KENDRIYA VIDYALAYA SANGTHAN RAIPUR REDION

BUSINESS STUDIES

SESSION 2022-23

CLASS 12

Part - A

(PRINCIPLES AND FUNCTIONS OF MANAGEMENT)

UNIT-1: NATURE AND SIGNIFICANCE OF MANAGEMENT

Meaning/Concept of Management:

Management is the process of getting things done with the aim of achieving goals effectively andefficiently.

Effectiveness: means completing the right task to achieve the goal within time.

Efficiency: means completion of task using minimum resources

Characteristics/Features of Management

a) Management is Goal oriented

b) Management is Pervasive

c)Management is Multidimensional-Management of Work, Management of people, Management ofOperation

d) Management is Continuous process

e) Management is Group activity

f) Management is Dynamic function

g) Management is Intangible.

Functions of Management:

a) Planning - Setting objectives and targets and formulating an action plan of what is to be done, howto be done and when to do it

b) Organizing - Assignment of duties, task, establishment of authority and responsibilityRelationship,

allocating the resource required to perform the planned task.

c) Staffing-Finding and placing the right person at the right job at the right time.

d) Directing - Leading, influencing, and motivating the staff chosen to perform the assigned taskefficiently and effectively.

e) Controlling - Ensuring/Monitoring the activities in an organisationare performed as per the plan.

OBJECTIVE OF MANAGEMENT

Organizational Objectives:-

a) Survival: - Ensure that the organization survives and exists in thefuture.

b) Profitability: - Earning adequate profit in order to survive and grow.

c) Growth: - Growth indicates how well it exploits the potential opportunities.

Social Objectives:

Supply of quality products at reasonable rates, Generating employment opportunities, Contributiontoward desirable civic activities, Using environmental friendly methods of production.

Personal Objectives:
Meeting the Financial needs like competitive salaries & perks, Peer recognition like self respect,etc., .Good & healthy working conditions for safety of employees, Promotion, training personal growth of employees.

Importance of Management

1. Helps in achieving Group Goals
2. Creates a dynamic organization
3. Helps in achieving Personal objectives
4. Increases efficiency
5. Helps in development of society facilitate changes

Levels of Management-

The levels of management denote a demarcation between various position in an organization on thebasis of the irresponsibility, authority and status .These are–

Top Level Management - Ex- CEO, Board of directors, MD, President & Chairman.

Functions of Top Level Management:-

a) Decide overall objectives of the organization.
b) To make plan.
c) Provide various resources
d) Decide policies

Middle Level Management – For eg.- Departmental heads such as purchase manager, Operationsmanager, Production manager, Marketing manager, Divisional heads & Plant superintendent etc.

Functions of Middle Level Management:-

a) To implement plan and policies to assist top management.
b) To assign job to subordinates.
c) To recruit employees for their respective departments

Lower level Management –For eg.- Foremen, Inspectors, Supervisors etc.

Functions of Lower level Management:-

a) To arrange raw materials, tools and other facilities.
b) To ensure about the performance of workers
c) To ensure safety and security of workers

Nature of Management

Management as a Science:

a) Universal validity
b) Arranged, organized systematic body of knowledge
c) Principles arrived after experimentation.

Management as s an Art:-

a) Based on practice and creativity
b) Personalised Application
c) Existence of Theoretical knowledge.

Management as a Profession:

a) Well defined body of knowledge.
b) Existence of code of conduct
c) Professional association (AIMA)
d) Restricted entry
e) Fees as remuneration for their services.

Coordination:-

It is the synchronization of various activities and efforts in an organization providing the required amount of quality, timing and sequence; thus ensuring the achievement of the planned goal with minimum content.

Features of coordination:

1. Integrates Group Effort:
2. Ensures unity of action
3. It is a Continuous Process
4. It remains the function and responsibility of every manager

Importance of coordination

1. Ensures unity of action
2. Erases interdepartmental conflicts Promotes harmonious implementation of plans
3. Helps in maintaining a high degree of morale amongst employees.

UNIT- 2: PRINCIPLES OF MANAGEMENT

Meaning: Principles of management are broad & general guidelines for managerial decision-making.

Nature/Features/ Characteristics of Management Principles:-

a) They have universal applicability in all types of organizations. They are formed by practice &experimentation.
b) They are flexible and can be modified by the manager when the situation so demands.
c) They are aimed at influencing human behaviour; so they are mainly behavioural in nature.
d) The applications of the principles of management is contingent or dependent upon the prevailingsituation at a particular point of time.

Significance/ Importance of Management Principles:-

a) They provide the managers with useful insights into reality.
b) They help in optimum utilization of resources and effective administration.
c) They help to take scientific decisions.
d) They help in meeting changing environment requirements. They help in fulfilling socialresponsibility.
e) They are use data basis for management training, education and research.

Fayol's Principles of Management-

1) Division of work: - Whole work should be divided into small tasks / units; each task should beassigned to one person according to the capability, qualification and experience of the person.

2) Authority and responsibility: - ‗Authority' means the power to take decisions. ‗Responsibility' means obligation to complete the job assigned on time. Fayol suggested that there must be a balancebetween authority and responsibility.

3) Discipline:-It means obedience to organizational rules and employment agreement.
4) Unity of command:-An employee should receive orders /instructions from one and only one boss/superior and should be accountable to one superior only.

***5)* Unity of direction**:-All the units of an organisation should be moving towards the same objectivesthrough coordinated and focused efforts. *(One unit means one plan.*

6) Subordination of Individual Interest to General Interest:- The interest of the organisation mustsupersede the interest of individuals or employees.

7) Remuneration of employees: - Remuneration of employees should be just and equitable to providemaximum satisfaction to the employees as well as employer.

8) Centralisation and Decentralisation:-Centralisation refers to concentration of authority or power in few hands at the top level. Decentralisation means evenly distribution of power at every level of management. There must be combination of both depending upon the nature and size of the organisation.

9) Scalar chain:- The formal line of authority from highest to lowest rank are known as ‗scalar chain'suggests that communication from top to bottom should follow the official lines of command. Gang plank is a shorter route and has been provided so that communication has not delayed.

10) Order: - It means there should be a fix place for every person and everything in the organization and each person and everything should be at its definite place i.e. material and social order.

11) Equity: - Equity means no discrimination on account of sex, religion, language, caste, belief or nationality etc.

12) Stability of Tenure of personnel: - It refers to no frequent termination and transfer. Employees should not be moved from their positions frequently, they should be given reasonable time to show results.

13) Initiative: - Initiative refers to taking the first step with self-motivation. The employees in the organisation must be given an opportunity to take some initiative in making and executing a plan.

14) Espirit de corps:-Fayol emphasises the need for team work, spirit of unity and harmony among employees. A manager should replace –I‖ with –We‖.

Scientific Management: Principles and Techniques

Scientific management means knowing exactly what you want men to do and seeing that they do itin the best and cheapest way.

Scientific Principles:-

1) **Science, not rule of thumb:** Taylor believed that there was only one best method to maximize efficiency, which can be developed through scientific study.

2) **Harmony, not discard:** Taylor insists that there is need for both the groups i.e. workers group and management group to change their attitudes for each other. He insists on mental revolution which means complete change of attitude and outlook for each other.

3) **Cooperation, not individualism:** Taylor insists work must be carried on in co-operation with each other, with mutual confidence and understanding for each other.

4) **Development of each and every person to his/her greatest efficiency and prosperity:** Each person should be scientifically selected. They should be given required training to learn best method.

Taylors techniques of scientific management:-

1) **Functional foremanship:**-Taylor suggested activities of factory workers should be observed by eight type of specialised foremen.He divided the work of factory in two departments:

Planning department:-Instruction card clerk, route clerk, timeand cost clerk and discipline officer

Production department:- Gang boss, speed boss, repair boss and Inspector.

2) **Standardisation and Simplification of work: -** It refers to the process of setting standards for various business activities whereas Simplification means to put an end to unnecessary types, qualities, size/weight etc. of products.

3) **Method study:** – Objective of method study is to find out one best way of doing the job.

4) Motion study: - It refers to the study of movements so that unproductive movements may be eliminated.

5) Time study: – It determines standard time taken to perform a well-defined job.

6) Fatigue study: – It seeks to determine the amount and frequency of rest intervals in completing a task.

7) Differential piece wage system: **-** It emphasises on paying different rates of wages for efficient andinefficient employees. It rewards the efficient employees and motivates the inefficient ones to perform better.

UNIT-3: BUSINESS ENVIRONMENT

Meaning -The sum total of individuals, institutions and other forces that are outside the control ofa business enterprise but that may affect its performance.

Features/ Characteristics/Nature of Business Environment-

a) All the External Forces
b) Specific and General forces
c) Inter-relation
d) Uncertainty
e) Dynamic
f) Complex
g) Relativity

Importance of business environment-

a) It enables the firm to identify opportunities and getting the first mover advantage.
b) It helps the firm to identify threats and early warning signals.
c) It helps in tapping useful resources.
d) It helps in coping with rapid changes.
e) It helps in assisting in planning and policy formulation.
f) It helps in improving performance.

Elements or Dimensions of Business EnvironmentS- Social Environment

The social environment of business includes the social forces like customs and traditions, values, social trends, society's expectations from business etc. Traditions define social practices that have lasted for centuries.

For Example:-Diwali, Id, Christmas and Guru Parv in India.

T- Technological Environment

Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

For Example: - Recent technological, advances in computers and electronics have modified the ways in which companies advertise their product.

E-Economic Environment

Interest rates, inflation rates, change in income of the people, stock market and the value of rupee are some of the economic factors that can affect management practices in a business enterprise.

P-Political Environment

Political environment includes political conditions such as general stability and peace in the countryand specific attitudesthat elected government representatives hold towards business.

L-Legal Environment

Legal environment includes various legislations passed by the government administrative orders issued by government authorities, court judgments as well as the decisions rendered by the variouscommissions and agencies at every level of the government centre, state or local.

Very Short Answer Questions (1 mark)

Q1. Which environment prohibits the advertisement of alcoholic beverages?
Ans. Legal Environment.

Q2. Banking sector reforms have led to easier credit terms and better services. This is an example of a key component of the –Business Environment" name this component?

Ans: Economic Environment.

Q3. ‗Demand for reservation in jobs for minorities refers to an example of key component of general environment of business. Name this component.
Ans: Social Environment.

Q4. –The understanding of business environment enables the firm to identify opportunities‖. What is meant by opportunities here?
Ans: Opportunities here refer to the favorable condition in theorganization environment.

Q5. In the year 2006, Centre for Science and Environment (CSE) claimed to have found pesticides in Pepsi Co. and Coco Cola soft drink 50 times more than permissible health limit. These companiessales being adversely affected in that year‖. This is the effect of which environment?
Ans. This is the effect of Legal environment.

UNIT- 4: PLANNING

Meaning: - Planning is deciding in advance what is to do, when and where is to do, howis to do and by whom it should be done. It bridges the gap between where we are standing and where we want to go.

Features of Planning	Importance/Significance of Planning
Decision making	Planning provides direction
Planning is pervasive	Planning reduces the risk of uncertainties
Objective achievement	Planning reduces overlapping and wasteful activities
Planning is Futuristic	Planning promotes innovative ideas
Planning is a mental exercise	Planning facilitates decision-making
Planning is Primary function	Planning establishes standard for controlling.

Planning Process/Steps involved in Planning:-

1. **S- Setting Objectives**
2. **P-Developing Premises**
3. **I-Identifying alternative courses of Action**
4. **C-Evaluating alternative Courses**
5. **S-Selecting an Alternative**
6. **I-Implementing the Plan**
7. **F-Follow-up Action.**

Limitations ofPlanning:

a) **No guarantee of success:** For achieving success management has to properly draw and implement plans. Plans are required to be put into action. There is no guarantee that previously tried and tested plans will lead to success.

b) **Planning involves huge cost:** When plans are drawn, costs are involved in their formation in terms of effort, time and money. Thecost incurred sometimes may not justify the benefits derived from the plans.

c) **Planning leads to rigidity:** The plans are well defined and decide future course of action. Thus managers may not be in a position to change them. Hence, there is rigidity and blind following of plans.

d) **Planning may not work in a dynamic environment:** Business environment is dynamic and constantly adopt itself to these changes. It becomes difficult to make plans where policies of a country and economic conditions are not stable.

e) **Time consuming process:** planning is a blessing in facing adefinite situation but because of its long process, it cannot face sudden emergencies. Thus planning is time consuming and it delay action.

f) **Planning reduces creativity:** Middle level managers are not allowed to deviate from plans or act on their own. They only carryout order which leads to reduction of creativity and new ideas in the manager.

External Limitations of Planning

a) Natural calamity
b) Change in competitors policies

c) Change in taste/fashion& trend in the market
d) Change in technologies
e) Change in government/economic policy.

Plans: - Plans is a document that outlines how goals are going to be met. It is a specific actionproposed to help the organization to achieve its objectives.

i) Single use plan:- These are one time use plan. These are designed to achieve a particular goalthat once achieved will not reoccur in future.

(ii) Standing plan:- These plans are also known as Repeat Use Plans. These plans focus onsituations which occur repeatedly.

Types of plan:-

a) Objectives: Objectives are the end towards which the activities are directed. They are the endresult of every activity.

b) Strategy: It is a comprehensive plan to achieve the organizational objectives.

c) Policy: It can be defined as organization‘s general response to a particular problem or situation.In simple words, it is the organization‘s own way of handling the problems.

d) Procedures: Procedures are required steps established in advance to handle future conditions.

e) Rules: Rules are norms regarding actions and non-actions of employees.

f) Programme: Programmes are the combination of goals, policies, procedures and rules. All theseplans together form a programme.

g) Methods: Methods are formalized way of doing routine and repetitive jobs.

h) Budgets: It is the statement of expected result expressed in numerical terms.

UNIT- 5: ORGANISING

Meaning- It refers to the process of defining and grouping the activities of an enterprise andestablishing authority relationshipamong them.

Organising Process
I- Identification and division of WorkD- Departmentation
A- Assignment of duties
E- Establishing reporting relationship.

Importance/Significance of Organising –
B-Benefits of specializationA-Adaptation to changes
D-Development of Personnel
O-Optimum utilisation of resources.

Organisation Structures-
It is a network of job positions, responsibilities and authority at different levels.

Span of management means how many employees or subordinates can be effectively managed byone manager or how many subordinates can be effectively controlled by one superior.

Types of Organisational Structure:

i) Functional Structure and, (ii) Divisional Structure.

Functional Structure–When the activities or jobs are grouped keeping in mind the functions orthe job then it is called functional structure.

Advantages of functional structure:-
a) Occupational specialisation
b) Promotes control and coordination within department
c) Increase managerial and operational efficiency
d) Due attention to different functions.

Disadvantages of functional structure:-
a) Problem of coordination
b) Conflicts of interest
c) Less emphasis to overall objectives of organisation.
d) Difficult to fix accountability

Divisional Structure – Created on the basis of different products produced by business.

Advantages of Divisional Structure:-
a) Product specialization
b) Easy to fix accountability
c) Fast decision making
d) It facilitate Expansion and Growth

Disadvantages of Divisional Structure:-
a) Increase in cost
b) Ignore organizational interests.

c) Product focus department
d) Conflict

<u>Delegation of Authority:</u>- Transfer of authority from superiors to his subordinates.

Elements-

1. Responsibility 2. Authority and 3. Accountability.

1. Responsibility: It means the work assigned to an individual. It includes all the physical & mentalactivities to be performed by the employees at a particular job position.

2. Authority: It means power to take decision. To carry on the responsibilities, every employeeneeds to have some authorities.

3. Accountability: To make sure that the employees or subordinate perform their responsibilities in their expected manner, the accountability is created.

Importance of Delegation:-
a) Effective management
b) Employees development
c) Motivation of employees
d) Facilitates organisational growth
e) Better Coordination
f) Reduces the work load of managers.

<u>Decentralisation</u>- It refers to the systematic transfer of authority throuhout the organisation on permanent basis.

Importance of Decentralisation:
a) Relief to top management
b) Develops initiative among subordinates
c) Develops managerial talent for the future
d) Facilitates growth
e) Quick decision making
f) Better control

UNIT- 6: STAFFING

Meaning- Staffing is the process of management which is concerned with obtaining, utilising &maintaining a satisfactory and satisfied workforce.

Importance of staffing

a) Helpful in Discovering Competent personnel
b) Helpful in better performance
c) Helpful in Growth of organization
d) Optimum utilization of human resources.

Staffing Process:-

1) Estimating manpower requirements
2) Recruitment
3) Selection
4) Placement and orientation
5) Training and Development
6) Performance Appraisal
7) Promotion and career planning
8) Compensation

Element of staffing-

Recruitment + Selection + Training= Staffing

Recruitment: - It means searching for prospective candidates and stimulating them to apply for jobsin the organization.

Sources of recruitment:-

a) Internal source of Recruitment: –Transfer and Promotion.
b) External Source of Recruitment:–Direct recruitment, Casual callers, Campus placement,Employment exchanges, Private placement agencies, Employee recommendation and Web publishing.

Selection:-It refers to discovering most promising and most suitable candidate to fill up the vacant jobposition in the organisation.

Selection Process:-

1) Preliminary Screening
2) Selection Tests: - Intelligence test, Aptitude test, Personality test, Trade test and Interest test areconducted in it.
3) Employment Interview
4) Checking references and background
5) Selection Decision
6) Medical Examination.
7) Job offer
8) Contract of employment

Training and Development:-

Training means equipping the employees with the required skill to perform the job. The candidates aresent to training so that they can perform the job in the expected manner.

Development refers to overall growth of the employee. It focuses on personal growth and successfulemployees‘ development.

Need for Training and Development:-

a) Reduced learning time
b) Better performance
c) Attitude formation
d) Aids in or help in solving operational problems
e) Managing manpower need
f) Helps to adopt changes.

Methods of training:-

a) On-the-job Training:- When the employees are trained while they are performing the job then it is known s on the job training. Under this method the employees learn by doing.

b) Off-the-job Training:- Means Training given to the employees by taking them away from their work position which means employees are given a break from the job and sent for training.

(i) Apprenticeship training- It refers to that training method where the trainee is put under the guidance of an expert to acquire higher level of skill. Generally electricians, plumbers and iron workers are required to undergo this training.

(ii) Vestibule Training: Under this method, with a view to imparting training to new employees, a separate training centre is set up. An experienced and trained trainer is appointed as an in-charge of this centre. Machines, tools and other equipments are so arranged in this centre as to present a look of a workshop.

(iii) Internship: It is a practical training of theoretical knowledge. Selected candidates carry on regular studies for prescribed period and also work in some factory or office to acquire practical knowledge.

(iv) Induction: It means introducing the selected employees to his superiors, subordinates and colleagues and familiarizing him with the rules and policies of the organization.

UNIT-7: DIRECTING

Meaning-It refers to instructing, guiding, inspiring and motivating the employees in the organisation sothat their efforts result in achievement of organisational goals.

Features/Characteristics of Directing function:-
a) Directing initiates action
b) Continuing function
c) Directing takes place at every level
d) Directing flows from top to bottom
e) Performance oriented.

Importance of Directing Function:-
a) To initiate action
b) To integrate employees effort
c) Means of motivation
d) Bring stability and balance in the organisation
e) To facilitate change.

Elements of Directing.
1. **Supervision 2. Motivation 3. Communication and 4. Leadership.**

Supervision:-Supervision refers to the direct and immediate guidance and control of subordinates inthe performance of their task or to watch over the routine activities of workers.

Motivation: - It refers to that process which encourages people to work for the attainment of a desiredobjective.

Features/Characteristics/Nature of Motivation:-
a) Motivation is a psychological phenomenon
b) Motivation produces goal-directed behaviours
c) Motivators can be positive as well as negative
d) Motivation is a complex process.

Maslow's Need Hierarchy Theory-
1. *Physiological need.*
2. *Safety and security needs:- includes two categories*-Physical Security and Economic security.
3. *Social needs affiliation/belonging need*
4. *Esteem needs*
5. *Self Actualization needs*

Incentives:- It can be defined as monetary or non-monetary reward offered to the employees forcontributing more efficiently.

Types of incentives-
(i) Financial Incentives and (ii) Non-Financial Incentives

*(i) Financial Incentives:-*The reward or incentive which can be calculated in terms of money. Like- Pay& allowances, Profit sharing, Co-partnership, Bonus, Commission, and Retirement benefits, etc.

(ii) Non-Financial Incentives:- The incentives which cannot be calculated in terms of money. Like-Status, Organisational Climate, Career advancement, Employees recognition, Job security etc.

Leadership-It refers to influence others in a manner to do what the leader wants them to do.

Leadership Styles-

1) Autocratic or Authoritative Leadership: - Leader exercise complete control over the subordinates.eg:- Adolf Hitler.

2) Democratic or Participative leadership:- Leader takes decisions in consultation and participationwith employees. eg:-Narayan Murthy.

3) Free lien or Laissez Faire Leadership:-This style involves complete delegation of authority so thatsubordinates themselves take decision.

Communication-

It refers to transmission or exchange of ideas, views, message, information or instructions between twoor more persons by different means.

Type of Communications:

a) Formal Communication and, b) Informal Communications

a) Formal Communication: - It refers to official communication at official peace between the peoplewho are officially related to each other.

b) Informal Communications:-It is between different members of organisation who are not officiallyattached to each other.

Barriers of effective communications:-

Semantic Barriers: This barrier is related with the words, signsand figures used in the communication.

Sometimes they cannot convey the same message which they want to. It can be

(i) Badly expressed message

(ii) Symbols and words with different meaning

(iii) Faulty translation and soon

(iv) Unclarified assumptions.

Psychological or Emotional barriers:- The importance of communication depends on the mentalcondition of both the parties . A mentally disturbed party can be a hinder in communication. It can be

(i) Premature evaluation

(ii) Lack of attention

(iii) Distrust

(iv) Loss by transmission and poor retention.

Organizational barriers: Factors related to organisational structure, authority relationship, rules andregulations may act as barriers to effective communication.

(i) Organizational policies

(ii) Rules and regulations

(iii) Complex organization

(iv) Organisational facilities.

Personal barriers: Certain personal factors of sender and receiver may influence the free flow ofinformation..

a) Fear of authority,

b) Lack of confidence of superior in his subordinates

c) Lack of incentive.

d) Unwillingness to communicate.

UNIT-8: CONTROLLING

Meaning: - Comparing actual performance with standards & finding deviations if any and takingcorrective action.

Actual Performance = Standards = No deviation

Nature of Controlling:-

a) Controlling is a goal-oriented function
b) Controlling is an all pervasive
c) Controlling is both backward looking as well forward looking function
d) Controlling is a continuous function.

Importance of controlling:-
a) Helps in achieving organisational goals
b) Judging accuracy of standards
c) Making efficient use of resources
d) Improves employees motivation
f) Ensures order and discipline

Process of Controlling:-
1. *Setting performance standards:* Standards are the Criteria against which actual performance would be measured. Standards serve as bench marks. They can be set in both quantitative as well as qualitative.

2. *Measurement of actual performance:* Performance should be measured in an objective and reliable manner.

3. *Comparing actual performance with standards:* in this step actual performance is compare with the set standards and deviations arebeing found.

4. *Analyzing deviations*: Major deviation or minor deviation and analyzing the causes of deviation.

Critical point control: Focus only on Key Result Areas (KRAs). Management by Exception: Concentrate only on major deviations only.

5. *Taking corrective action:* When deviations go beyond the acceptable range, especially in the important areas, it demands immediate managerial attention so that deviations do not occur again and standards are accomplished.

6. *Feedback in controlling*

Relationship between Planning and Controlling:
Planning and controlling are inseparable twins of management. Planning initiates the process of management and controllingcompletes the process. Plans are the basis of control and without control the best laid plans may go astray. Planning is clearly a prerequisite for controlling. It is utterly foolishto think that controlling could be accomplished without planning.

Part - B

(BUSINESS FINANCE AND MARKETING)

UNIT- 9: FINANCIAL MANAGEMENT

Business Finance:-It refers to funds required for carrying out business activities.

Financial Management:- It includes decisions relating to procurement of funds, investment of funds inlong term and short term assets and distribution of earning to the owner.

Role of Financial Management:-
1. Size and Composition of Fixed Assets.
2. Amount and Composition of Current Assets.
3. The Amount of Long-term and Short-term Funds.
4. Break up of Long Term Financing into Debt, Equity etc.
5. All Items in Profit and Loss Account.

Objective of Financial Management:-Maximize wealth of equity shareholders which meansmaximizing the market price of Equity shares.

Financial Decisions:-
The finance functions relate to three major decisions which every finance manager has to take:
A) Investment decision, B) Financing decision and, C) Dividend decision

Importance or Scope of Capital Budgeting Decision/ Investment Decision:-
1. Long term growth
2. Large amount of funds involved
3. Risk involved
4. Irreversible decision.

A. Investment decision (Capital Budgeting Decision):- This decision relates to careful selection of assets in which funds will be invested by the firms.

Factors Affecting Investment/ Capital budgeting decision:–
1. Cash flows of the project:-Before considering an investment option, business must carefully analysethe net cash flow expected from the investment during the life of the investment. Investment should be made if net cash flow is more.

2. The rate of return:-Investment should be done in the projects which earn the higher rate of return. It should be calculated on the basis of expected return of the projects.

3. Investment criteria involved:-Before taking decision, each investment opportunity must be compared by using the various capital budgeting techniques. These techniques involve calculation of rate of return, cash flow during the life of investment, cost of capital etc.

B. Financing decision:-It deals with determination of sources of finance i.e. amount to be raised from each source.

Factors Affecting Financing decision:-

1. Cost of raising finance: - The cost of raising finance from various sources is different and finance managers always prefer the source with minimum cost.

2. Risk involved:-The risk associated with each of the sources is different.

3. Flotation costs:- Higher the floatation cost, less attractive the source.

4. Cash flow position of the company: - A strong cash flow position may make debt financing moreviable than funding through equity.

5. Fixed Operating Costs: - If a company is having high fixed operating cost then they must prefer owner's fund because due to high fixed operational cost, the company may not be able to pay intereston debt securities.

6. Control consideration: - If existing shareholders want to retain the complete control of business then they prefer borrowed fund securities to raise further fund.

C. Dividend decisions:- It refers decisions related to amount of profit/surplus to be distributed among shareholders and how much amount of profit/surplus keep aside as retained earnings.

Factors Affecting Dividend decisions:-

1. Amount of Earning: - Dividends are paid out of current and past earning.

2. Stability of earning: - Companies having stable or smooth earning prefer to give high rate of dividend.

3. Stability of dividend: - Some companies follow a stable dividend policy as it has better impact on shareholder and improves the reputation of company in the share market.

4. Growth opportunities: - If companies have no investment or growth plans then it would be better todistribute more in the form of dividend. Generally mature companies declare more dividends whereas growing companies keep aside more retained earnings.

5. Cash Flow Position:-Paying dividend means outflow of cash. Companies declare high rate of dividend only when they have surplus cash.

6. Taxation Policy: - If tax rate is higher, then company prefers to pay less in the form of dividend whereas if tax rate is low then company may declare higher dividend.

Financial planning- It is the process of estimating the funds requirement, specifying the sources of fund and utilizing them in an optimum manner.

Objective of financial Planning-
a) To ensure availability of funds whenever these are required.
b) To see that firm does not raise resources unnecessarily.

Importance of financial Planning-
a) Makes the firm better prepared to face the future
b) Helps in avoiding Business Shocks and Surprises
c) Coordinate various functions
d) Proper utilization of finance
e) Link present with future
f) Link between Investment and Financing Decisions

Capital Structure:- – Refers to proportion of debt and equity used for financing the operations of business.

Factors Affecting Capital Structure: –

1. **Cash flow positions**: - A company employs more of debt securities in its capital structure if company is sure generating enough cash inflow whereas if there is shortage of cash then it must employmore of equity in its capital structure.

2. Interest coverage ratio (ICR):- High ICR means companies can have more of borrowed fundsecurities whereas lower ICR means less borrowed fund securities.

3. Return on investment: - If return on investment is more than rate of interest then company mustprefer debt in its capital structure otherwise equity.

4. Tax rate: - High tax rate makes debt cheaper as interest paid to debt security holders is subtractedfrom income before calculating tax.

5. Cost of Debts: - If firm can arrange borrowed fund at low rate of interest then it will prefer more ofdebt as compared to equity.

6. Risk consideration: - If firm's business risk is low then it can raise more capital by issue of debtsecurities whereas at the time of high business risk it should depend upon equity.

Fixed Capital:–It refers to money invested in the fixed assets, which is to be used over a longperiod of time.

Factors Affecting Fixed Capital: –

1) Nature of business: - A manufacturing company needs more fixed capital as compared to a tradingcompany.

2) Scale of operations:- A large scale company require more fixed capital as they need moremachineries and other assets.

3) Techniques of production:-Companies using capital-intensive technique require more fixed capitalwhereas companies using labour intensive technique require les capital.

4) Technology upgradation:-Industries in which technology upgradation is fast need more amount offixed capital as when new technology is invented old machines become obsolete.

5) Growth prospectus: - Companies which are expanding and have higher growth plan require morefixed capital as to expand their production capacity.

6) Diversification: - Companies which have plan to diversify their activities by including more rangeof products require more fixed capital as to produce more products.

Working Capital:- refers to the amount which is invested in current assets. This fund also needed for payment of daily expenses, payment of current liabilities etc. this investment facilitate smooth business operation.

Factors affecting the requirement of working capital:-

1) Nature of business:-the requirement of working capital depends on the nature of business. Manufacturing business requires more amount of working capital because it takes lot of time in converting raw material into finished goods while trading business requires less amount of working capital.

2) Scale of operation:-Business operating on larger scale requires more funds to maintain the high quantum of inventory, debtors or meet day to day expenses as compared to small scale business.

3) Business Cycle fluctuation:-Different phases of business cycle affect the requirement of working capital by a firm. In case of boom, there is increase in production and scales leading to the increased requirement for working capital whereas the requirements for working capital reduce during depression.

4) Seasonal factors: - Many businesses may have high level of activity during specific period of time which may be referred as season time. Therefore, during peak season the level of activity is high, leading to increased need of working capital as compared tothe capital during lean period.

5) Technology and production cycle:- If a company is using labour intensive technique of production then more working capital is required because company needs to maintain enough cash flow for makingpayments to labour.

6) Inflation: - If there is increase or rise in price then the price of raw material and cost of labour will rise, it will result in an increase in working capital requirement.

UNIT-10: FINANCIAL MARKET

Financial Market: - This market refers to that market where financial securities are exchanged.

Functions of Financial Market:-
a) Mobilise savings and channelize them into most productive uses
b) Facilitates Price Discovery
c) Provides Liquidity Financial Assets
d) Reduce the cost of transactions.

Types of Financial Market:-
A) Money Market and B) Capital Market

A. Money Market:-It is a Market which deals in short term securities i.e. whose maturity period isless than 01 year.

Instruments of Money Market:-

a) Call Money:- The money borrowed or lend on demand for a short period which is generally one day.

b) Treasury Bill (T.Bills):- It is issued by Reserve Bank of India on behalf of the Government of India,to get short term borrowing as these are sold to bank and general public.

c) Commercial Bills:-These bills are drawn by a business firm on another business firm.

d) Commercial Paper (C.P.):- It is an unsecured promissory note issued by public or private sectorcompanies with a fixed maturity period which varies from 15 days to one year.

e) Certificate of Deposits (C.D.):- It is a time or deposit which can be sold in the secondary market.Only a bank can issue C.D.

B. Capital Market:–Where long term securities are sold and purchased.
Types of capital market-
a) Primary Market and, b) Secondary Market.

a) Primary or new issue market Secondary Market (Stock Exchange:)-It refers to that market inwhichsecurities are sold for the first time for collecting long term capital.

Various methods of Flotation of Securities in Primary Market:-

i) Public Issue through prospectus: - Under this method, the company issues a prospectus and invitesthe general public to purchase shares or debentures.

ii) Offer for Sale:-Under this method, Firstly the new securities are offered to an intermediary at afixed price. They further resell the same to the general public.

iii) Private Placement:-The Company sell securities to the institutional investors or brokers instead ofselling them to the general public.

iv) Right Issue: – When an existing company issues new securities, first of all it invites its existingshareholders.

v) Electronic Initial Public offer(e-IPO’s):– Under this method, companies issue their securitiesthrough the electronic medium(i.e. internet).

b) Secondary Market:-Where already issued securities are sale and purchase,

Stock exchange: - The stock exchange is a market in which existingsecurities are bought and sold.

Functions of stock exchange

a) Providing Liquidity and Marketability to Existing Securities
b) Pricing of Securities
c) Safety of Transactions
d) Contributes to Economic Growth
e) Spreading of Equity Cult
f) Providing Scope for Speculation.

Trading procedure in the stock exchange:-

1) Selection of broker and signing of broker: - Client agreement,submitting other details includingPAN (mandatory).

2) Opening demat account or 'beneficial owner' (BO) account with depository participant(DP)

3) Placing the order with broker and confirmation slip issued to investor by broker.

4) Match the share and Best price:-Broker will on-line match the share and best price available.

5) Executing order: - When the price will match order will be executed electronically and a tradeconfirmation slip will be issued to the investor.

6) Issue of Contract Note: - Within 24 hours, contract Note will be issued by the brokercontaining details of the transaction. It is legally enforceable and helps to settle disputes.

7) Delivery of shares and making payment:- Investor has to deliver the shares or pay cash for theshares. This is called the **pay- in-day**.

8) Settlement Cycle: - Cash is paid or securities are delivered on pay-in-day, which is before T+2 day.

9) On T+2 day, exchange will deliver shares or make payment to the other broker. This is called **pay-out day**. The broker will makepayment to the investor within 24 hours of pay-out day.

10) The broker can deliver directly to demat account.

D'MAT/ Demat Account:-D'Mat Account refers to that account which is opened by the investors withdepository participant to facilitate trading in shares.

Constituents of Depository System:-
1)The depository and, 2) The depository participants.

1. Depository:-A Depository is an institution which holds the shares of an investor in electronic form. Itacts as bank where investors can open a securities account and deposit the electronic form of securities. At present, there are two depository institutions in India:-

a) NSDL: – **National Securities Depository Limited**. &

b) CDSL – Central Depository Services Limited.

2. The Depository Participant (DP):- Depository participant is an agent of the depository. An investorhas to interact only with a DP and not with the depository for all his dealings in share in electronic form.

Stock Exchange Indices:-

(i) Sensex: - This is Bombay Stock Exchange Index. It is calculated by taking prices of 30 stocks acrosskey sectors of BSE.

(ii) Nifty: - This is a National Stock Exchange Index. It is calculated by taking prices of 50% key stocks listed in NSEI.

Demutualisation:- It refers to separation of ownership and control of stock exchange from the trading rights of members. Through demutualisation there is reduction of chances of brokers using stock exchange for personal gains.

SEBI (The Securities Exchange Board of India):-The Securities Exchange Board of India was established in 1992 to protect the interest of investors and to regulate and control the trading of financial securities.

Objectives of SEBI:-

a) Regulation of stock exchange:- It regulates stock exchanges so that efficient services may beprovided to all the parties operating there.

b) Protection to the Investors:- SEBI protects interest of investors from wrong information given bythe company and reducing the risk of delivery and payment etc.

c) To prevent fraudulent and malpractices by having balance between self regulation of business.

Functions of SEBI:-

a)Regulatory Functions:-

i) Registration of brokers and sub-brokers and other players in the market.
ii) Registration of collective investment schemes and Mutual Funds.
iii) Regulation of Stock Brokers, portfolio exchanges, underwriters and merchant bankers.

b) Development Function:-:-

i) Training of intermediaries of the securities market.
ii) Conducting research and publishing information useful to all market participants.
iii) Undertaking measures to develop the capital markets by adapting a flexible approach.

c) Protective Functions:-

i) Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulation,price rigging etc.
ii) Controlling insider trading and imposing penalties for such practices.
iii) Undertaking steps for investor protection.

UNIT- 11: MARKETING MANAGEMENT

Marketing Management: - It deals with planning, organizing and controlling the activities related to the marketing of goods and services to satisfy the consumer‘s wants. Its aim to achieve the organizational goals at minimum cost by: -Analysing and planning marketing activities, implementing the marketing plans, setting control mechanism, marketing management philosophy/Concept, product concept, production concept, selling concept, marketing concept and social concept.

Marketing Management philosophies:-

1. Production Concept: - Some companies believe that it is easy to sell the products when products areinexpensive and are easily available. So the firms following production concept focus on lowering the cost of production by means of mass production and distribution but the drawback of this concept is that customers don‘t always buy products which are inexpensive and available.
Main Focus*: Large-scale production to decrease the cost.*

2. Product concept:- Product concept stresses on quality of production rather than quantity of production. Product improvement is considered the key to success under it.
Main Focus: Good quality, added features in product.

3. Selling Concept:- Selling concept believes that in order to make a customer buy a product he or she need to be convinced and customers can be convinced by undertaking some aggressive selling and promotional efforts.
Main Focus: To sell whatever is produced by using intensive promotional technique.

4. Marketing Concept: - Marketing concept concentrates on the need of the customers. The concept says that product should be designed and produced keeping in mind the need of the customer and try to satisfy the need better than the competitor‘s product.
Main Focus: Customer satisfaction.

5. **Societal concept: -** Marketing concept is satisfying the need s of customers in the best possiblemanner but then also it has attracted criticism from people who are concerned about society andenvironment. They argue that companies should not blindly follow the goal of customer satisfaction. *Main Focus: Customer satisfaction with in ethical and ecological boundaries of our society.*

Functions of Marketing:-

a) Gathering and analysing market information (market research)
b) Marketing planning
c) Product planning development
d) Standardization and grading
e) Packaging and labelling
f) Branding
g) Customer support services
h) Pricing of products
i) Promotion & Selling
j) Physical distribution
k) Transportation
l) Storage and warehousing.

Marketing Mix

Marketing mix refers to the ingredients or the tools or the variables which the marketer mixes in orderto interact with a particular market.

Elements of Marketing Mix:

Product + Price + Place + Promotion = Marketing Mix.

A. Product: - The product element of the marketing mix signifies the tangible or intangible productoffered to the customer which is the satisfier of the need. Product is a bundle of utilities.

Product Mix:-Product mix includes all those decisions related to the product such as quality, design,packaging of product etc.

Important components of Product Mix:-

(i) Branding: - Branding is the process of giving a name of or a sign or a symbolto a product. Such asPolo, LG, Nike, Sony etc.

Qualities of a good brand name:-

a) Brand name should be short & Simple, so that anyone can remember, spell it.
b) Brand name should be easy to pronounce.
c) Brand name should be suggestive i.e. must suggest the utility of the product eg, Hazmola
d) Brand name should be unique and distinctive.
e) Brand name should be selected after considering its meaning in other languages and cultures.

Advantages of branding:

a) It helps in product differentiation.
b) It helps in advertising the product.
c) It helps in differential pricing.
d) It helps in introducing a new product.

Packaging:- Packaging is a set of tasks or activities which are concerned with the designing,production of an appropriate wrapper, container or bag for the product.

Levels of Packaging:–

a) Primary Packaging:-It refers to the product's immediate container, Like-toothpaste tube.

b) Secondary Packaging: - It refers to the additional package, which provides additional layerprotection to the product. Like- Card board box for toothpaste.

c) Transportation Packaging:-These are packaging's used for storing or transporting the goods. Like-corrugated boxes used to shift Ruffle Lays etc.

Functions of packaging:- It helps in Product identification, Product protection, Facilitating use of theproduct,Product promotion, Convenient to store, Rising standard of health and sanitation etc.

Labelling: - Labelling means putting identification marks on the package. Label is the carrier ofinformation.

Label performs following functions:-

a) It helps in describing the product and specify its contents.
b) It helps in identify the product among all products**.**

c) It helps in grading the product.
d) It helps in promoting sales

f) It helps in providing information required by law/legal requirement.

B. Price: - Price is the value which a buyer passes on to the seller in lieu of the product or service provided.

Price Mix:–It includes all those factors which are considered while fixing the price of a product.

The factors kept in mind while fixing the price of a commodity or services:-

1. *Pricing objective:*-What is the objective of firm as a very important factor which helps in decidingthe price.
Apart from profit maximisation, the pricing objective of a firm may include: a) Price Maximization, b)Obtaining market shares, c) Surviving ina competitive market etc.

2. *Product cost:*-The price of the product must be able to cover the total cost of product.

3. *Extend of competition in the market:* - A firm fixes price of a product as per the competition faced bythem.
4. *Customer's demand and utility:* - When demand of the product is inelastic i.e. no or very less substitutes are available then company can fix up high price.

5. *Government and legal regulations:* - To protect the interest of general public, the government has all the right to control the prices of various products and services by including the products in the category of essential commodities.

6. *Marketing methods used:*-The price of the product also gets affected by various techniques of methodof marketing used to promote the products.

C. Place:- Place refers to the set of decisions that need to be taken in order to make the products available.

Place Mix:–It includes those activities which are related to movement of goods from the manufactures to the consumers and thus creates place utility.

D. Promotion:-It is concerned with activities that are undertaken to communicate with customers & distribution channels to enhance the sales of the firm.

Promotion Mix: - Promotional techniques are used to create product awareness amongst the potential target customers and persuade them to purchase the product. *Like-advertising, personal selling, publicity and sales promotion etc.*

Elements of Promotion Mix-
1-Advertising, 2-Personal Selling, 3- Sales Promotion and, 4-Public relations.

1. Advertising:- It is defined as any paid form of non-personal presentation and promotion of ideas, goods or services by an *Identified Sponsor*.

Merits of Advertising:-

a) Mass Reach b) Expressiveness

c) Economical d) Enhancing customer satisfaction & confidence.-

2. Personal Selling: - It means selling personally. This involves face-to-face interaction between sellerand buyer for the purpose of sale.

3. Sales promotion: - It refers to short term use of incentives or other promotional activities thatstimulate the customer to buy the product.

4. Public relations: - Public relations means maintaining public relations with public. By maintainingpublic relations companies create goodwill.

UNIT- 12: CONSUMER PROTECTION

Meaning: - Consumer protection means protecting the interest of consumes from unfair trade practicesand exploitation from manufactures and intermediaries.

Importance of Consumer Protection:-

From Consumers point of view:-

a) Consumer Ignorance
b) Unorganised sector
c) Widespread Exploitation of consumers.

From Businessmen's point of view:-

a) Long –term Interest of Business
b) Business Uses Society's Resources
c) Social Responsibilities
d) Moral/Ethical Justification
e) Government Intervention
f) Consumer is the Purpose of Business.

Rights of Consumers:-

The Consumer Protection Act provides six rights to consumers. They are as follows:

1) Right to safety:-The consumer has a right to be protected against marketing of goods and services which are hazardous to life and property, e.g., sometimes the manufacturing defects in pressure cookers, gas cylindersandotherelectricalappliancesmaycauselosstolife,healthandpropertyof customers.

2) Right to be Informed:-According to this right the consumer has the right to get information about the its ingredients, date of manufacture, quality, quantity, purity, standard and price of goods or servicesso as to protect himself against the abusive and unfair practices.

3) Right to Choose:-The consumer has the freedom to choose from a variety of products. The marketers should offer a wide variety of product and allow the consumer to make a choice andchoose the product which is most suitable for him/her.

4) Right to be Heard:- The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or a service. It is because of this reason that many enlightened business firmshave set up their own consumer service and grievance cells.

5) Right to Seek Redressal:-The Consumer Protection Act provides a number of reliefs to the consumer including replacement of the product, removal of defect in the product, compensation paid for any loss or injury suffered by the consumer etc.

6) Right to Consumer Education:-The consumer has a right to acquire knowledge about products. Heshould be aware about his rights and the reliefs available to him incase of a product/service falling short of his expectations. Many consumer organisations and some enlightened businesses are taking an active part in educating consumers in this respect.

Responsibility of consumers:-

a) Consumer must exercise his Rights.
b) Insist for Cash Memo on purchase of goods and services. This would serve as a proof purchasemade.

c) Filing Complaints for the Redressal of Genuine Grievances.

d) Consumer must be Quality-Conscious.
e) Respect the environment. Avoid waste, littering and contributing to pollution
f) Do not carried Away by Advertisement.
g) Discourage black marketing, hoarding and choose only legal gods and services.
h) Form consumer societies which could play an active part in educating consumers and safeguardingtheir interest.