C Model



As indicated earlier, S of this modelstands for stimulus which originates from the environment; O stands for the organism which represents the cognitive power of an individual being; B stands for behaviour and C stands for consequence of a specific behaviour. The consequences are expected to arise from the environment as a result of specific behaviour. Thus, S and C are both environmental variables. Thus, the single environmental variables of social learning theory have been divided into two variables inthe S-O-B-C model in order to accommodate contingent consequences. All the four variables interact withone another to produce organisational behaviour. The model is shown in Figure 2.1.

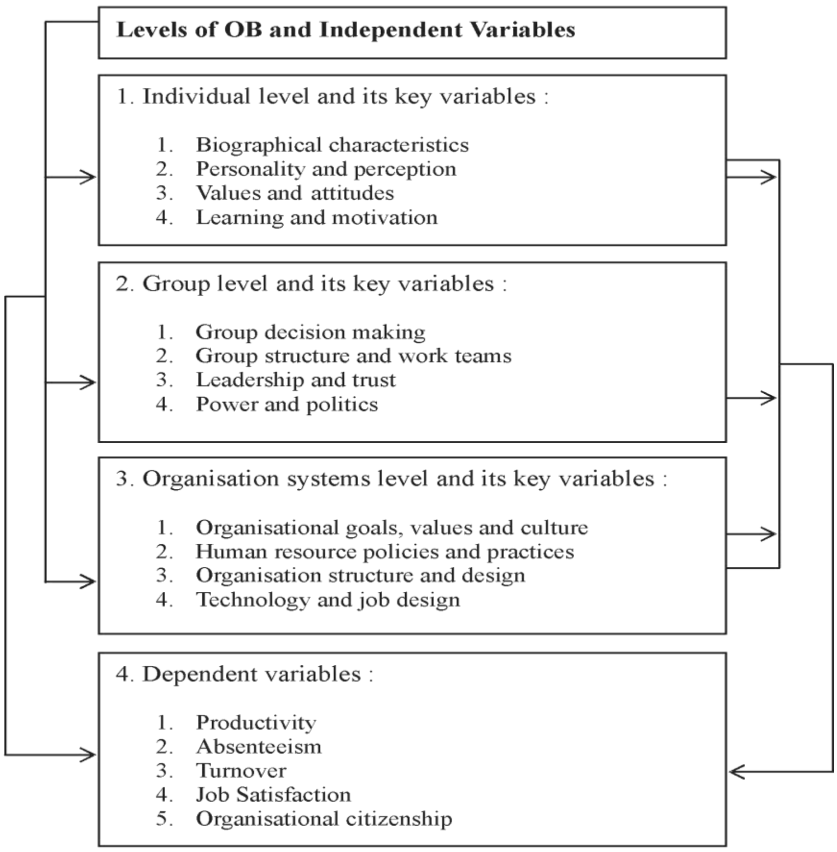
Source: Luthans, Fred (1989). Organisational Behaviour. New York: McGraw-Hill, p. 15.

Robbins' OB Model

Robbins has developed a model for understanding organisational behaviour (OB) in terms of dependent andindependent variables (2002: 19-23). The model is based on his owndefinition that OB is a field of study that analyses the impact of individuals, groups and structure on behaviour within an organisation, and then it applies that knowledge to make organizations more effective. Following this definition, the model recognizes the fact that there are three levels of analysis in OB. The levels are described by Robbins as individual level, group level and organisation systems level. Each level of analysis has a set of variables which affectbehavior within that level. At the same time, the behaviour of one level affects the behaviour of another level in a reciprocal way. The variables that exist and operate at the three levels of OB are together called independent variables. They determine the outcomes of organisations in terms of productivity, absenteeism, turnover, job satisfaction and organisational citizenship. These factors are called dependent variables. The basic purpose of studying the independent variables at three levels of OB is to bring about a positive change in dependent variables to improve the efficiency and effectiveness of organisations. Themodel is presented in Figure 2.2.

The OB model in Figure 2.2 classifies organisational variables into two sets of dependent and independent variables. The five dependent variables are considered as the expected outcomes towards which all organisations work. These are determined by the action of independent variables. As seen here, the number of independent variables is quite high. There are many more in practice.

Figure 2.2 : Robbins' Model of OB



Source : Adapted from Robbins, S.P. (2002). Organisational Behaviour. New Delhi : Prentice-Hall, p. 24.

2.7. LIMITATIONS OF ORGANISATIONAL BEHAVIOUR

Organisational behaviour (OB) is not free from limitations. An understanding ofits deficiencies is essential for understanding the nature and functioning of OB. The important limitations are the following:

i) The knowledge of OB does not automatically guarantee the success of anindividual either in organisational life or in family life. Success in life requires many other qualities of head and heart. Obviously, OB is not a panacea for all managerial problems.

ii) Human beings are complex creatures. Their behaviour can never be completely understood. As a result, there are no simple and universal principles that explain human behaviour in organisations.

iii) OB theories and concepts have no universal application. They are contingent on situational variables. As a result, OB theories developed in one situation may not be applicable in another situation.

2.8. LET US SUM UP

Organisations occupy a dominant place in our society. They exist around us and exert powerful influence on our lives. The way these organisations are managed has an important influence on the quality ofour collective life and level of economic progress. The knowledge of OB can remarkably increase the skill and competence of managers for the most efficient and effective management of organisations. It is now considered an essential skill for all managers.

OB is the gateway to understanding human behaviour in organisations. It is concerned with knowing why people behave the way they do in organisations and how their behaviour affects organisational performance. According to Fred Luthans, OB is the understanding, prediction and management of human behaviour in organisations. Stephen P. Robbins defines OB as a field of study that inquires into the behaviour of individuals, groups and structures within organisations for the purpose of applying such knowledge towards improving an organisation's effectiveness. The study of OB involves three levels of analysis such as individual-level analysis, group-level analysis and organisation-level analysis.

The examination of the definitions of OB brings out certain characteristics which are helpful for understanding its nature. OB is a field of study with a common body of knowledge. It has three levels of analysis. It represents only the behavioural approach to management and is application-oriented.

It is also multi-disciplinary in character. OB as a growing discipline has tremendous potential for increasing the skill and competence of managers for improving the efficiency and effectiveness of organisations. There are three levels of analysis in OB. Each level of analysis contributes a unique perspective and generates its insight into the nature and functioning of organisations. Understanding OB is not an easy task. It requires theoretical orientation and empirical research in full measure.

Some models have been developed to simplify the conceptualization of OB. Of them, Luthans' S-O-B-C model and Robbins' OB model deserve attention. The S-O-B-C model identifies four important variables that determine behaviour in organisations. The variables are (i) stimulus, (ii) organism, (iii) behaviour and (iv) consequence. The model attempts to show how these variables are related to one another. Robbins' OB model seeks to explain OB in terms of dependent and independent variables. The dependent variables are identified in the model as productivity, absenteeism, turnover, job satisfaction and organisational citizenship. The independent variables are all those factors that determine OB at three levels of analysis. These factors can bring about a positive change in dependent variables which are actually the expected outcomes of an organisation.

Finally, OB is not without its share of limitations. It is to be clearly understood at the beginning that OB is not a panacea for all managerial problems. Human beings are complex creatures. Their behaviour can never be fully understood. Moreover, OB theories and concepts have no universal application. They are contingent on situational variables. It is also true that OB is more descriptivethan prescriptive. Notwithstanding these limitations, the attraction for studying OB is on the rise.An awareness of its limitations can result in the successful application of behavioural knowledgefor increasing the effectiveness of organisations even under different situations.

2.9. EXERCISES

1. Define organisational behaviour
2. Indicate the importance of studying organisational behaviour.
3. What are the three levels of analysis in organisational behaviour?

4. Explain the concept of organisational behaviour and state its characteristics.
5. What do the four letters of S-O-B-C Model stand for? From which theory has this model been derived?
6. Analyse the S-O-B-C Model of Luthans.
7. What are the dependent variables in Robbins' Model? How can these variables be changed in a positive way?
8. How are the independent and dependent variables in Robbins' OB Model related?
9. OB as a discipline is not free from limitations. Explain.

2.10. KEY WORDS

- **Organisational Behaviour :** The study of human behavior in organizations.
- **Psychology :** The science that seeks to measure , explain, and sometimes change the behavior of humans and other animals.
- **Industrial Psychology :** Study of human behavior in the work – related aspects of life and the application of knowledge of human behavior to the minimization of human problems.
- **Model :** An abstraction of the reality , or we can say that it is a simplified representation of some real world phenomenon.

2.11. SUGGESTED READING

1. Luthans, Fred (2002). *Ovganizational Behaviour*. New Delhi: McGraw-Hill.(Also see earlier editions of the book as referred to in the text.)
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UNIT – 3

PERCEPTION

UNIT - 3: PERCEPTION

STRUCTURE

3.0. OBJECTIVES

After mastering the contents of the Unit, you should be able to:

- Define the concepts of perception.
- Present the characteristics of perception.
- Explain the roles played by perception in OB.
- Describe the process of perception.

3.1. INTRODUCTION

The concept of perception is essential to the study of Organisational behaviour (OB). More specifically, they pertain to the field of individual behaviour which is an important area of OB. People behave according to their own perception of the environment. The ways in which they perceive the world are modified by learning. Thus, the knowledge of perception significantly contributes to the understanding of individual behaviour in organisations.

Perception is our window to the world. It is the process by which people come to know the objects and events around them. Perception is different for every individual. Even if two persons see the same thing or hear the same sound, they may come out with different descriptions of what they actually saw or heard. The differences in description are due to differences in perception. Perception is, in fact, a person's view of reality which may be quite different from the objective reality. Since people believe in what they perceive, their behaviour is based on the perceived reality, and not on the objective reality. It is, therefore, very important for managers to understand the process of perception and how people perceive events in the organisation. The knowledge will help them explain the causes of human behaviour in organisations.

3.2. CONCEPT AND DEFINITION OF PERCEPTION

Perception is an important cognitive process that deeply affects individual behaviour. Cognition is the act of knowing an item of information and cognitive process refers to the ways in which people analyse that information for obtaining a rational meaning out of it. Perception begins with the sensory impression of a stimulus from the environment. When that sensory impression is filtered, modified and analyzed by the cognitive processes of an individual to obtain an improved meaning of it for decision making. perception is said to be complete. It includes all the processes by which people come to know and understand the world around them. Thus, perception is defined as the complex cognitive process by which individuals select. organise and interpret their sensory impressions in order to give their own meanings to the objects and events in the environment. The perceptual process finally produces a unique picture of the world, a picture that may be different from reality.

3.3. CHARACTERISTICS OF PERCEPTION

The definition of perception points to its characteristics. The important characteristics of perception are presented as under:

i) Perception is a cognitive process by which individuals select the stimuli from the environment, organize and interpret them to find out their actual meaning. The stimulus is received through one or more of the five senses of vision, hearing, touch, smell or taste.

However, the mere sensory impression of a stimulus is not enough for perception. Our cognitive processes may filter modify or completely change the meaning of raw sensory data for obtaining fresh meaning out of them.

ii) Perception involves the selection of a small number of events from the environment for attention and examination. This is because people are confronted with numerous stimuli which they are unable to take in. As a result, they focus on a small number of items from the environment and pay attention to them to obtain their real meaning.

iii) Perception is the unique interpretation of reality. It yields a unique picture of the world, a picture that may be quite different from reality. Because of differences in learning, experience and intuition, perception can never be the same for all.

iv) Perception is the basis of human behaviour. People tend to believe in what they see and behave based on their perceived reality. Their actions, emotions and thoughts are significantly influenced by the way they perceive the events and objects in the environment. Differences in perception are a common phenomenon everywhere.

3.4. IMPORTANCE OF PERCEPTION

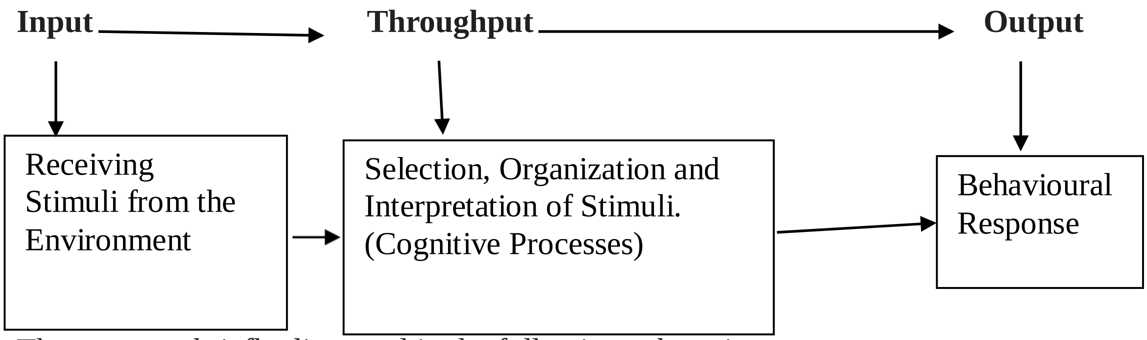
The importance of perception arises from the fact that it is the fundamental basis of human behaviour. A person will behave the way he perceives the reality. The ability to understand the difference between the perceived reality and the objective reality is an important skill for managers. Because the knowledge of this aspect of human behaviour will enable the managers to know why people do not behave the way they should. For example, managers are likely to assume that subordinates always want promotion, when, in fact, some of them may not like it. For those who do not desire it, promotion will cause a reduction in their productivity.

Moreover, in many cases, the conflict between the labour and the management can be traced to the differences in their perception. A clear understanding of the various aspects of the perception process can greatly help managers not only resolve the conflict but also secure greater cooperation from the employees.

3.5. PROCESS OF PERCEPTION

Perception is our window to the world. It is the process by which we come to know the world around us so that we may act upon it. Before we understand an item of information from the environment, it passes through several stages of our sensory and neural mechanisms. In other words, the process of perception consists of several steps. The steps are sometimes called sub processes. The complete perception process can be understood better with the help of a systems model that can be easily expressed as input, throughput and output models. The systems model emphasizes the fact that perception requires an input which is processed like throughput for getting an output. The various stimuli in the environment such as objects, events or people constitute the basic inputs for perception. The transformation of these inputs through the cognitive processes of selection, organisation and interpretation can be regarded as the throughput part of perception. The resultant opinions, feelings, attitudes, etc., which ultimately find expression in our behaviour, are regarded as the output of perception The actual process of perception and the resultant behavioural response, involves the following steps as shown in Figure 3.1 below.

Figure 3.1: Process of Perception.



The steps are briefly discussed in the following subsections.

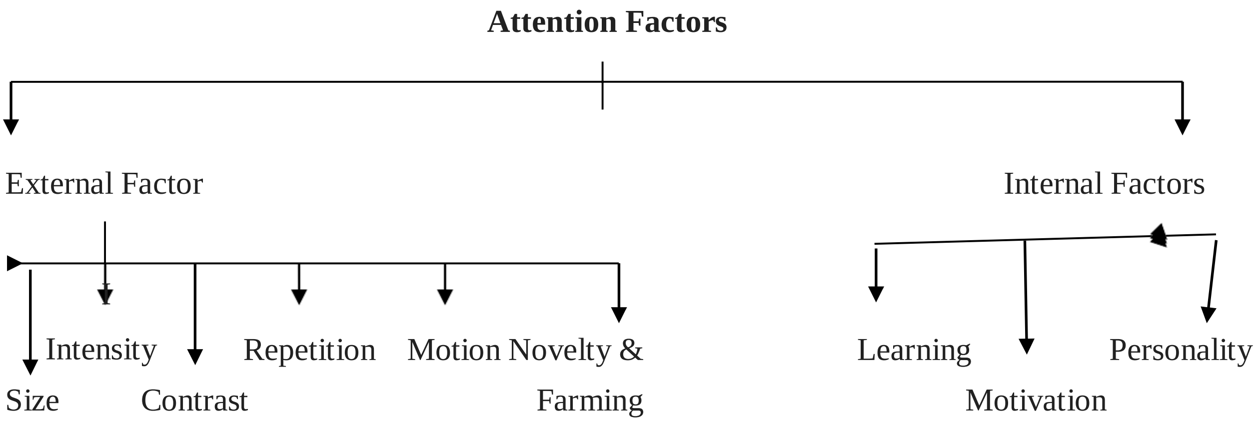
Receiving Stimuli from the Environment

The presence of stimuli in the environment and the fitness of the individual to receive them are the two basic preconditions for perception. The actual process of perception begins when an an individual receives a stimulus from the environment. The physical sensation of stimuli provides the basic raw material for the perceptual process. Since there is an infinite number of stimuli coming to us from different directions, it is not possible for anyone to take notice of each and every item of stimuli. Hence, in actual practice, we select a limited number of stimuli for attention.

Selection of Stimuli

As indicated before, people are daily bombarded by numerous stimuli. It is not possible for anyone to take note of each and every stimulus coming from the environment. There are physical limitations on our sense organs to receive and retain information (Northcraft and Neale, 1994:67). Moreover, all stimuli are neither important nor necessary for us. So, in reality, an individual selects only a limited number of stimuli for attention and ignores all others. It is important to know the factors that influence our selection of stimuli. In fact, there are several internal and external attention factors that affect perceptual selectivity (Luthans, 2002:188-91). All these factors tend to capture the attention of people for perception. They are shown in Figure 3.2

Figure 3.2: Factors Affecting Perceptual Selectivity



External Factors

External factors originate from the environment. They try to increase the attractiveness of the stimulus so as to capture the attention of people. These factors are also stated as the principles of perceptual selectivity. They are briefly explained below:

i) Size: Bigger objects attract more attention than smaller ones. People have a tendency to take notice of the larger objects and ignore those which are relatively smaller in size.

ii) Intensity: The intensity principle states that the more intense a stimulus is, the greater is the chance that it will be perceived. A loud noise, a strong perfume or a bright light will attract more attention than a soft sound, a mild perfume or a dim light. Advertisers use the principle of intensity to attract the attention of consumers.

iii) Contrast: According to the contrast principle, the external stimuli which stand out prominently against the background will get more attention.
iv) Repetition: This principle states that an external stimulus will get more attention if it is repeated again and again. Advertisers often use the technique of repetition to get the attention of consumers.
v) Motion: The motion principle states that people are likely to give more attention to the moving objects in their field of vision than they do to stationery objects. Advertisers also use this principle to make their ads more captivating.
vi) Novelty and familiarity: This principle underlines the fact that people give more attention to new objects in a familiar situation or familiar objects in a new place. Following this principle, companies use job rotation to increase the motivation of their employees. New tasks resulting from job rotation are expected to increase their attention and improve their performance.

Internal Factors

Internal factors are sometimes responsible for the selection of a particular stimulus for attention. These factors mainly consist of learning. motivation and personality. They are rooted in the psychology of an individual. People are most likely to select stimuli from the environment that appeal to their learning, motivation and personality. These factors are briefly explained below:
i) Learning: Learning plays the most important role in developing a perceptual set of minds. A lot of things that we like to see in the world is the result of our past experience and learning. We are likely to see things in a way we have been trained to.
ii) Motivation: Motivation has also an important influence on perceptual selectivity. People with strong primary needs like hunger, thirst, sleep or sex will select stimuli that can provide satisfaction to such needs. Similarly, people guided by secondary motives like power, affiliation or achievement will look for the stimuli relevant to the fulfilment of those motives.
iii) Personality: Personality also affects the choice of stimuli. People with a high degree of extraversion will prefer social interactions and involvement. Introverted personalities will just try to avoid such activities. In addition to personality and experience, age also influences perceptual selectivity.

Organisation of Stimuli

Once the selection process is over, the sensory data are organised by the cognitive process of an individual to make sense out of them. The organisation is basically a mental function though it follows certain established principles and rules. The basic purpose of perceptual organisation is to transform the sensory impression into complete meaningful information. The three most important principles in this regard are (1) figure-ground; (ii) grouping; and (iii) constancy.

i) Figure-Ground: Figure-ground is generally considered the most basic form of perceptual organisation. In this organisation, there is a tendency to keep the perceived objects in focus in order to separate them from their background. The objects are called figures and the background is simply known as the ground. More attention is paid to the figures than to the ground at the time of perception. For example, when a teacher writes something on a blackboard in the classroom, the letters and symbols are taken as figures while the blackboard acts as the background. The student easily concentrates on the figures without paying any attention to the ground. Generally, white figures against a black background and vice versa are conducive to better perception.

ii) Grouping: Another important principle of perceptual organisation is the grouping of stimuli. We see things as wholes, instead of bits and pieces, by creating our groupings. The grouping is done by simple rules of proximity, similarity, closure and continuity.

iii) Constancy: Constancy is another important principle of achieving perceptual organisation. It gives an individual a sense of stability in a changing world. The principle of constancy states that a person has a relatively permanent impression of the size, shape, colour and brightness of an object. This impression provides him with cues to recognise the object with greater accuracy. With the help of the constancy principle, for example, a worker can identify the tool of the correct size for his work from a wide variety of tools in his store.

Interpretation of Stimuli

After the organisation of stimuli, the person seeks to interpret them with the help of his cognitive power of thinking, reasoning and problem-solving. The cognitive power lies in our brain and it affects every bit of our perceptual interpretation. The cognitive ability differs from person to person depending on their power of understanding people, things and situations. In our everyday life, we perceive people and things as good, bad, beautiful, ugly, etc. Naturally, these are all subjective judgments which allow scope for different interpretations.

Interpretation is the vital aspect of perception. It depends not only on the analytical power of a person but also on the external properties of stimuli situations under which properties take place and the mental state of the perceiver. Interpretation also calls for the knowledge of social perception. Social perception refers to the ways in which an individual perceives other individuals. The forms of social perception include attribution, stereotyping and halo effect. Thus, interpretation is a complex process which is affected by a lot of factors.

Behavioural Response

The final phase of the perceptual process consists of responding to what has been perceived. The behavioural reaction to the sensory impression is the output of the process of perception. The response may be covert or overt. The covert response may be in the form of change in attitudes, opinions, feelings and values which are rather difficult to observe and measure. The overt action, on the other hand, is visible and measurable. It is reflected in the observable behaviour of an individual.

3.6. LET US SUM UP

Perception is a complex cognitive process by which people come to know the Perception around them. It has a profound influence on our behaviour. In OB perception is defined as the process by which people select, organise and interpret their sensory impressions in order to give realistic meanings to the objects and events in the environment. Since perceptual processes are different for every individual, no two persons will perceive an object or event exactly the same way. Perception is, thus, a person's view of reality which may be different from the objective reality. As people believe in what they perceive, their behaviour is based on the perceived reality, and not on the objective reality. The definition of perception itself is sufficiently indicative of its characteristics.

The process of perception consists of several steps. In the first-place stimuli from the environment are received through five senses vision, hearing, smelling, tasting and touching. Secondly, an individual, confronted as he is with numerous stimuli, selects a small number of objects and events for attention. The selection of stimuli is affected by several external and internal factors that managers should know well. The external factors come from the external environment. They include six factors such as size, intensity, contrast, repetition, motion, novelty and familiarity. Internal factors, on the other hand, are located inside the individual. They include three factors such as learning, motivation and personality. All these factors tend to capture the attention of the people for perception. In the third step, sensory impressions are organised for perception using the principles of figure-ground, grouping and constancy. In the fourth step, sensory inputs, after organisation, are interpreted with the cognitive power of thinking, reasoning and decision-making. The interpretation process is influenced by attribution, stereotyping and the halo effect. Finally, comes the behavioural reaction which is considered as the output of perception. Thus, much of the explanation of our behaviour can be traced to our perception.

3.7. SELF-ASSESSMENT TEST

1. "Perception is a very complex cognitive process that yields a unique picture of the world, a picture that may be quite different from reality". Explain the statement.
2. Elucidate the characteristics of perception and indicate its importance.
3. Describe the process of perception.
4. What do you mean by cognitive process? Why is perception called a cognitive process?
5. Why do people differ in their perception?

3.8. KEY WORDS

- **Perception** : Perception is defined as the complex cognitive process by which individuals select.organise and interpret their sensory impressions in order to give their own meanings to the objects and events in the environment.
- **Sensation** : Sensation is the process of detecting physical stimuli.
- **Social perception** : Social perception refers to the ways in which an individual perceives other individuals.
- **Attribution** : Attribution is the process of interpreting and inferring the causes of events and behaviours.

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MBA

Management Studies

(SEMESTER – I)

MBA 1405

FUNDAMENTALS OF MARKETING MANAGEMENT

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FUNDAMENTALS OF MARKETING MANAGEMENT

(MBA 1405)

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MBA 1405

Fundamentals of Marketing Management (FMM)

Unit-1: Marketing

Understanding Marketing and Marketing Process: Marketing Concepts, Nature and Scope of Marketing, Marketing Mix, Marketing Environment, Strategic Planning and Marketing Process,

Unit – 2: Types of Marketing

Organizing and Implementing Marketing in the Organization. Issues in Marketing: Global Marketing, Direct Marketing, Marketing on the Web, Green Marketing.

Unit – 3: Marketing Information Systems

Developing Marketing Opportunities and Strategies: Marketing Information Systems and Marketing Research, Consumer Markets and Consumer Behaviour.

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UNIT – 1

MARKETING

UNIT – 1 : MARKETING

STRUCTURE

1.0 : Objectives

- To gather a basic idea about marketing
- To trace out the nature and scope of marketing
- To understand the process of marketing
- To get an insight of the marketing mix
- To understand the essence of marketing environment

1.1 Introduction to Marketing

In simple words, marketing is the process of promoting, selling, advertising the products or services in the marketplace that are manufactured by the companies to create value for the customers & all the parties involved which in turn will lead to greater customer satisfaction. Bringing benefits for the society as large is one of the most important imperative of modern day marketing.

In 2012, Dr Philip Kotler defined marketing as “The science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilledneeds and desires. It defines, measures and quantifies the size of the identified market and the profit potential" (Kotler, 2012).

1.2 Nature of Marketing

The nature of marketing is changing with the changing scenarios of the market. Years before, when there were only few products that were offered by the marketers and consumers demands were also negligible, marketers used aggressive selling tactics to churn out more profits. But now times have changed and marketers need to pay attention minutely to the changing needs of the consumersand the market as a whole.

- *Marketing is a Human activity* – It is because it requires people to solve people's problems. Marketers are always on their toes to satisfy the consumers with better quality products &services.
- *Marketing is consumer oriented* – The prime focus of marketing is to satisfy the needs and wants of the consumers. Consumer is the king of the market and the marketers are havinga strong belief on this. Providing better quality goods and services, providing after sales services, resolving the doubts of the consumers, retaining the customers for an indefinite period time are some of the consumer-oriented actions performed by marketers.
- *Art as well as science* – Marketing is an art as well as science because it requires creativityand artistic conscience to satisfy the customers and be in touch with the ever changing

  trends of the market. It is science because there are many scientific approaches and techniques that are adopted by the marketers. For example: For carrying out marketing research, a market researcher needs to equip himself with various methods, processes & procedures to become successful.
- *Exchange process* – Marketing is also an exchange process where goods or services are exchanged with money. There are transactions between the buyer and the seller. Exchange can be anything: exchange of ideas, exchange of technology, exchange of information etc.
- *Goal oriented* – Marketing is always goal oriented. The prime objective and aim of a marketer is to satisfy human needs and wants by generating profits.
- *Creation of utilities* – Marketing creates utilities. Obviously the products & services that are being offered by the marketers to the customers has addition of value and when the products and services will be used by the customers they can derive utility out of it.

DO YOU KNOW?

The IPhone is the best-selling product ever, in a close second place is the Harry Potter series, followed shocking by the humble rubix cube.
(Source: https://www.joerussori.com/30-wtf-facts-business-marketing-random-stuff/)

1.3. Scope of Marketing

The scope of marketing is vast and forever changing. The scope of marketing are as follows:

- *Products & Services* – Marketing has the scope of manufacturing new products & services that are unique so that it fulfils the needs and wants of the customers. In the present days, there are loads of products that are available in the market that offers value to the customers.
- *Marketing research* – Another scope of marketing is marketing research. Marketing opensup the door for marketing research. Through marketing research, the whole market can becomprehended and thus actions can be taken based on it.
- *Distribution channel* – Distribution channel is another scope of marketing. Middlemen are involved in taking the products from the point of production to the point of consumption. Whether it will be a direct channel or indirect channel, it depends upon the discretion of the manufacturer. Nowadays, because of internet, products are being sold online through many shopping apps such as Flipkart, Amazon and many more.
- *Online presence* – There is scope for marketers to make their presence online and all overthe web. In order to face the tenacity and dynamism of the market place, a marketer needsto leave their footprint all over – offline & online both.

MCQ PRACTICE 1:

Which one of the following is one of the characteristics of marketing?

a. Marketing is producer oriented
b. Marketing is not an exchange process
c. Marketing is both science as well as art
d. Marketing do not create utilities

1.4. Marketing Process

Generally, marketing process consists of five steps:

1. *Understanding the market & customer needs & wants* – The process starts with identifying & understanding about the whole market and what are the desires, preferences, needs & wants of the customers. It is dynamic in nature therefore close monitoring should be done at regular intervals to understand the changing market scenario.
2. *Designing a customer driven marketing strategy* – Customers are the king of the market. Therefore all the marketing strategies & policies should be formulated keeping in mind the needs and wants of the consumers/customers. For example – If in 2022, a company tries to manufacture & sell only keypad mobiles then they will meet with catastrophic failure as times have changed.
3. *Constructing an integrated marketing plan* – An integrated & holistically designed marketing plan should be formulated & designed so that it gives superior value. Integration of promotional activities, integration of distribution channels & integration of all the marketing activities will bring value addition to the company.
4. *Build profitable relationships* – Building profitable relationships with all the clients involved. It should be strengthening and convivial relationship that should be forever going. Retaining the customers, maintaining good profitable relationship with the distributors, disseminating information & maintaining transparency with the activists group & Government.
5. *Capturing value from customers* – Whatever the company is delivering to its customers, there should be value addition. If the customer gets satisfied then we can say that the company's products/services are value induces. In the other way round satisfied customers are adding value to the company and are becoming assets for the company. Therefore, it is always an imperative to capture value from the customers by providing them quality products & services.

DO YOU KNOW?

Bentley, Bugatti, Lamborghini, Audi, Ducati, and Porsche are all owned by The Volkswagen Group. *(Source: https://www.joerussori.com/30-wtf-facts-business-marketing-random-stuff/)*

1.5. Marketing Mix

Marketing mix refers to the sum total of tactics, strategies, processes & procedures that a company adopts in order to promote and sell its products in the marketplace. In simple words, marketing mix can be considered as the 4Ps developed by Jerome McCarthy.

The 4Ps are:

Product – Product is the first of the 4Ps. Products are produced the companies that arediffused in the market for sale. Sale of these products will generate revenue for the company. Therefore, proper products must be manufactured in order to ensure customer satisfaction. For example: A smartphone can be a product.

Price – Price is considered to be second P. Price is only P out of the 4Ps which brings revenue for the company. Otherwise, all the other Ps only leads to expenditure. Price is theelement for which the customers will be paying for. For example: The price of a smartphone is 20000/-.

Place – Place can be considered as where the products are being sold in the market place. It can be a shop, a mall, a hypermarket or even a supermarket. Nowadays products are being sold over the internet. For example: One Plus 9T is a well-known smartphone which are sold online & physical shops.

Promotion – Promotion is the last of marketing mix. Promotion means promoting the products or services in the marketplace by the help of different means. In order to make the product aware among the people, strong promotion is required. For example: Advertising on newspapers, televisions & online platforms of One Plus 9 smartphones.

MCQ PRACTICE 2:

4Ps of marketing, which is known as "Marketing Mix" has been opined by:

a. Philip Kotler
b. Jerome McCarthy
c. Sigmund Freud
d. David Aaker

1.6. Marketing Concepts

Marketing is dynamic because the market is also dynamic & forever changing in nature. The market that was evident 50 years back have now completely changed its course. Needs, desires, preferences of the people are also changing day by day and as a result the market is also changing aligning with the changing preferences of the people. Companies have become more customer-oriented and they are closely paying heed to the changing needs of the market.

a) *Production concept* – This concept focused upon producing more goods at cheaper price. Economies of scale has a high degree of importance here. Customer's desires and wants are not paid attention here. For example, producing more shirts in order to minimize the cost. But the quality of the shirts may get compromised.
b) *Product concept* – Product concept focused upon producing better quality products at a cheaper price. Needs and wants of the customers are taken care of and paid attention to butnot to a great extent. There was still much to improve. For example –Paying attention to the quality and comfort of the cotton & fabric which is used in order to manufacture the shirts.
c) *Selling concept* – This concept focused upon promotion & advertisements. People became conscious & they started paying heed to flamboyant advertisements & promotion. Aggressive selling was a part of selling concept. The focus was still on the seller's needs.For example – Heavy advertisements to promote the shirts.
d) *Marketing concept*–This concept focused upon satisfying the needs and wants ogf the customers. Products were manufactured according to the preferences of the customers. Quality became a focal point of marketing concept. For example: Manufacturing better quality shirts at cheaper cost.
e) *Societal Marketing concept* – Societal marketing concept is based on the well-being of thesociety. Whatever products are being manufactured by the companies, it should bring favorable propositions to the society as a whole. It should not harm the society. For example: Customers have become more intellectual and they won't accept any products orservices that cause harm to the society. Packaging the smartphones in such a manner that the packaging materials are not harmful to the environment & society.
f) *Holistic Marketing concept* – Holistic marketing concept means that there should be a holistic approach. Companies should adopt marketing strategies that brings holistic impact. It should satisfy the customers, it should create convivial relationships with the customers, and it should bring well-being of the society. Everything under one umbrella. Nowadays, companies are focusing on holistic marketing concept to bring out more efficiencies.

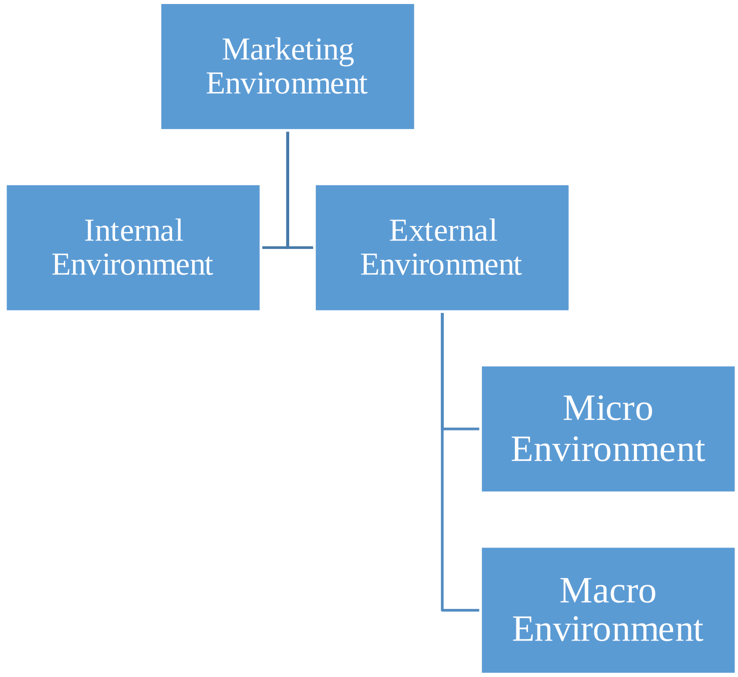
MCQ PRACTICE 3:

This is not a Marketing concept:

a. Production concept
b. Selling concept
c. Supplier concept
d. Product concept

1.7. Marketing Environment

Marketing environment incorporates all the internal & external factors that affects a business organization and also influences the organization on how it will operate and conduct business in the market. Therefore, a business entity should always have to comprehend and analyze different internal & external factors so that it can operate smoothly in this ever-changing market dynamics. Analyzing the internal & external environment helps a company to be in close touch with the changing market.



Internal Environment

Internal environment comprises of those elements which are intrinsic to the organization. The organization can control them without any hindrances. Such as the employees working in the organization, resources, and many more.

External Environment

External environment comprises of those elements which are extrinsic to the organization. The organization cannot control them and they pose a threat to the organization if not comprehended properly. It is divided into two parts:

Micro Environment

Micro environment consists of those elements which are having direct impact or influence on theorganization. It is also known as task environment. It comprises of suppliers, public, market intermediaries, customers etc.

Macro Environment

Macro Environment consists of those elements which are having no direct impact on the organization. It can also be termed as the Broad environment. Some of the Macro Environment elements are:

a. *Demographic Environment* –Demographic environment comprises of all the people who are the constituents of the market. Therefore analysis of the market according to the income, religion, race, gender & occupation should be done.
b. *Economic environment* – This environment is very much volatile in nature. Changes are taking place every now and then. Therefore, having a close look at the economic environment is an absolute necessity. GDP, GNP, Inflation, Deflation etc. should be monitored at regular intervals.
c. *Physical environment* – Physical environment consists of all the physical elements in an environment and at any time, any kind of problematic situation may arise from these physical elements such as natural calamities & disaster, climatic conditions, environmentalpollution etc.
d. *Technological environment* – Technology is getting better and better day by day. Any change in technology should be comprehended by the companies in order to be in the trend. Any companies that fail to equip themselves with the modern technologies will be doomed.
e. *Political-Legal environment* – New rules and regulations passed by the Government, any new legal laws brought by the legal bodies &Government should be taken into due consideration. There are many activist groups those who are always glaring on the operations of the companies. Therefore, companies must know the limits of their operations.

f. *Socio-cultural environment* – Socio-cultural environment comprises of lifestyle, values, and beliefs of the people. Different people are having different socio-cultural beliefs, lifestyle patterns.

MCQ PRACTICE 4:

Tobacco advertising is now banned in virtually all marketing communication forms in manycountries around the world. This can be explained as an influence of:

a. Political environment
b. Legal environment
c. Technical environment
d. Socio-cultural environment

1.8 Let us sum up

Exchange and transaction are the two major activities of marketing. Demand and supply are the two economic forces that centre around marketing. Organizations or marketers and customers are major players to involve in it, Marketing aims at creating value and satisfaction of customer. The evolution of marketing has found its origin in the emergence of production era that practised production concept on the eve of industrial revolution. Gradually sales era and later on marketing era evolved. These two eras were the practitioners of selling concept and marketing concept Selling concept believed in aggressive promotion and persuasion to entice target customers to buy the products. Marketing concept stands on understanding the needs and wants of customers and fulfilling it with the right offer that can satisfy customers.

Marketing as a managerial function has got its relevance with the acceptance of marketing orientation in the business firms. Marketing management follows some basic steps such as analyzing marketing opportunities, researching and selecting target market, designing marketing strategies, planning marketing programs and organizing, implementing and controlling the marketing effort. Marketing mix is a vital force in an organization in contributing to marketing decisions and yielding results.

1.9 Exercises

1. Define marketing. Explain the characteristics of marketing.
2. State the scope of marketing.
3. Elucidate the process of marketing.
4. What is marketing mix? Explain 4Ps of marketing mix.
5. Explain the concepts of marketing with appropriate examples.
6. Define marketing environment. Elucidate with proper examples the components of marketing environment.

MCQ PRACTICE ANSWERS:

MCQ PRACTICE 1: (c) Marketing is both science as well as art
MCQ PRACTICE 2: (b) Jerome McCarthy
MCQ PRACTICE 3: (c) Supplier concept
MCQ PRACTICE 4: (b) Legal environment

1.10. Key Words

Marketing : Marketing embraces all activities undertaken by business firms to direct and facilitate the flow of goods and services from producers to buyers.
Marketing Management : Marketing management relates to analyzing marketing opportunities, researching and selecting targets markets, designing marketing strategies , planning marketing programs and organizing implementing and controlling the marketing effort.

Marketing Mix : Marketing mix is the set of marketing tools that the firm needs to execute marketing strategies. Marketing mix planning involves taking decisions on product , price or distribution and promotion.

1.11. Suggested Readings

a) Balchandran's (1999). Customer - Driven Services Management, Response Books, New Delhi.
b) Banerjee, M (1981). Essential of Marketing Management, Kalyani Publishers, Calcutta.

c) Kotler, P. (2003). Marketing Management 11th Ed. Pearson Education, Singapore.

d) Dalrymple, D. J. and J. L. Pearson (1990) Marketing Management: Strategy and Cases, 5th Ed. John Wiley and Sons., New York.

e) Ramaswany, S. V. and S. Nama Kumari (1990). Marketing Management: Planning, Implementation and Control, MacMillan, Business Book, Delhi.

UNIT – 2

TYPES OF MARKETING

UNIT – 2 : TYPES OF MARKETING

STRUCTURE

2.0. Objectives

The objectives of this unit are to understand the issues and perspectives of the following types of marketing:

- Concept of direct marketing
- Types and benefits of direct marketing
- Concept of green marketing
- Web marketing and its benefits
- Global marketing and its stages
- International market entry strategies
- Issues in marketing

2.1. Introduction

In this unit you are going to learn about the various types of marketing, like direct marketing, green marketing, web marketing and global marketing. In direct marketing, the company directly sells the idea , product and service to the clients. The acceptance of the concept of corporate environmentalism has compelled a number of business firms to practice green marketing programs to carry out their marketing activities. Profit should not be the only business objectives of a business firm. It should be corroborated by well – being of the society as a whole. Again , a business firm can hardly afford to think of its marketing activities in terms of its domestic market . in order to survive and prosper in the face of global competition, business firms should look to the entire world as their market. Thus total global marketing assumes a significant role in the business world**.**

2.2. Direct Marketing

Direct marketing is a type of marketing where the company directly sells the idea, product and service to the clients/customers/consumers. Direct marketing forms the basis of modern day marketing. Email marketing comes under the ambit of direct marketing. Nowadays, it is quite evident that whenever we are browsing internet or opening our email, we are observing that there are different types of promotions of variety of products & services. It is an example of direct marketing.

2.3. Types and Benefits of Direct Marketing

Types of Direct Marketing:

a. ***Direct Mail*** – When any company promotes its products or services by sending mail to individual's email, it is known as direct mail. Flipkart, Amazon, OYO, Redbus etc. are some of the companies that regularly sends direct mail to people to make them aware of certain new offerings and disseminating information to them.
b. ***Catalogues*** – Catalogues are the set of entire products that are sold by the company. A catalogue can be in a printed form or it can be available in CDs or videos. Nowadays

catalogues are available online also. People those who want to buy or purchase items can go through these catalogues that consists all the details about the product.

c. ***Broadcast Media*** – Broadcast media consists of TV & Radio. Advertisements are directly aired on television & radio where people get to know about different product launches & offers. TV & Radio helps to gain viewers' attention at a very faster rate.
d. ***Print Media*** **–** Print media consists of newspapers & magazines. Individuals go through these printed forms of media and gains knowledge about different information, products, ideas, offers, services etc. Although, print media is considered to be the traditional form of Direct Marketing, it is still an effective medium.
e. ***Electronic selling*** – Flipkart, Amazon, Snapdeal, Myntra are some of the online shopping apps through which people can shop and purchase products by sitting at their home and the product will be delivered at their doorsteps. It convenient & highly time consuming as the person not have to move out of his/house and go to the market to purchase the products.
f. ***Direct selling*** – Direct selling implies selling the products directly to the customers by reaching them at their homes. There are many companies that are engaged in Multilevel marketing (MLM) such as Amway, Modicare, Oriflame etc. Take the example of Eureka Forbes. They reach the prospective customers at their home and indulges in demonstration and presentation of the products in front of the prospective customers.

Advantages of Direct Marketing:

- It can reach upto a wide number of people.
- It reduces wastage. Hence, there is optimum utilization of resources.
- It builds up customer loyalty.
- It helps to eliminate the middlemen.
- It helps to bolster personal relationship between the buyer and the seller.

MCQ PRACTICE 1:

Which one of the following is not a type of Direct Marketing?

a. Catalogues
b. Direct Mail
c. Print Media
d. Exchange offers

2.4. Green Marketing

Green implies “Nature”. Preserving the nature is our responsibility. Green Marketing means marketing of those products which are environmentally safe, non-hazardous, has a sustainable side to it & bio-degradable in nature. In today’s times people want those products that are environmentally safe. People have become conscious & intellectual. They won’t purchase any products that cause harm to them or to the society as a whole. For example –BS-VI engine used in bikes causes very less pollution than the BS-IV engine bikes & Starbucks uses green packaging, disposable cups and plastic elimination procedures to promote green marketing.

Importance of Green Marketing:

- It causes less pollution.
- It promotes sustainable development.
- Green marketing propels greater customer satisfaction as the products used by the customers are safe and non-hazardous.
- Green marketing also pays attention to the society. For example – Banning the use of plastics in order to make the society a better place to live in.

DO YOU KNOW?

64% of global consumers will choose, switch, avoid, or boycott a brand based on where it stands on the political or social issues they care about.

(Source: https://www.globalgiving.org/learn/listicle/cause-marketing-facts-that-will-surprise-you/)

MCQ PRACTICE 2:

Which one of the following can be considered as Green Marketing?

a. Use of fossil fuels in industries.
b. Smoke exhibiting cars.
c. E-bikes that runs on battery.
d. Use of mercury in thermometers.

2.5. Definition and benefits of web marketing

Marketing on the web signifies selling & buying of products or even promoting them through the use of internet. Internet marketing, also known as online marketing, digital marketing, or website marketing is a form of marketing that uses the Internet to promote a brand, product, or service via social media, search, email, and other digital channels.

Benefits of Web marketing:

a) ***Cost effective*** – Web marketing is highly cost effective as one doesn't need to go outside and sell or promote their products. Distribution channel is also negligible.
b) ***Builds up relationships*** – Web marketing helps us to build relationships in a short span of time. It develops convivial and long term relationships with clients and customers. Retaining the customers for an indefinite period of time is an imperative of web marketing.
c) ***Easy to adapt*** – Web marketing is easy to adapt & edit as there are provisions for editing. The things which are not possible manually are easier through web & virtually.
d) ***Measurable*** – Web marketing is measurable. There are several metrics that can determine how the company is operating, whether they are making profits or facing losses. Technology has made the lives of the marketer lot easier.
e) ***Online branding*** – Marketing on the wen helps to create brand image online. There are many companies those who are operating in online mode & are creating hefty brand image for themselves. For example: Flipkart, Amazon, Snapdeal all have created their brand image in the minds of everyone.

DO YOU KNOW?

Studies have shown that at least 73% of consumers ignore pop-up ads. They always find these ads annoying and disruptive as they try to focus on other things. Businesses that have realized this fact are no longer using pop-ups to boost engagement. *(Source - 35 Powerful Digital Marketing Facts in 2020 by Charlie Svensson.)*

2.6. Global Marketing

Global marketing is the process of crossing the national frontiers & taking all the marketing activities & promotion to another nation. The products that are produced in one country is taken to another country by crossing the national frontiers. Setting up manufacturing plants, opening new subsidiaries & franchises are some of the methods of making one's presence felt in another country. After Globalization, companies are making their presence in numerous countries by venturing into different countries. Starbucks, KFC, McDonalds any many more are some of the renowned companies that are operating in India seamlessly.

2.7. Stages of Global Marketing

***Step 1*:** Companies focuses solely on the domestic markets. All the marketing activities are focused to satisfy the domestic needs. For example: A soft drink manufacturing company basedin Orissa will market its products only in Orissa and some parts of West Bengal & Bihar. They face problems in the future because of myopic characteristics.

***Step 2*:** The focus is on the domestic market but they creates an export division. It is Ethnocentric in nature. They have the vision to do something in the near future to make their presence felt in the abroad countries.

***Stage 3*:** The companies realize the need for making them adapted for the overseas marketing conditions. It is Polycentric in nature. Therefore, adaptation plays an integral role in this stage. Global companies must adapt themselves to the changing needs of the market. "GO GLOBAL" is the talk of the town in the year 2022.

***Stage 4*:** These companies fully ventures into global foreign lands and starts operating there. They try to gain economies of scale and they realize that the world itself is a market. They try to make their presence in several countries all over the world.

2.8. Entry Strategies in International markets:

a) **Exporting** – Exporting is one of the simplest and common forms of international strategies to enter into the foreign markets. Definition of "Export" Under SEZ Act, 2005: "Export" means – taking goods, or providing services, out of India, from a Special Economic Zone, by land, sea or air or by any other mode, whether physical or otherwise.

b) **Licensing** – Licensing is another entry strategy that could be followed by organizations. Licensing means that the property owner allows the licensee to use the intellectual property rights of the owner and conduct business. For example: A cake manufacturing company, XYZ, allows a licensee to use its intellectual property rights and operate & conduct business in the licensee's own country.

c) **Franchising** – Franchising refers to an arrangement between franchisor and franchisee where the latter will enjoy the right of a business on behalf of the franchiser instead of a fee where the franchisor closely controls the processes. Therefore, it is generally seen thatlicensing is for products and goods. In contrast, the franchising model is used more in theservice-providing industry.

d) **Piggybacking** – Piggybacking implies a small company who is not having its presence abroad can take the help of a renowned big company to make their presence in some overseas country. The small company rides on the back of the big company and the big company acts as a carrier to take the small company to another country.

e) **Management contracts** – Under management contract, the operational control and management is transferred from one firm to another. It can be considered as a form of service outsourcing. It has to be kept in mind that management contracts are different from management consultancies.

f) **Joint ventures** – Joint ventures are another form of entry strategy that can be followed bythe companies. Here two companies join hands together & starts a third new company bypooling together resources, technology, finances etc. For example: Maruti & Suzuki bothjoined hands to start Maruti Suzuki.

g) **Outsourcing** – Outsourcing means hiring a different company to handle a particular operation. For example: A company XYZ has a particular department which it cannot control properly. Therefore, company XYZ will hire another company to look after the department.

h) **Greenfield investment** – In this, a company opens a new subsidiary in other countries andstarts operating by constructing new facilities. They build up new production plants and starts everything from the scratch to set up a new facility.

i) **Brownfield investment** – In this, a company purchases another company or leases an existing facility. Therefore, under brownfield investment, a company does not have to build up new facilities from the scratch.

DO YOU KNOW?

Companies with a clearly defined sense of purpose are up to 50% more likely to successfully expand into a new market.

(Source: https://www.globalgiving.org/learn/listicle/cause-marketing-facts-that-will-surprise-you/)

MCQ PRACTICE 3:

It is a form of entry strategies, under which a company builds up new production plants and facilities:

a. Greenfield investment.
b. Brownfield investment
c. Joint ventures
d. Barter system

2.9. Issues in Marketing

a. ***Unable to find the market segment*** – It is one of the major issues in marketing. Not identifying the market segment is one of the major problem in market that can give rise to improper products, flawed promotional tactics, poor strategies, dissatisfaction of the customers & many more.
b. ***Unable to make a mark in the minds of the customers*** – A company must be able to strike a chord in the minds of the customers. The company must be able to make their presence in the market. Without proper presence, companies cannot prosper and grow properly in today's times.
c. ***Having digital presence*** – Several companies are making their presence all over the internet. Still, there are some companies those who have failed to make their mark over the internet. It is an impetus in these modern times to have footprints all over the internet because customers have become more internet-stricken.
d. ***Unable to use resources properly*** – Several companies have failed to use their resources properly. Although they might be having efficient resources but still they are unable to use the resources in an effective & efficient manner. Sometimes overuse of resources can prove detrimental and sometimes underutilization of resources can prove to be fatal.
e. ***Retaining & training staffs*** – Staffs are those who can actually provide service to the customers. Therefore retaining & training quality staffs is an important imperative ofmarketing. Proving the staffs regular training programmes, so that they can be on parwith the changing nature of the market place.
f. ***Increased competition*** – Day be day, competition are also increasing and a company needto pay close attention to the moves of their competitors. Failing to do so, a company can face with tremendous losses in the future. For example: There was a time when there was only two big chains of multiplex theatres INOX & PVR. But now the number of multiplex chains are increasing such as Carnival, Bioscope, Miraj Cinemas, Arti

Cinemas, SVF etc.

2.10. Let Us Sum Up

Today the concept of green marketing has been accepted by the business firms globally as the need of the hour. Protection of environment through the introduction of the concept of green marketing has emerged as one of the essential precondi- tions for the global environmental sustainability and stability by the business firm. Effective use of the concept of green marketing will enable a firm to implement the modern concept of societal marketing, maintaining both the profit and well-being of the society a reality. Thus study of global market has become an essential component of marketing strategies of major business firms in the wake of liberalization, privatization and globalization era. The conventional 4P's of domestic marketing is applicable to the concept of global marketing. A firm can'take a number of global market entry strat- egy on the basis of its capacity and resources. In the face of global competition a large number of Indian business houses like the Tata Steel, Tata Motors, Mahindra, Reliance, Aditya Birla Group, The Essar Group of Ruias, The Zindals have gone global to increase their global market share successfully.

Key words

- **Global Marketing** : Global marketing is the process of crossing the national frontiers & taking all the marketing activities & promotion to another nation.
- **Green marketing :** Green marketing is the enforcement of the policy that the protection of greenaries of nature is an essential precondition for both environmental sustainability and stability of the firm.
- **Website marketing** : Website marketing is a form of marketing that uses the Internet to promote a brand, product, or servicevia social media, search, email, and other digital channels.

2.11. Exercises with Answers to MCQs

1. Define Direct Marketing. Explain the types of Direct Marketing.
2. Define Green Marketing. List out the advantages of Green Marketing.
3. What do you understand by Web Marketing? What are the benefits of Web Marketing?
4. What is Global Marketing? Elucidate with proper examples the entry strategies for companies related to international markets.
5. List out the various issues related to marketing.

MCQ PRACTICE ANSWERS:

MCQ PRACTICE 1: (d) Exchange offers

MCQ PRACTICE 2: (c) E-bikes that runs on battery

MCQ PRACTICE 3: (a) Greenfield investment

2.12. Suggested Readings

1. Kotler, Philip: Marketing Management Analysis, Planning, Implementation and Control: Prentice Hall of India, Sixth Edition, New Delhi.
2. Malllik, Pradip Kumar, A Text Book of Marketing Management; Allied Publishers Pvt. Ltd, New Delhi 2007.
3. Palmer, Adrian, Introduction To Marketing; Theory and Practice; Oxford Univer- sity Press, New Delhi, 2004.

UNIT – 3

MARKETING INFORMATION SYSTEM

Unit 3 : Marketing Information Systems (MKIS)

STRUCTURE

3.0. Objectives

- To gather a basic knowledge about the concept of marketing information system
- To understand the benefits and components of marketing information system
- To get an insight of the concept of marketing research and its benefits
- To trace out the process of marketing research

3.1. Introduction

Marketing Information System address the need for quicker, yet more accurate , decision making by the marketer. These tools put the marketers close to their customers to help them understand who their customers are, what they want , and what competitors are doing. It is important because of the growing complexity of marketing, changing economic parameters, changing competitive conditions and fast growing consumerism etc.

3.2. Concept of Marketing Information System

Marketing Information System can be defined as the set of procedures, frameworks and processes through which a company can gather, collect, analyze and evaluate information that is being collected from the market so that decisions can be taken about future and fine tuning marketing processes.

3.3. Benefits of Marketing Information Systems

Benefits of marketing information system:

- It provides timely information for better decision making.
- It helps the marketing managers and other people of the organization for the development of action plans to achieve the set goals.
- It provides greater level of marketing intelligence to the firm.
- It provides all the relevant data regarding the customers and market so that quick service can be provided to the customers.

3.4. Components of Marketing Information System

There are total four components in Marketing Information System (MKIS) which works in an integrated manner with one component connected with another component. The four components have been mentioned below:

a. Marketing Research
b. Internal Records
c. Marketing Data Support System
d. Marketing Intelligence

Marketing Research –

Companies carry out marketing research in order to gain an understanding of the current market and the expectations of the consumers. Marketing research is often carried out by third parties who are given contracts by the organizations. Marketing research helps an organization in the following ways:

i. Helps to know about the needs, desires and expectations of the consumers
ii. Helps to comprehend the moves of the competitors.
iii. Helps to launch a new product or tweak an existing product
iv. Helps to extract feedback of the consumers.

Internal Records

Internal records are the reports prepared by the managers of an organization that will be required by the top management in order to communicate the reports and the information exhibited in the reports with the employees. Internal records can be one or even more than one of the following mentioned below:

i. *Cash Flows*
ii. *Data of sales*
iii. *Costs of products*
iv. *Expenditures*
v. *Advertisement costs*
vi. *Costs of employees etc.*

Marketing Data Support System

Marketing data support system is a software or a combination of softwares that helps an organization to analyze data and take necessary actions thereafter. The software consists of several statistical data analysis tools in order to carry out data analysis. Marketing data support system helps to streamline MKIS.

Marketing Intelligence

Marketing intelligence provides information based on current trends and vogues and also on current market conditions. It includes gathering information from external resources such as consultancies, trade unions and research firms which can be used for the purpose of taking decisions based on the information.

DO YOU KNOW?

33% of consumers are making the choice to buy from brands doing social or environmental good.

(Source: https://www.globalgiving.org/learn/listicle/cause-marketing-facts-that-will-surprise-you/)

MCQ PRACTICE 1:

How many components are there in MKIS (Marketing Information System)?

a. Three
b. Two
c. Five
d. Four

3.5. Concept and Benefits of Marketing Research

Marketing research

Marketing research is the process of analyzing the whole market in order to gather & collect information about the market to know about the trends, patterns & customer demands. Marketing research is carried out in order build up proper strategies. The term 'marketing research' has been defined by many prominent scholars as under: Philip Kotler: “Marketing Research is the systematic problem analysis, model building and fact finding for the purpose of improved decision making and control in the marketing of goods and services.”

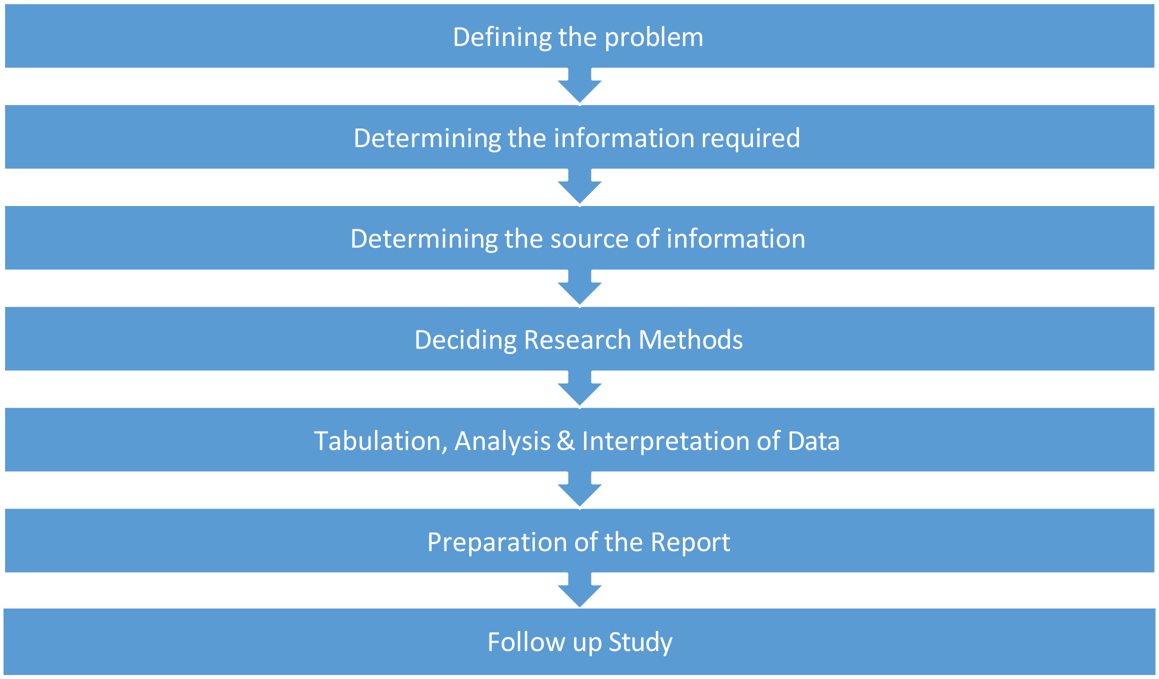
Benefits of Marketing Research:

- It helps to understand the patterns of the market & also helps to refine the strategies according to the changing scenarios of the market and customers.
- Marketing research is forward looking in nature. It helps to forecast the future aspects and structure the policies and take steps according to it.
- It helps to minimize the risks of uncertainties.
- It helps to determine and analyze competitor’s moves, policies and strategies of competitors.
- Marketing research helps the decision makers to take decisions based on the information collected from the market.

3.6. Process of marketing research

The marketing research process (Pillai, 2010, p. 128-129):

Marketing research process consists of seven steps, where one step follows the preceding steps. The seven steps have been mentioned below:



1) ***Defining the Problem*** – The first step in marketing research is to know about the problem and defining it in a concrete manner. The researcher should know that what is exactly required. He should be able to comprehend the problem correctly and move in the correct direction.
2) ***Determining the information required*** – The researcher should be able to determine the information which is to be required. Relevant information must be taken into consideration and irrelevant information must be filtered out. The objectives of the research must be trenchant in the minds of the researcher while determining the information required.
3) ***Determining the source of information*** – It is the third step of marketing research process. The researcher must determine the source of information i.e. from where the data is to be collected. It can a primary source or it can be a secondary source. Primary data implies freshly collected data which the researcher collects by toiling hard. Secondary data implies data which has already been collected by someone else. Secondary data cannot be considered as freshly collected data as it is already been collected by someone else.
4) ***Deciding Research Methods*** – If secondary data is insufficient then the researcher has to move on with the primary data i.e. the researcher's data. Experimentation, Observation, Survey are some of the methods.
5) ***Tabulation, Analysis & Interpretation of Data*** – The data which is collected and gathered has to be analyzed and interpreted. After that it should be put in a tabulated form for better understanding.

6) ***Preparation of Report*** **–** A report should consist of the following elements:

- Title of the research.
- The name of the organization.
- The objectives of the research.
- The methodology used.
- Organization & planning of the report.
- A table of contents, along with charts and diagrams followed in the report.
- The main report.
- Conclusions drawn and recommendations suggested.
- Appendices.

7) ***Follow up study*** – Follow up will ensure the implementation of recommendations made by the marketing researchers. Otherwise, the report may be left unopened.

DO YOU KNOW?

People are willing to pay 6% more for a product from a socially responsible company. *(Source: https://www.globalgiving.org/learn/listicle/cause-marketing-facts-that-will-surprise-you/)*

MCQ PRACTICE 2:

Which is the last step in marketing research process?

a. Defining the problem
b. Deciding the research methods
c. Preparation of report
d. Follow up study

3.7. Let us Sum Up

In this unit you have learned that a marketing information system is a system that collects , analyzes, and distributes marketing data to help businesses make decisions. It helps in understanding customers, developing new products, targeting markets, setting prices and monitoring trends. You have also learnt that market research is used to determine the viability of a new product or service.

3.8. Key Words

Marketing Information System : Marketing Information System can be defined as the set of procedures, frameworks and processes through which a company can gather, collect, analyze and evaluate information that is being collected from the market so that decisions can be taken about future and fine tuning marketing processes.

Marketing Research : Marketing research is the process of analyzing the whole market in order to gather & collect information about the market to know about the trends, patterns & customer demands. Marketing research is carried out in order build up proper strategies.

Marketing Data Support System : Marketing data support system is a software or a combination of softwares that helps an organization to analyze data and take necessary actions thereafter.

Marketing Intelligence : Marketing intelligence provides information based on current trends and vogues and also on current market conditions.

3.9. Exercises with Answers to MCQs

1. Define Marketing Research. Write three importance of Marketing Research.
2. What do you understand by Marketing Information System (MKIS)? What are the four components of MKIS? What are the advantages of MKIS?
3. Explain in details the process of Marketing Research.

MCQ PRACTICE ANSWERS:

- MCQ PRACTICE 1: **(d) Four**
- MCQ PRACTICE 2 **: (d) Follow up study**

3.10. . Suggested Readings

a. Banerjee, M (1981). Essential of Marketing Management, Kalyani Publishers, Calcutta.
b. Kotler, P. (2003). Marketing Management 11th Ed. Pearson Education, Singapore.
c. Dalrymple, D. J. and J. L. Pearson (1990) Marketing Management: Strategy and Cases, 5th Ed. John Wiley and Sons., New York

MBA

Management Studies

(SEMESTER – I)

MBA 1504
ACCOUNTING FOR MANAGERS

BLOCK – 1

The University of Burdwan
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MBA

(Management Studies)

(Semester – I)

MBA 1504

Accounting For Managers (AFM)

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ACCOUNTING FOR MANAGERS
(AFM)

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MBA 1504

Accounting for Managers (AFM)

A. Financial Accounting

Unit-1

Financial Accounting

Meaning of Financial Accounting- Functions, Objectives – Book keeping, Accounting and Accountancy, Need for Accounting- Development of Financial Accounting, Branches, Users- Identification of Events & Transactions, Double Entry System- Accounting Cycle- Journal: Meaning, Classification, Format, Debit – Credit Rules, Ledger, Trial Balance

Unit – 2

Conceptual Framework of Accounting

Objectives, Terminologies- Generally accepted Accounting Principles (GAPP)- Accounting Concepts, Conventions and Methods- Concept of Assets, Liabilities and Equity- Concept of Revenues and Cost

Unit – 3

Depreciation, Bad Debts and Inventory

Meaning of Depreciation, Causes and Nature, Concepts of Depreciation and its Methods- Accounting Treatments for Recording Depreciation – Illustrations- Bad Debts & Provision for doubtful debts – Provision for Discounts – Provision – Reserve, Distinction between Provision and Reserve – Methods and Meaning of valuation of inventory

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Management Studies

(SEMESTER – I)

MBA 1606

FUNDAMENTALS OF HUMAN RESOURCE MANAGEMENT

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MBA 1606

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Fundamentals of Human Resource Management

(FHRM)

BLOCK – 1

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MBA - 1606

BLOCK - 1

This block comprises of three units and aims to provide an introduction to the study of Fundamentals of Human Resource Management.

Unit 1:

Introduction to HRM: Concept, Importance, History of HRM—Trends Shaping HRM, Important Trends in HRM— Theories of HRM – Models of HRM – Hard and Soft HRM—Functions of HRM.

Unit 2:

Procurement: Human Resource Planning Objectives, Process, Job Analysis—Methods.

Unit 3:

Functions of Management; Kinds of Managers – Basic Managerial Skills and Roles, Changing Nature of Managerial Work.

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MBA

Management Studies

(SEMESTER – I)

MBA 1707

FUNDAMENTALS OF PRODUCTION & OPERATIONS MANAGEMENT

BLOCK - 1

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Centre for Distance and Online Education

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MBA

(Management Studies)

(Semester – I)

MBA 1707

Fundamentals of Production & Operation Management (FPOM)

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FUNDAMENTALS OF PRODUCTION AND OPERATIONS MANAGEMENT (FPOM)

BLOCK - 1

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MBA - 1707

Fundamentals of Production and Operations Management (FPOM)

Unit-1:

Introduction, Nature and Scope of Production and Operations Management; Types of Manufacturing systems; Operation Decisions.

Unit – 2:

Mass Production, Batch / Job Order Manufacturing. Facility Location problem. Layout Planning Analysis

Unit – 3:

Capacity Planning, Models; Process Planning

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MBA

Management Studies

(SEMESTER – I)

MBA 1101
MANAGEMENT PROCESS AND ORGANISATION THEORY

BLOCK - 1

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MBA
(Management Studies)
(Semester – I)

MBA 1101

Management Process and Organisation Theory

(MPOT)

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MANAGEMENT PROCESS

&

ORGANISATIONAL BEHAVIOUR

(MPOT)

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MBA - 1101

BLOCK - 1

This block comprises of three units and aims to provide an introduction to the study of Management Process and Organization Theory

Unit 1:

Introduction and Overview of Management

Understanding an Organization – Organizational Adaptation, Survival, and Growth – Nature, Purpose, and Importance of Management in Organizations – The Management Process –.– Management: Science or Art – Management as a Profession

Unit 2:

Evolution of Management Thought

Classical Management Approaches - Behavioural Management Approaches - Quantitative Management Approaches – Modern Management Approaches – Contemporary Management Issues and Challenges – Global Dimensions of Management.

Unit 3:

Functions of Management

Kinds of Managers – Basic Managerial Skills and Roles, Changing Nature of Managerial Work

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UNIT – 1

INTRODUCTION AND OVERVIEW

OF MANAGEMENT

UNIT 1: INTRODUCTION & OVERVIEW OF MANAGEMENT

STRUCTURE:

1.0 OBJECTIVES:

The objectives of this unit are to:

- introduce the concept of management;
- describe the important features of management;
- explain the difference between management and administration;
- examine whether management is an art or science or both; and
- examine whether management is a profession or not

1.1 INTRODUCTION

Management is one of the important activities that mankind has-ever developed through long experience of the realities of life. It has become the central activity of our age and a powerful force for better utilization of our productive resources and an effective tool for raising the standard of living of masses. Peter F. Drucker has rightly stated that the emergence of management as an essential, a distinct and leading social institution, is a pivotal event in social history. Hardly any new basic institution has emerged as fast as has management since 1960.Drucker further observes, "Rarely in human history has a new institution proven indispensable so quickly, and even less often has a new institution arrived with so little opposition, so little disturbance, so little controversy." Management will remain as an indispensable and dominant institution perhaps as long as human civilization survives.

Men have to perform different activities in order to satisfy their needs. But they find it much more difficult to perform individually all types of necessary activities. They gradually realized that their goals could be achieved in a better way through group efforts and they, accordingly, started forming groups. In the case of groups, management is essential to ensure that there is proper coordination of the individual efforts towards the goal accomplishment. In fact, management helps in the accomplishment of both individual and group goals. It is concerned with getting things done, making thing happens, and achieving results. At present management is applied in almost every sphere of our lives.

Organisations serve as the context for management. In other words, management hardly exists without organisations. An organisation is a collection of people working together in a structured and coordinated manner to achieve a goal or set of goals. Properly managed organisations have occupied the central position of modern society, economy, and community. It is the management that helps the organisations to produce results.

"Management, which is the organ of society specifically, charged with making resources productive that is with the responsibility for organized economic advance, therefore reflects the basic spirit of the modern age. It is in fact indispensable- and this explains why, once begotten, it grew so fast and with so little opposition." (Drucker, 1986). At present, we have been able to formulate a body of knowledge consisting of different concepts, approaches, and techniques of management. In this unit, we intend to talk about the management of organisations and the concepts and issues relevant to it.

1.1. DEFINITIONS

It is really very difficult to have a satisfactory definition of management encompassing all its characteristics. Moreover, the term is used for different meanings. This has made the task more difficult. The word management is generally used to mean all people who are entrusted with the management of organisations. It is also used to mean the process of management. The term management is often referred to as a body of knowledge. It is also used to mean the top management. Thus, the connotation of the term is very wide. In fact, management is too complex a concept to be captured by a simple definition. Nevertheless, attempts have consistently been going on for several decades to develop a generally accepted definition. At present, we have numerous definitions of management.

Management, in terms of its purpose and objectives, has been defined as the task of efficient and effective use of resources to achieve predetermined goals. However. since the late nineteenth century, it has been the usual practice to define management in terms of its basic functions. Accordingly, management is defined as the process of planning, organizing, leading, and controlling the efforts of the members of organisations to achieve the stated organisational goals. In fact, this definition focuses only on the functions of management ignoring all other aspects. However, there are many other definitions formulated by eminent management scholars and thinkers considering different aspects of management Some of the important definitions are cited below:

- One of the oldest and widely accepted definitions of management is the "art of getting things done through others." (Mary Parker Follett)
- Management is the art of getting things done through and with people in formally organized groups. (Harold Koontz)
- Management is the art and science of decision-making and leadership. (DJ Clough)
- Management is a social process entailing responsibility for the effective or efficient planning and regulation of the operations of an enterprise (EFL Brech)
- Management is the specific tool, the specific function, the specific instrument to make institutions capable of producing results. Management is an economic organ of an industrial society that manages a business, manages managers and manages worker and work (Peter F Drucker).
- Management is the process of optimizing human, material, and financial contributions for the achievement of organisational goals. (Pearce & Robinson Jr.)
- Management is the creation and maintenance of an internal environment in an enterprise where individuals, working in groups, can perform efficiently and effectively toward the attainment of group goals (Koontz & O'Donnell).
- Management is the process of coordinating work activities so that they are completed efficiently and effectively with and through people. (Robbins & Coulter)
- Management can be defined as a set of activities (including planning and decision making, organising, leading, and controlling) directed at an organisation's resources (human, financial, physical, and information), with the aim of achieving organisational goals in an efficient and effective manner. (Griffin)

- Management is the process of assembling and using sets of resources in a goal-directed manner to accomplish tasks in an organisational setting. (Hitt, Black & Porter)
- Management is a philosophy, a set of attitudes and beliefs about people, work, action, and organisation. (Pierce, Gardner, & Dunham)
- Management is the process of planning, organising, leading, and controlling the use of resources to accomplish performance goals. (Schermerhorn)

While many definitions exist, there seem to be two major approaches to the definitions of management sociological and process approaches. The sociological approach defines management according to the "social position that one holds within the organisation", and the process approach focuses on "activities performed within organisations".

The sociologists deal with groups of people. The organisational sociologists view two kinds of organisational members - managers and non-managers. Thus, management is defined from the sociological perspective as "that group of organisational members who occupy the social positions responsible for making sure that the organisation achieves its mission." According to the process perspective, management is considered as a process. Those adopting the process approach explore the roles, activities, and processes that organisational members engage in as they plan, organize, direct, and control their organisations. The process of management is treated as a major organisational force that shapes the attitudes, motivation, and behaviour of its organisational members (Pierce, Gardner & Dunham, 2002, pp-11-12). Management is also a social process that allocates, utilizes, and coordinates human and other resources that are procured from the environment.

Management is an activating force for getting things done through its people by providing dynamic leadership is by and large common to all definitions. It is also noted in some definitions, that management examines and evaluates the efficiency and effectiveness of goals accomplishment and methods and techniques applied for achieving the tasks which are compatible with the demands of the society within which it operates. It can be mentioned here that at present there is no universally accepted definition of management. In this context. Brech made an important observation. According to Brech, what the term management means, is not clear and not always agreed. However, the American Management Association has formulated a definition with the expectation that it would be universally accepted.

Management, according to that definition, guides human and physical resources into dynamic organisation units which attain their objectives to the satisfaction of those served and with a high degree of morale and sense of attainment on the part of those rendering services."

1.2. FEATURES OF MANAGEMENT

An analysis of different definitions of management proposed by eminent thinkers provides us a valuable insight into the important characteristics of management. Important features emerge from the examination of the definitions discussed earlier. are summarized below:

- Management involves activities that are carried out in an organisation by people with different functions internally structured and coordinated to achieve common purposes.
- Management is basically a group process. Accordingly, coordination is regarded as an essence of management. Coordination assumes a unique status under the system approach to management.
- Management is a process. A process is something that a person does. It also indicates ongoing and unceasing cyclical operations. Management is a continuous process and the process moves in a cyclical pattern. Management process elicits the dynamic nature of management. It consists of interrelated activities of planning, organising, leading, and controlling.
    - Planning is the process of setting an organisation's goals and deciding how to achieve them.
    - Organising involves determining how activities and resources are to be grouped.
    - Leading is a function that includes motivating employees, directing others, selecting the most effective communication channels, and resolving conflicts.
    - Controlling involves monitoring organisational progress toward goal attainment.
- Management is a goal-oriented concept. The activities of management are aimed toward the effective and efficient achievement of the organisational goals.
- Management involves the optimum utilization of various resources, financial, material, and information.
- Management is the task of achieving results with and through people. This implies that the main focus should be on people who in turn would use other resources to get results. Management is primarily concerned with man management.

- Management, according to Fred Luthans, has three major dimensions - technical, conceptual, and human. The technical dimension is related to the manager's functional expertise in engineering, marketing or accounting, and information technology.
- Management is universal since it is applicable across organisations of different sizes and types and across organisational levels.
- Management is an art as well as a science. It contains a systematic body of theoretical knowledge and refers to the practical application of such knowledge as well.
- Management is situational since there is no one best way of doing things.
- Management is multidisciplinary in nature as it derives its knowledge from several disciplines like psychology, sociology, socio-psychology, and anthropology. political science, economics, mathematics, etc.

1.3. IMPORTANCE OF MANAGEMENT

At present management covers a very wide and important area of human activity. It is indispensable for any group activity. The separation of ownership from management in large corporations and growing administrative complexities have enhanced the importance of management in recent times. The quality and performance of the managers determine the success of business enterprises, or we can say that they largely determine its survival. Organisations have been defined as social organs that have been created to achieve an objective or a set of objectives. Every organisation has a set of technical tasks that must be performed to convert its mission into reality. It is through management that specific goals are set, plans of action are formulated, the necessary work systems to carry out plans are organized, people are encouraged and behaviour is regulated (Pierce, Gardner, & Dunham, 2002, pp-17).

"Management is decision-making." Decision-making is important in all functional areas of management. In fact, all managerial functions are discharged through decision-making. Managers by profession are decision-makers. The success of an organisation is largely depending on prompt and correct decision-making. Management is viewed as a multi-purpose organ of an organisation that manages the work and the people. It is a creative and innovative force that thrives to secure maximum results using the available resources. Management provides new ideas and visions to the work groups and integrates them in such a way that maximum results are achieved. Management creates a vital life-giving force in organisations. It directs and controls organisations just as the mind directs and controls our body.

According to Peter F. Drucker, the task of management is to "make people capable of joint performance by giving them common goals and values, the right environment within which to operate, and the ongoing training so that they can perform and respond to change. It is the managers who achieve this very important work by attending to the needs of social systems the need for plans, organisation, direction, and control." In fact, management is that vitalizing factor that energises, directs, and controls the activities of an organisation.

Management is an economic resource by itself. Good management is the only economic resource that decides the utilization of all other resources. Management skills can rationally utilize capital and economize the use of raw materials, money, and machines. Thus, it stimulates economic activities and accelerates economic growth. In the absence of management, the resources remain resources and never become production. Management directly helps enterprises to perform effectively. It has contributed to the growth of trade and commerce. In fact, management has facilitated the formation of the global economy.

Management enables a country to reach a substantial level of economic development by helping better utilization of available resources. A country with enough resources can still be poor if it does not have competent managers to make effective use of its resources. Poor economic growth of many Asian and American countries is related to the shortage of efficient managers. "Management", according to Drucker, "is the crucial factor in economic and social development." He has further observed that management produces economic and social development with its savings and capital investment. Drucker, therefore has rightly stated, that the developing countries are not underdeveloped but are under-managed. Management, at present, is regarded as an indispensable resource for economic development and social change of a country. Moreover, management affects and is affected by macro and micro elements of the environment. Therefore, management techniques and practices have to be adopted to match the organisational environment to attain maximum efficiency.

Management is the most effective change agent and prime mover for bringing about social justice. Its role is very important in underdeveloped and developing countries where resources are limited but wants are ever-growing. Management skills can help a country to make better use of its resources for enhancing economic growth and better distribution of wealth for alleviating poverty and injustice, thus usher harmony and provide maximum benefits to society. Management is the greatest boon to mankind.

Management techniques help to improve individual performance. Management is indispensable for all types of group activities. It is essential for any formal and organisational activity. Management can offer an enriched life to employees, consumers, and other members of a community. It can deliver rising standards of living and provide a standard of life to society. It is a powerful innovating force. It ensures the smooth running of enterprises. As such it is the principal determinant of our economic progress. Management is not only a distinct dynamic force but also a life-giving element to any organisation. Thus management, its functions, its competence, its integrity, and its efficiency would be decisive to any organization for its successful running in the years to come.

1.4. ADMINISTRATION vs MANAGEMENT

Management and administration are two popular terms generally used in common parlance to mean one and the same and very often used interchangeably. However, there has long been a controversy among management experts and professionals on the meaning and use of these two terms. At present, there are three clearly different views on the subject of the distinction between management and administration. Now we shall discuss these three views

According to a particular school of thought, administration is a top-level function while management is a lower-level function. The administration is considered by the exponents of this view, as a "thinking function" whereas management, according to them, is the "doing function". Administration is, more specifically, taken as the legislative determinative or planning functions as such it is primarily concerned with overall policy framing and decision-making authority. It is also entrusted with coordination and supervision of the entire business. Management, on the other hand, is concerned with the execution of plans and policies laid down by the administration. Oliver Sheldon, in his book, "Philosophy of Management" first expressed this viewpoint. According to Sheldon, "Administration is the function in the industry concerned with the determination of corporate policy, the coordination of finance, production, and distribution, the settlement of the compass (structure of the organisation), ultimate control of the executive.

Management, on the other hand, is the function in the industry concerned with the execution of policy within the limits set up by administration, and the employment of the organisation for the particular objectives set before it.... Administration defines the goal, management strives toward it." Florence, Haimann, McFarland, Spiegel, Tead, Schulze and many other American experts also hold this view. According to them, administration is concerned with policy formation whereas management is basically related to the execution of the policies and supervision of day-to-day operations. Thus, according to this view point administration is superior to management.

The European school of thought holds that management is a comprehensive term and administration is part of it. According to E. F. L. Brech, "Management is the generic term for the total process of executive control involving responsibility for effective planning and guidance of the operations of an enterprise. The administration is that part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plans." There are many other experts like Richman, Kimble and Kimble and Copen who subscribe to this view. Management, according to this group, involves both policy-making and execution. But the administration, they perceive, is concerned with that part of management which involves doing routine activities in a known setting. Thus, this view is quite opposite to the earlier viewpoint.

Henri Fayol, Chester Barnard, George Terry, Harold Koontz, and many other management authors espouse the view that there is no cogent distinction between management and administration. Accordingly, this school supports the use of the term interchangeably. In fact, Henry Fayol introduced the term administration in his book, "Industrial and General Administration", but he did not make any distinction between these two terms. Newman Williams also did not make any distinction between these two terms. Fayol has used the term administration to mean management. Moreover, it is very difficult to clearly and specifically demarcate administration from management functions. As it is not possible in real life to separate doing functions from planning functions. Furthermore, we do not engage two different sets of people to perform administrative and management functions separately. Rather each and every manager performs these functions simultaneously. Therefore, we subscribe to the view that there is no difference between these two terms. In fact, this view is, at present getting more and more popularity.

Peter Drucker makes the distinction between these two terms from an entirely different perspective. He has described management as a specific organ of business. He, therefore, argues that management must be pertinent to those institutions that supply economic goods and services irrespective of whether they are in the public or private sector. The term administration, according to Drucker, should be used in relation to those organisations which do not supply economic goods e.g. Government departments, Charitable Hospitals, Religious Trusts etc. Accordingly, the governance of the non-business institutions may be called administration while the governance of business is to be termed management. In practice, it may be noted that the term administration is used in public sector undertakings or non-profit making organisations and the term management is used generally in case of the private enterprises or profit-making organisations. The distinction between these two terms, in any case, is not qualitative. Thus, the difference between these two terms lies in their application in different fields.

In order to resolve the terminological conflict, it is often suggested that management may be classified into; i) Administrative management and ii) Functional or operational management. Administrative management relates to the determination of overall corporate objectives, policies, and master strategies. It is in charge of thinking functions e.g., determination of corporate objectives, formation of plans and policies, coordination of all functional areas of business, and overall control and supervision of the entire business. It represents the higher level or top management. Functional management, on the other hand, is primarily concerned with the execution of plans, policies, and programmes. determined by the top management. It assumes responsibility for the conduct of the business and the achievement of the stated objectives and goals. It is concerned primarily with doing functions. It represents the middle and lower management. Whatever the justification might have been in the past for making a distinction between these two terms, at present there is hardly any logical ground for it. Since the 1950s, management experts have been increasingly using the term management to mean both policy-making and policy-implementation functions.

1.5. MANAGEMENT: ART or SCIENCE or BOTH?

There is, at present, a controversy whether management is an art, or a science, or both. In order to solve this, let us first consider whether management is an art or not. With this end in view, we now examine the main elements of art. Art refers to an inborn skill and practical way of doing specific things; examples are music, painting etc. The main elements of an art, therefore, are--personal skills, practical know-how, result-orientation, creativity, and constant practice aimed at perfection. If we analyse management with respect to the elements of an art, we will find that like other practices whether medicine, law, accountancy, music or sports, managing is also an art. As an art management calls for a corpus of abilities, intuition and judgment. The managers often make decisions and solve problems on the basis of intuition, experience, instinct, and personal insights. A proper blend of intuition and personal insight with facts and figures is required for effective management. There is hardly any manager who does not think that his job demands some of the basic qualities of arts viz the application of knowledge, skill and ingenuity for achieving desired results. The ability to manage enhances with constant practice. That is why the experience of the managers is valued. The art of management helps to better implement the principles of management. Empiricists and early practitioners believe that management is the art and practice of getting things done through men and limited resources, for achieving goals in a dynamic situation. We consider management as an art for the following reasons:

(i) The process of management demands proper application of management concepts, principles, and skills and techniques.

(ii) Management is directed towards the accomplishment of predetermined results.

(iii) Management like any other art is creative in the sense, it innovates new ideas and thoughts to meet the new situation.

(iv) Management is personalized as every person in the profession applies his individual technique and approach in solving problems. Moreover, the success of a manager depends on his personality, knowledge and experience.

Thus, we can conclude that management is surely an art.

Now we shall consider whether management is a science or not. Before answering this question, we first know what makes a discipline a science. We can call a discipline a science if its method of inquiry is systematic and empirical, the information collected can be ordered and analysed and the results so reached are cumulative and communicable. Thus, the essential elements of science are- a systematized body of knowledge that contains a set of principles and theories; the principles are developed after careful observations, accurate measurement, experimentation, and inferences, have universal applicability; and can be taught and learned.

"Science", according to Chester L. Bernard, "explains the phenomenon, the events, the past situations and that their aim is not to produce specific events, effects or situations but explanations that we can acknowledge.

The various concepts and principles of science are developed on the basis of observations and experiments." In management, at present there is a systematized body of knowledge which consists of concepts, principles and theories developed on the basis of personal experiences and, theoretical and empirical researches. For example, in case of designing an organisation structure, there are certain principles that should be followed. The principles like, unity of command and unity of direction are important principles which helps to delegate authority. There are several management techniques which help to plan, execute and control the activities of an organisation. The management theories and principles can be taught in classrooms and in industry. Today, management has emerged as an academic discipline, and its popularity is evident from the mushrooming growth of management institutes. Since World War II physicists, mathematicians, economists, engineers, statisticians, accountants etc have been studying the problems of industry and providing quantitative bases for correct managerial decisions. Accordingly, a status of science has been claimed for management.

Nevertheless, management is not accepted as a science like Physics or chemistry. As its principles have universal application with some flexibility; they are not like the principles of physical sciences. It is further argued that its laws and principles cannot be stated in precise quantitative terms; at best these are only statements of tendencies. Management cannot predict with certainty the future behaviour of the employees with the help of present management knowledge. Moreover, the management principles cannot be demonstrated with the help of experiments.

Management, therefore, is not so exactly a science like Physics, Chemistry, etc. These limitations of management are essentially due to the fact that management like all other social sciences, deals with living, complex human beings in an ever-changing environment. Management, therefore, cannot claim to have the status of Natural Sciences. Since management is a social process, it is related to social sciences. More specifically, it is a behavioural science. Theories and principles of management are situation-bound, as such they do not necessarily have the same results every time. That is why Ernest Dale has described management as a "soft science".

Thus, managing as a practice is an 'art'; the organized knowledge underlying the practice may be referred to as a 'science'. In this context science and art are not mutually exclusive, rather they are complementary. An effective manager has to learn the theories and principles of management and hone his managerial skills through constant practice. The "theory of management" is the "science" and the "practice of management" is an ‘art ‘, and both of them go side by side for the effective and efficient functioning of any organisation. To conclude, we can say that management is an art as well as a science.

1.6. MANAGEMENT AS A PROFESSION

In order to understand whether the field of management can be considered a full-fledged profession, we should first know what a profession is. Cogan has defined a profession as "a vocation whose practice is founded upon an understanding of a theoretical structure of some department of learning of science". The profession can be described as an occupation or a vacation for which specific knowledge and specialized skills are required, the object of which is not to achieve only personal satisfaction but to serve the larger interest of society. The success of such skills is not measured in terms of money alone. McFarland has pointed out five essential characteristics of a profession. These according to McFarland, are

i) the existence of a body of knowledge or techniques,

ii) formalized methods of acquiring knowledge and experience,

iii) the establishment of a representative organisation with professionalism as its goal,

iv) the formation of ethical codes for the guidance of conduct and

v) the charging of fees based on services, but with due regard for the priority of service over the desire for monetary reward.

Researcher Edgar H. Schein argues that management is a profession as it exhibits three essential qualities of a profession. The first one of the criteria, Schein applies is, the existence of a set of general principles to guide decision-making. The second criterion of a profession, Schein contends, is the status that is achieved through accomplishment, not through favouritism or political advantage. Finally, professionals in this field, according to Schein, are guided by a stated code of ethics.

In light of the above-mentioned attributes of a profession, we may point out that a profession has the following essential characteristics:

i) the existence of a systematic and well-organized body of knowledge, formal method of learning and experience,
ii) entry restricted by qualifications,
iii) governed by a recognized parent body,
iv) adherence to ethical code of conduct, and
v) dominance of service motive.

With respect to these criteria, let us examine how far management can be considered as a profession.

There is, at present, a systematic and organized body of knowledge in management. It contains various theories, principles, and techniques. The principles explain the cause-and-effect relationships among various variables and they are capable of universal application. The theory of management has been developed through scientific research, observations, and personal experiences. However, we have already mentioned that the body of knowledge in management is still in the evolving stage. So, we can say that management by and large satisfies this criterion of - having a systematic and organized body of knowledge.

Today management has emerged as a distinct academic discipline, and it is gaining its popularity day by day. The popularity of the subject is evident from the mushroom growth of the management institutes all over the world. Any individual can learn the theory of management and enhance his expertise through constant practice. Formal education and training in management are becoming increasingly popular. Along with the formal education in management from universities or institutes; various management development programmes (MDPs) are conducted, in order to hone the managerial skills of the employees. The practicing managers can learn a lot from these MDPs, since these programmes are specially designed according to the needs and current trends in the theory and practice of management. So, we can say that management can be learned and expertise in this field can be achieved through experience. In various organisations we can find that the managerial positions are occupied by personnel who do not have formal education in management. In the case of other professions like law or medicine, entry is strictly restricted by the specified qualifications. The entry to managerial positions is not restricted by any such prescribed qualification. But it needs to be mentioned here that this scenario is changing very fast.

However, Peter Ducker did not accept the view that managers should possess any such prescribed qualification. Rather Drucker observes that no greater damage could be done to our society than to attempt to professionalize management by licensing the managers or by limiting access to management to the people with special academic degrees.

In India, the All India Management Association (AIMA) has already been recognized as a representative body of professional managers. It has local chapters in almost all cities in India. However, membership in this body is not mandatory for the managers. In the case of other practices like medicine, law, or accounting, membership in professional bodies is mandatory. The medical practitioners have to become members of the Indian Medical Council and the accountants have to get registered with the Institute of Chartered Accountants of India. From this point of view, management cannot be considered a profession in its true sense.

For every profession there are some ethical standards and every individual in the profession is expected to adhere to the laid down standards. Non-compliance with the ethical code of conduct may lead to cancellation of membership. In management, there is lack of universally accepted ethical codes for managers throughout the world. In most of the countries the managers are expected to be socially responsible and protect the interests of all the stakeholders. In India, the All India Management Association has formulated a code of conduct but most of the managers don't adhere to it and many are not even aware of it. The code of professional ethics is not legally binding on managers. For management professionals, the dominance of service motive is getting very relevant these days. The contribution of management to the society is very important. In the context of the above discussion, we can say that "management is not a full-fledged profession but it is emerging as a profession."

1.7. SUMMARY

In conclusion, we can say that management is the process of planning, organising, leading and controlling with a view to developing and maintaining a congenial environment necessary for the optimum utilization of the organisational resources (human, financial, physical, and information), so that the organisational goals are effectively and efficiently achieved and the interest of both internal and external stakeholders are protected. The view that management is both an art and a science has been expounded. The distinction between management and administration has also been presented with a concluding observation that management consists of both administrative and operative functions.

1.8. EXERCISES

1. What is an organization?
2. Define management in your own words
3. “Management is an art as well as science”. Elucidate this statement
4. Explain the importance of management in modern business organizations.
5. Distinguish between administration and management.

1.9. FURTHER READINGS

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UNIT – 2

EVOLUTION OF MANAGEMENT THOUGHT

UNIT – 2: EVOLUTION OF MANAGEMENT THOUGHT

Structure

2.1. INTRODUCTION

It is important that all managers should focus on today's competitive environment and get equipped for tomorrow. But it is also important that they should know the past and use it as a context. Man has learned many lessons from history. Managers also can learn a lot from the activities that were undertaken by the managers in the past. For achieving success in the future, the lessons of the past are considered an important ingredient. Some of the management authors believe that understanding the history of management provides a "sense of heritage and can help managers avoid the mistakes of others."

2.2. EARLY MANAGEMENT CONCEPTS AND INFLUENCES

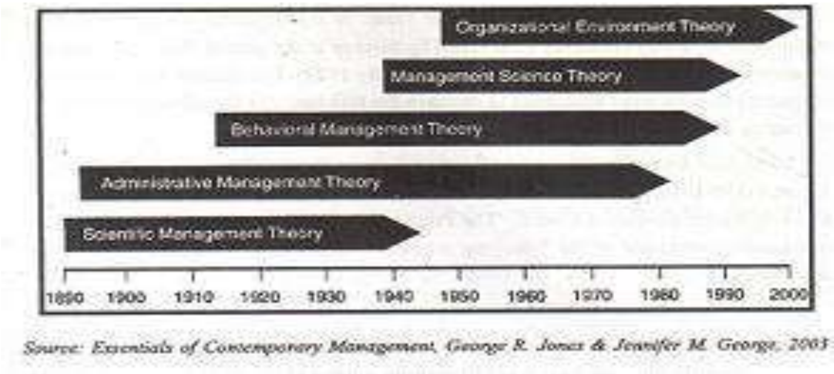
The evolution of management can be traced back thousands of years. The Sumerians used written records to assist in governmental and commercial activities. During the construction of Pyramids, the Egyptians used managerial functions like- planning and controlling. The ancient Babylonians used management in governing their empire, and the Romans used management to facilitate communication and control throughout their territories. The origin of scientific management was first noted in the Greek Civilization Plato, the famous philosopher was first to propound the theory of specialization. Moreover, it was Socrates who established management by his famous method of dialogue, as a separate and distinct art. It is generally acknowledged that the Chinese were the first to recognize the importance of proper selection of employees. The Civil Service System was also first introduced in China. The ancient records of Mencius and Chou (1100 B.C. to about 500 B.C.) indicate that the Chinese were quite aware of the principles of planning, organizing, directing and control.

In India, the Arthashartra of Kautilya about (321B.C.) critically discussed the political, social and economic management of the state. The innovations, such as the spread of Arabic numerals during the period 5th to 15th centuries, and the codification of double-entry book- keeping during the end of 15th century provided tools for management assessment, planning and control. In spite of this long history of management practice, serious attention was not given to management for many centuries. Indeed, the study of management did not begin until the nineteenth century. During the 19th century, it was observed that minor improvements in management tactics could produce impressive increases in production quantity and quality. The concept of economies of scale was realized during this period. The process of industrial development was accelerated by the concept of "job specialization" and "division of labour", which was proposed by Adam Smith. The concepts of job specialization and division of labour lead to an efficient production system. The Industrial Revolution created opportunities for mass production, and this gave rise to a strong and systematic thought about management problems and issues. "Although history provides some insight into managerial practice, it was the organisational complexities brought on by the industrial revolution that stimulated sustained and systematic efforts to understand organisations and their management."(Pierce, Gardner, and Dunham, 2002, pp.39)

2.3. CLASSIFICATION OF THE DIFFERENT MANAGEMENT SCHOOLS OF THOUGHT

It has been discussed in the preceding chapters that management science has been studied from different perspectives. Different approaches to management were developed at different times and in different situations. Classification of management thought into different schools serves several purposes. It helps to analyse management from different viewpoints and makes it easier to understand management. Different approaches to the study of management are generally classified into three groups, e.g. classical, neoclassical and modern. However, such a classification may not be universal. Moreover, it may not be useful for all the time to come. The classical approach was developed through three main streams--Scientific management, Administrative theory and Bureaucracy. The classical school paid attention only to the technical aspect of efficiency both from the job and administrative points of view. The approach neglects the economic dimension of work satisfaction. Thus, it offers a mechanistic frame-work that undermines the role of human factor. But the neoclassical school encompassed in the human relations approach and the behavioural approach, paid serious attention to the feelings and attitudes of workers. The behavioural approach focuses on the individuals performing jobs. Accordingly, this approach directed our attention towards the human aspect of management. Prof Elton Mayo is considered to be the founder of the behavioural school of thought. He conducted the famous Hawthorne Experiments. The findings of the experiments have made a significant impact on management thought. Consequently, a new movement known as the human relations movement emerged. However, the human relations approach neglected the behavioural pattern of groups. This led to the development of organisational behaviour. Modern school is concerned with the system and contingency approaches.

The classification of the management theory as proposed by Jones and George, is also shown in Fig 2.1. they have discussed the evolution of management theory under the following heads: scientific management theory, management science theory, and organizational environment theory.



Source: Essentials of Contemporary Management, George R. Jones & Jennifer M. George, 2003

For the purpose of our study, we have classified the management approaches as follows:

- Scientific School of Management
- Administrative School of Management
- Bureaucratic Management
- Human Relations School of Management
- Behavioural School of Management
- Quantitative Approach
- Other Modern Management Approaches-
  - Systems Approach
  - Contingency Approach
  - The Managerial Roles Approach
  - The Total Quality Management Approach
  - McKinsey's 7S Approach
  - Excellent Criteria Approach
  - Theory Z

2.4. SCIENTIFIC SCHOOL OF MANAGEMENT

Scientific management refers to that "kind of management which conducts a business or affairs by standards established by facts or truths gained through systematic observation, experiment or reasoning." (Babcock, 1927) The promoters of the scientific management movement attempted to increase the efficiency of the labour primarily by managing the work of the employees on the shop floor.

✓The best-known of the scientific management theorists was Fredrick Winslow Taylor, (1856-1915) who is frequently referred to as the "father of scientific management." In 1911, Taylor published a book, The Principles of Management. Taylor's scientific management consisted of the following prescriptions: (Pierce, Gardner and Dunham, 2002, pp-13)

1. Develop the science of work by using time, motion and fatigue studies to identify the "one best way" to perform a job and the level at which it can be performed. The science of work is to be developed to replace the old rule of thumb.

2. Emphasize absolute adherence to work standards and do not allow the daily production rate that was scientifically identified to be changed by anyone's arbitrary whim.

3. Scientifically select, place, and train workers and assign them to the most interesting and profitable tasks for which they are suited.

4. Apply a financial incentive system that encourages workers to perform efficiently and effectively by tying pay to output: Low production leads to low pay, high production to high pay.

5. Adhere to a more equitable division of responsibility between management and workers. Planning should be separated from doing, the former being the responsibility of management and the latter of the workers.

6. Utilize specialized functional supervision so that, instead of one general manager, a number of expert managers would supervise a department's employees on the different aspects of their work. Taylor referred to this as "functional foremanship".

7. Develop and maintain friendly labour-management relations, because a cooperative alliance between employees and employers helps ensure the willing application of the scientific principles of work.

The steps in scientific management may be stated as follows: (Griffin, 2006, pp-44)

Step 1: Develop a science for each element of the job to replace the old rule-of-thumb methods.

Step II: Scientifically select employees and then train them to do the job as described in Step I

Step III: Supervise employees to make sure that they follow the prescribed methods for performing their jobs.

Step IV: Continue to plan the work, but use workers to get the work done.

We can sum up Taylor's philosophy in the following lines;

- ✓ Science not the rules of thumb.
- ✓ Harmony, not discord.
- ✓ Maximum output, in place of restricted output.
- ✓ Develop each and every man to his greatest efficiency.

The prominent followers of Taylor were **Frank Gilbreth, Lillian Gilbreth and Henry Gantt**. Frank and Lillian Gilbreth pioneered **motion studies** as a management tool. Their works established the foundation for later advances in the areas of job simplification, work standards and incentive wage plans. All these techniques are still used in the modern workplace. Henry Gantt added two techniques to scientific management-the **Gantt chart** and a **minimum-wage-based incentive system**. The Gantt chart is used by managers to summarize the different work activities and identify those that should be performed simultaneously or sequentially. Gantt promoted the idea that employees should receive a minimum daily wage whether or not they achieved their specified daily work objectives.

2.5. ADMINISTRATIVE SCHOOL of MANAGEMENT

Scientific management focuses on the technical core of the organisation, whereas administrative management concentrates on the management of the whole organisation. The proponents of scientific management viewed the organisation from the shop floor level whereas the administrative management theorists viewed the organisation from the top level.

Henri Fayol was a major contributor to administrative management. His contributions can be studied as Fayol's five, Fayol's six and Fayol's fourteen.

According to Fayol, the different activities of an organisation can be divided into six activities-technical, commercial, financial, security, accounting and managerial activities. These six activities are termed Fayol's six.

1. **Technical** activities refer to the activities relating to the manufacturing or production of goods and/or services.
2. **Commercial** activities refer to the buying, selling, and exchange of goods and services.

3. **Financial** activities refer to the activities relating to the search for and optimal use of capital.
4. **Security** activities refer to the protection of the employees and property.
5. **Accounting** activities are related to the maintenance of books of accounts, compilation of statistics etc
6. **Managerial** activities include planning, organising, commanding, coordinating, and controlling.

According to Fayol, "To manage is to forecast and plan, to organize, to command, to coordinate, and to control." Fayol's five refers to these five managerial functions.

- **Planning** is to foresee and provide means for the future.
- **Organising** is to provide a business everything useful to its functioning materials, tools, capital and personnel.
- **Commanding** is to maintain activity among personnel.
- **Coordinating** refers to the unification and harmonization of all activities and efforts.
- **Controlling** is to see that everything occurs in conformity with established rules and expressed command.

Henri Fayol proposed fourteen principles of management. He believed that these fourteen principles should guide the management of organisations. These fourteen principles have been described as Fayol's fourteen. Fayol's principles are stated below:

1. **Division of Labour:** Fayol noted that division of labour improves the level of efficiency through specialization, and specialization of work increases output.
2. **Authority and Responsibility:** Fayol included both formal and informal authority resulting from special expertise. The parity between authority and responsibility should be maintained
3. **Discipline:** It relies on respect for the rules, policies, and agreements that govern an organisation. Obedient and respectful employees are necessary for the organisation to function.
4. **Unity of Command:** Employees should have only one boss. Each employee should receive orders and be accountable to only one superior.
5. **Unity of Direction:** There should be one manager for each organisational plan and a single plan of action within the organisation that deals with the same objective.

6. **Subordination of Individual Interest to the Common Interest:** The interest of the organisation takes precedence over that of the individual employee.
7. **Remuneration of Personnel:** An equitable uniform payment system that motivates the employees and contributes to organisational success.
8. **Centralization:** The degree to which authority rests at the top of the organisation. It should be determined on the basis of individual circumstances in each case.
9. **Scalar chain:** This refers to the chain of command from top to bottom of the organisation. It defines the communication path in an organisation.
10. **Order:** There should be material and social order in the organisation. Material order indicates that there should be a place for everything, and everything should be in its place. Social order implies that there should be a place for everyone, and everyone should be in his place.
11. **Equity:** The provision of justice and the fair and impartial treatment of all employees.
12. **Stability of Tenure of Personnel:** Long-term employment is important for the development of skills that improve the organisation's performance. The employees should be provided job security.
13. **Initiative:** The employees should be encouraged to conceive and carry out their own ideas.
14. **Esprit de corps:** Comradeship, teamwork, a sense of unity and togetherness, should be fostered and maintained.

2.6. BUREAUCRATIC MANAGEMENT

Max Weber (1864-1920), a German sociologist, developed the concept of bureaucracy as a "formal system of organisation and administration designed to ensure efficiency and effectiveness." According to Weber, "bureaucracy is an ideal, intentionally rational, and very efficient form of organisation founded on the principles of logic, order, and legitimate authority." The defining characteristics of Weber's bureaucratic organisation are as follows: (Schermerhorn, 2005, pp-38)

- **Clear division of labour**: Jobs are well defined, and workers become highly skilled at performing them.
- **Clear specified hierarchy of authority:** Authority and responsibility are well defined for each position, and each position reports to a higher-level one.

- **Formal rules and procedures:** The rules and regulations of the organisation are well-defined and clearly specify how employees should behave. The written guidelines direct decisions in jobs. Written files are kept for historical records.
- **Impersonality:** Managers make rational decisions and judgements based on facts. Rules and procedures are impartially and uniformly applied with no one receiving preferential treatment.
- **Careers based on merit**: Workers are selected and promoted on ability and performance. Positions in the organisations are held on the basis of performance and not social contacts.

Weber believed that organisations would perform well under bureaucracy. In the words of Weber, "the purely bureaucratic type of administrative organisation...is, from a purely technical point of view, capable of attaining the highest degree of efficiency...It is superior to any other form in precision, stability, stringency of its discipline, and reliability. It thus makes possible a particularly high degree of calculability of results for the heads of the organisation and for those acting in relation to it. It is finally superior both in intensive efficiency and in the scope of its operations and is formally capable of application to all kinds of administrative tasks."

The possible disadvantages of bureaucracy include excessive paperwork or red tape, slowness in handling problems, rigidity in the face of shifting customer or client needs, resistance to change, and employee apathy. These disadvantages are most likely to cause problems for the organisations that must be flexible and quick in adapting to the changing circumstances (Schermerhorn, 2006, pp-39).

These three approaches- scientific management, administrative management and bureaucratic management, together constitute the classical school of thought.

2.7. HUMAN RELATIONS SCHOOL OF MANAGEMENT

Elton Mayo, who is considered as the "father of the human relations approach", carried out a set of experiments at the Hawthorne Plant of Western Electric Company at Chicago along with other researchers like F. J. Roethlisberger, T. N. Whitehead, and William Dickson. This study was carried out in four phases-Illumination Experiments, Relay Assembly Test Room Experiments, Mass Interview Phase and Bank Wiring Observation Room Experiment, during the period 1924 to 1932.

The findings of the Hawthorne studies diverted the attention of management practitioners and researchers away from the technical and structural aspects of the organisation toward the social and human aspects. The social and human issues started to be considered as the major issues influencing the productivity of an organisation. It was observed that the feelings of the people, attitude and relationships among the co-workers affected their performance. The importance of group influences on individuals was also recognized. The researchers of the Hawthorne experiments also identified the Hawthorne effect, i.e. "the tendency of people who are singled out for special attention to perform as anticipated because of expectations created by the situation." (Schermerhorn, 2005, pp.41)

The Hawthorne studies contributed to the emergence of the human relations movement, which influenced management thinking during the 1950s and 1960s. This movement was largely based on the viewpoint that "managers who used good human relations in the workplace would achieve productivity." The human relations movement coupled with related developments in the social sciences was responsible for the evolution of a new discipline called organisational behaviour. "The human relations model views the employee as socially motivated and operates from the assumption that a satisfied worker is a productive worker."

2.8 BEHAVIOURAL SCHOOL OF MANAGEMENT

The focus of the human relations movement was on the relationship among the employees, whereas the behavioural movement puts emphasis on the individual and group behavioural processes in the workplace. With the contributions of various behavioural scientists, it was realized that for the effective and efficient functioning of any organisation it is imperative to understand the behaviour of the people in the organisation.

The behavioural movement was stimulated by the contributions of some eminent writers and theoretical movements. "Those contributing to the behavioural science movement stressed the need to conduct systematic and controlled field and laboratory studies of workers and their motivation, attitudes, and behaviour. These ideas contributed significantly to the rise of organisational behaviour as a discipline.

Behavioural scientists consider both the rational-economic model and the social model of the employee to be incomplete representations of the individual as an organisational member. They present a model, which suggests that employees have a strong need to explore, know, understand grow, develop, feel competent and efficacious relative to their environment, and to maintain a high level of self-regard. Among the major contributors to behavioural management philosophy or practice are Abraham Maslow, Douglas McGregor, Chris Argyris, Rensis Likert, and Raymond Miles" (Pierce, Gardner & Dunham, 2002, pp.54).

Undoubtedly, the human relations movement ignited the behavioural approach to management. The contribution of Hugo Munsterberg (1863-1916), a renowned German psychologist, concentrated on applying psychological concepts to industrial settings. He suggested that psychologists could make valuable contributions to managers in the areas of employee selection and motivation. Munsterberg is considered as the "father of industrial psychology." Another early advocate of the behavioural approach to management was Mary Parker Follett. The works of Follett clearly anticipated the behavioural management perspective, and she appreciated the need to understand the role of behaviour in an organisation. Oliver Sheldon (1894-1951) stressed the social obligation of business to treat its workers fairly. Chester I. Barnard (1886-1961) argued that the needs and goals of a business organisation must be balanced with the needs and goals of its individual members.

In 1943, Abraham Maslow proposed a theory on human motivation that has had an incredible impact on the current views of the organisation, the practice of management, and the relationship between the organisation and its employees. Maslow suggested that there are five types of human needs-physiological, safety, social, esteem and self-actualization, and they are arranged in hierarchical order based on their motivational importance to the individual.

Another contributor to the behavioural approach to management, Douglas McGregor presented Theory X and Theory Y which reflect two extreme sets of assumptions that different managers hold regarding their employees. Theory X is a set of negative assumptions about workers and is consistent with the views of scientific management. Theory Y is a set of positive assumptions about the workers.

The works of Chris Argyris concentrated on how organisational and management systems affect employees' attitudes and behaviours. In the 1960s, Rensis Likert developed four systems of management which described the relationship, involvement, and roles between management and subordinates in industrial settings. Professor Raymond Miles proposed the human resource model which is based on the belief that "through employee involvement in organisational decision-making, performance would be enhanced, leading to employee satisfaction, motivation, and commitment for further involvement." (Pierce, Gardner & Dunham, 2002, pp.58). Dale Breckenridge Carnegie (1888-1955) was an early proponent of what is now called responsibility assumption, although this appears minutely in his written work. Responsibility assumption is a doctrine in the personal growth field holding that each individual has substantial or total responsibility for the events and circumstances that take place in their life. Carnegie preaches that it is possible to change other people's behaviour by changing one's reaction to them.

Since the behavioural scientists focused on the importance of personal and social considerations, the managers were literally forced to rethink the employees and to design organisations which are open and flexible. The behavioural school of management brings to us a different approach to organisational management than that presented by the classical school of management thought. The hierarchy of authority is less rigid and more flexible. There are fewer rules and standard operating procedures. The employees are more empowered, and their ideas and opinions are solicited as a part of the problem-solving process. (Pierce, Gardner & Dunham, 2002, pp.60)

2.9. QUANTITATIVE APPROACH

During World War II, various quantitative techniques were applied to solve military and logistic problems. Soon it was realized that these techniques may be used to solve different managerial problems. During this period, much of the research was done by interdisciplinary teams of experts from various fields like statistics, engineering, economics, mathematics, and political science.

The quantitative approach to management involves the scientific applications of quantitative techniques to solve managerial problems. The modus operandi, for the application of quantitative techniques to managerial problems, which may be followed, is-

- First a problem is encountered;
- then it is systematically analysed,
- appropriate mathematical models and computations are applied, and
- lastly, an optimum solution is identified.

The quantitative management approach focuses on decision-making, economic effectiveness, mathematical models, and the use of computers. There are two branches of the quantitative approach-management science and operations management.

Management Science: Management science deals "specifically with the development of mathematical models to aid decision-making and problem-solving. A mathematical model is a simplified representation of a system, process, or relationship. Management science focuses on models, equations, and similar representations of reality." (Griffin, 2006, pp.53)

Operations Management: Operations management is "somewhat less mathematical and statistically sophisticated than management science and can be applied more directly to managerial situations." It can be considered as a form of applied management science. (Griffin, 2006, pp.53)

The operations management techniques are generally concerned with helping the organisation produce, its products or services more efficiently. These techniques can be applied to a wide range of problems. The operations management techniques include inventory modelling, linear programming, queuing theory, break-even analysis, network models, and simulation.

- **Inventory Modelling** is a mathematical model that helps to control inventories by mathematically establishing how much to order and when.
- **Linear Programming** is used to calculate how best to allocate scarce resources among competing uses.
- **Queuing Theory** helps to allocate service personnel or workstations to minimize customer waiting time and service cost.
- **Break-even analysis** is a technique for identifying the point at which total revenue is just sufficient to cover total costs.
- **Network models** break large tasks into smaller components to allow for better analysis, planning, and control of complex projects.
- **Simulations** create models of problems so that different solutions under various assumptions can be tested. All of these techniques and procedures apply directly to operations, and they are also applied in other areas like finance, marketing, and human resource management.

The quantitative school of management has developed several sophisticated quantitative techniques to assist in decision-making. The application of the models has increased our awareness and understanding of complex organisational processes and situations. It has been very useful in planning and controlling processes. The quantitative approach has been criticized on the following grounds-mathematical models cannot fully account for individual behaviour and attitudes; the difficulty in developing competence in quantitative techniques, and the mathematical models are often based on assumptions that are not realistic. (Griffin, 2006, pp.54)

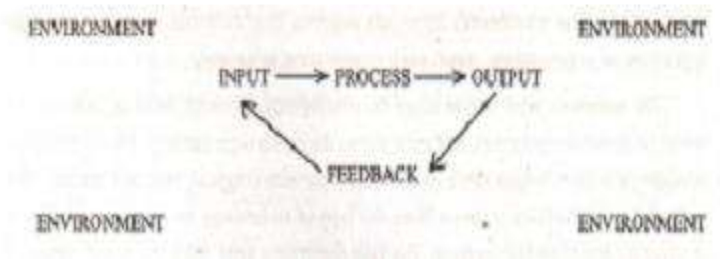
2.10. OTHER MODERN MANAGEMENT APPROACHES AND PERSPECTIVES

Until the early 1950s, there is very little contribution to the study of management from the academicians and theorists. The past four to five decades have seen a genuine inflow of writings from the academic halls. The multiplicity of approaches to management analysis, the amount of research, and the number of contradictory views has resulted in much confusion as to what management is, what management theory and science mean, and how managerial events should be analyzed. As a matter of fact, Koontz some years ago called this situation "the management theory jungle." Since that time, the vegetation in this management jungle has changed somewhat and new approaches have been developed, and the older approaches have taken on some new meanings with some new words attached. But the developments of management science and theory still have the characteristics of a jungle (Weihrich and Koontz, 1994, pp-44). Some of the contemporary approaches to management to be discussed in this unit are the systems approach, the contingency approach, the managerial roles approach, the total quantity management approach, the McKinsey 7-S approach, the excellent criteria approach, and Theory Z.

2.10. a. SYSTEMS APPROACH

The first great contributor to the systems approach was Chester I Barnard (1886- 1961). According to the systems approach, "an organisation is a system composed of a number of interrelated and interdependent elements, each functioning to contribute to the purpose of the whole." An organisation as a system consists of four basic elements- inputs, transformation process, outputs, and feedback Katz and Khan have described an organization as an input-output system that interacts with the environment the inputs are the people, money, materials, technology, and information which are derived from the environment. The transformation process is carried out in the organisation. It converts the inputs into outputs through technological and managerial processes. The outputs are the finished products, services, or both, which are exported to the external environment. The environment consumes these outputs and provides feedback to the system.

So, we can say that the organization is an input-throughput-output system. This is shown in



The organisation is an open system. **Open systems** are systems that interact with their environment, whereas **closed systems** do not interact with their environment. The organisation is a part of and dependent on a larger system, i.e. the external environment from which it imports the inputs and to which it exports a valued product or service.

In order to understand an organisation, we need to know "its context, its subsystems, and the way these subsystems are interconnected with one another." The different functional areas of an organisation may be considered as its subsystems. A change in one subsystem may call for change in other subsystems. The interdependence of the subsystems creates synergy. **Synergy** is the "creation of a whole that is greater than the sum of its individual parts." **Entropy** is a "normal process that leads to system decline when it is left unattended." When an organisation does not monitor feedback from its environment and make appropriate adjustments, it may fail. "A primary objective of management, from a systems approach, is to continually re-energize the organisation to avoid entropy." (Griffin, 2006, pp-55)

2.10.b. CONTINGENCY APPROACH

"Modern management is situational in orientation; that is, it attempts to identify practices that are the best fit with the unique demands of a situation." It utilizes the contingency approach to management. The contingency approach "tries to match managerial responses with the problems and opportunities specific to different settings, particularly those posed by the individual and environmental differences. In other words, this approach "tries to help the managers to understand the situational differences and respond to them in ways appropriate to their unique characteristics" (Schermerhorn, 2005, pp-46). The classical, behavioural, and quantitative approaches are considered universal perspectives because they tried to identify the "one best way" to manage organisations. The contingency approach suggests that universal theories cannot be applied to all organisations, since each organisation is unique.

The managers, who plan to adopt the contingency approach, must be aware of the limits, or constraining factors, that exist within their own organisations. The contingency perspective acknowledges three basic constraints, task and human. The technological constraints crop up from the type of technology an organisation uses to produce its goods and/or services. The task constraints arise from the actual nature of the jobs performed by the employees. Human constraints reflect the levels of competence of the people employed by an organisation (Pierce & Robinson, 1989, pp-48).

The contingency approach is criticized on the ground that it has little theoretical foundation, which means that it has no base of knowledge, lacks predictive ability, and is essentially intuitive.

2.10.c THE MANAGERIAL ROLES APPROACH

One of the contemporary approaches to management theory is the managerial roles approach which has been popularized by Professor Henry Mintzberg. He observed that there are ten managerial roles, and these roles are grouped under three heads- interpersonal roles, informational roles, and decisional roles.

The interpersonal roles are the roles that involve interactions with people inside and outside the work unit, and other duties that are ceremonial and symbolic in nature. The three interpersonal roles include the roles a manager plays as a figurehead, leader, and liaison. The informational roles relate to giving, receiving, and analysing information. The three informational roles are played as a monitor, disseminator, and spokesperson. The decisional roles involve using information to make decisions to solve problems or capitalize on opportunities. This role is also known as the 'strategy-making' role. Mintzberg identified four decisional roles-entrepreneur, disturbance handler, resource allocator, and negotiator.

Mintzberg's approach has been criticized on the grounds that a very small sample of five executives has been used for the study. Furthermore, it has not been analyzed whether the executives considered for the study were effective managers or not. Many of the activities pointed out by Mintzberg are in fact "evidences of planning, organising, leading and controlling." These criticisms definitely raise some genuine questions regarding the validity of the managerial roles approach. In spite of these criticisms, it must be admitted that this is a simple approach through which we can learn about the different roles a manager needs to perform.

2.10. d. THE TOTAL QUALITY MANAGEMENT APPROACH

Under the influence of W. Edwards Deming, the Japanese enterprises started a quality revolution. The focus of the leading management paradigm shifted from quantity to quality. The quality perspective has as its goal the "achievement of customer satisfaction by providing high-quality goods and services." This movement towards quality has resulted in the emergence of total quality management, commonly referred to as TQM. "TQM is a philosophy and way of managing with the goal of getting everyone committed to quality, continuous improvement, and the attainment of customer satisfaction." The pioneers of TQM- W. Edwards Deming, Joseph Juran, and Karoru Ishikawa, envisioned that the organisation's primary purpose was to stay in the business. The preservation of the health of the organisation is important so that the organisation can promote the stability of the community in which it lives, provide products and services that are useful to its customers, and provide a setting for the satisfaction and growth of its members." (Pierce, Gardner& Dunham, 2002, pp-62)

Organisations that have a quality focus woven into the fabric of their management practices are driven by many principles initially laid by Deming. The principles proposed by Deming have implications for a number of different management activities; among them, his quality management addresses: goal setting, training, work incentives, the use of quality control departments and quality inspection, the locus of authority and responsibility for quality, employee involvement, performance appraisals, employee communications, intra-organisational competition, and teams (Deming, 1986).

2.10.e McKINSEY's 7S APPROACH

The McKinsey 7-S is another contemporary approach to management, and this approach is grounded in systems theory. This theory was developed by Tom Peters, Robert Waterman, Richard Pascale, and Anthony Athos; while they were employed by McKinsey & Company, a large management consulting organisation. This approach has gained its popularity, partly because it became the basis for the research behind two best-selling books, "The Art of Japanese Management" and " In Search of Excellence". The research was carried out on America's effective organisations, and it was revealed that seven interdependent factors in organisations must be managed harmoniously.

The seven S-factors in the McKinsey 7-S Framework are as follows:

1. **Strategy:** It refers to the plans or courses of action that allocate an organisation's scarce resources and commit it to a specific action over time to reach identified goals.

2. Structure: It talks about the organisation's design and the authority/responsibility relationships.

3. Systems: It refers to procedures and processes such as information systems, manufacturing processes, budgeting, and control processes.

4. Style: It refers to the way key managers behave and collectively spend their time to achieve organisational goals.

5. Staff: It refers to the people in the organisation and their socialization into the organisation culture.

6. Shared values (Superordinate goals): It refers to the values shared by the members of the organisation.

7. Skills: It refers to the distinctive capabilities of an organisation's key personnel. This framework identifies the key aspects of the management system and shows the interrelatedness of the variables. The McKinsey 7-S framework is a very simple model, and is of great use for practitioners and academicians. This framework is definitely a positive contribution to management theory.

2.10.f. EXCELLENT CRITERIA APPROACH

Thomas Peters and Robert Waterman, in their book, 'In Search of Excellence', identified 43 companies that they regarded as excellent. In choosing some of the firms, they considered factors such as growth of assets and equity, average return on total capital, and similar measures. They have also enquired about other factors like the innovativeness of the companies. The authors, accordingly, identified eight characteristics of excellent companies. Peters and Waterman believe that these eight characteristics were the key reasons for firms' success in remaining both increasingly productive and internationally competitive. These characteristics are as follows:

1. A bias for action, for getting on with it. Even though excellent companies may be analytical in their approach to decision making they are not paralyzed by that fact as many other companies seem to be. In many of these companies, the standard operating procedure is "Do it, fix it, try it."

2. Close to the customers. Excellent companies learn from the people they serve. They provide unparalleled quality, service, and reliability-things that work and last. Many of the innovative companies got their best product ideas from their customers.

3. Autonomy and entrepreneurship. The innovative companies foster many leaders and many innovators throughout the organisation. They are a hive of what we have come to call champions. These companies promoted managerial autonomy and entrepreneurship.

4. Productivity through people. Excellent companies treat the workers as their root source of quality and productivity gain. They achieved productivity by paying more attention to the needs of their people. They do not promote we/they labour attitudes or regard capital investment as a fundamental source of efficiency improvement.

5. Hands-on, value-driven. These excellent companies were driven by a company philosophy often based on the values of their leaders.

6. Stick to the knitting. Excellent companies believe that they should focus on the business they know and never acquire a business that they don't know how to run. Excellent performance seems strong to favour those companies that stay reasonably close to businesses they know.

7. Simple form and lean staff. The underlying structural forms and systems in excellent companies are elegantly simple. Top-level staff are lean; it is not uncommon to find a corporate staff of fewer than 100 people running multi-billion-dollar enterprises.

8. Simultaneous loose-tight properties. The excellent companies are both centralized and decentralized. For the most part, they have pushed autonomy down to the shop-floor level.

A careful look at these attributes of excellent companies makes it clear that the pursuit of excellence begins as a management task. All of the attributes mentioned by Peters and Waterman are characteristics of management activities, skills, and functions. In fact, Peters and Waterman have been criticized for their failure to consider other contributors to corporate excellence, including technological advances, national policies, and cultural norms. Certainly, they identified some philosophical orientations that are especially helpful in managing a company in today's competitive environment, but their most significant contribution was to reinforce the vital importance of mastering the four basic management functions and acquiring fundamental management skills. (Pearce & Robinson, 1989, pp.21-24)

2.10g THEORY Z

During the 1970s and 1980s, many US companies were seriously affected by the Japanese competitors. Moreover, the productivity problems of the American companies during that period became very acute. The Japanese played a very crucial role in changing the business paradigm from quantity to quality. This paradigm shift enabled them to make serious inroads to many markets in the world including the American market.

In 1981, Professor William Ouchi proposed Theory Z to integrate the merits of the Japanese (Theory J) and American (Theory A) management styles. Theory Z is not a basic theory of management, rather it proposes the consistent application of certain principles and practices, and adherence to specific management styles. It, in fact, presents a set of organisational and management style characteristics. Theory Z emphasizes long-term employment; collective decision-making; individual responsibility; slow evaluation and promotion; implicit and informal control with explicit formal measures; moderately specialized career paths; and holistic concern for employees.

Professor Ouchi suggested that this style of management is universally better than the traditional American approach and argues that Theory Z is quite appropriate in any management situation. Nevertheless, Theory Z cannot be regarded as a contingency theory of management. In fact, in many ways, Theory Z reflects a return to the outdated "one best way" thinking of behavioural management. Theory Z identifies employees as a key component of organisational productivity and effectiveness. It prescribes how employees "should be" managed so that the organisational efficiency and effectiveness can be improved. Theory Z is criticized on the ground that it is not a complete theory, it is only a set of management practices expected to create an effective organisation. (Pierce, Gardner & Dunham, 2002, pp.66-67)

2.11. SUMMARY

In this unit, we have discussed the contributions of the early management thinkers who have laid the foundation of modern management. Many of the modern management theories are mere extensions of the theories proposed by the early proponents in the field of management. Some of the concepts proposed by the early management contributors are still in vogue.

2.12. EXERCISES

1. What is scientific management? State the principles of scientific management.
2. Briefly describe the fourteen principles of management as proposed by Henri Fayol.
3. What are the major principles of Bureaucratic management?
4. Identify the possible disadvantages of bureaucracy.
5. What are the major lessons, we have received from the Hawthorne studies?
6. Compare and contrast the scientific and behavioural school of thought.
7. What is management science?
8. Mention some of the operations management techniques that are applied to managerial situations.
9. Describe the 7-S factors mentioned in the McKinsey 7-S framework.
10. State the management practices that are proposed in Theory Z.
11. Write short notes on:
    a. Systems theory
    b. Contingency theory
    c. The Managerial Role approach
    d. The Excellent criteria approach
    e. The TQM approach

2.13. FURTHER READINGS

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UNIT – 3

FUNCTIONS OF MANAGEMENT

UNIT – 3

FUNCTIONS OF MANAGEMENT

Objectives:

The objectives of this unit are to:

- discuss the different levels of management;
- describe the functions of management;
- specify the managerial skills; and
- explain the different types of managerial roles.

Structure :

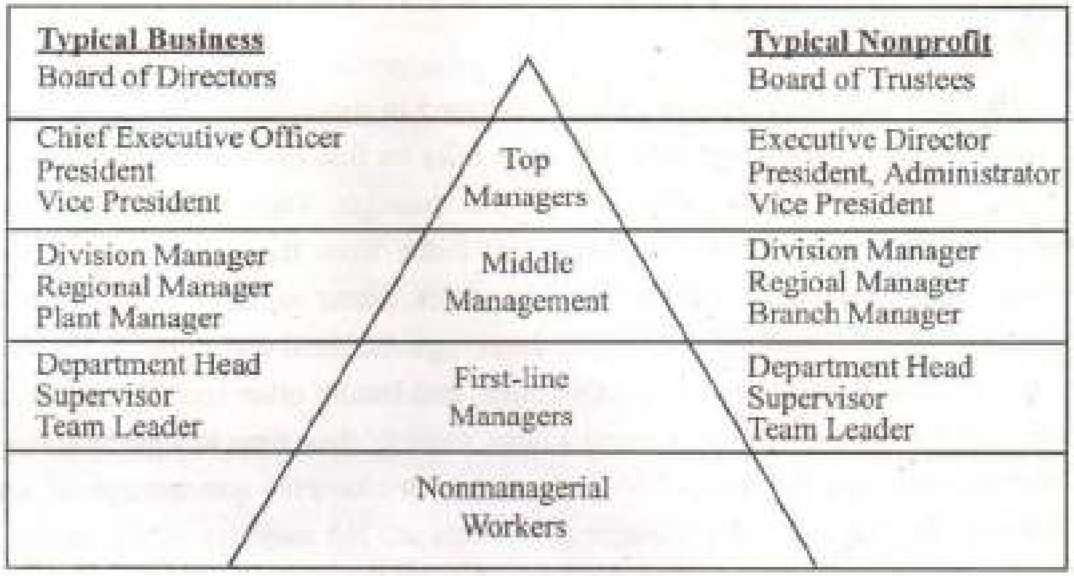
3.1 Introduction

Management is the process of planning, organising, leading and controlling for the optimum utilization of the organisational resources, so that the organisational goals are effectively and efficiently achieved. In the light of this definition, we shall explain in this unit, the functions of management. The levels of management, different managerial skills and roles and their relations with the managerial levels have also been discussed in this unit.

3.2 Levels of Management

Management involves in different types of activities. These are carried out at different levels of organisational structure. The stage or level in the organisation where a particular type of managerial function starts is called a level of management. In every organisation, there is a managerial hierarchy or chain of command consisting of several levels of authority. The level of management, therefore, refers to a line of demarcation between different management positions in an organisation. However, the number of managerial levels differs from organisation to organisation.The number of levels of management increases when the size of the business and workforce increases.Becouse, there is a limit to the number of subordinate a person can supervise. Generally we can find three levels of management in business organisations, and they are the top-level management, middle-level management, and first-level management However in case of a very big organisatin, the middle management level may be subdivided into upper middle management and lower middle management. The managers are categorized on the basis of their level in the organisation. As per the organisational hierarchy, we have top managers, middle managers, and first-line managers. The hierarchical relationship of managerial and non-managerial employees in an organisation is best depicted by a figure similar to a pyramid as shown below in Figure 3.1. We have shown the management levels of a typical business enterprise and a non-profit organisation in the below figure.

Fig. 3.1: MANAGEMENT LEVELS IN TYPICAL BUSINESS & NON-PROFIT ORGANISATIONS



Source: Source: ***Management***, *10/e, John R. Schermerhorn, Jr., John Wiley & Sons, Inc.*

The organisational hierarchy is usually pyramidal in shape because we have less number of people at the top and the number increases as we move down the hierarchy. At the apex of the pyramid we have the **top managers**; the titles they may have are the chairman of the board, board of directors, president, chief executive officer, and group vice-president. There are few top managers in an organisation. The top managers craft the organisation's goals, overall strategy and operating policies. They are responsible for the overall coordination and performance of a firm or for one of its larger parts. They scan the external environment, identify the opportunities and threats, and develop appropriate ways to exploit the opportunities and combat the threats. The best top managers are "future oriented strategic thinkers" who make many decisions under highly competitive and uncertain conditions. The jobs of the top managers are complex and varied.

The **middle-level managers** are in charge of departments or divisions consisting of several smaller work units. This level includes titles like divisiona' manager, plant manager, vice presidents of functional areas, sales manager, and unit manager. These managers are typically defined in terms of their reporting relationships in the organisations. The middle managers are responsible for implementing the plans and policies formulated by the top managers and for supervising and coordinating the activities of the first-level managers. They are considered as the "principal internal managers" of the company since they spend most of their time managing the day-to-day operations of the business.

The **first-line managers** are mainly engaged in supervising and coordinating the activities of the operating employees. Common titles for first-line managers are supervisor, foreman, coordinator, team leader, and project manager. These positions are held by employees who are entering the managerial cadre from the ranks of the operating personnel. Such managers ensure that their work teams or units meet performance objectives that are consistent with higher level organisational goals. They supervise the day-to-day operations of their respective units, and handle other routine administrative duties. The first-line supervisors spend a large share of their time to supervise the work of their subordinates. Below the first-line managers we have the non-managerial workers of the organisation. The non-managerial workers are the majority in the organisation and they are basically engaged in the "doing" function of the organisation.

3.3 Functions of Management

All managers irrespective of their nature and status have to perform certain functions in their organisations in order to get things moving. But there is no unanimity among the experts regarding the functions which are to be included in the management process. Moreover, the functions of management have been classified by the management writers in different ways. For example, **Henri Fayol** has specified planning, organizing, commanding, coordinating and controlling as the functions of management. According to **Gulick**, planning, organising, staffing, directing, coordinating, reporting and budgeting are the functions of management. **Haynes and Massie** classified the management functions as decision-making, organising, staffing, planning, controlling communication and directing. **Ernest Dale** opines planning, organising, staffing, directing, innovation and representation are the functions of management. **Koontz and O'Donnell** believe planning, organising, staffing, directing and controlling are the functions of management. We have classified the management functions in this unit as - planning, organising, leading, and controlling on the basis of the views expresses by the experts in the contemporary literature.

FUNCTIONS OF MANAGEMENT

- Henri Fayol : Planning, Organising, Commanding, Coordinating and Controlling
- Gulick : Planning, Organising, Staffing, Directing, Coordinating, Reporting and Budgeting [POSDCORB]
- Haynes and Massie : Decision-making, Organising, Staffing, Planning, Controlling, Communication and Directing
- Ernest Dale : Planning, Organising, Staffing, Directing & Controlling, Innovation and Representation
- Koontz and O'Donnell: Planning, Organising, Staffing, Directing and Controlling
- Bddle and Evenden: Policy making,, Planning, Organizing, coordinating and Controlling.

There have been numerous attempts to categorize the management functions. More recently, however, there has been a growing consensus that four major functions appropriately represent management responsibilities. These functions are as follows:

1. **Planning:** Planning is the process of "setting performance objectives and determining what actions should be taken to accomplish them. Through planning, a manager identifies desired results and ways to achieve them."

2. **Organising:** Organising involves "determining the specific activities and resources that will be needed to put the business plan into effect, as well as making decisions about how work authority, assignments, and responsibilities should be allocated and coordinated. In other words, it is the process of assigning tasks, allocating resources, and coordinating work activities."

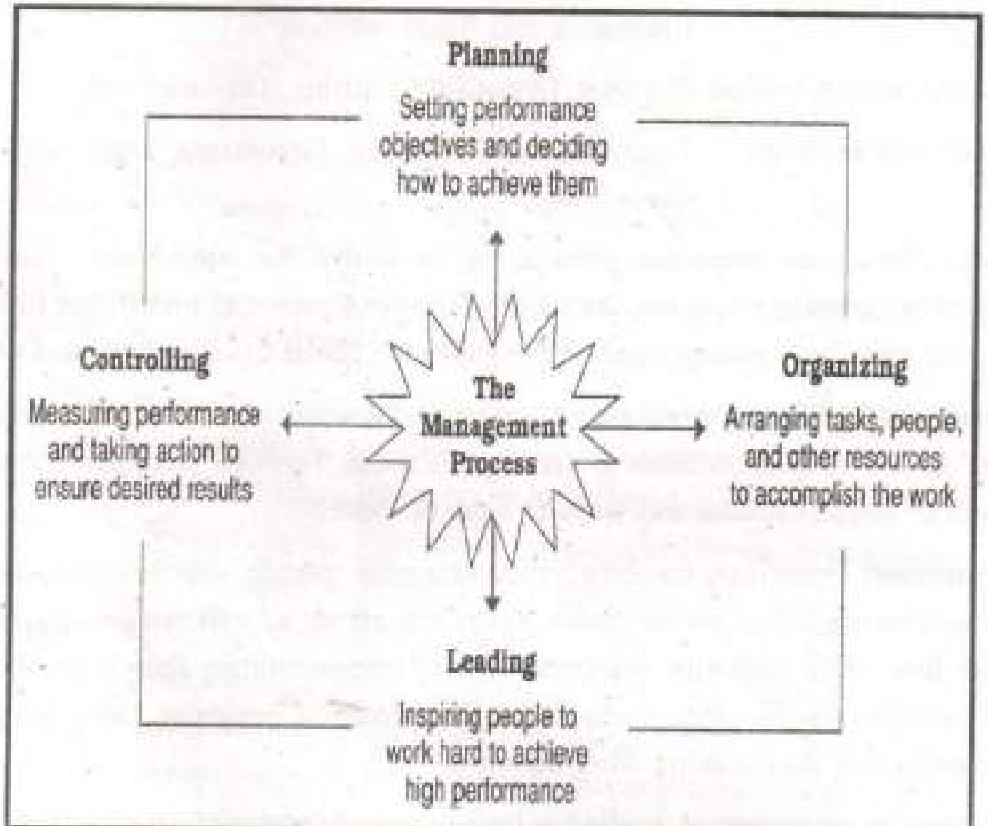
3. **Leading:** In management, leading is the process of "arousing people's enthusiasm to work hard and inspiring their efforts to fulfill plans and accomplish objectives. Through leading, managers build commitments to a common vision, encourage activities that support goals, and influence others to do their best work in the organisation's behalf."

4. **Controlling:** The management function of controlling is the process of "measuring work performance, comparing results to objectives, and taking corrective action as needed. Through controlling, managers maintain active contact with people in the

course of their work, gather and interpret reports on performance, and use this information to plan constructive action and change." In today's dynamic environment, such control and adjustment are indispensable. Generally what we find is that the things don't move as they are anticipated, so there is a need for the modification and refinement of the plans accordingly for future success.

These four functions and their interrelationships are shown in the Figure 3.2

Figure 3.2: FOUR FUNCTIONS OF MANAGEMENT



Source: Management, 10/e, John R. Schermerhorn, Jr., John Wiley & Sons, Inc., pp-19

3.4 Levels and Functions of Management

In this section, we intend to discuss the relative importance of all the four management functions severally for each of the three broad levels of management.

The **top managers** spend the most of their time, and exert the greatest influence, in the planning function. "Their unique perspective on the organisation overall, coupled with their working knowledge of the firm's external environment, makes top managers the ideal candidates to spearhead the planning efforts of the company."

Middle-level managers are involved to a moderate extent in most of the management functions. But they are responsible for the control activities at their level to a great extent. The middle-level managers need not shoulder the major responsibility for any of the managerial functions at the organisational level, but they are expected to exhibit some competence in all managerial tasks. This expectation places difficult demands on middle-level managers. They must be at least moderately talented in every major managerial function so that they are successful in their jobs.

The **First-line managers** get their main responsibilities in the leadership function since they have to deal with relatively a large number of employees. The responsibilities of the first-line managers with respect to the organising and controlling functions are moderate in importance, and their involvement in the organisation's 'strategic planning' function is low. But the influence of lower-level managers in short-term planning is considerable.

(Pierce & Robinson, 1989, pp.13)

In Figure 3.3 we have shown the relative importance of the management functions with respect to the levels of management.

Figure: 3.3 RELATIVE IMPORTANCE OF THE MANAGEMENT FUNCTIONS

Management Level	Typical Titles	Management Functions			
		Planning	Organising	Leading	Controlling
TOP	President, Chief Executive Officer, Chairman of the Board, Vice President, Group Vice President	HIGH	MEDIUM	LOW	MEDIUM
MIDDLE	Comptroller, Departmental Head, Sales Manager, Unit Manager	MEDIUM	MEDIUM	MEDIUM	MEDIUM
FIRST-LINE	Supervisor, Foreman, Project Manager, Coordinator	LOW	MEDIUM	HIGH	MEDIUM

Source: Management, John A Pearce II & Richard B Robinson Jr., McGraw-Hill International Editions, 1989

3.5 Management Skills

With the development of time and the changes in organisations, the nature of managerial work has evolved. The set of skills required on the part of the managers is also changing. A manager's success at any of the three levels of management depends in part on the managerial skills that they possess.

A **skill** is the "ability to translate knowledge into action that results in desired performance". **Robert L. Katz** has classified the essential skills of managers into three categories: **technical, human** and **conceptual.**

Technical skills include knowledge of and proficiency in a certain specialized field such as accounting, engineering, systems analysts etc. These skills are initially acquired through formal education and are further developed by training and job experience.

Human skill is the "ability to work well in cooperation with other people both individually and in a group. As the managers deal directly with the people, this skill is crucial. It emerges in the workplace as a spirit of trust, enthusiasm, and real involvement in interpersonal relationships. A manager with good human skills will have a high degree of self-awareness and a capacity to understand or empathize with the feelings of others."

Conceptual skills are the skills that help "the managers to think analytically and solve complex problems. With these skills, the managers are able to see the organisation as a whole, understand the relationships among various subunits, and foresee how the organisation fits into its broader environment."

According to Pearce and Robinson, the skills required by the managers can be grouped under seven different categories.

1. **Conceptual skills** involve a manager's ability to adopt the perspective of the organisation as a whole-to see the so-called big picture.
2. **Decision making skills** involve a manager's ability to choose an appropriate course of action from two or more alternatives.
3. **Analytical skills** involve the ability to properly use scientific and quantitative approaches, techniques and tools to solve management problems.
4. **Administrative skills** involve the ability of managers to execute organisational rules, regulations, policies, and procedures; to operate effectively within budgetary

constraints; and to coordinate the flows of information and paperwork within their group and among it and other groups.

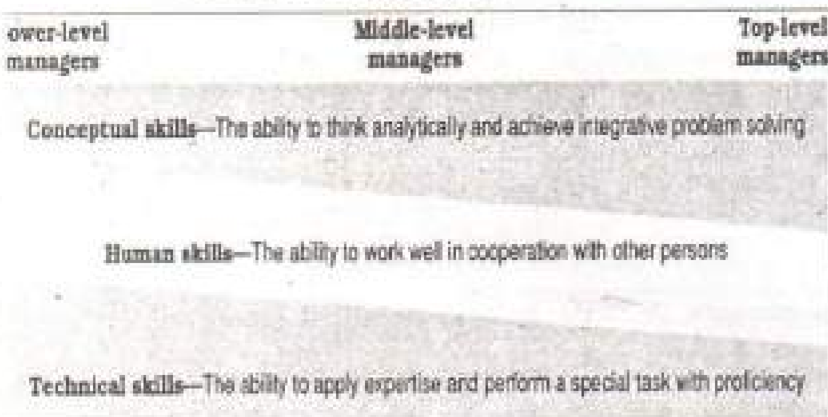
5. **Communication skills** involve the ability managers to transmit their ideas and preferences to others in both oral and written forms.
6. **Human relations skills** involve the ability of the managers to deal effectively with others both inside and outside the organisation who affect the success of the business.
7. **Technical skills** involve the specific competence to perform a task.

(The above discussion is based on the composite list of managerial skills developed by Pearce & Robinson from the work of R. Katz and L. Megginson.)

Political skills have recently been included in the list of necessary skills for the success of managers by several authors. Political skills can be stated as the ability to get the manager's own way without seeming to be selfish or self oriented. It is the ability to get his share of power and authority and use it without the fear of losing it.

3.6 Management Skills and Management Levels

The relationship between the managerial skills and the levels of management is depicted in Figure 3.4.



AL SKILLS

Source: Management, 10/e, John R. Schermerhorn, Jr., John Wiley & Sons, Inc., pp-24

According to Katz, all managers must have all of these three skills-technical, human and conceptual to be effective in their respective roles . He also pointed out that the skill levels required for successful managerial performance vary from level to level and from organisation to organisation.

The **technical skills** are more important at lower levels of management since these managers are dealing directly with the employees engaged in performing the organisation's task. These skills have a strong relationship with managerial success among first-level managers, and the relative importance of these skills decreases as one rises to upper-level management. **Human skills** are equally important at all levels of management. All the managers have to deal with people, though the number and nature of people dealt with at various levels of management vary. The **conceptual skills** are more important at the top management levels.

3.7 Managerial Roles

A **role** is the "part people play in fulfilling their responsibilities."

Mintzberg in his classic book, The *Nature of Managerial Work*, pointed out the ten managerial roles which are depicted in Figure 3.5.

Figure 3.5 MINTZBERG'S 10 MANAGERIAL ROLES

Source: Management, 10/e, John R. Schermerhorn, Jr., John Wiley & Sons, Inc., pp-21

The **interpersonal roles** are the roles that involve "interactions with people inside and outside the work unit, and other duties that are ceremonial and symbolic in nature." The three interpersonal roles include being a figurehead, leader and liaison.

The **informational roles** involve "the giving, receiving, and analyzing of information." The three informational roles include a monitor, disseminator, and spokesperson.

The **decisional roles** involve "using information to make decisions to solve problems or capitalize opportunities." This role is also known as the 'strategy-making' role.

Mintzberg identified four decisional roles-entrepreneur, disturbance handler, resource allocator, and negotiator. In Figure 3.6 we have mentioned these 10 managerial roles with their description.

Figure 3.6 MINTZBERG'S MANAGERIAL ROLES

Interpersonal	
Figurehead	Symbolic head; required to perform a number of routine duties of a legal or social nature
Leader	Responsible for the motivation and direction of employees
Liaison	Maintains a network of outside contacts who provide favors and information

Informational	
Monitor	Receives wide variety of information; serves as nerve center of internal and external information of the organization
Disseminator	Transmits information received from outsiders or from other employees to members of the organization
Spokesperson	Transmits information to outsiders on organization's plans, policies, actions, and results; serves as expert on organization's industry

Decisional	
Entrepreneur	Searches organization and its environment for opportunities and initiates projects to bring about change
Disturbance handler	Responsible for corrective action when organization faces important, unexpected disturbances
Resource allocator	Makes or approves significant organizational decisions
Negoptiator	Responsible for representing the organization at major negotiations

Source: H. Mintzberg, The Nature of Managerial Work, Harper & Row, 1973, pp 93-94

According to Mintzberg, these three managerial roles are interrelated. "As managers carry out their interpersonal roles, they come into contact with others. Through these interactions, they gain access to information that will be important to the organisation's future functioning. Possession of important information, when coupled with the manager's position of power and responsibility, makes the manager a central figure in organisational decision making. Thus, the interpersonal role leads to their informational role, which, in turn, when coupled with the power and responsibility of their organisational position, gives rise to their key decisional role."

3.8 Summary

In this chapter, we have understood that planning, organising, leading and controlling are the four major functions of management. These functions form the basis for the managerial process. Then we have discussed the different levels of management and its relationship with the functions of management. The set of managerial skills proposed by Katz has been elaborated. We have shown how the relative importance of the managerial skills varies with the change of the levels of management. The ten managerial roles mentioned by Mintzberg have been discussed.

3.9 Self-Assessment Questions

1. Describe the different levels of management.
2. Mention and define the four major functions of management, and explain how they are interrelated.
3. Discuss the various types of skills needed by effective managers.
4. "The managerial skill levels required for successful managerial performance vary from level to level and from organisation to organisation." Elucidate this statement.
5. Explain the managerial roles identified by Mintzberg.
6. Elucidate how the interpersonal, informational and decisional roles are interrelated.

3.10. FURTHER READINGS

1. Management- A Global Perspective by Heinz Weihrich and Harold Koontz, McGraw Hill

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MBA

Management Studies

(SEMESTER – I)

MBAE 1311
CORPORATE GOVERNANCE

BLOCK - 1

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MBA
(Management Studies)
(Semester – I)
MBA 1311

CORPORATE GOVERNANCE (CG)

BLOCK - 1

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CORPORATE GOVERNANCE (CG)

BLOCK -I

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MBA - 1311

Block – I

This block comprises of three units and aims to provide an introduction to the study of Corporate Governance

Unit 1:

Conceptual Foundation

Understanding a Corporation and its facets– Corporation as a Complex Adaptive System– Governance types– Governance and Management.

Unit 2:

Governance Theories

Governance theories–Separation of Ownership and Control–Instances of good and bad governance practices.

Unit 3:

Role of Directors

Directors vis-à-vis monitoring a corporation– Directors in historical perspective– Types of Directors.

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UNIT- 1

CONCEPTUAL FOUNDATION

UNIT- 1: CONCEPTUAL FOUNDATION

1.0 OBJECTIVES

After reading this Unit, you should be able to:

- Explain the concept and nature of corporate governance.
- State the objectives of corporate governance.
- Elucidate the importance of corporate governance
- Provide an overview of the origin and development of corporate governance.

1.1. INTRODUCTION

Corporate governance is an emerging topic of great significance. It has attracted the attention of people in the wake of repeated corporate frauds and failures across the financial capitals of the world making investors nervous everywhere. The fall of giant companies like Maxwell, Exco, and Enron destroyed the confidence of investors to such an extent that it led to a recession in many countries, including the USA and Japan. The need for an effective instrument of control and governance was felt acutely in the business world.

In response to this need, corporate governance was developed in the early nineties as a new device to protect investor funds and prevent corporate failures. Armed with a set of laws, codes, and guidelines, it acts as a powerful vehicle for sustainable corporate growth and business success.

There is a growing realization that corporate governance is as important to a country as to the world. As a result, international organizations like the World Bank, IMF, OECD, and EU have come forward to provide resources and support for developing and implementing strong corporate governance systems on a global basis.

Keeping this perspective in mind, this opening Unit has been prepared to focus on the introductory issues of corporate governance.

1.2 CONCEPT AND DEFINITION OF CORPORATE GOVERNANCE

The present concept of "corporate governance" (CG) is of recent origin. It has emerged as a major issue in the wake of massive corporate frauds and failures in the developed countries in the recent past. A look into the origin of the term will be helpful in understanding its correct meaning. The word "governance" has come from the Latin word "gubernare", which means to steer a ship or a state. Similarly, the word "corporate" is derived from the Latin word "corporare", which means to form a body of many individuals. Today, corporate, as an adjective, means anything relating to a company or corporation. It also means as a noun a company or corporation, depending on the law of incorporation. Thus, the original meaning of corporate governance is to steer, that is, to direct and control a company for the achievement of its objectives. It will soon be clear to us the present meaning of the term is not much different from its original meaning.

Currently, many definitions of corporate governance are coming from different directions. But, the most comprehensive definition has been given by the Organization for Economic Cooperation and Development (OECD). According to the OECD:

Corporate governance is a system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board, managers, shareholders, and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance.

The definition makes it clear that corporate governance is mainly concerned with the distribution of rights and responsibilities among different participants of a company in such a way as to ensure greater accountability, transparency, and fairness to the shareholders and other stakeholders. The development of an efficient CG system requires the efforts of many internal and external parties.

1.3 CHARACTERISTICS OF CORPORATE GOVERNANCE

The analysis of the broad definition of corporate governance given by the OECD brings out its basic characteristics. The characteristics are as follows:

1. Corporate governance (CG) is a system of directing and controlling joint-stock companies. The system is designed to ensure greater accountability, transparency and fairness not only to the shareholders but also to all other stakeholders such as customers, employees, investors, the government, and the society as whole. Modern concept of CG is based mainly on the stakeholder theory.
2. The system of CG in a country is developed, implemented and monitored by a host of internal and external parties. The internal parties include board of directors, subcommittees of the board (such as audit committee and remuneration committee), executive committees, senior managers, shareholders and heads of internal control systems. The external parties to CG are accounting and regulatory authorities, government agencies, international bodies, industry associations, expert committees, legislators, external auditors and voluntary associations. All the internal and external parties have a role to play in the formulation and operation of an efficient CG system in the country.
3. CG is basically concerned with the distribution of rights and responsibilities among the different participants of a company. The main participants are the board of directors, managers, shareholders, employees, and other stakeholders. This can be done by developing at the top an appropriate structure of authority for direction and control with adequate provision for checks and balances to ensure transparency and fairness.
4. CG system of a company is not simply a bundle of rules, regulations, laws and procedures. It is not the same as corporate management. It is a philosophy and a strategy to look into the broader social and economic context of the corporate organization so to protect the interests of all parties. Every company has the right to develop its own CG system in keeping with the national laws and codes. The system may be better than the national standard. Obviously, the system of CG differs from company to company.
5. The code of CG cannot be the same in all countries. It is influenced by political, legal, economic, and social conditions in each country. Clearly, every country has a unique CG code which is responsive to the changes in the external environment and internal conditions.

1.4 IMPORTANCE OF CORPORATE GOVERNANCE

The importance of good corporate governance (CG) cannot be overstated. There is a consensus that a good CG is essential for the betterment of companies, countries and the world. In the present economic scenario, joint-stock companies act as the prime vehicle for investment, employment, trade and development in all countries. They are as much important to a country as to the world. If the companies, especially the multinational companies, are not by a strong corporate governance system, global and national economies are bound to suffer a serious setback with adverse impact on their economic growth. In view of their importance to the global development agenda, CG issues are getting high profile support from such international bodies as the World Bank and OECD[1]. Despite two decades of globalization and rapid growth in some countries, it has been estimated that there are still 1 billion people living on less than US $1/a day and twice that number without access to electricity and clean water. The problem cannot be solved without the cooperation of responsible companies with a track record of good CG. In the words of former World Bank President, James Wolfensohn,[2] “the governance of the corporation is now as important to the world economy as to the government of countries”.

Companies, especially the large MNCs, have an enormous impact on citizens of several countries across the globe. Their failures can affect the interests of many people in many countries, although the impact will not be the same for all. It is, therefore, important to strengthen their administrative and financial systems using the best CG practices.

Good CG is necessary to ensure a high degree of transparency, disclosure, and fairness in managerial decision-making and financial reporting. It includes a combination of laws, rules, regulations procedures, and voluntary practices to enable companies to maximize long-term value for shareholders and other stakeholders. From a broader perspective, CG is expected to contribute to the success, growth, and development of a company in the interest of all stakeholders, including society. Good CG has a special role to play in developing countries like India in attracting foreign investments, both direct and portfolio. The countries that have strong CG systems generally attract more foreign investments than those with poor CG systems. To attract more foreign investments, Indian companies must adopt internationally accepted standards of CG practices.

The importance of CG also arises from the fact that it can reduce corruption by encouraging companies to practice values and ethical codes of conduct. A reduction in corruption significantly enhances the prospect of higher profitability and growth.

1.5. DIFFERENCE BETWEEN COMPANY AND CORPORATION

The terms ‘‘Company’’ and ‘‘Corporation’’ appear frequently in the literature on corporate governance and related subjects. This creates a confusion in the minds of the readers as to whether they are the same or different. The confusion needs to be removed at the earliest opportunity the convenience of learners.

Basically, there is no difference between a company and corporation from organizational point of view. Both are joint-stock companies with identical features. Both of them are incorporated associations with perpetual succession, common seal and artificial legal existence. They have other common features like limited liability, wide membership, and separation of ownership from management and transferability of shares. The two names exist because the laws of incorporation under which they are set up are different. Companies are formed and registered under the Companies Act, which applies to countries like the UK, India, France, Spain, Japan and New Zealand. Corporations, on the other hand, are formed and registered under the Corporations Act which exists in countries like the USA and Australia.

In the USA, corporation law is a state subject. Every state is empowered to enact its own Corporations Act. Thus, 50 states of the USA may have 50 Corporations Acts. Since the USA is the largest economy in the world with the highest number of listed corporations, many of which are multinationals, the term “Corporation” is widely used throughout the world. But it is the same as the company. Therefore, the two names are interchangeable. Since there are varieties of corporations in different parts of the world, those formed under the Corporations Act are known as business corporations.

It may be noted in this connection that in India we have some specific corporations like public corporations and municipal corporations. While public corporations are state-owned organizations, municipal corporations are a part of the local government that administers cities and towns. Public corporations are set up in India under a special law of the parliament. They may or may not be business entities.

1.6. ORIGIN AND DEVELOPMENT OF CORPORATE GOVERNANCE

The concept of ‘‘corporate governance’’(CG) as a comprehensive system of direction and control is of recent origin. It was developed in the early 1990s by the government; industry and professional bodies as an answer to widespread corporate malpractices, frauds and failures in the USA and the UK.

The impact of corporate failures on the economies of developed countries was so great that it led to global financial crisis. The Asian countries, especially those of south-east Asia were the worst sufferers and Japan an economically powerful nation, fell into recession. This is quite natural because in a globalised world dominated by multinational companies, the collapse of a company in any country will affect economies of many countries, particularly those where its subsidiaries or branches are located.

Although CG took shape only recently as a new system of direction and control, superimposed on traditional management structure, its genesis can be traced to the basic weakness of the corporate form arising from the separation of ownership and control. The equity shareholders who provide risk capital to the company do not take part in the management for many reasons. In such a situation, there is always a possibility that the promoters, directors and top managers will one day fall prey to their greed and cheat the investors of their hard-earned money. Adam Smith, the guru of capitalism knew this. In his influential book, 'The Wealth of Nations' he said that company directors were not likely to be as careful with other people's money as with their own. The truth of this statement is evident from the instances of repeated corporate scandals across the globe.

For years, people relied on corporate laws and regulatory mechanisms to protect their investment in companies. But the laws and regulations failed to stop corporate corruption and failures. To stem the rot, professional bodies and industry associations with the help of government have introduced sophisticated accounting standards and financial reporting standards to companies in many countries, including India. The objective of these standards is to protect the interest of the investors by promoting the concept and practice of more disclosure, transparency, accountability, and fairness in every possible way. But nothing did work and vulnerable companies continued to fall like a house of cards despite all safeguards. In this backdrop, the corporate governance system has been developed to increase investor confidence in the safety of their funds by strengthening the financial and administrative systems of companies. The process of developing the system is going on at many levels all over the world.

Historically speaking, the origin of modern CG can be traced to the Watergate scandal in the USA during Nixon's Presidency (Fernando, 2006:20). The investigation into the scandal revealed that big corporations made illegal contributions to political parties and bribed government officials for private gain. This led to the passing of the Prevention of Corrupt Practices Act in 1977. The Act provides for the review and strengthening of internal control systems of companies.

In spite of this Act, a series of high-profile business failures took place in the USA in 1985. Based on the recommendations of the investigating committees that looked into the causes of those failures, the US Government introduced a series of control measures through the Securities and Exchange Commission for the orderly functioning of business corporations in the country. These initiatives are considered to be the pioneer or corporate governance framework that emerged after a few years.

The corporate failures in the USA badly affected economies of many countries, including the UK. The UK government was then trying to tide over the crisis by tightening the corporate laws and forming new regulatory bodies. But before it could put its house in order, the country was shocked by large-scale corporate fronds that exposed serious weakness in the corporate management and control systems. The collapse of big companies like Polly Peck International, Maxwell, BCCI, Exco and Coloroll in late 1980s and early 1990s raised big questions in public minds about the authenticity of corporate reports and the accountability of boards. The investors turned their back on the companies. Stock indices fell sharply creating panic in the capital market. As a result, the British economy came under severe pressure causing political and social unrest in the country. Faced with such an alarming situation, the UK Government set up in 1991 a powerful committee under the chairmanship of Sir Adrian Cadbury, then chairman of the Bank of England. The Committee Published its report in December 1992, recommending the ‘‘Code of Best Practice’’ for corporate governance of listed companies. The Cadbury Code is the first model of corporate governance in the world. It is a milestone in the history of CG for two reasons. First, it provided an ideal basis for developing standard CG practices. Second, it gave birth to a movement for better CG throughout the world. However, it should be noted that the Cadbury Code was optional, and not mandatory, for companies.

Corporate failures seem to spread like an epidemic Closely on the heels of corporate frauds in the UK, the USA came under another spell of scandals between 2000 and 2002. This time the scandals were of greater magnitude involving large firms such as Enron, WorldCom, Arthur Anderson, Quest, and Globall Crossing. The fall of Enron, the world’s largest energy trading company in 2002, brought down the house of the famous audit firm, Arthur Anderson, the same year. The meltdown of WorldCom started in 2001 and it was in ruins by June 2002. Faced with such a grim situation, the US Congress passed the Sarbanes Oxley Act (briefly known as the SOX Act) in 2002. The Act represents the CG code of America with two important differences.

First, unlike the Cadbury Code, provisions of the SOX Act are mandatory for the companies listed with the US stock exchanges. Second, the requirements of CG under the Act are far more stringent than those of any other Act or Code in the world. Unfortunately, even the SOX Act failed to stop the rot and companies continued to down their shutters leading to economic recession in the USA and a wider financial crisis in Europe. This proves that the problem of corporate mismanagement and fraud is deeper than meets the eye. Therefore, it was felt that the collective efforts of professional bodies, governments, and international agencies were necessary to develop one effective system of CG.

After the publication of the Cadbury Report in 1992, the member countries of the OECD and EU showed keen interest in developing their own standards of CG. Realizing the importance of CG to regional and global economic development, a number of prominent international agencies have come forward to support and promote the issue. For example, the OECD developed and published the principles of CG in 1999 to enhance the standards of governance in various countries. The principles were reviewed and revised in 2004. Although OECD principles are non-binding, they have found acceptance even to countries outside the group. The World Bank has also initiated efforts to promote international standards of corporate governance based on OECD principles. In addition, the IMF has started producing reports showing the extent to which various countries observe internationally recognized standards and codes.

Recently, the OECD and the World Bank have jointly set up the Global Corporate Governance Forum (GCGF) for a wider role. The objective of the forum is to bring together the leading groups in governance issues such as banks, companies, governments, and professional standard-setting bodies. It also plans to provide assistance to the developing countries on CG.

Another international initiative is the establishment of the International Corporate Governance Network (ICGN). Its objective is to facilitate international dialogue on CG issues. It works in close collaboration with the OECD and the World Bank. The EU is not lagging behind in the field of CG. It has formulated an action plan for modernizing company law and enhancing corporate governance in member countries. Another important development is the publication of Basle Committee Guidelines (1999) on CG for the banking sector. The guidelines are intended to develop standard CG practices in banks across the world.

Thus, it is clear that CG has been developing rapidly all over the world. India has also taken some remarkable steps in developing CG practices in line with international standards. If the world has to be saved from the frequent shocks and tremors of corporate failures, CG has to be strengthened through regional and global cooperation.

1.7. LET US SUM UP

The present concept of corporate governance (CG) is of recent origin. It has emerged during the last 15 years as a major instrument to improve corporate performance and protect investor funds. The best definition of CG has of course come from the OECD. The OECD defines it as a system by which business corporations are directed and controlled. The system of CG consists of a corporate control structure with a body of laws, rules regulations and procedures. The structure spells out the distribution of rights and responsibilities among the participants in the corporation. The main participants are the board of directors, managers and shareholders CG practices today are designed to take care of the interests of all stakeholders.

There are distinct characteristics of CG. It is a broad system of direction and control for increasing the long-term shareholder value and protecting the interests of all other stakeholders. It is applicable to all organizations. The CG system is developed and implemented by a host of internal and external parties. Obviously, it is not the same for all companies. It also differs among the countries as the political, social, legal, and economic systems of a country have a significant influence on its formulation and implementation.

In the literature on corporate governance, the two names "company" and "corporation", are used in the same sense. There is no basic difference between them except the law of incorporation. Companies are formed under the Companies Act which is common to countries like the UK and India. Corporations are formed under the Corporations Act which prevails in countries like the USA and Australia.

CG is conducted with some specific objectives that serve to focus on its importance in today's competitive environment. It plays a vital role in the betterment of companies, countries and the world as a whole. It is now linked with the global development agenda. For this reason, the World Bank and OECD are providing high-profile support to the CG issues. Good corporate governance offers many benefits which are of special importance to the developing countries like India.

1.8. EXERCISES

1. Define corporate governance (CG) and explain its nature and importance.
2. 'The governance of the corporation is now as important to the world economy as to the government of countries.' Elucidate the statement.
3. What are the common objectives of good corporate governance?
4. Do you perceive any difference between a company and a corporation? If so, what is that?

1.9. SUGGESTED READINGS

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UNIT- 2

GOVERNANCE THEORIES

UNIT- 2: GOVERNANCE THEORIES

2.0 OBJECTIVES

After reading this Unit, you should be able to:

- Gain an insight into the problem arising from the separation of ownership from control in companies.
- Discuss the theories of corporate governance.
- Identify the obstacles to the global convergence of corporate governance practices.

2.1. INTRODUCTION

The governance problem of companies is as old as the corporate business itself. Administrators, economists, sociologists, psychologists, and others have been working for a long to find a satisfactory answer to the basic problem that arises from the separation of ownership from management in joint-stock companies. As a result, several theories of corporate management have been developed over the years. The theories are now being used in different countries as the basis for building suitable models of modern corporate governance. The theories are all known as the theories of corporate governance.

2.2. SEPARATION OF OWNERSHIP FROM CONTROL IN CORPORATE ORGANIZATIONS

Joint-stock companies are characterized by separation of ownership from control. Shareholders, more specifically the equity shareholders, are the collective owners of a company. They provide risk capital to the company for which they enjoy some rights and privileges. They are also the ultimate source of authority and power in the company they own. But they do not have any role in its management and direction. There are many reasons for which shareholders cannot take part in the management of their company. First, shareholders are large in number. Secondly, they do not know one another. Thirdly, they are spread over a vast geographical area. Fourthly, they have no specialized knowledge of management. Finally, they are only interested in investment, dividend and other gains.

The task of managing a company is delegated to directors and managers who control and manage the enterprise on behalf of the shareholders. Thus, directors and managers act as the agents of shareholders. Naturally, the cost of managing a company is known as agency costs from the point of view of shareholders. The agency costs mainly include the salaries and fringe benefits paid to directors and senior managers.

As agents of the shareholders, the top management should pursue the objective of maximizing the long-term shareholder value. But this does not happen in practice. In most cases, the objectives of directors and executives are different from those of shareholders. The divergence of objectives creates a lot of suspicion in the minds of shareholders about the safety of their funds. Adam Smith, the guru of capitalism, has observed in his influential book "The Wealth of Nations" (1776) that company directors are not likely to be as careful with other peoples' money as with their own.[1] In reality, we find that directors and senior managers often fix their own remuneration at a very high level. This goes directly against the interests of shareholders. The matter is so serious that an expert committee known as the Greenbury Committee was appointed in the UK in 1995 to examine the issue of directors' remuneration. Diversion of funds and wrong use of resources to meet the greed of directors sometimes cause enormous financial loss to the shareholders bringing down the company. This has been illustrated by the fall of Satyam Computer Services where the MD and CEO, B.R. Raju, committed the biggest corporate fraud in India in 2008 amounting to Rs 10,000 crore by fudging bank balances and diverting funds to other concerns.

Thus, it is evident that the separation of ownership from control lies at the root of many corporate malpractices. An effective corporate governance system can go a long way in assuring the shareholders that directors and managers will make the best use of their funds for generating long–term wealth for them.

2.3. THEORIES OF CORPORATE GOVERNANCE

In this unit, three popular theories are presented in order to help you understand the basic reason for developing a broader view of the modern corporate governance system. The theories are: i.) The Agency theory, ii) The Stewardship Theory, and iii) The Stakeholder Theory.

2.3.1. The Agency Theory

The development of agency theory can be traced back to Adam Smith (1776), who in his classical book, "The Wealth of Nations", referred to managerial negligence as the most important problem of joint-stock companies. According to this theory, shareholders as owners are the principals of a company. By virtue of their ownership, the principals define the objectives of a company. The management, selected by shareholders to pursue such objectives, are the agents. While the principals generally assume that the agents would invariably carry out objectives set by them, it is often not so.[2] In many instances, the objectives of managers are different from those of the shareholders. For instance, a chief executive may want to increase his managerial empire and personal stature by using the company's funds to finance an unrelated diversification, which could reduce long-term shareholder value. The shareholders and other stakeholders of the company may not be able to prevent this because of inadequate disclosure about such a decision. Also, they may be too scattered to effectively stop such a move. Such mismatch of objectives is called the agency problem and the cost inflicted by such deviation is called the agency cost. The purpose of corporate governance is to design and put in place a system of disclosure, transparency and accountability in such way that the objectives of the two sets of players can be aligned as closely as possible to minimize agency cost and increase shareholder value.

There are two board mechanisms that help reduce agency costs and, hence, improve corporate performance through better governance. These are:

1. Fair and accurate financial disclosures: Financial and non-financial disclosure of information in accounts and statements certified by the independent, statutory auditors appointed by shareholders are supposed to present a "true and fair" view of the financial health of the corporation. Indeed, the quality and independence of statutory auditors are fundamental to ensure the authenticity and adequacy of disclosures.

A company that discloses nothing is a threat to the investors. Improving the quality of financial and non-financial disclosures not only ensures corporate transparency among a wide group of informed investors and analysts, but also persuades companies to minimize value-destroying behaviour. This is precisely the reason why law insists that companies prepare their audited annual accounts for distribution to all shareholders and submission to the Register of companies. This is also why a good deal of effort in global corporate governance reform has been directed to improving the quality and frequency of disclosures.

2. Efficient and independent board of directors: A joint-stock company is owned by the shareholders, who appoint directors to supervise management. The directors must direct and control the management to ensure long-term shareholder value. Directors are trustees of the shareholders, not of the management. They are appointed by the shareholders. They are accountable only to the shareholders. The independence of the board has presently become the key issue in determining the standard of corporate governance of a company.

2.3.2 Stewardship Theory

The stewardship theory has its roots in psychology and sociology. It was designed to examine situations in which executives as stewards are motivated to act in the best interest of their principals, that is, the shareholders. It is an extension of the agency theory. It is important to note here that both the agency and the stewardship theory are known as the shareholder theory as they seek to enhance mainly the shareholder value. The stewardship theory assumes that managers are basically trustworthy and attach much importance to their own personal reputations. The market for managers with strong personal reputations serves as the primary mechanism to control behaviour, with more reputable managers being offered higher compensation packages. Financial reporting, disclosure, and auditing are important mechanisms, but there is a fundamental presumption that these mechanisms are needed to confirm managers' inherent trustworthiness.

Stewardship theory has three basic conditions:

- The theory defines situations in which managers are not motivated by individual goals, but rather they are stewarding whose motives are aligned with the objectives of their principles.
- Given a choice between self-serving behaviour and pro-organizational behaviour, a steward's behaviour will not depart from the interests of his/her organization.
- Control can be potentially counterproductive, because it undermines the pro-organizational behaviour of the steward by lowering his/her motivation.

The greatest barrier, however, to the adoption of stewardship theory of governance lies in the risk propensity of principals. Risk-taking owners will assume that executives are pro-organization. They naturally favour stewardship governance mechanisms. While the risk-averse owners do not favour the extension of the power of the board. However, these concepts of stewardship and trusteeship are not new. The sacred scriptures, both in India and Christendom, emphasize the almost filial relationships between the rulers and the ruled. Gandhiji too elaborated the concept of trusteeship to make Indian industrialists better understand and appreciate their roles and responsibilities towards their employees. Though the agency theory and stewardship theory have many things in common, there are certain differences between them. The Table 2.1 shows the differences between the two theories.

Table 2.1 Differences between agency theory and stewardship theory

Agency Theory	**Stewardship Theory**
Managers act as agents.	Managers act as stewards.
Governance approach is materialistic	Governance approach is sociological and psychological.
Behaviour patterns is : • Individualistic • Opportunistic • Self - serving	Behaviour pattern is: • Collective • Pro – organisations • Trustworthy.
Managers are motivated by their own objectives	Managers are motivated by the principal's objectives.
Interests of the managers and principals differ.	Interests of the managers and principals converge.
The role of the management is to monitor and control.	The role of the management is to facilitate and empower.
Owners' attitudes is to avoid risk.	Owners' attitudes are to take risks.
Principal – Manager relationship is based on control.	Principal – Manager relationship is based on trusts.

2.3.3. The stakeholder Theory

To understand the theory, it is first necessary to understand the stakeholder concept. According to the Stanford Research Group, stakeholders are those groups without whose support the organization would cease to exist. After considering different perceptions, Max Clarkson has offered the following definition of stakeholder theory:

The firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firm's activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services.

In stakeholder theory, organizations are seen as multilateral agreements between the enterprise and its stakeholders. The relationship between the company and its internal stakeholders (employees, managers, owners) is defined by formal and informal rules developed through the history of the relationship. This institutional setting and resources create strategic possibilities for the company. While management may receive finance from shareholders, they depend on employees to fulfil strategic intentions. External stakeholders are equally important but relationships with customers, suppliers, competitors, and special interest groups are also constrained by formal and informal rules. Finally, governments and local communities set the legal and formal rules within which businesses must operate.

The stakeholder theory argues that corporations should not be regarded as bundles of assets that belong to shareholders. Rather they should be treated as institutional arrangements for governing the relationships between all of the parties that contribute firm-specific assets. This includes not only shareholders, but also long-term employees who provide specialized skills of value to the corporation, and suppliers, customers, and others who participate in the value creation for the corporation. If job of corporate management is to maximize the total wealth created by the enterprise rather than just the value of the shareholders' investment, then management must take into account the effect of corporate decisions on all stakeholders in the firm.

In practice, executives of leading companies have always utilised elements of the stakeholder approach. As firm-specific skills become an increasingly important part of the firm's valuable assets, and as corporate constituencies become increasingly alert and demanding, likely, corporate managers will likely increasingly adopt a stakeholder perspective. This will happen despite pressure to increase shareholder value.

The growing emphasis on customer relations, employee relations, supplier relations, and investor relations is an indication that managers have to grapple with the imperatives to satisfy the interests of more complex constituencies than shareholder theory would suggest. The conception of the company as a set of relationships rather than a series of transactions, in which managers adopt an inclusive concern for all stakeholders, is much closer to European and Asian business values. It represents an important step towards a sense of corporate citizenship - an organization with a mature appreciation of its responsibilities to society.

2.4. CONVERGENCE of CORPORATE GOVERNANCE PRACTISES

At present, there is a diversity in corporate Governance (CG) practices of different countries. The diversity arises mainly from differences in political, economic, legal and social systems of countries. But global convergence or uniformity of CG practices is an important agenda of this country. It has become all the more important in the context of the globalization of economies and harmonization of international accounting and financial reporting standards. The convergence will require blending of different CG practices into an internationally acceptable code of CG practices. Experts are working for this at different levels. If it becomes a reality, every country will have to follow the international CG standards like international financial reporting standards (IFRS).

But careful analysis suggests that convergence of CG practices will not be an easy thing to do. There are several problems or obstacles to the process of convergence. Firstly, there are sharp differences in the social, economic, political and legal systems of countries. Secondly, the developmental perspectives, organizational structures and market conditions vary widely among the countries. Thirdly, and perhaps most importantly, organizational matters like business strategies and leadership styles are highly enterprise specific. They can never be the same for all companies. The case is the same for CG practices which are highly influenced by corporate values, objectives and strategies. Finally, it is argued that even it is possible to develop an international CG system, it will be difficult to implement it. Because implementation will require changes in domestic laws, judicial systems business practice and social norms. These changes are extremely difficult to make, if not impossible. Therefore, the process of convergence CG practices is likely to be slow and complicated.

2.5. LET US SUM UP

The main problem of governing companies arises from the separation of ownership from management. The shareholders are the owners of a company. But for many reasons, they do not take part in the management of the company they own As a result, the objectives of owners differ from those of management. The CG system tries to bridge the gap between the objectives of owners and managers.

CG practices are based on three theoretical platforms. The agency theory argues that shareholders as owners are the principals of the company and the management is their agent. As an agent, management must act in the best interest of the shareholders. The stewardship theory assumes that managers are basically trustworthy and attach much importance to their personal reputation. They are expected to align their objectives with those of their principals. The stakeholder theory states that a firm is a system of contractual relationships among various stakeholders. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services. The principles of modern CG are expected to give more importance to the stakeholder theory.

With the development of global accounting and financial reporting standards, there is a demand for global convergence of CG practices. Although convergence is desirable, there are some practical difficulties in the formulation and implementation of International Corporate Governance Standards (ICGS). In all probability, the proposed convergence will take more time to become a reality.

2.6. EXERCISES

1. Why is the separation of ownership from control called the most serious weakness of corporate organizations? Explain your answer.
2. Elucidate the agency theory and the stewardship theory of corporate governance. What differences do exist between the two theories?
3. Discuss the stakeholder theory and explain why it is gaining popularity in the corporate world.
4. State the obstacles to the global convergence of corporate governance practises. How far, in your view, is the prospect of convergence realistic?

2.7. SUGGESTED READINGS

1. Fernando, A.C. (2006). *Corporate Governance: Principles, Policies and Practices*. New Delhi: Pearson Education.
2. Rani, D. Geeta and Mishra, R.K. (2008). *Corporate Governance: Theory and Practice*. New Delhi: Excell Books.
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UNIT - 3

ROLE OF DIRECTORS

UNIT 3: ROLE OF DIRECTORS

Structure

After reading this Unit, you should be able to:

- Understand the concept of director.
- Examine the legal position of directors.
- State the qualifications and disqualification of directors.
- Describe the different types of directors.

3.1 INTRODUCTION

Directors govern the company on behalf of the shareholders who are its owners. They are not employees, managers, or servants of the company. They are the elected representatives of shareholders. To understand this point, it is necessary to know the status of a company. A company is an artificial person. It has neither a body nor a soul. Obviously, it cannot act itself. It can act only through the agency of some human being. And these human beings are known as directors. Shareholders elect them as their representatives to protect their interests. Legally, directors are the agents and trustees of the company. They are also the brains of the company. Therefore, directors must act in the best interest of the company and show total loyalty to it. Directors have been given extensive powers under the law. They can do what the company can do. Their powers are co-extensive with the powers of the company. But, it is not possible for them to exercise all the powers themselves. They delegate some of their powers to the managing director who is a full-time director and the CEO of the company.

The CEO is responsible for the day-to-day management of the company. He shares his powers and authority with other executives and managers. The board on its part can form a number of committees with specialized functions to oversee the management and exercise control.

In this Unit, you will learn about the legal position, powers, role, and types of directors in relation to the requirements of corporate governance practices in India and elsewhere.

3.2. CONCEPT OF DIRECTOR

A Company (or a corporation) is an artificial person in the eyes of the law. It has neither a body nor soul of its own. As such it cannot act itself. It can act only through some human agency, called directors[1]. Thus, directors are the agents of shareholders. They direct and control the affairs of a company on behalf of the shareholders. They are also the brain of a company. Companies Act, 1956 [Sec. 2(13)] defines a director as a person who occupies the position of a director. It does not matter whether he is called a director or not. The legal opinion is that if he occupies the position of a director and performs the duties and functions of a director, he would be called a director. However, from a broader point of view, a director can be defined as a person having control over the direction, conduct, management or superintendence of the affairs of a company. Simply put, a director is a person in accordance with whose direction the company is managed and controlled.

It may be noted in this connection that only an individual can be appointed as the director of a company. However, he does not enjoy any power in an individual capacity. Directors must act collectively as members of the board to exercise all powers vested in them. For this reason, the board of directors is known as the "plural executive".

3.3. LEGAL POSITION OF DIRECTORS

It is very difficult to pinpoint the exact legal position of the directors of a company. They are called by various names such as agents, trustees, or stewards. But, none of these expressions are indicative of their extensive powers and responsibilities. The names simply indicate some useful points of view, which are relevant to a particular purpose or situation. We may now examine the legal position of directors from different points of view as under:

1. Directors as agents

A company is an artificial person. It has neither a soul nor a body of its own. It cannot act itself. It can act only through directors who are agents of the company. Therefore, the general principles of the law of principal and agent regulate in most cases the relationship between the company and its directors.

2. Directors as employees

Since directors act as agents of the company; they cannot be treated as its employees. This is based on the assumption that, as elected representatives of shareholders, directors cannot hold office of profit in the company. The office of profit means a position carrying monthly remuneration and other benefits normally given to employees under a contract of service. However, the full-time directors appointed under the service contract can be treated as both directors and employees of the company. For certain matters, they can also be treated as officers of the company [sec. 2(30)].

3. Directors as trustees

Directors are treated as trustees of the company in respect of the following:

i. Company's money and property,
ii. Powers entrusted to them.

In the first place, directors are regarded as trustees of the company's money and property in the sense that they must account for all the company's money and property over which they exercise control. They have also to refund to the company any of its money or property, which they have improperly paid away or transferred.

In the second place, directors are seen as trustees of the powers entrusted to them in the sense that they must exercise all the powers honestly and in the best interest of the company. It has been decided in a landmark judgment that directors stand in a fiduciary relationship towards the company with respect to the powers and capital under their control. Therefore, they must act in the best interest of the company.

Thus, we can say that the directors are both agents and trustees of the company. This conclusion has been confirmed by various court decisions in the UK, USA, and India. Therefore, the directors must be loyal to the company and hold its interests above their personal interests.

3.4. NUMBER OF DIRECTORS AND DIRECTORSHIP

According to the Companies Act, the minimum number of directors is 3 for a public limited company and 2 for a private limited company. There is no maximum limit. Subject to the statutory minimum, the Articles of a company can fix the maximum and minimum number of directors for the board. The size of the board may be increased or decreased within the limits set by the Articles by an ordinary resolution in general meeting. But, any increase in the total number of directors beyond 12 will require the approval of the Central Government.

There is no ideal size of the board of directors in India. The Naresh Chandra Committee Report on corporate governance has suggested that the minimum board size of all listed and unlisted public limited companies with paid up capital and free reserves of Rs. 10 crore or turnover of Rs 50 crore should be 7, of which at least 4 should be independent directors. However, the Revised SEBI Rules for corporate governance are silent on the issue. This means that the company or its articles will decide the size of the board as per its requirements.

Regarding the number of directorships to be held by an individual, the law states that a person shall not hold the office of director at the same times in more than 15 companies. This is considered too much for a director. The reason is that, no person on the earth can have the expert knowledge of so many companies, especially when they are in different lines of business[2]. Considering this limitation, the revised SEBI rules for corporate governance state that a director shall not be a member in more than 10 committees or act as chairman of more than 5 committees across all companies in which he is a director. This is based on the recommendation of expert committees in India. The CII Code of Desirable Corporate Governance (1998) and the RBI Advisory Group Report (2001) clearly stated that no person should hold directorship in more than 10 companies. But, it was not accepted by the SEBI. The Companies Bill 2009 may take care of this issue.

3.5 QUALIFICATIONS AND DISQUALIFICATIONS OF DIRECTORS

A. Qualifications of Directors

According to the Companies Act, a director must -

a. be an individual

b. be competent to contract, and

c. holds a share qualification, if required by the Articles.

It is important to note in this connection that the law does not require a director to hold any professional or academic degree as a qualification. This is the biggest hurdle to the professionalization of management in India and other countries. The challenge is global rather than local.

The only qualification for a director is the holding of shares, which may be as small as just one share. The object of share qualification is to create the personal interest of the directors in the affairs of the company. But, the minimum limit of share qualification is so low that it makes little difference in the feeling or action of a director. It is important to note that there is no age limit for the retirement of a director in India or abroad. The Narayana Murthy Committee Report on Corporate Governance (2003) suggested that the retirement age of a director should be fixed at 65 or 70 years. However, the J.J. Irani Committee Report on Company Law (2005) does not support any retirement age for directors. SEBI rules are obviously silent on the issue.

B. Disqualification of Directors

The following persons are disqualified for appointment as directors of a company:

a. A person of unsound mind

b. An undischarged insolvent

c. A person who has applied to be adjudicated as insolvent and his application is pending

d. A person who has been convicted by a Court of any offense involving moral turpitude.

e. A person whose calls in respect of shares of the company held for more than 6 months have been in arrears.

f. A person who is disqualified for appointment as director by an order of the Court on the grounds of fraud or misfeasance in relation to the company.

g. A person is already a director of a public company which -

- i) has not filed the annual accounts and annual returns for any continuous three financial years; or
- ii) has failed to repay its deposit or interest thereon on the due date or redeem its debentures on the due date or pay dividend and such failure continues for one year or more.

When the disqualification of a director is detected during the tenure of service, he will cease to be a director. It is important to note that directors can be removed from office by:

- i. The shareholders
- ii. Central Government, and
- iii. Company Law Board

Moreover, a director who has been removed from office by the Central Government shall not be a director of any company for a period of 5 years from the date of removal.

3.6. DUTIES OF DIRECTORS

Directors have certain duties to perform under the law. These duties are defined by the Companies Act and the Code of Corporate Governance. The duties are as follows:

1. Fiduciary duties;
2. Duties of care, skill, and diligence;
3. Duties to attend board meetings,
4. Duties not to delegate functions except to the extent authorized by the company Act Articles or Memorandum;
5. Duties to disclose personal interests of directors; and
6. Duties to uphold key values of corporate governance.

Now, let us explain these duties in detail for a clear understanding.

1. Fiduciary Duties

These duties imply that the directors must show full loyalty to the company and exercise their powers honestly. They must always act in the best interest of the company. They should not place themselves in a position in which there is a conflict between their duties to the company and their personal interest. This type of conflict arises when a director is personally interested in a contract entered into with the company. As a matter of duty, he should not take part in the discussion at the board on the contract or arrangement in which he is personally interested. However, he may take part in the discussion, if authorized by the board or the Articles. Also, a director as a trustee must not make any secret profit or gain out of his position in the company.

2. Duties of care, skill, and diligence

Directors have a duty to the company to perform their functions and responsibilities with due care, skill, and diligence. The due care skill and diligence of directors are explained as those which can be reasonably expected of persons of their knowledge and status. A director is not bound to bring any special qualifications to his office. But, if he fails to show due care and skill in the exercise of his duties, he will be guilty of negligence. However, the standard of care, skill, and diligence depends upon the nature of the company's business and the circumstances of the case.

3. Duties to attend board meetings

It is the duty of every director to attend all the meetings of the board. The directors collectively exercise their powers at the board meetings. If some of the directors do not attend the meetings, effective policy decisions for the efficient management of the company cannot be taken. As a result, the board will not be able to perform its responsibilities and duties to the shareholders and other stakeholders. The hallmark of a good director is that they actively participate in all board meetings.

According to the Revised SEBI Rules for the listed companies, the board shall meet at least 4 times a year and the maximum gap between the two meetings shall not exceed 3 months. The Companies Act says that if a director remains absent from 3 consecutive meetings without taking a leave of absence, he will cease to be a director.

4. Duties not to delegate functions except to the extent authorized by the Companies Act, the Articles, and the Memorandum of Associations.

The board of directors is the apex administrative body of the company. All powers reside in the board of directors who are the elected representatives of the shareholders. The board delegates authority to the management to implement the company's missions and strategies. But the directors as a matter of duty cannot delegate functions except to the extent authorized by the Companies Act, and the documents of incorporation (such as the Articles and Memorandum of Associations).

5. Duties to disclose a personal interest in a contract:

A director stands in a fiduciary position towards the company. Therefore, if he has any personal interest in a contract entered into with the company, he is duty-bound to disclose it to the board. The disclosure should be made before or at the meeting of the board at which the said contract is taken up for discussion.

6. Duty to uphold three key values of good corporate governance

This is practically an extension of the fiduciary duties of directions. Corporate governance standards in India and elsewhere demand that directors uphold three key values of transparency, honesty, and accountability in the management of companies. Transparency implies that the decision-making processes of the board are clear to all parties. It requires adequate disclosure of information and a strong audit control system. Honesty as a value serves as a test of the competence of the board and a safeguard against corrupt practices.

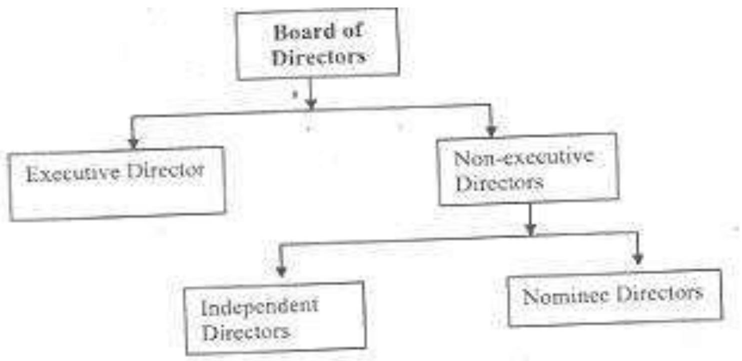
Accountability means that the directors as agents of the shareholders are accountable to them for their actions. All three values are extremely important to good corporate governance and management. It is the duty of the board to ensure that all these values are preserved and practiced at all levels of the organization.

The duties of directors have far-reaching significance for the company and its stakeholders. The directors must perform their duties with due care and diligence. They may face suspension from the board and suffer penalties if they fail to discharge their duties properly.

3.7. TYPES OF DIRECTORS

The board of directors of a company consists of different types of directors. Basically, there are two types of directors. They are known as executive directors and non-executive directors. The non-executive directors can again be divided into two types: i) independent directors, and ii) nominee directors. The classification of directors is shown in Figure 3.1. This classification has important implications for corporate governance and management.

Figure 3.1 Types of Directors



Executive Directors

Executive directors are the full-time (or whole-time) directors of the company. They are also known as internal directors. They are selected from the serving executives of the company. This is the reason why these directors are called executive directors. Executive directors look after the day-to-day administrative affairs of the company. At the same time, they also act as members of the board. For example, when the marketing executive of the company is appointed as a director, he is known as the executive director. The executive director as per law can hold office of profit drawing salary and other benefits admissible under the contract of service.

The managing director (MD) or the president, who is in overall charge of the company, is also an executive director. He generally acts as the chief executive officer (CEO) as well as the chairman of the board. In that case, he will be known as the chairman-cum MD, or Chairman-cum-CEO or simply as the executive chairman of the board These terms have been used in corporate management for years. But now, the corporate governance codes all over the world direct that the CEO and the chairman of the board shall be two different persons.

Since the executive directors are in charge of managing the day-to-day affairs, they are collectively known as "the management" of the company. However, in the ordinary sense, the term "management" includes all managers of the company regardless of their status and seniority.

Non-executive Directors

Non-executive directors are part-time directors taken from outside the company. They are also known as outside directors or external directors. They come from different professions, attend the board meetings, and make decisions. They also attend the meetings of various board committees of which they are members. These directors cannot hold any office of profit under the law. But they are entitled to fees and other benefits as may be fixed by the board. These directors have nothing to do with the day-to-day management of the company. Besides their directorship, they have no relationships with the company or its management which may influence their independent judgment. Non-executive directors may be of two types

i.) Independent directors, and ii.) Nominee directors.

Independent Directors

Independent directors are those non-executive directors who have no linkage with the company except their directorship. They play the most important role in the independent judgment of the board. There is no universal definition of independent directors. The task of providing a satisfactory definition was assigned to the Committees on corporate governance in India. The Naresh Chandra Committee Report, 2002 came out with the most comprehensive definition of an independent director for the first time. The definition was adopted with a minor change in the Narayana Murthy Committee Report (2003). Based on these two Reports, SEBI has provided the following definition of an independent director in its latest guidelines on corporate governance for listed companies under Clause 49.

An independent director is defined as a non-executive director of the company, who satisfies the following conditions:

a). Apart from receiving the director's remuneration, he does not have any material pecuniary relationships or transactions with the company or its promoters, directors, and senior management, which may affect his independence as a director of the company. He also does not have any such relationships with any of the subsidiaries and associates of the company, including its holding company.

b) He is not related to promoters or persons occupying management positions at the board level or one level below the board.

c) He has not been an executive of the company in the last 3 financial years.

d) He is not a partner or an executive or was not a partner or an executive during the last 3 years, of any of the following:

1. the statutory audit firm or the internal audit firm that is associated with the company, and
2. the legal firms or consulting firms that have a material association with the company.

e) He is not a material supplier, service provider customer, or a lesser or lessee of the company, which may affect his independence as a director.

f) He is not a substantial shareholder of the Company. This means that he does not own 2% or more of the block of voting shares of the company.

According to the SEBI guidelines, nominee directors appointed by financial institutions shall be deemed independent directors of the company. The independent directors are independent in thinking and judgment. They do not depend on the promotion or the management of the company for their professional excellence or career growth. Obviously, they are in a better position to protect the interests of the shareholders and other stakeholders. At present, the universal opinion is in favour of the greater number of independent directors on the board as a test of good corporate governance. Recently, SEBI has made it mandatory for the listed companies with executive chairpersons to have at least 50% of the board members as independent directors. If the board is headed by a non-executive chairperson, at least 1/3rd of the directors should be independent.

Nominee Directors

Nominee directors are also non-executive directors. They come from outside. They are appointed by the financing institution as a part of their lending agreements. This is done to ensure that the activities of the company are conducted properly and the loans given to it are safe.

Financial institutions generally enjoy statutory powers to appoint nominee directors. For example, section 27 of the State Financial Corporations Act empowers the SFC to appoint nominee directors on the boards of assisted companies. Such directors are generally exempted from liabilities that arise due to the company's default or violation of the law. The terms of appointment of the nominee directors as well as the conditions for their removal or replacement are decided by the financial institution concerned.

As stated earlier, the nominee directors will be treated as independent directors as per the latest guidelines of the SEBI on corporate governance. This goes against the earlier recommendations of expert committees on nominee directors.

3.8. LET US SUM UP

Directors occupy the top position in a company. They are the elected representatives and agents of the shareholders. They direct and control the affairs of the company on behalf of the shareholders for long-term value creation. For this, they enjoy extensive powers. But, all the powers of a company vest in the board of directors. An individual director cannot exercise any power unless authorized by the board. From the legal point of view, directors are treated as agents and trustees of the company. Therefore, they must act in the best interest of the company and its owners, that is, shareholders. The directors have certain statutory powers to exercise. The powers of the directors are:

1) General powers of the board;

i) Power to be exercised at board meetings;

1) Other powers; and

in) Powers to be exercised with the consent of the company in the general meeting.

The directors have also certain duties to perform under the law. The duties are:

a. Fiduciary duties;

b. Duties of care, skill, and diligence,

c. Duties to attend board meetings;

d. Duties not to delegate functions except to the extent authorized by the Companies Act, Articles, or Memorandum;

e. Duty to disclose personal interests of directors; and

f. Duty to uphold key values of corporate governance.

It is important for the directors to exercise their powers and perform their duties prudently in keeping with the statutory and regulatory requirements. If they fail to do so, they, may face suspension from the board and even suffer penalties which may prove too costly for them.

The directors also perform certain functions which are often described as their roles. The functions are:

1. Promoting strategic thinking and providing strategic direction;
2. Developing plans, policies, and programmes;
3. monitoring and evaluating executive functioning and
4. building a socially responsible company.

The functions should be performed with reasonable care and skill in the interest of shareholders and society.

Basically, directors are classified into two groups such as executive directors, and Non-executive directors. Executive directors are selected from the existing whole-time executives of the company and non-executive directors are hired from outside for part-time services. The latter can be of two types (i) Independent Directors and (ii) Nominee Directors. Independent directors are in a position to take an impartial and objective stand on the future direction of the company and evaluation of executive performance. Nominee directors, appointed by the lending financial institutions, are now treated as independent directors in India.

3.9. EXERCISES

1. a. Show the main constituents of the corporate management structure at the top.
   b. Elucidate the legal position of the directors of a company.
   c. State the statutory qualifications of a company director.

2. a. "The powers of directors are co-extensive with the powers of the company". Explain
   b. Describe the duties the directors should perform as representatives and agents of the shareholders.
   c. State the statutory qualifications of a company director.

3. a. Discuss the functions of directors.
   b. Explain the different types of directors.
   c. Why have independent directors become so important to the corporate governance of companies?

3.10. SUGGESTED READING

1. Das, S.C. (2009): Corporate Governance codes, systems, standards and Practices. New Delhi. PHI Learning (Chap. 2, pp. 8-21.).

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MBA

Management Studies

(SEMESTER – I)

MBA 1606

FUNDAMENTALS OF HUMAN RESOURCE MANAGEMENT

BLOCK - 1

The University of Burdwan

Centre for Distance and Online Education

Golapbag, Burdwan – 713104

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MBA
(Management Studies)
(Semester – I)

MBA 1606

Fundamentals of Human Resource Management
(FHRM)

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FUNDAMENTALS OF HUMAN RESOURCE MANAGEMENT

BLOCK – 1

Contents

MBA - 1606

BLOCK - 1

This block comprises of three units and aims to provide an introduction to the study of Fundamentals of Human Resource Management

Unit I :

Introduction to HRM:

Concept, Importance, History of HRM—Trends Shaping HRM, Important Trends in HRM—Theories of HRM – Models of HRM – Hard and Soft HRM—Relevance **of** HRM

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Functions of Management

Functions of HRM - Kinds of Managers – Basic Managerial Skills and Roles, Changing Nature of Managerial Work

Unit 3 :

Procurement: Human Resource Planning

Human Resource Planning : Objectives, Process, Importance

.

UNIT – 1

INTRODUCTION TO HRM

UNIT – 1

INTRODUCTION TO HUMAN RESOURCE MANAGEMENT

1.0. OBJECTIVES

After reading this Unit you will be able to

- define and explain the concept of human resource management
- describe the characteristics of human resource management.
- outline the scope of human resource management.
- get to know the objectives of human resource management
- get a thorough understanding of the evolution of HRM
- understand the relevance of HRM in today's business world.

STRUCTURE

- Introduction
- Concept of Human Resource Management
- Characteristics of Human Resource Management
- Scope of Human Resource Management
- Objectives of Human Resource Management
- Evolution of Human Resource Management
- Relevance of HRM in modern business
- Summary
- Self Assessment Questions

- Glossary
- Further Readings

1.1.INTRODUCTION

Every organization wants to serve, grow and develop. Today for survival, growth and development organizations need mechanism to face challenges arising from liberalization, privatization and globalization (LPG). Indeed, free market philosophy puts the organization to face open market competition instead of restrictive one. The organization can confront challenges and achieve its goals if it can produce and sell quality goods and services at reasonable costs. Within this framework the distinctive roles of the people at work i.e. the employees come into sharper focus. They are considered major component of an organization i.e. 'the valued human resources'.

In fact, human resource of any enterprise in its totality is important to the extent of success or failure of the same.

This Unit, thereby attempts to make a detailed deliberation in the line of schematic diagram that will enable one to understand the underlying significances of Human Resource Management (HRM).

1.2. CONCEPT OF HUMAN RESOURCE MANAGEMENT

Human resource management is a new concept. As a strategic approach it attempts to integrate employees' related strategies with overall business strategies. HRM as an approach includes all management decisions and simultaneous executives of these decisions in a way that grow, develop and sustain various relationships between organization and its employees i.e. human resources in order to accomplish strategic goals of the organization. In essence the aim of HRM is managing and developing skill, knowledge, ability, attitude, aptitude, values, beliefs etc. of human beings in order to achieve individual goals, group goals, team goals and organizational goals. So, it is a human approach treating the people at work as organization's valued aspects. Storey (1995) has defined human resource management which seeks to obtain competitive advantage through the strategic deployment of high committed and skilled workforce, using an array of culture, structural and personnel techniques.

HRM is a people-oriented concept. Every organization has people elements and for achievement of organizational goals it needs ‘suiting people (the people that organization needs, requires).

HRM is concerned with getting people, motivating people, developing people and retaining people. Gary Dessler (2000) expressed that HRM refers to the practices and policies one needs to carry out the ‘people’ or human aspects of management job.

These include:

- Conducting job analyses (determining the nature of each employee’s job)
- Planning labour needs and recruiting job candidates
- Orienting and training new employees
- Managing wages and salaries (determining how to compensate employees)
- Providing incentives and benefits
- Appraising performance
- Communicating (interviewing, counseling, discipline)
- Training and development
- Building employee commitment

Michael Armstrong (2000) has expressed that HRM is a strategic and coherent approach to the management of an organization’s most valued assets – the people at work who individually and collectively contribute to the achievement of its goals. Major focus of HRM is given below in Fig 1.1

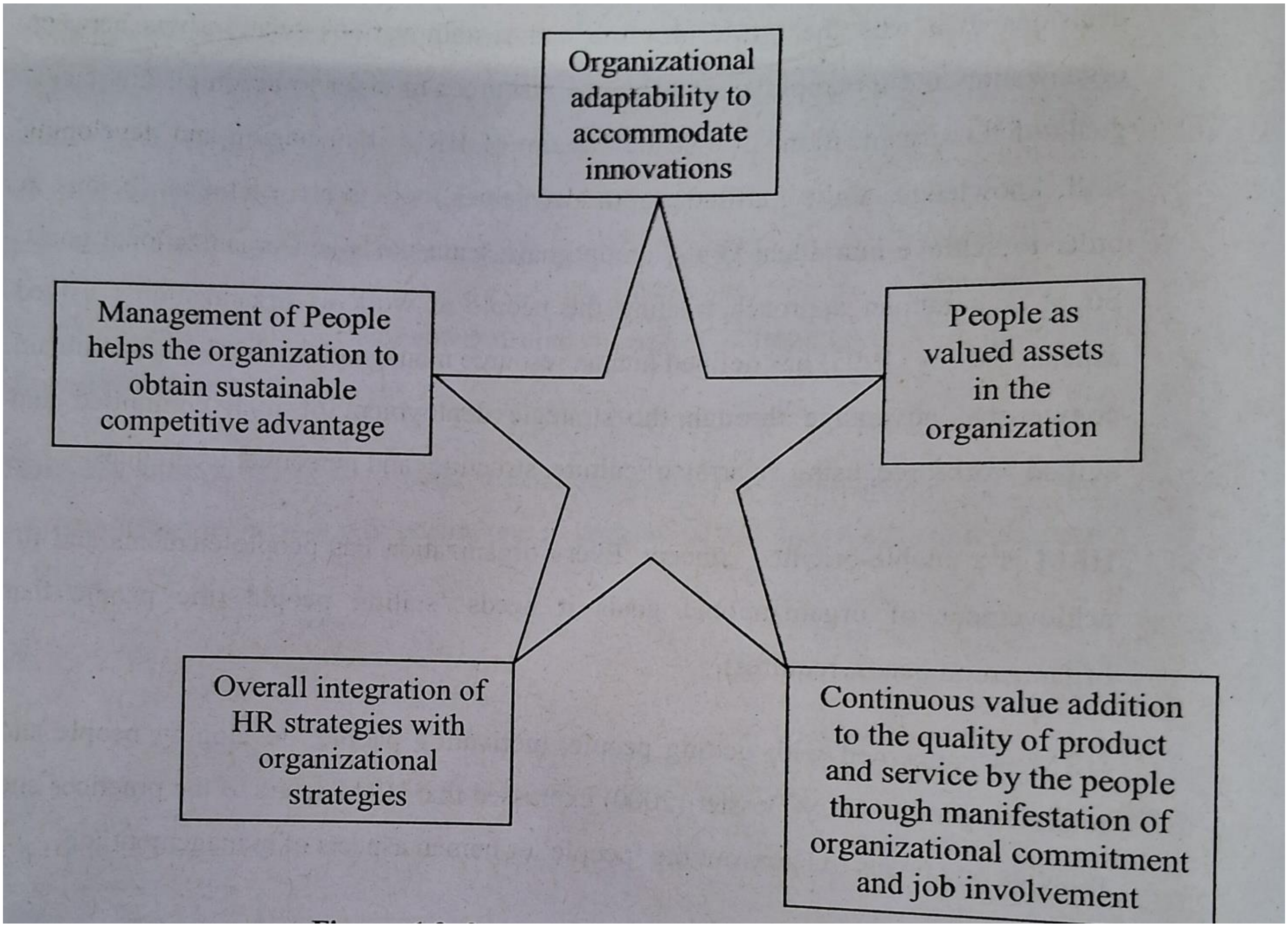

Fig .1.1 : Some major focus of HRM

1.3.CHARACTERISTICS OF HUMAN RESOURCE MANAGEMENT

The salient characteristics of human resource management are discussed herein below:

- HRM is inherent in the process of management. A manager, whether he is in charge of a production or marketing function or accounting activities, needs to deal with human beings to get his job done with and through them. It means managing human resource is not the function of HR managers only, this function is performed by all managers throughout the organization.
- It treats the people as assets/resource that contribute best to the achievement of

organizational goals and thereby it emphasizes solely on performance.

- It encourages the line managers to initiate a comprehensive process that allows employees to face new challenges coherently with commitments towards higher levels of accomplishment as per goals of the organization.
- It focuses on corporate culture-the need for a strong corporate culture expressed in mission and value statements and reinforced by communications, training and performance management processes (Michael Armstrong, 2000).
- It is an ongoing process that exists in all organization.
- It focuses on the improvement of quality of working life (QWL) of employees through formulation and implementation of HR policies, procedures, practices etc.
- It emphasizes on employee empowerment, involvement and identification with the organization.
- It focuses on integration between business & HR strategies.
- It is more suitable for the organizations, having organic structures that permit organizational flexibility through decentralization.
- It stresses upon "team building and team work" particularly cross functional teams, to accommodate employee innovations in the line of business strategies.
- As one of the policy driven goals of the business, it emphasizes upon competence based rewards.

1.4.SCOPE OF HUMAN RESOURCE MANAGEMENT

The scope of human resource management is vast. In the changing business scenario the scope of HRM extends vastly as every organization needs dynamic workforce to produce quality goods and to deliver the same to delight the customers.

The scope of human resource management is shown in Figure 1.2.

The scope of human resource management is shown in Figure 1.2.

Scope of Human Resource Management

Acquisitions
- Human resource Planning
- Recruitment
- Selection
- Placement
- Socialization
- Induction Orientation Programmes

Development
- Training
- Management Development
- Career Planning & Development
- Performance Appraisal
- Potential Appraisal
- Transfer
- Employee Conselling
- Total Quality Management (TQM)
- Business Process Reengineering (BPR)
- Transactional Analysis (TA)
- Organizational Development (OD)
- Quality of Working Life (QWL)

Compensation Management
- Job Analysis, Job Specification
- Job Evaluation
- Wage & Salary Administration
- Incentive & Incentive Planning
- Job Design, Job Engineering and work Scheduling
- Reward Management
- Welfare, Employee Benefits & Services
- Health, Safety & Security

Maintenance/Retention of Human Resources
- Industrial Relations
- Trade Union
- Collective Bargaining
- Grievance Redressal Procedure
- Discipline and Its Administration
- Human Relations
- Communications
- Organization Climate, Culture
- Leadership
- Job Satisfaction
- Employee Participation, Involvement & Empowerment

HR Audit, Information, Research
- Personnel Record keeping
- HR Accounting
- HRIS
- HR Audit
- HR Research

1.5.OBJECTIVES OF HUMAN RESOURCE MANAGEMENT

The main objective of HRM is to ensure achievement of individual goals, team goals and organizational goals. Besides this objective, HRM has some more objectives. Some important objectives of HRM are discussed herein below:

i) Providing right kind of people, number of people at a right time at a right place with right decisions in order to achieve the goals of the organization through smooth running of its activates;

ii) To increase production and productivity;

iii) To provide quality goods and services to customers;

iv) To improve skills, knowledges, abilities and core competences of the employees through tailor made training and counseling programmes;

v) To establish healthy human relations between management and sub-ordinates and to develop mutual understanding, mutual faith and confidence between them;

vi) To promote sound industrial relations and to create congenial and conducive atmosphere in the organization;

vii) To prepare, develop and implement participative management in decision making in the organization;

viii) To create opportunities for employee involvement and empowerment.

ix) To provide attractive compensation package, welfare and social security measures, fringe benefits, recognition, status, authority, challenging job, promotional avenues, etc. so that employees can derive some extent of meaningfulness about their jobs and organization in specific.

x) To furnish an over-all organizational climate that allows employee innovationslinked to business strategy.

1.6.EVOLUTION OF HUMAN RESOURCE MANAGEMENT

In India HRM emerged because of governmental interventions and situations cropped up under compulsive perspectives. The stages of evolution of HRM are briefly discussed

1. **Health and Happiness (Prior to 1931)**

Prior to 1931 no systematic functioning was carried on through any department in organizational settings with regard to employee recruitment, handling of grievances, employee development and motivation. Some companies created health and happiness department with non-performing executives to look into the activities like arranging picnic, giving farewell to retirees, dealing with personal problems, providing some health benefits etc.

2. Welfare (1931-1946)

The Royal Commission on Labour in India under the chairmanship of J. H. Whitley submitted its report in 1931 and recommended for appointment of labour officers in organizations to deal with recruitment of labour, in order to stop corrupt practices in industry, particularly in the area of selection and also to look into welfare aspects of the workers. Enactment of Trade Unions Act, encouraged workers to be united and to form unions to represent their grievances to the employers for redressal.

3. Personnel Administration (1947-1959)

During this phase the vital labour laws which prompted organizations to open new departments under, the nomenclatures 'Personnel Administration Department for dealing with welfare, health, safety, industrial disputes etc. were enacted. They are

i. The Industrial Disputes Act, 1947

ii. The Factories Act, 1948

iii. The Dock Workers (Regulation of Employment) Act, 1948

iv. The Employees' State Insurance Act, 1948

v. The Plantations Act, 1951

vi. The Indian Mines Act, 1952

vii.The Employees Provident Fund and Miscellaneous Provisions Act, 1952

viii. The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959.

Under Section 49 of the Factories Act, 1948 the appointment of welfare officers is made compulsory in industrial establishments where 500 or more workers are employed. Such officers are empowered to look into welfare activities of workers and also to dispose of labour problems of the companies.

4. Personnel Management (1960-1983)

This period witnessed unity and solidarity amongst workers. The central trade unions viz. INTUC, AITUC, HMS, UTUC, CITU emerged in the industrial settings with different charter of demands. The National Commission on Labour which was appointed in 1966 submitted its report in 1969, wherein it stressed the need for ameliorating the conditions of workers in industry.

The job role of personnel executives increased during this period with the enactment of some laws viz the Maternity Benefits Act, 1961, the Apprentices Act, 1961, the Payment of Bonus Act, 1965, the Contract Labour (Regulation and Abolition) Act, 1970, the Payment of Gratuity Act, 1972. The main function of personnel managers was to act as custodians of personnel policies implementation and to ensure that statutory requirements were complied with.

5. Human Resource Management (1984 Onward)

A new approach the human resource management emerged due to change in the product market environment arising out of stiff competition amongst MNCs/TNCS and indigenous companies. It is a change/development driven by product market condition which demands quality service and product at the reasonably lowest rice. To achieve organizational objectives workpeople are considered as price. resource/assets and are given much more importunate to contribute as world class workforce (A.K. Ghosh, 2006)

1.7. RELEVANCE OF HUMAN RESOURCE MANAGEMENT

Human resource management is very much relevant in today's changing business scenario. The relevance of HRM can be ascertained from the following:

- **Hyper competitive market**

Today's market is competitive. A fierce, stiff and hyper competitive situation has cropped up in the market after introduction of national economic policy (NEP) in 1991 that made it casy for MNCs, TNCs to carry on business activities beyond national boundaries. But, in the present changing market scenario it is not possible for any company to survive, grow and develop if it can not attract and retain customers. This situation can be faced and overcome by human resources of the company through providing quality products, services at competitively lesser price.

- **Sustainable competitive advantage**

Organizations need to obtain sustainable competitive advantage in order to keep their existence, survivality in the market. In order for a resource to be a source of sustainable competitive advantage, it must be valuable, rare, not easily imitated, and the firm must be organized in such a manner as to effectively and efficiently exploit it. Human resources can possess such characteristics if they are managed strategically (Barney and Weight, 1998)

- **Competence**

Organizations can face challenges, attain business excellence and achieve goals if they have reservoir of competent people. Developing people's competence is a continuous process that needs to be carried on throughout the period with necessary modification, alteration in design content of training programme, use of tools, devices needed for imparting training, various inputs required to meet the vacuum as and when created due to change in technology, taste of customers etc. So, competence is a necessity for smooth and effective functioning of organizational activities to achieve goals.

- **Commitment**

Commitment of employees to job and organization is essential for organizational peak performance. Lack of commitment among employees results in less performance, poor quality of work, high rate of absenteeism, a large number of indiscipline activities, individual grievances and high labour turnover rate. All these affect smooth and effective functioning of organizational activities and create hindrances to achievement of organizational goals. It is needless to mention in such situation, that human resource management through its policies in respect of acquisition, development and compensation of employees and also policy of promoting sound industrial relations may make the employees committed to work and organization.

- **Empowerment**

Today, in fierce and aggressive competitive market, employee empowerment plays a crucial role to make organizations confront challenges, face competition and achieve goals. Empowered organizations can have employees with high degree of job satisfaction, involvement, and morale. All such empowered employees give their best to make peak performance in organizations. But, in reality it happens that empowerment is difficult to implement in organizations.

However, good HR policies and practices that can attract and retain talented people, develop leadership traits, generate OCTAPACE culture, help organizations to achieve greater success with the empowerment process.

- **Motivation**

Organizations can have quality goods and services from employees if they are highly motivated. People with high degree of motivation exhibit creative work, excellent performance, inimitable and incomparable activities that can help organizations to attain business excellence. It occurs that employees become motivated to excel performance from their core heart if their social needs and esteem needs are satiated. In such situation employees are encouraged to participate in the process of decision making, continually broadening self-direction, self-control as this would lead to direct improvement in operating efficiency and would also ensure grooming for higher responsibilities. (Patternayak 2001)

1.8.SUMMARY

Today organization faces a stiff competition. It can confront challenges and achieve its goals if it can produce quality goods and services to the extent of customers' delight. This is possible if people are committed, dynamic and accept changes. To deal with the kind of people, management needs to change its approaches, philosophy and assumptions about employees as resources to the organization.

Employees be considered assets/resources so that their knowledges, skills, abilities, attitudes, values etc. can be managed and developed to achieve individual goals, group goals and organizational goals. So, it needs strategic approach to management of organizations' most valued asset i.e. the people who contribute to the accomplishment of organizations' goals. This part of management is human resource management (HRM).

The human resource management focuses on improvement of corporate culture, quality of working life, employee participation, involvement, empowerment, integration between business and HR strategies. It is an ongoing process that exists in all organizations.

The human resource management has a wide scope. It covers the activities starting form pre-recruitment stage (mostly human resource planning activities) to exit stage of employees.

Human resource management has evolved from health and happiness concept ie major functions of management to provide help, assistance and guide to the employees for maintaining health and making them happy. The stages of evolution of HRM are Welfare (1931-1946), Personnel Administration (1947-1959), Personnel Management (1960-1983) and Human Resource Management (1984 onward).

1.9.SELF-ASSESSMENT QUESTIONS

1. What do you mean by HRM? Discuss the nature of HRM.

2. In the changing business scenario the scope of HRM extends vastly. As a student of MBA how would you justify this?

3. What is HRM? Outline its scope.

4. Discuss the conceptual perspectives of HRM.

5. "Various stages can be identified in the evolution of Personnel Management vis- à-vis Human resource Management". What are those stages? Discuss.

6. "Human resource management is very much relevant in today's changing business scenario". Explain.

7. Write short notes on:

a) Concept of HRM

b) Relevance of HRM

c) Nature of HRM

1.10. GLOSSARY

Human Resource Management

Human resource management is a strategic and coherent approach to the management of organization's most valued assets i.e. the human resource that contribute to the achievement of its goals.

Employee Empowerment

Employee empowerment is a process of transfer of power from the employer to the employees.

1.11. FURTHER READINGS

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UNIT – 2

FUNCTIONS OF MANAGEMENT

UNIT – 2

FUNCTIONS OF MANAGEMENT

After reading this Unit you will be able to

- explain the role of human resource professionals
- outline the qualities of human resource specialists / managers.
- get to know the functions of human resource managers

STRUCTURE

- Introduction
- Role of Human Resource Managers
- Qualities of Human Resource Specialists
- Functions of Human Resource Managers
- Summary
- Self Assessment Questions
- Glossary
- Further Readings

2.1. INTRODUCTION

The role of human resource managers has become increasingly important in today's business world. Human resource managers wear many hats and are responsible for a wide range of human resources (HR) activities, including recruitment, training and development, managing employee compensation and benefits, compliance and performance management. In this unit, we take a deep look at what a human resource manager does and the critical role they play in business. This unit delves into the qualities that a human resource manager need to possess.

2.2. ROLE OF HUMAN RESOURCE PROFESSIONALS

Human Resource (HR) professionals play a pivotal role in running the organization smoothly, accomplishing the company tasks, achieving the corporate

objectives in relation to its mission and also helping the process of growth and development of the people and the organization as well.

David Ulrich (1998) has suggested Human Resource (HR) roles for achieving organizational goals. Some of the roles are

- Employment brand champion: Projecting the image of the company in the various labour markets through the systematic application of management functions.
- Observant engineer: Working efficiently to reach effectiveness level of the organization and in the process diagnosing any problem and its solution with an aim to keep the organization effective.
- Partner in strategic thinking: Acting as strategic partner to senior management.
- Agent of change: Helping to keep the organization competitive by anticipating any future change and facilitating activities of the organization to accommodate such change quickly than others.
- Champion of the talent bank: Ensuring short term measures that do not overtake the long-term need for attracting, retaining, and developing talents.
- Faultless administrator: Handling all the basic administration, efficiently with no error.

Michael Armstrong (2000) has mentioned three Human Resource (HR) roles.

1. Innovation role: Human Resource (HR) professionals introduce new process and procedures which they believe will increase organizational effectiveness.
2. Internal consultancy role: As internal consultants Human Resource (HR) managers function like external management consultants in analyzing problems, diagnosing issues and suggesting solutions. They are concerned with the development of Human Resource (HR) process of systems viz. performance management, team building, objective setting, quality management, customer service etc.
3. Monitoring role: Human Resource (HR) practitioners ensure that Human Resource (HR) polices and procedures are implemented with reasonable degree of consistency. They also ensure that policies and procedures comply with legislation.

2.3 QUALITIES OF HUMAN RESOURCE (HR) SPECIALISTS/MANAGERS

The qualities of Human Resource (HR) specialist are discussed herein below:

1. Human Resource (HR) manager should have knowledge and understanding of the subjects like sociology, anthropology, psychology, economics, accountancy, laws, social sciences and to some extent physical science because Human Resource Management (HRM) is an interdisciplinary field of study. For effective functioning and fruitful Human Resource (HR) practices knowledge in these disciplines, producing over-all insight, is essential.
2. Human Resource (HR) manager should have dynamic qualities and positive attitude to analyse situations, to solve problems etc.
3. Human Resource (HR) manager should have an understanding and knowledge of the recruitment and selection process so that right people are chosen for the right job at the right time in the organization.
4. Human Resource (HR) manager should possess the quality of ideal personality so that employees can accept him as role model and can repose confidence in him.

5. Human Resource (HR) practitioner should have the quality to make the employees accept changes in the organization and to introduce OD techniques successfully.

6. Human Resource (HR) manager should have competences to prepare competitive compensation package for the employees so that they readily accept with moderate to higher degrees of satisfaction.

7. Human Resource (HR) manager should have the quality to understand various labour laws that affect labour management relations in the organization.

8. Michael Armstrong (200) indicates that Human Resource (HR) manager should have competences to

- develop and implement integrated and coherent Human Resource (HR) strategies
- adopt Human Resource (HR) strategies to fit business and cultural imperatives
- facilitate team building
- coach clients to deal with own problems, transfer skill
- provide cost effective services in each Human Resource (HR) area
- promote total quality and continuous improvement in Human Resource (HR)function
- promote awareness in own function

9. Human Resource (HR) manager should have skill, knowledge and competences to perform effectively the managerial function of item viz. planning, organizing, directing and controlling.

2.4 FUNCTIONS OF HUMAN RESOURCE (HR) EXECUTIVES/MANAGERS

Human Resource (HR) managers are concerned about management and development of human resources. For managing and developing human initiated activities Human Resource (HR) practitioners cover four functional areas. These are:

- Acquisition/procurement
- Compensation/motivation
- Development
- Retention/maintenance

Functions of Human Resource Management (HRM)/ Human Resource (HR) manager areshown in Figure 2. 1

Functions of HRM / HUMAN RESOURCE (HR)

Management

Operative

Planning

Organizing

Directing

Coordinating/ Controlling

Procurement/ Acquisitio

Development

Compensation / Motivation

Retention / Maintainence

Functional activities of the Human Resource (HR) manager are to procure people, motivate people, develop people and retain people. All such activities are mentionedbelow.

.

1. Acquisition/Procurement/Employment:

   To procure right number of people with requisite knowledge, skill abilities, aptitude, attitude, value, personality Human Resource (HR) manager need to perform following phases of activities-

   - Human Resource (HR) planning (including job analysis and competence analysis)

- Recruitment (identification of candidates from the existing sources and alsofrom the external sources, motivation of candidates)
- Placement (i.e. placing right people at the right job at the right time, using the most appropriate selection tool)
- Induction and orientation (arranging to acquaint new employees with the company policies, objectives, rules, regulations, culture, product market etc., arranging to introduce employees to their supervisors, peers, mouldingof new employees to adjust the work, environment).

2. Development:

One of the basic activities of Human Resource (HR) manager is to develop competences of the employees so that they can contribute to the achievement of organizational goals.

Developmental activities include:

- Training (i.e. training need analysis, providing opportunity to developcompetences)
- Management Development (developing executive skill, abilities)
- Performance Appraisal
- Potential Appraisal
- Career Planning and development
- Transfer
- Organizational Development and Effectiveness

3. Compensation/Motivation:

Compensation activities of Human Resource (HR) executive include design and administration of reward system. Human Resource (HR) practices cover the following area of activities:

- Wage/salary survey, administration

- Job evaluation
- Equity on pay for the similar jobs
- Bonus in terms of Act., Settlements
- Incentives as per agreement, understanding
- Fringe benefits
- Welfare benefits
- Social security measure
- Retrial benefits (viz. Provident Fund, Gratuity, Contributory Provident Fund,Pension, Additional Retirement Benefits etc.)
- Health and safety measures
- Maternity benefits

4. Human Resource (HR) maintenance/Retention:

   The functions of Human Resource (HR) professional include

   - Establishing healthy human relations
   - Ensuring sound industrial relations
   - Taking necessary measures to promote peace and harmony in the organization
   - Developing congenial/conducive culture
   - Introduction of collective bargaining process, grievance handling procedures
   - Discipline management
   - Ensuring effective employee communication
   - Retention of talented employees, performers
   - Employee involvement, participation and empowerment
   - Setting up and managing HRIS and other records to assist in decision makingprocess

- Complying with statutory standards and regulations

Besides the above operative functions, Human Resource (HR) managers discharge the managerial functions viz. planning, organizing, directing and controlling. All such functions influence the operative functions. So, for performance of operative function human resource manager is required to perform managerial functions.

2.5 .SUMMARY

Today organization faces a stiff competition. It can confront challenges and achieve its goals if it can produce quality goods and services to the extent of customers' delight. This is possible if people are committed, dynamic and accept changes. To deal with the kind of people, management needs to change its approaches, philosophy and assumptions about employees as resources to the organization.

Employees should be considered assets/resources so that their knowledge, skills, abilities, attitudes, values etc. can be managed and developed to achieve individual goals, group goals and organizational goals. So, it needs strategic approach to management of organizations' most valued asset i.e. the people who contribute to the accomplishment of organizations' goals. This part of management is human resource management (HRM). The human resource management has a wide scope. It covers the activities starting from pre-recruitment stage (mostly human resource planning activities) to exit stage of employees.

To obtain competitive advantage in the context of corporate objectives, Human Resource (HR) professional plays a pivotal role. He works as change agent, partner in strategic thinking, advisor to the higher management, counselor to the employees as and when required.

With an aim to accomplish role performance effectively Human Resource (HR) executives should have knowledge/understanding on the inter-disciplinary subjects (like sociology, anthropology, psychology, social and physical sciences, laws etc.), recruitment and selection process and competences to perform managerial functions of Human Resource Management (HRM) so that effective strategic-fit between business and Human Resource (HR) strategies is possible in order to bestow competitive advantage to the organization.

2.6 SELF ASSESSMENT QUESTIONS

1. What is Human Resource Management (HRM)? Discuss the scope of HumanResource Management (HRM).
2. What do you mean by Human Resource Management (HRM)? State theobjectives of Human Resource Management (HRM).
3. Explain the term 'Human Resource Management' (HRM). Discuss the role playedby Human Resource (HR) practitioners in the organization.
4. State the functions of Human Resource (HR) professionals in the organization.
5. "To make the workers committed, dynamic and talented Human Resource Management (HRM) managers should possess appropriate qualities" – Discuss the qualities Human Resource (HR) mangers should possess in this context.

2.7 GLOSSARY

Human Resource Management:

Human Resource Management is a strategic approach to the management of organization's most valued asset, the human resources that contribute to the achievement of its goals.

Innovation Role:

The role relates to introduction of new processes, procedure that enhance organizational effectiveness.

Internal Consultancy Role:

It is role of Human Resource executive to analyse problems, diagnose issues, suggest solutions and also to develop Human Resource process/systems.

Monitoring Role:

It is concerned with implementation of Human Resource (HR) policies, procedures with reasonable degree of consistency and ensuring that policies and proceduresare in compliance with legislation.

2.8 SUGGESTED READINGS

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UNIT – 3

PROCUREMENT :

HUMAN RESOURCE PLANNING

UNIT : 3

HUMAN RESOURCE PLANNING

3.0OBJECTIVES

After reading this Unit you will be able to

- define and describe the concept of human resource planning (HRP)
- discuss the objectives of human resource planning.
- understand the importance of human resource planning..
- get to know the process of human resource planning
- explain the succession planning.

STRUCTURE

3.1. Introduction

3.2. Concept of Human Resource Planning (HRP)
3.3. Objectives of Human Resource Planning

3.4. Importance of Human Resource Planning

3.5. Process of Human Resource Planning

3.6. Summary

3.7. Self-Assessment Questions

3.8. Glossary

3.9. Further Readings

3.1. INTRODUCTION

Human resource plays the most important role in functioning of organizational activities. Every organization needs human resource to perform its activities. Without human resource no organization can think of continuing its operation. For effective running of an organization and for achieving its objectives, it is important to know what number of people, kind of people the organization needs. Further, organization needs quality people to produce quality goods and services at lower costs in a bid to obtain competitive advantage in the market. And for this, the projection/planning of human resource requirement has to be made. All this is elaborately discussed and explained in this unit.

3.2. CONCEPT OF HUMAN RESOURCE PLANNING

The term 'Human Resource Planning' means anticipation of human resources for future activities of the organization towards the accomplishment of designed goal(s). Every organization requires human resource of different skills, qualities etc. within a timeframe to achieve its goal(s). Human Resource Planning (HRP) determines the number (quantity) and quality (skills) of people necessary for the organization to achieve its strategic goals. Bulla and Scott (1994) define Human Resource Planning (HRP) as the process for ensuring that the human resource requirement of an organization are identified and plans are made to satisfy those requirements.

Human Resource Planning (HRP) is an integral part of business planning. At the time of formulation of human resource planning areas like projected changes of business activities, scale of those activities, organizational resource and skill requirements are considered. Human Resource Planning (HRP) is made looking to strategic needs of the organization within the framework of vision and mission of the same under changing business scenario. From this standpoint, human resource planning can be considered as a systematic and continuous process that facilitates the effectiveness of the organization to achieve its goal(s) through the analysis of demand and supply of man power in the context of changing business environment. So, effective human resourcing strategies depend upon quality forecasting (both demand and supply of human resources) about the number and skills of people required for the organization so that management can provide right number and kind of people at the right time, at the right place. David A. Decenzo and Stephen P. Robbins (1989) define human resource planning as 'the process by which an

organization ensures that it has the right number and kinds of people, at the right places, at the right time, capable to effectively and efficiently completing those tasks that will help the organization achieve its overall objectives'.

3.3. OBJECTIVES OF HUMAN RESOURCE PLANNING

In the changing business scenario organizations can face challenges and obtain competitive advantages if they have right number of talented, committed workforce to produce quality goods and services as per requirement. HRP helps organizations by way of supplying information to them in advance to create a dynamic, committed, proacting, loyal workers' community through recruitment process, moulding and development techniques to achieve their strategic goals.

The important objectives of the HRP are to ensure that the organization:

- Recruits the right number and kinds of people with requisite skills, talents, knowledge and competences.
- Designs and conducts training courses/programmes as per requirements.
- Makes the best use of human resource.
- Implements succession planning scheme.
- Develops healthy industrial relations and creates congenial and conducive atmosphere.
- Increases production and productivity of the employees by way of imparting tailor-made training and development programme.
- Formulates and develops HR policies (viz career progression policies, reward policies,

scheme for recruitment of deceased dependents, VRS etc) that are connected with the strategic effectiveness of the same in future.

- Foresees total cost towards wages/salary, fringe benefits, incentive etc and economizes cost through different measures like increasing production, turnover, reducing replacement cost, legal costs etc.

- Creates committed, loyal and innovative workforce to confront future challenges under changing business scenario.
- Integrates employees' skills, abilities, knowledge, aptitudes etc. and moulds their values, beliefs, and attitudes in such a way that in its totality, it can match with its requirement.

3.4. IMPORTANCE OF HUMAN RESOURCE PLANNING

A systematic human resource plan links, comprehensively, the business strategies with human resourcing strategies. In the process, it attempts to make a balance between opportunities and constraints, arising out of present and future manpower conditions of the organization in relation to implementation strategies of the business. Human Resource Planning, therefore, advocates the formulations of various strategies in terms of procurement, development, utilization and retention of human resources in the organization.

On the basis of information supplied by Human Resource (HR) planner company formulates policies, procedures and takes other measures to achieve its strategic goals. Human resource planning is, therefore, important to run the organization to perform its function, to achieve its goals.

Precisely, the importance of Human Resource Planning (HRP) can be assessed from the following:

1. Human resource planning is required to formulate corporate business planning. Company's production schedules/programme, expansion programme, decision to stop activities in some depertments/units etc. have direct impact on human resource requirement of the company. Human Resource Planning (HRP) is therefore, needed.

2. Company can create committed, willing workforce on the basis of information given by Human Resource planner.
3. Company can foresee the total cost toward wages/salary, fringe benefits, incentives, training, recruitment etc. with the help of Human Resource Planning (HRP), and accordingly can take necessary measures for running the organization effectively.
4. Skilled, experienced, talented people can be recruited beforehand as the information can be a available from Human Resource Planning (HRP).

5. Employee developmental activities through promotion, training, transfer, job re- design, job enrichment, job rotation are taken on the basis of Human Resource Planning (HRP).

3.5.HUMAN RESOURCE PLANNING PROCESS

Human Resource (HR) Planner needs to pass through different stages to formulate human resource plan for the company. There is no hard and fast rule stipulated in respect of the steps to be followed for estimating human resource requirement of the organization. but some steps are necessarily required to be followed.

Human resource activities consist of the following steps:

Step – 1

Understanding of company's mission goals, objectives

Human Resource (HR) planning may not be able to initiate planning process if he does not know what the top management thinks about the business. So, the most important task of planner is to ascertain TMT's (top management team) vision mission, strategy, diversification of business, expansion/stoppage of business activity etc.

Step – 2

Analysis of corporate plan/segmental plans

After getting to know the organization's vision, objectives and strategies of the business Human Resource (HR) planner analyses corporate plan and also segmental plans like production plan, sales plan etc. This analysis helps the Human Resource (HR) planner to make effective estimate of Human Resource (HR) requirement.

Step – 3

Demand Forecasting

In this phase Human Resource (HR) planner estimates the number and kind of people to be required in future for accomplishment of tasks as per corporate plan.

Then future requirement of human resources is forecasted with the help of various methods like –

- managerial judgement
- work study method
- ratio analysis
- trend analysis
- scatter plot
- delphi technique
- mathematical modelling techniques.

Step – 4

Supply Forecasting

After demand forecasting is made, it becomes necessary to know the supply side of human resources and for that supply of Human Resource (HR) is forecasted. It is to be seen whether demand for human resources can be met internally (that means from within the organization) or externally (i.e. form outside the organization. Human Resource (HR) skill inventory, employee profiles, competence profiles, succession planning chart etc. give various role-related information of human resources operating within the organization and are used as internal sources.

Step – 5

Net Human Resource (HR) requirement

The purpose of Human Resource Planning (HRP) is to bring together the forecasts of future demand for employees and the supply of current and future human resources and to find out whether supply is more than the demand or vice versa. Than means, this activity helps in finding out the net Human Resource (HR) requirement.

Step – 6

Action plan preparation in case of excess human resource

Action plan is prepared to deal with the excess human resources in the following manner:

- Staff reduction activities
- Formulating scheme for reduction of working hours, payment of wages asper reduced hours of work
- Introduction of voluntary retirement scheme (VRS)
- Sabbaticals

Action plan preparation in case of deficit or shortage of human resources in case ofdeficit or shortage of human resources.

Michael Armstrong (2000) has suggested that action plan should be made in thefollowing areas:

- An overall plan as required to deal with shortage arising if there aredemographic pressures
- A human resource development plan
- A recruitment plan
- A retention plan
- A plan to achieve greater flexibility
- A productivity plan

Step – 7

Alteration/modification of corporate planning

Sometime it happens that corporate planning requires modification, alteration as future supply of human resource from external market falls short of demandforecasted by Human Resource (HR) planner.

3.6.SUMMARY

Every organization needs human resources to perform its activities. But for effective running of the organization and for achieving its goals it is important to know what number of people, kind of people the organization needs. And for this, planning of human resource requirement is made in consonance with the strategic needs of the organization within its framework of vision, mission and objectives. This planning of human resource requirement is human resource planning.

The prime objective of HRP is to ensure that organization has right number of people with requisite competences at the right places at the right time to accomplish the tasks. That means, in a broader sense, objective is to help the organization to achieve its goals. So, ensuring the organization to develop competences, create a reservoir of talented, committed workforce, utilizing the human resources effectively, formulating retention policy etc. are some of its objectives.

Today in the LPG scenario the importance of HRP is no less than any other activity. Company needs world class people to produce world class products and to provide delightment to customers for the purpose of its existence, growth and development in the market. And this is possible through strategic human resource planning. Human resource planner provides information about human resources i.e. its qualitative and quantitative aspects, competences, effectiveness and efficiency requirements. On the basis of information top management team (TMT) can take vital decisions, formulate policies for the running of the organization smoothly and efficiently.

Human resource planning process goes through different activities. HRP process includes -

Understanding of company's mission, goals, objectives

Analysis of corporate plan/segmental plans

Demand forecasting

Supply forecasting

Net HR requirement

Action plan preparation in case of excess human resources

Action plan preparation in case of deficit or shortage of human resources.

Alteration/modification of corporate planning

3.7.SELF-ASSESSMENT QUESTIONS

1. What is Human Resource Planning? What are its objectives?

2. What do you know by HRP? How does HRP help the organization?

3. Human resource planning activities consist of some steps' context the different steps of HRP activities. Discuss in this

4. Define Human Resource Planning. State and explain the importance of human resource planning.

5. Write short notes on

Succession planning

Demand forecasting

Supply forecasting

Objectives of human resource planning

6. It is said that HRP is the process for ensuring that the human resource requirements of an organization are identified and plans are made for satisfying those requirements. As a student of MBA how would you justify this?

3.8. GLOSSARY

Human Resource Planning

Human Resource Planning is the planning or projection of organizations' human resource requirements along with the measures taken to meet those requirements.

Demand Forecasting

It is forecasting of demand for human resources in future for the accomplishment of tasks in an organization. Future requirement of human resources can be forecasted by different methods like managerial judgment, ratio analysis, Delphi technique etc.

Supply Forecasting

Supply forecasting refers to forecasting of supply of human resources. That means supply of human resources either from internal sources or from external sources or from both the sources.

3.9. FURTHER READINGS

1. Armstrong Michael : A Handbook of Human Resource Management Practice (Kogan Page Limited, London)

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MBA
(Management Studies)

(Semester – I)

MBA 1606

Fundamentals of Human Resource Management

The University of Burdwan

Centre for Distance and Online Education

Golapbag, Burdwan, 713104
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FUNDAMENTALS OF HUMAN RESOURCE MANAGEMENT

BLOCK – II

Contents

MBA - 1606
BLOCK - II

This block comprises of three units and aims to provide an introduction to the study of Fundamentals of Human Resource Management:

- Unit 4 : Recruitment—Goals, Sources, Steps. Selection—Process— Employment Tests— Interviews, Placement, Induction –Digital onboarding and Induction.
- Unit 5 : Training : – Objectives, Techniques, Employee Training—Methods, Identify Training Needs - Evaluating Training Programmes
- Unit 6 : Employee Development— Methods— Career Planning —– Talent Management—Contemporary issues in Employee Engagement.

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Block II .

UNIT IV: RECRUITMENT AND SELECTION

4.0. OBJECTIVES

After reading this Unit you will be able to

- define and explain the concept of recruitment
- describe the objectives of recruitment
- identify the sources of recruitment
- state the advantages and disadvantages of internal sources of recruitment and external sources of recruitment
- point out the techniques of recruitment
- understand the concept of selection
- discuss the purposes of selection
- explain the process of selection
-

STRUCTURE

4.1. INTRODUCTION

Organizations need quality people to produce quality goods and services at lower costs in a bid to obtain competitive advantages over the rivals in the market that in other way, determine their courses of growth and development in different extents. So, to get the quality people, the company's recruitment and selection activities require to be effective and efficient.

This unit, thereby, attempts to cover various aspects of recruitment and selection in detail, embracing several issues, so, that one may understand their underlying significances within the context of HRM.

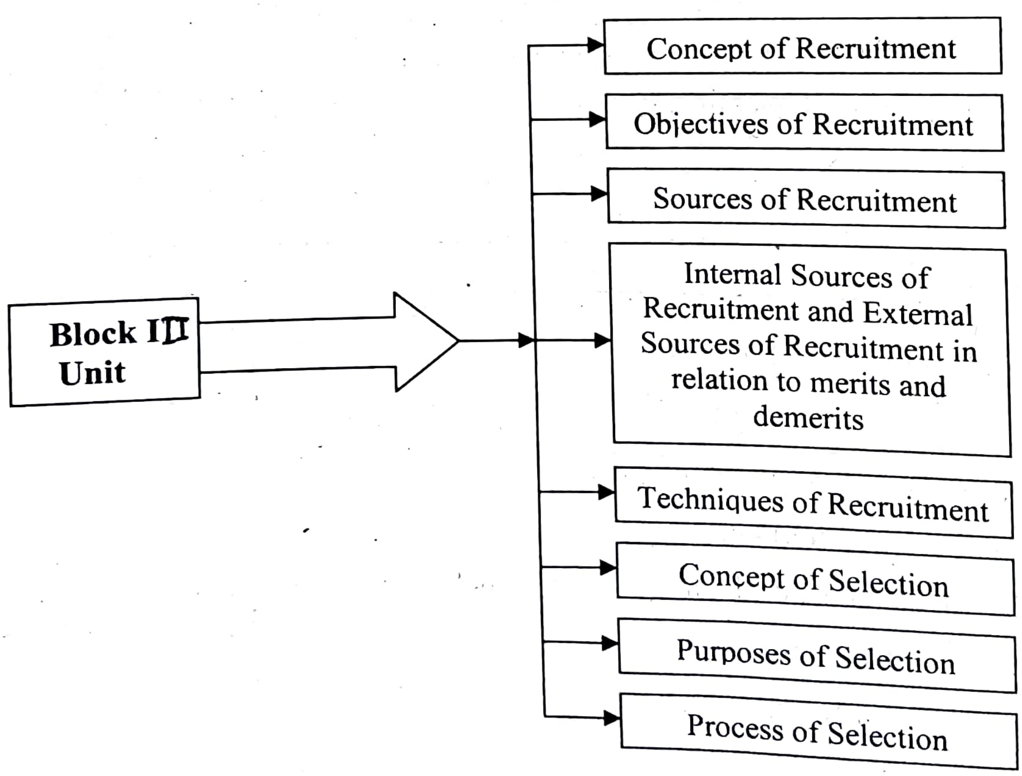

Figure 3.1: Schematic Diagram of the Objectives of Unit 3.

4.2. CONCEPT OF RECRUITMENT

Survival and growth are the twin objectives of the present day organizations. In the changing business scenario, the organization that can face the competition can survive, grow and develop and for facing competition, organization needs to produce quality goods and services at lesser costs and to formulate such a distribution mechanism that facilitates time linked deliveries of products at reasonable prices, yielding satisfaction to the customers to a maximum extent.

All this is possible if the organization's work-force is excellent, talented and competent. Here, arises the necessity of recruitment. Through recruitment process right kind of people is searched and stimulated for offering candidatures. The recruitment activity starts after human resource planning (HRP). Within the procurement function, recruitment process starts just after human resource planning, remains in existence, thereto, with selection and comes to an end with the placement of the person, thus selected.

In broader sense, recruitment is the process of searching out prospective employees and motivating them to offer candidatures for the jobs in the organization. Date Yoder (1958)[1] defined recruitment as a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force.

A pragmatic recruitment process includes some of the following prime activities:

1. Job analysis that provides job descriptions and job specification.
2. Searching out and identification of the sources from where prospective candidates can be procured.
3. Reviewing and evaluation of internal and external sources of applicants.
4. Using of modern techniques for searching applicants like advertising, walk-in, consult-in, placement consultants, internet/cyberspace, scouting etc.

---

[1] Dale Yoder et al: Handbook of Personnel Management and Labour Relations, (McGraw-Hill Book Company, New York, 1958, P-72)

4.3. OBJECTIVES OF RECRUITMENT

The principal objectives of recruitment are discussed below:

1. To identify the potential candidates within the organization to yield excellent results as per requirements;
2. To prepare a reservoir of committed, talented, and knowledgeable workforce;
3. To attract dynamic candidates from outside the organization;
4. To produce quality products/services and to deliver the same to the customers to their satisfaction;
5. To keep the unqualified applicants away from the entry to the organization;
6. To determine the requirements of present and future human resources of the organization.

4.4. SOURCES OF RECRUITMENT

This stage is concerned with the question about the supply and availability of human resources and the avenues through which these are available. The recruitment can achieve its objectives of getting right number and kind of people at right time if the recruiting sources can give steady supply of individuals as per requirements of the organization.

The sources of recruitment are of two types. They are:

- Internal sources of recruitment; and
- External sources of recruitment;

Internal sources:

This source is company source that means prospective employees of the organization who are in the existing pay-roll of the company are identified to fill up the required vacancies. It is natural wherever the organization goes for recruitment of employees it first searches out its own sources. May be, some who are already on organization's pay-roll meet the necessary requirement of candidates for the vacant posts and are promoted to the next higher positions. Thus they are elevated and by doing this the organization can reduce cost of recruitment in one side and on the other can increase employee motivation. Sometime, through transfer, demotion of existing employees, vacancies are filled in. Organization also utilizes the services of laid off, retrenched, dismissed, and retired employees who fulfill the terms and conditions of the vacancies.

The internal sources include:

- Apprentices;
- Temporary workers, badli or casual workers;
- Retrenched, laid off & retired employees;
- Dependents of deceased, disabled employees etc.

External sources:

Organization goes for external sources of recruitment when right number and kind of candidates at right time are not available from internal sources. External sources are those sources which are outside the organization.

External sources include:

- Employment exchange;
- Private placement agencies;
- Consultants;
- Jobbers/Contractors;
- Leasing;
- Educational institutions;
- Unsolicited applicants;
- Trade Union;
- Similar Organizations.

4. 5. ADVANTAGES AND DISADVANTAGES OF INTERNAL SOURCES OF RECRUITMENT AND EXTERNAL SOURCES OF RECRUITMENT

Advantages of Internal Sources of Recruitment

Some of the benefits/advantages of internal sources of recruitment are mentioned below:

1. It motivates employees.
2. It helps to develop a healthy relation between trade unions and management.
3. It takes less time to select candidates.
4. It increases the level of morale of employees.
5. It gives more information about the candidates. So, right candidates can be selected.
6. Cost of recruitment is minimum.
7. The possibility of making error in selection of candidates is less.
8. It ensures uninterrupted supply of quality people in the organization.
9. Workers feel a "sense of belongingness" "we-ness" "togetherness" that help to develop team spirit.
10. It increases production/productivity as right kind of people are recruited.

Disadvantages of Internal Sources of Recruitment

Internal sources of recruitment has also some disadvantage. These are given below:

1. There is the possibility of making biased selection.
2. Internal recruitment discourages experienced and skilled employees outside the organization.

3. It can not create a new culture of work or operating activities.

4. Internal recruitment may not bring a climate characterized by openness, innovation, experimentation and dynamism in a situation when employees come from within the organization.

5. Existing candidates may lack new thought patterns, mind-sets and originalities in the context that demands continuous development in terms of conceptual and technical knowledge.

6. Since the supply of candidates for filling up of vacancies is limited the possibility of getting right kind of people is less.

Advantages of External Sources of Recruitment

1. Recruitment from external sources, purely on merit appears to be unbiased.

2. Since large number of candidates are available, there is the possibility of getting right kind of people as per requirement.

3. It can minimize cost of training as experienced and skilled employees recruited from external source, may not require extensive training.

4. It helps to maintain influencing balance in employee composition which can bring a culture of mutuality essential for the growth and development of the organization.

5. There is the possibility that creative, innovative, talented, technically sound and knowledgeable people are recruited.

6. A reservoir of dynamic, committed and talented people can be created within the organization which helps the company to accommodate any change quickly, arising out of abrupt-changing scenario.

7. Staff cost under external sources of recruitment is less as generally new candidates are given initial salary/minimum emoluments.

8. Recruitment through internet is cost effective. It receives more responses quickly.

Disadvantages of External Sources of Recruitment

1. It makes the existing employees de-motivated.
2. External recruitment is time consuming.
3. It makes the employees demoralized.
4. External candidates take much time to adjust with organization environment, culture and to acquaint themselves with the people of the organization.
5. It generates a sense of insecurity among the existing employees.
6. Cost of selection is very high.
7. Employees feel unhappy, dissatisfied as their psychological need for promotion remains unfulfilled.
8. In Internet response, old people and certain minorities miss the opportunity as they have no such facility and some unsolicited and not job specific applications are sent. Actually they are not applicants. Employer is deluged with resume.

4.6. TECHNIQUES OF RECRUITMENT

Sources of recruitment give the necessary information about the nature of human resources that are to be tapped for the availability of potential candidates for the vacancies. The organization taps/contacts the candidates through some techniques.

Technique is the device/mechanism through which management informs the internal and external candidates about the job, company, company products, company policies etc. that in other way motivate the prospective candidates to join in the hiring exercise, surrounding the targetable labour market.

Techniques adopted by the organization to stimulate internal candidates are:

- Promotion
- Transfer

Techniques used by the management to motivate/stimulate the external candidates include:

- Advertisement
- Scouting
- Employee referrals and the like
- Employment agencies
- Educational institutes

4.7. CONCEPT OF SELECTION

Selection activity is the most important activity as production, productivity, quality of products, attainment of organizational target depend on the quality of the people. That means, the level and extent of the knowledge, skill, competences, aptitudes, attitudes of the people required for the job are given importance when they are hired through this process. It is a sub-process constituting those activities that are essential for bringing success to recruitment under the procurement function of the organization. Selection is the process of choosing the suitable candidates who possess requisite qualifications and characteristics to fill jobs in an organization. Thomas H. Stone (1989) defines selection as "the process of differentiating between applicants in order to identify (and hire) those, with a greater likelihood of success in a job".

In the process of selecting candidates selector is likely to make two types of error – "reject error" and "accept error". Reject errors are those errors witch selector makes by rejecting candidates who would later perform successfully on job. Accept errors are those errors which selector makes by accepting the candidates who subsequently perform poorly on job (Ghosh, A.K, 2006).

The purpose of selecting is to choose the most suitable candidate in terms of job specification, from amongst the applicants who can be performer if appointed. So, matching of employee to the job is the activity of selection.

iii. Selection interview

iv. Verification of antecedence and background

v. Medical examination

vi. Selection decision/employment decision

Step 1: Processing of application forms, curriculum vitae (CV)

Information in respect of candidates (i.e. particulars of candidates in respect of age, qualification, experience, marital status etc.) are received in following ways:

- Unsolicited applications (applications designed/structured by applicants themselves, curriculum vitae).

- Application forms: In most cases, required information are not available from unsolicited applications. So, the management designs format of application (Application Blank Form) and obtains information from the applications. Generally information is required on the following in the Application Form:

- Personal information
- Marital status
- Physical data
- Educational qualification, professional/technical qualification
- Work experience
- Salary-present and expected
- Extra-curricular activities
- Reference

However application forms may not be same for all categories of staff. Company may have different application forms for managerial people, subordinate staff, technical staff and research and development personnel. On receipt of application forms from the candidates it is the task of the management to screen/process the applications to find out whether candidates fulfill the criteria in terms of employee specification/advertisement. So, applications are liable to be rejected on job related reasons.

Step 2:Selection test

After screening/processing application forms next step is to predict amongst qualified candidates as to who will be successful on the job. So, the use of a test to predict job performance capability is a necessity.

Various tests are conducted by the organizations as selection tools. Some of the commonly used selection tools/tests are

- Aptitude Test/Potential Ability Test
- Intelligence Test
- Personality Test
- Achievement Test/Proficiency Test
- Interest Test

Graphology, Polygraph and Honesty Tests are given importance by some organizations.

Step 3:Selection interview

The interview is considered to be an effective tool of the organization. It is a process of collecting information from the candidates by the interviewer to find out suitability for job. It may be traditional interview i.e. single interviewer interviews the applicant or panel interview involving several individuals who interview an applicant at once. There are some other kinds of interview methods practiced in various organizations. These are

- Indirect non-direct interview
- Patterned interview
- Stress interview
- Group interview
- Systematic depth interview

It occurs that interview tool is not used properly, rationally to predict candidate's abilities, skill, competence, aptitudes, and attitudes to match with jobs. So, in order to make the interview effective and unbiased, the following measure may be adopted:

- There should be consistency in asking questions to the applicants.
- The interviewer should have proper training with regard to conducting interview, interview norms and codes to be followed, jurisdictional areas of asking questions.
- The interviewer should ensure that congenial environment exists so that applicant feels comfortable.
- The interviewer should ensure that interview follows a clear cut procedure set for such purpose.
- The interviewer should be briefed with regard to the nature of job, details of job to be performed by prospective employees so that interviewer develops understanding/knowledge on the job.
- The interviewer may start talking in a very informal way on some common aspects to ensure that interactions between interviewer and interviewee are easy and smooth.
- The interviewer should make judgments on the basis of factual information he obtains about candidate's skills, competence, experience in relation to job specification.

Step 4: Verification of antecedence and background

This step is required when an applicant is selected for a particular job. One function of this step is to obtain information/report from the police authority with regard to applicant's antecedents and also his activities, character etc. This sort of information is required in case of employment in government department, public sector undertakings etc. So, reference is made to police authority for such purpose.

Another function is to obtain confirmation from the persons whose names have been mentioned by applicant in the application form as referees regarding validity and reliability of information. The other function of reference is to obtain information concerning applicant's character. References are required to obtain information to ascertain honesty, integrity, moral rectitude, character and track record of the applicant. Information with regard to applicant's antecedents and background may be obtained through:

- Sending confidential letter by mail/courier service
- Telephonic talk by executives
- Personal visit by responsible officer

Step 5: Medical examination

Since some jobs require certain physical characteristics, medical examination has some validity. If the applicant is required to take medical examination, organization should have reasoning behind this requirement that such activity is job related. The main objective of medical examination is to see that the applicant is physically fit to perform the job to be assigned to him.

Step 6: Selection decision/employment decision

This is the final step in the selection process. The activity under this step is very important as final decision is taken from the pool of candidates who pass test, interview, reference verification and medical examination. After this, the job offer is sent to the selected candidates through letter of appointment. Unsuccessful candidates are also intimated about the decision of the management.

4.10. SUMMARY

The summary relating to the objectives as mentioned in unit-3 is given hereunder:

Recruitment is the process of searching out prospective employees and motivating them to apply for vacancies in an organization. Effective selection facilitates the process of recruitment to achieve its goal i.e., filling-up the vacancies with the right person. Recruitment process, therefore, starts with the following activities:

- Prepare the organization for job analysis;
- Identification of sources;
- Review and evaluation of sources;
- Use of techniques for searching applicants;

The major objectives of recruitment are to identify the potential candidates; to attract dynamic candidates; to prepare a pool of committed and talented workforce; and to produce and deliver the quality product/services to the satisfaction of the customers.

The sources of recruitment are both internal and external. The internal sources include apprentices, temporary workers, retired employees and a few others while external sources include employment exchange, private placement agencies, jobbers, leasing, educational institutions and some others.

Both sources of recruitment (internal sources of recruitment and external sources of recruitment) have advantages and disadvantages.

Internal sources of recruitment increase level of morale of employees, motivate employees to produce quality good and services, develop a sense of belongingness, i.e. 'we-feeling' among the employees. But the organization may not have required numbers of dynamic and competent employees to face the challenges of the present day competitions, if it recruits people through internal sources only.

External sources of recruitment create a new culture of work in the organization as right kind of people (dynamic and people with positive attitudes, values etc.) are recruited through these sources. Organization can get the benefits of competitive advantages if and only if quality goods and/or services can be produced, distributed and delivered to the destinations up to the satisfactions of the customers by the right type of people, recruited through external sources. But, these sources of recruitment de-motivate the existing employees and make them demoralized.

Different techniques of recruitment are followed in the organizations. Some of the techniques are advertisement, scouting, employee referral etc.

After recruitment next activity in the procurement process is selection. Selection means choosing the best candidate from among the prospective candidates who is capable enough to deliver goods and services as per expectation of the organization. The purpose of selection is to predict who among the job applicants would be successful, if selected. For selecting personnel, organization follows some steps. These are:

- Processing of application forms & CV(s)
- Selection test (s)
- Selection interview (s)
- Verification of antecedence and background
- Medical examination
- Selection decision

4.11. SELF-ASSESSMENT QUESTIONS

1. What is recruitment? State the objectives of recruitment.
2. State and explain the different sources of recruitment.
3. What do you know by recruitment? State the merits and demerits of internal source of recruitment.
4. State and explain the merits and demerits of external sources of recruitment.
5. Distinguish between internal sources of recruitment and external source of recruitment.
6. What is selection? State the purposes of selection.
7. "Selection process has different steps" – Discuss the steps normally used in selection process.
8. Write short notes on:
   a) Evaluation of selection programme
   b) Assessment centre
   c) Selection interview
   d) Selection process
   e) Techniques of recruitment
   f) Objectives of recruitment

4.12. GLOSSARY

Recruitment:

Recruitment is the process of searching out prospective employees and motivating them to participate in the hiring exercise.

Technique of recruitment:

Technique of recruitment is the device/mechanism which is used by the management to inform the internal and external candidates about the job, company, company products, company polices etc. and to motivate/stimulate them to participate in the hiring exercise.

Selection:

Selection is the process of choosing the suitable candidates who possess requisite qualifications and characteristics to fill-up jobs in an organization.

13. FURTHER READINGS

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Block II

UNIT5 : TRAINING

5.0. OBJECTIVES

After reading this Unit you will be able to

- define and explain the concept of training
- describe the objective of training
- understand the importance of training
- differentiate between training and development and also between training and education
- assess the need for training
- discuss the training methods
- evaluate the success of a training programme

STRUCTURE

5.1. INTRODUCTION

Every organization wants to survive grow, develop and seeks to obtain competitive advantage through the creation of reservoir of dynamic and competent workforce, who can be able to produce quality goods and services at a comparatively lesser cost and sell them at a reasonable price with customers' fullest satisfaction and delightment. So, organization needs to have human resources that have competences, positive values, beliefs and attitudes to accept assignment as a challenge and prove their worth, effectiveness through delivery of goods and services. It is possible for the organization to have such kind of workforce if it has planned and systematic training and development activities that can make the people competent, effective and dynamic.

This unit attempts to discuss the employee training in its entirety in brief so that one can understand the significant perspectives of training.

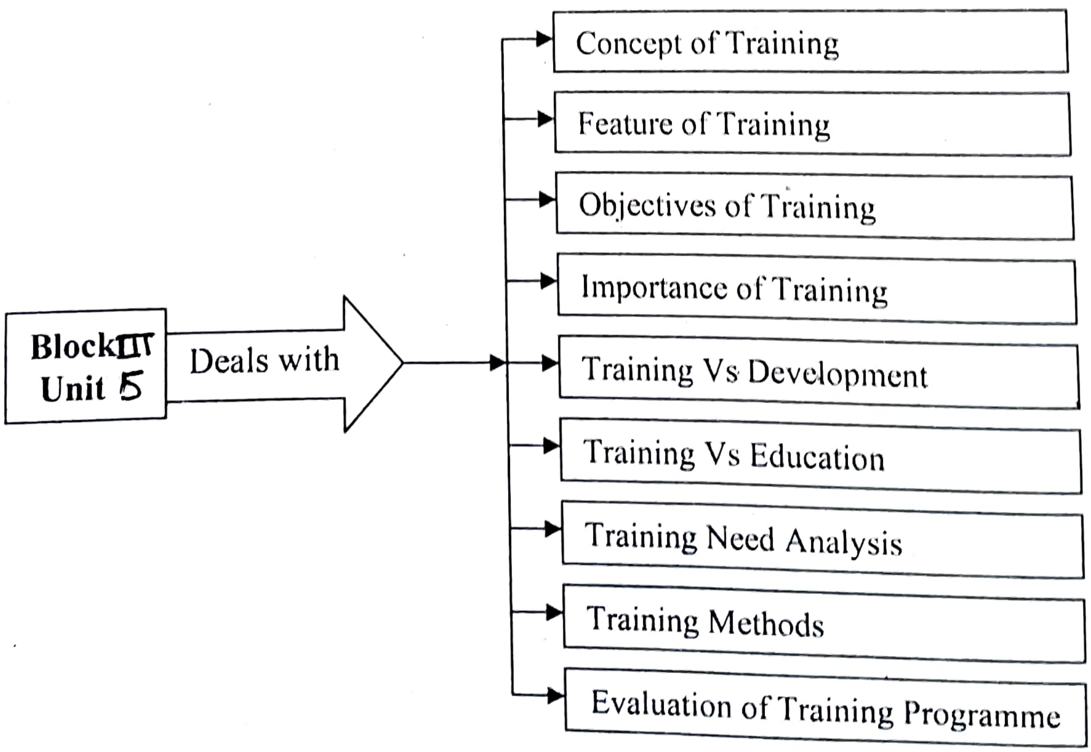

Figure .1: Schematic Diagram of the Objects of Unit 7.

5.2. CONCEPT OF TRAINING

Once selection and placement are completed the next important function is to provide necessary training to the newly employed persons. However, training is also necessary for upgrading the skills of the existing employees. Training is viewed as the act of increasing skills and knowledge for performing a particular job. It is a short term educational process that uses a systematic and organized procedure by which employees learn technical skills, knowledge and behaviour for improvement in their performance.

Training has been defined by Armstrong as the formal and systematic modification of behaviour through learning which occurs as a result of education, instruction, development and planned experience. That means it is the modification of behaviour resulted from learning and planned experience. Successful learning makes permanent change in behaviour training. According to Buckley and Caple (2003) training is a planned and systematic effort to modify and develop knowledge, skill and attitude through learning experience to achieve effective performance in an activity or a range of activities. Anderson (2000) perceives training as a process to change employees behaviour at work through the application of learning principles. Training may be defined as a planned and systematic process that brings about measurable changes in knowledge, skills, attitudes and behaviour of employees for doing their present jobs well and also prepares them for taking up higher responsibility in future.

5.3. FEATURES OF TRAINING

The features of training are discussed below:

- It is a learning experience planned and carried out by the organization to develop more skilled task behaviours of the trainees.
- Training is usually a systematic programme designed to improve employee performances.
- It is organized by the concerned organization for its employees.
- Training bridges the gap between job needs and skill knowledge and behaviours of the employee. It provides the skill and abilities that may be called on the future to satisfy the organization's human resource needs.

- It is job oriented process and vocational in nature. Training improves specific skill related to a particular job. Its objective is to fulfill job requirements. So, it is objective oriented and practical based learning process.
- Training is generally considered as the basic responsibility of the management. Management is accountable for the ultimate result. To impart training is the basic responsibility of the management.
- It is short-term activity designed essentially for the operators.
- It is regarded as the most important subsystem of Human Resource Management system. Training covers both learning and practice of skill, knowledge and behaviour.

5.4. OBJECTIVES OF TRAINING

Training is a process of enhancing skill, knowledge, competences of employees so that they can perform present jobs. The basic objective of training is to help the organization to achieve its goals by adding value to the employees. O. Jeft Harris (1976) has expressed that 'training of any kind should have as its objective the redirection or improvement of behaviour so the performance of the training becomes more useful and productive for himself and for the organization of which he is a part. Training normally concentrates on the improvement of either operative skill (the basic skills related to the successful completion of a task), interpersonal skills (how to relate satisfactorily to others), decision making skills (how to arrive at the most satisfactory causes of action), or a combination of these'.

Training policy of the company is formulated looking to its vision, mission, and also employees' strength, operational activities, technological advancement and so on. The particular objectives of training are discussed below:

i. **Developing employee competences:**

A systematic, planned training programme helps the employees to improve their knowledge, skill abilities. Employees through participation in training programme, workshop can enrich their knowledge, can interact with the trainer to share views, to remove wrongful, rigid perception, can strengthen their weak areas.

ii. **Effective job performance by new entrants:**

Training makes the new entrants effective by imparting skill, knowledge, moulding attitudes, beliefs, mindset, acquainting with policies, norms, rules, adjusting to the new environment, culture of the organization.

iii. **Helping to grow:**

Training helps the employees to grow with the organization as the necessary input requiring for job performance in changing scenario, is provided to the trainees.

iv. **Acceptance of change:**

Organization needs to introduce new methods, techniques, device, latest technology to cope with the situation arising out of stiff competition in the market. This is possible if the employees are aware of recent changing phenomena and accept changes. Training moulds the mindset of the people appropriately to accept changes in the organization.

v. **Reduction of absenteeism, employee turnover rate and increase of production, productivity:**

Tailor made programmes are designed with the objectives of making the people know about the evil effect of absenteeism, necessity of increasing.production and productivity, different schemes of the organization for providing welfare benefit, social security to reduce employee turnover rate.

vi. **Developing proacting capabilities:**

Training improves knowledge's, skill, competences of the people to identify/predict the probable issues/problem to be confronted in near future, and to develop proacting capabilities to face the challenges.

vii. **Making the people dynamic:**

Dynamism is needed to activate amongst the employees so that they can realize the necessity of dynamic activities for survival, growth and development of the employee community and the organization as well. Training is such a mechanism that makes the people dynamic.

5.5. IMPORTANCE OF TRAINING

Organization activities are performed through the people at work in the organization and it is possible to function if the people possess required skill, knowledge, abilities, attitudes to perform (A.K. Ghosh, 2006). Training provides necessary input to the people so that they can perform their best to achieve their goals and the goals of the organization as well. The importance of training can be ascertained from the following:

1. To increase productivity and improve performance,
2. To improve quality of the product or service,
3. To raise the morale of the employees,
4. To develop new skill, knowledge, understanding and attitudes,
5. To learn the correct use of new tools, machine, process and methods or modifications thereof.
6. To reduce waste, accident, labour turnover, scraps, absenteeism and other overhead costs,
7. To implement new or changed policies and regulations,
8. To develop for replacements, prepare people for advancement, development of human resources and ensure continuity of leadership,
9. To minimize the resistance to change and
10. To ensure survival and growth of the enterprise.

5.6. DIFFERENCES BETWEEN TRAINING AND DEVELOPMENT

Training and development are two terms which are closely related and often used simultaneously. Even the terms are used interchangeably in common parlance. In fact both the processes are used to improve the abilities of the people required to perform job effectively.

Training is a planned, systematic and a short-term learning process. It is imparted to improve knowledge, skill, abilities of the people so that they can perform their present job well. Development is a wider concept. It connotes total improvement. But training is a narrow concept. It is intended to increase basically skill of workers or operators. As such training is given usually to the operators for enhancing their technical and allied operational skill. The term development is usually associated with management executives. The differences between 'Training' and 'Development' are shown in Table 7.1.

Table 5.1

Differences between training and development

	Training	**Development**
1. Content	Mainly technical skill and knowledge based	Managerial and behaviour. Skills and knowledge based
2. Focus	Behaviour is focused	Congnitive as well as behavioural dimensions are focused.
3. Duration	Short-term	Long-term
4. Beneficiaries	Mostly technical operators & other non- managerial personnel.	Mostlt executives personnel and managerial
5. Initiated by	The concerned Organization	The manager himself primarily and the concerned organizations.
6. Orientation	Job oriented	People and organization oriented
7. Nature	Reactive	Proactive
8. Dimension	Behavoural	Both Cognitive and Behavioural

5.7. *DIFFERENCES* BETWEEN TRAINING AND EDUCATION

In fact no distinction is usually made between training and education. Both training and education are learning process, and they are often considered synonymous. In some cases, such as, vocational education, training is considered as an educational process. Nevertheless some basic differences can be identified between training and education. In fact some useful distinctions have been drawn by Kenny and Reid (1986). They made distinctions in respect of process, orientation, content and the degree of precision involved. Difference can also be identified with respect to course or programme content. The object of training is to provide knowledge, skill and develop attitudes which are needed to perform specific tasks. Education usually provide more theoretical and conceptual frameworks designed to stimulate individuals' analytical and critical abilities. Thus, education has broader perspective in the sense that it is primarily concerned with unveiling the world to students and enables them to choose their interest and life styles and also their careers. In contrast, training is primarily concerned with preparing people for certain activities determined by technology, organization settings in which they are put to use. Education helps students to choose their careers and accordingly prepares them, while training helps participants to improve their performance on set of tasks. Education deals with knowledge and understanding. Training helps to develop understanding, skill and action under real life conditions. Moreover, changes brought about by training are often immediately observable in short term whereas education is more likely to have impact in the longer term and possibly in a more intensive way.

However, there are some differences between 'training' and 'education' which are shown in Table 7.2.

Table 5.2

Differences between training and education

Training		Education	
1.	Application or practical oriented	1.	Theoretical or conceptual based
2.	Job related	2.	Person or man oriented
3.	Mostly technical	3.	Usually general
4.	Specific or task centred	4.	General concepts or knowledge based
5.	Narrow perspective; Micro concept	5.	Broad perspective, Based on Macro concept
6.	On-the-job and off-the-job learning	6.	Class-room learning
7.	Arranged by the concerned organization	7.	Organization may or may not arrange
8.	Quick results	8.	Takes more time to generate results

5. 8. ANALYSIS / DISCOVERY OF TRAINING NEEDS

Before designing training programme company needs to find out 'who needs training' and 'what training'. That means training need analysis is required. Different authors/experts have suggested various mechanisms to discover training needs. Gary Dessler (2000) has prescribed 'task analysis' and 'performance analysis' as two main ways of identifying training needs while Michael Armstrong (1999) proposed following four methods of training need analysis.

- analysis of business and human resource plans
- job analysis
- analysis of performance reviews
- training surveys

However, looking to viewpoints of various researchers, authors and also analysis of survey reports conducted on such area, it is felt that the following methods may be used to identify/discover training needs of an organization.

i. Organizational analysis
ii. Job/task analysis
iii. Performance review analysis
iv. Other methods
   a. Management requests
   b. Observations
   c. Attitude survey
   d. Incidents analysis

Organizational analysis

Training needs can be ascertained through organizational analysis that covers (i) analysis of corporate business strategies/plans (ii) HR strategies/plans (iii) analysis of HR utilization in different departments (iv) equipments/machines used (equipments/machine analysis)

The above analysis may help to know the number of people who need training to develop level of competences.

Job/task analysis

Training needs can be ascertained through job/task analysis. Task analysis involves

- Job contents-job details

- Quality and performance standard
- Skill and knowledge requirement

Job analysis method is effective for determining training needs of employees who are not very much experienced.

Performance Review Analysis

Performance review is a part of performance management that is concerned with managing and improving individual and team performance in a continuous system. Necessary measures are taken to improve performance by providing counselling, solving performance problems, giving feedback and developing skill, knowledge, competences of employees. Performance review is made at the end of the specified period to ascertain performance level (i.e. extent of achievement), areas where shortfall is noticed, problems faced by employees in the process of carrying out performance and to reinforce the deficit/weak area through learning process.

Performance review is an effective technique to understand training needs of employees as this is a continuous process that can evaluate performance/achievement more or less perfectly and accurately. Training needs can also be ascertained from self-appraisals (A.K. Ghosh, 2006).

Management Requests

Sometimes line management particularly supervisors request higher management by way of sending suggestion or by placing nomination in training meeting for arranging training programme for some employees working in the respective departments. Areas in which training is required to be imparted are specified/recommended by the supervisors.

Discovery of training needs by first line management brings accuracy and perfection as employees are directly working under them and it is supervisors who know in which areas concerned employees are weak and need training. However, this technique may not be effective if nomination for training is biased.

Observations

It is another method of identifying training needs of employees by management. Supervisors/managers under whom employees work pay constant look and careful observations on employees while working, and through such observation they ascertain quality and quantity of performance and also weak areas, if any, that need reinforcement through training. If training need is felt by management, nomination is suggested.

Incidents Analysis

Training needs are identified through analysis of the following:

- Productivity rate of employees when it is below the standard rate.
- Accident rate when it is higher than normal and it is due to employees' negligence or for not knowing safety rules/regulations, or for not having knowledge on operational activities.
- Labour turnover rate (when it is much more than standard rate) that requires the present employees to know the job as fallen vacant.

The above incidents/occurrences help management to discover training needs of employees.

5.9. TRAINING METHODS

For imparting training to the employees several methods have been developed. Training methods are the means of attaining the desired training objectives in a learning situation. Several training methods and techniques have been developed over the years to meet certain specific needs. Training methods are usually classified into two groups e.g. on the job training and off the job training.

On the Job Training

On the job training is provided when workers are taught job-related knowledge, skill and abilities at the work place. People get training while working. There are several methods used under the on-the-job training. These are (1) Job Rotation, (2) Coaching, (3) Job Instruction or Training through Step by Step (4) Committee Assignment (5) Understudy (6) Intership and (7) Apprenticeship.

i. **Job Rotation**

In this method a trainee is rotated from one job to another job as and when he completes training in the present job and this process continues till he learns and gains experience from all the different job assignments. It involves movement of trainees from one job to another. The object of this method is to make trainees get job knowledge and experience of several different types of jobs. This method gives an opportunity to the trainees to understand the problems of employees working in other jobs and hence helps to improve co-operation and fellow feeling among the employees. Job rotation is widely used in different commercial banks in India, as a method to develop competence of employees.

ii. **Coaching**

In this method trainees are placed under a particular supervisor who is trained specially to function as a coach for training the newly appointed workers. The coach guides the trainees in developing useful behaviour in their jobs and provides the necessary feed back to the trainees and offers them valuable suggestions for improvement of their performance. The basic problem is that in this method trainees are not given the opportunity to express their own ideas, views and reactions relating to their job performance. Supervisor/coach may consider coaching job as imposed assignment, so he may take it casually.

iii. **Job Instruction or Training through Step by Step**

This method follows the technique of imparting training to the participants through step by step. Accordingly a trainer explains the trainees the different aspects of the job, the knowledge and skill required to perform that job and if necessary, demonstrates to the trainees how to perform the job and then asks the trainees to do the job. The trainer examines performance of the trainees, provides feedback information and helps them to rectify and improve performance. In case of complicated job this method seems to be very effective.

iv. **Committee Assignment**

Under this method trainees are trained in a group. They are given to study an organizational problem and are asked to solve the problem jointly. Trainees discuss the problem among themselves and solve the problem jointly Accordingly it helps to improve analytical ability and develop mutual understanding, mutual trust and mutual confidence among the members of the team.

v. **Understudy**

Under this method a trainee is placed under a person, generally the boss/supervisor who is proficient in this job, and the trainee learns by observing the job behavior of that person. The trainee gets to know the tactics, methods used by the boss/supervisor to solve problems, discharge activities and perform tasks assigned to him. This way the trainee develops his level of competence. The object of this method is to enable the employee to acquire some familiarity with the task, and practices of his supervisor. The limitation of this method is that the employee may learn not only the skill but also faulty methods and bad habits of the supervisor.

vi. **Internship**

Under this method of training a lot of emphasis is given on theoretical and also on practical aspects of work activities. An internship is a kind of on-the-job training that usually combines job training with class room instructions. That means a trainee's learning during academic session is complemented by practical exercise in actual work situation. In technical and medical education this method is generally applied. However for application of this training method, both training schools and business houses should co-operate to develop and implement such training programmes.

vii. **Apprenticeship**

In some trades, crafts and technical field, expertise or proficiency can be acquired by trainees after a relatively long period of time of learning and gaining practical experience under direct supervision and guidance of experts. In such cases this method is appropriate and useful. Apprentices are trainees who spend a prescribed period of time of working with experienced guide. The basic defect of this method is its fixed period of learning.

A fast learner may acquire the skill with much shorter period but a slow learner may need additional time. But the time span for learning is same for all learners. Moreover, in these days of fast changing technology, a trainee who spends years to learn specific skill may find upon completion of his programme that the job skills he acquired are no longer appropriate and his learning would not be useful in the new situation. However, this method is useful for developing competence skilled workers and supervisors in developing countries.

Off the Job Training:

Under this method trainees are separated from the real job situation and are sent to a different place where they are given necessary training. As they are not engaged in actual work, they can devote whole time and attention in learning skills, knowledge and behaviour necessary for effective performance of their jobs. Moreover, this method provides to the trainees the freedom to express their views and ideas. Greater interaction between trainers and trainees is possible. So, process of learning may become faster and effective, and the trainees may be able to adopt the necessary job behaviour for proper and effective performance of their jobs. There are various methods of off-the-job training. Some of the important methods are discussed herein below:

i. **Vestibule Training**

In this method, actual work conditions are simulated in a class room situation. A replica of actual workshop is created for training purpose. All materials, machines, tools etc. used in the actual job performance are used for imparting training. This type of training is usually applied for training personnel for electrical, telephone, electronic and other technical jobs. The basic advantage of this method is that it is easy to transfer learning to trainees because they experience similar learning in work situation.

ii. **Role playing**

In this method, participants play the role of certain characters, such as the human resource manager, production manager, foreman, supervisors, workers and the like. They play the roles in realistic behaviour in imaginary situations. The roles are real in the sense that the participants may be required to perform these roles in their real life situation. This method is mostly used for developing interpersonal interactions and relations.

iii. **Lecture method**

It is a traditional method of instruction. A trainer or an instructor on the basis of some prepared materials delivers directly to the trainees to get to know the topics/subject. In our country this method is widely used as a teaching method in colleges and universities. Lecture method includes talk, discussion, film shows, feedback and explanation. This method is less expensive as cost per trainee is minimum and learning in this method is direct and can be used for large group of trainees. But the basic limitation of this method is that neither learning nor transfer of knowledge is effective.

iv. **Conference or seminars**

The seminar or conference is a group centred approach where discussions are made for clarification of ideas, communication of certain problems and their solutions and other thinking inputs to the trainees. In this method the trainer delivers lectures and involves the trainees in a discussion so that trainees may get the ideas clarified by the speaker. But in case of seminar the role of speaker is important and the scope of interaction is very limited. The scope to participate and interact is wider in conference than seminar. But these methods are not effective for operators or workers.

v. **Programmed Instruction**

It is a method which makes the trainees learn operations, procedures, rules, regulations through programmed text manuals. This is also called self learning or learn by self method. The units of learning materials are arranged from simple to more complex levels of instructions. Accordingly trainees enter from simple to complex aspect of learning. Trainees learn from the materials supplied and are asked to answer the questions set on the specific materials supplied earlier. The progress of learning can be tested by examining the answers given by the trainees. In recent years this method has become much popular.

5.10. EVALUATION OF TRAINING PROGRAMME

Evaluation is a process of measuring effectiveness. Evaluation means determining worth or value of something. The specification of values forms basis of evaluation. Hamblin (1974) has defined training evaluation as an attempt to obtain information (feedback) on the effects of a training programme and to assess the value of the training in the light of the information. Evaluation is the comparison of objectives (criterion behaviour) with outcomes (terminal behaviour).

Evaluation of training programme is made for the following:

- to ascertain whether a programme has successfully accomplished its objectives.
- to get to know the strength and weakness of the training method used to develop competence of the trainees.

- to know the cost benefit ratio of the programme.
- to test the validity and reliability of the content.
- to provide necessary feed-back to different stakeholders of training programme.

Organizations spend a colossal amount of money for providing training to its employees. It is therefore, a necessity to get know whether training programmes are effective or not and for that, companies arrange to measure/evaluate effectiveness of training. Different authors, experts have suggested various methods to evaluate training effectiveness. Some of the important methods are

i. Test retest method
ii. Reaction
iii. Learning
iv. Behaviour
v. Results
vi. Experimentations
vii. Performance method and
viii. Interview method

Hamblin suggested a composite model of evaluation consisting five-level evaluation. The levels at which evaluation of training takes place are (i) Reaction (ii) Learning (iii) Job behaviour (iv) Organization and (v) Ultimate value.

i. Reaction:

This focuses on the trainees' reaction to the usefulness of the coverage and depth of the course content, method of presentation, teaching method etc.

ii. Learning:

This measure is applied primarily to examine trainers' ability to teach and participants' ability to learn in the context of the content learned and the time taken to learn and learners' ability to use and apply what they learned i.e. transfer of learning to work situation.

iii. **Job behaviour:**

This evaluation takes into account of the changes made in job behaviour of the employees due to change in their skill, knowledge and behaviour dimensions as a result of participation in the training programme.

iv. **Organization:**

This measure attempts to evaluate the effect of learning and change in job behaviour resulting from participation in the training programme and its impact on the department or organization in the form of productivity, quality, morale, sales turnover and the like.

v. **Ultimate value:**

The object of this evaluation is to know the outcome of training, i.e., the contribution of training programme in the attainment of the company goals like survival, growth, profitability etc., and also to the individual goals like development of personality and social goals like maximizing social benefit.

Kirk-Patrick (1994) proposes four-level evaluation. These are (i) Reaction (ii) Learning (iii) Behaviour and (iv) Results.

i. **Reaction:**

An attempt is made at the outset to understand the reactions of participants towards materials, instructions, facilities, pedagogy, content and presentation.

ii. **Learning:**

Learning is considered in respect of facts, techniques and skills. It may be assessed in terms of knowledge, skills and attitudes. The purpose is to know what trainees learned in the training process.

iii. **Behaviour:**

It concerns with the effect or consequences of learning. Learning changes behaviour. Behavioural change can be determined by comparing behaviour before and after the training. Behavioural change is assessed on the basis of observation made by participants, supervisors, subordinates and peers.

iv. **Results:**

At this level, ultimate effect of training is assessed. Accordingly evaluation is made at several dimensions e.g. cost saving, increase in output, improvement in quality, decrease in the rate of rejection and the like. The unique feature of this model is that it seeks answers to several structured questions. This model works on the basis of responses received from the answers to questions relating to four basic dimensions of the model viz. reaction, learning, behaviour and results.

5.11. SUMMARY

Training is an important activity of HRM after acquisition activity. It is natural that the people who join organization have varying degree of knowledge, skill, ability, aptitude, attitude, value, belief, personality etc. Because of non-possession/non-acquisition of optimum level of core components, people can not deliver goods and services as per requirements, needs and demands of customers. So, organization should have some mechanism that increases knowledge, skill, competences of people in a planned and systematic manner to enable them to perform their present job well. Such mechanism is training.

Training normally concentrates on the improvement of either operative skills, interpersonal skills, decision making skills or a combination of all these skills. It provides necessary inputs to such people so that they can perform their best to achieve their goals and the goals of the organization as well.

Training involves learning that relates to present job and the purpose of training is to improve performance on the present job of the individual while the focus of education is on learning to prepare the individual for a different but identified job. The development is a learning for growth of the individual but not related to a specific present or future job.

For designing a training programme company needs to find out, 'who needs training' and 'what training'. That means training need analysis is required. There are various methods used by different companies to identify/discover training needs of an organization. The methods are: organizational analysis, job/task analysis, performance review analysis and other methods viz management requests, observation, incidents analysis.

For imparting training to the employees several methods have been developed to act as means to make the employees performers in a learning situation. Training methods are usually classified into two groups namely, 'on the job' training and 'off the job' training. Under 'on the job training' the methods/techniques like job rotation, coaching, job instruction, committee assignment, understudy, internship training and apprenticeship are generally used by many companies. Most companies use vestibule training, role playing, conferences, seminars, programmed instructions for development of competences of its employees. All such methods/techniques fall under the purview of 'off the job training'.

5.12. SELF-ASSESSMENT QUESTIONS

1. Define the term' training'. State the objectives of training.
2. Distinguish between training, education and development.
3. Why is training so important in Human Resource Management? – Explain
4. What are the basic objective of training?
5. How do you identify the training needs of an industrial organization?
6. Explain different methods of training. Describe a suitable method for imparting training to the clerks of a banking organization.
7. Explain the concepts of on-the-job and off-the-job training methods with appropriate examples for each of the methods.
8. Do you agree 'on-the-job' training methods are more useful than 'off-the-job' training methods?
9. Do you feel training need analysis is a necessity before designing a training programme? – Explain.
10. What are the various benefits of training?
11. a) What is training evaluation?

    b) Explain the Kirk Patrick method of training evaluation.

5.13. GLOSSARY

Education:

It is a conceptual learning that improves understanding and enables one to analyse and solve wide range of problems.

Development:

It is the growth of realization of a person's ability and potential through the provision of learning and education experiences.

Job Rotation:

It is rotation of employees from one job to other job or from one department/section to other department/section.

Off-the-job Training:

It means training away from work place.

On-the-job Training:

It is a learning while working.

Role playing:

It is a class room training that makes the trainees play the role of other characters to feel the situation, difficulties, inconveniences other personalities face, and develop their behavioural attitudes.

5.14. FURTHER READINGS

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2. Raymond A. Noe, John R. Hollenbeck, Barry Gerhart and Patrick M. Wright : Human Resource Management Gaining a Competitive Advantage, (2nd Edition, The Mc Graw Hill Companies, Inc 1997)

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Block II

UNIT VI EXECUTIVE DEVELOPMENT/MANAGEMENT DEVELOPMENT

6.0. OBJECTIVES

After reading this Unit you will be able to

- define and explain the concept of management development / executive development
- understand the need for management development
- get to know the prerequisites of effective management development programme
- outline the management development process
- discuss the management development methods

STRUCTURE

6.1. Introduction

6.2. Concept of management development

6.3. Need for management development

6.4. Prerequisites of effective management development programme

6.5. Management development process

6.6. Management development methods

6.7. Summary

6.8. Self-Assessment Questions

6.9. Glossary

6.10. Further Readings

6.1. INTRODUCTION

The ability of an organization to achieve its business strategy depends on the competencies and abilities of its managers particularly how they gain experience and develop within the organization to meet its particular demand and the needs of the situations. Development helps to increase not only skills and abilities but also many other qualities including knowledge and attitudes which are specially required for management jobs. Management development becomes indispensable to modern organizations in view of its several benefits and contributions to the success of an organization.

With the increasing globalization, competition has further been escalated. The need for management development also is being intensified. In the changing environment management will have to play a greater role. Thus management development becomes indispensable for the organization which wants to continue and grow. However, development mostly depends on the needs, aspiration and potential of an individual. Efforts towards development often depends on personal drive and ambition. Development is also possible through learning and gaining experience. Therefore, organizations should create and maintain an environment for learning and provide ample scope for the development of their managers.

In view of the growing complexities and difficulties of today's business emanating primarily from the turbulent business environment, competence and abilities of management should continuously be enhanced to meet the present and future challenges of the environment. This unit intends to provide an overall view of management development in its entirety so that one can get to know the significant perspectives of management development

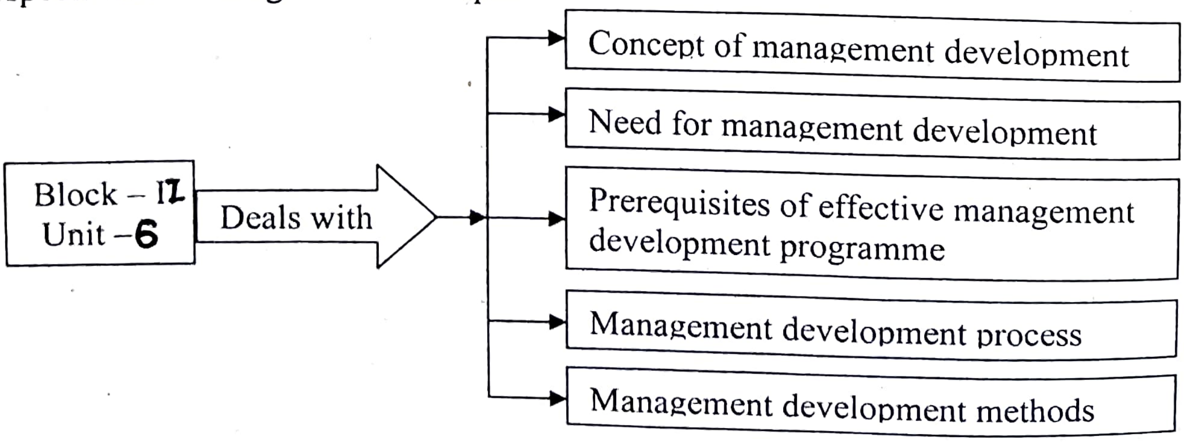

Figure 8.1: Schematic Diagram of the Objects of Unit 8

6.2. CONCEPT OF MANAGEMENT DEVELOPMENT

Development is primarily an experience based learning process. It is the process of acquisition of capabilities which a manager must learn to perform the present job and the future job well. Management development is a process to improve the managerial effectiveness of an individual through a planned and deliberate process of learning from day to day working experiences as well as from participation in development programmes. Management development has been defined by Dale S Beach, as a systematic process of training and growth by which individuals gain and apply knowledge, skills, insights and attitudes to manage the work in their organizations effectively and efficiently. Management development is about improving the performance of existing managers, providing them adequate opportunities for growth and development and ensuring as far as possible, that management succession is provided. Management development, according to Armstrong is concerned with improving managers' performance in their present roles and preparing them for greater responsibilities for future. Management development is a long term process which demands continuous learning of knowledge through training, education and experience. So, management development is a planned and systematic process of growth and development by which a manager develops his abilities that makes him a successful manager. It is basically concerned with improving the performance of managers by providing them necessary opportunity for growth.

6.3. NEED FOR MANAGEMENT DEVELOPMENT

The survivality, growth and development of any organization depends on the quality of workforce it has; and the quality of such workforce depends on the quality of management personnel of the company. Since procurement, motivation, development of workers are part of managerial functions, qualitative functioning of such activities are influenced greatly by degree and qualities of skill, ability, competencies and attitude of such managerial personnel. Hence management development programmes are needed to compensate and strengthen the deficit areas of knowledge, skill, abilities of the executives/managers so that they can perform their present job well and also future job when assigned in terms of objectives/strategies of the company. The need of management development can be ascertained from the following:

i. Some experienced and effective executives may not have sufficient knowledge in the latest technology that may stand in their discharging functional activities. So, in this case management development is a necessity.

ii. To face aggressive competition in the market organizations need to have world class workers for production of world class product at reasonable cost; and this is possible if the organizations have highly skilled, committed, dynamics pool of management personnel who can prepare the workers' community according to need, requirement of the companies. So, here lies the necessity of management development.

iii. Management personnel need training to develop their level of competencies as in the changing scenario their skills become obsolete.

iv. Line management/technocrats are well conversant with technicalities of production activities but, they may lack adequate skills, abilities in human relation development and conceptual areas of the company. For effective functioning of their work, management development programmes are required to be conducted to promote enhancement of human skill and conceptual skill of technocrats, line managers of the organizations.

v. For smooth, effective and uninterrupted functioning of business activities managers should have leadership qualities, proper knowledge, skill in decision making and also should introduce schemes likes employee empowerment, participation and involvement in organizational activities. For all this, management development programmes should be of much use.[1]

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[1] Ghosh AK. Human Resource Management(with cases) Manas Publications(New Delhi) p246.

6.4. PRE-REQUISITES OF EFFECTIVE MANAGEMENT DEVELOPMENT PROGRAMME

The pre-requisites of an effective management development programme are discussed herein is below

i) The top management should acknowledge and support the need for management development. Initiative should be taken for developing the policy, strategy and programmes for management development by the top management. In fact primary responsibility and initiative for management development should be undertaken by the top management.

ii) It should also be acknowledged that management development is essentially a 'line function'; i.e. a manager is primarily responsible for development of his subordinates. Accordingly every manager must accept the basic responsibility for developing managers under his control and furthermore he should give top priority to this job.

iii) Development is primarily experiencebased learning process. A challenging job provides greater opportunity for management development. So, managerial jobs should be designed to make them quite challenging.

iv) Management development programmes are launched primarily to meet the need of the organization. But development is basically personal need of a manager. Individual need of the managers should not be ignored. Accordingly management development must be geared to the needs of the organization and the individuals as well.

v) Necessary motivation and incentive must be provided for development. A policy of promotion from within is a necessary incentive for managers to develop in an organization.

vi) Top management should promote an appropriate culture for management development which must inculcate

- an attitude and culture for learning and gaining knowledge and experience,
- an aptitude for quest of excellence,
- an attitude for tolerance of mistakes,
- an urge for thriving to maintain a balance and equity,
- a passion for discovery of self and others, and
- a strong achievement need.

vii) Management development must be planned and it must be supported by formulating appropriate programmes. However management development programme must be based on established policy and appropriate strategy.

6.5. MANAGEMENT DEVELOPMENT PROCESS

To develop skill, knowledge, abilities and attitudes of managers/executives and to design programmes for the purpose of such development, some steps are needed to be followed[2]. They are discussed below in brief.

i. Ascertainment of objectives/strategies of the company

The first step of management development is to know the objectives/strategies of the company. The objectives/strategies tell how many and what kind of management personnel will be required for the company. It gives a framework of management personnel requirement for future activities.

ii. Analysis of organization's total need for management personnel

Total need for management personnel includes present need for management personnel in terms of present activities and future needs in terms of development activities. Present needs can be ascertained from

[2] Ghosh, A.K. Op-cit Pp 248-251

- organizational structure
- departments, sections, divisions
- span of supervision, delegation of authority, accountability, responsibility
- job role, job analysis, job description, work load, job specialization
- executive position

Future needs for management can be ascertained from the analysis of company's objectives/strategies.

iii. Appraisal of current management resources

In this step current management talent is assessed. It is seen whether company's own management team has desired skill, ability, attitude, knowledge to perform present job and has potential for development need of the company. An estimation of potential management personnel is made to ascertain the future requirement.

iv. Preparation of management inventory

After estimation of potential management personnel a management inventory is prepared to find out individual manager's strength and weaknesses so that necessary developmental process can be initiated to make him competent and effective. Management inventory contains information/particulars pertaining to each individual manager. Some of such information are given below:

- educational background
- performance ratings
- achievements
- specific aptitude
- different test results
- past promotions
- present assignment
- interest in any field of activities

The above information help the company to know

a. skill deficiency of manager's in term of future need
b. need for training/development for future work
c. shortage of managers for higher jobs
d. details of capable, competent managers for higher assignment.

On the basis of information available from management inventory organization sets standard/criteria for nomination of managers for management development programmes.

v. **Deciding individual development needs**

Individual manager's needs for development are determined on the basis of knowledge, skill, ability and attitude he has. Some managers may lack knowledge, skill, ability which they need to change.

vi. **Organizing development programmes**

On deciding the development needs of individual managers it is essential to prepare development programmes on the basis of such needs.

vii. **Evaluation of development programme.**

Whether development programmes are effective or not that is evaluated after programmes are over.

6 6. MANAGEMENT DEVELOPMENT METHODS

Today, mostly all organizations have realized the importance of training to develop skill, abilities, knowledge and attitudes of management personnel. So, training system has been accepted by the companies to conduct management development programmes through "on-the-job" and "off-the-job" techniques. In the face of rapid changes in technology, social and economic activities managerial personnel need to grow in all perspectives so that the organization can face challenges and obtain competitive advantages. So, much more emphasis is given to use those management development methods that improve

- decision making skill of executives
- influencing and changing skills of executives
- interpersonal skills of executives
- knowledge of executives
- pro-acting skills of executives

The methods of management development that are widely used to develop the knowledge, skill, abilities of the executives of the organizations are mentioned in Table 8.1

Table 6.1

Important Management Development Methods used in organizations

On The Job Training	Off the Job Training Methods
Coaching	Role Playing
Job Rotation	Case Method
Understudy Assignment	In tray/In-basket
Multiple Management	Sensitivity Training
Committee Assignment	Syndicate Method
	Incident Method
	Johari Windows
	Transactional Analysis
	Lecture
	Programmed Instruction
	Business Games

Some management development methods that are commonly used in organizations are discussed in brief.

On-the-job Training Methods:

Coaching

It is one of the methods used by many companies to develop competence of the executives. In this method trainees are placed under a particular supervisor who is trained specially to function as a coach for training the newly appointed executives. The coach guides the trainees in developing useful behaviour in their jobs and provides the necessary feed back to them and offers them valuable suggestions for improvement of their performance. The basic problem is that in this method trainees are not given the opportunity to express their own ideas, views and reactions relating to their job performance. Moreover very often trainees have to share some of the duties and responsibilities of their coach so as to relieve the coach from some of his work burden.

Job Rotation

In this method a trainee is rotated from one job to another job, from one department to other department or from one place to other place in a systematic way. The object of this method is to make trainees enable to get job knowledge and earn experience of working in different types of jobs. This method gives an opportunity to the trainees to understand the problems of employees working in other jobs and hence helps to improve co-operation and fellow feeling among the employees. Job rotation is widely applied in management training of different commercial banks in India.

Understudy Assignments

This is a method of preparing potential officer, manager to perform the job of his boss that he holds. "Understudy" means a person prepared to perform the work or fill the position of another. Manager watches and observes the style of functioning of his boss, his method of solving problems, dealing with customers, peers, subordinates and his decision-making role in organization. The understudy is identified by the head of the concerned department. The head prepares him to undertake the responsibility of the immediate superior position. So, when his boss goes on leave or is away from head quarters for some work, he is given chance to officiate in place of his boss. Through working in higher post during leave vacancy, the manager gathers experience of working, acquires through knowledge of job, develops confidence of performing job of higher responsibilities.

Multiple management

Multiple management is a kind of committee/board of junior executives which conducts survey, studies problems on important issues, discusses thoroughly, makes interactions between members to explore alternative solutions and submits recommendation to the top management.

The multiple management technique gives an opportunity to the junior executives to enhance analytical ability, to develop problem – solving skill, to enrich knowledge/understanding on decision making process and to promote self-development. It is effective technique to groom executives for senior positions at a reasonably lesser period of time.

Committee assignment

Under this method of training, potential exceutives are given some common assignment which is required to be performed jointly by them. So the trainees need to work together with senior management personnel to find out solution of the problem.

It help to increase trainees' level of judgment, reasoning and expression. This method is very easy to enrich the trainees' knowledge and understanding, and it does not involve much cost. It promotes human relations skills of managers.

Off-The-Job Training Methods

Role Playing

It is a class room training method. In this method trainees play role of other characters to feel the situation, difficultes, inconvenience other personalities face while interacting with them during normal course of transactions, activities, and to improve their behavioural attitudes. The role playing lasts for some period after which data/information are collected about the performance of each role player and a discussion is taken place. Each participant is able to discover his own personal faults as to how often these hurt others. This method is effective for developing interactions and relations.

Case Method

It is one of the management development methods under off-the-job training. Under this method cases are prepared and given to trainees by trainer for study, discussion, analysis of problem, finding out genesis/causes of problem and for determination of solutions, alternatives. A case is no more than a set of circumstances or description of events. A good case is the vehicle by which a chunk of reality is brought into the classroom to be discussed over by the class and instructor who can guide intelligent discussion and analysis so that meaningful learning experiences occur.

This method is of great use in developing decision making, analytical and judgemental abilities of the executives. The effectiveness of this method depends on

- trainer's knowledge on subjects and area of operation, skill and ability of presentation of cases,
- preparation of case, relevance of case with real life situations
- trainees' willingness, desire for participation
- selection of participants

In-tray/in-basket method

It is one of the off-the-job techniques that develops decision making, problem solving and analytical skills of the executives. The device consists of letters, reports, statements, documents, complaints, message, orders, instructions that are received by manager/executive daily from his in-tray/in-basket meant for incoming mails. Trainer collects few days' mails from the managers of those organizations from where executives are deputed for training, and gives the same to each trainee for disposal within a stipulated period of time. Trainer provides background brief of the issues to the trainees to facilitate them to work. After participation of all trainees in such exercise, a review of individual trainee's performance is made and feedback is provided to trainees.

This method may not provide effective learning if imaginary problems are given for discussion, study and suggestions for redressal.

Sensitivity Training

This method of management development is used to make the executives understand themselves and others realistically. It is a group training method. It is also called "T" group (Training group) or "L" group (learning group) training that uses intensive participation and immediate feedback for self-review, analysis and change. All people are not same in respect of temperament, disposition, feeling, emotions. Some are rough, harsh, intolerant while others are cool, calm, rationale. The first category of people may face difficulty to develop interpersonal relations as they lack human skill. This type of people are not rare in executive cadres who need change of attitudes and behaviour for development of human skill. This is possible through sensitivity or T-group training.

Some Important Characteristics

- It has no fixed agenda. Meeting is held away from the workplace and deals with the "here and now" of the group process.
- It is a leaderless, unstructured programme. Trainees are the object of study by themselves.
- Participants in the training programme who are 10 to 15 in number from a small group for interaction by themselves.
- Trainees are given the message that they should feel free and frank and with open mind they should interact with each other. They should not have ill-feeling for pin-pointing their weak areas by others.

- Through the group process each participant gets to know/perceive the attitudinal behavioural problems of others, and this experience is communicated to each other for rectification, changes of attitudes.

The sensitivity training is an effective management development method. Potential managers may get to know their "blind areas" which stand in the process of development, elevation. Such officers may necessarily measure to rectify, strengthen those areas It develops the skill of the trainees to perceive others accurately that helps to establish mutual understanding, confidence and faith.

This method may not be effective with the trainees are not open, free-minded for interaction and they take such exercise very lightly, casually.

Syndicate method

This method is used to improve skills of executives so that their potentials can be utilized by way of assigning higher responsibilities to them.

Under this method trainees are divided into small groups which are called syndicates. Each syndicate has leader or chairman to represent the group. The group has heterogeneous mix of executives. Each syndicate is given a task which is spelt out in terms of briefs and background papers prepared by trainer. The group leaders of individual groups present papers before all the groups and reply toquestions/querries of members/leaders of groups. Trainer acts as guide, gives direction for solving issues.

This method is useful for developing human skill, to promote interpersonal relations, analytical and leadership qualities of executives. This training technique may not be effective if briefs, background papers are prepared on the basis of imaginary information not having link/relevance to real life situation.

Incident method

This method has been developed by Professor Paul and Faith Pigors at the Massachusetts Institute of Technology. Under this method a brief incident is presented to the trainee executives to provoke discussion. Each trainee obtains outline of issues/incidents from trainer. The individual trainee analyses data, information in order to find out causes of problems and to arrive at a decision. The like-minded trainees form group/s and select group leader/spokesperson. Spokesperson of each group presents its positions in respect of data/information collected from the trainer and also suggestion for solution of problems/issues taken by the group. The trainer tells decision of problems to the trainees.

This technique is of great help to promote mental faculty and emotional effectiveness of trainees, to collect appropriate information to study and analyze situations. It improves creative ability and thought process for application of data/information for arriving at decisions.

This method may not be effective if incident, problems are not taken from real life situation and in such case the trainees do not take this exercise seriously.

Johari Window

Johari window is a conceptual framework used for increasing personal effectiveness. The frame has been developed by Joseph Luft and Harry Ingham (the name Johari combines their first names) and it gives an idea that attitudes, behaviour (i.e. form of personality) of individuals manifest in four ways as shown in Figure 11.4 and such depiction/manifestation is due to self perception of individuals and perception of others

	Known to self	Not known to self
Known to others	Public	Blind
Not known to others	Private	Unknown

Figure ' .4 the Johari window

Under this model four parts of personality of executives include

- Public arena meaning that part of personality of executives which is known to self and also known to others.

- Blind arena meaning that part which is known to others, but not known to the executives
- Private arena i.e. that part of executive's personality which is known to self but unknown to others.
- Unknown arena meaning that part of executive's personality which is not known both to executive and to others.

Trainers are given thorough idea about concept, uses and utility of this method. In a situation where there is simultaneous feedback and disclosure between leaders/executives and the people with whom they work, the "public" arena begins to extend itself into the blind and the "private" arenas, and there is high probability that some of "unknown" arena will begin to surface into the public arena.

This is an effective technique to develop human skill of executive but this framework may not bring any result in a situation where dispositional/temperamental conditions of executives and the people with whom executives work are not conducive for change, alteration.

Transactional analysis (TA)

It is an off-the-job technique used to analyze and understand behavioural pattern and activities of personnel that helps to develop their interpersonal competence. TA has been developed by Eric Berne. According to him, the unit of social intercourse is called a transaction. If two or more people encounter each other in a social aggregation, sooner or later one of them will speak or give some other indication of acknowledging the presence of the others. The is called transactional stimulus. Another person will then say or do something which is in someway related to this stimulus and that is called the transactional response. So, stimulus response relationship between two individuals is a transaction. Each person irrespective of age has three ego states (Parent, Adult and Child) which are distinct sources of behaviours. An ego state is a constant pattern of feeling, experiences and behaviour/activities manifestation.

Parent ego is that part of ego state which an individual acquires from his parents and parents' substitutes during the entire period of childhood. Parent can be characterized as critical parent and nurturing parent. A critical parent makes critical evaluations and assessments of each and every activity and provides stimulus to the child. Nurturing parent takes excessive care of the child than needed.

Adult ego state consists of objective assessment, rational and judicious decision making and problem-solving analysis. Child ego state is formed during the period just after the child comes out of mother's womb till the expiry of childhood.

According to Mariel James and Dorothy Jongeward the child ego state includes impulse that come naturally to an infant, recording of the child's early experiences, responses to those experiences, decisions made about himself and other people surrounding him. When a person feels and acts as he did when he was child, he is in child ego state. The child expresses his behavioural activities as "natural" child or "adapted" child/ "witty" child or "little professor". Individuals evoke behaviour from one ego state which is responded to by the other individual from any one of the three ego states (i.e. parent ego, adult ego and child ego). This gives rise to three types of transactions viz complementary, crossed and ulterior. In complementary trasaction stimulus and response ego states are complementary to each other and both the persons (i.e. stimulus provider and respondent) can carry on transactions/communications between them. But reverse is the case in a situation of crossed transaction. In such case both the persons' ego states are different. So, they can not carry on transaction.

Ulterior transaction has double meaning. On the surface level it manifests adult message but it also carries a hidden message.

TA is an effective development method that helps to analyse and understand behaviour of executives. It also promotes interpersonal relation. The main drawback is that subordinates' co-operation for changes may not be available if they are not happy with superiors.

Lecture

It is a traditional method of instruction. A trainer or an instructor on the basis of some prepared materials delivers directly to the trainees in the form of a lecture or a talk. In our country this method is widely used as a teaching method in colleges and universities. To be effective, lecture materials are to be prepared in such a way so that it can motivate and create interest among the participants. The lecture delivered must inculcate interest among the participants to learn and know more about the subject discussed. The advantages of this method are that the learning in this method is direct and can be used for a large group of trainees. Accordingly, the cost and time involved in the training method are reduced. But the basic limitation of this method is that neither learning nor transfer of knowledge is effective.

Programmed Instruction

Under this method participants are given training through programmed texts which contain facts, problems, short questions. After going through text materials/facts trainees are required to answer question given in the text units and they get immediate feedback about their performance. This method is also called self-learning or 'learn by self method'. This method is effective when participants are well aware of information relating to rules, regulations, policy, courses etc. It motivates trainees as the learning method is not complicated and trainees can do it at their own time.

Business Game

Business game is a simulation exercise of business situations used in training programme to develop skill, competencies of executives in organizations. In this game participants are divided into some groups consisting of two or more members. All groups are competitors to each other in a simulated market place and the objective of each group is to become the number one in the market to dominate over other competitors. Teams take decision regarding production, prices, research, expenditure, marketing, advertising and the like. Trainer collects data, information from organizations and supplies relevant information to the group. The game may be for 3 or 4 periods duration and a week may represent two period of 6 months' duration. So, the whole game exercise may be over a period of ½ week or two weeks.. Each group works out action in detail for each period and details of action for 3 or 4 periods are incorporated in the prescribed format to find out final results. Final results of each group are compared with those of other groups.

It is an effective method for developing problem solving and leadership skills. The main drawback of the method is that since it is a simulation exercise, it may not be effective to yield result in real business situation. In most cases participants do not take it seriously. They think that this exercise is childish exercise.

6 7. SUMMARY

Performance of an organization depends not only on the ability and skills of its workers but to a greater extent on the quality of its supervisors, managers and executives. Therefore, an organization should provide ample opportunity to its managerial staff so that they can grow and acquire maturity of thought and action. However, certain conditions should be created and maintained in the organization for the success of management development programmes. Management development must should be included in corporate strategy, and top management must provide spontaneous support to the philosophy and the necessity of management development. To develop skill, knowledge, abilities and attitudes of management personnel and to design programmes for the purpose of such development organizations, need to follow some steps.

It occurs that growth, survivality and development of organization depends on the quality of the management personnel. The quality of managerial personnel can be enhanced through training and development measures. Various tools, methods are used under "on-the-job" and "off-the-job" training systems. Some of the training methods under "on-the-job" training are coaching, job rotation, and understudy assignment, multiple-management and the like. Off-the-job training method includes role playing, case-method, in tray/ in basket, sensitivity, syndicate method and the like.

6.8. SELF-ASSESSMENT QUESTIONS

1. What is management development? What are the objectives of management development programme?

2. "Management development programmes compensate and strengtnen the deficit areas of knowledge, skill, abilities of the executives" Do you agree? Discuss

3. Explain the need for management development.

4. "Various programmes are designed to develop skill, knowledge, abilities and attitudes of managers and for such purpose some steps are needed to be followed" – What are those steps? Discuss

5. "Training system has been accepted by most companies to conduct management development programmes through 'on-the-job' and 'off-the-job' techniques" –Give a brief outline of the techniques generally used by the companies for developing managerial competences and behaviour.

6. Do you think 'on-the-job' training methods are more effective for improving managerial skill than 'off-the-job' training methods? Explain your views in this context.

7. What is Johari Window? Is it considered a technique to improve executive skill? –Discuss

finding out genesis/ cause of problem and for determination of solutions, alternatives.

- **In-tray / In-basket method:**

  It is a technique involving simulation of managerial decisions that an executive needs to make in his day to day job activities. It consists of letters. reports, statements, documents, complaints, messages, order, instructions that are received by managers/ excutive daily from his in-tray/ in-basket meant for incoming mails.

- **Sensitivity training:**

  It is a group training technique that provides intensive participation and immediate feedback for self-analysis, self-reinforcement and change.

- **Syndicate method:**

  It is a method involving a group of people to pool ideas, examine and share facts, and arrive at a conclusion. Each group is given a task which is spelt out in terms of briefs and background papers prepared by trainer.

- **Incident method:**

  This method requires to present brief incident to the trainee executive to provoke discussion. The individual trainee analyses data, information in order to find out causes of problems and to arrive at a decision.

- **Johari Window:**

  It is a conceptual framework giving an idea that attitudes, behaviour of individuals manifest in some ways due to self-perception of individuals and perception of others. In terms of this model form of personally of individuals manifests in four ways.

- **Transactional analysis:**

It is a development method that helps to analyse and understand behavioural pattern and activities of people. According to Eric Berne, unit of social intercourse is transaction. The analysis of the unit of social intercourse is transactional analysis.

- **Business game:**

It is a simulation exercise of business situations in which participants consider a sequence of problems and take decisions.

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MBA
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(Semester – I)

MBA 1606

Fundamentals of Human Resource Management

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BLOCK III

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FUNDAMENTALS OF HUMAN RESOURCE MANAGEMENT

BLOCK – III

Contents

MBA - 1606
BLOCK - III

This block comprises of four units and aims to provide an introduction to the study of Fundamentals of Human Resource Management:

- Unit 7 : Compensation: Wage and Salary Administration— Factors Influencing Wage and Salary Structure and Administration, Job Evaluation—Concept, Methods.

- Unit 8 : Job Evaluation and the Pay Structure— Incentives and Fringe Benefits, HR budgeting: Concept, elements and process.

- Unit 9 : Integration — Industrial Relations, Industrial Disputes, Collective Bargaining, Workers Participation in Management.

- Unit 10 : Maintenance - Grievance , Trade Union, Maintenance— Labour Welfare, Social Security, Quality of Work Life.

UNIT VII

COMPENSATION : WAGES AND SALARY ADMINISTRATION

UNIT VII

COMPENSATION :WAGES AND SALARY ADMINISTRATION

7.0. OBJECTIVES

On completing this unit, the student will be able to

- understand meaning and concept of wage and salary
- explain the objectives of wages and salary administration
- factors influencing wage and salary structure and administration
- know the meaning of incentives and fringe benefits

STRUCTURE

- Introduction
- Concept and Meaning of wage and salary
- Objectives of wage and salary administration
- Factors influencing wage and salary structure
- Meaning of incentives and fringe benefits
- Summary
- Glossary
- Self Assessment Questions

7.1 INTRODUCTION

Organizations invite applications from the general public so that people will join their organizations to earn money in exchange of their efforts. So the money that they will get from such organizations will eventually determine the condition of their living. A good wage and salary plan if effectively implemented would have salutary effect on the motivation, morale and productivity of the employees of an organization. The contentment level of staff is increased manifold, their commitment level towards the organization is enhanced, and the work output is also improved both qualitatively and quantitatively if the enterprise has in place a competitive and well balanced reward management system. When the wages and salaries paid to the employees are satisfactory, a climate of congeniality persists. But in the absence of an effective wage and salary administration, remuneration is often the result of an arbitrary, subjective , decision of higher authority, determined on the basis of personal random factors that is deemed fit by the top management. As a result equity, rationality in the pay structure can not be achieved. This creates several inequities and many other problems including increasing number of disputes, high rate of labour turnover and bad industrial relations (IR); consequently low morale and inefficiency in the enterprise.

This Unit covers all these areas to provide a thorough idea and understanding of wages and salary administration. It also highlights the attainable and justified objectives of an effective and functional compensation management system in an enterprise. Various determinants are at play that influence the type and structure of wages and salary administration that would be prevalent in an organization. This unit thoroughly deals with such factors and lists them accordingly.

Compensation has basically two categories - direct and indirect components. Direct compensation is concerned with financial remuneration offered to employees in lieu of the services they have to offer to the enterprise. Indirect compensation consists of non – cash related benefits enjoyed by workers in their jobs. Incentives are paid in addition to wages and salaries. Fringe benefits are also included in the compensation structure .This unit explains the concept of incentives and fringe benefits.

7.2. CONCEPT AND MEANING OF WAGE AND SALARY

Wage

The textbook meaning of term ‘wage’ is the payment given to artisans or labourers receiving a fixed sum by the hour, day, week or month for a certain amount of work. Alternately, ‘wage’ is the payment made to workers/ labourers for the work that they do. It is generally fixed as an hourly rate or daily rate.

When wages are described in financial terms, it is called called nominal wages. However when they are defined by their purchasing power while alluding to some base year, then they are called real wages.

From a much wider perspective, ‘ wages’ are money given by employer to his workers to compensate their labour/service, under some kind of employment related contract. Thus it is formed of both basic wage and also allowance like overtime pay, holiday pay etc.

Salary

Salary is a fixed payment for services, generally given as a monthly remuneration or sometimes on an annual basis for the valued services provided by the clerks, officers or professionals.

7.3. OBJECTIVES OF WAGE AND SALARY ADMINISTRATION

One of the major functions of the human resource department is formulation and implementation of an efficient compensation management system. Organization which boasts of an adequately functioning wages and salary administration process, finds it easier to procure talented individuals . not only that such enterprises also quite conveniently ensures that these employees remain motivated and committed towards the realization of enterprise goals. With such a dedicated team, the company can easily have a competitive edge over rivals and smoothly reach the pinnacle of business success. Therefore , it is highly imperative that a business entity has in place a cogent reward management system.

The objectives of compensation and are mentioned below:

- To see to that the concept of equal pay for equal work that is equity is adhered to.
- Formulation and implementation of job analysis for to facilitate unhindered job description and job specification activities.
- To generate a reservoir of highly qualified and energetic workforce who would eventually accelerate the production of quality goods and services at a reasonable cost.
- To secure that different functions of wages and salary administration like welfare, social security. fringe benefit, incentive and bonus are being properly regulated and implemented.
- To formulate the system that will ensure organizational compliance with statutory obligations as well as guarantee that there is proper implementation of agreements, vis – a vis compensation of employees.
- To make a proper assessment of comparative job worth within the enterprise and device the compensation package accordingly. This would prevent dissatisfaction from cropping up in the minds of employees vis –a –vis their wages and salaries.
- To critically and accurately measure the performance of workforce in order to sieve the performers from the non-performers. This understanding will accelerate the corrective measures which the

business unit may undertake to develop competences among the workers for performance of present jobs and future jobs also.

- To create a reciprocal culture involving employees and employers whereby both would consider the interests of the other.
- To make certain that the enterprise attains excellence through establishing delighted and committed workforce.

7.4. FACTORS INFLUENCING WAGE AND SALARY STRUCTURE AND ADMINISTRATION

a. The financial capacity of the company

Organization's financial strength and position highly influence its compensation structure. Organizations which enjoy high sales and so reap in substantial gains devise a better and higher compensation structure than those which are struggling and earnin low profits. When the firm is undergoing losses or just able to break even, it won't be able to offer higher salaries than their competitors. In such a scenario, this workforce will go to other firms. So the company will make payment only according to their capability.

b. Supply and demand of labour

The market conditions or in essence the market availability and demand for skilled, semiskilled or unskilled labour leave a profound impact on the organization's plan of compensation. If the call for a specific skill in the market is at premium, then high wages follow naturally. In reverse scenario wages reduce.

c. **Prevailing market rate**

It is commonly noticed that an enterprise closely follows and conforms to the industry rate while devising its own compensation structure. This is for the following reasons:

It is imperative that the wage structure is externally competitive. This means that if an organization wants to retain its employees, , there has to be a conformity between its own wage level and that of its competitors.

Government legislations make the firms pay at par with the Minimum Wage rate.

Trade unions aim to ease financial discrepancies by confirming that their members enjoy same pay for the same work across geographical boundaries.

d. The Cost of living

This is the cost incurred by a person in order to sustain a specific living standard. Increase in the cost of living results in price rise of products and services. It not only differs country wise but also varies from one area to another. The consumer price index assesses the standard change in the cost of the day to day necessities of life , such as food, clothing, fuel, medical service, etc. It changes with time. Consumer price index regulates compensation.

e. **Labour Union**

Labour union also always works towards ensuring that better wages are being paid to workers. It has been observed, that many a times trade unions exert pressure on top management officials so as to hike the salary of workers.

f. The Living Wage

A living wage is thought of as defined as the basic or least amount that an individual must earn by way of remuneration for the services rendered such that the basic necessities required for sustenance of life is made possible. These may be in the form of need for housing, fooding and clothing. It can be well understood that the money earned by a person needs to be sufficient for him to maintain himself and his family at a satisfactory level of existence.

g. Government

Various government legislations such as Minimum Wages Act, 1948, Payment of Wage Act, 1936, Equal Remuneration Act, 1976, Payment of Bonus Act, 1965, The Employees' Provident Funds and Miscellaneous Provisions Act 1952, etc., all influence compensation decisions. Therefore, firms have to decide on salaries and wages in the light of the relevant Acts.

The organizations are required to follow the government instructions. Wages cannot be fixed below the level prescribed by the government.

h. Productivity of workers

To get the best results from the employees and to increase the productivity, compensation has to be linked with productivity.

7.5 .MEANING OF INCENTIVE AND FRINGE BENEFITS

Incentives

Incentives constitute all of the rewards that is provided to employees that is above and beyond the wages and salaries. This is also referred to as ' payments by results.' These rewards can be given in both monetary and non – monetary form. This is done in recognition of excellent performance, in order to motivate them towards outstanding performance. Profit incurred, sales growth, rate of production, steps adopted to reduce costs are all factors on which incentives depend.

These are classified into two broad types :

Individual Incentive Schemes and Group Incentive schemes.

Individual incentive schemes are considered in case of performance of a particular employee. However if a particular task necessitates the involvement of group effort for successful execution, then it is imperative that all of the group receive the incentives. The total amount is subsequently distributed among the group members on an equitable basis.

Fringe Benefits

Fringe benefits are simply those benefits which are given to the employees by the employers in addition to their salaries / wages. International Labour Organization (1956) in a study entitled, ' International Comparisons of Real wages' has defined fringe benefits. According to it, ' wages are often augmented by special cash benefits , by the provision of medical or other services, or by payments in kind that free part of the wage for expenditure on other goods and services.' This is known as fringe benefit.

Some aspects of fringe benefits cover benefits for a long term like provident fund, gratuity, pension or occurrence of certain events like medical benefits, accident relief, health and life insurance or facilitation in performance of job like uniforms , canteens, recreation, etc.

7.6. SUMMARY

Wage and salary administration is one of the important functions of human source management. It deals with techniques and procedures for designing pay structure, rewarding employees and exercising control over wage and salary payments. The main functions of wage and salary administration are (a) designing, developing and maintenance of pay structure (b) the operation of wage progression system; (c) provision of employee benefits and other allowance and (d) the development of a total remuneration policy. Any remuneration strategy aims to invite , sustain and persuade competent persons to join the enterprise by designing, developing and maintaining equitable, fair and competitive wage and salary structure. It also helps the organization to control its labour and administrative costs. An effective wage and salary administration is specially needed for (1) attracting and procurement of competent employees, (2) motivating them for high performance, (3) reducing conflicts and disputes and maintaining good industrial relations and (4) keeping the employees satisfied and productive. There are many factors which influences the wage and salary levels in an organization. Significant among them are (1) Firm's ability to pay (2) Remuneration paid by similar organization, (3) Cost of living, (4) Strength of Trade unions, (5) Legislations, (6) Labour market and (7) the Condition of the economy.

7.7. GLOSSARY

1. **Wages:** The amount which is paid by the employer to an employee for the services of hourly, daily, weekly, fortnightly employees.
2. **Salaries:** The remuneration which is paid to an employee employed on a monthly or yearly basis is called salary.
3. **Compensation:** It is the financial or non-financial rewards given to the employees for their services rendered to the organization.
4. **Incentives :** Incentives are also called ' payment by results' which are paid in addition to wages and salaries in order to motivate the employees towards outstanding performance.
5. **Fringe Benefits:** Fringe benefit is the extra benefits provided to the employees in addition to the

normal compensation paid in the form of wage and salary.

7.8. SELF ASSESSMENT QUESTIONS

1. What is ‘wage’? is there any difference between ‘wage’ and ‘salary’?
2. ‘An enterprise with a well defined / administered wage and salary package will very conveniently be able to attract, utilize and retain talented human resource’ – Do you agree? Give reasons in support of your answer.
3. Briefly discuss the factors influencing wage and salary administration.

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UNIT VIII

JOB EVALUATION AND PAY STRUCTURE

UNIT VIII

JOB EVALUATION & PAY STRUCTURE

8.0. OBJECTIVES

On completing this unit, the student will be able to

- understand the meaning and concept of job evaluation
- explain basic objectives of job evaluation
- describe different methods of job evaluation
- understand concept of pay structures
- understand the meaning and concept of HR budgeting
- describe the various elements of HR budgeting
- explain the process of HR budgeting

STRUCTURE

- Introduction
- Meaning and concept of job evaluation
- Objectives of job evaluation
- Different methods of job evaluation
- Meaning of incentives and fringe benefits
- Concept and meaning of HR budgeting
- Various elements of HR budgeting Summary
- Glossary
- Self Assessment Questions

8.1. INTRODUCTION

An organization that cares about its people needs a rational and organized system for wage andsalary payments which should minimize subjectivity and be suitable to all as well. Therefore, wages and salary administration has to be effectively ingrained in the management process. This will then accelerate the accomplishment of organizational objectives.

In order to effectively design a fair and adequate pay structure in an organization, the jobs in an organization need to be assessed. Jobs need to be compared with each other in order to arrive at each job's appropriate worth. This is done through the process of job evaluation. It is described as an authentic method to estimate the comparative worth of jobs within one particular enterprise. Thus job evaluation is an important aspect of an organization's compensation administration if it wants to ensure fairness and equity in its pay structure in relation to both internal and external benchmarks.

Human Resource budgeting means the process through which an organization allocates funds to all human resource related activities spanning the whole enterprise. HR budget involves funds concerned with procurement, training and development, compensation, succession planning, employee retention and maintenance , motivation and employee engagement. HR budgeting becomes highly significant in the modern VUCA world, as it maintains a balance between labour demand and supply. As such it prevents both understaffing and over staffing. It also ensures that the organization is not only able to procure the most talented human resource available in the market, but also to motivate them to continue in those enterprises for a prolonged period of time. This helps them to earn a competitive edge over its rivals which is an utmost necessity if the enterprise is to aim at sustainable development over a period of time in the **V**olatile, **U**ncertain, **C**omplex and **A**mbiguous (VUCA) market.

This Unit covers all these areas to provide a thorough idea and understanding of job evaluation process and other compensation benefits to build a clear mind frame necessary to discharge HR activities effectively and smoothly. It also describes the process of HR budgeting in details.

8.2. MEANING AND CONCEPT OF JOB EVALUATION

Job evaluation is a systematic process of evaluation of one's job as compared to other job in an organization. It determines the relative worth of each job. Organization has a large number of jobs which are assigned to employees. These jobs are not same, some are important and some are less important. Job evaluation involves an organized and formal assessment of jobs so as to ascertain the value of one job in relation to another. As a consequence, a wage or salary hierarchy results.
Some important job evaluation activities include

- identification of benchmark jobs
- determining factors for comparison viz. responsibility, skilletc.
- deciding method for evaluation of jobs (like ranking method, job classification grading method, pointmethod, factor comparison method)
- evaluating worth of each job with the use of any one method

According to the International Labour Organization (ILO),
“ Job evaluation is an attempt to determine and compare the demands which the normal performance

of a particular job makes on normal workers, without taking into account the individual abilities or performance of the workers concerned."

8.3. OBJECTIVES OF JOB EVALUATION

Job evaluation is oriented towards the accomplishment of thefollowing objectives, which are mentioned as below:

- To maintain an authentic and objective detailed record of each and every occupation or job in the whole organization.
- To have in place a standard method for performing a comparative analysis among the various jobs in the organization. This in effect helps in finding their relative worth.
- Helps to ascertain the exact rates at which the payments have to be made for every job within the business unit. This has to be rational and equitable with that of other jobs in the same enterprise.
- Helps in ensuring that all competent employees receive same or similar salaries for equal work done; both quantitatively and qualitatively.
- Should facilitate presence of a work system where every employee gets a fair chance in transfer and development.
- Helps to maintain relatable equity in wage rates of similar jobs within a particular industry.

8.4. METHODS OF JOB EVALUATION

The four methods of job evaluation are :

- job ranking method
- job classification/ grading method,
- factor comparison method and
- point method.

Two of these methods (ranking and classification) are non –quantitative , while other two (factor comparison and point) methods are quantitative.

Ranking Method

It is by far the easiest technique to find out. This is the most simple method used for determining the comparative worth within an enterprise. Here the process of job evaluation is performed while comparing one job, in all its totality with another job. No comparison is made between the components / factors of one job with the other. The rank is prepared from the best / highest to the lowest or least.

Ranking method involves the following activities:

- Identify all the jobs in that unit. All information concerning the various jobs need to be present.
- Accurate job description for each job needs to be ascertained.
- A person who will rate the jobs need to be chosen. (Basically a committee is constituted, constituting of both management and employee representatives.)
- Each job is compared with the other based on importance or difficulty.
- Ranking of jobs

- Pricing of jobs (money values of non – key jobs are determined on the basis of monetary value of key jobs.

Advantages

1. This method is simple to understand.
2. This is very much effective in case of small organizations , where number of jobs is less and employees know the importance of each job.
3. It does not take much time to know the results of evaluation.
   This method looks to the entirety of job while comparisons are made. It therefore ensures that all significant areas are taken into consideration.

Disadvantages

- It is difficult to use in big organization where numberof jobs that need evaluation are many.
- Raters may not have thorough knowledge of all jobs of the organization. So proper evaluation of jobs may not be possible.
- It is difficult to compare jobs which have equal value/ worth
- The method is subjective as no standard / yardstick is used to justify ranking. Ranking is made on the basis of perception, the committee members / raters hold about jobs.
- It does not indicate the distance between jobs ranked

Job Classification Method

Job classification is a frequently used qualitative method of job evaluation. Here , initially the jobs that are to be performed in an organization are ascertained. Then these jobs are categorized into various grades. Then the jobs which necessitate similar effort, knowledge, ability and responsibility, etc, they are placed in same grade. Job gradesare done and then evaluation is made.

Classification method involves the following activities :

- Enlisting the jobs that are functioning in theenterprise.
- Prepare grades, having a particular number ; based oncertain criteria like responsibility, effort, etc.
- Giving a proper description of the grades /classification.
- Assign a rank against the job description of each andevery position in the classification.
- Ensure that each job is placed under suitableclassification.
- Assigning money value to the key grades and other grades subsequently.

Advantages

- This method is very easy to understand. So the evaluators may not need training to carry out job evaluation exercise. Employees also can understand without any difficulty.
- It is easy and less expensive to introduce this mechanism for evaluation of jobs in organization.
- This method is rational for making evaluation of jobs as grading is made taking into account vital factors like responsibilities, efforts, knowledge, skill , ability etc.
- It looks into entirety of jobs and not some aspects only.

- It is useful and effective in small organizations as number of jobs are few.

Disadvantages
- It is difficult and time consuming to prepare grade description.
- It is subjective especially in the area of selection of number of different categories / grades and also of ranking of key jobs.
- Placing of jobs into grades is not an easy task.
- Grade descriptions which are inflexible in nature tend to be unconcerned with the situation arising out of organization development and technologicaladvancements.
- New jobs may not fit any existing grades.

Factor Comparison

The factor comparison method is more scientific and complex than any other method. Here every job is assigned a particular factor. These factors may be like physical effort, mental effort or responsibility. All of them possess weights that have been pre determined , based on their relevance to achieve organizational success.

The steps involved in factor comparison method may bedescribed as below:

- Key jobs need to be considered. They may vary from 15 – 20 in number. Such jobs should represent wages/ salaries across the business organization. Also they need to exhibit all departments , if possible
- Determine those factors against which the jobs would be assessed. (such as skill, mental effort, responsibility, physical effort, working conditions, etc)
- Under each factor, each specific job need to be ranked. This needs to be independently performed by each and every of the job evaluation committee.
- Assign money value to each factor and determine the wage rates for each key job.
- The wage rate for a job is apportioned along theidentified factors.
- All other jobs are compared with the list of key jobs and wage rates are determined.

Described below is an example of base rate and its allocation scheme :

Key Jobs	Base Rate	Mental Requirements	Physical Requirements	Skills	WorkingConditions	Responsibility
Electrician	60	13	12	5	12	18
Welder	50	10	19	5	4	12
Mechanist	80	25	5	23	24	4

Let us assume that a ‘ machine operator’ job is to be evaluated. After comparison it is seen that may be its skill requirement matches that of electrician (5) , mental requirements to welder (10), physical requirements again with electrician (12), working condition to mechanist (24)and responsibility also with mechanist (4). So the wage rate for that of machine operator is 5 +10+12+24+4 = 55

. Advantages

1. An objective method of job evaluation.
2. Facilitates the determination of the comparative worth ofdifferent jobs.
3. Quite easy to explain to employees.
4. The chances of overlapping of factors is reduced.

Disadvantages

1. An expensive and time consuming process.
2. Here same factors are used to evaluate jobs across organizations. However the same factors may not be suited to be compared across jobs in an enterprise.

Point Method

1. This method evaluates the performance by means of scales and job factors. The focus is neither on the total job functions nor on ranking employees one against the other. It is generally considered by many management practitioners to be the most authentic evaluation method of all.
Transference of Job Grade Points into Money Value

Point Range	Daily Wagerate (Rs)	Job grades of key bankofficials
500 - 600	300 - 400	1. Officer
600 - 700	400 - 500	2. Accountant
700 – 800	500 - 600	Manager IScale
800 – 900	600 – 700	4. Manager II Scale
900 - 1000	700 - 800	Manager IIIScale

Advantages

1. It is an exhaustive and most reliable way of job evaluation
2. Human prejudice is significantly lessened.
3. The scales so formulated can be utilized over a long time frame.
4. Jobs can be easily categorized.

Disadvantages

1. It is costly both in terms of money and time.
2. May be difficult to comprehend for an average worker.
3. Not ideal for managerial jobs ; specially where the job content may not be measured in absolute quantities.

8.5. HR BUDGETING

Concept of HR Budgeting

HR budgeting refers to all of the systemic processes that makes an estimationof the total funds that needs to be allocated towards all human resourceactivities enterprise wide. HR budgeting does a comprehensive evaluation ofstatistics available related to finance, performance and other relevant historical data from each and every department. It is an important document that anchors the company's future HR activities. HR budget include funds that have been directed towards procurement, compensation, training andmanagerial development, talent management, succession planning, employee maintenance, retention, job enrichment activities and empowering employees. HR budgeting needs information regarding: future requirement of employees,present and historical salary data, employee turnover rates, information regarding overtime, payroll costs, innovative benefits program that may beimplemented and the like.

Process of HR Budgeting

Process of HR budgeting involves the following steps :

a. Analyse the enterprise history and evaluate the avenues for future finances

Make a thorough assessment of the company's past financial performance. This will set the way for determining the future of the company. This information from balance sheets will assist the manager to point out areas where investment can be made more significant or lessened. The critical areas for improvement can be ascertained. The areas where fund expenditure is most necessitated is determined, like facilities, training and development, salary etc. HR auditing needs to be initiated to accentuate the process.

b. Organizational Need Analysis

Assess and analyze the specific organizational needs. This is essential as thisensures that the expenditures will attract skilled labour for the organization's long term success.

c. Envision the budgeting strategy

Organizations choose to create incremental budgets or zero – based budgets.

d. Reevaluate and modify HR budgeting

HR budget needs to be made flexible. The needs of the company are ever changing in order to accommodate new technology, market trends, etc. so the HR budget needs to be such that it can accept alterations in the future so as to facilitate the changing enterprise demands.

8.7. SUMMARY

Fixing rational, reasonable and appropriate wage rate is a necessity to make the people happy, contented and satisfied; and for such purpose it needs to take some steps like collection of information, evaluation of classifying similar jobs into pay grades, developing wage curve and developing pay rate ranges.

Human Resource budgeting includes estimation of how an organization would allocate funds to all human resource related activities spanning the whole enterprise. HR budget involves funds concerned with procurement, training and development, compensation, succession planning, employee retention and maintenance , motivation and employee engagement.

8.8. GLOSSARY

1. **Human Resource Budgeting :** Human Resource budgeting includes estimation of how an organization would allocate funds to all human resource related activities spanning the whole enterprise

8.9. SELF ASSESSMENT QUESTIONS

1. Define job evaluation. What are the objectives of job evaluation?
2. State and explain two non – quantitative methods of jobevaluation.
3. What do you mean by quantitative methods of job evaluation?Explain the two types of quantitative job evaluation methods.

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UNIT IX

INTEGRATION

UNIT IX

INTEGRATION

9.0. OBJECTIVES

On successful completion of this unit, the student will be able to

- Comprehend the integration function of Human Resource Management
- Understand the concept, meaning and objectives of Industrial Relations
- Get an understanding of the concept and meaning of industrial disputes and the factors affecting industrial disputes.
- Understand concept and benefits of Collective Bargaining
- Know the meaning of Workers Participation in Management

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9.1. STRUCTURE

- Introduction
- Concept of integration function of Human Resource Management
- Concept, and meaning of Industrial Relations
- Objectives of Industrial Relations
- Meaning and concept of Industrial Disputes.
- Factors affecting Industrial Disputes.
- Concept and benefits of Collective Bargaining
- Meaning of Workers Participation in Management
- Summary
- Glossary
- Self Assessment Questions

9.2. INTRODUCTION

A fundamental belief of Human Resource Management is the premise that it is the human resources of an organization that ultimately offers it the sustained competitive advantage which all enterprises aspire for. So it is imperative that the business venture consists of highly committed individuals as its workforce. Integration is the process which ensures that conflict of interests do not crop up in organizations. Through this function, it is assured that the HR policies are integrated with the overall business strategy and also that a harmonious relation exists among the management and employees.

To successfully carry out the integration function, HR department ensures that the business unit enjoys healthy industrial relations. The relationship that is present between all the stakeholders in the industry is known as industrial relations. It is governed and moderated by the government. This denotes the presence of affinity or otherwise between the capitalists representing the industrialists and the employees. One important aspect of industrial relations is the occurrence or non – occurrence of industrial disputes. Industrial disputes signify any clash between the management and employees due to employment, non – employment, or terms and conditions of labour. There is conflict between employer and employees. Industrial peace and harmony do not prevail and a major barrier is faced in the achievement of long term goals and success. In order to prevent industrial disputes from cropping up at frequent intervals, business enterprises, engage in various activities and processes like collective bargaining and workers' participation in management.

Collective bargaining is an important tool frequently resorted to in organizations to find out an amicable settlement between the conflicting groups – employers' group and the workers' association. In this process, the two parties negotiate with each other to reach an agreement regarding the rules, specifications and requirements of employment contract. Another important method of integrating the interests of the two main stake holders of any business unit, that is – employers and employees – is the implementation of the novel idea of workers' participation in management. Workers' participation in management means the psychological and emotional attachment of workers in team activities which act as a motivation for them to devote their energies to group decision making, and to the accomplishment of group goals. All of such mechanisms help in the integration function.

This unit will give the students a thorough basic understanding of the above concepts. It covers all the topics of integration mentioned here, industrial relations and industrial disputes, collective bargaining, workers' participation in management, and collective bargaining.

9.3. CONCEPT OF INTEGRATION

After going through a successful procurement process, proper employee developmental activities and also after ensuring that the workforce are adequately compensated, the business unit faces the challenge of integration. Integration is the process through which the human resource functions reconciles with organizational goals. It ensures that on one end the individual goals are in congruence with departmental aims and organizational objectives and on the other hand they provide a connecting link between the varied aims of the different departments. In its role as an agent of integration function, the Human Resource department assimilates all the ventures of the business unit related to employee management, so that the employees exert their full efforts towards realization of enterprise goals voluntarily. Integration function of HRM activities supports precision, provides greater automation, prevents repetition and makes sure that the various departments of the enterprise run smoothly and harmoniously. When the system is integrated, HR managers generate the proceedings, machineries and skills which enable the company to acquire, grow and place talent to cater to business demands.

9.4. CONCEPT AND MEANING OF INDUSTRIAL RELATIONS

One of the basic activities of HR executives is to maintain and promote healthy employer-employee relations or industrial relations in organizations. Today industrial relations contribute a lot to the achievement of organizational goals. Every organization has to face a fierce competition in the market for its survival, growth and development. Such situation has intensified after the implementation of the policy of opening up of markets via . liberalization, privatization and globalization) in 1990s. Healthy industrial relations create a congenial and conducive work atmosphere in the organization that encourages collaboration and participation in a way so that it can confront the challenges of the market effectively. For these purposes, organization now-a-days tries to evolve mechanism to ensure uninterrupted running of its production. They aim to manifest productive work environment that optimizes the production and distribution of quality goods and services as per the requirements of the customers. Productive work environment is the outcome of sound employer-employee relations. So the dynamics of employer-employee interactions within the organization determine the industrial relations situation in the organization.

So industrial relations mean relations between employees and management arising out of day to day work in any industry. The ILO or International Labour Organization has defined it as the relations among or between employer's organizations and worker's organization, under the watchful guidance of the state machineries .John T Dunlop recognized three actors, viz: employer . employees and government. He had opined that the interplay or the relations beween the above three constitute what we call the industrial relations.

9.5. OBJECTIVES OF INDUSTRIAL RELATIONS

Prima facie, the focus of industrial relations is the establishment of a work milieu which is conducive to the establishment of an enabling and collaborative organizational culture. This will aid the achievement of goals at three distinct levels : person, team and organizational. The other objectives of IRs are discussed below:

1. Maintain continuous production and enhance the productivity :

Industrial relations ensure that the production process is maintained in an uninterrupted manner so that not only existing targets are achieved but also the company is able to set higher standards of productivity.

2. Minimize or lessen conflict:

With harmonious industrial relations in place, level of adjustment between the management and employees is remarkably enhanced. In turn both parties get additional support to resolve disputes through dialogues and negotiation.

3. Industrial peace and harmony :

A well functional industrial relations invite peace and harmony in industry while unsound industrial relations create disharmony, and unrest.

4. Promote trust , innovation and cooperation :

Healthy industrial relations create a secure workplace for the employees. Trust is developed between both the parties. Due to this mutual trust, employees are motivated to take risks for the betterment of organization. They brainstorm towards innovative solutions for novel problems and go that extra mile to help each other.

5. Contented and committed workforce :

Healthy industrial relations create a committed workforce by increasing their wages, providing fringe benefits , social security measures, opportunities to develop, grow etc.

9.5.1. Factors influencing Industrial Relations

Some important factors influencing industrial relations are discussed below:

i. Technological advancement: Technological advancement introduces new devices, machines, techniques, methods etc. to produce quality goods at a reasonable price. This factor establishes relations between labour and management.

ii. Political factors

The attitudes, objectives, mission, ideologies of political parties influence workers' organizations and the government that regulate industrial relations in the organization.

iii. Socio-ethical factors: Societal environment particularly in the area of religion, custom, culture, population explosion and also level of morale, ethics of the people at work and management influence labour-management relations.

iv. Governmental factors: Government ideologies, vision, mission, approaches etc. influence industrial relations pattern.

v. Market conditions: Product market plays an important role to influence industrial relations situation of an organization.

9.6. CONCEPT AND MEANING OF INDUSTRIAL DISPUTES

Section 2 (k) of Industrial Disputes Act 1947 has given a very vivid description of the term ' Industrial Disputes'. According to this Act, industrial dispute denotes clash or conflict between employers and employers, or between workmen and employers, or between workmen and workmen which is connected with the employment or non – employment, or the terms of employment or the conditions of labour. On closer examination of this definition , we realize that industrial dispute is a conflict between :

a. Management/Owners and Management / Owners
b. Management/ enterprise owners and workmen
c. Workmen and workmen

Further, from this definition we understand that industrial dispute is concerned with :

a. Employment
b. Non – employment
c. Employment contract rules/ specifications
d. Labour conditions

An amendment of the ID Act, 1947 , which was undertaken in 1965, now states that a clash involving an employer and an individual workman is also an industrial dispute when it refers to discharge , dismissal, retrenchment or termination of a worker's services.

9.7. FACTORS AFFECTING INDUSTRIAL DISPUTES

Various factors contribute to the causes of industrial disputes. These factors are many and varied and may be economic or legal, or relate to management activities or trade union activities or it may deal with discipline oriented issues. These are discussed as below:

1. Economic Factors

a. Wages and allowances
b. Benefits aimed at welfare of the working class, like in the form of canteen facilities at a minimal rate, crèches for women employees, cool drinking water, medical benefits, house accommodation, transportation facilities, etc.
c. Bonus , gratuity, retirement benefits.

2. Factors concerning management activities and practices

a. Unfair labour activities
b. Disinclination of employers to deal with workers' problems, non serious behavior of management to tackle workers' issues and demands.
c. Autocratic way of management, considering the working class as mere commodities.

3. Factors concerning trade union activities and practices

a. Rivalry between different unions and also within the same union.
b. Unjust and unruly union activities
c. Resorting to insubordination

4. Activities pertaining to discipline maintenance

a. Dispersion of showcause notice, chargesheet and order of suspension.
b. Retrenchment or lay-off of workers
c. Subjecting employees to discharge, dismissal or discharge simpliciter.

5. Factors concerning legal matters

a. Multitude of labour laws.

b. Labour laws becoming fruitless due to inappropriate implementation.

c. Obsolescence of labour laws because of being enacted a long time back.

9.7.1. Types of Industrial Disputes

Industrial disputes can be of various types depending upon their purpose and techniques. Strike, Lockout, Gherao and Picketing are the most common forms of disputes.

a. Strike : A strike is one of the very potent weapons frequently resorted to by trade unions and other labour associations to get their demands accepted. It involves a situation where a group of worker quit work and intend to pressurize their employer/s with the ultimate goal that the demands be accepted. Thus if the group of workers stop work in a particular industry, they are said to be on strike. The different forms of strike are:

i.Token/Protest Strike:

Token strike, also known as protest strike is a short duration strike. Through token strike workers convey the message to the management to settle grievance issues immediately. This token strike is first stage for indefinite strike/long duration strike.

ii. Lightning Strike or Cat call Strike :

Lightning strike is one form of strike. It is like a lightning in the sky which appears all on a sudden without giving any intimation or giving some indication to occur immediate before its appearance and disappears quickly.

iii. Sit down Strike :

Workers resorting to such form of strike sit down in the work place, they do not work and do not allow others to enter into the premises for work. Strikers remain in the factory till settlement of their issues/demands is made.

iv. Stay away Strike:

Stay away strike is a form of strike when workers do not enter into premises but cease work and protest against the management through organizing/participating in rally, demonstration.

v. Pen-down Strike:

This is one form of strike that contains all the characteristice of a strike under section 2(q) of the Industrial Disputes Act, 1947. Under such strike employees working in offices remain present in offices, down their pens and refrain from doing work.

vi. Tools-down Strike:

Tools-down strike is one kind of strike. Under such form of strike workers remain present at the workplace at prescribed time, down their tools and refrain from doing work.

vii. Unofficial Strike:

This is a form of strike resorted to by some workers in the organization without approval of their trade union leaders. The decision to cease work is taken by striking workers themselves.

viii. Hunger Strike :
This is a manifestation process for showing anger, unhappiness, displeasure by the workers by remaining on fast during duty hours/beyond stipulated hours of work in front of management chamber/premises or main entrance of the premises. They also refrain from doing any work. The main objective is to put pressure on management to come to their terms by way of creating public sympathy/support.

b. Lockout : Lockout is the equivalent of strike at the hands of employers. It is a temporary forceful work stoppage in which an employer prevents the employees from working. It is a weapon available to employers to force the employees to see his points of view and to accept his demands.

c. Gherao : Gherao is a Hindi word which means to surround. It means a collective action initiated by a group of workers who encircle the members of the management and prohibit them from leaving the industrial establishment premises. The workers block the exit and force the management people to stay inside their cabins.

d. Picketing : This means posting pickets in front of the premises of the management or in front of their workplaces. Pickets are groups of workmen who are on strike and hold placards, banners informing everybody about the strike. It is actually a method of calling the attention of the general public to the issue at hand.

9.8. METHODS FOR SETTLEMENT OF INDUSRIAL DISPUTES

The following refers to the common settlement methods of industrial disputes:

- Grievance Procedure
- Conciliation
- Board of Conciliation
- Voluntary Arbitration
- Adjudication i.e. Labour Court, Industrial Tribunal and National Tribunal
- Collective Bargaining

Grievance Procedure : It is one of the methods for disposal of grievances of the employees of the organization. Under the grievance procedure, grievances of employees are redressed within a reasonable period of time through different authorities or hierarchies in a systematic way.

Conciliation : It is one of the statutory methods for settlement of disputes. Settlement is made by the third party, known as conciliation officer and appointed by the government. Under section 4 of the Industrial Disputes Act, 1947 conciliation officer is allocated the job of mediation and promotion of the settlement of industrial disputes. The conciliation officer investigates the cause of conflict without delay and induces the parties to sit through discussions and bring about a just and fair solution of the problem which is acceptable to all.

Board of Conciliation : The Board of Conciliation is a temporary / adhoc body. A person is usually recruited to act as the chairman of the Board.The chairman of the Board is appointed by the government. The other two or four members of the Board are nominated by the parties to the dispute with equal number of representation. The Board actively pushes the parties to bring about the dispute solution that would be acceptable to all concerned.

Voluntary Arbitration : It is one of the methods for settlement of disputes. When the conciliation fails, the conciliation officer persuades the parties to refer the dispute to arbitrator. The arbitrator investigates the dispute and submits award to the government.

Adjudication : Adjudication is a method for settlement of disputes by a third party who would be chosen by the government. The adjudication machinery under the Industrial Dispute Act, 1947 consists of (1) Labour court (2) Industrial Tribunal and (3) National Tribunal The adjudication award is binding upon the parties to the industrial disputes.

Collective Bargaining : Collective bargaining is a method of settlement of disputes mutually by both the union side and the employer side. It aims to sort out the difference between workers and management through mutual discussion, deliberation and to usher in a settlement. Collective bargaining is a voluntary mechanism. Both parties partake in the negotiation process at their will and settle disputes.

9.9. CONCEPT OF COLLECTIVE BARGAINING

The term ‘ collective bargaining’ was first used by Sydney Webb and Beatrice Webb in 1891. It is one of the mechanisms used in organizations to make an amicable settlement between the parties , (that is union representatives and employer’s representatives) in the organization. It is one of the key mechanisms that organizations actively utilize to usher in a climate of healthy industrial relations through generating a climate of mutuality. Collective bargaining process aims at fulfilling the expectations of the employees in a systematic way.

Collective bargaining is a sort of ‘ group bargaining’. The literal meaning of collective bargaining means negotiating the terms of any agreement between two or more groups of people. Here both employer and employee act as two distinct groups. They discuss, negotiate and try to find an amicable solution to the disputes that they face. It includes a lot of arguments and counter arguments , proposals and counter proposals before an agreement can be reached and so rightly this term is called bargaining.

According to Dale, Yoder, ‘collective bargaining’ is the term used to describe a situation in which the essential conditions of employment are determined by a bargaining process undertaken by representatives of a group of workers on the one hand and of any or more employers on the other.

The importance of collective bargaining is manifold. It is beneficial both for the employees as well as the employers.

Benefits to employees

1. Pecuniary state of workmen

The financial state of workmen may see a gradual upliftment as successful collective bargaining agreements on higher wage rates/ salaries and allowances get implemented.

2. Job security

Collective bargaining process gives surety to workers about their job stability and security. it provides relief to them and they enjoy freedom from agony and anxiety of losing jobs.

3. Standard of life

As the collective bargaining process improves upon the financial condition of the employees, it also results in enhancement of their standard of life.

4. Industrial democracy

It brings in industrial democracy by establishing a platform for discussions in organizations whereby participation of employees with employers on various important issues can be possible.

Benefits to employers

The employers reap huge advantages through collective bargaining in a number of ways, which are mentioned as follows :

1. Uninterrupted production

When the concerns of employees are addressed at, and they become contended, then they exert their full efforts and production activities are not disturbed.

2. Minimal conflict

The process of collective bargaining, if followed properly would result in amicable settlement of many disputes. The employees feel satisfied, and they may not have major issues for raising industrial conflicts.

3. Implementation of decisions

When the system of collective bargaining is being adhered to in organizations, it is seen that decisions of many of the disputes are being taken during this process. Their implementation becomes easier for the management as employees / union have already discussed, modified and ratified them.

4. Competitive advantage

An organizational climate that supports collective bargaining, makes people dynamic and proactive. In effect, the company is able to capture the market through a change in quality of the product, service, delivery and the mindset of the people.

Collective Bargaining and its steps

It is grouped into three different phases. They are : (i) Pre - Negotiation phase, (ii) Negotiation phase and (iii) Post – Negotiation phase.

Pre – negotiation phase :

This phase includes various steps / activities which are described as below:

- Determination of the negotiating team – It is very important for both the sides that is the management side and the worker's union side to choose the team that will represent their respective sides during the negotiation process.

- Ascertaining the bargaining strength – It is of great significance for both the parties to ascertain the strength of the self as well as that of the opposite party in order to carry on the bargaining process successfully. Both the union and the management take note of various elements viz, market situation, labour availability, financial strength, government attitudes, technological implications etc.

- Preparation for negotiation – Before the actual negotiaton starts, both union and management prepare themselves by substantiating facts with arguments and counter agreements backed with necessary data. The ultimate aim of any one side is to compel an agreement from the other .

- Planning for strategy and tactics – Strategy refers to chalking out a suitable plan and formulating relevant procedures to be undertaken while the bargaining process is in progress. Some of the tactics adopted by the negotiating team are :

    a. Table pounding
    b. Anticipating objections to a proposal and answering them before they are voiced
    c. Tabling a difficult clause
    d. Behaving friendly towards one member of the opposite team while other members of the same team behave very badly.

Negotiation phase

Negotiation typically involves formulating proposals, initiating discussions, giving out explanations, putting forth criticism and doling out counter criticisms. Basically each team tries to explore the meaning and effects of various proposals put on table, and seeks to secure their acceptance, and make counter – proposals or modifications for similar evaluation.

To make the bargaining process effective, following points need to be adhered to :

a. Full efforts given to avoid deadlock or breakdown of agreement.
b. Both parties develop attitudes to help the organization to grow.
c. Effective listening.
d. Follow strategies and objectives.
e. Develop an attitude of being fair, firm and unbiased.

Post – Negotiation Phase

After the completion of the negotiation process, the team needs to prepare agreement, to ratify and approve it and to implement it. So this post – negotiation phase consists of three stages. They are :

a. Pre – ratification of agreement stage – Here the informal agreement is written down. This written form of agreement consists of :

i. A preamble
ii. Clauses and appendices mentioning details of them
iii. Date of operation
iv. Period of operation

v. Mechanism to sort differences over interpretation of clauses
vi. Names of signatories to the agreement.

After preparation of the agreement. It is sent to union and management for ratification and approval.

b. Ratification and agreement stage – On receipt of un – ratified agreement, both union and management who are authorized go through it, ratify, sign and approve it. The ratification of agreement is also required for legal provisions. The agreement is also called labour contract / union contract or labour management agreement.

c. Implementation of agreement – The implementation of agreement is most vital because agreement becomes insignificant if it is not implemented. Primarily it is the duty of Human Resource Department / Personnel Department of the organization to ensure that the agreed issues are acted upon and implemented accordingly.

9.10. MEANING OF WORKERS' PARTICIPATION IN MANAGEMENT

Participation is a sort of compulsory inclusion of working class people in group activities to achieve group goals. The term, 'Workers' Participation in Management' is perceived by different people in different ways. The management typically views it as a joint consultation before taking a final decision, while workers, take it as co- decision or rather a process of co – determination. Trade unions however may consider it as a new power equation within the enterprise. Workers' participation in management actually involves total collaboration (mental and emotional) of workers in various situations that affect them as a group, and whereby they contribute to group decision making and shares responsibility for them. Implementation of this program makes it possible for workers to put forth their opinions while decisions are being taken within the organizations.

Levels of participation : workers' participation in decision making at various levels are discussed here:

1. Information participation : This refers to sharing information in respect of sales figures, balance sheet, production , etc and the workers do not get to examine the veracity of claims made .
2. Consultative participation : Here, there is sharing of opinions on such matters as working conditions, welfare programme, techniques adopted at work and safety protocols etc. Joint council is an advisory board here, whose suggestions are not absolutely binding upon the authority. This means that they may choose to either accept or to reject it. The ultimate decision lies with the management.
3. Associative participation : Here management welcomes and implements the views and decision agreed upon by majority of the council members.
4. Administrative participation : Here, management shares a greater degree of authority and responsibility of administrative work with workmen.

5. Decisive participation : When participation is decisive , joint decisions are exercised on issues pertaining to production, safety and welfare. This refers to the highest form of participative activities.

Forms of Workers' Participation in Management

Workers' Participation in Management may sufficiently vary between industries and take numerable forms. Some of the forms of workers' participation in management in our country are discussed herein below:

1. Works Committee (1947) Business houses which have 100 or more people employed, form Works Committee. It is comprised in a legal manner under the ambit of Industrial Disputes Act, 1947. with equal number of workers' and employers' representatives. Formation of this committee is a legal binding upon the firm. However management is not legally obliged to obey the recommendations issued by it.

2. Joint Management Council (1958) It is a deliberative unit constituted mutually by workers and employers , with equal representatives from workers' end and the management's end. Council mainly aims to preserve peace and facilitate harmony in industry by dispersal of grievances of employees within a early period of time.

3. Worker-Director (1970): The government of India accepted the recommendations of the Administration Reforms Commission to appoint workers' representatives on the Board of Directors of Public Sector undertakings. The practice of appointing Worker Directors to the Boards is in force in Hindustan Antibiotics Ltd, NTC, public sector Banks, BHEL and others.

4. Workers' Participation Scheme (1975, 1977) The Central Government adopted through a resolution a novel approach to ensure that workers are duly included in managerial decision making process. This approach commonly known as Workers' Participation Scheme, was launched on October 30, 1975. This is a voluntary scheme which takes into its ambit all manufacturing and mining industries of any sector – private, public, or cooperative, where 500 or more persons are employed. It facilitates shop councils to be set up at the shop and floor levels and joint council to be formed at the plant level.

5.The New Scheme of workers' participation in management (1984) After thorough overhauling the functions of participative activities and progress of various scheme in organizations a new scheme was prepared and notified by the government in 1984. The important features of this scheme are briefly discussed below:

- This scheme is applicable to all public sector organizations irrespective of number of workers employed.
- Participation under this scheme is at the shop floor level, plant level and also at the board level. Shop floor level meeting discusses the matters relating to storage facilities, production, wastage control, welfare measures, health and safety measures, cleanliness etc.

6. The Participation of Workers in Management Bill, 1990 The central government introduced the

Participation of Workers Management Bill in the Parliament on 25th May, 1990. Following are its highlights:

i. The Bill provides for setting up Shop Floor Councils, Establishment Councils and Board of Management respectively at three different levels, viz shop floor , establishment level and board level.

ii. The Bill provides that in the Board of Management the representation of 'workmen' and 'other workers' shall be 13% and 12% of the Board strength respectively, with minimum of one workers' representative in the Board.

Objectives of Workers' Participation in Management

Workers' Participation in Management tries to achieve the following objectives:

- Creating a state of mutuality

Participation helps generate a climate of mutual understanding, mutual faith and mutual confidence between employees and management.

- Helping to identify the real problems that stand in the way of taking quality decision.

Through participation by employees much more information may be available that can help get out from the standstill position and make decision.

- Promoting sound industrial relations:

Participation brings both the parties (management and workers) close, promotes interpersonal relations, reduces industrial conflict and fosters a culture of good industrial relations.

- Helping the people to grow and develop :

In participative management employees get the opportunity to question and suggest instead of having to follow a rigid set of instructions. This makes the employees grow and develop.

- Generating a sense of self-respect and dignity amongst employees :

Participation process allows the employees to exert themselves freely in their work and protect themselves from being overwhelmed into a complex system of rules, procedures, and formalities. This helps the employees promote a feeling of dignity, self-respect.

9.11. Glossary

Industrial Relations

Industrial relations mean relations involving workers and employers that take place due to daily work in any industry, under the watchful guidance of the state machineries or the government.

Industrial Disputes

Industrial dispute denotes clash or conflict between workers and workers, or between workmen and employers, or between workers and workers that relates to employment or non – employment, or the terms of employment or the conditions of labour.

Collective Bargaining

The term collective bargaining means negotiating the terms of any employment related agreement between representatives of a group of workers on the one hand and one or more representatives of employers' groups on the other hand.

Workers Participation in Management

Workers' Participation in Management (WPM) is a process which actually involves total collaboration (mental and emotional) of workers in various situations that affect them as a group, and whereby they contribute to group decision making and shares responsibility for them.

9.12. Summary

Integration is one of the important functions of Human Resource Management. It ensures that the different departments of an organization are coordinated with each other's goals and objectives in such a manner that the enterprise is successfully able to achieve its primary aim. It ensures that employees are motivated both through financial and non – financial incentives so that they work willingly and effectively for the organization's success.

An integrated Human Resource Management System has a crucial part in the business enterprise's success. Integration function reconciles the organizational goals with department and team goals. Through the integration function, human resource management aims to combine the various systems in a harmonic manner. Industrial relations are a natural fallout of employment situations between the employees and employers. Advancements in industry is unfeasible without wholehearted collaboration of the working class and an underlying harmonious relationship. So all concerned need to ensure a congenial atmosphere. In broad sense, it encompasses all interactions that exist among government, workers, management and their respective associations or unions.

The key players in industrial relations are workers and their associations, employers and their representatives, and specialized government agencies like labour courts, tribunals and other conciliation machineries. Sound industrial relations result in a healthy workplace environment that result in loyal and motivated employees. In a reverse situation wherein unhealthy industrial relations prevail, the industry becomes plagued with industrial disputes.

Industrial disputes concern disagreements between groups of workmen and employers in an industry. So the contentious issues related to employment, non – employment, terms of employment or the conditions of labour between workmen and employers come under the purview of industrial disputes. Various techniques have been adopted by government agencies and industry people to ensure that industrial conflicts become as minimal as possible. Collective Bargaining is one such method which may be adopted whereby the management and workmen or their representatives try to forge out an agreement through repeated negotiations between themselves. Such an agreement or contract is aimed at governing employer – employee – and union relationships. It is concerned with discussions and bargaining between the two main groups – management and employees – regarding the terms and conditions of employment.

Another similar component to maintain industrial democracy and to ward off industrial disputes is the concept of Worker's Participation in Management (WPM). It takes into consideration the mental and emotional engagement of workers in the management of an enterprise. It provides a platform to the workers through which they are able to exert their decisions on major organizational matters in front of the administration and thus maintain and sustain a climate of peace and equilibrium and peace.

9.13. Self – Assessment Questions

1. Define "industrial relations". Briefly explain the factors influencing industrial relations.
2. Narrate the objectives of industrial relations.
3. What do you mean by industrial disputes? Explain the factors that contribute to the development of disputes in the industrial settings?
4. State and explain the types of industrial disputes.
5. Differentiate between :
   a. Strike and lockout
   b. Picketing and gherao.
6. Explain the common methods used for the settlement of Industrial Disputes.
7. Define and explain the concept of collective bargaining.
8. ' Collective bargaining plays an important role to improve labour – management relation and to ensure peace and harmony in the industry.' – Justify this.
9. Explain in brief the collective bargaining procedures commonly employed in an enterprise.
10. What do you mean by the term ' workers' participation in management'? Discuss the objectives of workers' participation in management.
11. Briefly narrate the different forms of Workers' Participation in Management.

UNIT X

INTEGRATION AND MAINTENANCE

UNIT X

MAINTENANCE

10.0. OBJECTIVES

On successful completion of this unit, the student will be able to

- Get an understanding of employee grievance
- Describe the various aspects of Trade Union
- Explain the concept and meaning of maintenance function
- Comprehend the meaning of Labor welfare
- Explain the concept of Social security
- Describe the concept of Quality of Work Life.

STRUCTURE

- Introduction
- Concept of employee grievances.
- Brief idea about Trade Unions
- Different elements of maintenance function
- Understand labor welfare and social security
- Describe quality of work life.
- Summary
- Glossary
- Self Assessment Questions

10.1. INTRODUCTION

Each worker has certain expectations which he thinks must be fulfilled by the organization he is working for. If the organization fails to meet up to this presumption, the employee develops a feeling of discontent or dissatisfaction. When the employee feels that something is unfair in the organization, he develops grievance. Even in the presence of various methods to maintain industrial peace and harmony, grievances do crop up in the minds of the employees. To avert, and to handle such situations in a sensitive manner, a solid grievance redressal procedure need to be formulated and practiced. Also when people feel such grievances and discontentment, they tend to consolidate their strength by forming associations. The formation of such an association by the people at work for maintenance and upliftment of the working environment and also for the protection of their interests through joint and concerted efforts is known as trade union. Trade unions play a pivotal role in generating and maintaining a climate of mutual trust, mutual understanding and confidence.

Another related activity performed by this stream of management is that of maintenance. It is a coherent approach through which the management ensures that high performance employees continue serving their enterprises with full commitment and vigor. To accomplish this, human resource management department launches full fledged exercises to produce a congenial and conducive work environment. For this , it needs to concentrate on employee welfare, health, safety and comfort issues.

This unit will give the students a thorough basic understanding of the above concepts

10.2. CONCEPT AND MEANING OF EMPLOYEE GRIEVANCE

Grievance is the discontent or dissatisfaction caused by anything which a person may feel , think or perceive to be irrational, unjust or inequitable. Employee grievance is lack of contentment or satisfaction felt by the workmen that may be overt or covert. Such feelings arise out of work or conditions of work which the employees think or perceive to be unfair. It may be real or imagined feelings of personal injustice held by the workers against management or company rules. Thus the term 'grievance' may be thought of as a complaint of one or more employees against an employer in respect of employment, non – employment, terms of employment or conditions of labour.

10.2.1. Features of grievance

1. It generates discontent or dissatisfaction.
2. It can take both covert or overt form.
3. It may be legitimate and valid or may be false, spurious, based on imaginary perception.
4. It may be written or oral.
5. It can well be related to employment, or non – employment, or terms of employment or conditions of labour.
6. The employee develops a feeling, thought pattern, perception that injustice has been done.

10.2.2. Forms of grievance

A grievance may take any one of the following forms : (a) factual, (b) imaginary , (c) disguised.

1. **Factual**
   A factual grievance arises when legitimate needs of employees remain unfulfilled, e.g., wage hike has been agreed to but not implemented on filmsy grounds.

2. **Imaginary**
   An imaginary grievance scenario arises when employee's dissatisfaction is not because of any valid reason but because of his wrong perception, wrong attitude or due to wrong information.

3. **Disguised**
   This form of grievance remains hidden, concealed. It needs a deep analysis to find out the cause of such grievance. It happens in organizations that some employees may not have real grievance but they remain dissatisfied and unhappy. Then it is the atsk of the management to find out the real cause and solve it.

10.2.3. Reasons for grievance

If management sincerely wants to remove grievance from employees, it first must identify the factors leading to it. It then gets easier for management to take curative and prophylactic measures to eradicate the same from enterprises. The causes of employee grievances are mentioned under different categories:

1. Wages
   - Insufficient / inadequate wages
   - Intentional or unintentional mistake in wage determination or calculation.
   - Low rate of incentives.
   - Withholding of approved allowances.

2. Working conditions
   - Unsafe working conditions
   - Dirty unclean toilets
   - Inadequate toilet facilities
   - Insufficient light and ventilation

3. Supervision
   - Faulty dyadic relationships
   - Indifferent attitude of supervisors
   - Poor technical skill of supervisors
   - Improper instructions given by foreman.

4. Company policies
   - Unfavourable , unsuitable promotion policy
   - Frequent transfer with no clear cut policy.
   - Absence of rules pertaining to leave.
   - Mistake in interpretation of different leave rules.

5. Alleged violation of rules, agreement, etc
   - Violation of settlement / collective bargaining agreement
   - Non conforming to understandings reached between management and recognized unions.
   - Wrong interpretation of company's laws and rules, disciplinary procedures and instructions.

10.2.4. Impacts of Grievance

The impacts of grievance is manifold. They are hereby described as under.

Impacts on employees

- Decrease in production – Employees may not be able to give their best to produce the standard level of production. Since the production decreases, the employees earn less.
- Absenteeism – Employees feel unhappy , dissatisfied. They may not like to attend to the task assigned to them. They remain absent frequently that results in increase in rate of absenteeism.
- Turnover – Dissatisfied group of workers prefer to leave the organization if their grievances are not redressed to their satisfaction. This may increase the rate of labour turnover.
- Accident – The rate of accidents may go high if the employees become insincere, casual and work reluctantly.

Impact on Management

- Dyadic relation – Dyadic relationship between supervisor and the grievant employee is affected in a situation when the employee grievance is not redressed and is piled up for long.

- Work activity – When the employees remain unhappy because of their grievances not being disposed off, it is difficult for the supervisor to effectively run the department and make production system smooth.

- More disciplinary cases – Grievance may increase the number of disciplinary action cases. The activities like issuing show cause notices, chargesheet, warning, caution letters may take the form of a regular phenomenon.

- Incompetency , inefficacy – Accumulation of grievances indicates the ineffectiveness and incompetencies of the management that may be affect the career growth of the management vis – a – vis overall functioning of the organization.

Impact on Organization

Employee grievances affect the organization. These effects are :

- Production – Employees may not give optimum production. So production may decrease.
- Quality product – The unhappy employees may not work sincerely and attentively that may result in deterioration in quality of products.
- Wastes , scrap and defects – The company may witness unusual increase in wastages, scraps and defects that appear in the process of working by the employees.
- Organizational goals – In a situation , where grievances are accumulated for days together it may not be possible to achieve individual goals, group goals and corporate goals.

10.3. TRADE UNION

Trade Unions, according to Sydney Webb and Beatrice Webb have been described as a ' continuous association of wage earners for the purpose of maintaining or improving the conditions of work'. The term 'Trade Unions' can be easily thought of as an association of people at work whose purpose is to cater to and work for the interest of members through bringing in mutuality. The Trade Unions Act, 1926, defines trade unions as a body constituted either on a short term basis or more commonly as a permanent body, formed mainly to monitor the relations between workers and employers, employers and employers and also between workers and workers or for imposing restrictions on the conduct of trade and business.

10.3.1. Characteristic of Trade Unions

- May be of either of employers or employees.
- Most commonly it is a continuous association of workers.
- Workers' issues are settled through direct negotiations with management people.
- It controls and promotes a healthy labour management relations.
- Prime intention of such associations is economic.

10.3.2. Objectives of Trade Unions

The objectives of trade unions are described as below:

1. **Economic conditions**

An important aim of any trade union is to secure adequate wages and salaries of workers for the services that they render. They bargain for higher salaries and wages of workers and employees.

2. **Grievance redressal**

Trade unions ensure that the organization has in place an efficient system for the quick redressal of grievances of all employees that may crop up from time to time.

3. **Welfare and social security**

Trade union leadership demands for providing welfare and social security benefits for the employees as per laws and agreements.

4. **Disciplinary activities**

Many times unions successfully act as restraints for the management and it is prohibited from taking any unfair , unjust, and illegal disciplinary actions against the member employees.

5. **Industrial democracy**

One of the prime objectives of trade unions is to ensure that industrial democracy is achieved. This means that workers have a say in the running of the industry.

10.4. EMPLOYEE MAINTENANCE

An important function of human resource management is employee maintenance. Employee maintenance is synonymous with protection and promotion of the physical and mental health of employees. It highlights the importance of productive employees in the organization and how they can be suitably retained. For this, good relations need to be maintained with employees along with providing suitable working environment. So, consideration of health, safety and comfort of employees assumes utmost importance. Maintenance function tries to increase the satisfaction quotient of employees. Employee maintenance thus deal with employee relations, their health, welfare and safety . A brief explanation of these activities are as follows :

- Employee relations : This concerns maintaining a good working environment in organization. Congenial and conducive relations should prevail upon in all communications between management and employees and also between the employees themselves. Managers should incorporate a working environment which facilitates rather encourages employee participation in the decision making process.

- Employee health : Certain sections of The Factories Act 1948 deals with provisions that will preserve the health of the employees. So employee health deals with matters relating to cleanliness, garbage and scrap management, proper ventilation and temperature regulation, artificial humidification, avoidance of overcrowding, adequate lighting, clean and cold drinking water, maintenance of clean toilets with separate provisions for males and females.

- Employee welfare : Employee welfare is concerned with providing some employee wellbeing facilities. Welfare facilities involve provisions for work, health insurance, canteen facility, recreation facility, rest room, games and sport, etc.

- Employee safety: Sections 21 to 40A, 40B and 41 of the Act notify the rules that has been promulgated to secure the safety of workers. It relates to provisions concerning the protection of workers from injuries and prevention of accidents. It also relates to employment of young persons and women and preventing them from working on dangerous machines.

10.5. LABOUR WELFARE

Labour Welfare is a broad term that takes within its ambit all such activities intended for the benefit and comfort of employees and which always extend above and beyond the salaries and wages of the employees, given by the employer. Labour Welfare encompasses all such services and facilities made available for employees within the organization or in its vicinity to enable them to do their work in hygienic surroundings that will eventually boost up their morale and health. All activities of employers that aim at providing facilities for employees in addition to wages and salaries are given the term labour welfare.

Labour welfare is not always in forms of money. In many cases, it takes other forms and kind. Employee welfare takes into account the working conditions, facilitates harmony in industry through infrastructure development for health, maintains industrial relations and supports insurance against diseases, accidents and unemployment for workers and their families.

10.5.1. Objectives of labour welfare

1. Brings in better health conditions for the workers.
2. Looks to securing an easy life and a more comfortable one for the workers.
3. Tries to bring in contentment among employees.
4. Directed at relieving the workers from work – related fatigue and also promotes intellectual, cultural and material welfare of the working class.

10.5.2. Types of labour welfare

Broadly labour welfare can be categorized into five types. They are as follows:

1. Intramural
2. Extramural
3. Statutory
4. Voluntary
5. Mutual

Intramural welfare

The facilities which are provided within the premises of the enterprise come to be known as intramural facilities. Such welfare activities may concern the safety and may include fencing and covering of machines, reducing industrial fatigue, state – of – the –art technology and floor plan of the factory, proper lighting facilities, and primary medical aid facilities. It is a legal obligation for employers to provide for such amenities.

Extramural welfare

These are the facilities that are offered to the workers, but not within the premises of the enterprise. They are appropriate housing accommodations, inhouse and outdoor games opportunities, kids' educational facilities, etc. Formerly, extramural facilities have not been accorded due recognition.

Gradually they had assumed increased significance for their contribution towards general welfare and upliftment of workers.

Statutory welfare

These refer to facilities whose provisions are legally binding to the employers. It is mandatory by law for the employers to provide for such amenities like : drinking water, sitting arrangements, basic medical care facility, toilet, provision for canteen, proper ventilation and lighting, rooms for washing clothes, changing dresses and taking rests, etc.

Voluntary welfare

Sometimes employers provide for certain facilities for their employees voluntarily outside the ambit of legal obligations. They do so based on their own judgement and discretion. It is dependent on the philanthropic mentality of the employers whereby they willingly make available different opportunities and arrangements for the benefit of workers which are over and above the statutory measures. Examples may include availability of transport facility, avenues for recreation, developing cooperative societies, children's education, loans for purchasing vehicles, and provision of library, etc.

Mutual welfare

Mutual welfare is a joint endeavor by both the corporate management and the workmen or their organizations that is trade unions. In India, sadly the unions lack pecuniary strength and so may be unable to partake in such activities on a large scale.

10.6. CONCEPT OF SOCIAL SECURITY

Social security means according a certain degree of protection to the people against any kind of social and economic problem - that may arise due to sickness, work related injuries, sudden unemployment, old age, maternity and death – through specific agencies and programmes. The central idea behind social security is to ensure community help to people in case of any misfortunes which he himself is unable to take care of with his own resources.

10.6.1. Definitions

Social security has been defined by Sir William Devergridge as " an attack on five giants . namely want, squalor, illness, disease and ignorance."

"By social security we undertake a programme of protection provided by society against those contingencies against which the individual of small means cannot effectively provided by his own ability and foresight." --International Labour Organization

10.6.2. Objectives of social security

1. One objective of social security is to instill in confidence in the people that their quality of life and standard of living will not be adversely affected by any misfortune or mishaps resulting in their inability to work for a living.

2. Facilitates the initiation and adoption of various programs that concern issues dealing with unemployment, insurance and creation of new employment opportunities through rational planning and industrial development.

3. It seeks to provide pension for oldage.

4. It also makes provisions for cash benefits for people suffering from disablement origination from employment.

5. The underlying belief in social security is that persons who contribute to country's economy or will be contributing should have protection against the vagaries of life accorded to them from society.

10.6.3. Scope of social security

International Labour Organization (ILO) has classified the scope of social security under nine heads. They are as follows :

1. Medical care
2. Sickness benefit
3. Unemployment benefit
4. Employment injury benefit
5. Old age benefit
6. Maternity benefit
7. Family benefit
8. Survivor's benefit

9. Invalidism benefit

10.6.4. Features of social security

1. Employee participation has to be compulsory in various schemes of social security.
2. Under the social security schemes, the contributions of employees are accumulated under specific funds, from which their payments are made.
3. The funds from which payments are made consist of payments both from the employer's ends as well as from employees' ends. The workers' contributions are minimal as compared to that of the employers whose financial assistance make up the major portion of the fund.
4. The social security schemes, are arranged in such a manner that everyone who has contributed becomes a beneficiary.

10.7. QUALITY OF WORK LIFE

Quality of Work Life (QWL) indicates if the working conditions of an organization are favorable or unfavorable for the employees. It is a broad term that refers to the climate which is concerned with skill and competence development of people, satisfying physiological and psychological needs, promoting dyadic relations as well as relations among the employee themselves. It relates itself to establishment of congenial and conducive work atmosphere and ensures achievement of goals at three different levels – individual, group, and organizational.

According to Harrison , 'Quality of Work Life' is the degree to which work in an organization contributes to material and psychological well being of its members.' Quality of Work Life exerts an impact on productivity of workers and is thought of having an impact on both psychological and physical health of individuals.

Richard E. Walton has described eight different dimensions of employment that bring about desirable quality of work life. These conditions are :

1. Adequate and fair compensation.
2. Safe and healthy working conditions.
3. Immediate opportunity to use and develop human capacities.
4. Opportunity for continued growth and security
5. Social integration at the work place
6. Constitutionalism in the work environment
7. Work and total life space
8. Social relevance of work life

10.7.1. Principles of Quality of Work Life

QWL is basically an activity that considers the human element at work. Herrick and Maccoby have enumerated four main principles that will make the job more interesting and comfortable for employees. They are as follows :

The Principle of Security

Humanization of work relates to the situation where the working condition is safe, healthy, and there are no existant anxiety, worries and tension of the employees with regard to security of job. There needs to be job security and provision of safety guidelines against occupational hazards.

The Principle of Equity

This ensures that the concept of equity is applied to activities that the people perform in their businesses. People doing same or similar kind of work at same or similar levels should get equal treatment. People's reward, perquisites, benefits need to be ascertained on the basis of the efforts people make or the inconveniences they go through to execute their jobs.

The Principle of Individualism

There is a great degree of diversity in attitudes, skills, etc of different employees. So the organizations ensure that each person is offered with opportunities to groom his or her personality and hone their individual skills. They should be given a greater degree of freedom in deciding their pace of activities as well as designing their work operations.

The Principle of Democracy

In a democratic work setting, employees are treated by the management as resource, assets or partners of the company. Close supervision, control over the subordinates' activities stand in the way of enhancing the QWL.

10.8. Glossary

Employee Grievance

Employee grievance is lack of contentment or satisfaction felt by the workmen that may be caused by anything which the persons may feel , think or perceive to be irrational, unjust or inequitable.

Trade Union

The term 'Trade Unions' can be defined as an association of people at work formed either on a temporary or permanent basis whose purpose is to regulate the relations between workers and employers, employers and employers and also between workers and workers or for imposing restrictions on the conduct of trade and business.

Labour Welfare

Labour Welfare is a broad term that takes within its ambit all such activities intended for the benefit and comfort of employees and that which extend above and beyond the salaries and wages of the employees, given by the employer.

Social Security

Social security refers to all such agencies and programmes that are meant to accord a certain degree of protection to the people against any kind of social and economic problem - that may arise due to sickness, work related injuries, sudden unemployment, old age, maternity and death.

Quality of Work Life (QWL)

Quality of Work Life (QWL) refers to the favorableness or unfavorableness of the work conditions of any enterprises for its employees

10.9. Summary

Discontentment in employees' minds that originate from job conditions deemed by them to be unjust is known as employee grievance. Unaddressed employee grievance has the potential to mature into large scale industrial dispute. Hence organizations need to have a well structured grievance redressal policy so as to maintain peace and harmony.

A trade union is an association of employees formed on a continuous basis with the aim to secure and maintain their rights and benefits. Unions cater to the needs of the labourers and the problems faced by them. Maintenance of discipline among the workers is also one of their liabilities. An important aspect of industrial relations is labour welfare. It includes overall welfare facilities designed to take care of well being of employees in order to increase their living standards. These are not provided by employers alone. It can also be provided by government and non government agencies. Social security is a device provided by society against insecurities arising out of natural, social and economic causes. It is an 'attack on five giants that affect workers – wants, disease, ignorance, sualor and idleness.' Various laws have been enacted to ensure social security for the workmen. They are : The Workmen's Compensation Act, 1923; The Employees' State Insurance Act, 1948; The Employees' Provident Funds and Miscellaneous Provisions Act , 1952; The Maternity Benefit Act, 1961; The Payment of Gratuity Act , 1972.

The term Quality of Work Life (QWL) has been gaining importance and has evolved in recent years because of increase in education level, increase in job aspirations, association of workers, significance of human resource management and evolved knowledge in human behavior.

10.10. Self – Assessment Questions

12. Explain what do you mean by employee grievance?
13. Discuss the factors responsible for employee grievance.
14. Employee grievance , if not redressed , may make an impact on the employees , management and the organization. Do you agree? Give

your views.

15. What is a Trade Union? State the salient characteristics of a Trade Union.
16. What are the objectives of Labour Welfare? State and explain the types of Labour Welfare.
17. What do you mean by Social Security? Explain its importance.
18. What is Quality of Work Life? State the principles of Quality of Work Life.

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MBA

(Management Studies)

(Semester – I)

MBA 1203

ORGANISATIONAL BEHAVIOUR

BLOCK - II

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ORGANISATIONAL BEHAVIOUR (OB)

BLOCK -II

Contents

MBA - 1203

Block – II

This block comprises of three units and aims to provide an introduction to the study of Organizational Behaviour.

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Unit 5 : . Personality

Concept and Determinants – Personality Frameworks – the Meyers – Briggs Type Indicator – The Big Five Personality Model – Type A and Type B Personality – other Personality Attributes – Personality Traits of Managers

.

Unit 6: Learning

Learning Principles- Theories of Learning – Intelligence and Psychological Testing

UNIT – 4

ATTITUDES

UNIT 4

ATTITUDES

STRUCTURE

4.0. OBJECTIVES

After reading this unit, you should be able to :

- define the concepts of attitudes and values,
- state the nature of attitudes and values,
- explain the components of attitudes,
- describe the methods for changing employee attitudes,
- provide a classification of values,
- understand how values influence managers.

4.1. INTRODUCTION

Attitudes are common to every individual. They are important because they influence our thinking and behaviour. Attitudes may be positive or negative. They are often described as evaluative statements about objects, people or events. They reflect how a person feels about something or somebody. Attitudes have tremendous impact on work habits, motivation and job satisfaction. They play an important role in explaining human behaviour. Values are normative views that influence our thoughts and actions. They provide the standards for deciding what are right, good, ethical and proper from individual and social points of view. Much of human behaviour is based on concepts of values and value systems.

4.2. CONCEPT AND DEFINITION OF ATTITUDES

The word 'attitude' is frequently used to describe people and their behaviour.It is a major factor of individual and organisational behaviour. In the organisational setting, we often hear of such terms as 'poor attitudes to work', 'favourable attitudes to change' etc. To understand the behavioural implication of attitude, we must first learn the proper meaning of it as given by the behavioural scientists.

Traditionally, attitudes mean a person's opinion and feelings about people, objects and events. These opinions and feelings can be positive or negative. Following this line of thought, Stephen P. Robbins (2002 : 68) defines attitudes as "evaluative statements, either favourable or unfavourable, concerning objects, peopleor events". But attitudes as opinions and feelings may be the products of an impulse which is temporary and may have no impact on the behaviour of a person.An improved definition has been given by Fred Luthans. According to him, an attitude is defined as a persistent tendency to feel and behave in a particular way towards an object, event or a person (2002 : 224).

4.3. NATURE OF ATTITUDES

The most important definition of attitudes has been given by Fred Luthans. Hedefines an attitude as a persistent tendency to feel and behave in a particular way towards an object event or person. This definition brings out five basic characteristics which show the true nature of attitudes held by individuals.

Firstly, attitudes represent a tendency or a predisposition to behave in a particular way. Secondly, attitudes tend to persist unless something is done to changethem. Thirdly, attitudes can be favourable or unfavourable. Favourable attitudes have a positive influence on behaviour. Unfavourable attitudes are reflected in the negative behaviour of people. Fourthly, attitudes are always directed towards some objects, events or people about which a person has some feelings, opinions and beliefs. Finally, attitudes affect behaviour of individuals. Thus, behaviour cannot bechanged unless attitudes are changed. The change of attitudes automatically leads tochange of behaviour.

4.4. COMPONENTS OF ATTITUDES

There are three basic components or elements of attitudes. These are : (i) emotional; (ii) informational; and (iii) behavioural components. The components arebriefly explained below :

i) Emotional Component : The emotional component shows a person's feelings about an object, event or individual. These feelings can be positive, negative or neutral. The emotional component of attitudes is directly related to job satisfaction, quality of work life and motivation of employees. The emotional component is also known as the affective component of attitudes.

ii) Informational Component : The informational component consists of the beliefsand information an individual has about the object or event. It makes no difference if the belief or the information is right or wrong. For example, a manager may believe that a worker needs two weeks of training to be able to operate a particular machine. In reality, the average worker needs training only for a week to operate the machine successfully. Yet, the belief of the manager is very important to his attitude about workers' training. The informational component is also known as the cognitive component of attitudes.

iii) Behavioural Component : The behavoural component of an attitude consists of a person's tendencies to behave in a particular way towards an object, event or another person or group of persons, For example, the supervisor in the above example, will have a tendency to assign two weeks of training to the workers foroperating the machine. This behaviour shows his attitude.

It is important to note that out of the three components of attitudes, only the behavioural component is directly observable. It is not possible to see the feelings or information that a person has. These can only be understood from his observable behaviours.

4.5. METHODS FOR CHANGING EMPLOYEE ATTITUDES

Managers are often faced with the problem of changing the attitudes of individual employees. When the existing attitudes of the employees hamper the achievement of organisational goals, managers initiate steps to change them. There are specific ways of changing employee attitudes. There are five recognised ways ofchanging the attitudes of people in organisations. These are briefly presented below :

i) Providing new information : An important way to change the attitude is by providing new and correct information. Most often employees develop negative attitude towards the management simply due to lack of information or wrong information. Providing correct and timely information can change the beliefs of a person and, in the process, his or her attitudes.

ii) Use of fear : A second way of changing the attitudes is through the use of fear. However, the desire to change depends on the degree of fear used. If, for example, low levels of fear are used, people often ignore them. The warnings arenot considered strong enough to warrant attention. If moderate levels of fear are used, people often become aware of the situation and agree to change their attitudes. If high levels of fear are used, employees will unite to oppose them instead of changing their attitudes.

iii) Resolving discrepancies : Another way of changing attitudes is by resolving discrepancies between attitudes and behaviour. Generally, attitudes and behaviour should be consistent. If differences arise due to certain policies and actions of the management, efforts should be made to resolve them so that behaviour conforms to attitudes.

iv) Influence of friends or peers : One more way to change attitudes of employees is through persuation by friends or peers. Credibility of the peers is an important factor for effective change of attitudes. Peers with high credibility can play more effective role in changing attitudes than peers with low credibility.

v) The coopting approach : The final way to change attitude lies in coopting approach. In this approach the first task is to identify the people who are dissatisfied with a situation. In the second step, such people are involved in improving the things. For example, if some union leaders regularly complain against the shortage of employee benefits, they may be inducted into the employee welfare committee. The realization of the reality will help them changetheir attitudes.

4.6. LET US SUM UP

Attitudes play an important role in the study of organisational behaviour. They strongly influence human thinking and behaviour. People always act on the basis of their attitudes. For precise meaning, we can define an attitude as a persistenttendency to feel or behave in a particularly way towards an object, event or person. Attitudes may be favourable or unfavourable. Favourable attitudes are conducive to better performance. There are three basic components of attitudes. The emotional component refers to a person’s feeling and sensitivity about an object or event. The informational component denotes the beliefs and information that an individual has about an object or event. The behavioural component shows the persistent tendencyof a person to behave in a particular way. It is almost a habit for him.

(i) When the attitudes of employees become negative or hostile, it becomes necessary for the managers to change them. Because negative attitudes prevent the realisation of organisational goals. There are five recognised ways of changing the unfavourable attitudes of employees. In the first place, attitude may be changed by providing correct information to the employees. Secondly, managers may use fear of punishment to bring about a change in the attitudes of employees. Thirdly, managers may help remove the causes of discrepancies between attitude and behaviour to bring about the desired attitudinal change. Fourthly, attitudes may be changed through the pursuasion and mediation of friends and peers. Finally, the cooptive approach may be effectively used to change the attitudes of employee

4.7. EXERCISES

1. Define the concept of attitude.
2. Explain its nature and importance.
3. Explain the components of attitudes and show how they affect behaviour in organisations.
4. Discuss the methods for changing hostile employee attitudes.

4.8. GLOSSARY

Attitude : The word 'attitude' is frequently used to describe people and their behaviour.It is a major factor of individual and organisational behaviour.

Values : Values are normative views that influence our thoughts and actions. They provide the standards for deciding what areright, good, ethical and proper from individual and social points of view.

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UNIT – 5

PERSONALITY

UNIT 5 : PERSONALITY

STRUCTURE

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Concept and Definition of Personality
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5.0 . OBJECTIVES

After reading this Unit, you should be able to :

- Define the concepts of personality.
- Identify the characteristics of personality.
- Explain the factors that determine personality
- Describe the MBTI framework of personality
- Explain the Big Five Traits of personality
- Present the Personality – Job Fit Theory
- Distinguish between Type A and Type B personalities.

5.1 : INTRODUCTION

People are the building blocks of an organization. We can understand them and predict their behaviour in a better manner through the identification and study of their personalities. Of all the factors that influence human behaviour, personality is probably the most important one. A knowledge of the dimensions, determinants and theories of personality can provide a partial explanation of why people behave the way they do in an organisational setting. Understanding and predicting human behaviour is the central objective ofstudying organisational behaviour. The knowledge of personality can greatly help us achieve that objective. Managers who have better knowledge of personality are often found to be more successful than others.

Personality is one of the most important factors that influence human behaviour in organisations. With the help of personality studies, managers can identify the unique characteristics of individuals, understand the differences between them and predict their behavioural pattern in a better way. Clearly, the knowledge of personalitytheories is of great significance to the managers.

5.2 : CONCEPT AND DEFINITION OF PERSONALITY

The term personality has an interesting origin. It is derived from the Latin word 'persona' which means an actor's mask. Thus, the initial concept of personality was limited to the idea of external image of a person. But, the modern concept combines external appearance with internal qualities for defining the personality of an individual.

Initially, behavioural scientists began to explain personality of an individual in terms of his or her internal processes and or external pattern of behaviour. Following this line of thinking, Gordon Allport has defined personality as "the dynamic organisation within the individual of those psychological systems that determine his unique adjustments to his environment". In a simplified verson, Robbins (2002: 92) defines personality as "the sum total of ways in which an individual reacts to and interacts with others". Neither of the two definitions gives a complete picture of personality. As a result, modern writers have developed an integrated approach which gives a comprehensive view of personality. In includes internal and external characteristics, self-concept and situational awarness that together determine one's pattern of behaviour. It modern approach personality does not look at the isolated parts of a person. Instead, it looks at the whole person who is greater than sum of his parts and is different from all others. Thus, personality represents the whole psychological, physiological and physical subsystems of an individual as well as his behavioural pattern.

In modern perspective, personality refers to the unique pattern of thinking and behaviour of a person based on a stable set of internal and external characteristics along with his own understanding of the situation and self. The definition makes it clear that there are multiple characteristics of personality.

5.3 : DETERMINANTS OF PERSONALITY

One of the most difficult issues in the field of organisational behaviour is concerned with the identification of factors that determine an individual's personality. It is now generally agreed that an adult's personality is the result of the combined influence of the following three sets of factors:

1. Biological or hereditary factors

2. Environmental factors

3. Situational factors

1. Biological or hereditary factors

Heredity is undoubtedly the most important biological factor that contributes to the shaping of an individual's personality. Research studies have firmly established that physical and physiological characteristics can be transmitted through heredity. Thus, personality factors like physical stature, facial attractiveness, sex, temperament, muscle composition, energy level, intelligence, and biological rhythms are substantially influenced by the genetic patterns of parents and forefathers.

2. Environmental factors

The genetic background inherited from the parents do not, however, fully determine the actual type of personality a person will have. The environment we are exposed to plays significant role in shaping our personalities. There are two important factors of the environment that condition our personality. These are (i) culture and (ii) family.

(i) Culture

Culture consists of beliefs, norms, values and attitudes which are shared by people in general in a given society and which are transmitted by one generation to the next. The important elements of culture include language. religion, laws, conventions and custom. It is an established fact that culture determines the value systems and learning processes which play an important role in personality development. For example, the methods by which an infant is fed and toilet trained and the ways in which the person latter moves from adolescence to adulthood are culturally determined. As a result, people who live in one culture have different personalities from those who live in another culture.

(ii) Family

Family is the second most important factor that has the greatest impaact on early personality development. Research evidences show that perental influence at home is crucial to the personality development of a child. For example, children with institutional upbringing and children reared in a cold, uninspiring home are much more likely to be socially and emotionnally maladjusted than children raised by parents in a warm, loving and stimulating environment. The key factor here is not the parents themselves, but rather the type of atmosphere that is generated for the child at home.

3. Situational Factors

Situational factors further influence the effects of heredity and environment on personality. An individual's personality, though generally stable and consistent, tends to change in different sitautions. This is because different situations warrant different aspects of one's personality. For example, a person has one type of personality at office. The same person shows a quite different personality at home. An employee shows one kind of personality before the boss, but he changes when in company of peers.

5.4 : CHARACTERISTICS OF PERSONALITY

The main characteristics of the personality of an individual can be stated as under :

(i) Personality has both internal and external characteristics. External traits are the observable features and behaviours that determine one’s personality. For example, we can see from behaviour whether a person is an extrovert or introvert. His physical features also fall under external category. The internal traits include, attitudes, the thoughts, values intelligence and others that we can infer from his behaviour.

(ii) The behavioural patterns that show one's personality must be relatively stable, consistent and unique to an individual. Temporal behaviours like mood swingsor bad temperament the to illness or some bad news do not determine the personality of an individual.

(iii) Personality traits can be used for predicting the future behaviour of an individual. For example, a person who is known for his punctuality is expected to arrive at office in time.

(iv) Self-concept and situational context have important influence on the personality of an individual. Self-concept is the awareness about one's innerself. It gives rise to self-esteem which is a part of one's personality. Regarding the situational context, it is important to know that people do not behave the same way in all situations. Each situation is different and has implication for human behaviour.

5.5 : THEOREIS OF PERSONALITY

There are two kinds of personality theories : trait theories and developmental theories. Trait theories of personality seek to identify the enduring traits that can beused to identify the personality of an individual. The theories also try to explain howthe personality of an individual affects his behaviour and job performance in an organisation. The developmental theories, on the other hand, attempt to identify specific physiological and psychological stages that contribute to the development of human personality.

Trait theories are more pertinent to the study of organisational behaviour (OB). The four important trait theories of personality presented in this Unit are (i) Myers – Briggs Type Indicator (ii) The Big Five Model; (iii) The Personality-Job Fit Theory; and (iv) Type a Personality andType B Personality

5.5.1. Myers-Briggs Type Indicator (MBTI)

Myers-Briggs Type Indicator, or MBTI as it is popularly known, is one of the most widely used frameworks for determining the personalities of employees. The theory goes back to the pioneering work of Swiss Psychologist Carl Jung in the 1920s. He felt that all people could be classified into two opposite types such as extroverts and introverts. The extroverts are highly social and outgoing. They prefer interactions with people and involvement in events. The introverts, on the other hand, are inward looking and very sensitive. They tend to be quite, shy and retiring. Jung also found that people have two basic mental processes such as perception and judgement. He further divided perception into sensing and intuition and judgement into thinking and feeling. Based on his analysis of personality traits, individuals

are thus divided into four groups as under :

i)Extroverted or Introverted (E or I);

ii) Sensing or Intuitive (S or N);

iii) Thinking or Feeling (T or F); and

iv) Perceiving or Judging (P or J).

Jung has found that even though people possess all these traits in common , they differ in the combination of their preferences for each. He also made it clear that one person's preferences are not necessarily better than that of another. They are simply different with respect to their mental processes.

Nearly 20 years after Jung developed his personality theory, the mother and daughter team of Katharine Briggs and lsable Briggs-Myers developed in the 1940s another personality framework on the basis of Jung's analysis, This improved personality theory of the mother and daughter team is called Myers-Briggs Type Indicator of simply MBTI (Luthans, 2002: 222). The MBTI is a personality test consisting of about 100 questions. The questions ask the respondents to state how they usually feel or act in specific situations order in to measure heir preferences on the four pairs of traits. On the basis of the answers given in the test, individuals are classified into 16 personality types depending on the various combination of their personality traits. Some of the personality types are as follows :

a) INTJ : introverted, intuitive, thinking and judging

b) ENTP : extroverted, intuitive, thinking and perceiving

c) ESTJ : extroverted, sensing, thinking and judging.

Personalities in the INTJ category are termed as visionaries and those in the second category are seen as conceptualisers. People in the third group are viewed as organisers and managers. lt is not that one type is another. The most better than important thing here is to understand that one type of personality is different from another.

The MBTI is not free from limitations. There is still no hard yields a valid evidence that it measure of people a year take personality. Nevertheless, more than two million the MBTI test in the United States alone. Worldwide. it is the most popular personality test. The lack of evidence does not seem to deter its use in a wide evidence does not seem to range of organisations.

5.5.2. Big Five Model for Personality

The Big Five Model of Personality is gaining popularity in recent years because of increasing research evidence in support of its validity (Robbins, 2002 : 95-96). This trait theory of personality, also called the Five-Factor Model, has identified five core dimensions of personality. These five dimensions are referredto as Big Five traits in the study of personality. The traits are as follows :

i) Extraversion : This personality dimensions describes the extent to which one is sociable, outgoing, talkative and assertive. People scoring low on this dimension are introverts who tend to be reserved, quet, timid and shy.

ii) Agreeableness : This personality dimension describes an individual who is coperative, warm, reasonable, caring and trusting. People who score low on agreeablness are cold, unreasonable and antagonistic.

iii) Conscientiousness : This dimension of personality is a measure of reliability. It describes someone who is responsible, dependable, persistent and organised.

Those who score low on this dimension are disorganised, whimsical and unreliable.

iv) Emotional stability : This dimension describes someone who is calm, confident, secure and unworried. People getting low score on this dimension are nervous, anxious, depressed and worried.

v) Openness to experience : This personality dimension describes someone whois creative, curious, imaginative, sensitive and intellectual. They are willing to embrace new ideas and learn continuity. Those who score low on this trait are conventional, unimaginative and dull.

5.5.3. Holland's Personality Job Fit Theory

One of the most important goals of personality theories is to identify personality characteristics that match specific jobs for maximising productivity andperformance. The matching of personality characteristics with job requirements is best articulated in John Holland's personality-job fit theory. In his theory, Holland presents six personality types with specific characteristics for each type. He then proposes that satisfaction and prospersity to leave a job depend on the degree to which individuals are able to match their personalities with occupationalenvironment. Table 5.1 shows six types of personality and their characteristics with matching or congruent occupations.

Types of Personality	Personality Characteristics	Congruent Occupations

Realistic conforming,	Shy, genuine, persistent, stable, practical	Mechanic, drill press operator, assembly line worker, farmer
Investigative independent	Analytical, original, curious, mathematician, news reporter	Biologist, economist,
Social understanding	Sociable, friendly, cooperative, counsellor, clinical psychologist	Social worker, teacher,
Conventional unimaginative,	Conforming, efficient, practical, inflexible	Accountant, corporate manager,bank teller, file clerk
Enterprising energetic, Artistic	Self-confident, ambitious, domineering business manager Imaginative, disorderly, idealistic, emotional, impractical	Lawyer, real estate agent, public relations specialist, small Painter, musician, writer, interior decorator

Source : Adapted from : Robbins, S. P. (2002). Organisational Behaviour. New Delhi : Prentice Hall, p. 102.

Table 5.1 presents six types of personality with their characteristics and suitable occupations as developed by John Holland. Each personality type and the matching occupational environment in the Figure shows the ideal fitness that can be established between personalities and jobs in organisations.

Holland has clearly identified activity preference of each personality type. According to him, realistic personalities prefer physical activities that require skill, strength and coordination. People with investigative personalities prefer activities that involve thinking, organising and understanding. People having social personalities tend to prefer activities that involve helping and developing others. People possessing conventional personalities are found to have preferences for regulated, orderly and clearly defined activities. People with enterprising personalities are interested in verbal activities where there are opportunities to influence others and attain power. Finally, artistic personalities have distinct preferences for undefined and unsystematic activities that allow imagination and creative expression.

In addition to personality types and matching occupations, Holland has developed a vocational preference inventory questionnaire that contains 160 occupational titles. The respondents are asked to indicate which of the statedoccupations they like or dislike. The answers are then used to form personality profiles of the respondents. Using this procedure, Holland has developed a hexagonal diagram to exhibit six types of personality and their relationship to one another. He states that closer the two fields are in the hexagon, the more compatiblethey are. Obviously, the adjacent personality types are very similar and thosediagonally opposite are highly dissimilar in nature. Figure 5.1 shows the hexagonal diagram indicating relationships among six types of personality.

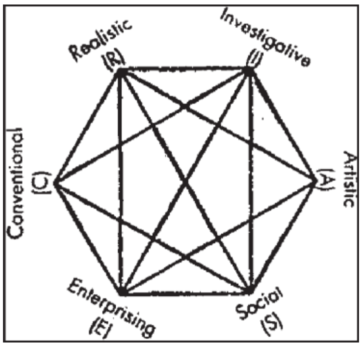

Figure 5.1 : Holland's Hexagonal Diagram Showing Relationships among Six Personality Types :

Source : Robbins, S.P. (2002). op. cit.

5.5.4 . TYPE A Personality and TYPE B Personality

A simple framework for classifying individuals into Type A personality and Type B

Personality has been popularised by Friedman and Rosenman through their extensive research studies on job stress. These two types of personality have sharply differing characteristics and behavioural patterns. According to Friedman and Rosenman, people with type A personality are excessively competitive and highly ambitious. They always seem to experience a chronic sense of time urgency. They are aggressively involved in an unending struggle to achieve more and more in less and less time. In contrast. Type B personalities are slow moving and mild mannered. They are less ambitious . more patient and highly relaxed. They take a low -key approach to life and Figure 5.2 shows the contrasting profiles of Type A and Type B personalities.

Figure 5.2 . Profiles of Type A and Type B

Type A Profiles	Type B Profiles
Is always moving	**ls not Concerned about time**
Walks rapidly	**Is patient**
Eats rapidly	**Doesn't brag**
Talks rapidly	**Plays for fun, not to win**
Is impatient	**Relaxes without guilt**
Does two things at a time	**Has no pressing deadlines**
Can't cope with leisure time	**Is mild-mannered**
Is obsessed with numbers	**Is never in a hurry**
Measures success by quantity	**Measures success by quality**
ls aggressive	**Never feels under time pressure**
Constantly feels under time pressure	

Source : Luthans, Fred (2002). Organizational Behaviovr, New Delhi : McGraw-Hill. p.402

An examination of the profiles in Figure 5.2 reveals that Type A personality is exactly the opposite of Type B personality. Type A personalities operate under moderate to high levels of stress. They demonstrate their competitiveness by working long hours, meeting deadlines and sacrificing quality for quantity. As they work under time pressure, they pay less attention to innovation and creativity. They are also at the higher risk of heart disease as they generally live a very stressful life. Although recent studies discount this possibility, chances are that people having Type A personality will suffer more from stress related problems than the people with Type B personality. The final question is: Who are more successful Type As or Type Bs? Most of the Americans are Type A. One stu are the most successful ones in organisations. shows that 60 percent of managers in the US are Type A and only 12 percent are Type B (Luthans, 2002: 401). This does not, however indicate that Type As are the most successful one in the organizations.

5.6. Implications of Personality for Performance and Job Satisfaction

The study of personality offers general quidelines that can lead to better joD performance and improved productivity, An understanding of personality tactors and theories can help decisions relatina to selection, placemen., training, transfer and promotion of emplovees., As Personality characteristics set the parameters for human behaviour. they give us a framework to understanding and predicting behaviour. For example, individuals who are shy, introverted and uncomfortable in social situations would probable be ill suited to handle sales and public relations. This, however, does not mean that personality factors can alone tell which people will do well in sales, research or production work. But it is sure that knowledge of personality can greatly reduce mismatch between people and their jobs. An understanding of personality theories, for example, can help the top-level managers to put right people in right jobs. This is expected to increase productivity and performance on the one hand and reduce turnover and absenteeism on the other. The fitness between individuals and jobs will also improve their job satisfaction and motivation to a great extent in organisations. There are strong evidences linking personality traits to job satisfaction. Individuals who possess positive characteristics tend to be content with their job. Thus, it would not be wrong to suggest that satisfaction may be more in the person than in the job itself. This reaffirms the value of personality tests as potent indications of an applicant's future job satisfaction, motivation and performance.

5.7. Let us Sum Up

The term ‘ personality’ is derived from the Latin word ‘ per sonare’ meaning masks worn by actors in ancient Greece and Rome. Gradually it was used to mean the superficial external image that a person adopted in social life. The external image or appearance is still a part of personality, but not the whole. Some writers have defined personality in terms of internal characteristics and behavioural pattern of an individual. This is again a partial view of personality. In modern approach, personality represents the whole man. It includes both internal and external characteristics of a person, his awareness of self and situation that together determine his unique adjustment to the environment. In short, it represents the total individual system that consciously benaves response to situations. The characteristics or components of personality ale evident from its broad concept.

Personality is determined by biological, environmental and situational factorS. Situational factors are, in fact, a part of environmental factors. There is still no agreement as to which one biology or environment-has a greater influence on the personality of an individual. Trait theories of personality are more pertinenet to the study of OB. As such. attention is focussed on four trait theories. These are: i) MBTI; (i) The Big Five Model: (i) Personality-Job Fit Theory; and (1) Type A Personality and Type B Personality. MBTI is basically a personality test based on 100 questions relating to four personality traits identified by Carl Jung. The types are: (a) extroverted or introverted: (b) sensing or intuitive; (c) thinking or feeling; (d) and perceiving or judging. Although, people possess all these traits in common, they differ in the combination of their preferences for each trait. In the final analysis, MBTI classifies individuals into 16 personality types on the basis of their preferences for various combination of personality traits. The Big Five Model has developed a framework to identify five core dimensions or traits of personality. The 'Big Five' traits are : () extraversion, (i) agreeableness; (iii) consciousness; (iv) emotional stability; and (v) openness to experience. Besides providing a common framework for identifying personalities, the Big Five Model has found important relationships between personality dimensions and job performance.

The study of personality in OB is focusing more and more on the identification of personality characteristics that match job requirements. The result is the Holland's job-fit theory. In his theory, John Holland presents six personality types with matching occupations. The six types of personality are: (i) realistic, (ii) investigative, (ii) social, (iv) conventional, (v) enterprising, and (vi) artistic. Each type has an ideal occupational environment. When the fitness between the personality and the job is more, absenteeism and turnover will be less and productivity and satisfaction of employees will be higher. For any organisation, this is a highly desirable situation. Another personality framework developed by Friedman and Rosenman, attempts to classify all individuals into two opposing types of personality. These two types of personality are called Type A personality and Type B personality. People having Type A personality are excessively competitive and highly ambitious. They are involved in an endless struggle to achieve more and more in less and less. In contrast, Type B personalities are slow moving, less ambitious and more relaxed. It is difficult to say which type is successful in business. In the final analysis, we can say that personality theories offer practical guidelines that can lead to better job performance and improved productivity.

5.8 : Self – Assessment Test

1. What do you mean by personality? Elucidate its main characteristics.
2. Discuss the major determinants of personality. Which factor do you think has the biggest influence on personality development of an individual?
3. Critically examine the Myers- Briggs Type Indicator of Personality. What are the reasons for its popularity?
4. Explain the Big Five Model of Personality. Do you think that this model is an improvement over MBTI?
5. What is Personality – Job Fit Theory? How does it help in establishing fitness between employees and their jobs?
6. What are the implications of the hexagonal diagram showing the types of personality?
7. State the characteristics of Type A personality and Type B personality. Which type is more successful in managerial jobs?
8. Analyse the implications of personality for performance and job satisfaction?

5.9. GLOSSARY

Personality : , Personality represents the whole psychological, physiological and physical subsystems of an individual as well as his behavioural pattern.

Extraversion : This personality dimensions describes the extent to which one is sociable, outgoing, talkative and assertive.

Conscientiousness : This dimension of personality is a measure of reliability. It describes someone who is responsible, dependable, persistent and organised

5.10. SUGGESTED READINGS

1. Luthans, Fred (2002). *Organizational Behaviour*. New Delhi : McGraw-Hill.
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UNIT – 6

LEARNING

UNIT – 6 : LEARNING

STRUCTURE

- 6.0 : Objectives
- 6.1 : Introduction
- 6.2 : Concept and Definition of Learning
- 6.3 : Characteristics of Learning
- 6.4 : Theories of Learning
    - 6. 4 .1 : Classical Conditioning
    - 6. 4. 2 : Operant Conditioning
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- 6.5 : Intelligence and Psychological Testing
- 6.6 : Let us Sum Up
- 6.7 : Self Assessment Questions
- 6.8: Glossary
- 6.9 : Suggested Readings

OBJECTIVES

After mastering the contents of this Unit, you should be able to :

- Define the concepts of learning.
- Present the characteristics of learning
- Explain the various theories of learning
- Discuss the various intelligence and psychological testing processes

6.1. INTRODUCTION

Learning is an important cognitive process. In organizational behaviour , it is viewed as a relatively stable change in behaviour that occurs as a result of experience and practice. Temporary changes in behaviour resulting from fatigue , drugs, or other causes are not considered learning. Learning takes place when the behaviour changes in a fairly stable manner as a result of experience gained. People learn in various ways. Theories of learning explain how people can learn the desired behaviour. Contemporary researches in this area are coming up with new information on how people learn in the organization. Managers must know the process of learning as applicable to OB so that they can create an organizational climate conducive to behaviour modification, motivation and better performance.

6.2. CONCEPT AND DEFINITION OF LEARNING

Learning occupies a key position in the study of organisational behaviour (OB). It is increasingly appreciated that no behaviour in the organisation can occur without some form of learning. In OB, learning is viewed as a process of behaviour modification.This concept of learning is much broader than its ordinary meaning. In the ordinary sense, learning is seen as the process of acquiring knowledge through academic pursuit. Learning does indeed occur in an academic situation, but more of it surely takes place outside the classroom. It takes place everywhere and throughout the entire life of an individual.

Learning in OB is basically concerned with the change of behaviour for the more effective attainment of individual and organisational goals. For example, if the behaviour of people shows signs of change as a result of a company's training programme, learning is said to have taken place. Learning, in fact, represents a broad behavioural concept that includes education, training, development or any practice that leads to enduring change in behaviour. In the literature of OB, it is is defined as a relatively permanent change in behaviour that occurs as a result of experience or practice. Learning is not directly visible. It becomes evident when an individual behaves or responds differently as a result of experience gained or practice done (Robbins, 2002: 40). In organisations, it is necessary to create an environment of learning that is conducive to individual development, increased motivation and better performance.

6.3 : CHARACTERISTICS OF LEARNING

The definition of learning reveals the following characteristics :
i) First, Learning involves change in behaviour which may be good or bad. People can learn unfavourable behaviours like keeping away from work, restricting output, encouraging unethical activities or favourable behaviour like discipline, obedience, hardwork, loyalty and so on.

ii)Secondly, the change must be relatively permanent. Temporary changes are reflexive in nature and do not constitute any learning. Therefore, behavioural changes caused by fatigue, sudden feeling or emotions are not learning.

iii) Thirdly, learning is concerned with the acquisition of new behaviour. A change in an individual's thinking or attitudes, cannot be taken as learning unless it is followed by a visible change in behaviour on a relatively permanent basis. .

iv) Finally, learning to be enduring needs occasional reinforcement. The reinforcement is a kind of incentive which is given as a reward for the desired action. The incentive increases the probability that the same behaviour will be repeated in future.

6.4 : THEORIES OF LEARNING

Theories of learning try to explain how people acquire new patterns of behaviour. There are three theories of learning which are popular in OB. These are : (i) Classical conditioning; (i) Operant conditioning; and (ii) Social learning. Understanding these theories is vital for knowing and predicting human behaviour in organisations.

6.4.1 : Classical Conditioning

Classical conditioning theory of learning was developed by lvan Pavlov who got the noble prize for his outstanding experiment on a dog's tendency to salivate in response to the presentation of meat and sound of bell. Using a simple surgical procedure, Pavlov was able to measure the amount of saliva secreted by a dog, and found that there was an increase in its salivation. Pavlov called the food an unconditioned stimulus and the salivation an unconditioned response because the relationship between the two was natural and unlearned. Then Pavlov stopped the presentation of meat and merely rang the bell which was called the neutral stimulas. This time the dog had no salivation ie. no response.

In the next phase of his experiment, Pavlov began to associate the ringing of the bell with the food. He rang the bell every time he gave food to the dog. After doing this for several days, he simply rang the bell but gave no meat to the dog. Still, the animal salivated as before, Gradually, the dog acquired the habit of salivating at the sound of the bell. In this way, Pavlov was able to train the dog to respond to a learned stimulus, i.e. the ringing of the bell. He called the sound of the bell a conditioned stimulus that brought about a conditioned response, ie, salivation.

The classical experiment was a major breakthrough in understanding the process of learning and its impact on the behaviour of people. According to this theory, learning takes place through the association of stimulus and response (S-R) which is the basic process of human perception, learning and behaviour.

Despite many theoretical advantages, most modern theorists agree that classical conditioning represents only a very small part of total human learning. B. F. Skinner pointed out that classical conditioning explains only reflexive behaviours. The reflexive behaviours are involuntary response that are elicited by a specific stimulus. Of greater importance are the complex behaviours of employees that are learned through conditioned reinforcers such as money, praise and recognition. This type of learning is called operant conditioning.

6.4.2 Operant Conditioning

Operant conditioning is of even more interest to managers than is classical conditioning. It has many applications in an organisational setting. It has many applications in an organisational setting. It was popularised by the leading psychologist B. F. Skinner and others.

Operant conditioning is a type of learning that occurs in anticipation of the consequence of behaviour. In organisations, people learn to behave to get something or to avoid something. The principle of operant conditioning posits that the learner must respond to get something before he is reinforced. This is exactly opposite to what happens in classical conditioning.

In classical conditioning, the dog responds only when it is presented with the ringing of a bell and a plate of food. In operant conditioning, the dog must do something before it gets the reward. For example, the dog must reach out its paw to shake a hand to get a biscuit or a plate of food. This is operant conditioning. We want a person to act in advance to deserve a reward. When he acts in this way, we reward him. The reward reinforces his desire to behave in the same fashion again and again. The reward is the reinforcement and much of what an individual learns is the result of this reinforcement. Operant conditioning has many practical applications. The manager can reiniorce the good behaviour or the high performance on the part of a worker by giving a reward of paying compliments to him . Operant conditioning has greater impact on human behaviour than classical conditioning. Most behaviour in an organisation can be controlled by the lure of reward of threat of punishment. Operant conditioning can give us valuable insight into how we can understand, predict and manage human behaviour in an organisational setting.
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6.4.3 :Social Learning

Individuals can also learn by observing what others do and how then do. For example, much of what we have learned comes from watching models like parents, teachers, friends, sports stars, social celebrities and outstanding personalities. This view that we can learn by observing others as well as by direct experience of events has been called social learning. It issimply defined as a process of acquiring new patterns of behaviour through observation of what others do and direct experience of events.

Social learning theory is an extension of operant conditioning. While the theory assumes that behaviour is a function of consequences, it also emphasises the existence of observational learning and the importance of perception in learning. The response of people depends on how they perceive and define the consequence, and not on the actual consequences themselves.

The influence of models is central to the social learning theory. Four processes have been found to determine the influence that a model will have on an individual. These are as follows : :

Attention Processes:

People tend to learn from a model when they pay attention to its critical features. We are likely to be most influenced by models that are attractive readily available and have similarities with us.

Retention Processes

A model's influence will depend on how well the individual remembers the model's action, even after the model is no longer readily available.

Motor Reproduction Processes

After a person has seen a new behaviour by observing the model, the watching must be converted into doing. This process implies that the individual can perform the model's activities.

Reinforcement Processes

Individuals will be motivated to exhibit the modelled behaviour if positive incentives or rewards are provided. Behaviours that are reinforced will be given more attention, learned better and performed more often. The above processes can play a significant role in improving the effectiveness of employees if their training and development programmes are so designed as to reflect the fundamental modelling influences.

6.5 : LET US SUM UP

Learning is important in OB, It is concerned with modification of behaviour for the more effective attainment of individual and organisational goals. Learning is defined as a relatively permanent change in behaviour that occurs as a result of experience or practice. The definition itself is revealing of the characteristics of learning. Learning is evident when there is a stable change in behaviour as a result of some experience. Experience may be gained directly by observation or indirectly from media information.

There are three theories that explain how people can learn. The theories are: (i) classical conditioning; (ii) operant conditioning; and (ii) social learning. In classical conditioning learning takes place through the association of stimulus elicits specific response. Here, a specific stimulus elicits specific response. In operant conditioning, people learn to respond in advance to get some desired stimulus in future. This is exactly opposite to what happens in classical conditioning. Another approach to learning is known as social learning. It is the process of learning by observing others. For this, social learning is also known as observational learning . Social learning takes place everywhere. An understanding of the concepts and theories of learning. can equip the managers with practical knowledge about how to change the behaviour of people in desired direction.

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6.6. SELF ASSESSMENT QUESTIONS

1. What is learning? Examine the role that the learning plays in OB. What areits important characteristics?
2. Make a comparative study of classical conditioning and operantconditioning. Which one is more relevant to OB?
3. What do you mean by social learning? What processes determine the effectthat a model has on individuals?.

6.7. Glossary

1. **Learning** : Learning is an important cognitive process. In organizational behaviour , it is viewed as a relatively stable change in behaviour that occurs as a result of experience and practice.
2. **Social Learning** : Social learning is the process of learning by observing others.
3. **Classical conditioning** :Here learning takes place through the association of stimulus eliciting specific response.

6.8. Suggested Readings

1) Luthans, Fred (2002). *Organizational Behaviour*. New Delhi : McGraw-Hill.
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MBA

Management Studies

(SEMESTER – I)

MBA 1504
ACCOUNTING FOR MANAGERS

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(Management Studies)
(Semester – I)
MBA 1504
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ACCOUNTING FOR MANAGERS
(AFM)

BLOCK – 1

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MBA 1504

Accounting for Managers (AFM)

A. Financial Accounting

Unit-1

Financial Accounting

Meaning of Financial Accounting- Functions, Objectives – Book keeping, Accounting and Accountancy, Need for Accounting- Development of Financial Accounting, Branches, Users- Identification of Events & Transactions, Double Entry System- Accounting Cycle- Journal: Meaning, Classification, Format, Debit – Credit Rules, Ledger, Trial Balance

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Depreciation, Bad Debts and Inventory

Meaning of Depreciation, Causes and Nature, Concepts of Depreciation and its Methods- Accounting Treatments for Recording Depreciation – Illustrations- Bad Debts & Provision for doubtful debts – Provision for Discounts – Provision – Reserve, Distinction between Provision and Reserve – Methods and Meaning of valuation of inventory

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UNIT 1: FINANCIAL ACCOUNTING

STRUCTURE

Objectives

The objectives of this unit are to:

- Understand the meaning of Financial Accounting.
- Discuss the functions, objectives and development of accounting.
- Identify the users of accounting information.
- Explain the different branches of accounting.
- Show the distinctions between events and transactions.
- Have an overview of the double entry system of recording financial transactions.
- Give brief accounts of different phases of accounting cycle.
- Record and summarize the transactions in the books of accounts.
- Provide elementary knowledge of different types of cash books, trial balance and bank reconciliation statement.

1.1 INTRODUCTION

Most of the work in our life is done through organization. Organization is very crucial to human beings as it is intensively connected with them. Human beings are born in an organization, brought up in an organization (like schools, colleges etc.), work in an organization (like profit making organization or non profit making organization), and even die in an organization- i.e., whatever functional areas they deal with, are organizations. Generally an organization is a system consisting of interdependent parts in an environment of well defined boundary at any point of time and is continuously engaged in goal directed activities by operating a technology of its own for converting input into output. To achieve the goals, the different inputs (like materials, labour, various services, buildings, equipments etc.) need to be financed, that is, paid for. To work efficiently and effectively, the people in an organization need information about the amounts of these resources (inputs), the means of financing them and the results achieved (outputs) through using them. Parties outside the organization need similar information to make judgements about the organization. Accounting is a system that provides such information. Both managers within an organization as well as interested outside parties use accounting information in making decisions that affect the organization.

This unit is very important to you as it lays the foundation of accounting. If you do not go through this unit very carefully, you would not be able to understand the subsequent units i.e., Unit - II, Unit - III and Unit - IV respectively. Actually these four units are inter-related. You also need a lot of practice of different numerical problems and it will help you to get the proper understanding of the subsequent three units.

1.2 MEANING OF FINANCIAL ACCOUNTING

The term "Accounting" usually refers to Financial Accounting that is the oldest form in which accounting first emerged and then gradually developed over a long period of time. We will take note of different branches of accounting in a subsequent section. Until recently accounting was regarded as an art as will be clear from the following definition of accounting given by the American Institute of Certified Public Accountants (AICPA) - "Accounting is an art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof".

Later on, the American Accounting Association (AAA) defined accounting as "the process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of information" .The Accounting Principles Board (APB) of the AICPA regarded accounting as a service activity, and defined the term 'accounting' as a service activity. Its function is to provide quantitative information, primarily financial in nature about economic entities that is intended to be useful in making economic decisions, in making reasoned choices among alternative courses of action.

Accounting is now regarded as a service activity, a descriptive /analytical discipline and an information system. It is all three. As a service activity, accounting provides interested parties with quantitative financial information that helps them to make decisions about the deployment and use of resources in business and non-business entities and in the economy. As a descriptive /analytical discipline, it defines the great mass of events and transactions that characterize economic activity and through measurement, classification and summarization, reduces those data to relatively small, highly significant and interrelated items that, when properly assembled and reported, describe the financial condition and results of operation of a specific economic activity. As an information system, it collects and communicates economic information about a business enterprise or other entity to a wide variety of persons whose decisions and actions are related to the activity [Kieso and Weygandt, Intermediate Accounting, p.2].

1.3 BOOK KEEPING, ACCOUNTING AND ACCOUNTANCY

Book-keeping is the art of correctly recording the financial transactions in a systematic manner. Book keeper's work is more or less of a routine type and of clerical nature.

Accounting includes not only the recording of transactions but also summarizing these transactions and analyzing and interpreting their effect on the working of the business. Actually, book-keeping is a part and an essential part, of accounting. The purpose of accounting is to supply meaningful information about the financial activities of a business to those who have a need for and a right to have such information.

Accountancy is the field of knowledge concerned with the principles and techniques which are applied in accounting in order to meet the specific needs of a particular concern. Thus, accountancy is an area of knowledge while Accounting is the action or process used in this area. According to Kohler, accountancy refers to the entire body of the theory and practice of accounting.

1.4 FUNCTIONS OF FINANCIAL ACCOUNTING

The functions of accounting are as follows:

(i) Measuring the resources held by a specific entity.

(ii) Reflecting the claims against and the interests in the said entity.

(iii) Measuring changes in those resources, claims and interests.

(iv) Assigning the changes to specified period of time.

(v) Expressing the above in terms of money.

(vi) Communicating information about the entity.

Thus, accounting systematically accumulates data concerning scarce resources of an entity and on the basis of the same supplies necessary information so that predictions can be made and economic decisions can be taken regarding the allocation of such resources. Accounting helps in communicating financial information about an entity. It periodically conveys to persons interested in the said entity, information as to how funds have been procured by the entity, how the said funds have been invested, how much amount has been earned, what is the growth rate of the entity, what is the rate of dividend declared etc.

1.5 OBJECTIVES OF FINANCIAL ACCOUNTING

There are several objectives of Accounting which can be stated as follows:-

(i) To provide interested persons with information about transactions and other events, a statement of financial position, a statement of periodical earnings and a statement of financial activities of an enterprise for predicting, comparing and evaluating earning power of the enterprise.

(ii) To provide investors and creditors with necessary information for predicting, comparing and evaluating potential cash flows to them.

(iii) To provide necessary information for judging the ability of management to utilize scarce resources of the enterprise effectively in achieving its primary goal.

(iv) To provide interested persons with necessary information about the economic activities of an enterprise (through financial statements).

(v) To report on those activities of an enterprise which are affecting the society and are important to the role of the enterprise in order to facilitate discharge of the social responsibilities of the enterprise.

(vi) To facilitate decisions regarding changes in the system of acquisition, use, preservation and distribution of scarce resources.

(vii) To facilitate decisions concerning replacement of fixed assets and expansion of an enterprise.

(viii) To provide the Government with necessary data for taking proper decision on different types of taxes and duties, price controls etc.

(ix) To provide necessary information for internal reporting to managers for their use in the formulation of overall policies and long-term plans, the making of special decisions, the planning and controlling of routine operations etc.

1.6 NEED FOR ACCOUNTING

Accounting is often described as the language of business. Any sort of business faces numerous transactions in its day-to-day operations and the more complex an organisation the more are the transactions. The persons who have contributed capital in business would like to know the answers to various questions, like (a) What are the results of operations undertaken by the business? (b) What are the cash inflows and outflows during the accounting period? (c) What are the assets and liabilities of the business? (d) How much of the profit has been distributed and how much is retained in the business? These and several other questions relating to financial activities of the business are answered with the help of accounting. The specific need for accounting arises on account of the following reasons:

(1) The magnitude of the affairs of the business is constantly increasing and it would be impossible to think in terms of just remembering everything or managing by simply noting down something in a pocket note book.

(2) Accounting provides a clear picture of the activities of a business by keeping a systematic and permanent record of its transactions and summarizing them through entries in the various accounts. It enables the accountant to prepare financial statements which help the users to understand the profitability and financial position of the business concern.

(3) The owner of the business gets valuable information relating to his business. He can ascertain the profit or loss in the business during a particular period. Important business decisions can also be taken more judiciously by maintaining books of accounts.

(4) Accounting information of different years may be compared to find out the changes that have taken place over the period. Comparison may also be made with results of other business. This helps in understanding the strengths and weakness of the firm vis-a vis others.

(5) If accounting books are properly maintained, they can be used as evidence in the courts of law.

1.7 DEVELOPMENT OF FINANCIAL ACCOUNTING

The origin of accounting as a social study can be traced back to very ancient days. The particulars of transaction and financial relationships between different parties have been written up in the form of financial records since the dawn of civilization which is being observed in Babylonian clay tablets and records from the Roman and Greek civilizations.

Our present system of accounting has its origins in Renaissance Italy. By the 12th century the wide-ranging trading activities engaged in by the Italian city-states had created the need for an effective system of financial recording which could accurately determine the results of large volumes of transactions involving several parties. Consequently, the double-entry system of bookkeeping, the basis of our modern accounting system, was developed.

During the renaissance, this system of accounting became known throughout Europe; by the 16th century it was standard practice in England, Germany and Holland.

The first published description of the double-entry system appeared in Venice in 1494 and it was entitled as Summa de Arithmetica Geometria et Proportionalita which was written by Luca Paciolo.

The emergence of industrial revolution in the 18th century also influenced on the process of development of accounting. There was a remarkable boost in the nature and scope of manufacturing enterprises and trading activities had become far more complex and wide-ranging and therefore effective methods of planning and control were essential. These needs led to the emergence of other branches of accounting like cost accounting, management accounting etc.,. The influence of Electronic Data Processing (EDP) on accounting has been of overriding value in the second half of the 20th century. However, EDP is purely a technology that has produced a remarkable boost in the speed at which large volumes of data can be processed. But it has had no impact upon the theory. The computer has prepared accounting information more effective, more complete, easier to understand and more readily available.

In these days, there are a large number of accounting software packages that are available to individuals, small and medium size enterprises and large corporations. The nature of organization and internal operating systems will determine the type and size of accounting package. Accounting packages are just a tool to interpret the 'language' of the financial world - an instrument for transmitting information. Users of accounting information expect accurate and comprehensive information and accordingly accounting has been developing to satisfy this need.

1.8 BRANCHES OF ACCOUNTING

Accounting, in the present day, has not confined itself to only record-keeping but has spread its branches due to growing business complexities. As such, different branches of accounting have been developed to serve the different objectives which may be discussed as follows:

Financial Accounting: Financial accounting is concerned with recording and summarizing the financial transactions and preparing financial statements relating to a definite time span and interpreting and communicating the same to users of accounting information. It is also known as stewardship accounting.

Cost Accounting: Cost accounting is concerned with the ascertainment of actual or estimated cost of products and services by using the information provided by financial accounting and cost reports are prepared to help the management.

Management Accounting: Management accounting is concerned with the identifying, measuring, accumulating, analyzing, preparing, interpreting, and communicating accounting data and other financial information that help the managers for the execution of managerial functions (planning, implementation including decision making and control). It is designed to assist internal management in the efficient formulation, execution and appraisal of business plans.

Social Accounting: Social accounting is a new phase in the development of accounting and owes its birth to increasing social awareness which has been particularly noticeable over the last two decades or so. It is also known as social responsibility accounting or social economic accounting. Social accounting widens the scope of accounting by considering the social effects of business decisions, in addition to the economic effects. The management is being held responsible not only for efficient conduct of business as expressed in profitability, but also for what it contributes to social well being and progress. Accordingly, social accounting identifies, measures, monitors and reports those activities of the institutions which have direct or indirect impact on the society.

Government Accounting: Government Accounting is quite different from Commercial Accounting. This is because in welfare states in present-day world, any Government has to collect taxes, compute national income, fix up the gross national product target, ascertain the Balance of Payments position etc. Governments, therefore have their own system of accounting which is called Government Accounting. In some cases of Public Utility Concerns like Railways, Multipurpose River Valley Projects, Electricity Companies, Water Works, etc., which is created by Statutes of the Parliament, a system called Double Accounting is adopted which is also different from ordinary commercial accounting.

Inflation Accounting: Inflation Accounting aims to record the business transactions at current values in order to neutralize the impact of changes in the prices on the transactions. It is concerned with the overcoming of limitations that arise in financial statements on account of the historical cost assumption and the assumption of stable monetary unit. It thus aims at correcting the distortions in the reported results caused by price level changes.

Human Resource Accounting (HRA): HRA is a system devised to assess and communicate the value of human resource of an organisation. It is concerned with "the process of identifying and measuring data about human resources and communicating this information to interested parties". In simple words, it is accounting for people as organizational resources (i.e., measurement of the cost and value of people for the organization)

1.9 USERS OF ACCOUNTING INFORMATION

The demand for accounting information of any entity mainly comes from the owners, creditors, potential investors, management, employees, Governments and their agencies, customers and the public. They would like to make use of accounting information in order to satisfy some of their different needs for information. The needs of each group are discussed below.

Owners: They are the persons who contribute capital to the business with the objective of earning profits. The basic objective of accounting is to provide necessary information to the owners relating to their business. In corporate enterprise, the owners, i.e. the shareholders, have invested their wealth in a business enterprise and they are interested in knowing periodically about the profitability of the enterprise, the soundness of their investment and the growth prospects of the enterprise on a periodical basis.

Creditors: Creditors may be short-term or long-term lenders. Short-term creditors include suppliers of materials, goods or services. They are normally known as trade creditors. Long-term creditors are those who have lent money for a long period, usually in the form of secured loans. The main concern of the creditors is focused on the credit worthiness of the firm and its ability to meet its financial obligations. They are, therefore, concerned with the liquidity, profitability and financial soundness of the firm. In other words, it can alsc be stated that creditors are interested mainly in information which deals with solvency, liquidity and profitability so that they could assess the financial standing of the firm.

Potential investors: Potential investors are generally interested in information relating to accounting reports in order to determine the relative merits of various investment opportunities.

Management: In large business organizations there is a separation of the ownership and management functions. Management is generally interested in the accounting information in order to carry out its planning, decision-making and control responsibilities.

Employees: Employees are interested in the earnings of the enterprise because their bread and butter depend on the good running of the business. Accordingly, they need information about the ability and financial stability of the business in which they are working. For example, the remuneration, job security and retirement benefits of the employees, to a great extent, are based on survival and growth of the business.

Government: Reliable financial data helps government to assemble national economic statistics which are used for a variety of purposes in controlling the economy. Various government agencies make use of accounting information not only as a basis for tax assessment but also in evaluating how well various business concerns are operating under regulatory framework.

Customers: Customers who are dependent on a particular supplier or are considering a long term contract will need to know if the organization is likely to continue in business for the foreseeable future. For this purpose, profitability and stability of the company is very much required.

Public: Financial statements often include information relevant to local communities and pressure groups such as attitudes to environmental matters, plans to expand or shut down factories, policies on employment of disabled persons, etc. Therefore, it may help the public by providing information about the trends and recent developments in the prosperity of the enterprise and the range of its activities.

The above discussion perhaps has indicated to you that the information needs of the various users may not necessarily be the same. Sometimes, they may even conflict and compete with each other. In any case, the objective of accounting is to provide relevant information to enable users of information to make optimum decisions.

1.10 IDENTIFICATION OF EVENTS AND TRANSACTIONS

Event is an incident, phenomenon or occurrence which may or may not bring any change in the financial position of the business. An event may or may not be expressed in terms of money. On the other hand, a transaction, in common parlance refers to an exchange of goods or services in lieu of money or money's worth. But from accountancy point of view it is something more than that. In the context of accountancy a transaction refers to any event that brings changes on the financial position of an individual or a concern. These changes on the financial position may be of two types- (a) an absolute change, e.g. when an asset is lost or destroyed, and (b) a structural change, e.g. when a machine is purchased by payment of cash. Again, an event to be regarded as transaction need not always be visible or need not emerge from immediate physical exchange of values, e.g. depreciation written off at the end of accounting period. Whenever any business transaction takes place, there is a change in the values of some of the assets, liabilities, or capital. Accountants broadly classify these business transactions into two types - external and internal.

(a) External transactions (often called exchange transactions) are those involving economic events between two or more independent firms. When business purchases goods from a supplier, borrows money from a bank, or sells goods to customers, it participates in economic events that constitute external or exchange transactions. External transactions can further be classified into cash and credit transactions.

- A cash transaction is one the value of which is paid immediately either in cash or by cheque.
- A credit transaction is one the value of which is paid on a later date and not immediately.

(b) Internal transactions are those economic events that take place entirely within one firm, such as using raw materials or machinery and equipment in production, depreciation charged on fixed assets etc.

It is true that every transaction is an event, but every event may not be a transaction. More precisely, transactions are those events which satisfy both the following conditions:

(a) it must bring changes on the financial position of an individual or a concern; and

(b) the changes brought in must be expressed in terms of money value.

The following points of distinction between an event and a transaction may be noted:

Event	Transaction
1. Each and every event is not measurable in terms of money.	1. Each and every transaction is measurable in terms of money.
2. An event may or may not result in exchange or transfer of benefit or value.	2. An external transaction results in exchange or transfers of benefit or value.
3. A non-monetary event does not bring about a change in the financial condition of a business.	3. A transaction necessarily causes a change in the financial condition of a business.

1.11 DOUBLE ENTRY SYSTEM

All business transactions involve exchange of values. All exchanges have two aspects - the aspect of receiving (value in) and the aspect of imparting (value out). So every business transaction involves two parties for its performance. Under the process one party receives the benefit while the other yields the benefit. The double entry system merely recognizes this two-fold aspect of every transaction and it records both from the view-point of each party. It simply implies a record of double aspect of every transaction. In other words, each and every transaction has two-fold aspects-one Debit and another Credit. The system by means of which these two-fold aspects are simultaneously recorded is known as Double Entry System of book-keeping. Thus, each and every transaction is recorded twice in the ledger - one as a debit (value in) and the other as a credit (value out). The principle of double entry states that for every debit entry there is an equal and corresponding credit entry.

1.12 ACCOUNTING CYCLE

A cycle means the happening of events in a systematic manner and recurring of the same at regular intervals. The accounting activities are undertaken in such a sequence that they form a cycle. Thus, the term, accounting cycle, refers to the complete sequence of activities relating to the different stages involved in accounting process. As these steps are undertaken repeatedly in a sequential manner in each accounting period, they are as a whole identified and termed as a cycle. The steps or phases involved in an accounting cycle are: (i) Recording of financial transactions in subsidiary books, (ii) Classifying and summarizing the recorded transactions by posting them from subsidiary books to accounts and (iii) Preparation of Trial Balance and Final Accounts.

The above stages of an accounting cycle are discussed below:

(i) Recording: As soon as the financial transactions occur they are recorded in journal or primary books of accounts.

(ii) Classifying and Summarizing: After recording the recorded transactions are classified into personal, real and nominal accounts and accordingly they are posted in different ledger accounts. The balancing of ledger accounts helps providing summarized information of classified transactions.

(iii) Preparation of Trial Balance and Final Accounts: At the end of a particular time span Trial Balance is prepared with the ledger balances to check the arithmetical accuracy of the first two steps. From the trial balance nominal accounts are transferred to Trading and Profit & Loss Account and from which the end result of the transactions recorded is ascertained. Similarly, real and personal accounts are transferred to Balance Sheet which shows the financial position of a business concern at a particular point of time.

1.13 JOURNAL

The word 'Journal' is derived from a French word *Jour* which means 'day' and it literally means a daily record of the transactions. It refers to a book in which first hand information and details of daily transactions are recorded.

1.13.1 Meaning of Journal

Journal is a book of original or prime entry where daily transactions are chronologically recorded analysing each transaction into debit and credit aspects, with suitable explanations thereof. The process of recording the transactions in a journal is some benefit from one person/point to another, affecting both the persons/points simultaneously. The person or point that receives the benefit is denoted by 'Debit' or Dr., whereas the person or point giving that benefit is denoted by 'Credit' or Cr. Book-keeping is based on the double-entry system that records transactions by using the 'Debit-Credit rule' which is nothing but a set of instructions for recording changes in balance sheet elements, i.e., assets, liabilities and equity. It can be explained in any of the following two ways: (a) Traditional approach and (b) Accounting Equation approach.

■ TRADITIONAL APPROACH

If we study the transactions faced by any business organisation, we shall come across the following types of transactions which are common to almost every type of business, viz.

(a) the business must enter into dealings with a number of persons or firms;

(b) the business must possess some property to carry on the business;

(c) the business must pay certain expenses and there must be some sources from which the revenue of the business is derived.

Therefore, it follows that in order to keep full-record of transactions the business must keep the account of each person, each property and each head of expense or income. An account is simply a place where similar transactions which take place during a particular period are summarized and accumulated. Account etymologically refers to the spaces provided in the ledgers under specific name, headings or title in which the transactions of similar nature are collected from the journal. Accounts are usually divided into the following classes:

(1) Personal Accounts: These accounts record transactions with persons and firms dealing with the business and include debtors, creditors, owner's capital, outstanding expenses etc. Personal accounts could take the form of:

  (a) Natural persons: It means all real persons e.g., Samanta's Account, B. Das Account etc.

  (b) Artificial persons: It means corporate bodies which have legal existence e.g., Bengal Potteries Ltd., United Bank of India, Mohunbagan Sporting Club, etc.

(c) Representative persons: It represents certain person or persons and since they are of the same nature and many in number, the amounts standing against these accounts are added and put under one common title e.g., outstanding salaries (representing employees), prepaid rent (representing landlord), etc.

The rule of recording transactions in these accounts is: 'debit the receiver (one who receives something from us) and credit the giver (one who gives something to us)'. Thus, if a person dealing with the firm is receiving, debit him and if he is giving to the firm, credit him.

(2) Real Accounts: Accounts relating to property or possessions are termed as real or property accounts. These are impersonal asset accounts which relate to tangible or intangible things such as building, machinery, cash, goodwill, etc. Here, the rule of journalizing is: 'debit what comes in and credit what goes out'.

(3) Nominal Accounts: Accounts relating to expenses, losses, gains or revenue are termed as nominal accounts. These accounts are also impersonal accounts and exist in name only, e.g., salary, wages, rent, repairs, interest, traveling, etc. The rule of recording in the case of these accounts is: 'debit all expenses and losses and credit all incomes and gains'.

■ ACCOUNTING EQUATION APPROACH

According to the double-entry book-keeping system, for every debit there must be a corresponding credit. This dual aspect of accounting suggests that every transaction has dual effect on the financial position of a business and it may be expressed in the form of the fundamental accounting equation:

Assets = Liabilities + Owners' Equity

Or, Assets = Liabilities + [Owners' Capital + Net Profit]

Or, Assets = Liabilities + [Owners' Capital + (Income - Expenses)]

Or, Assets + Expenses = Liabilities + Owners' Capital + Income.

The debit-credit rules in this approach are summarized in the following table:

Debit-credit Rules

Item	Debit	Credit
Assets	Debit the relevant asset account when a particular asset increases.	Credit the relevant asset account when a particular asset decreases.
Liabilities	Debit the liability account when a particular liability decreases.	Credit the liability account when a particular liability increases.
Equity	Debit an equity account for decrease in the carrying amount.	Credit an equity account for increase in the carrying amount.
Income	Debit an income/gain account for decrease in the income/gain.	Credit an income/gain account for increase in the income/gain.
Expenses	Debit an expense/loss account for increase in the expense/loss.	Credit an expense/loss account for decrease in the expense/loss.

1.13.6 ILLUSTRATIONS

Problem 1: Show how each of the following transactions will be analysed under traditional approach and accounting equation approach in order to find out debit and credit.

i) Mr. Roy started a business by introducing Rs. 60,000 in cash as capital.

ii) Furniture is purchased for Rs.10,000 in cash

iii) Paid salaries to office staffs Rs.12,000 in cash

iv) Purchased goods for Rs. 10,000 in cash.

v) Sold goods for Rs. 20,000 in cash.

Solution

i) Under traditional approach, Cash Account is debited as it comes in the business (Cash is real account) and Capital Account is credited (In case of personal account, the giver of benefit should be credited).

Under accounting equation approach, as cash of the business is increased by Rs 60,000, Cash Account is debited (Cash is an asset account). On the other hand, the firm is liable to pay the amount to Mr. Roy, the owner. Thus, liability towards owner (owner's equity) increases and therefore, Capital Account should be credited.

ii) Under traditional approach, furniture (asset) is coming in and cash (asset) is going out. Therefore, Furniture Account is debited and Cash Account is credited following the rule 'debit what comes in and credit what goes out'.

Under accounting equation approach, furniture increases and cash decreases. Therefore, Furniture Account is debited and Cash Account is credited (as both are asset accounts).

iii) Under traditional approach, Salary Account is debited (as salary is incurred and all expenses are debit) and Cash Account is credited as cash is going out (cash is real account).

Under accounting equation approach, as expense (salary) increases and cash (asset) decreases, Salary Account is debited and Cash Account is credited.

iv) Purchase Account is debited (being expenses) and Cash Account is credited (being real account) under traditional approach.

As Purchase Account (being expenses) increases and Cash Account (being asset) decreases, Purchase Account is debited and Cash Account is credited under accounting equation approach.

v) Cash Account is debited (as cash is coming) and Sales Account is credited (as all incomes and gains are credit) under traditional approach.

Sales Account is credited (as increase in sales income) and Cash Account is debited (as increase in cash) under accounting equation approach.

Thus, both the above approaches are complimentary to each other and give the same answer as to which account is to be debited and which account is to be credited.

Problem 2: From the following transactions, show journal entries in the books of R.Raghaban.

Mar 2008, 1 Started Business with cash Rs.50, 000

2. Opened a bank account with Rs.30, 000
3. Purchased a machine from M/s Roy & Co. Rs.10, 000 in cash.

6. Purchased furniture from Manoj and paid by cheque Rs.5, 000
8. Purchased goods from supplier Rs.40, 000 on credit.
9. Goods worth Rs.2000/- returned to supplier.
10. Purchased goods for Rs.4, 000 and paid by cheque.
12. Paid wages Rs.1, 000.
16. Goods sold to M/s Robin & Co. for Rs.30, 000 on credit.
20. Sold goods for cash Rs.25, 000.
22. Amount paid to supplier by cheque Rs.18, 000.
25. Cash deposited with Bank Rs.5, 000
29. Drew cash for personal use Rs.1, 000.
30. Goods returned from Robin & Co. Rs.1, 000.
31. Cash received from Robin & Co. Rs.27, 000 and allowed them discount Rs.2, 000.

Solution :

In the books of R. Raghaban

Journal

Date	Particulars	L.F	Amount Debit (Rs.)	Amount Credit (Rs.)
March, 08				
1	Cash Account Dr. To Capital Account. (Being the amount introduced as capital)		50,000	50,000
2	Bank Account Dr. To Cash Account (Being cash deposited into bank)		30,000	30,000
3	Machinery Account Dr. To Cash Account (Being cash paid for buying machine)		10,000	10,000
6	Office furniture Account Dr. To Bank Account. (Being furniture purchased by cheque)		5,000	5,000
8	Purchase Account Dr. To Supplier/Creditor Account. (Being the goods purchased on credit)		40,000	40,000

9.	Supplier/Creditor Account Dr. To Return outward Account. (Being the goods returned to suppliers)		2,000	2,000
10	Purchase Account Dr. To Bank Account. (Being the goods purchased and paid by cheque)		4,000	4,000
12	Wages Account Dr. To Cash Account. (Being the wages paid)		1,000	1,000
16	Robin & Co. Account Dr. To Sales Account. (Being the goods sold to Robin & Co. on credit)		30,000	30,000
20	Cash. Account Dr. To Sales Account. (Being the goods sold for cash)		25,000	25,000
22	Supplier/Creditor Account Dr. To Bank Account. (Being the amount paid to suppliers by cheque)		18,000	18,000
25	Bank Account Dr. To Cash Account. (Being the amount paid into bank)		5,000	5,000
29	Drawings Account Dr. To Cash Account. (Being the amount withdrawn for personal use)		1,000	1,000

30	Return inward Account Dr. To Robin & Co. Account. (Being the goods returned from Robin & Co.)			1,000	1,000
31	Cash Account Dr. Discount Allowed Account Dr. To Robin & Co. Account. (Being cash received from Robin & Co and allowed them discount Rs.2000)			27,000 2,000	29,000

Problem 3 : Journalize the following transactions given below in the books of Ram Prasad.

March 2008

1 Ram Prasad started Business with capital of Rs.2, 00,000

2. He purchased a laptop for Rs.40, 000

3. He bought goods on credit from M/s Kalash agencies for Rs.60, 000.

5. He sold goods for cash Rs.30, 000

7. He sold goods on credit to M/s Saha Brothers for Rs.40, 000

9. Goods worth Rs.1, 000 being defective, were returned to M/s kalash agencies.

11. Cash amounting Rs30, 000 was paid to M/s kalash agencies.

12. He opened a bank account with Rs.80, 000.

13. Saha Brothers returned goods worth Rs2, 000 and paid Rs.15, 000.

15. Paid Fire insurance premium by cheque Rs.3, 000.

20. Office stationery was purchased for Rs.1, 500.

21. One electric fan was purchased for Rs.3, 000.

22. Goods worth Rs.10, 000 were purchased and payment was made by cheque.

28. Cash sales Rs.5, 000.

31. Paid rent for March Rs.2, 000.

31. Paid salary of clerks Rs.5, 000.

31. Paid electric bill Rs.500.

31. He deposited in Bank Rs.20, 000.

Solution **<u>In the books of Ram Prasad</u>**

Journal

Date	Particulars	L.F	Amount	
			Debit (Rs.)	Credit (Rs.)
March, 08				
1	Cash Account Dr. To Capital Account. (Being the amount introduced as capital)		2,00,000	2,00,000

2	Laptop Account Dr. To Cash Account. (Being a laptop purchased for cash)		40,000	40,000
3	Purchase Account Dr. To M/S Kalash Agencies Account. (Being the goods purchased on credit from M/S Kalash Agencies)		60,000	60,000
5	Cash Account Dr. To Sales Account. (Being goods sold for cash)		30,000	30,000
7	M/S Saha Brothers Account Dr. To Sales Account. (Being the goods sold to M/S Saha Brothers on credit)		40,000	40,000
9	M/S Kalash Agencies Account Dr. To Return outward Account. (Being the goods returned to M/S Kalash Agencies)		1,000	1,000
11	M/S Kalash Agencies Account Dr. To Cash Account. (Being cash paid to M/S Kalash Agencies)		30,000	30,000
12	Bank Account Dr. To Cash Account. (Being a bank account opened by depositing cash)		80,000	80,000
13	Return Inward Account Dr. Cash Account Dr. To M/S Saha Brothers Account. (Being goods returned by Saha Brothers and cash received from them)		2,000 15,000	17,000

15	Fire insurance premium Account Dr To Bank Account (Being the fire insurance premium paid by cheque.)		3,000	3,000
20	Stationary Account Dr. To Cash Account. (Being office stationery purchased in cash)		1,500	1,500
21	Electric fan Account Dr. To Cash Account. (Being Electric fan purchased in cash.)		3,000	3,000
22	Purchase Account Dr. To Bank Account. (Being goods purchased and paid by cheque.)		10,000	10,000
28	Cash Account Dr. To Sales Account. (Being the goods sold in cash.)		5,000	5,000
31	Rent Account Dr To Cash Account. (Being Rent for the month of March paid in cash)		2,000	2,000
31	Salaries Account Dr To Cash Account. (Being Salaries paid in cash)		5,000	5,000
31	Electric charges Account Dr To Cash Account. (Being Electric charges paid in cash)		500	500
31	Bank Account Dr To Cash Account. (Being cash deposited into bank)		20,000	20,000

1.14 LEDGER

Ledger is a book of final entry which contains various accounts such as personal accounts, real accounts, and nominal accounts in classified form. It is nothing but a summary statement of all transactions relating to particular assets or liabilities, persons, income or expenses, which have taken place during a period of time showing their net effect.

On the basis of the chronological recording of the transactions in the journal or subsidiary books, their effects are recorded in the ledger in the specific compartments known as 'Accounts'. 'Accounts' refer to the spaces provided in the ledger under specific name, headings or title in which the transactions of similar nature are collected from the journal or subsidiary books. Each account in the ledger is divided into two equal parts and the standard form of ledger account is in 'T' form. The left hand side of the account is the debit side and the right hand side is the credit side. The specimen form of an account is given below:

Dr. **Name of Account** Cr.

Date	Particulars	Journal Folio	Amount (Rs.)	Date	Particulars	Journal Folio	Amount (Rs.)

An account generally contains the following information :

(1) Name of the account: That is, Furniture, Cash, Creditor, Rent etc.

(2) Date: The date of recording the information in the account.

(4) Particulars: This is actually the name of the opposite account involved in the transaction recorded in the account.

(5) Journal Folio: This is the page number of the journal from where posting is made in the account. This is a posting reference.

(6) Amount: This is the amount of the entry.

The act of recording twofold aspects of the transactions from the subsidiary books to the appropriate accounts in the ledger is known as 'Posting'. It is the process of transferring of the debits and credits from the journal to ledger accounts. The following steps are followed for posting:

(i) Separate accounts are to be opened in the ledger for posting the different transactions as shown in the journal.

(ii) Find out the accounts first in the ledger that correspond to any transaction recorded in the journal.

(iii) The concerned account that has been debited in the journal must also be debited in the ledger and amount recorded in the debit column of the journal is posted to the debit side of the concerned account in the ledger. While debiting the concerned account, the name of the other account, which has been credited in the journal, is entered on the debit side in the particulars column of the account with a prefix 'To'.

(iv) Similarly, the concerned account that has been credited in the journal should also be credited in the ledger and amount recorded in the credit column of the journal is posted to the credit side of the concerned account in the ledger. While crediting the concerned account, the name of the other account, which has been debited in the journal, is entered on the credit side in the particulars column of the account with a prefix 'By'.

(v) The date of the transaction in the date column and the page number of the journal from which the entry is posted in the J.F. column must be entered in the concerned account.

(vi) Lastly, the concerned account must be balanced in order to find out the net balance in the account. In accounting, 'balance' means the difference between the two sides of an account and balancing means a process by which equalization of the debit and credit sides of an account is done by putting the difference on the side of short amount. The balance may be either debit balance or credit balance. When the sum of the debits exceeds the sum of the credits, it is known as debit balance. In this case, to make the two sides equal, we put the difference on the credit side amount column, by writing the words in the particulars column 'By balance c/d'. But if the credit side total is more, it is known as credit balance and in this case, we put the difference on the debit side amount column by writing the words in the particulars column 'To balance c/d'. After putting the difference in the appropriate side of the account, we add both sides of the account and draw a line above and below the total. We bring down the debit balance on the debit side by writing the words in particulars column 'To Balance b/d'. Similarly, we bring down the credit balance on the credit side by writing the words in the particulars column 'By Balance b/d'.

Example : Considering the journals given in the solution of Problem-3, post them in ledger accounts, balance them and thereafter prepare the Trial Balance.

Solution : The following accounts are to be opened.

(i) Cash Account

(ii) Capital Account

(iii) Laptop Account

(iv) Purchases Account

(v) M/S Kalash Agencies Account.

(vi) M/S Saha Brothers Account

(vii) Sales Account

(viii) Bank Account

(ix) Return Outward Account

(x) Return Inward Account

(xi) Stationery Account.

(xii) Fire Insurance Premium Account.

(xiii) Electric Fan Account.

(xiv) Rent Account

(xv) Salaries Account

(xvi) Electric Charges Account.

LEDGER OF RAM PRASAD

Dr. **Cash Account** Cr.

Date	Particulars	JF (Rs.)	Amount	Date	Particulars	JF (Rs.)	Amount
Mar, 08				Mar, 08			
1	To Capital Account		2,00,000	2	Laptop Account		40,000
5	To Sales Account		30,000	11	By M/s. Kalash Agencies A/c		30,000
13	To Saha Brothers Account		15,000	12	By Bank Account		80,000
28	To Sales Account		5,000	20	By Stationary Account		1,500
				21	By Electric Fan Account		3,000
				31	By Rent Account		2,000
				31	By Salaries Account		5,000
				31	By Electric charges Account		500
				31	By Bank Account		20,000
				31	By Balance c/d		68,000
			2,50,000				**2,50,000**
Apr.1, 08	To Balance b/d		68,000				

Dr. **Capital Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar,31	To Balance c/d		2,00,000	2008 Mar,31	By Cash Account		2,00,000
			2,00,000				**2,00,000**
				Apr.1	By Balance b/d		2,00,000

Dr. **Laptop Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar,2	To Cash Account		40,000	2008 Mar,31	By Balance c/d		40,000
			40,000				**40,000**
Apr,1	To Balance b/d		40,000				

Dr. **Purchase Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008				2008			
Mar,3	To Kalash Agencies A/c		60,000	Mar,31	By Balance c/d		
22	To Bank Account		10,000				70,000
			70,000				**70,000**
Apr,1	To Balance b/d		70,000				

Dr. **M/S Kalash Agencies Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008				2008			
Mar,9	To Return Outward A/c		1,000	Mar,3			
11	To Cash Account		30,000		By Purchase Account		60,000
31	To Balance c/d		29,000				
			60,000				**60,000**
				Apr,1	By Balance b/d		29,000

Dr. **M/S Saha Brothers Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008				2008			
Mar,7	To Sales A/c		40,000	Mar,13	By Cash Account		2,000
					By Return Inward Account		15,000
					By Balance c/d		23,000
			40,000				**40,000**
Apr,1	To Balance b/d		23,000				

Dr. **Sales Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008				2008			
Mar,31	To Balance c/d		75,000	Mar,5	By Cash Account		30,000
					By M/s Saha Brothers A/c		40,000
					By Cash Account		5,000
			75,000				**75,000**
					By Balance b/d		75,000

Bank Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar,12	To Cash Account		8,000	2008 Mar,15	By Fire Insurance Premium Account		3,000
				22	By Purchase Account		10,000
				Mar,31	By Balance c/d		87,000
			1,00,000				**1,00,000**
Apr 1	To Balance b/d		87,000				

Return Outward Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar,31	To Balance c/d		1,000	2008 Mar,9	By M/S Kalash Agencies A/c		1,000
			1,000				**1,000**
				Apr.1	By Balance b/d		1,000

Return Outward Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar 12	To M/S Saha Brothers A/C		2,000	2008 Mar,31	By Balance c/d		2,000
			2,000				**2,000**
Apr.1	By Balance b/d		2,000				

Stationery Account

Dr. Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar 20	To Cash A/C		1,500	2008 Mar,31	By Balance c/d		1,500
			1,500				**1,500**
Apr.1	By Balance b/d		1,500				

Dr. **Fire Insurance Premium Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar 15	To Bank A/c		3,000	2008 Mar,31	By Balance c/d		3,000
			3,000				**3,000**
Apr.1	By Balance b/d		3,000				

Dr. **Electric Fan Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar 21	To Cash A/c		3,000	2008 Mar,31	By Balance c/d		3,000
			3,000				**3,000**
Apr.1	By Balance b/d		3,000				

Dr. **Rent Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar 31	To Cash A/c		2,000	2008 Mar,31	By Balance c/d		2,000
			2,000				**2,000**
Apr.1	By Balance b/d		2,000				

Dr. **Salaries Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar 31	To Cash A/c		5,000	2008 Mar,31	By Balance c/d		5,000
			5,000				**5,000**
Apr.1	By Balance b/d		5,000				

Dr. **Electric charges Account** Cr.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
2008 Mar 31	To Cash A/c		500	2008 Mar,31	By Balance c/d		500
			500				**500**
Apr. 1	By Balance b/d		500				

1.15 Trial Balance

Under double entry system, for every debit there must be a credit. When one account is debited, another account is credited with an equal amount. Accordingly, it is quite obvious that the total of debit balances of the ledger accounts of the given transactions will be equal to the credit balances. If a statement is prepared with debit balances in one column and credit balances on the other column, the totals of the two columns must be equal. The statement so prepared is called a trial balance. The trial balance is not an account and it forms no part of the double entry system. A trial balance is a list of the balances on all the accounts in the books, prepared on a particular date as a document ancillary to the ledger to verify the arithmetical accuracy of the books of account.

1.15.1 Method of Preparing a Trial Balance

There are two methods used for the preparation of a trial balance:

Gross trial balance/Total Method: Under this method, all the ledger accounts are not balanced and they are extracted in the trial balance with their two totals, debit and credit, in two respective money columns. When the book keeping is arithmetically correct, the totals of the two columns must be equal.

Net Trial Balance/Balance method: Under this method, the ledger accounts are firstly balanced and then the Trial Balance is prepared by extracting merely the balances of ledger accounts instead of their debit and credit totals. The debit balances are put in the debit money column and the credit balances in the credit money column. It ignores accounts whose debit and credit totals are equal, i.e., accounts which have no balances. Thus, this method is more simple and scientific than the first one. It also corresponds with the name 'Trial Balance'. The format of Trial Balance under this method is as follows:

Trial Balance as on........

Particulars (Name of the Accounts)	L.F	Amount	
		Debit(Rs.)	Credit(Rs.)

Notes: (i) All assets accounts, all expenses or losses accounts, provision for liabilities and debit balances of capital accounts will always show debit balances and they will be shown in the debit column of the Trial Balance.

(ii) All liabilities' accounts, income account, profits or gains accounts, provision for assets and capital accounts will always show credit balances and they will be shown in the credit column of the Trial Balance.

1.15.2 Objects of preparing a Trial Balance

The main objects of preparing a Trial Balance are:

(i) To ensure that there are no arithmetical errors;

(ii) To obtain a summary of the ledger accounts; and

(iii) To facilitate the preparation of final accounts and balance sheet.

1.15.3 Errors not disclosed by a Trial Balance

The agreement of a trial balance is not a conclusive proof of absolute accuracy of the books of accounts. It is only a prima facie proof. Even if a trial balance agrees, it may fail to detect the following errors:

(a) Errors of Omission or Duplication: It means the complete omission or duplication of a business transaction.

(b) Errors of Principle: Whenever the recording of transaction is not in accordance with accounting principles, the mistake so made is called an error of principle. For example, the purchase of office furniture is debited to purchases account, instead of furniture and fittings account.

(c) Errors of Commission: When the wrong account is debited or credited it is known as errors of commission. These errors differ from errors of principle in so much as they occur in accounts of the same class. For example, if Hari Account is debited instead of Hari Mohan's Account, trial balance will remain unaffected.

(d) Errors of Original Entry: If the amount of a transaction is entered incorrectly in a subsidiary book, Trial Balance will not be affected.

(e) Compensating Errors: If two or more mistakes take place in the books, the total effect is not reflected in the Trial Balance. In fact, one error is compensated by another error or by errors of an opposite nature. For example, an extra debit in Machinery Account for Rs. 5000 may be compensated by an extra credit of Rs. 5000 in Malay's Account.

1.15.4 Errors disclosed by a Trial Balance

The following errors affect the agreement of a Trial Balance:

(i) Errors in casting the books of subsidiary records,

(ii) Confusion of figures,

(iii) Omission to post one side of a transaction from any subsidiary books,

(iv) Posting to the wrong side of an account,

(v) Errors in balancing off the ledger accounts,

(vi) Debit or credit entries are not posted at all or posted twice,

(vii) Posting of incorrect account in the ledger,

(viii) Omission of balance of any account,

(ix) Errors in extracting the Trial Balance, etc.

Example: Considering the previous example in sub-section 1.14, prepare the Trial Balance as on 31.03.08

Solution:

Trial Balance as on 31.03.2008

Particulars	Amount (Rs.)	
	Debit (Rs.)	Credit (Rs.)
Cash Account	68,000	
Capital Account		2,00,000
Laptop Account	40,000	
Purchase Account	70,000	
M/S Kalash Agencies Account		29,000
M/S Saha Brothers Account	23,000	
Sales Account		75,000
Bank Account	87,000	
Return Outward Account		1,000
Return Inward Account	2,000	
Fire Insurance Premium Account	3,000	
Stationery Account	1,500	
Electric Fan Account	3,000	
Rent Account	2,000	
Salaries Account	5,000	
Electric Charges Account	500	
Total	**3,05,000**	**3,05,000**

1.16 Cash Book

Cash Book is a book in which all the cash receipts and payments are recorded in chronological order irrespective of the nature and period to which they relate. Receipts are entered on the debit side of the cash book and are subsequently posted to the credit side of the appropriate accounts in the ledger, while payments are entered on the credit side of the cash book and are posted to the debit side of the appropriate ledger account.

Cash book plays a very unique dual role in accounting. It is a book of original entry as well as a book of final entry. It is a journal or a subsidiary book in the sense that all the cash transactions are recorded in this book as and when they occur, without passing through any other book of original entry and from this book the corresponding accounts are posted to the ledger. On the other hand, it is called a book of final entry as the recording of transactions in the cash book takes the shape of a ledger account. As receipts of cash are entered on the debit side and payments of cash on the credit side, it is not necessary to open a separate account for cash or bank in the ledger and the cash book is balanced like other ledger accounts. Thus, it may be concluded that a cash book is both a journal and a ledger or journalized ledger.

1.16.1 Types of Cash Book

The cash book may be of different types as stated below:

(1) Single-column cash book recording either cash transactions or bank transactions

(2) Double-column cash book recording both cash and bank transactions or cash and discount transactions or bank or discount transactions.

(3) Triple-column cash book recording cash, bank transactions and transactions relating to cash discount allowed and received.

(4) Multi-column or tabular or columnar cash book providing different money columns for receipts and payments under various heads usually suitable for clubs, hospitals, educational institutions, etc.

(5) Petty cash book recording small or petty payments generally maintained under impress system.

1.16.2 Illustrations

Problem 4: From the following particulars, prepare a single column cash book for the month of March 2008

March 1. Cash in hand Rs 15,000.

March 2. Purchased goods for cash Rs 2,000.

March 3. Paid carriage Rs 200.

March 4. Cash sales Rs 1,000.

March 5. Paid wages Rs 5,000.

March 6. Cash purchases Rs 1,000.

March 8. Received from B.Sen on account Rs 5,000.

March 10. Sold old furniture for Rs 2,000.

March 12. Cash sales Rs 3,000.

March 14. Goods purchased on credit from Hamid & Sons Rs. 5,000.

March 16. Sold goods on credit to S.N. Sadhu. Rs 2,000.

March 18. Bought stationery Rs 1,000.

March 19. Lent to S.K Chakraborty Rs 500.

March 20. Received from P.Sengupta Rs 1,000.

March 21. Withdrawn from business for private use Rs 1,000.

March 22. Paid electricity bill Rs. 500.

March 24. Paid office rent Rs. 1,000.

March 29. S.K Chakraborty repaid his loan Rs. 500.

March 31. Cash sales Rs.1,000.

Solution :

Dr. **Cash Book** (Single column) Cr.

Date.	Particulars.	Amount.	Date.	Particular.	Amount.
1.3.08	To Balance b/d (Being the opening balance)	15,000	2.3.08	By Purchase A/C (Being cash purchases)	2,000
4.3.08	To Sales A/C (Being the goods sold for cash)	1,000	3.3.08	By Carriage A/C (Being carriage paid)	200
8.3.08	To B.Sen A/C (Being cash received from B.Sen)	5,000	5.3.08	By Wages A/C (Being the wages paid)	5,000
10.3.08	To Furniture A/C (Being old furniture sold for cash)	2,000	6.3.08	By Purchase A/C (Being the goods purchased for cash)	1,000
12.3.08	To Sales A/C (Being the goods sold for cash)	3000	18.3.08	By Stationery A/C (Being purchase of stationery)	1,000

			19.3.08	By S.K.Chakraborty A/C (Being loan given to S.K.Chakraborty)	500
20.3.08	To P. Sengupta A/C (Being cash received from P.Sengupta)	1,000	21.3.08	By Drawings A/C (Being cash withdrawn from business for personal use)	1,000
29.3.08	To S.K.Chakraborty A/C (Being cash received from S.K.Chakraborty against his loan)	500	22.3.08	By Electricity A/C (Being electricity bill paid)	500
31.3.08	To Sales A/C (Being the goods sold for cash)	1,000	24.3.08	By Rent A/c (Being office rent paid)	1,000
			31.3.08	By Balance c/d (Being the closing balance)	16,300
		28,500			28,500
1.4.08	To Balance b/d	16,300			

Note:- i) Credit purchase from Hamid & Sons is a non-cash transaction. It will be shown in the purchase day-book.

ii) Similarly credit sales to S.N Sadhu is also non-cash transaction. It will be shown in the sales day-book.

Problem 5 : Record the following transaction in a suitable cash book of Mr R.Banerjee and show the closing balance of Cash and Bank.

March 2008

1. He had cash in hand Rs 50,000.
2. Opened Bank account for Rs 30,000.
2. Received in cash from Mr T.Bose Rs 4,000.
3. Paid to Mr. N. Gopal by cheque Rs 500.
3. Purchase made in cash Rs 1,000.
3. Rent paid Rs 250.
3. Withdrawn from Bank Rs 3,000 for office purpose.
4. Cash Sales Rs 5,000.
4. Received a cheque from S.Rajan Rs 10,000.
4. Paid wages Rs 200.
4. Purchased furniture and paid by cheque Rs 4,000.

4. Cash purchase Rs 3,000.
5. Deposited the cheques received from S.Rajan.
5. Withdrawn from Bank for personal use Rs 3,000.
5. Paid electricity bill Rs 52.
5. Paid rent and taxes Rs 100.
5. Purchase made in cash Rs 7,000.
5. Cash sales Rs 12,000.
5. Goods sold to Sree. Nagarjun Rs 5,000.
5. Goods purchased from N.Bose Rs 2,000.
7. Received a cheque from Sree. Nagarjun and sent to bank.
7. Paid Railway freight Rs 250.
7. Purchased stamps and stationery Rs 25.
7. Deposited in bank account Rs 300.

Solution:

In the books of R. Banerjee

Dr. **Cash Book** (Double Column) **Cr.**

Date	Particulars	Cash Amount	Bank Amount	Date	Particular	Cash Amount	Bank Amount
March 08				March 08			
1	To Balance b/d	50,000		2	By Bank A/C (c) (Being cash deposited with bank)	30,000	
2	To Cash A/C (c) (Being the bank account opened)		30,000	3	By N.Gopal A/C (Being the amount paid by cheque)		500
2	To T. Bose A/C (Being cash received from T. Bose)	4,000		3	By Purchase A/C (Being the goods purchased in cash)	1,000	
3	To Bank A/C (c) (Being the amount withdrawn from office cash)	3,000		3	By Rent A/C (Being the rent paid)	250	
4	To Sales A/C (Being the goods sold for cash)	5,000		3	By Cash A/C (c) (Being the amount withdrawn from office cash)		3000
4	To S.Rajan A/C (Being the amount received from S.Rajan by cheque but the cheque not deposited into bank)	10,000		4	By Wages A/C (Being wages paid in cash)	200	
5	To Cash A/C (c) (Cheque deposited into bank)		10,000	4	By Furniture A/C (Being the furniture purchased by cheque)		4000
5	To Sales A/C (Being the goods sold for cash)	12,000		4	By Purchase A/C (Being the goods purchased in cash)	3000	
7	To Nagarjun A/C (Being a cheques received from Nagarjun and sent to bank)		3,000	5	By Bank A/C (c) (Being cheque received from S. Rajan deposited into bank)	10,000	
7	To Cash A/C (c) (Being cash deposited with bank)		300	5	By Drawings A/C (Being the amount withdrawn		3,000

					for personal use)		
				5	By Electricity A/C (Being the electric bill paid)	52	
				5	By Rent & Taxes A/C (Being the rent and taxes paid)	100	
				5	By Purchase A/C (Being the goods purchased in cash)	7000	
				7	By Freight A/C (Being railway freight paid)	250	
				7	By Stamp & Stationary A/C (Being purchase of stamp and stationery)	25	
				7	By Bank A/C (c) (Being cash deposited with bank)	300	
				7	By Balance c/d	31,823	32,800
		84,000	43,300			84,000	43,300
8	To Balance b/d	31,823	32,800				

Problem 6: Mr-X operates two bank accounts both of which are maintained in three column cash book itself. You are required to draw up a pro-forma of the cash book and show how the following transactions relating to 31st March 2008 will appear therein and close the cash book for the day:

<u>Opening balance</u>	<u>Rs</u>
Cash	200
State Bank (overdraft)	20,000
United Bank	60,000

Received a cheque of Rs. 2,000 in respect of sales on which State Bank charged Rs. 4 as realisation charge and credited the balance.

Purchased goods for Rs 26,000 and a cheque issued on United Bank.

Paid office expenses Rs 90. and Rs 30 for stationery.

Out of Cash sales of Rs 26,000 a sum of Rs 20,000 was deposited in the State Bank.

Credit purchases of Rs 30,000 were made from Mr. P who sent the document relating to the goods through the United Bank for 90% of the values. The bank charged Rs.200 for releasing the documents.

Deposited Rs. 10,000 in State Bank.

A bill receivable for Rs. 20,000 was discounted with United Bank which charged 1%

Problem 7: Prepare a triple column cash-book from the following transaction and bring down the balance for the start of next month:

March, 2008

1.	Cash in hand.	5,000
	Cash at Bank.	20,000
2.	Paid into Bank	2,000
5.	Bought furniture and issued cheques	4,000
8.	Purchased goods for cash	1,000
12.	Received cash from Mr. Mathews	1,960
	Discount allowed to him	40
14.	Cash Sales	8,000
16.	Paid to Amarnath by cheques	2, 900
	Discount received	100
19.	Paid into Bank	800
23.	Withdrawn from bank for private expenses	1,200
24.	Received a cheque from Patel	2860
	Allowed him discount	40
26.	Deposited Patel's cheques into bank	-----
28.	Withdrew Cash from Bank for office use	4,000
31.	Paid Rent by cheques	1,600

Solution:

Dr. **Cash Book** (Double Column) **Cr.**

Date	Particulars	Dis-count	Cash	Bank	Date	Particulars	Dis-count	Cash	Bank
1.3.08	To Balance b/d		5000	20000	2.3.08	By Bank (C)		2000	
2.3.08	To Cash (C)			2000		(Being cash paid into Bank)			
	(Being Cash paid into bank)				5.3.08	By Furniture A/C			4000
12.3.08	To Mr. Mathews A/c	40	1960			(Being furniture purchased)			
	(Being Cash received and discount allowed)				8.3.08	By Purchase A/C		1000	
14.3.08	To Sales A/C		8000			(Being cash purchase)			
	(Being cash Sales)				16.3.08	By Amarnath A/C	100		2900
19.3.08	To Cash (C)			800		(Being the amount paid by cheque and discound received)			
	(Being cash paid into Bank)				19.3.08	By Bank (C)		800	
						(Being cash paid into Bank)			

24.3.08	To Patel A/C (Being Cheque received from Patel and allowed him discount)	40	2860		23.3.08	By Drawing A/C (Being cash withdrawn from bank for personal use)			1200
26.3.08	To Cash A/C (C) (Being contra entry)			2860	26.3.08	By Bank A/C (C) (Being cheque received from Patel deposited into Bank)		2,860	
28.3.08	To Bank (C) (Being cash withdrawn from bank for office use)		4,000		28.3.08	By Cash A/C (C) (Being cash withdrawn from Bank)		2860	4000
					31.3.08	By Rent A/C (Being : rent paid by cheque)			1600
					31.3.08	By Balance c/d		15160	11960
		80	21820	25660			100	21820	25660
1.4.08	To Balance b/d		15160	11960					

1.17 Bank Reconciliation Statement

The bank account in a trader's ledger or the bank column in his cash book and the pass book or the statement furnished by his banker is simultaneous records of the same transactions taking place in between them. Accordingly, on a particular date the balances in these two records should agree with each other. But it is often found that they disagree because of the omissions of certain entries or some errors committed in either of the two records and a statement is prepared on a particular date to reconcile the balance of one record with that of another, taking into considerations the reasons for discrepancies. Such statement is known as a Bank Reconciliation Statement. Thus, Bank Reconciliation Statement is a statement which is prepared on a particular date to reconcile the bank balance as shown by the pass book with the balance shown by the bank column of the cash book by explaining the causes of differences between these two balances.

The Bank Reconciliation Statement is not a part of the accounts in the books of a trader. But still it is considered essential in a business house, because (i) it explains the reasons of the disagreement of the balances shown by the trader's records and his pass book avoiding any future confusion, (ii) the trader can test the accuracy of these two records by preparing it. Any error or omissions requiring rectification on either side can be immediately brought to their notice.

1.17.1 Steps for preparing the Bank Reconciliation Statement

Step I: Start with the balance (or overdraft balance) as per cash book or pass book as given in the problem.

Step II: Adjust the items of discrepancies by adding or subtracting to or from the balance of starting point to find out the balance (or overdraft balance) of either cash book or pass book as the case may be. The ordinary bank balance in the cash book is debit balance and in the pass book it is credit balance. On the other hand, the overdraft balance in the cash book is the credit balance and in the pass book it is the debit balance.

(1) If bank balance as per cash book is given:

Add: The items which have increased the balance of pass book. Examples are: (a) Cheques issued but not presented; (b) If receipt side of cash book was under-cast; (c) Interest credited by bank not entered in the cash book; (d) Cash directly deposited into bank but not recorded in the cash book etc.

Less: The items which have decreased the pass book balance. Examples are: (a) Cheques deposited but not yet credited by the bank; (b) If payment side of cash book was under-cast; (c) Bank charges not recorded in the cash book; (d) Direct payment by bank as per standing order not recorded in the cash book etc.

(2) Bank overdraft as per pass book is given:

Add: The items which have increased the overdraft balance of cash book.

Less: The items which have decreased the overdraft balance of cash book.

The examples are same as before [stated in (1)].

(3) If bank balance as per pass book is given:

Add: Items which have increased the amount of the balance of cash book. Examples are : (a) Cheques deposited but not credited by the bank; (b) If payment side of cash book was under-cast; (c) Bank charges not recorded in the cash book; (d) Direct payment by bank as per standing order not recorded in the cash book etc.

Less: Items which have decreased the amount of the balance of cash book. Examples are: (a) Cheques issued but not presented; (b) If receipt side of cash book was under-cast; (c) Interest credited by bank not entered in the cash book; (d) Cash directly deposited into bank but not recorded in the cash book etc.

(4) Bank overdraft as per cash book is given:

Add: Items which have increased the amount of the overdraft balance of pass book.

Less: Items which have decreased the amount of the overdraft balance of pass book. The examples are same as before [stated in (3)].

1.17.2 Illustrations

Problem 8: Prepare a Bank Reconciliation Statement of Mr. S. Tendulkar as on 31.3.07 from the following particulars:

i. Bank Balance as per Cash Book Rs. 25, 000

ii. During the month of March'07, a cheque for Rs. 6, 000 was issued to M/S Dustson & Co. but encashed after 31.3.07.

iii. On 25.3.07 a cheque for Rs. 4,000 was deposited into Bank which has been entered in the Pass Book on 10.4.2007. Another cheque for Rs. 3,000 debited in the Cash Book but omitted to be sent to the Bank.

iv. During the month of March'07 a cheque for Rs. 2,000 was received from his employee and sent to the bank without recording in the Cash Book.

v. Bank charges for Rs. 200 were debited in the Pass Book but not entered in the Cash Book.

vi. On 31.3.2007 Bank credited the Pass Book with Rs. 700 as interest but no entry for this was made in the Cash Book.

vii. Dividend of Rs.1,500 were collected by the Bank on 28.3.07, but no entry for this was made in the Cash Book.

viii. Insurance Premium of Rs. 800 was paid by the Bank on 27.3.07 but no entry for this was made is the Cash Book.

ix. A cheque for Rs. 1,800 received from M/S Roy & Co. was dishonored, but it was not entered in the Cash Book.

x. As per instruction given by Mr. Tendulkar, the bank met a liability of Rs. 600 and debited in the Pass Book, but not entered in the Cash-Book.

Solution:

In the books of Mr. S. Tendulkar

Bank Reconciliation Statement as on 31.3.2007

Particulars	Amount Rs.	Amount Rs.
Bank Balance as per Cash Book (Dr.)		25,000
Add: ii) Cheque issued but not presented within March'07	6,000	
v) Cheque deposited into Bank but not recorded in the Cash Book	2,000	
vi) Interest credited in the Pass Book but not recorded in the Cash Book	700	
vii) Dividend collected by Bank but not debited in the Cash Book	1,500	
		10,200
		35,200
Less: (iii) Cheque deposited but not credited by Bank within March'07	4,000	
(iv) Cheque debited in the Cash Book, but omitted to be sent to the Bank	3,000	
(v) Bank charges debited in the Pass Book but not recorded in the Cash Book	200	
(viii) Insurance Premium paid by Bank, not recorded in the Cash Book	800	
(ix) Cheque received from M/S Roy& Co. dishonored but not recorded in the Cash Book	1,800	
(x) Bank met a liability as per standing instruction but not recorded in the Cash Book	600	
		10,400
Bank Balance as per Pass Book (Cr)		24,800

Problem 9: On examining the Bank Pass Book of Jairam Ltd, it is found that the balance shown on 31st March, 2008, the closing date of the company's financial year, differs from the Bank Balance of Rs. 25, 350 shown by the Cash Book on that date. Thorough examination of the Bank Pass Book and Cash Book reveals the following:

i) The total Bank Column of the Cash Book of credit side on a particular date was wrongly taken as Rs. 7,950 instead of Rs. 9,570 and the wrong figure was carried forward.

ii) Bank debited the account for interest on overdraft of Rs. 1,750 and Bank charges of Rs. 50, but these were not recorded in the Cash Book.

iii) Under standing orders the Bank paid Fire Insurance Premium of Rs.950 and Corporation Tax of Rs. 300 and debited the account but these were not entered in the Cash Book.

iv) Cheques issued for Rs. 6,000, Rs. 2,000 and Rs, 7,000 were presented for payment on 5th April, 2008.

v) Cheque paid into Bank amounting to Rs. 7000 were credited after 31st March, 2008

vi) A customer directly deposited Rs. 8,000 into Bank on 28.3.08 but the same was entered into the Cash Book on 1.4.2008.

vii) Bank collected interest on investment of Rs. 2,200 and credited the account on 1.4.2008 but the Cash Book recorded it on 31.3.2008.

viii) Bank paid Bills Payable of Rs. 1,650 but it was recoded in the Cash Book as Rs. 1,930.

ix) Bank received Rs. 6,290 on maturity of a Bills Receivable and charged incidental expenses of Rs.100, but these were, however, recorded in the Cash Book as Rs. 2,690 and Rs. 10 respectively.

You are asked to prepare a Bank Reconciliation Statement showing the balance which should appear in the Pass Book.

Solution:

In the book of Jairam Ltd.

Bank Reconciliation Statement as on 31-03-2008

Particulars	Amount Rs.	Amount Rs.
Bank Balance as per Cash Book (Dr.)		25,350
Add: Item No:		
iv) Cheques issued but presented for Payment on 5.4.2008 (6000+2000+7000)	15,000	
vi) Amount directly deposited into the Bank by a customer but the same was entered in the Cash Book on 1.4.2008	8,000	
viii) Bills Payable paid by Bank for Rs. 1,650 but it was recorded in the Cash Book as Rs. 1930 [i.e., Rs.(1930 - 1650)]	280	
ix) Bills Receivable realized by Bank for Rs. 6,290 but it was recorded in the Cash Book as Rs. 2690 [i.e., Rs.(6290 - 2690)]	3,600	26,880
		52,230
Less: Item No.		
(i) Credit side of the Cash Book under-cast on a particular day and carried forward Rs.(9,570-7950)	1,620	
(ii) Interest on overdraft was not recorded in the Cash Book	1,750	
Bank Charges were also not recorded in the Cash Book	50	
(iii) Fire Insurance premium and Corporation Tax paid by the bank, were not recorded in the Cash Book Rs. (950+300)	1250	
(v) Un-credited Cheques	7,000	
(vii) Interest on investment was collected by Bank and credited the amount on 1.4.2008 but entered in the Cash Book on 31.3.08	2,200	
(ix) Incidental charges of Rs. 100 debited in the Pass Book but recorded in the Cash Book as Rs. 10[i.e., Rs. (100 - 10)]	90	13,960
Bank Balance as per Pass Book (Cr.)		38,270

Solution: Alternative Method

In the books of Jairam Ltd.

Bank Reconciliation statement as on 31-03-2008

Particulars	Additions (+) Rs.	Deductions (–) Rs.	Amount Rs.
Bank Balance as per Cash Book (Dr.)			25,350
Item No.			
(i) Credit side of the Cash Book under-cast on a particular day and carried forward Rs.(9570-7950)		(-) 1,620	
ii) Interest on Bank was not recorded in the Cash Book		(-) 1,750	
Bank charges was also not recorded in the Cash Book		(-) 50	
iii) Fire Insurance Premium and Corporation Tax paid by Bank were not recorded in the Cash Book Rs.(950+300)		(-) 1,250	
iv) Cheque issued but presented for payment on 5.4.2008 Rs.(6000+2000+7000)	(+) 15,000		
v) Un-credited Cheques		(-)7,000	
vi) Amount directly deposited into the Bank by a customer but the same was entered in the Cash Book on 1.4.2008	(+) 8,000		
vii) Interest on Investment was collected by Bank and credited on 1.4.2008 but entered in the Cash Book on 31-3-2008		(-) 2,200	
viii) Bill Payable paid by the Bank for Rs. 1,650 but it was recorded in the Cash Book as Rs. 1930 [Rs.(1930 - 2690)]	(+) 280		
ix) Bill Receivable realized by Bank for Rs. 6290 but it was recorded in the Cash Book as Rs. 2,690 [Rs.(6290 - 2690)]	(+) 3800		
x) Incidental Charges of Rs. 100 debited in the Pass Book but recorded in the Cash Book as Rs. 10 [Rs.(100 - 10)]		(-) 90	
	(+) 26880	(-) 13960	
Net addition Rs.(26880 - 13960)			(+)12920
Bank balance as per Pass Book (Cr)			38,270

Problem 10: The Cash Book of Mr. Banerjee showed an overdraft of Rs. 90,000 on 31.3.2008.

The Scrutiny of the entries in the Cash Book and Pass Book revealed that:

i) On 20th March, Cheques totaling Rs. 18,000 were sent to Bankers for collection, out of which Rs. 3,000 was wrongly recorded on the credit side of the Cash Book and cheque amounting to Rs. 900 could not be collected by the Bank within 31-3-3008.

ii) A cheque for Rs. 12,000 was issued to a supplier on 25.3.08. The cheque was presented to the Bank on 5th April'08.

iii) There were debits in the Pass Book for interest on overdraft Rs. 6,000 and bank charges Rs. 1,800 not recorded in the Cash Book.

iv) The credit side of the Bank column of the Cash Book was undercast by Rs. 300.

v) A cheque for Rs. 3,000 was issued to a creditor on 27.3.08 but unfortunately, the same was not recorded in the cash Book. The cheque was, however, duly encashed within 31st March.

vi) As per standing instruction, the bankers collected dividend of Rs. 1,500 on behalf of Mr. Banerjee and credited the same to his account within 31st March, 08. The fact, however, intimated to Mr. Banerjee on 4th April'08.

You are required to prepare a Bank Reconciliation Statement as on 31.3.08

Solution:

In the books of Mr. Banerjee

Bank reconciliation statement as on 31.3.2008

Particulars	Amount Rs.	Amount Rs.
Bank Overdraft as per Cash Book (Cr)		90,000
Add: i) Cheque deposited but not collected	900	
iii) Interest on overdraft debited in the Pass Book only	6,000	
iii) Bank charges debited in the Pass Book only	1,800	
iv) The credit side of the bank column of the Cash Book was under cast	300	

v) Cheque issued to creditor not recorded in the Cash Book but it was duly enchased within 31.3.08	3,000	
		12,000
Less:		
(i) Cheque paid into Bank wrongly recorded on the credit side of the Cash Book Rs.(3000×2)	6,000	
(ii) Cheque issued to a supplier but not presented for payment	12,000	
(vi) Dividend collected by Bank not recorded in the Cash Book	15,000	
		19,500
Bank Overdraft as per Pass Book (Dr.)		82,500

Problem 11: Prepare a Bank Reconciliation Statement as on 31.03.2008 from the following

Particulars:	Rs.
Bank Balance as per Pass Book	1, 00,000
i) Cheques deposited into Bank but no entry was made in the Cash Book	5,000
ii) Cheque received and entered in the Cash Book but not sent to Bank	12,000
iii) Credit side of the Bank column cast short	2,000
iv) Insurance premium paid directly by the Bank under standing advice but no entry was made in the Cash Book	6,000
v) Bank charges entered twice in the Cash Book	200
vi) Cheques issued on 28.3.08 but not presented to the Bank for payment within 31-3-2008	5,000
vii) Cheque received entered twice in the Cash Book	10,000
viii) Cheques dishonored not recoded in the Cash Book	50,000

Solution:

Bank Reconciliation statement as on 31-3-2008

Particulars	Amount Rs.	Amount Rs.
Bank Balance as per Pass Book (Cr)		1,00,000
Add: ii) Cheque received but not sent to Bank	12,000	
iii) Credit side of the Bank column cast short	2,000	
iv) Insurance premium paid directly by Bank not recorded in the Cash Book	6,000	
vii) Cheque received entered twice in the Cash Book	10,000	
v) Cheque dishonored not recorded in the Cash Book	50,000	
		80,000
Less: (i) Cheque deposited into Bank but no entry was passed in the Cash Book	5,000	
(v) Bank Charges recorded twice in the Cash Book	200	
(vi) Cheques issued but not presented to the Bank for payment	5,000	
		19,500
Bank Balance as per Cash Book (Dr.)		1,69,800

Problem 12: Prepare the Bank Reconciliation statement as on 31-3-2008 from the following information of Mr. Reddy:

i) Balance as per Pass Book on 31-3-2008 (Dr.) Rs.2,00,000

ii) On 15.3.2008 Mr. Reddy deposited a cheque for collection of Rs. 10,000 and made entry in Cash Book, but it appeared in the Pass Book on 6.4.2008 at Rs.9900.

iii) Cheques issued to parties but not presented for payment till 31-3-2008 were of Rs. 5,250, Rs.8,350 and Rs.9,000

iv) Cheque deposited for collection but not collected by the Bankers till 31-3-2008, Rs. 87,600 and Rs. 4100

v) Interest on Investment collected by the Banker on 25-3-2008, Rs 9,550 entered in the Cash Book on 4-4-2008 on receipt of Bank intimation.

vi) Bank charges Rs. 900 (dated 28-3-08) not entered in the Cash Book.

vii) Cheque for Rs. 9,450 deposited for collection on 27.3.2008 but returned dishonored on 6-4-2008.

viii) Bankers have made a mistake in balancing by showing overdrawn balance in excess by Rs. 10,000 on 31-3-08, which was rectified in the Bank Pass Book on 7.4.2008 when notified.

Solution:

In the Books of Mr. Reddy

Bank Reconciliation Statement as on 31-3-2008

Particulars	Amount Rs.	Amount Rs.
Bank Overdraft as per Pass Book (Dr.)		2,00,000
Add: iii) Cheque issued to parties but not presented for payment till 31-3-2008 Rs.(5,250+8,350+9,000)	22,600	
v) Interest on investment collected by Bankers on 25.3.2008 but intimation sent on 4.4.2008	9,550	
		32,150
		2,32,150
Less: (ii) Cheque deposited on 15.3.2008 for collection was not entered in the Pass Book during the Period	10,000	
(iii) Cheque deposited but not collected by the Bank till 31-3-2008 Rs.(87,600+4,100)	91,700	
(vi) Bank charges not entered in the Cash Book	900	
(vii) Cheque deposited for collection on 27.3.2008 but returned dishonored on 6-4-2008	9,450	
(viii) Bank's mistake in balancing by showing over draft balance in excess	10,000	
		1,22,050
Bank Overdraft as per Cash Book (Cr.)		1,10,100

1.18 Let Us Sum Up

Accounting includes not only the recording of transactions but also summarizing these transactions and analyzing and interpreting their effect on the working of the business. The purpose of accounting is to supply meaningful information about the financial activities of a business to those who have a need for and a right to have such information. Accounting systematically accumulates data concerning scarce resources and on the basis of the same supplies necessary information so that predictions can be made and economic decisions can be taken regarding the allocation of such resources. Accounting helps in communicating financial information about an entity. It periodically conveys to persons interested in the said entity, information as to how funds have been procured by the entity, how the said funds have been invested, how much amount has been earned, what is the growth rate of the entity, what is the rate of dividend declared etc. Accounting, in the present day, has not confined itself to only record-keeping but has spread its branches due to growing business complexities. As such, different branches of accounting such as Cost Accounting, Management Accounting, Social Accounting, Government Accounting, Inflation Accounting, Human Resource Accounting, etc.. have been developed. The demand for accounting information of any entity mainly comes from the owners, creditors, potential investors, management, employees, Governments and their agencies, customers and the public. They would like to make use of accounting information in order to satisfy some of their different needs for information.

In the context of accountancy a transaction refers to any event that brings changes on the financial position of an individual or a concern. The double entry system merely recognizes the two-fold aspect of every transaction and it records both from the viewpoint of each party. It simply implies a record of double aspects of every transaction. The term, accounting cycle, refers to the complete sequence of activities relating to the different stages involved in accounting process. As these steps are undertaken repeatedly in a sequential manner in each accounting period, they are as a whole identified and termed as a cycle. The steps or phases involved in an accounting cycle are: (i) Recording of financial transactions in subsidiary books, (ii) Classifying and summarizing the recorded transactions by posting them from subsidiary books to accounts and (iii) Preparation of Trial Balance and Final Accounts.

Journal is a book of original or prime entry where daily transactions are chronologically recorded analysing each transaction into debit and credit aspects, with suitable explanations thereof. The 'Debit-Credit rule' is nothing but a set of instructions for recording changes in balance sheet elements, i.e., assets, liabilities and equity. It can be explained in any of the following two ways: (a) Traditional approach and (b) Accounting Equation approach.

Ledger is a book of final entry which contains various accounts such as personal account, real account and nominal account in classified form. 'Accounts' refer to the spaces provided in the ledger under specific name, headings or title in which the transactions of similar nature are collected from the journal or subsidiary books.

A trial balance is a list of the balances on all the accounts in the books, prepared on a particular date as a document ancillary to the ledger to verify the arithmetical accuracy of the books of account. There are two methods used for the preparation of a trial balance: Gross trial balance/Total Method and Net Trial Balance/Balance method. Even if a trial balance agrees, it may fail to detect the following errors: (a) Errors of Omission or Duplication, (b) Errors of Principle, (c) Errors of Commission, (d) Errors of Original Entry, (e) Compensating Errors.

Cash Book is a book in which all the cash receipts and payments are recorded in chronological order irrespective of the nature and period to which they relate. Receipts are entered on the debit side of the cash book and are subsequently posted to the credit side of the appropriate accounts in the ledger, while payments are entered on the credit side of the cash book and are posted to the debit side of the appropriate ledger account. Cash book plays a very unique dual role in accounting. It is a book of original entry as well as a book of final entry. Thus, it is called a journalized ledger.

Bank Reconciliation Statement is a statement which is prepared on a particular date to reconcile the bank balance as shown by the pass book with the balance shown by the bank column of the cash book by explaining the causes of differences between these two balances.

1.19 Key Words

Book keeping, Accounting, Accountancy, Cost Accounting, Management Accounting, Social Accounting, Government Accounting, Inflation Accounting, Human Resource Accounting, Event, Transaction, External transactions, Internal transactions, Double Entry System, Accounting cycle, Journal, Debit-Credit rules, Ledger, Trial Balance, Cash Book, Purchase Day Book, Sales Day Book, Purchase Returns Book, Sales Returns Books, Bills Receivable Book, Bills Payable Books, Journal Proper , Bank Reconciliation Statement.

1.20 Self-assessment Questions

1. What is accounting? Discuss its objectives in brief.
2. What do you mean by Accounting Cycle? What are the different phases of this cycle?
3. Discuss in detail the different branches of accounting.
4. List and briefly describe the main users for accounting information.
5. "Every debit has a corresponding credit and vice-versa" - Discuss.
6. What are the rules of debit and credit for different accounts?
7. Distinguish between a journal and a ledger. Explain their functions.
8. What is Trial Balance? What are the objectives of preparing a Trial Balance?
9. Explain the errors which are not disclosed in spite of the agreement of a Trial Balance?
10. State the errors which affect the agreement of trial balance.
11. What is a Cash Book? Is Cash Book a journal or a ledger?
12. What is Bank Reconciliation Statement? Why is it prepared in a business house?

1.21 Suggested Readings

Bhattacharyya, A.K. : *Financial Accounting For Business Managers*, PHI
[Chapter 1 to chapter 4]

Mukherjee and Hanif : *Modern Accountancy*, Vol.- I, Tata McGraw Hill
[Chapter 1 to chapter 2, chapter 4 to chapter 7]

1.21 Further Readings

Lal and Srivastava : *Financial Accounting*, S. Chand
[Chapter 1, chapter 3 to chapter 7]

Srinivasan and Murugan : *Accounting For Management*, S. Chand
[Chapter 2 to chapter 4]

Shah, P : *Basic Financial Accounting For Management*, Oxford
[Chapter 1, chapter 6, chapter 10]

Marriott, Edwards and Mellett : *Introduction to Accounting*, Sage
[Chapter 1, chapter 5 to chapter 6]

Narayanaswamy, R : *Financial Accounting - A Managerial Perspective, PHI.*
[Chapter 1 to chapter 2]

Unit-II : Conceptual Framework of Accounting

Structure

2.0 Objectives

2.1 Introduction

2.2 Terminologies

2.3 Generally Accepted Accounting Principles (GAPP)

2.4 Accounting Concepts

2.5 Accounting Conventions

2.6 Methods of accounting

2.7 Concepts of assets, liabilities and equity

2.8 Concepts of revenues and cost

2.9 Let Us Sum Up

2.10 Key Words

2.11 Self-assessment Questions

2.12 Suggested Readings

2.13 Further Readings

2.0 Objectives

The objectives of this unit are to:

- Understand the underlying concepts and principles of financial accounting.
- Comprehend the Generally Accepted Accounting Principles (GAPP).
- Have an overview of the methods of accounting
- Provide elementary knowledge of assets, liabilities, equity, revenues and cost.

2.1 Introduction

You have already noticed from unit 1 that accounting is now regarded as a service activity, a descriptive /analytical discipline and an information system. For better understanding of this subject it is necessary that you must have knowledge about the concerned concepts, conventions and principles of accounting which are discussed in the present unit. These rules, principles and conventions of accounting are generally known as the conceptual framework of accounting. This framework of accounting has been evolved over the years by general acceptance. Like any discipline or body of knowledge, this underlying theoretical structure is essential if a coherent and useful set of practices and procedures are to be developed for reaching the goals of the profession and for expanding knowledge in that field. Such a framework is also required for answering new questions and any profession can not flourish in the absence of it. When you are going to solve different practical problems in Unit - III and Unit - IV, the idea of this conceptual framework, of accounting will be require'd.

2.2 Terminologies

In the accounting literature concepts, postulates, conventions, doctrines, assumptions, principles etc. have been used interchangeably by different authors and finding a precise terminology has always been one of the most difficult task in accounting. The objective of this unit is to explain the terminologies that are widely accepted and have widest applicability. These terminologies have been explained below:

Postulates (or concepts or assumptions): The postulates are assumptions (or hypothesis) or self-evident truth (or axioms) which have been considered to be true in many workable possible situations and have greater general applicability. According to Hendriksen, "The accounting postulates are the basic assumptions or fundamental propositions concerning the economic, political and sociological environment in which accounting must operate. The basic criteria are: (i) they must be relevant to the development of accounting logic, i.e., they must serve as a foundation for the logical derivation of further propositions, and (ii) they must be accepted as valid by the participants in the discussions; as either being true or providing as useful starting point as an assumption in the development of accounting logic."

Conventions (or doctrines): The accounting conventions have gained general and wider acceptance among the accountants and business enterprises. Convention refers to an accounting procedure (or policy or usage) followed by all in the accounting community on the basis of a long-standing custom. According to Kohler, a convention is "A statement or rule of practice which, by common consent, expresses or implies and is employed in the solution of a given class of problems or guides behaviour in a certain kind of situation."

Principles: Accounting principles mean general guidelines used in accounting and are general laws or rules derived from the accounting concepts or conventions and followed as a guide in preparation of accounts. These principles are framed and used by the accountants and are flexible. They decide as to how financial data has to be recorded or reported. The accounting principles can be understood with the help of the following examples. Inventory should be valued at cost or market price whichever is lower; fixed assets must be disclosed with cost and depreciation, etc. Anthony and Reece remark: "Accounting principles are man-made. Unlike the principles of physics, chemistry and the other natural sciences, accounting principles were not deduced from basic axioms, nor can they be verified by observation and experiment. Instead, they have evolved. This evolutionary process is going on constantly and even accounting principles are not 'eternal truths.' The general acceptance of an accounting principle usually depends on how it meets three criteria: relevance, objectivity, and feasibility. These three criteria often conflict with one another. In developing new principles, the essential problem is to strike the right balance between relevance on the one hand and objectivity and feasibility on the other." Accounting principles influence the development of accounting techniques that are specific rules to record specific transactions and events in an organisation.

Policies: "Accounting policies refer to the specified accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements" [Agarwal (1999)]. There is no single list of accounting policies which is applicable to all the circumstances. It depends on the principles, procedures, conventions followed and used by the management in preparation of the financial statements. The following are the examples on the areas where the accounting policies are different: methods of depreciation, valuation of inventories, treatment of goodwill, recognition of long term contract etc. The selection and application of accounting policies are generally governed by the prudence, materiality and substance over form (The accounting treatment of events and transaction in the preparation and presentation of financial statements should be governed by their substance and only on the basis of legal form). Accounting policies are generally changed only when it becomes essential to do so and if changes are made, it should be disclosed in the financial statements along with their impacts [Agarwal (1999)].

2.3 Generally Accepted Accounting Principles (GAPP)

Auditing Standards Board (ASB) defines Generally Accepted Accounting Principles (GAPP) as "a technical accounting term that encompasses the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general applications, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations." "GAAP is concerned with the measurement of economic activity, the time when such measurements are to be made and recorded, the disclosures surrounding this activity and the preparation as well as presentation of summarized economic information in the form of financial statements. GAAP develops when questions arise about how to best accomplish those objective- measurement, timing of recognition, disclosure or presentation. In response to those questions, GAAP is either prescribed in official pronouncements of authoritative bodies empowered to create it, or it originates over time through the development of customary practices that evolve when authoritative bodies fail to respond. Thus GAAP is a reaction to and a product of the economic environment in which it develops" [Epstein et al. (2008)]. The most authenticated sources of GAAP are those issued by (a) Financial Accounting Standards Board (FASB), (b) Government Accounting Standards Board (GASB), (c) American Institute of Certified Public Accountants (AICPA), (d) Securities and Exchange Commission (SEC), (e) Publications of professional institutes and organisations. GAAP should have some essential qualities. These essential qualities are as follows:

1. These generally accepted accounting principles are always based on real-world accounting problems. They can never be based on any imagination.
2. These principles should never be inconsistent.
3. These principles should be flexible in nature. They should never be very much

rigid.

4. These principles should be simple so that they are easily understandable and applicable.

5. These principles should also include some authoritative teaching within them so that they can point out the future course of action to be taken by the accountant in case of any problem.

6. These principles must be very strong from the point of view of fulfillment of the various objectives of accounting.

7. These principles should be always active in such a manner so as to be able to satisfy almost all the persons related to or associated with the work of accounting.

GAAP are generally classified in three categories as basic, broad and detailed principles. Basic principles form the foundation of the basic accounts and are instrumental in implementation of accrual basis of accounting e.g., entity, matching, disclosure, conservatism, etc. Broad GAAPs are deciding principles and are helpful in financial accounting processes such as determining the selection, measurement and methods of reporting of events and transactions. These are to be followed on long term basis. Detailed GAAPs are specific in nature and can not be applied in all cases or circumstances or transactions. They are directional and provide guidance for treatment, recording disclosure and presentation of specific events or transaction. They are used in order to implement basic and broad principles. Detailed principles may change over a period of time and such change may be rapid too [Agarwal, 1999].

2.4 Accounting Concepts

Some of the important accounting concepts are as follows:

Entity Concept: This concept implies that a business unit is separate and distinct from the owners who supply capital to it. The business entity has a separate personality from that of the proprietor. Accordingly, the amount of capital invested by the owner and his share in the profit of the business is treated as a liability of the entity. Accounting records are maintained for identifiable business entities. The accounting equation (i.e., Assets = Liabilities + Shareholders' Equity) is an expression of the entity concept as it shows that the business itself owns the assets and in turn owes the various claimants. Due to this concept, affairs of the business enterprise will never be mixed up with the private affairs of the owners or other persons associated with it and thus this concept will help to give a true picture of the financial conditions of the business enterprise. This concept is applicable to all forms of business organizations, viz., a sole proprietorship, a partnership, or a company. In case of companies, the business unit is treated as an artificial person in the eyes of law and given a separate legal entity status.

Going Concern Concept or Continuity Concept: It is assumed that the business will continue to operate for a long period in the future and it will not be liquidated or closed down at least in the foreseeable future. The going concern concept justifies the valuation of assets on a non-liquidation basis and it calls for the use of historical cost for many valuations. Since the business will continue in operation long enough, the fixed assets and intangibles are amortized over their useful life rather than over a shorter period and it leads to proposition that financial statements are part of a continuous, inter-related series of statements.

Money Measurement Concept: In order to achieve homogeneity of the various types of transactions of a business, it is necessary to record the said diverse transactions in terms of a common denominator or unit of measurement. This unit of measurement is known as the monetary unit. According to this concept, only those transactions, which are expressed in terms of money, are recorded in the books of accounts. Accounts are expressed in money terms, as money is a medium of exchange; it has a value and a common denominator; it is a standard of deferred payments and a stable measuring unit. But, the major defects of this concept are that it does not take into account the effects of inflation as it assumes a stability of money measurement unit and it is not capable of recording transactions, which cannot be expressed in terms of money.

Accounting Period Concept: As a business entity is considered to be a going concern and as it is expected to continue its operation for a reasonably long period of time, a complete picture of the performance of the business cannot be obtained until the liquidation of the business. Strictly speaking, the net income can be measured by comparing the assets of the business existing at the time of its commencement with those existing at the time of its dissolution. But the owners, the investors and above all the Government, all are impatient and do not want to wait, until the liquidation of the concern, to know what has been the results of the business activities. The requirements of these parties force the accountant to report the results of the business for short time periods. For this purpose, the accounting period concept has been evolved. According to this concept, the life of a business entity has been divided into an artificial and arbitrary period of time, generally and widely accepted as one year, so as to be able to know the profit or loss of each such period and the financial position at the end of such a period.

Dual Aspect Concept: According to this concept, each and every business transaction has two aspects- the receiving of a benefit (debit) and the giving of another benefit (credit) and there must be a double entry to have a complete record of each business transaction. Thus every debit must have a corresponding credit and vice versa. The recognition of these two aspects to every transaction is known as dual aspect concept and the accounting equation (Assets = Liabilities + Capital) is based on this concept.

Accounting (or Balance Sheet) Equation Concept: According to the double-entry system, for every debit there must be a corresponding credit. This dual aspect of accounting suggests that every transaction has dual effect on the financial position of a business. The benefits received (i.e., debit) by one party in any transaction is equal to the benefits given (i.e., credit) by another party to the former party and it may be expressed in the form of the following equation:

Debits = Credits

Or, Benefits received by one party in any transaction = Benefits given by another party to the former party............(1)

All benefits that have been received may be classified into (i) Benefits received but retained to be used in future - These are known as Assets; (ii) Benefits received but fully consumed - These are known as Expenses; and (iii) Benefits received but misused, lost or wasted - These are known as Losses. Similarly, all benefits that have been given by others, may be classified as - (1) What has been given by others but will have to be repaid or paid back on a future date- these are known as Liabilities and these are of two types: (a) Internal liabilities or Owners' Equity or claim to the concern and (b) External Liabilities or Liabilities to outsiders or external parties; and (2) What has been given to us but are not to be repaid by us- these are known as Income or Gains in accounting. Thus the equation (1) can be written as:

Assets + Expenses + Losses = Liabilities + Income or Gains

or, Assets = Liabilities + (Income or Gains – Expenses - Losses)

or, Assets = Liabilities + Net Profit (or, - Net Loss)

or, Assets = External Liabilities + Capital + Net Profit (or, - Net Loss)

or, Assets = Liabilities + [Capital + Net Profit (or, - Net Loss)]

or, Assets = Liabilities + Owners' Equity ....(2)

Thus, the total of all assets of each and every business entity is just equal to the total of all its equities (Internal liabilities + External Liabilities). Now, these two types of totals, when taken side by side, constitute a Balance Sheet. This ultimate equation (Equation 2) that is revealed in the Balance Sheet is known as accounting (or Balance Sheet) equation. The algebraic equation involved in the accounting process also reflects that every transaction occurring to a business will have its impact on the Balance Sheet equation and it is the outcome of the dual aspect concept [Basu (1991)].

Realisation Concept: According to this concept, revenue is recognized (or realized or earned) on the date when the sales are made or services are rendered. It is very important to note that the recognition of revenue has nothing to do with the receipt of cash. In case of sale of goods, the cash may be received before the sale or after the sale or at the point of sale; but the revenues are realized only at the point of sale, when the ownership is passed on to the buyer. However, there are certain exceptions to this concept like hire purchase sale, or contract etc.

Accrual Concept : Expenditure incurred during the year but not paid and income earned but not received are called accrued items. According to this concept these items will be taken into consideration while arriving at profit or loss. Horngreen, Sundem and Stratton define accrual concept as a process of accounting that recognizes the impact of transactions on the financial statements in the time period when revenues and expenses occur instead of receipt or disbursement of cash. There is no such compulsion as to pay or receive the money as soon as the transaction occurs. Receipt or payment of the money-value of any transaction may be deferred. This concept is also called

Deferral Concept. According to this theory, as soon as the right to receive any amount is established, the same should be treated as an income. On the other hand, as soon as a legal liability for payment of any amount is established, the same should be treated as an expense.

Matching Concept: For recording transactions, costs and revenues should be matched as far as possible. This concept is based on the accounting period concept and the most important objective of any business is to determine profit periodically. To compute net profit periodically, the expired costs are matched against the realized revenue but not the other way round. Under the matching concept, only those expenses that are accountable for earning revenue of any accounting period are deducted from the realized revenue to ascertain the net income. For the purpose of a periodic matching of expenses and revenues, expenses must be specifically incurred for earning the said revenues and must pertain to the same interval of time. Thus, all expenses incurred during the said accounting period will not be taken. Only those expenses that are related to the said accounting period will be taken for the purpose of matching.

Cost Concept: Historical cost is considered as the appropriate valuation concept for the recognition of the acquired goods and services, costs and equities. All the transactions are recorded on the basis of only the actual cost and not on any other basis. Cost would mean the amount of money that has actually been spent. The transaction is recorded for the accounting purposes at cost only irrespective of its real cost or other value. The essential feature of the historical cost basis is that it reflects assets, liabilities and expenditure at their actual original cost to the business. This concept is based on the 'going concern concept'. Accordingly, the asset is recorded in the books of accounts at its acquisition cost or historical cost and this cost is the basis for all subsequent accounting in connection with the asset. This concept has the advantage of bringing objectivity in the accounts and information given in the financial statements is not influenced by the personal bias or judgement of those who furnish such statements. But on account of excessive inflation in the economy, this concept has become irrelevant for the purpose of valuation of assets. To overcome the defects of this concept inflation accounting is advocated. But on account of several practical difficulties cost concept still serves as an important basis for the valuation of assets.

Proprietary Concept: The proprietary concept requires that all observations are made from the viewpoint of the owner by placing him in the center of interest. According to this theory, all the accounting records, statements and reports should be prepared in such a manner as to cater to the needs of the proprietor of the business. As per this concept, owner's interest is the only important point which is to be considered in case of all accounting activities. Accordingly, capital belongs to the proprietor and is called Proprietor's Equity or Proprietor's Fund. All the assets and other receivables are also assumed to be owned by the proprietor. Similarly all the liabilities and other payables are considered as personal obligations of the proprietor. The accounting equation in this case is: $\sum A - \sum L = P$, Where A = Assets, L = External Liabilities and P = Proprietor's Equity or Proprietor's Fund. Under this concept, revenues are increases in proprietorship and expenses are decreases. Thus, net income, the excess of revenues over expenses, accrues directly to the owners and it represents an increase in the wealth of the proprietors. Since income is an increase in wealth, it is immediately added to the owner's capital or proprietorship. If the proprietor withdraws any amount from the business; the same is deducted from his capital. This theory is generally applied in case of sole-proprietorship and partnership business. It may be applied to limited companies but it sounds less convincing.

Fund Concept: According to this concept, the basis of accounting is neither the proprietor nor the entity as a separate person. Instead, an activity oriented (or operational) unit is the basis of accounting. According to Hendriksen, "this area of interest, called the fund, includes a group of assets and related obligations and restrictions representing specific economic functions or activity." The accounting equation in this concept is: Assets = Restrictions on asset. Here, Assets mean prospective services to the fund or operational unit. Liabilities represent restrictions against specific or general assets of the fund. So as per this concept a few assets are used for performing a particular function. The summation of such assets employed is known as fund. This concept assumes that an entity deals with several funds created for attaining a few specific objectives. Accounting is to be done separately for each of these funds. The fund concept has been found useful to government and non-profit organizations, such as hospitals, university and municipalities etc. which are engaged in multi-faceted operations that demand separate funds and each fund produces separate report through its accounting system. It is also relevant to some profit-oriented organizations, e.g., for creation of operating sinking funds etc.

2.5 Accounting Conventions

Business entities are required to follow certain accounting conventions to make the financial statements more meaningful, purposeful and objective. Some of the important accounting conventions are as follows:

Materiality: Materiality is defined by the Financial Accounting Standards Board (FASB) as "the magnitude of an omission or misstatement in the financial statements that makes it probable that a reasonable person relying on those financial statements would have been influenced by the omitted information or made a different judgement if the correct information had been known." According to this convention, financial statements should disclose all the items which are material enough to influence the decisions of the user of the financial statements. It helps in preparing the accounts without unnecessarily putting emphasis or importance to unimportant details or items which are not material to the enterprise in its total analysis. Thus, in order to make the financial statements clear and understandable, they are drafted and prepared by taking into consideration the materiality convention. The financial statements must give adequate and detailed fact and figures to ensure that material events are reflected. What is material would depend upon the common sense, judgement and circumstances of each case. There is no hard and fast rule so as to decide what is material and what is immaterial. The rule that is to be kept in mind is that omission of information or facts from the financial statements should not impair the decision of the person using the financial statements.

Consistency: This doctrine implies that the same accounting principles and practices should be followed by the accountant year after year. For example, if in any year, fixed assets are valued at original cost or historical cost, then, this process of valuation at original cost should be consistently followed for some years to come. If the change becomes absolutely necessary, it should be properly disclosed, quantified and impact on profit or loss clearly indicated. If consistency is followed, financial statements can be compared with one another and also over a period of time. This convention is generally followed by individual firms but it is not necessary that different firms in the same trade or industry would follow the same policies or procedures.

Uniformity: The financial statements comprising of Balance Sheet, Profit and Loss Account and other statements must be prepared on the basis of similar methods and procedures, particularly in the same trade and industry so that users can easily understand the statement and can do inter-account comparison.

Comparability: According to this convention, financial statements are prepared in such a manner that it will facilitate comparative analysis of the same of different years. It means that (i) The Profit and Loss Account of one year should be prepared in such a manner so as to be comparable to the Profit and Loss Account of any other year; (ii) The Balance Sheet of a particular year should be prepared in such a manner that it may be easily comparable to the Balance Sheets of the other previous years and (iii) Even one part of the accounts of any year should be comparable to the other part of the accounts of the same year.

Disclosure: This convention implies that the disclosure of all significant material *information, affecting net income and financial position, in the financial statements and related notes. It not only increases the utility but also ensures transparency to the financial statements. But it does not mean disclosure of all possible information relating to an entity in the financial statements. If it is so, it would make financial statements large, costly and perhaps more confusing. According to Hendriksen, "three concepts of disclosure generally proposed are adequate, fair and full disclosure." Adequate disclosure means a minimum amount of disclosure so that the financial statements are not misleading. Fair disclosure would imply that the accounting and other information is unbiased and impartial. Full disclosure means the presentation of all relevant information. The information which is immaterial, irrelevant or insignificant should be omitted. The disclosure of material information in the financial statements helps the users in evaluating the performance and financial position of the firm.

Conservatism: Under this convention, the accountant should be conservative in his approach while determining profits i.e., if profits are expected and are not yet realized, they must be ignored and if loss is expected, the same must be provided for. It is also known as the concept of prudence. There is a rule: "never anticipate revenues and gains but always provide for possible expenses and losses" while recording business transactions and this is the policy of playing safe. Accordingly, if values cannot accurately be ascertained, make understatement of assets and overstatement of liabilities but do not do the reverse. As a result, the calculation of profit should allow for all possible losses and disregard all unrealized gains. Here profit is shown at a lower rather than at a higher figure. For example, if profit is overstated and dividend is declared and subsequently if it is observed that there is a loss, dividend is paid out of capital which is nothing but erosion of capital. To avoid this, this convention is followed in accounting. Provision for bad and doubtful debts, provision for depreciation, valuation of inventory at 'cost or market prices whichever is lower' etc. are the examples of the outcome of this convention.

Objectivity: Objectivity refers to reliability, trustworthiness and verifiability, which mean that there is some evidence in ascertaining the correctness of the information reported. Entries in accounting records and data reported in financial statements must be based on objectively determined evidence. Without close adherence to this convention, the confidence of many users of the financial statements could not be maintained. However objectivity has meant different thing to different writers. The first meaning of objectivity implies that the measurement has an existence separate from the person making the measurement in the sense that it is free from the personal bias of the measures. In the second definition (a measurement based on verifiable evidence) the emphasis is on the evidence, rather than on the measurement itself. The third meaning of objectivity has greater significance for measurement theory in accounting. Measurement can be said to be objective if they can be verified by intersubjective consensus of qualified experts. Finally, according to Hendriksen, "if the measurements are free from personal bias, it is probable although not necessary that a frequency distribution of these measurements will produce a symmetrical curve. For any given number of observations or measurements, the degree of objectivity or verifiability depends upon the dispersion of the measurement values around a mean or average figure".

Dependability: The users of accounting information very often take vital decisions on the basis of the information supplied in financial statements. So such information must be dependable otherwise they will mislead the users. The term dependability is closely associated with another term, 'reliability'. The FASB has identified three components of reliability (dependability) as neutrality, verifiability and representational faithfulness. Only the dependable information is relied upon and that information is dependable which is free from bias, verifiable and a faithful representation of what it seems to represent.

Timeliness: Accounting information to be useful must be relevant. Timeliness is an ingredient of relevance. The information that is given to the users of financial reports should be current in nature rather than old and late information i.e., the information used by the users should be current at the time of making the predictions and decisions. The accumulation and summarization of accounting information and its publication should be as rapid as possible to assure the availability of current information in the hands of the users. This also implies that financial statements should be presented at frequent intervals so as to reveal changes in the firm's situation that may in turn affect the user's predictions and decisions.

2.6 Methods of accounting

With the help of accounting methods, the results of the business are ascertained. There are three accepted methods of accounting: (i) Cash basis, (ii) Accrual or Mercantile basis and (iii) Hybrid or Mixed basis.

Cash basis: When only cash transactions are recorded, it is called cash method of accounting. Under this method, revenues and costs as well as assets and liabilities are reflected in the accounts in the period in which actual receipts or actual payments are made. It only takes into account the transactions which involve cash and it considers all cash items irrespective of the period to which it relates.

Accrual or Mercantile basis: When accounts are prepared on accrual basis, the method of accounting is called Accrual basis of accounting. Under this method, transactions of an enterprise are recorded in the period in which they occur rather than recording them in the period(s) in which cash is received or paid by the enterprise.

Hybrid or Mixed basis: According to Hybrid or Mixed basis of accounting, the transactions in respect of income and receipts are accounted on cash basis of accounting and the expenditure is accounted for on accrual system of accounting. It is a combination of cash and accrual basis of maintaining accounts [Agarwal (1999)].

2.7 Concepts of assets, liabilities and equity

Assets: Assets are "probable future economic benefits obtained or controlled by a particular enterprise as a result of past transactions or events. The following three characteristics must be present for an item to qualify for an asset:

(i) The assets must provide a probable future economic benefit that enables it to provide future net cash inflows.

(ii) The enterprise must be able to receive the benefit and restrict other's access to it.

(iii) The event that provides the enterprise with the right to receive the benefit has occurred." [Epstein et al. (2008)]

Assets are broadly categorized as current assets and non-current assets.

Current assets: The current assets are reasonably expected to be realized in cash or held for sale or consumption for the purpose of trading during the normal operating cycle of the business (generally one year period). Operating cycle is the time lag between the acquisition of assets/raw materials for processing and their realization in cash or cash equivalents. The following items are classified as current assets:

- Cash and cash equivalents are short-term highly liquid investments that include cash in hand consisting of coins, currency, un-deposited checks, money orders and drafts, demand deposits in banks, and certain short-term highly liquid investments.
- Short-term investments are readily marketable securities acquired through the use of temporarily idle cash.
- Loans and advances to employees and other entities are current assets if they are expected to be realized in the normal operating cycle.
- Receivables include accounts and notes receivable, receivables from affiliated enterprises and officer and employee receivables. The term 'account receivable' is generally understood to represent amounts due from customers arising from transactions in the ordinary course of business and is expected to be realized within twelve months after the balance sheet date.
- Inventories are goods on hand or available for sale in the ordinary course of business or in the process of production for such sale (commonly known as work-in-progress).
- Prepaid expenses are amounts paid in advance during the current accounting period but the entire service thereof is not consumed in that period. Prepaid expenses will

not be converted into cash, but they are classified as current assets because, if not prepaid, they would have required the use of current assets during the coming year.

Non-current assets: Non-current assets will not be converted into cash during the normal operating cycle. The following assets would be classified as non-current assets:

- Long- term investments are investments issued by other entities including government that are intended to be held for an extended period of time (longer than one operating cycle). The following are the three major types of long- term investments:
  - ☐ Debt and equity securities e.g., stocks, bonds, and long-term notes receivable.
  - ☐ Tangible assets not currently used in operations (e.g., land purchased as an investment and held for sale)
  - ☐ Investment held in special funds (e.g., sinking funds, pension funds etc.)
- Property, plant and equipment are assets of a durable nature that are used in the production or sale of goods, sale of other assets or rendering of services rather than being held for sale (e.g., machinery and equipment, building, furniture and fixtures, land etc.)
- Intangible assets have no physical existence and cannot be seen or touched and include legal and/or contractual rights that are expected to produce future economic benefits to its owner (e.g., goodwill, patents, copyrights, logos, trademarks etc)
- Other assets are an all-inclusive heading which incorporates assets that do not fit neatly into any of the other asset categories (e.g., long-term prepaid expenses, deferred revenue expenditure etc.)etc. [Epstein et al. (2008)].

However, according to Indian GAAP, assets are classified into fixed assets, investments and current assets. "Fixed assets are assets that are held for the purpose of producing or providing goods or services and are not held for sale in the normal course of business. Similarly, intangible assets are included in fixed assets. Thus, fixed assets are in the nature of non-current assets" [Bhattacharyya (2006)].

Liabilities: Liabilities are "probable future sacrifices of economic benefits arising from present obligations of an enterprise to transfer assets or provide services to others in the future as a result of past transactions or events. The following three characteristics must be present for an item to qualify as a liability:

(i) A liability requires that the enterprise settle a present obligation by the probable future transfer of an asset on demand, when a specified event occurs, or at a particular date.

(ii) The obligation cannot be avoided.

(iii) The event that obligates the enterprise has occurred." [Epstein et al. (2008)]

The distinction between current and non-current liabilities generally rests upon both the ability and intent of the enterprise to liquidate or not to liquidate within the traditional one-year time frame.

Current liabilities: A liability is classified as current liability if it is expected to be settled by using existing resources properly classifiable as current assets or creating other current obligations in the normal operating cycle. The following items are classified as current liabilities:

- Accounts payable are normally comprised of amounts due to suppliers for the purchase of goods and services used in the ordinary course of running a business.

- Dividends payable are obligations to distribute cash or other assets to shareholders that arise from the declaration of dividends by the enterprise's board of directors.

- Advances and deposits are collections of cash and other assets received in advance to ensure the future delivery of goods or services.

- Current portion of long-term debt is the portion of a long-term obligation that will be settled during the next year by using current assets.

- Outstanding expenses are the values of services that have been consumed or availed of during the current accounting period without their values being paid or adjusted till the close of the accounting period, etc.

Non-current liabilities: Obligations that are not expected to be liquidated within one year (or the current operating cycle, if longer) are classified as non-current liabilities. The following items are classified as non-current liabilities:

- Notes and bonds payable are obligations that will be paid in more than one year. Most notes and bonds require periodic payments of interest, and some require periodic payments of principal.
- Capital lease obligations are contractual obligations that arise from obtaining the use of property or equipment via a capital lease contract, etc. [Epstein et al. (2008)]

However, liabilities are not classified as current and non-current in India and current liabilities are presented separately from other liabilities in the balance sheet. According to Indian Companies Act, liabilities are classified as secured loans, unsecured loans along with current liabilities and provisions [Bhattacharyya (2006)].

Equity: Equity or owners' equity represents the residual interest in the assets of the enterprise that remains after deducting the liabilities from assets. Equity is increased by owners' investments and by comprehensive income and it is reduced by distributions to the owners. Because equity is residual, equity is affected by all transactions and events that increase or decrease assets without increasing or decreasing liabilities by the same amount. In corporation, shareholders' equity arises from three sources: contributed (paid up) capital, retained earnings and other accumulated comprehensive income. Contributed (paid up) capital is the amount of equity invested in a corporation by its owners. Retained earnings are the cumulative net income of the corporation from the date of its inception to the date of the financial statement, less the cumulative distributions to shareholders either directly (dividends) or indirectly (stock). Other comprehensive income is the change in equity of a business enterprise during a particular period that arises from sources other than net income and transactions with its owners e.g., unrealized gains (losses) on foreign currency translations, unrealized gains on securities etc. [Epstein et al. (2008)]

2.8 Concepts of revenues and cost

Revenues: Revenues represent actual or expected cash inflows that result from an entity's central operations. According to Glautier and Underdown, revenue means "the flow of funds that is money or rights to money, which have resulted from the trading activities of the business, as distinct from funds (capital) invested by the owner or loans made by the creditors and others." Revenues are commonly distinguished from gains for three reasons. Revenues result from an entity's central operations; gains result from incidental or peripheral activities of the entity. Revenues are usually earned; gains result from nonreciprocal transactions or other economic events for which there is no earning process. Revenues are reported gross; gains are reported net. [Epstein et al. (2008)]

Cost: Cost means sacrifice that is measured in terms of payment of money or liabilities incurred for obtaining benefits. According to Hendriksen, "cost is the economic sacrifice expressed in monetary terms needed to obtain a specific asset or group of assets." The terms cost and expenditure is used synonymously in accounting. Cost may be categorized in three types: (i) Expired cost or revenue expenditure or expense: Expenses represent actual or expected cash outflows that result from an entity's central operations. According to Vernon Kam, "Expenses are decreases in the value of assets or increases in the value of liabilities or stockholders' equity that represent the cost of using up goods or services by the entity to generate revenue for the current period." Expenses are commonly distinguished from losses for three reasons. Expenses result from an entity's central operations; losses result from incidental or peripheral activities of the entity. Expenses are often incurred during the earning process; losses often result from nonreciprocal transactions or other economic events unrelated to an earnings process. Expenses are reported gross; losses are reported net [Epstein et al. (2008)]. (ii) Unexpired cost or capital expenditure- If the benefit obtained from any expenditure is carried over to different accounting period and consumed only in part in the current accounting period that expenditure is known as capital expenditure. (iii) Deferred revenue expenditure- If the amount of expenses in any particular accounting period is so enormous that the benefit from such expenses is extended over a number of accounting periods and not fully consumed in the current accounting period only then such expense is known as deferred revenue expenditure.

2.9 Let Us Sum Up

The rules, principles and conventions of accounting are generally known as the conceptual framework of accounting. Like any discipline or body of knowledge, this underlying theoretical and conceptual structure is essential if a coherent and useful set of practices and procedures are to be developped for reaching the goals of the profession. In the accounting literature, concepts, postulates, conventions, doctrines, assumptions, principles etc. have been used interchangeably by different authors and finding a precise terminology has always been one of the most difficult task in accounting.

The postulates are assumptions (or hypothesis) or self-evident truth (or axioms) which have been considered to be true in many workable possible situations and will have greater general applicability. The convention refers to an accounting procedure (or policy or usage) followed by all in the accounting community on the basis of a long-standing custom.

GAAP is concerned with the measurement of economic activity, the time when such measurements are to be made and recorded, the disclosures surrounding this activity, and the preparation and presentation of summarized economic information in the form of financial statements.

Some of the important accounting concepts are as follows: Entity Concept, Going Concern Concept or Continuity Concept, Money Measurement Concept, Accounting Period Concept, Dual Aspect Concept, Accounting (or Balance Sheet) Equation Concept, Realization Concept, Accrual Concept, Matching Concept, Cost Concept, Proprietary Concept and Fund Concept.

Some of the important accounting conventions are as follows: Materiality, Consistency, Uniformity, Comparability, Disclosure, Conservatism, Objectivity, Dependability and Timeliness.

Accounting method is a method by which results of the business are ascertained. There are three accepted methods of accounting: (i) Cash basis, (ii) Accrual or Mercantile basis and (iii) Hybrid or Mixed basis.

Assets are probable future economic benefits obtained or controlled by a particular enterprise as a result of past transactions or events. Liabilities are probable future sacrifices of economic benefits arising from present obligations of an enterprise to transfer assets or provide services to others in the future as a result of past transactions or events. Equity or owners' equity represents the residual interest in the assets of the enterprise that remains after deducting the liabilities from assets. Revenues represent actual or expected cash inflows that result from an entity's central operations. Cost means sacrifice which is measured in terms of payment of money or liabilities incurred for obtaining benefits.

2.10 Key Words

Postulates, Conventions, GAAP, Entity Concept, Going Concern Concept or Continuity Concept, Money Measurement Concept, Accounting Period Concept, Dual Aspect Concept, Accounting (or Balance Sheet) Equation Concept, Realization Concept, Accrual Concept, Matching Concept, Cost Concept, Proprietary Concept, Fund Concept, Materiality, Consistency, Uniformity, Comparability, Disclosure, Conservatism, Objectivity, Dependability, Timeliness, Cash basis, Accrual or Mercantile basis, Hybrid or Mixed basis, Assets, Liabilities, Equity, Revenues, Cost.

2.11 Self-assessment Questions

1. Distinguish between accounting concepts and accounting conventions.
2. Explain the Generally Accepted Accounting Principles.
3. Write short notes on:

   (i) Entity Concept, (ii) Continuity Concept, (iii) Money Measurement Concept, (iv) Accounting Period Concept, (v) Dual Aspect Concept,(vi) Accounting Equation Concept, (vii) Realization Concept, (viii) Accrual Concept, (ix) Matching Concept, (x)Proprietary Concept, (xi) Fund Concept, (xii) Materiality, (xiii) Consistency, (xiv) Uniformity, (xv) Comparability, (xvi) Disclosure, (xvii) Conservatism, (xviii) Objectivity, (xix) Dependability, (xx) Timeliness.
4. What is an asset? State the main characteristics that are to be fulfilled for recognizing an asset in accounting.
5. State the characteristics of liabilities.

6. Distinguish between expenses and losses.
7. Discuss the concept of revenue in accounting.
8. Distinguish between revenue expenditure and deferred revenue expenditure.

2.12 Suggested Readings

Epstein, B.J., Nach, R., Bragg, S.M : GAAP, wiley [Chapter 1 to 3]

Hendriksen, E. S. : Accounting Theory, Khosla Publishing House [Chapter 3 to 8, Chapter 11 to 12 and Chapter 17].

2.13 Further Readings

Agarwal, S : Accountingstandardsand corporate Practices,snowwhite ;Chapterl to chapter 3]

Anthony, R.N. and Reece, J : Accounting Principles, AITBS [Chapter 2 to 3]

Banerjee, D : Accounting Theorey, Book Syndicate Private Ltd [Chapter 3, chapter 5 and chapter 7]

Basu, T.K : Financial Accounting Theory, Central [Chapter 2 to 3]

Bhattacharyya, A.K. : Financial Accounting for Business Managers, PHI. [Chapter 2 to 3]

Mukherjee, R.N : Accounting Theory and Management Accounting, IPP. [Chapter 3]

Unit III : Depreciation, Bab Debts and Inventory

Structure

3.0 Objectives

This unit has been organised to make you aware of the following issues:

* Understanding the meaning, causes and methods of depreciation.
* Explaining the concept of bad debt, provision for doubful debt and provision for discount.
* Work out problems in depreciation and bad debt.
* Distinction between reserves and provisions.
* Concept of inventory and different methods for valuation of inventory.

3·1 Introduction

You are already aware of journal, ledger, trial balance, cash book, bank recancelition statement as well as conceptual framework of accounting from the previous two units (i.e., Unit I and Unit II). After going through this unit you will be able to understand the different aspects of depreciation, bad debts and inventory and these will also facilitate you to understand financial statements more meaningfully in Unit IV.

3·2 Meaning of depreciation

According to Pickles, depreciation is defined as "the permanent and continuing diminution in the quality, quantity, or value of an asset." Carter defines depreciation as "the gradual and permanent decrease in the value of an asset from any cause." In the words of Jainctal. "Depreciation is a permanent, continunig and gradual shrinkage in the book value of fixed assets and it is charged on the fixed assets only." From these definitions we can say that depreciation is the diminution or loss in the value of an asset, arising out of usual, regular and permanent reduction in its usefulness, because of the constant use, wear and tear, obsolescence, passage of time, depletion or accident. However, the term, depreciation is used in the case of tangible fixed assets, whereas amortization is applied in the case of intangible asets and depletion is appropriate for natural resources. But, in a wider sevse, the term depreciation includes amortization and depletion.

3·3 Causes of depreciation

The chief causes of depreciation are as follows:

i) Physical wear and tear: When fixed assets are constantly used, their usefulness declines due to physical deterioration and it may be caused from normal wear and tear, rust, rot, erosion and decay on account of the assets being exposed to wind, sun, rain etc. and careless handling of the assets in the course of their life.

ii) Obsolescence and inadequacy: Existing fixed assets may be put out of their use even though they are in good physical condition due to obsolescence and inadequaey. Obsolescence refers to the process of becoming aqsolete or out of date due to technological development. On the other hand, in adequacy means the termination of the use of an asset because of expansion and resulting changes in the size of the enterprise.

iii) Depletion: There are some assets (like mines, oil wells, quarries etc.) of wasting nature from which raw materials are extracted and due to such extractions the said assets get fully exhausted.

iv) Passage of time: There are certain assets (e.g., leases, patents, copy rights etc.) with fixed period of legal life and on the expiry of the fixed period of time the said assets cease to exist.

v) Accident: The usefulness of an asset may decline because of meeting of an accident or some natural act, e.g., earthquake may cause damage to the buildings.

3·3 Different concepts about nature of depreciation:

The different important concepts as to the nature of depreciation are discussed below:

i) A process of allocation: Depreciation is considered as an allocation of the cost of a fixed asset over its expected working life and it is a periodic charge to be matched with the revenues earned in each accounting period. Accordingly, Hendriksen defined depreciation as "the systematic and rational allocation of costs to periods is which the assets are assumed to be used." The committee on Terminology of the AICPA has also opined this view and expressed that "Depreciation accounting is a system of accounting which aims to distribute the cost (or ther value) of tangible capital assets, less salvage, if any, over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation."

ii) Decline in service potential: The American Accounting Association Committee expressed that " depreciation represents the decline in service potential of long-term assets and that the decline in service potential may be the result of physical deterioration, consumption through use or loss is economic value because of obsolescence or change in demand." Under this concept according to Hendriksen, "the initial cost an asset is assumed to represent the value of a storehouse of services that can be released over the life of the asset. Whenever a portion of these services expires through use or other cause the quantity of service potential declines; and a portion of the cost of the asset should be transferred to an expense, another asset, or a loss account."

iii) Maintenance of capital: According to Hendriksen, "A brorder concept of depreciation is that income emerges only if the invested capital at the end of a period exceeds the invested capital at the beginning assuming no capital transactions or dividend payments during the period." Undewr this concept, depreciation is regarded as a means of maintenance of capital invested in fixed assets. The ammount of capital which is initially invested in various assets and gradually consumed in the process of earning revenues over a number of accounting period, is again recovered by means of charging periodic depreciation on the said assets. This leads to the maintenance of the capital of the business entity.

iv) Current cost of services consumed: According to this concept, current replacement cost are more relevant than historical costs in the matter of charging depreciation. Hence, depreciation is considered to represent an allocation of current costs and the depreciation charge for a specific period is the current cost of the services consumed in that period [Hendriksen].

3·5 Methods of depreciation

Different methods of depreciation can be categorised under three broad headings:

i) Methods based on allocation of cost of fixed assets: Under these methods, rates of periodical depreciation are determined either on the basis of time or on the basis of use. The important methods of depreciation on the basis of time are – a) Straight Line Method, (b) Diminishing Balance Method, and (c) Sum of the Year's Digit Method. On the basis of use of assets, the important methods of depreciation are: a) Working Hounrs Method, (b) Production Unit Method, and (c) Mileage Method.

ii) Methods based on the recovery and maintenance of the capital invested in fixed assets: Under these methods, depreciation is regarded as a process of recovery and maintenance of the capital outlay already made in connection with the purchase of fixed assets and the important methods are a) Sinking Fund Method, (b) Annuity Method and (c) Insurance Policy Method.

iii) Methods applicable either to some specific assets or in case of some specific situations and companies only: These special methods are designed to tackle special types of problems in connection with depreciation and as such cannot be appiled to all categories of fixed assets and the following are some of the important methods – a) Pevaluation Method, (b) Deplection Unit Methods and (c) Composit Methods [Mukherjee (1984)

The above methods are briefly discussed below:

i) Straight Line Method or Fixed Instalment Method or Original Cost Method or Fixed Percentage Method: Under this method the depreciation to be charged is uniform from year to year and it is calculated at a fixed percentage of the original cost of the asset. The amount of annual depreciation is calculated as under:

$$\text{Depreciation} = \frac{\text{Cost price of the asset + Installation expenses – Scrap value}}{\text{Estimated life of the asset.}}$$

ii) Diminishing Balance Method or Reducing Balance Method or Declining Balance Method or Written Down Value Method: Under this method depreciation is calculated at a fixed percentage on the reduced opening balance of the asset brought forward from the previous year. The fixed depreciation rate can be measured with the help of following formula:

$$r = \left(1 - \sqrt[n]{\frac{S}{C}}\right) \times 100$$

Where r = Annual rats of depreciation, n = Expected life of the fixed asset, s = Expected Scrap value, c = Cost of the fixed asset.

iii) Sum of the year's Digit Method: According to this method, annual depreciation is calculated on the basis of the ratio of capital blocked in the asset in the year concerned to the total blockage over its life. Under this method the amount of depreciation is calculated by the following formula:

$$\text{Despreciation} = \begin{array}{c}\text{Cost of the asset less its}\\ \text{estimated scrap value}\end{array} \times \frac{\begin{array}{c}\text{Total number of years of the remaining the}\\ \text{life of the asset including the current year}\end{array}}{\begin{array}{c}\text{Sum of all the digits representing}\\ \text{the life of the asset (in years),}\\ \text{i.e., (1+2+3+.....+n).}\end{array}}$$

For example, if the life of an asset is estimated to be 4 years, the first year's depreciation will be $\frac{4}{10}$ of the total amount to be written off, for the second year it will be $\frac{3}{10}$ of the amount and so on.

iv) Working Hours Method or Machine Hour Rate Method or Service Unit Method: Under this method, the total life of an asset is estimated on the basis of its total working hours and yearly depreciation is computed as follows:

Yearly Depreciation = Hourly rate of depreciation × Total number of working hours used during a period.

$$= \frac{\text{Cost of the asset} - \text{Salvage value}}{\text{Total working hours estimated as the total life of the asset}} \times \text{Total number of working hours used during a period.}$$

v) Production Unit Method: According to the method, a rate of depreciation per unit of goods manufactured is worked out and the amount of yearly depreciation can be calculated by using the following formula:

$$\text{Yearly Depreciation} = \frac{\text{Cost of the asset} - \text{Scrap value}}{\text{Total number of production units expected to be manufactured during the entire life of the asset}} \times \text{Number of units of goods manufactured during the period.}$$

vi) Mileage Method: This method is generaly applicable in case of transport vehicles and depreciation is ascertained in terms of the total mileage to be run by the vehicle before it becomes a mere scrap. The amount of yearly depreciation can be computed by using the following formula:

$$\text{Yearly Depreciation} = \frac{\text{Cost of the Vehicle} - \text{Scrap value}}{\text{Total miles to be run by the vehicle before it becomes a mere scrap}} \times \text{Miles run during the period.}$$

vii) Sinking Fund Method or Depreciation Fund Method or Amortization Fund Method or Redemption Fund Method: This method facilitates to accumulate fund or sinking fund for the replacement of an asset at the end of its working life. When a fixed sum is set apart out of profits at regular intervals, usually a year, and the same is invested at securities to accumulate at compound interest so that the amount of investment (i.e., fixed instalment plus interest) would be sufficient for replacing an asset or for paying off a liability or for similar other purpose, the fund so created is called a sinking fund. According to this method, a fixed amount is written off every year during the estimated working life of an asset as its depreciation. This fixed amount is calculated in such a manner that when the said amount is invested every year in securities at compound interest, it will produce an amount equal to the cost of the asset (less its salvage value) at the end of the working life of the said asset. In other words, an amount equal to the fixed instalment of depreciation is withdrawn from the business and invested in securities. When interest is received on these securities, the same is again invested in the said securities. This process is followed until of the investments will be equal to the cost of the assets less its salvage value. Then the investments are sold and with the help of the money thus received a new asset is purchased. The fixed amount of depreciation is generally computed with the help of Sinking Fund Tables, keeping in view the estimated working life of the asset and the rate of compound interest. The formula used for ascertaining depreciation under this method is $A = \frac{D}{t}\left\{(1+i)^n - 1\right\}$, where, A = Amount required for replacing the asset, D = Fixed amount of depreciation, i = Rate of interest and n = Expected life of the fixed asset.

viii) Annuity Method: Under this method money spent in purchasing an asset is trated as investment and it must earn insterest at the current rate. Therefore, the total amount to be written off as depreciation is the cost of the asset (less scrap value, if any) plus the interest that it would have earned. Accordingly, an equal amount is fixed as annual depreciation in respect of an asset in such a way that the sum of the present values of all such equal instalments (of depreciation) as on the date of starting of its life is equal to its original cost. In this method, depreciation is uniform from year to year and is calculated with the help of the Annuity Tables keeping in view the rate of interest and the estimated life of the asset. The formula used for this purpose is: $V = \frac{A}{i}\left\{1 - \frac{1}{(1+i)^n}\right\}$ where, V = Cost of asset / present value of the asset, A = Annual depreciation, i = percentage of insterest and n = Expected life of the asset.

ix) Insurance Policy Method: Under this method an insurance policy is taken on the estimated life of an asset so that at the end of the said life the insurance company will pay the assured sum with the help of which the asset can be replaced on the expiry of its life. The amount of annual premium so paid is charged to Profit & Loss Account known as Depreciation and credited to a separate account known as Depreciation Fund Account. The interest earned is debited to the Policy Account and credited to the Depreciation Fund Account. At the end of the estimated life of the asset, the policy matures and it is realised to provide funds for the replacement of the asset and the old asset account is written off against the Depreciation Fund Account.

x) Revaluation Method: According to this method an asset is revalued at the end of each accounting period and this closing value is compared with the opening value of the said period subject to the additions or disposals during the year. The difference between the said values is treated as depreciation of the asset for the said period, i.e.,

Amount of depreciation of a year = Opening value + Purchase / Additions – Closing value.

xi) Deplection Method: This method is mostly used in case of wasting assets like mines, quarries, oil wells etc. where from a fixed quantity of deposits can be raised. When the whole quantity is taken, the asset concerned loses its value. Thus, a certain amount of depreciation should be provided each year on the basis of the exploitation of the asset and depletion of the deposits according to the output of the particular year. In this method, yearly depreciation is computed as follows:

$$\text{Yearly Depreciation} = \frac{\text{Total cost of the asset in terms of workable deposits}}{\text{Total units of workable deposits}} \times \begin{array}{l}\text{Units of} \\ \text{deposits raised/} \\ \text{Quantity} \\ \text{depleted.}\end{array}$$

xii) Composite Method: An average rate of depreciation on the gross value of a group of assets is called composite method. According to this method, depreciation is not separately computed for different items of asset belonging to the same group at different rates rather depreciation is calculated once at a single average value on the group value of assets.

3·6 Accounting treatments for recording depreciation.

A) When a provision for depreciation account is not maintained

i) For the purchase of an asset:

Asset Account Dr.

To Cash / Bank / Supplier Account.

ii) For charging depreciation (at the end of the year / at the time of sale)

Depreciation Account Dr.

To Asset Account

iii) For closing depreciation Account:

Profit & Loss Account Dr.

To Depreciation Account.

iv) On sale of old asset:

a) Without using Asset Disposal Account

Bank / Vendor Account Dr.

Profit & Loss Account Dr (Loss on sale, if any)

To Asset Account (W.D.r. of asset sold)

To Profit & Loss Account (Profit on sale, if any)

b) Using Asset Disposal Account.

i) Asset Disposal Account Dr.

To Asset Account (W.D.V of asset sold).

ii) Bank / Vendor Account Dr.

Profit & Loss Account Dr. (Loss on sale, if any)

To Asset Disposal Account

To Profit & Loss Account (Profit on sale, if any).

B) When a provision for depreciation account is maintained

i) For the purchase of an asset.

Asset Account Dr.

To Cash / Bank / Supplier Account

ii) For charging depreciation

Depreciation Account Dr.

To Provision for Depreciation Account.

iii) On sale of an asset:

a) Without using Asset Disposal Account.

Bank Account Dr.

Provision for Depreciation Account Dr. (Accumulated depreciation on asset sold)

Profit & Loss Account Dr. (Loss on sale, if any).

To Asset Account (Original Cost of the asset)

To Profit & Loss Account (Profit on sale, if any).

b) Using Asset Diposal Account.

i) Asset Disposal Account Dr.

To Asset Account (Original Cost of the asset).

ii) Provision for Depreciation Account Dr. (Accumulated depreciation on asset sold)

To Asset Disposal Account.

iii) Bank / Vendor Account Dr.

Profit & Loss Account Dr. (Loss on sale, if any)

To Asset Desposal Account

To Profit & Loss Account (Profit on sale, if any)

C) Sinking Fund Method

First Year

i) For parchase of an asset.

Asset Account Dr.

To cash / Bank / Supplier Account

ii) For providing depreciation

Depreciation Account Dr.

To Sinking Fund Account

iii) For investing the amount of depreciation at the end of the year

Sinking Fund Investment Account Dr.

To Bank Account

iv) For transferring depreciation

Profit & Loss Account Dr.

To Depreciation Account.

Second and Subsequent Years.

i) For receiving interest on investment

Bank Account Dr.

To Interest on Investment Account

ii) For transfering interest to sinking fund account

Interset on Investment Account Dr.

To Sinking Fund Account

iii) For providing the annual instalment of depreciation

Depreciation Account Dr.

To Sinking Fund Account

iv) For investing the amount of depreciation and interest received

Sinking Fund Investment Account Dr.

To Bank Account

v) For transfering depreciation

Profit & Loss Account Dr.

To Depreciation Account.

<u>Last Year</u>

(i), (ii), (iii) and (iv) are same as (i), (ii), (iii) & (v) in the second and subsequent years.

v) For sale of investment

Bank Account Dr.

To Sinking Fund Investment Account

vi) For profit on sale of securities

Sinking Fund Investment Account Dr.

To Sinking Fund Account

In case of loss on sale of investment, the entry will be reversed.

vii) For writing off the old asset

Sinking Fund Account Dr.

To Asset Account.

viii) For sale of discarded asset

Bank Account Dr.

To Asset Account

ix) For transfering the balance of old asset account to Profit & Loss Account.

Profit & Loss Account Dr. (Loss on sale, To Asset Account. .if any).

The entry will be reversed in case of profit on sale.

x) For purchase of new asset

Asset Account Dr.

To Bank Account.

D) Insurance Policy Methods.

First and Subsequent Years:

i) For payment of premium at the beginning of the year.

Depreciation Insurance Policy Account Dr.

To Bank Account

ii) For providing depreciation at the end of the year.

Profit & Loss Account Dr.

To Depreciation Fund Account

Last Year

In addition to the above two entries, the following entries are made.

i) For receiving the amount of policy on maturity

Bank Account Dr.

To Depreciation Insurance Policy Account.

ii) For transfering profit on maturity of policy

Depreciation Insurance Policy Account Dr.

To Depreciation Fund Account

iii) For closing down the depreciation fund account

Depreciation Fund Account Dr.

To Asset Account.

iv) For realising the sale of old asset

Bank Account Dr.

Profit & Loss Account. Dr. (Loss on sale,if any).

To Asset Account

To Profit & Loss Account (Profit on sale, if any).

v) For purchase of new asset.

Asset Account Dr.

To Bank Account.

E) Annuity Method:

i) For purchase of asset.

Asset Account Dr.

To Bank Account

ii) When interest is charged to asset (Purchase of asset is recognised as an investment):

Asset Account Dr.

To Interest Account

iii) For charging depreciation

Depreciation Account Dr.

To Asset Account.

To Profit & Loss Account (Profit on sale, if any).

v) For purchase of new asset.

Asset Account Dr.

To Bank Account.

E) Annuity Method:

i) For purchase of asset.

Asset Account Dr.

To Bank Account

ii) When interest is charged to asset (Purchase of asset is recognised as an investment):

Asset Account Dr.

To Interest Account

iii) For charging depreciation

Depreciation Account Dr.

To Asset Account.

3·7 Illustrations

Problem 1: M/s S. Pharmaceuticals imported a machine on 1.10.2005 for Rs. 2,00,000 and paid customs duty and freight Rs. 80.000 and incurred erection charges Rs. 20,000. Another local machinery costing Rs. 1,00,000 was purchased on 1.4.06. On 1.10.2007, a portion of the imported machine (value one-third) got out of order and was sold for Rs. 40,000. Another machinery was purchased to replace the same for Rs. 50,000. Depreciation is to be calculated at 20% per annum on Straight Line Method.

Show the Machinery Account for 2005 - 06, 2006 - 07 and 2007 - 08.

Solution: In the books of S Phamaceuticals

Dr. Machinery Account Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.10.05	To Bank (Cost of machine)	2,00,000	31.3.06	By Depreciation A/C	30,000
"	To Bank (Cost of duty & freight)	80,000	"	By Balance c/d	2,70,000
"	To Bank (Erection charges)	20,000			
		3,00,000			3,00,000
1.4.06	To Balance b/d	2,70,000	31.3.07	By Depreciation A/C	80.000
"	To Bank (Cost of new machine)	1,00,000	"	By Balance c/d	2,90,000
		3,70,000			3,70,000
1.4.07	To Balance b/d	2,90,000	1.10.07	By Machinery Disposal A/c	70,000
1.10.07	To Bank (Cost of machine)	50,000	31.3.08	By Depreciation A/c...	65,000
		3,40,000	"	By Balance c/d	2,05,000
1.4.08	To Balance b/d	2,05,000			3,40,000

Dr. Machinery Disposal Account Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.10.07	To Machinery Account	70,000	1.10.07	By Depreciation on machine sold....	10,000
			"	By Bank (Sale proceeds)...	40,000
			"	By Profit & Loss A/c [Loss on Sale]	20,000
		70,000			70,000

Working Notes:

Depreciation for the year 2005-06 $= \frac{20}{100} \times 3,00,000 \times \frac{1}{2}$ = Rs.30,000

Depreciation for the year 2006-07 $= \frac{20}{100} \times 4,00,000$ = Rs.80,000

Depreciation for the year 2007-08 =

20% on Rs. 3,00,000 for 12 months $= \frac{20}{100} \times 3,00,000$ = Rs.60,000

20% on Rs. 50,000 for 6 months $= \frac{20}{100} \times 50,000 \times \frac{1}{2}$ = Rs.5,000

65,000

Statement showing the Loss on Sale of machinery on 1.10.07

$\frac{1}{3}$rd value of imported machine $= \frac{1}{3} \times 3,00,000$ =	Rs.1,00,000
Less: Depreciation for the year 2005-06 for 6 months = $(\frac{20}{100} \times 100,000 \times \frac{1}{2})$	10,000
	90,000
Less: Depreciation for the year 2006-07 (20% on Rs. 1,00,000)	20,000
	70,000
Less: Depreciation on machine sold for 6 months: (20% on Rs. 1,00,000 for 6 months)	10,000
Written down value on 1.10.2007	60,000
Sale proceeds of this machine	40,000
Loss on Sale	20,000

Alternative Method:

In the books of S.Pharmaceuticals

Dr. Machinery Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.10.05	To Bank (Cost of machine)	2,00,000	31.3.06	By Depreciation A/c	30,000
"	To Bank (Cost of duty & fright)	80,000	"	By Balance c/d	2,70,000
"	To Bank (Erection charge)	20,000			
		3,00,000			3,00,000
1.4.06	To Balance b/d	2,70,000	31.3.07	By Depreciation A/C	80,000
"	To Bank (Cost of new machine)	1,00,000	"	By Balance c/d	2,90,000
		3,70,000			3,70,000
1.4.07	To Balance c/d	2,90,000	1.10.07	By Bank (Sale of machine)	40,000
1.10.07	To Bank (Cost of machine)	50,000	"	By Depreciation on machine sold	10,000
			"	By Profit & Loss A/C (Loss on Sale)	20,000
			31.3.08	By Depreciation A/C	65,000
			"	By Balance c/d	2,05,000
		3,40,000			3,40,000
1.4.08	To Balance b/d	2,05,000			

Problem 2: A manufacturing Company purchased on 1.4.04 a second-hand plant for Rs. 1,20,000 and immediately spent Rs. 80,000 for repairs and installation charges. On 30.9.04 additional machinery costing Rs. 1,00,000 was purchased. On 1st October 2006 the plant purchased on 1st April 2004 become obsolete and was sold for Rs. 40,000. On that date, a new machinery was purchased at a cost of Rs. 2,40,000.

Depreciation was provided for annually on 31st March at the rate of 10% p.a. on the original cost of the asset. In the year 2007-08, however, the company changed this method of providing depreciation and adopted the method of writing off 15% on the diminishing value (the change is not to be made with retrospective effect).

Show the machinery Account as it would appear in the books of the Company for the years 2004-05, 2005-06, 2006-07 and 2007-08.

Solution:

In the books of the Company

Dr. Machinery Account Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.04.04	To Bank (Cost of machine)...	1,20,000	31.3.05	By Depreciation A/C.....	25,000
"	To Bank (Repairs & Installation)	80,000	"	By Balance c/d.....	2,75,000
30.9.06	To Bank (Cost of machine)...	1,00,000			
		3,00,000			3,00,000
1.4.05	To Balance b/d...	2,75,000	31.3.06	By Depreciation A/C...	30,000
			"	By Balance c/d....	2,45,000
		2,75,000			2,75,000
1.4.06	To Balance b/d...	2,45,000	1.10.06	By Machinery Disposal A/C	1,60,000
1.10.06	To Bank (Cost of machine)	2,40,000	31.3.07	By Depreciation A/C...	22,000
			"	By Balance c/d....	3,03,000
		4,85,000			4,85,000
1.4.07	To Balance b/d...	3,03,000	31.3.08	By Depreciation A/C... (15% on Rs. 3,03,000)	45,450
				By Balance /b/d...	2,57,550
		3,03,000			3,03,000
1.4.08	To Balance b/d...	2,57,550			

Dr. Machinery Disposal Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.10.06	To Machinery Account	1,60,000	1.10.06	By Bank	40,000
			"	By Depraciation A/C... (On machine sold)	10,000
			"	By Profit & Loss A/C... (Loss on sale)	1,10,000
		1,60,000			1,60,000

Working Notes:

Depreciation on Machinery for the year ended 31.3.05

10% On Rs. 2,60,000 for 1 year....	20,000
10% On Rs. 1,00,000 for 6 months...	5,000
	25,000

Depreciation for the year ended 31.3.06

10% On Rs. 3,00,000 for 1 year...	30,000

Depreciation for the year ended 31.3.07

10% On Rs. 1,00,000 for 1 year =	10,000
10% On Rs. 2,40,000 for 6 months =	12,000
	22,000

Statement Showing the loss on Sale of Machinery on 1.10.2006

Original cost of the machine on 1.4.04...	2,00,000
Less Depreciation for the year ended 31.3.05....	20,000
	1,80,000
Less Depreciation for the year ended 31.3.06....	20,000
	1,60,000
Less Depreciation upto 1.10.06 (6 months)	
$\left(\frac{10}{100} \times 2,00,000 \times \frac{1}{2}\right)$	10,000
Written down value on 1.10.06	1,50,000
Less Selling price......	40,000
Loss on Sale	1,10,000

Problem 3: On 1.4.06 Mr X purchased a machine for Rs. 2,00,000. He purchased another machine for Rs. 1,20,000 on 1.9.06. On 1.6.07 Mr X sold the second machine (originally purchased on 30.9.06) for Rs. 1,00,000 and bought a new machine costing Rs. 1,08,000 on the same date.

Mr X charges depreciation @ 20% p.a. on the diminishing balence method. Show the machinery Account for the two year 2006-07 and 2007-08.

Solution:

In the books of the Mr X

Dr. Machinery Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.4.06	To Bank...	2,00,000	31.3.07	By Depreciation A/C...	54,000
1.9.06	To Bank...	1,20,000	"	By Balance c/d...	2,66,000
		3,20,000			3,20,000
1.4.07	To Balance b/d...	2,66,000	1.6.07	By Bank...	1,00,000
1.6.07	To Bank...	1,08,000	"	By Depreciation on	
			"	machine sold	3,533
			"	By Profit & Loss A/C...	2,467
				(Loss on Sale)	
			31.3.08	By Depreciation A/C...	50,000
			"	By Balance c/d...	2,18,000
		3,74,000			3,74,000
1.4.08	To Balance b/d...	2,18,000			

Working Notes:

i) Depreciation for the year2006-07

1st machine: 20% on Rs. 2,00,000 for 12 month	40,000
2 nd machine: 20% on Rs. 1,20,000 for 7 month...	14,000
	54,000

ii) Loss on sale of machinery on 1.6.07:

Written down value of the 2nd machine on 1.4.07...	1,06,000
(1,20,000 – 14,000)	
Less: Depreciation for 2 months from 1.4.07 to 31.5.07...	3,533
$\left(\frac{20}{100} \times 1{,}06{,}000 \times \frac{2}{12}\right)$	1,02,467
Less: Sale proceeds	1,00,000
Less on Sale	2,467

iii) Depreciation for the year 2007-08

On First machine (2,00,000-40,000):[20% on Rs. 1,60,000] =	32,000
On 3rd machine 20% on Rs. 1,08,000 for 10 months =	18,000
$\left(\frac{20}{100}\times 1{,}08{,}000\times\frac{2}{12}\right)$	50,000

Problem 4: On1st April, 2003. X Ltd acquired a new plant A for Rs. 4,00,000 and a further sum of Rs.20,000 was spent on its erection. On 1st October 2004 another plant B was purchased for Rs. 5,00,000.

In an accident, on 31st December, 2005 the plant A was destroyed. The scrap was sold for Rs. 40,000. on 15th January, 2006 a plant C was purchased for Rs. 6,00,000 and further sum of Rs. 1,00,000 was spent on its installation. The company had been providing for depreciation at 10% on a stright line basis. It was the practice to provide depreciation for this full year on all acquisitions made at any time during the year and to ignore depreciation on any items sold or disposed off during the year. None of the asset were insured. The accounts are closed anually on 31st March.

It has now been decided to provide depreciation @ 20% under the diminishing Balance Method with retrospective effect in respect of existing items of plant and to make the necessary adjustment entries on 1st April 2007.

i) Determine the additional depreciation, if any, to be provided on account of the change in the method of depreciation.

ii) Prepare the Plant Account and provision for Depreciation Account for all years up to financial year ending on 31st March 2007.

Solution: i) Calculation of Depreciation on the existing plant under Diminishing Balance Method @ 20%

Cost of plant B purchased on 1.10.2004		5,00,000
Less:	Depreciation for 2004-05	1,00,000
		4,00,000
Less:	Depreciation for 2005-06	80,000
		3,20,000

Less:	Depreciation for 2006-07	64,000
		2,56,000

∴ Total Depreciation Provision... ... 1,00,000 + 80,000 + 64,000 = 2,44,000

	Cost of plant C purchased on 15.1.2006 (Cost + installation) (6,00,000 + 1,00,000)	= 7,00,000
Less:	Depreciation for 2005-06	= 1,40,000
		5,60,000
Less:	Depreciation for 2006-07	1,12,000
		4,48,000

∴ Total Depreciation provision = 1,40,000 + 1,12,000 = 2,52,000

So, total depreciation to be provided under Diminishing Balance Method = 2,44,000 + 2,52,000 = Rs. 4,96,000

Calculation of depreciation charged under Straight Line Method on the existing plant:

Depreciation per annum of plant B ... 10% on Rs. 5,00,00 = Rs 50,000

∴ Depreciation for 3 years = 50,000 × 3 = 1,50,000

Again Depreciation per annum on plant C ... 10% on Rs. 7,00,000 = 70,000

∴ Depreciation for 2 years = 70,000 × 2 = 1,40,000

Total Depreciation Provided = 1,50,000 + 1,40,000 = 2,90,000

So Additional Depreciation to be provided = 4,96,000 – 2,90,000 = Rs. 2,06,000

In the books of the X. Ltd

Dr. Plant Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
		Rs.			Rs.
1.4.03	To Bank (Cost of plant)	4,00,000	31.3.04	By Balance c/d...	4,20,000
"	To Bank (installation cost)	20,000			
		4,20,000			4,20,000
1.4.04	To Balance b/d	4,20,000	31.3.05	By Balance c/d	9,20,000
1.10.04	To Bank	5,00,000			
		9,20,000			9,20,000

contd.....

1.4.05	To Balance b/d	9,20,000	31.12.05	By Plant Disposal A/C	4,20,000
15.1.06	To Bank (Cost of plant)	6,00,000	31.3.06	By Balance c/d	12,00,000
"	To Bank (installation cost)	1,00,000			
		16,20,000			16,20,000
1.4.86	To Balance b/d	12,00,000	31.3.07	By Balance c/d	12,00,000
		12,00,000			12,00,000

Dr. Plant Disposal Account Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31.12.05	To Plant A/C	4,20,000	31.12.05	By Provision for Depreciation A/C	84,000
			"	By Bank	40,000
			"	By Profit & Loss A/C	2,96,000
		4,20,000			4,20,000

Dr. Provision for Depreciation Account Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31.3.04	To Balance c/d	42,000	31.3.04	By Depreciation A/C (10% on Rs. 4,20,000)	42,000
		42,000			42,000
31.3.05	To Balance c/d	1,34,000	1.4.05	By Balance b/d	42,000
			31.3.05	By Depreciation A/C (10% on Rs. 9,20,000)	92,000
		1,34,000			1,34,000
31.12.05	To plant Disposal A/C	84,000	1.4.05	By Balance b/d	1,34,000
31.3.06	To Balance c/d	1,70,000	31.3.06	By Depreciation A/C (10% on Rs. 12,00,000)	1,20,000
		2,54,000			2,54,000
31.3.07	To Balance c/d	2,90,000	1.4.06	By Balance b/d	1,70,000
			31.3.07	By Depreciation A/C (10% on Rs. 12,00,000)	1,20,000
		2,90,000			2,90,000
			1.4.07	By Balance b/d	2,90,000
			"	By Depreciation A/C (Additional)	2,06,000

3·8 Bad Debts and Provision for Doubtful Debts

Bad Debts: When a business sells goods to a customer on credit, the customer is known as debtor and sundry debtors are those to whom sales are made on credit. Some of the debtors are good, some of them are doubyful is payment of their dues while some other may fail to pay off their dues. When a claim against a debtor is not recoverable, it is called bad debt and hence is written off as a Loss. It takes place when the debtor fails to pay either the whole or parւ, of the debt and the sum not received is called the bad debt.

Provision for Doubtful Debts: It is known from the past experience that some portion of the debtors may not be realised and these are known as doubtful debts. Provision for Doutbtful Debts is a provision which is created in the Profit & Loss Account to provide for anticipated loss on account of bad debt. It is a charge against profit and is generally computed as a suitable percentage on sundry debtors.

3.9 Provision for Discount.

There are two types of provision for discount– a) Provision for Discount on Debtors and (b) Provision for Discount on Creditors. Provision for Discount on Debtors is made for meeting the expected loss in the form of discount that may have to be allowed to good debtors for early settlement of their accounts. The objective of this type of provision is to reduce the profit to the extent of discount to be allowed to the debtors. If profit is not reduced and subsequently discount is allowed in the following year, the Profit & Loss Account of both the years will not display true financial result. On the other hand, Provision for Discount on Creditors is made for discount receivable due to early settlement of accounts. It is created against expected income so that the Profit & Loss Account reflects a true profit for the year under reference.

3.10 Accounting Treatments for Bad Debts, Provision for Doutful Debts, Discount Allowed and Provision on it, and Discount Received and Provision on it

A. Bad Debts and Provision for Doubtful Debts.

i) For bad debts witten off:

Bad Debts Account Dr

To Sundry Debtors Account.

ii) For transfer of Bad Debts:

a) Profit & Loss Account Dr (If there is no existing Provision)

To Bad Debt Account.

b) Provision for Doubtful Debt Account Dr (If there is an existing Provision)

To Bad Debts Account

iii) For creation of provision

Profit & Loss Account Dr

To Provision for Doubtful Debts Account.

[If the existing provision after adjusting bad debts is found to be excess of the required provision, then the above entry will be reversed.]

B. Discount Allowed and Provision for Discount on Debtors.

i) For discount allowed

Discount Allowed Account Dr

To Sundry Debtors Account

ii) For transfer of discount allowed

a) When there is no existing provision

Profit & Loss Account Dr

To Discount Allowed Account.

b) When there is an existing provision

Provision for Discount on Debtors Account Dr

To Discount Allowed Account.

iii) For creation of provision

Profit & Loss Account Dr

To Provision for Discount on Debtors Account

[If the existing provision after writing off discount allowed is found to be in excess of the required provision, the above entry will be reversed.]

C. Discount Received and Provision for Discount on Creditors.

i) For discount received

Sundry Creditors Account Dr

To Discount Received Account.

ii) For transfer of discount

a) If there is no existing provision

Discount Received Account Dr

To Profit & Loss Account

b) If there is an existing provision

Discount Received Account Dr

To Provision for Discount on Sundry Creditors Account.

iii) For creation of provision

Provision for Discount on Sundry

Creditors Account Dr

To Profit & Loss Account.

[If the existing provision after adjusting discount received is found to be in excess of the required provision then the above entry will be reversed.]

3.11 Illustrations

Problem 1: A trader had incurred a loss of Rs. 5,000 as Bad Debt during the year ended 31.3.2004 and then decided to create a Provision for Bad and Doubtful Debts at 5% on the good Debtors amounting to Rs. 1,50,000 on

31.3.2004.

During the year edded 31.3.05 his Debtor worth Rs. 3,000 failed to pay their dues. on 31.3.05 his Debtors amounted to Rs. 80,000 and he decided to maintain the provision for Doublful Debts at 5% on Debtors. During the year ended 31.3.06 his Bad Debts amounted to Rs. 6,000.

He decided to maintain the provision for Doubtful Debts to 6% on Debtors, which amounted to Rs. 1,60,000 on 31.3.2006.

Show necesary Journal entries and show the Bad Debts A/C. Provision for Doubtful Debts A/C and also appropriate entre's in the Profit & Loss A/C and the Balance sheet of 2003-04, 2004-05 and 2005-06.

Solutions:

Journal

Date	Particulars		L.F	Dr Amount Rs.	Cr Amount Rs.
?	Bad Debt Account....	Dr		5,000	
	To Sundry Debtors A/C				5,000
	(Being the amount of Bad Debt withen off)				
31.3.04	Profit & Loss Account.....	Dr		5,000	
	To Bad Debt A/C				5,000
	(Being the Bad Debt written off charged to Profit & Loss A/C)				
31.3.04	Profit & Loss Account...	Dr		7,500	
	To Provision for Doubtful Debts Account				7,500
	(Being the creation of Provision for Doubtful debts @ 5% on Sundry Debtors of Rs. 1,50,000)				
?	Bad Debts Account....	Dr		3,000	
	To Sundry Debtors Account				3,000
	(Being the amount of Bad Debts written off)				
31.3.05	Provision for Doubtful Debt A/C...	Dr		3,000	
	To Bad Debt Account				3,000
	(Being Bad Debt loss transfered to Provision for Doutful debt Account)				

Date	Particulars		L.F	Amount Rs.	Amount Rs.
31.3.05	Provision for Doubtful Debt A/C....	Dr		500	
	To Profit & Loss Account				500
	(Being the amount credited to Profit & Loss A/C to maintain the Provision for Doubtful Debts as follows: Bad Debt written off ... ... 3,000 Add: Required Provision on 31.3.05 (5% on 80,000) 4,000 (5% on Rs. 80,000) 7,000 old Provision on 31.3.04... ... ... 7,500 Amount credited to P & L A/C) 500				
?	Bad Debt Account....	Dr		6,000	
	To Sundry Debtors A/C				6,000
	(Being the amount of Bad Debt written off)				
31.3.06	Provision for Doubtful Debts A/C	Dr		6,000	
	To Bad Debt A/C				6,000
	(Being the Bad Debt loss transferced to Provision for Doubtful Debts A/C)				
31.3.06	Profit and Loss Account...	Dr		11,600	
	To Provision for Doubtful Debts A/C				11,600
	(Being the amount debited to Profit & Loss A/C to maintain the Provision for Doubtful Debts as follows: Bad Debts written off ... ... 6,000 Add: Required Provision on 31.3.06 9,600 (6% on Rs. 1,60,000) 15,600 Less: Old Provision on 31.3.05 4,000 Amount debited to Profit & Loss A/c 11,600				

Dr. **Bad Debts Account** Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
?	To Sundry Debtors A/c	5,000	31.3.04	By Profit & Loss A/c	5,000
		5,000			5,000
?	To sundry Debtors A/c	3,000	31.3.05	By Provision for Doubtful Debt A/c	3,000
		3,000			3,000
?	To sundry Debtors A/c	6,000	31.3.06	By Provision for Doubtful Debts A/c	6,000
		6,000			6,000

Dr. **Provision for Doubtful Debts Account** Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31.3.04	To Balance c/d	7,500	31.3.04	By Profit & Loss A/c	7,500
		7,500			7,500
31.3.05	To Bad Debts A/c	3,000	1.4.04	By Balance b/d...	7,500
"	To Profit & Loss A/c	500			
"	To Balance c/d	4,000			
		7,500			7,500
31.3.06	To Bad Debts A/c..	6,000	1.4.05	By balance b/d	4,000
"	To balance c/d	9,600	31.3.06	By Profit & Loss A/c	11,600
		15,600			15,600
			1.4.06	By Balance b/d..	9,600

Dr. **Profit & Loss Account for the year ended 31.3.2004 (includes)** Cr

Particulars	Amount Rs.	Particulars	Amount Rs.
To Bad Debts Account	5,000		
To Provision for Doubtful Debts A/c	7,500		

Dr. **Profit & Loss Account for the year ended 31.3.05 (includes)** Cr

Particulars	Amount Rs.	Particulars	Amount Rs.
		By Provision for Doubtful Debts A/c	500

Dr. **Profit & Loss Account for the year ended 31.3.06 (includes)** Cr

Particulars	Amount Rs.	Particulars	Amount Rs.
To Provision for Doubtful Debts A/c	11,600		

Balance-sheet as at 31.3.2004 (includes)

Liabilities	Amount Rs.	Assets	Amount Rs.
	Sundry Debtors..		1,50,000
	Less: Provision for		7,500
	Doubtful Debts		1,42,500

Balance-sheet as at 31.3.2005 (includes)

Liabilities	Amount Rs.	Assets	Amount Rs.
	Sundry Debtor...		80,000
	Less: Provision for		4,000
	Doubtful Debts		76,000

Balance-sheet as at 31.3.2006 (includes)

Liability	Amount Rs.	Assets		Amount Rs.
		Sundry Debtor...	1,60,000	
		Less: Provision for	9,600	
		Doubtful Debts		1,50,400

Problem 2:

On 1.4.2005 the Provision for Doubtful Debts Accounts in the books of S. Soman stood at Rs.1,200 and the Provision for Discount on Debtors at Rs.150.

On 31.3.06, the Sundry Debtors were Rs.20,400 of which Rs.400 are bad and are to be written off. The discount allowed to debtors during the year ended of 31.3.06 were Rs.300

On 31.3.06, the Sundry Debtors were Rs.10,000 of which Rs.100 are bad and to be written off. The discount Allowed to Debtors during the year were Rs.50.

On 31.3.08, the Sundry Debtors were Rs.36,200 of which Rs.200 are bad and are to be written off. The discount allowed to Debtors during the year ended 31.3.08 were Rs.600.

It is desired to maintain the Provision for Doubtful debts at 5% on sundry Debtors and a Provision for discount on Debtors at 2% on sundry Debtors.

Show the Provision for Doubtful Debts A/c, Bad Debts A/c, Discount Allowed A/c and Provision for Discount on Debtors A/c for the years 2005-06, 2006-2007and 2007-08 bringing down the balances on 1st April, 2008.

Solution: In the books of S. Soman

Dr. Bad Debts Account Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31.3.06	To sundry Debtor A/c	400	31.3.06	By Provision for Doubtful Debts A/c	400
		400			400
31.3.07	To sundry Debtor A/c	100	31.3.07	By Provision for Doubtful Debts A/c	100
		100			100
31.3.08	To sundry Debtor A/c	200	31.3.08	By Provision for Doubtful Debts A/c	200
		200			200

Dr. Provision for Doubtful Debts Account Cr

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31.3.06	To Bad Debts A/c	400	1.4.05	By Balance b/d....	1,200
"	To Balance c/d (5% on Rs. 20,000)	1,000	31.3.06	By Profit & Loss A/c	200
		1,400			1,400
31.3.07	To Bad Debts A/c	100	1.4.06	By Balance b/d...	1000
"	To Profit & Loss A/c	400			
"	To Balance c/d (5% on Rs. 10,000)	500			
		1,000			1,000
31.3.08	To Bad Debts A/c	200	1.4.07	By Balance b/d...	500

contd.....

"	To Balance c/d (5% on Rs.36,000)	1,800	31.3.08	By Profit & Loss A/c	1,500
		2,000			2,000
			1.4.08	By Balance b/d	1,800

Dr. Discount Allowed Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31.3.06	To Balance b/d	300	31.3.06	By Provision for Discount on Debtor A/c	300
		300			300
31.3.07	To Balance b/d	50	31.3.07	By Provision for Discount on Debtor A/c	50
		50			50
31.3.08	To Balance b/d	600	31.3.08	By Provision forDiscount on Debtos A/c	600
		600			600

Dr. Provision for Discount on Debtors Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31.3.06	To Discount Allowed A/c	300	1.4.05	By Balance b/d	150
"	To Balance c/d (2% on Rs.19,000)	380	31.3.06	By Profit & Loss A/c	530
		680			680
31.3.07	To Discount Allowed A/c	50	1.4.06	By Balanceb/d...	380
"	To Profit & Loss A/c	140			
"	To Balance c/d... (2% on Rs.9500)	190			
		380			380
31.3.08	To Discount Allowed A/c	600	1.4.07	By Balance b/d...	190
"	To Balance c/d (2% on Rs.34,200)	684	31.3.08	By Profit & Loss A/c	1,094
		1,284			1,284
			1.4.08	By Balance b/d	684

Problem 3:

On 1.4.07, the Provision for Doubtful Debts Account of a concern showed a balance of Rs.1,20,000 and the Sundry Debtors amounted to Rs.30,00,000 Out of these, during the year 2007-08, Debtors amounting to Rs.21,50,000 were paid in full but the following Debts proved bad or doubtful.

A (Rs.40,000) – Bad to the full extent;

B (Rs.80,000) – insolvent, estate expected to pay 50 paise in the rupee;

C (Rs.24,000) – Paid $33\frac{1}{3}$%in full settlement.

The remaining debts were considered somewhat doubtful on 31.3.08. The following further debts became due during the year 2007-08 but outstanding on 31.3.08

D – (Rs.40,000) – expected to prove totally bad;

E – (Rs.1,60,000) – expected to prove 5% bad;

F (Rs.12,80,000) –expected to prove 4% bad;

G (Rs.8,00,000) – expected to prove bad to some extent;

H (Rs.25,20,000) – expected to prove wholly good.

It was decided to write off actual Bad Debts and to make provision of 5% on Debts unknown and of doubtful nature. Draw up provision for Doubtful Debts A/c and show the balance of the account as at 31.3.2008.

Solution:

(i) Calculation showing the amount of actual Bad Debts:

Amount due from A – (fully Bad)....	Rs.40,000
Amount due from C ($\frac{2}{3}$ Bad) $\left[\frac{2}{3}\times 2400\right]$	16,000
	56,000

(ii) Statement showing the Provision to be made for the year 2007-08

50% ofamount due from B	Rs.40,000.
Full amount due from D	40,000
5% of amount due from E	8,000
(5% of Rs.1,60,000)	

4% amount due from F (4% of Rs. 12,80,000)... ...	57,200
5% of amount due from other Debtors * ... ... (5% of Rs.15,06,000)	75,300
	2,14,500

(iii) * Calculation of other Debtors:

Debtors at the begining	Rs. 30,00,000
Less: Paid during the year	21,50,000
	8,50.000
Less: Amount due from A, B and C (40,000 + 80,000 + 24,000)	1,44,000
	7,06,000
Amount due from G	8,00,000
	15,06,000

Note:- No provision will be made on the amount due from H as debt is expected to prove wholly good.

In the books of the Concern

Dr. Provision for Doubtful Debts Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31.3.08	ToBad Debts A/c	56,000	1.4.07	By Balance b/d	1,20,000
"	To Balance c/d	2,14,500	31.3.08	By Profit & Loss A/c	1,50,500
		2,70.500			2,70,500
			1.4.08	By Balance b/d	2,14,500

3·12 Provision

According th the companies Act, the term 'provision' means "any amount written off or retained by way of providing for depreciation, renewals or diminution in the value of assets, or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy." Provision is a charge against profit and it is usually made by debiting Profit and Loss Account as per convention of conservatism, e.g., Provision for Doubtful Debts, Provision for Fluctuation in Investments, Provision for Repairs, Renewals and Depreciation etc. These provisions are normally either deducted on the assets side of the Balance Sheet or grouped on the liabilities side under appropriate sub-headings. In the words of Pickles, provisions mean "the amounts set aside out of profits and other surpluses to provide for (a) depreciation renewals or diminution in value of assests, or (b) any known liability of which the amount cannot be determined with substantial accuracy."

3·13 Reserve

A negative definition of 'reserve' has been given in the Companies Act and the term 'reserve' shall not include "any amount written off or retained by way of providing for depreciation, renewals, or diminution in the value of assets or retained by way of providing for any known liability." Thus reserve means that part of the net profits or other surplus earned by a business enterprise which is not distributed in the form of dividends but it is kept apart (without having any of the attributes of a provision) to strengthen the financial position of an enterprise or to meet contingencies.

Broadly reserves are of two types - (a) Open Reserve and (b) Secret Reserve. Open Reserves are not kept secret, but clearly shown is the balance sheet of a company under different heads. On the other hand, Secret Reserves refer to such reserves which are not known to the outsiders and not even to the share holders and are not disclosed in the balance sheet of a company but kept completely secret.

Open Reserve are again divided into two main categories - (i) Capital Reserve and (ii) Revenue Reserve. Capital reserves are generally created out of capital profits other than the usual net profit earned by a business enterprise from its normal trading operations. Capital reserves are generally created out of (a) Profits prior to incorporation, (b) Premium on shares or debentures, (c) Profit on revaluation of fixed assets or liabilities, (d) Profit on sale of fixed assets, etc, On the other hand, Revenue Reserves mean any reserve other than Capital reserve. This type of reserve is created out of normal revenue profits of a business enterprise and it is available for distribution as dividend among the shareholders of a Company. Revenue reserves are generally of two types - (a) General Reserve (It is created for the purpose of meeting any future need ie, for any and every need in general) and (b) Specific Reserve (It is created only for specific future needs, e.g., Dividend Equalisation Reserve etc).

The word 'reserve' fund is now frequently employed in accounting. The word fund in relation to any reserve is used only when such reserve is specifically represented by earmarked investments. Accordingly, a reserve fund is either a revenue reserve or a capital reserve which is represented by specially earmarked investments. In case of a reserve, the surplus amount is held or retained is the business itself. But in case of a reserve fund, the surplus amount is invested in profitable and easily marketable outside securities. Thus, a reserve fund refers to the amounts of reserve which is invested outside the business in some marketable and profitable securities, e.g sinking fund etc. [Mukherjee, (1984)].

3·14 Distinetion between Provision and Reserve.

Provision	Reserve
1. Provision is a charge against profits	1. Reserve is an appropriation of profits.
2. It is always created to provide for known liabilities, commitments or diminution in the value of assets.	2. It is generally created for the purpose of meeting some unknown future needs.
3. It is provided to meet some legal or necessary requirements.	3. It is generally created to strengthen the financial position of the business.
4. It can be created even if there is no net profits.	4. It can not be created if there is no net profits.
5. It can never be distributed as dividends.	5. It may be distributed as dividends, when it is required.

6. The proprietor has no claim on provision as it is for a specific loss on expenditure.	6. The proprietor has claim on reserve as it is created out of distributable profits.
7. Provision may be shown on the liability side or as a deduction from the concerned asset in the asset side of Balance Sheet.	7. Reserve is always shown on the liability side of balance sheet under 'Reserve & Surplus'.

3·15 Meaning and methods of valuation of investory.

According to Accounting Standard (AS) - 2, issued by the ICAI, "investories are assets: (i) held for sale in the ordinary course of business; (ii) in the process of production for such sale, or (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services." But the inventories do not indude machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular. Such machinery spares are accounted in accordance with accounting standard AS 10, Accounting for Fixed Assets."

There are different methods of valuing inventories. The following are some of the important methods commonly used is practice:

i) First-in-First-out (FIFO): This method assumes that the items of inventory which are purchased first, are issued first and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Thus, the materials exhausted are priced at the oldest cost price and consequently the inventory is valued at the price of the latest purchases. This method is very useful at the time of falling prices. As inventories will be valued at lower price, the Profit & Loss Account will be charged with the higher cost of earlier lots of materials purchased or manufactured, and thus possible losses on account of the fall in prices will be duly provided for.

ii) Last-in-First-out (LIFO): Under this method, it is assumed that the latest lots of inventories are consumed or sold first and consequently the items remaining in inventory at the end of the period represent the earlier acquisitions. Accordingly, the materials issued are priced at latest cost and cansequently the inventory is valued at the oldest cost price. This method is very useful during the period of rising prices. As inventories are valued at the lower rates of earlier lots and the cost of sales is charged with the current higher prices, the Profit & Loss Account shows a lower amount of profit.

iii) Average Cost: The average price is assumed to be a representative unit cost of all goods handled during a specific period. Under this method, each purchase price influences the inventory valuation and the cost of goods sold and accordingly, the different types of inventories are valued at the average cost of all the lots acquired under each type during a particular period. The average cost may be (a) Simple average (i.e., average of different prices only without taking into consideration the quantities acquired at such prices) and (b) weighted average (i.e., average cost is calculated by taking into account both the prices and quantities acquired at such prices). This method is useful in periods of violent fluctuations in prices of different inventory items, as it helps to iron out such fluctuations by taking the average of cost of different lots acquired from time to time.

iv) Base Stock Method: Under this method a certain minimum or basic quantity (i.e., base stock) in respect of each of the different types of inventories are maintained and valued at original cost. If the actual quantity of closing inventory becomes more than the 'base stock quantity' the excess quantity may be valued either on the basis of FIFO or LIFO.

v) Specific Identification Cost Method: If the closing inventory items can be correctly identified with the specific lots to which they belong, then the specific actual costs to the identified items of inventory are attributed for valuation.

vi) Standard Cost Method: According to this method, the closing inventories are valued at pre-determined standard cost irrespective of the actual cost.

vii) Adjusted Selling Price Method: This method is also called 'inventory method'. It is widely used in retails business. The historical cost of inventory is estimated by deducting the estimated gross margin of profit from the selling price of inventory.

viii) Inflated Price Method: This method is adopted when materials are subject to some inevitable losses that may aries due to evaporation, shrinkage etc. Accordingly the issue price is shightly inflated to cover all loses. This price not only includes the cost involved in bringing the material to the buyer's premises, but also losses due to the earlier mentioned costs as we ll as inventory carrying costs.

ix) Market Price Method: Under this method the valuation of inventory is made with reference to the current market price of the particular type of inventory. This market price is determined from two different and opposite view points

– a) replacement price (i.e., purchase price) and (b) realisable price (i.e., selling price).

3·15 Let us sum up.

Depreciation is the diminution or loss in the value of an asset, arising out of usual, regular and permanent reduction in its usefulness because of the constant use, wear and tear, obsoleseence passage of time, depletion or accident. The different important concepts as to the nature of depreciation can be mentioned as: i·) a process of allocation, (ii) decline in service potential, (iii) maintenance of capital, and (iv) current cost of service consumed. Depending upon the nature of the fixed assets, depreciation is generally charged by following any of the following methods: Straight Line Method, Diminishing Balance Method, Sum of the Year's Digit Method, Waorking Hours Method, Production Unit Method, Mileage Method, Sinking Fund Method, Annuity Method, Insurance Policy Method, Revaluation Method, Depletion Method, Composite Method etc. The accounting treatments along with some illustrations of depreciation are also provided in this unit.

When a claim against a debtor is not recoverable, it is called bad debt. If it is expected that some portion of the debtors may not be realised, a provision for doubtful debts is created out of profit to provide for anticipated loss. Similarly, provisions for discount on debtors and creditors are also made on account of discount allowed and discount received. Accounting treatments for bad debts, provisions for bad debts, discount allowed, provision for discount on debtors, discount received and provision for discount on creditors are also incorporated in this unit along with some illustrations.

The concepts of provision and reserves along with the different types of reserves are also explained in this unit. The basic difference between provision and reserve is that provision is a charge against profit but reserve is an appropriation of profit.

Lastly, the different methods of valuing inventories like FIFO, LIFO, Average cost, base-stock etc have also been discussed in this units.

3·17 Key words

Depreciation, obsolescence, Depletion, Straight Line Method, Diminishing Balance Method, Sum of the Year's Digit Method, Mileage Method, Sinking Fund, Annuity Method, Bad Debt, Provision for Doubtful Debts, Provision, Reserve, FIFO, LIFO.

3·18 Self assessment Questions

1. What do you mean by depreciation? Explain the causes of depreciation.
2. Discuss the nature of depreciation.
3. "Depreciation is a process of allocation, not of valuation". – Comment.
4. Explain the following Methods of Depreciation:
   i) Straight Line Method,
   ii) Diminishing Balance Method,
   iii) Sum of the Year's Digit Method,
   iv) Working Hours Method,
   v) Production Unit Method,
   vi) Insurance Policy Method,
   vii) Depletion Method.
5. Distinguish between Fixed Instalmant Method and Reducing Balance Method of providing depreciation.
6. Distinguish between Annuity Method and Sinking Fund Method of providing depreciation.
7. Distinguish between bad debt and provision for bad debts.
8. Differentiate between provision and reserve.
9. Differentiate between Capital reserve and revenue reserve.
10. Briefly describle each of the following inventory pricing methods:
    i) FIFO, ii) LIFO, iii) Average Cost Method,
    iv) Standard Cost Method, v) Adjusted Selling Price Method,
    vi) Inflated Price Method, vii) Market Price Method.

3·19 Suggested Readings

Gupta and Radhaswamy	:	*Advanced Accountancy,* Sultan Chand & Sons. [Chapter on Depreciation, Bad Debts and Inventory]
Mukerjee and Hanif	:	*Modern Accountancy,* Vol - I, TMH. [Chapter 9 to chapter 11]

3.20 Further Readings

Hendriksen, E.S	:	*Accounting Theory,* Khosla Publishing House. [Chapter 13 and chapter 15]
Jain, S.P. and Narang, K.L.	:	*Accounting Theory and Management Accounting*, Kalyani Publishers [Chapter 6 to chapter 7].
Mukerjee, R.N	:	*Accounting Theory and Management Accounting*, IPP [Chapter 7 to chapter 9].
Pickles, W	:	*Accountancy*, ELBS [chapter 7].
Srinivasan and Murgan	:	*Accounting For Management*, S. Chand [chapter 7].

MBA

(Management Studies)

(Semester – I)

MBA 1405

FUNDAMENTALS OF MARKETING MANAGEMENT (FMM)

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FUNDAMENTALS OF MARKETING MANAGEMENT
(MBA 1405)

BLOCK – 2
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MBA 1405

Fundamentals of Marketing Management (FMM)

Block 2

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UNIT – 4

MARKET SEGMENTATION

Unit – 4 : Market Segmentation

Structure

4.0. Introduction

The modern marketing concept states that the fundamental objective of a marketer is to identify the consumers' needs first and then produce the product according to consumer's requirements; so that his needs can be satisfied. Thus, it is the job of every marketer/ producer to understand consumer needs ; and also to study the factors which a consumer takes into account while buying a particular brand. This particular study by a producer / marketer is commonly known in modern marketing concept as consumer or buyer behavior study.

4.1. Definition of Consumer Markets, Consumer Behaviours, Business Markets and Buyer Behaviour

- **Consumer Markets**

Consumer market refers to those markets where the companies/manufacturers produces end products in order to satisfy the needs and wants of the consumers. For example - A biscuit manufacturing company manufactures biscuits and then diffuses the biscuits to the entire market so that consumers can buy those products from the market.

- **Consumer Behaviour**

Consumer behaviour can be defined as the behaviour, attitude and feelings that are exhibited by the consumers while purchasing, using, applying and disposing off the products/services.

MCQ PRACTICE 1:

Any individual who purchases goods and services from the market for his/her end-use is called a.................

a. Purchaser

b. Customer

c. Consumer

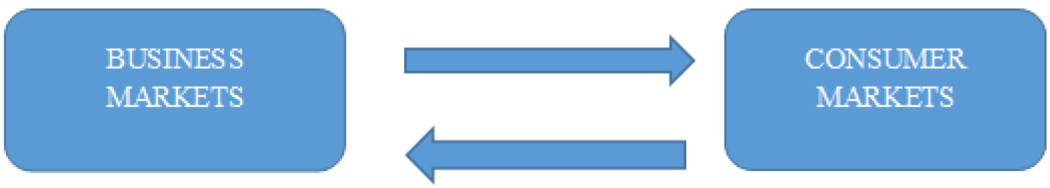
d. All of the above

- **Business Markets**

Business markets are those where there are only few buyers and mainly they purchase in huge quantities. For example: A biscuit manufacturing company ABC will be purchasing flour and sugar in large quantities to manufacture biscuits.

- **Buyer Behaviour**

The behavior of the buyers in business market is that they purchase large quantity of raw materialsor products in order to ensure smooth manufacturing and smooth distribution of the products in the market so that the customers can avail them.



We can strongly say that consumer markets and business markets are interrelated with each other.It is only because of business markets that consumers markets are having a place in the market. Ifwe say the same thing other way round, then we can say that it is because of the consumer markets, business markets are having an existence. Because, the buyers of the business markets are purchasing raw materials and components for manufacturing finished products which will be diffused into the consumer market for the consumers to buy. If there were no business market then there would have been no consumer market as well.

4.2. Market Segmentation

Market segmentation means dividing the market into different small divisions on the basis of different aspects/factors/areas such as Geographical segmentation, Demographic segmentation, Psychographic segmentation etc. The types of segmentation has been elucidated below:

- **Demographic segmentation**

Demographic segmentation implies dividing the market and segmenting it on the basis of the age, income, sex, gender, family size, family life cycle, nationality, religion etc. For example – A mobile manufacturing company segments its market on the basis of income and launches mobiles under three different categories: High income, Middle income & Low income group.

- **Psychographic segmentation**

Consumers are divided into different groups on the basis of personality, lifestyle and values. These characteristic lead to psychographic segmentation. For example: VALS Segmentation is an important tool to decode the psychographics of the consumers.

- **Socio-Economic Segmentation**

Income, occupation, education, religion and social classes are the important socio-economic data required for market segmentation.

- **Benefit Segmentation**

Buyers are classified according to the benefits that they derive from the products/services. For example: The basic function of a car is transportation but people prefer different cars because of the different characteristics that they possesses. If economy is considered, then people prefer Maruti Alto, if quality is considered then people opt for Toyota Fortuner and if Speciality is considered, then people do for Audi, BMW etc.

- **User Status**

Some users are heavy users, some are medium users & some are light users. Therefore, a marketer has to segment the market according to these user status.

- **Usage Rate**

Usage rate depicts the frequency of use of products. To what extent the products or services are used by the people depicts the usage rate. For example: Teenage girls are the frequent and heavy users of cosmetics and housewives are the frequent users of microwave ovens and stove ovens. Whereas on the other hand youngsters are the frequent users of PlayStations.

- **Loyal Status**

Different customers have different degree of loyalty towards a particular brand. Customers can be divided into four groups based on loyalty status:

1. ***Hardcore loyals*** – They are very much loyal to only a particular brand and they won't buy any other products of any other brands.
2. ***Softcore loyals*** – They are loyal to two to three brands. For example: A person is loyal to both Pepsodent and Colgate.
3. ***Shifting loyals*** – They keep shifting from one brand to another. For example: A person using Apple smartphones can shift to Samsung smartphones without any consistency.
4. ***Switchers*** - They have no loyalty towards any brand. They are comfortable with any brand that are available in the market. For example: A person, before going to buy a shirt, has no predisposition towards a brand. He will buy the one that he finds to be good. Be it Hoffmen, Allen Solly, Tommy Hilfiger, Van Heusen, Louis Philippe and many others.

DO YOU KNOW?

The average person is estimated to encounter between 6,000 to 10,000 ads every single day. (*Source: https://www.linkedin.com/pulse/marketing-facts-2022-niharika-mukherjee)*

MCQ PRACTICE 2:

When a marketer wants to reach and sell his products based on a particular region/area/location then what kind of Market segmentation should be preferred?

a. Benefit segmentation
b. User rate segmentation
c. Demographic segmentation
d. Geographic segmentation.

4.3. Concept of Market Targeting and Market Targeting Strategy

Market Targeting

Market Targeting means aiming for a specific area or group of consumers. Market targeting helps to focus upon and zero down on a particular area or region or group of consumers who can be served by the company.

Market Targeting Strategy:

Broadly, market targeting strategy can be classified into three types. These are: Concentrated marketing, Differentiated marketing & Undifferentiated marketing.

a) *Concentrated marketing* – Concentrated marketing focuses upon concentrating or putting focus on a single or particular area. There will be narrow product & some unique competence. For example: Rolex watches are only meant for high-income group people and these watches are targeted for them only.

b) *Differentiated marketing* – Differentiated marketing implies that there will be numerous products targeted for numerous people. Under differentiated marketing, different products are designed for different segments of the market. For example: Hindustan Unilever has many soaps under its name such as Lux, Pears, Lifebuoy, Rexona and many more but the users of these soaps differ from each other. Beauty conscious women will use Lux whereas Lifebuoy will be used by those people who want to safeguard themselves from germs.

c) *Undifferentiated marketing* – Undifferentiated marketing implies that the companies do not differentiate the market and sees the market as a whole. They design & manufacture similar products and diffuses them to the marketplace. One product for all is the principle of undifferentiated marketing. The products are having broad-based appeal and there are no need of segmentation. For example: Pepsi, Coca Cola, Thumbs Up etc.

Strategy	**Organization Characteristics**
Concentrated	The organization targets a major offering to a particular market segment
Differentiated	Each organization targets numerous products, one product to each of numerous market segments
Undifferentiated	All products from all the organizations targeted to all or a majority of the market

MCQ PRACTICE 3:

The companies do not differentiate the market and sees the market as a whole. What kind of Market Targeting is this?

a. Concentrated marketing
b. Differentiated marketing
c. Undifferentiated marketing
d. None of the above

4.4. Market Positioning

Market positioning can be termed as the process of positioning or fitting the products or services in the minds of the customers in such a way that the customers can recall the products or services of the brand/company when any stimulus is provided to them. For example: Johnson & Johnson has positioned themselves as a company who provides products for the babies/infants. Johnson & Johnson's positioning exhibits care, affection and kindness which are the essentials of baby products.

4.5. Positioning Approaches

i. *Positioning by product attributes or customer benefit* – This kind of positioning is done in order to position the product by the help of the features that the product possesses or the benefits that it offers to the customers. For example: Volvo is one of the most renowned automobile manufactures, positions itself on two dimensions – safety & comfort. A company can position itself on the basis of different dimensions.

ii. *Positioning by price-quality* – There are many companies who promotes and positions themselves in terms of quality & price. Premium products will be charged more and often exhibits higher quality & status. Also, contrary, there are several products which are of low price such as Maruti Alto 800. Maruti Alto 800 is positioned as a low cost, highly economical family car that offers value for money characteristics.

iii. *Positioning by product user* – Companies positions their products keeping in mind a particular category of users. For example: L’Oreal Paris shampoos are positioned for the women which will make their hair bright, strong and long.

iv. *Positioning by Competitors* – This type of positioning is done by keeping the competitorsat the focal point. Saying your products better than your competitors or as good as your competitors are the aspects of positioning by competitors. For example: Tide is sometimes advertised as the detergent brand that can offer much better cleaning than other renowned detergents such as Surf Excel.

v. *Positioning by use of application* – Some products are positioned by their use and application. For example: Benadryl cough syrup is positioned as a syrup that can help us get rid of our cough and cold & Samsonite suitcases are positioned as strong and sturdy suitcases that can accommodate many things inside it.

4.6. Qualities of a successful position:

i. *Relevance* – Positioning the product in such a manner that it is relevant for the customers those who are going to buy the products. Rational buying is what the customers prefer. Forexample: Surf Excel is a relevant product as it cleans the dust and any kind of stains on shirts.

ii. *Distinctiveness* – Positioning the product in such a manner that it brings distinctiveness to it. People prefer those products which are distinct & unique and at the same time cheap, good in quality and adds value. For example: Pringles is an American chips brand that comes in cylindrical packaging and tastes better than the usual chips that are available in the market.

iii. *Durability* – Positioning on the basis of durability suggests that the brand’s position is built over a period of time and it is an established brand in the minds of the customers. For example: Coca Cola is well known soft drinks brand that has made its name and fame by staying durable in the market for several years.

iv. *Coherence* – Coherence brings out integrity. It implies that if the brand has integrity in its communication, promotion and advertising, then it is sure to bring our coherence out of it. For example: Apple IPhone has got high degree of coherence as their communication is highly integrated and timely information is provided to the public at regular intervals.

v. *Clarity* – Clarity suggests that a brand’s position should be lucid & clear so that it will be easy to communicate & disseminate information to the general public.

vi. *Courage* – A brand manager should have the courage & clarity in order to formulate a strong brand position. A brand manager needs to have courage to believe that a strong position is synonymous to strategic intent for the brand.

DO YOU KNOW?

Email Marketing is mostly used for lead generation (85%), Sales (84%), lead nurturing (78%), and customer retention (74%). *(Source: https://www.linkedin.com/pulse/marketing-facts-2022-niharika-mukherjee)*

MCQ PRACTICE 4:

The way the product is defined by consumers on important attributes is called__________________.

a. Market segment

b. Product position

c. Market targeting

d. Brand equity.

4.7. **Let Us Sum Up**

The primary objective of the modern marketing concept is that the marketer / producer should first identify his consumer's needs and then produce market goods, ideas, and service according to that particular consumers' needs and wants. The need of the consumers and also the factors affecting their need satisfaction should be identified by the marketers. The marketers should also take into consideration the factors which consumers takes into account while making a particular purchase decision for product and service. It becomes a major task of the marketer to make appropriate marketing strategies to satisfy the consumer needs and wants.

4.8. Exercises with Answers to MCQs

1. Define consumer markets.
2. How consumer market is different from business market?
3. What is market segmentation? What are the different types of market segmentation?
4. Define targeting with respect to marketing. What are the different market targeting strategies that a company can take into account?
5. What do you understand by market positioning? What are the various positioning

approaches that an organization can take into account? Explain the qualities of a successfulposition.

MCQ PRACTICE ANSWERS:

MCQ PRACTICE 1: (c) Consumer

MCQ PRACTICE 2: (d) Geographic segmentation

MCQ PRACTICE 3: (c) Undifferentiated marketing

MCQ PRACTICE 4: (b) Product position

4.9. Key Words

- **Consumer Market**

Consumer market refers to those markets where the companies/manufacturers produces end products in order to satisfy the needs and wants of the consumers.

- **Consumer Behaviour**

Consumer behaviour can be defined as the behaviour, attitude and feelings that are exhibited by the consumers while purchasing, using, applying and disposing off the products/services.

- **Business Markets**

Business markets are those where there are only few buyers and mainly they purchase in huge quantities.

- **Market Positioning**

Market Positioning can be termed as the process of positioning or fitting the products or services in the minds of the customers in such a way that the customers can recall the products or services of the brand/company when any stimulus is provided to them.

4,10. Suggested Readings

1. Katler Philip, Keller Kevin Lane, Koshy, Abraham and The Mithileswar; Marketing Management : A South Asian Perspective, 13 th Edition, Pearson, Prentice hall, 2009.

2. Kumar, Sharad; A Text Book of Marketing Management, Himalaya Publishing House, New Delhi, 1997.

3. Mallik Pradip Kumar; A Text Book of Marketing Management, Allied Publishers Pvt Ltd, New Delhi, 2007.

UNIT – 5

MARKETING MIX

UNIT – 5 : Marketing Mix

Structure

5.0.Objectives

- To gather a basic idea about marketing mix
- To understand the concept of product mix
- To gain an insight of product life cycle
- To illustrate the stages of product life cycle.

5.1. Introduction

The concept of the marketing mix was introduced by E . Jerome Mc Carthy in his 1960s book - Basic Marketing : A Managerial Approach. It is also known as ‘four Ps’ of marketing which are : Product, Price, Place and Promotion. It has been expanded since then to include ‘ people’, ‘packaging’ and ‘process’. Product mix is a key part of a business’s market strategy and a well managed product mix can help a company. It refers to a range of products that the company offers. A product life cycle (PLC) is the period of time a product is available to consumers , from its development to its removal from the market.

5.2. Marketing Mix

The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. A marketing mix often refers to E. Jerome McCarthy's four Ps: product, price, placement, and promotion. The different elements of a marketing mix work in conjunction with one another.

Elements of marketing mix:

1. *Product* – Product is that item which the customer buys by paying an amount of money.
2. *Price* – Price is the value of the product and a customer pays a amount to purchase the products of a company.
3. *Placement* – Placement or place is the physical location where the product will be available to the customer.
4. *Promotion* – In order to sell the product in the market, a company needs to promote the product in different ways so that the customers are attracted, persuaded and are aware to buy the product.

DO YOU KNOW?

Influencer marketing is a $2 Billion industry on Instagram.

(Source: https://www.linkedin.com/pulse/marketing-facts-2022-niharika-mukherjee)

5.3. Product Mix

Product mix can be defined as the wide range of products produced by a company or available to a company which will be sold to the customers. According to William Stanton: "The product mix is the full list of all products offered for the sale by the company." Thus, product mix means total number of products items offered by the company.

The following are the elaboration of product line, product width, product depth & product consistency:

- **Product Line** – Refers to the total categories of products under product mix. For example: Apparels, Food, and Electronics.
- **Product Width** - Width, also known as breadth, refers to the number of product lines offered by a company. For example: If a company deals with businesses such as – apparels, food and electronics. Then we can say that the company's product line is 3 times wide.

- **Product Depth** - Depth refers to the number of variations within a product line. For example: Under apparel, a company has men's clothing and women's clothing.
- **Product Consistency** – Refers to how each product and product line is closely related to each other. For example: Amul deals only with milk products, therefore, it has high degree of consistency.

MCQ PRACTICE 1:

Take for example, a company has delved into many businesses such as apparel, FMCG products, durables and many more. What can be the degree of consistency of the company?

a. High
b. Low
c. Medium
d. Very high

5.4. Product Life Cycle (PLC)

Product life cycle is the life cycle of the products that products goes through from the day of their manufacture till the day of their decline. It depicts the Ups and Downs of a product. Just like a human being, a product takes birth and goes through different stages and also meet the end of the day. There are products, whose life span are shorter while there are numerous products whose life span extends till eternity.

Take the example of Horlicks. Horlicks has remained handsome forever and still today the reign of Horlicks is impeccable. Take another example of Greedy Bisticks, a different kind of biscuit from Britannia which became a sensation overnight but it lost its charm very soon and perished from the market at a very faster rate.

5.5. Stages of Product Life Cycle (PLC) and the marketing strategies associated with it:

Stage 1: Introduction – Product is introduced in the market. Extensive promotion and marketing is required to create a customer base. Price must be kept low to attract the public towards the product. Profits will be less in this stage. Product is launched in a few selected markets to test the performance of the product.

Stage 2: Growth – The product shows a growth and has captured a considerable piece of the market share. No major changes are required to be incorporated as it is the growth phase.

Customers have developed a liking towards the product. Keeping a track on the growth of the product is needed by the company. Profits have also started generating.

Stage 3: Maturity – The product has become matured and a stage has indeed come which is called saturation. Profits are generating but it has stagnated a bit. New variety of products, variations in the product (colour, shape, flavour, size etc.) are needed to be done to make the product clinch the market for a while.

Stage 4: Decline – Sales show a fast declining trend and profits erode. Competition becomes severe and even loyal customers switch to new products of competitors. It is the ending phase of product's life cycle. Company reduces sales expenditure, liquidate the market from weak markets, cut the prices to clear stocks, and reduce advertising and sales promotion to minimal level to retain hard-core loyals. A product should be eliminated when it does not find a proper place in the firm's product line.

DO YOU KNOW?

Storytelling is considered to be a very important part of marketing. It won't sell directly but it will surely make your customers think, "Maybe I should try this out".

(Source: https://www.linkedin.com/pulse/marketing-facts-2022-niharika-mukherjee)

MCQ PRACTICE 2:

During which stage of product life cycle, there are heavy expenditures on advertising & promotions?

a. Introduction
b. Growth
c. Maturity
d. Decline

5.6. Let Us Sum Up

The marketing mix is a fundamental building block of any successful business, It needs to be handled correctly. It requires a lot of understanding, market research, and consultation with several people. A successful product mix strategy enables a company to focus efforts and resources on the products and product lines within its offerings that have the greatest potential for growth, market share and revenue. Product life cycle is the succession of strategies by business management as a product goes through its life cycle. The conditions in which a product is sold (advertising, saturation) changes over time and must be managed as it moves through its succession of stages.

5.7. Key Words

- **Marketing Mix** : It refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. A marketing mix often refers to E. Jerome McCarthy's four Ps: product, price, placement, and promotion.
- **Product Mix** : Product mix can be defined as the wide range of products produced by a company or available to a company which will be sold to the customers.

5.8 Exercises with MCQ answers

1. What is marketing mix? Explain the elements of marketing mix.
2. Define product mix. Explain the following concepts with proper examples:
   a. Product line
   b. Product width
   c. Product depth
   d. Product consistency
3. What do you understand by Product Life Cycle (PLC)? Elucidate the stages of Product Life Cycle (PLC) with the citation of proper examples and a diagram.

MCQ PRACTICE ANSWERS:

MCQ PRACTICE 1: (b) Low

MCQ PRACTICE 2: (a) Introduction

5.9. Suggested readings

a) Balchandran's (1999). Customer - Driven Services Management, Response Books, New Delhi.

b) Banerjee, M (1981). Essential of Marketing Management, Kalyani Publishers, Calcutta.

c) Kotler, P. (2003). Marketing Management 11th Ed. Pearson Education, Singapore.

d) Dalrymple, D. J. and J. L. Pearson (1990) Marketing Management: Strategy and Cases, 5th Ed. John Wiley and Sons., New York.

e) Ramaswany, S. V. and S. Nama Kumari (1990). Marketing Management: Planning, Implementation and Control, MacMillan, Business Book, Delhi.

UNIT – 6

NEW PRODUCT DEVELOPMENT

UNIT – 6 : New Product Development

Structure :

6.0. Objectives

The objectives of the unit are to understand the issues and perspectives of the :

- Concept of new product development
- Steps of new product development
- Nature and types of packaging
- Importance of packaging
- Concept and types of branding
- Significance of branding

6.1. Introduction

Product is a bundle of attributes. It consists of both tangible and intangible attributes. Product as a major component of marketing mix demands thorough understanding of its nature, characteristics, classification, utilities etc to proceed for effective product management. Product management is an important part of marketing management. The practice of product management further is pursued through product line and product mix management as well as product line stretching. A company at a time depending on the opportunities and threats evolving in the markets undertakes new product development to extend its product portfolio.

6.2. Steps of New Product Development (NPD)

When a new product is launched into the market and if it turns out to be good then it attracts the attention of the people, it becomes a trendy product in the market. There are stories of many products which met with overnight success after it was launched into the market. For example: Paper Boat is a drink manufactured by Bangalore based Hector beverages made its place in the hearts of the people because it has that rooted feel to it which triggered nostalgia. But, many people fails to comprehend the processes and steps that are undertaken before the product is launched into the market. There lies numerous plans, procedures, conviction & vision before the product is produced and launched on a full-fledged scale into the market.

6.3. Steps of New Product Development

Step 1: Idea Generation – In order to develop a new product, ideas are generated and churned out. Numerous people are involved in this process of idea generation such as employees, managers, R&D team, and many more. Nowadays customers and general public are also included in the idea generation process. Idea generation is basically the brainstorming process where several people asserts their ideas and all the ideas are recorded for the purpose of screening.

Step 2: Idea Screening - The second step is called the idea screening stage where the ideas that hasbeen churned out during the idea generation stage are filtered out. It is basically the process of weeding out unsuitable ideas. Idea screening helps to narrow down and zero down on good and effective ideas.

Step 3: Business Analysis – Under this step, all the aspects and elements regarding the business is analyzed. For example: The cost, the marketing prowess, the financial condition of the company, the risks involved all are evaluated. Companies uses break even analysis and risk analysis to ascertain the optimum cost, price and expected profits.

Step 4: Concept Development – In this step, the idea on the paper is given an embodiment. The concept of the product is developed and all the developments regarding the products takes place here. One concept which is known Quality Function Deployment (QFD) is applied in this step. QFD means converting the needs and demands of the customers into a working framework.

Step 5: Testing – Testing means analyzing the effectiveness and efficiencies of the ideas generated.There may be many ideas which may look good on paper and also after its development, but in thereal life environment, they may not be effective. The prime objective of testing is to assess whetherthe product meets the technical & commercial objectives. There are three types of tests:

- **Concept testing** – It is all about garnering the customer's reactions even before making the prototype products. Before any time, money and labour are wasted in making the products, the reactions of the customers are taken into account. If the responses of the customers arepositive, then the development of the prototype product is taken up.
- **Product testing** – In this, the product is launched in a few selected market and the responsesof the people regarding the products are then seen. Whether the product has lived up to theexpectations of the people, it is looked after. Launching the products on a full scale involvesa lot of risk which will be minimized if the product is launched on a small scale.
- **Test Marketing** – Test marketing not only test the products performance in the market butit also test the company's marketing, promotional & advertising abilities.

Step 6: Commercialization – Now in this stage, the product is ready to get commercialized i.e. it is now ready to get launched on a large scale basis. Commercialization is possible when the products gain positive response in the test marketing process. After commercialization process, the product life cycle starts right away.

DO YOU KNOW?

Ninety-one percent of consumers have at least one promotional product in their kitchen, 74 percent have at least one in their workspace, and 55 percent have at least one in their bedroom. *(Source: https://www.sageworld.com/blog/index.php/2015/04/30/25-insane-but-true-facts-about-promotional-products/)*

MCQ PRACTICE 1:

This is stage of New Product Development in which the ideas which seems unimportant are eliminated.

a. Idea Screening
b. Business Analysis
c. Commercialization
d. Test Marketing

6.4. Concept of Packaging

William J. Stanton stated, “Packaging may be defined as the general group of activities in product planning which involves designing and producing the container or wrapper for a product.” Designing the outer package is important because it gives a distinct look to the package and also it safeguards the material or products inside the package.

Indian Institute of Packaging (IIP) is an autonomous body in the domain of packaging and working under the administrative control of the Ministry of Commerce and Industry, Government of India. It was established on 14th May, 1966 and its headquarter and principal laboratories are in Mumbai. The Institute set up its first branch office in Chennai in the year 1971, and then many branches were opened in Kolkata, Delhi and Hyderabad in 1976, 1986 and 2006, respectively. The prime objective of the Institute is to promote the export market through innovative package design & development as and to upgrade the overall standards of packaging in the country. The Institute is involved in various activities like testing and evaluating the packaging materials and packages, consultancy services and R&D related to packaging. Moreover, the institute also provide training to the people in the field of packaging.

6.5. Types of Packaging Strategies

a. **Reuse packaging -** It is type of packaging where the the packaging materials can be used later on after the contents has been fully used. For example: A Horlicks container will be reused later on after the whole Horlicks has been consumed. People can use that Horlicks container for storing other items.
b. **Multiple Packaging -** It is a type of packaging where several products are packaged into a single unified package. For example: 5 soaps are packaged under a single package. When numerous products are packaged into a single entity then there will be price reduction.

c. **Packaging the product line** – The company must find out whether they want to promote and sell the product under the same family name or not. If they want to promote and sell the products under the same family name, then they need to package the products in an identical package. For example: Fanta is a carbonated soft drink. All the Fanta bottles are packaged in the same colour i.e. orange. Himalaya face wash are all packaged in an identical manner so that people can recognize them at a glance.

d. **Changing the package** – Changing of package means giving it a new look. If the packaging is changed then it will be more appealing to the general public when it will be promoted and advertised.

6.6. Importance of Packaging

There was a time when packaging was done only to cover and pack the materials that were inside. But now packaging has extended its forays into multiple directions. Packaging now means keeping the products safe, using such packaging materials that can be considered environmentally safe and many more. Some of the importance of packaging are enlisted below:

a. Effective packaging keeps the products safe.

b. Packaging also contains useful information on the body of the package. For example: Knorr soup contains useful information regarding the ingredients of the soup.

c. Glamorous packaging can enhance the look of the package which will be really eye-catching for the customers.

d. It provides the customers with convenience by articulating the attributes of the product.

e. A package can be reused. For example: A box of Pringles can be used to keep different things.

MCQ PRACTICE 2:

Indian Institute of Packaging (IIP) was established in the year__________.

a. 1966

b. 1967

c. 1976

d. 1977

DO YOU KNOW?

The top five buyers of promotional products are clients in education, finance, not-for-profit, healthcare, and construction.

(Source: https://www.sageworld.com/blog/index.php/2015/04/30/25-insane-but-true-facts-about-promotional-products/)

6.7. Concept and Types of Branding

Branding

The American Marketing Association defines a brand as "A name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The legal term for brand is trademark. A brand may identify one item, a family of items, or all items of that seller. If used for the firm as a whole, the preferred term is trade name."

Types of Branding

- **Corporate branding** – Corporate branding is a type of branding that tends to brand its products and services by using the name of the corporation/company. It is helpful for the company that people can associate positively the product with the entire company. For example: Apple. When people say that they are using IPhone, instantly the company apple and the logo of the half eaten apple strikes their mind.
- **Personal branding** – It is done in order to make goodwill and good image for some personal benefits. For example: The infamous You Tuber Roddur Roy has become a sensation (although because of negative reasons) because of his controversial song that he had uploaded on his YouTube channel – "Chand Uthechilo Gogone". Then onwards, many T- Shirts and memes were launched where "Chand Uthechilo Gogone" was written on it. From this line of the song only, we can identify it with Roddur Roy.
- **Geographical branding** – It is done in order to promote a geographical place/location/region. For example: I LOVE CHENNAI along with its Tamil translation on Marina beach has become a place for people to click selfies and take photos.
- **Online branding** – Nowadays, online branding is very much important to stay afloat. There are many products which are branded and promoted through online. For example: One Plus smartphones are promoted through online mode and it can be exclusively be found on Amazon.
- **Retail branding** – Retail branding is a type of branding in which the retailers name and

fame appears to be strong. Obviously, the products sold by the manufacturers might be of good quality but if the retailers also tends to be strong then it becomes more advantageous for the company to sell the products. For example: Spencer, More, Walmart are some of the examples of branded retailers.

MCQ PRACTICE 3:
When any state/region is promoted through branding, then this type of branding is known as:

a. Online branding
b. Corporate branding
c. Personal branding
d. Geographical branding

Line Extension & Category Extension

- **Line Extension** – Line extension in the ambit of branding implies that the company is launching new products that are related and under the same line to the products that the company is already manufacturing. For example: If a company QWE is manufacturing shampoos and if they feel to manufacture body wash, then it will be considered that they are engaged in Line extension because both shampoo and body are related products (wellness).
- **Category Extension –** Category extension in the ambit of branding implies that the company is launching new products that are unrelated and are not under the same line of the products that the company is already manufacturing. For example: A chips manufacturing company starts manufacturing shirts can be considered as an example of category extension.

6.8 Importance of Branding

- Brands helps to differentiate a product of one company from that of the other.
- Branding helps to create a favorable image regarding the products/service in the minds of the people.
- Branding creates and adds more value to the products/services so that when the products will be bought by the customers, they will get value added products and services.
- Branding builds up loyal customer base as there will be high brand resonance which in turn

will enable the customers to resonate more with the brand.

- It helps the company to earn more revenues and capture market share more efficiently.

Some important terms related to Branding

- **Brand awareness** – Brand awareness can be considered as the degree of knowledge and awareness people have towards the brand. In short, how much the people are familiar with the brand. There are brands/products which are so much trenchant inside the minds of the people that whenever they hear about something regarding the brand or close to the brand, they recall the brand or product instantly. For example: Whenever a person hear about Apple, they are reminded of Apple IPhone and other Apple gadgets & accessories.
- **Brand loyalty** – Brand loyalty signifies to what extent people are loyal and faithful towards a brand. The brand has engrossed the people in such a manner that people just can't get over the brand. They have become the silent ambassadors of the brand promoting it all along. No matter what the situation turns out to be, they will never switch to other brands. For example: For instance, people who have developed loyalty towards Sensodyne will never choose Pepsodent, Colgate, Close-Up etc.

Brand personality – Just like a human being, a brand is also having personalities. Although, a brand is completely non-living in nature but still it has different personalities embedded into it. But one thing has to be kept in mind that all these are very abstract in nature. Thesepersonalities can only be conceived and perceived by the people in a very abstract manner. For example: On hearing the name of Harley Davidson, we envision a strong, sturdy, macho and powerful bike. So these attributes such as machismo, strong, sturdy and powerful are also applicable to human beings. Similarly, Lux and Ponds soap has feminine appeal to it and Johnson & Johnson has the personality such as caring, generous, soft, mildand tender which are the imperatives of baby products.

MCQ PRACTICE 4:

When a company launches product that are not in similar lines, it is known as___________.

a. Line extension
b. Category extension
c. Multi extension
d. Subsidiary extension

6.9. Let us Sum Up

Production in present days is quickly becoming obsolete. Old products are being replaced by new products . New products mean which are perceived as new by customers. Stenton et al (1994) explained new product is that which buyers perceive as significantly different from that of competing production. Branding is the process of creating a unique identity for a product or service to differentiate it from competitors. It involves more than just aesthetics, and can influence how consumers perceive a product's quality, credibility and value.

6.10. Exercises with MCQ Answers

1. What do you understand by New Product Development (NPD)?
2. What are the steps of New Product Development (NPD)?
3. Define Packaging. State the advantages of Packaging.
4. Explain the various packaging strategies.
5. What is a brand? What is branding?
6. What the various types of branding?
7. Elucidate the difference between Line Extension and CategoryExtension.
8. What are the various advantages of branding?
9. Explain the following terms in brief:

   a. Brand awareness
   b. Brand loyalty
   c. Brand personality

MCQ PRACTICE ANSWERS:

MCQ PRACTICE 1: (a) Idea Screening

MCQ PRACTICE 2: (a) 1966

MCQ PRACTICE 3 : (d) Geographical branding

MCQ PRACTICE 4: (b) Category extension

6.11. Key Words

- **Packaging :**

Packaging is defined as the general group of activities in product planning and which involves designing and producing the container or wrapper for any product.

- **Branding**

Branding is the process of creating a unique identity for a product or service to differentiate it from competitors. It involves more than just aesthetics, and can influence how consumers perceive a product's quality, credibility and value.

6.12. Further Readings

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