

# **CBSE Study Material for Student**

## **BUSINESS ADMINISTRATION**

### **Class XI**

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**Skill Education Unit**

## Unit 1 : Introduction to Business Operation

### *SESSION-1 Concept of Business*

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the basic concept of Human Activities & Business	<ul style="list-style-type: none"><li>• Meaning of Economic &amp; Non Economic Activities</li><li>• Meaning of Business, Employment &amp; Profession.</li><li>• Concept of Business</li><li>• Meaning &amp; Definition of Business.</li><li>• Characteristic of Business.</li><li>• Scope of Business</li></ul>	<ul style="list-style-type: none"><li>• Explain the meaning of Economic &amp; Non Economic Activities.</li><li>• Define Business.</li><li>• List out characteristics of Business.</li><li>• Describe the role of profit in Business.</li></ul>	Interactive classroom teaching through lecture & examples.

### *Session 2 Types of Business Operations*

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the classification of Business Operations.	<ul style="list-style-type: none"><li>• Types of Business Operations.</li></ul>	<ul style="list-style-type: none"><li>• Enumerate the types of Business Operations/activities</li></ul>	<ul style="list-style-type: none"><li>• Interactive Lecture</li></ul> <b>Activity</b> – Prepare a chart on types of Business Operations.

### *Session 3 Management of Business Operations*

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To know the meaning & concept of Management of Business Operations.	<ul style="list-style-type: none"><li>• Functions of Management of Business Operations.</li></ul>	<ul style="list-style-type: none"><li>• Explain the various strategic functions involved in Management of Business Operations.</li></ul>	<ul style="list-style-type: none"><li>• Interactive Lecture with discussion &amp; examples.</li></ul>

### **A Case Study**

Sania was a very talented girl who loved to do flower arrangements. On any Birthday or party or occasion she would always gift her near & dear ones with a bouquet made by her. Seeing her interest & creativity Sania's mother advised her to contact a florist and sell her flower arrangements to that particular shop. She approached many local florists but all denied saying that they don't want any help. Dejected, she came back & thought of a brilliant idea of starting her own florist outlet. In 2010 she started her own outlet at home. Her flower arrangements were widely appreciated. Slowly and steadily she started getting orders from hotels, for marriages, parties, functions, retail outlets, online orders. The orders picked up faster than she could even dream of. Now she needed more money to buy flowers & other accessories. She borrowed money from bank to cover all her expenses. In 2014 her sales increased manifold (almost 60%) from 2010. Her success story is an example for all those people who have concept in mind & want to earn.



### **1.1 Human Activities**

After reading Sania's story it is clear that all human beings have different needs and to satisfy these needs they perform any activity. Such activities are termed as 'Human activities'. It can be divided into 2 categories :—

(i) **Economic Activities** :- Those activities which aim at earning a livelihood are termed as Economic Activities. It is concerned with proper allocation & use of Economic resources. For example -

- Doctor, Lawyer, teacher working in their profession.
- Working in a factory or office.
- Production, distribution & consumption of goods & services.

Economic Activities can further be classified into 4 categories:-

- 1) Business
- 2) Profession
- 3) Employment
- 4) Services

(ii) **Non-Economic Activities**:- Activities undertaken to satisfy emotional, social and psychological needs are termed as Non Economic Activities. They cannot be measured in monetary terms. For example –

- Businessman working in old age homes on Sunday.
- Teacher teaching his/her own child.

## Unit 1 : Introduction to Business Operation

### **1.2 Types of Economic Activities :-**

Economic Activities can be further classified into 4 types –

1. **Business** :- Business refers to those economic activities which are connected with production, purchase, sale or distribution of goods or services with the motive of earning profit. For example – Manufacturing, wholesale, shop owner etc.



2. **Profession** :- Profession refers to that economic activity which requires specialized knowledge & skill to render service to various section of society. The individuals engaged in this activity are called professionals. For example – Lawyer, Doctor, Painter etc.



3. **Employment** :- Employment refers to that economic activity where people work for others & get some remuneration in return (like wages, salaries). People who are working are called employees & who hire them for jobs are called employers. For example – Working in offices, factories, school, shops etc.



4. **Services** :- It includes all economic activities whose output is not physical product or manufacturing. It is generally consumed at the time it is produced. It provides convenience, recreation, comfort for example – Health services, security services, consulting, airways, hospitality etc.



### **1.3 Concept & Meaning of Business**

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Business is an economic activity which is concerned with production, purchase, sale, distribution of goods and services. It is done on regular basis to earn profit. The word business has been derived from the word 'BUSY' hence business occupies the individuals and people to earn a livelihood. Business is a wide term. It has become an integral part of society in modern times. Its scope is not limited to only earning profits but also innovating new products or services & to see that it reaches its prospective customers keeping their preferences in mind.

**1.4 Definition of Business** : The term business has been defined differently by many scholars.

*"Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling goods." — Lewis H. Haney*

*"Business is an institution organized and operated to provide goods and services to society under the incentive of private gain." — B.O. Wheeler*

### **1.5 Characteristics of Business :**

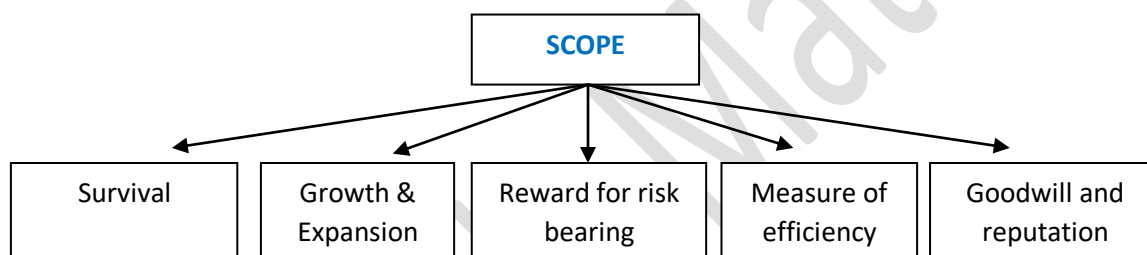
Business is an important economic activity. It possesses various characteristics which makes it distinct from other activities.

- i) **Economic Activity** : Business is an economic activity undertaken to earn money for livelihood. It satisfies human needs through production, Sale or distribution of goods & services. Example : Sale of toys in the shop.
- ii) **Sale or Exchange of Goods & Services** : For any business it is essential that there is sale or exchange of goods & services for money worth. Goods purchased or produced for personal use cannot be termed as Business Activity. For Example : The owner of the toy shop sells his toys to the customer, it is a business activity, but if he gives a toy from his shop to his child then its not business activity as he is not getting any money in return.
- iii) **Regular Dealings** : Business involves exchange of goods & services on regular basis. One single transaction of sale or purchase cannot be termed as business. For example : A person sells his old air conditioner and buys a new one is not a business activity. But if he continuously deals in sale and purchase of air conditioner, it will be considered as business activity.
- iv) **Production or Purchase of Goods and Services** : Business includes all the activities concerned with manufacturing goods, purchasing goods or providing services like transportation, banking for satisfaction of human needs. For Example : Purchasing cloth from the manufacturer and manufacturing shirts to sell in the market.
- v) **Profit motive** : Profit earning is one of the main motive of a business activity. Earning profit is essential for survival of the business. Businessman is always thinking to maximize his revenue (profit) by increasing his sales or minimizing his costs. For example: A property dealer purchases a home at Rs. `85 lakh and sells for ` 95 lakh. ` 10 lakh is his profit in this transaction which he will use in expansion of his business.
- vi) **Consumer satisfaction** : Today's Market is 'Consumer Oriented' i.e. Consumer is the king in the market. So businessman has to satisfy his consumers in all respects to run his business successfully. For example : Reliance industries provide consumer oriented service i.e. to provide good service to the consumers is their priority.

- vii) **Uncertainty of Return** : The businessman starts his business with profit motive but he is not sure whether he will earn profits or incur losses. Every product depends on the efforts of the businessman, market conditions, demands of the product, political scenario etc. For example : Sahara airlines started with a boom, earning profits every year. But due to unrealistic policies and programs it started incurring heavy losses & finally had to wind up its business.
- viii) **Risk element** : All Business activities carry some element of risk. Risks can be caused by factors like change in technology, fashion, increased competition, theft, fire etc. Nokia which was once a leading mobile company is now facing a tough competition from Samsung and Apple to survive in the market.

### 1.6 Scope of Business

Profit is the main objective of every economic activity. According To Peter F Drucker “A business must achieve sufficient profits to cover the risk of economic activity & thus to avoid loss” Profit plays a very vital role in the Business. It is the return, which every businessman expects to get, on what he has invested in business.



The following reasons justify the role of profit in the business :

- 1) ***Survival*** – The entrepreneurs engage in business activities to earn profits as a means of livelihood. Everyone has to satisfy his needs & hence no one is expected to undertake business activity without any earnings. Business can survive only when there are adequate profits.
- 2) ***Growth & Expansion*** – Profit not only provides funds for growth & expansion but also motivates businessman to think of diversification & re-invest for expansion.
- 3) ***Reward for Risk bearing*** – Profit motivates businessman to take risks, higher the risk, higher is the possibility of earning more profits. In the eventuality of loss due to any risk, he does not stop the business. He runs the business assuming profits in future.
- 4) ***Measures efficiency*** – Profit is considered as an index for judging the performance of the business enterprise if profits are higher it indicates the efficiency of management.
- 5) ***Goodwill & Reputation*** – Higher profitability builds reputation of the business. Goodwill creates market standing which helps to raise loans and obtain credit for further expansion.

### **Conclusion**

The scope of business should not be restricted to earning profits only. Profit is extremely important for any business enterprise but not the sole objective.

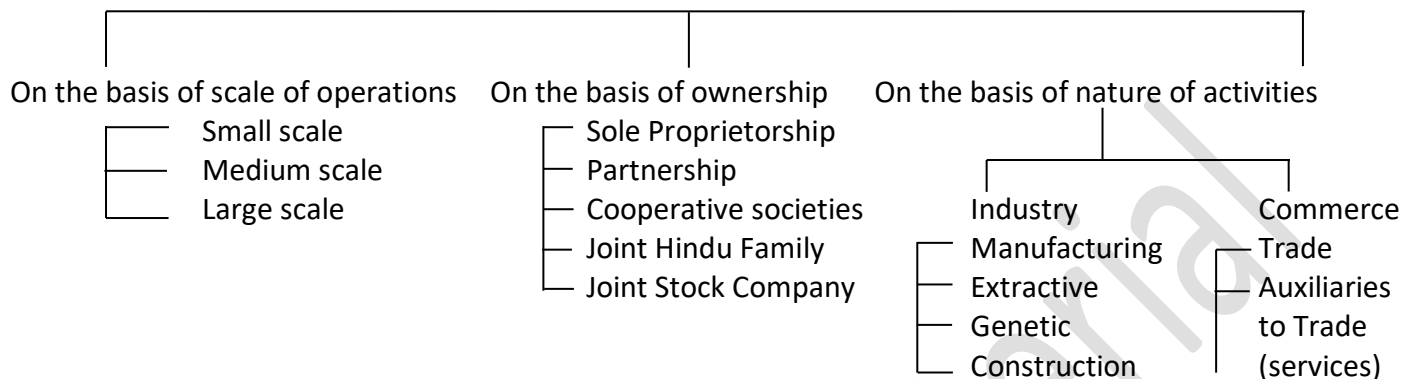
### 2.1 Types of Business Operations



## Unit 1 : Introduction to Business Operation

The spectrum of business is very wide and covers various forms of Business Operations which aim at facilitating the production & distribution of goods & services. The business operations can be broadly classified on the basis of ownership, scale of business or nature of business.

### Types of Business Operations



#### 2.1.1 On the basis of scale of operation

1. **Small Scale Business** – A small scale business is an undertaking in which the investment in fixed assets, plant & machinery, whether held on ownership term or on lease, should be more than 25 lakhs, but should not exceed Rs. 5 crore in case of marketing sector. In case of service sector the investment can be more than 10 lakhs but less than 2 crores. However this investment limit is varied by the Government from time to time. Registration of such business is not compulsory but if registered with Commissioner of Industries then they can avail Financial Assistance. There is easy Mobilization of Capital, Entrepreneurial Skill and other Sources Small Scale Business are a big support to Medium Scale & Large Scale Units. A Small Scale unit is generally a Sole-Proprietorship or may be Partnership. The area of operation is generally localized catering to local demand. These units are mostly Labour Intensive with Smaller Capital Investment. For Example – Chemicals, Shoes, Bicycles, Readymade Garments, Consumable Goods, Sports Goods, Plastic Products, Leather Products, Processed Food, Spices .

2. **Medium Scale Organisation** – Medium scale business is an undertaking in which the investment in fixed assets, plant & machinery should be more than 5 crore but not to exceed 10 crore in case of manufacturing sector. But in case of service sector investment can be minimum 2 crore & maximum limit is Rs. 5 crore. The business is mostly privately owned but managed by owner & some professionals in key roles. Limited sources of capital, limited customer base generally catering to local & region at large. Technologically advanced as compared to small scale business organization. They can employ more people in the business if its expanding. Medium scale business typically results from slow & steady growth of small business. As the organization earns more revenue, it sets aside capital for building, equipment more employees thus bridging the gap between small business & large corporations.

The Government of India now regulates the small scale & medium scale business under MSMEs (Micro Small & Medium Enterprises Act 2006). It provides a legal framework & defines the specific roles of the related institutions.

3. **Large Scale Business Organisation** – The industries or organizations with fixed assets of more than 10 crore are called large scale organizations. These could be manufacturing units or other which use both indigenous & imported technologies. All capital goods and consumer goods can be produced through large scale industries. Mostly the investment is done through Public Investors. The units are more capital intensive & technologically advanced. These Business Organization have Structured Governance,

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Professional Management, Diverse Markets, Wide range of Funding Sources. Companies like Reliance, Tata Group, Infosys Technology, Mahindra Group etc. all the large scale business organizations.

### **2.1.2 On the basis of Ownership**

1. **Sole Proprietorship** – Sole Proprietorship refer to a form of business organization which is owned, managed and controlled by an individual. Here sole means 'only' and the proprietor mean 'owner.' The Proprietor bears all the risks, invests capital and enjoys all the profits. He takes all the decision, employs staff and procures all the resources required to run his business. He has the sole right to control the business operations. This business is carried out on small scale where customers demand personalized services.

2. **Partnership** – Partnership is that form of business organization in which two or more persons agree to pursue a lawful business for the purpose of earning profit. The persons who for partnership are called 'partners' and the business is conducted with the name of the 'firm'. The capital is invested by the partners in an agreed ratio and even the profits and losses are divided as decided in partnership deed. The minimum no. of partners can be 2 and maximum can be 20 in case of ordinary business and 10 in case of banking business.

3. **Hindu undivided family Business** – Hindu undivided family or Joint Hindu Family business is a special type of business organization which is governed by the provisions of Hindu Succession Act, 1956 under Hindu Law. The business is owned and carried on by the members of Hindu Undivided Family. The property is managed and held by the senior male member as the Head of the family known as 'Karta'. The basis of membership in the business is birth in a family and 3 successive male generations can be members of the business. Now even women have been given equal right in inheritance of ancestral property according to Hindu Succession (Amendment) Bill 2004.

4. **Cooperative Societies** – Cooperative Society is a voluntary association of persons who join together for mutual help, economic & social interests. The registration of cooperative society is compulsory under the Cooperative Societies Act, 1912. The capital of cooperative societies is raised from its members through issue of shares. The organization is established primarily with a view to render service to its members and not earn profits. There are various types of Cooperation Societies like Housing Cooperative Societies, Consumer's Cooperative Societies, Credit Cooperative Societies etc.

5. **Joint Stock Company** – It is considered to be the most suitable form of organization for operating business activities on large scale. "A Company is an artificial person created by law having a separate entity with perpetual succession and common seal". It is governed by the Companies Act, 1956 and without registration no company can come into existence. The shareholder are the owners of the company. The Board of directors are elected as representatives who manage the affairs of the company on behalf of the members. It has a separate legal entity. Company can be classified as Private Company and Public Company.

The minimum number of members to start a Private Company is 2 and maximum is 50 whereas Public Company has to have 7 minimum number of members and no limit for maximum.

### **2.1.3 On the basis of nature of a activities**

1. **Industries** - The activities of extraction, production, processing, Conversion of products are described as industry. Industry produces both Consumer goods and Producers goods For Example - Automobile Industry, Electronic Industry, Steel Industry etc.



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The industries can be of following types –

- 1) **Extractive Industries** – These industries extract products from natural sources like earth, water, air etc. The products of these industries are used by manufacturing & construction industry. For example : farming, mining, fishing, lumbering etc.
- 2) **Genetic Industries** – These industries are engaged in breeding plants & animals for their use in further reproduction. For example – Plant in nurseries, horticulture, poultry farms etc.
- 3) **Manufacturing Industries** – These industries are concerned with the conversion & transformation of raw materials and semi finished products into finished products. Articles of daily use are mostly produced by manufacturing units. For example – Oil, Cars, Fertilizers, Medicines, Textile, Television, Paint etc.
- 4) **Construction Industries** – These industries are engaged in construction of buildings, dams, roads, canals etc. These industries create the basic infrastructure for development. For example – DLF Construction Company.

## 2. **Commerce**

The term commerce refers to all those activities that facilitate the transfer of goods & services from producer to consumers. Facilitating services like transportation, warehousing, insurance, banking, advertising, packaging help the smooth & easy transfer of goods from manufacturer to end user. Commerce can be divided into 2 broad categories :

- (i) Trade
- (ii) Auxiliaries to trade

**Trade** – Trade is that branch of commerce which is concerned with the sale, transfer or exchange of goods & services. All the commercial services like transportation, storage, insurance, banking etc. revolve around trade. It is nucleus of all commercial activities. Trade is of following types :

- a) **Internal Trade** – It consists of buying & selling of goods within the boundaries of a country. It is also known as domestic trade or inland trade. It can be further classified into
  - i) **Wholesale Trade** – It refers to sale of goods of specific variety in large quantities. They buy in bulk from manufacturer and then sell in small quantities to the retailers. For Examples – Biscuits manufactured by Parle-G is bought in bulk by the distributors all over the country.
  - ii) **Retail Trade** – It refers to purchase of goods in small quantities from wholesaler and finally their sale to final consumers. For Example – Parle-G Biscuits sold by shop keepers in the market to consumers.
- b) **External Trade** – It consists of the exchange of goods & service between nations. It is also known as Foreign Trade or International Trade. It involves use of foreign currency & transportation like shipping & airways. It can be further classified into
  - i) **Import** – Purchasing goods from Foreign country for home consumption. For Examples – LED lights are purchased from China for domestic use.
  - ii) **Export** – Selling domestic product in foreign countries. For Examples – Rice is exported to other countries from India.
  - iii) **Entreport** - Import of foreign goods with a view to re-export them.

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### Auxiliaries to Trade

Commerce includes several auxiliary services which help in exchange of goods & services. Following are the aids to trade :-

- i) **Transportation** – It performs the function of carrying goods from producers to wholesalers, retailers and finally consumers. It creates place utility and connect the world efficiently.
- ii) **Warehousing** – It performs the function of storing the goods both for manufacturers & traders till they decide to sell the goods. It creates time utility.
- iii) **Insurance** – It provides a cover against loss of goods in the process of transit or storage. The producers & traders can get their products insured & avoid risk of loss due to fire, theft etc. It removes hindrance of risk.
- iv) **Banking** – Banks offer credit facility to needy producers at reasonable interest. Banks facilitate in easy, safe & quick transfer of money. It removes hindrance of finance.
- v) **Advertising** – It helps in awareness creation & idea formation. It helps to highlight – distinctive features & utility of different products. The customer can choose the product according to their needs & obtain better value for money. It removes hindrance of information.

### 3.1 Management of Business Operations

The types of Business Operations cannot be managed if the entrepreneur doesn't assemble or coordinate various factors of production like human resources, material, money, machines to keep the enterprise running. The ultimate success of any business depends upon how the business operations are being managed by the entrepreneur. Different business activities require different kind of entrepreneurial skill.

The term 'Operations' describe the processes and resources that we use to produce the highest quality products or services as efficiently as possible.

Business operations typically include four key areas :

- **Location** : Where you do business – Physically and online.
- **Equipment** : The tools you need to get the job done.
- **Labour** : The human side of business operations.
- **Process** : The way you get business done, including your systems for quality control and improvement.

The importance of each of these areas depends on the nature of the company. For example, physical location is critical to a retail outlet that lives by walk-in-customers, while physical location may not matter a bit to an Internet-based company.

Every business organization regardless of the company, nature of its business, size or type or location have to perform a few strategic activities so that the Business process or workflow of the organization is smooth and it flows uninterrupted. Each strategic activity is highly inter related and must be consistent with the other. The following major activities are involved in management of Business operations -

1. **Strategic planning** – Planning is an important and basic requirement of any business. Strategic Planning is a broad plan for bringing the organization from its present position to the desired position in

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future. Top management should identify who will be involved in the planning process, provide opportunity for proper participation, give responsibility for developing and implementing the plans.

**2. Financing Decision** – Finance is the life blood of any business organization. There must be a continuous flow of funds for the business to commence its operations, to continue operations & for expansion or growth. Finance is an important operative function of business. The business firm has to raise funds from several sources at reasonable cost & ensure its effective utilisation so as to generate adequate profits.

**3. Market research and development-** In recent years, competition in most of the industries has increased due to growing industrialization, expanding size of operations, liberalization. The business organization have to be fully aware of marketing environment & formulate company policies keeping in mind the target customers, pricing, sales promotion and after sales service.



**4. Logistics decisions** - Logistics decisions is concerned with the proper movement of material from source of supply to place of procedure and movement of finished product from the factory to the customer. It helps to provide product to the customer at right place and at right time. The business firm has to design and operate a quick, accurate and efficient order processing system to retain customers and ensure repeat order.

It includes decision regarding transportation, warehousing, order processing, inventory management, procurement, vendor management etc.



**5. Technological decisions** – Information Technology is a boon to any business organization. Through Information Technology they can perform many functions & activities in lesser time & at lesser cost. To improve the quality of decisions, managers require very fast processing & transmission of huge mass of data. I.T. helps in collecting, processing & communicating information very quickly & effectively.

**6. Internal process review** - It is easy to focus only on the day to day running of your business especially in early stages. But once the business expands a regular review of the progress, internal process policy and procedures can help the business to identify its position in the market. This review highlights the assessment of core business activities, finance, business efficiency and competitor analysis.

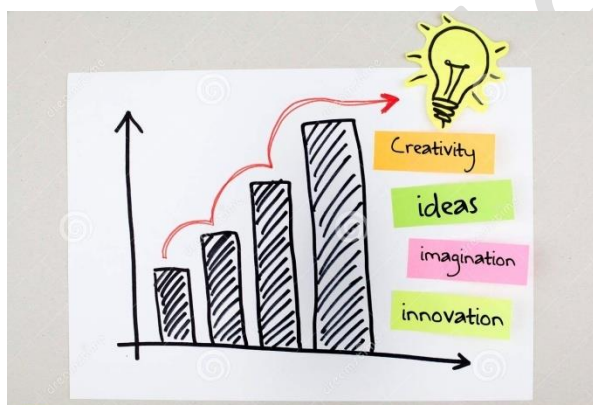
**7. Maintaining Customer Relationship** – Maintaining good customer relationship is growing in importance due to the challenging business environment faced by organization throughout the world today. The aim should be to maximize profit over the long run through the satisfaction of customer's wants. All the plans, policies & operations of business enterprise should be oriented towards customer. Every business decision is made with a prior knowledge of its impact on the customers as 'consumer is the king'.



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**8. Employee enrichment** - Human resources are the only resource which has an unlimited potential for empowerment and development. Sound organization adopts right strategies for attracting, developing, retaining and utilizing human resources. A competent & dedicated team of employees can help an enterprise in achieving its goals efficiently & effectively.

**9. Innovation & Creativity** — Innovation implies doing new things or doing things that are already being done in new ways. It involves creativity & thought process to transform idea or resource into some useful applications. To survive and succeed in this competitive environment it's imperative for any organization to conceive something original and unique.



### SUMMARY

- **Human Activities:** Economic (Aim to earn livelihood by use of economic resources) and Non – Economic Activities (Aim to satisfy emotional, social and psychological needs).
- **Types of Economic Activities** – Business, Employment, Profession and Services.
- **Business** - Buying & selling of goods & services for profit on regular basis.
- **Scope of Business:** Survival, Growth, Reward for risk taking, measure of efficiency and creates goodwill.
- **Business operations:** describe the processes and resources that we use to produce the highest quality products or services as efficiently as possible.
- **Types of Business Operation –**
  - On the basis of scale of operations – small scale, medium scale and large scale.
  - On the basis of ownership – The Proprietorship, Partnership, Cooperative Societies, Joint Hindu Family, Joint Stock Company.
  - On the basis of nature of activities – Industry – Manufacturing, Genetic, Extractive Construction. Commerce – Trade and Auxiliaries to trade.

## Unit 1 : Introduction to Business Operation

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### Key Words

1. Business
2. Profession
3. Service
4. Employment
5. Business risk
6. Industry
7. Business Operations
8. Commerce
9. Strategy
10. Business Goals
11. Auxiliaries to trade
- 12.** Innovation

### *Self Test Questions*

#### **I. Choose the correct answer:-**

1. The activities which are performed to earn livelihood are called .....  
a) Religious activity, b) Economic activity, c) Human activity
2. The economic activity which requires specialized knowledge and skill to render services are called .....  
a) Profession, b) Business, c) Employment
3. The element of risk is highest in .....  
a) Economic activity, b) Business, c) Services

#### **III. Match the following**

- |                          |                                      |
|--------------------------|--------------------------------------|
| 1. Joint Hindu Family    | 1. Teacher teaching his own child    |
| 2. Banking               | 2. 'Karta' is the Head of the family |
| 3. Large Scale Industry  | 3. Re-export                         |
| 4. Entrepport            | 4. Investment of more than 10 crore  |
| 5. Non Economic Activity | 5. Removes hindrance of finance      |

#### **IV. Answer the following briefly:-**



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1. Briefly explain how business operations are critical to the success of any business.
2. Manoj invested his savings in a piece of land in 2005. In 2015 he sold his Land at a good profit. Will his purchase and sale of land considered as business? Give reasons in support of your answer.
3. Describe briefly the role of profit in business.
4. Distinguish between Internal & External Trade.
5. Explain various auxiliaries to trade.

### **V. Answer in detail.**

1. Explain the various strategic functions involved in Management of Business Operations.
2. Enumerate the various types of Business Operations.

## Unit 2 – Business Environment

### ***SESSION-1 Meaning of Business Environment***

<i><b>Learning Objectives</b></i>	<i><b>Knowledge Evaluation</b></i>	<i><b>Performance Evaluation</b></i>	<i><b>Teaching method</b></i>
To understand the meaning, nature and characteristics of Business Environment.	<ul style="list-style-type: none"> <li>• Meaning of Business Environment.</li> <li>• Definition of Business Environment.</li> <li>• Nature of Business Environment.</li> <li>• Features of Business Environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Explain the meaning of Business Environment.</li> <li>• List out the features of Business Environment.</li> <li>• Elucidate the nature of Business Environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Interactive lecture with examples.</li> </ul>

### ***Session 2 Elements of Business Environment***

<i><b>Learning Objectives</b></i>	<i><b>Knowledge Evaluation</b></i>	<i><b>Performance Evaluation</b></i>	<i><b>Teaching method</b></i>
To Understand the various factors affecting Business Environment.	<ul style="list-style-type: none"> <li>• Factors of Internal Environment.</li> <li>• Factors of External Environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Explain in detail various factors of Internal Environment.</li> <li>• Describe the factors of External Environment.</li> <li>• What is the difference between internal &amp; external elements of Business environment?</li> </ul>	<ul style="list-style-type: none"> <li>• Interactive lecture</li> </ul>

### ***Session 3 Environmental Analysis***

<i><b>Learning Objectives</b></i>	<i><b>Knowledge Evaluation</b></i>	<i><b>Performance Evaluation</b></i>	<i><b>Teaching method</b></i>
To understand the basic concept of Environmental Analysis.	<ul style="list-style-type: none"> <li>• Meaning of Environmental Analysis.</li> <li>• Meaning of SWOT Analysis.</li> <li>• Advantage &amp; Disadvantage of SWOT Analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Explain in detail the meaning &amp; concept of SWOT Analysis.</li> <li>• Enumerate the advantages &amp; disadvantages of SWOT Analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Interactive Lecture</li> </ul> <p><b>Activity</b> – Prepare a SWOT analysis for any firm.</p>

### *Case Study – BAN ON DIESEL CARS IN DELHI*



India's Capital Delhi tried to get a handle on its growing pollution problem. Older diesel vehicles were banned from New Delhi in 2015, by Supreme Court. Vehicle registrations for diesel powered vehicles manufactured at least 10 years ago were cancelled or were not renewed. WHO (World Health Organization) ranked Delhi's air the 11<sup>th</sup> most polluted city in the world. The diesel cars primarily emit harmful gases, CO<sub>2</sub>, unburned fuel, NO<sub>2</sub> etc. Diesel vehicles are the main contributors to smoke and the particulate matter. This causes cough, bronchitis, and pulmonary edema. The fine soot particles remain suspended in the air for long before getting settled, which are carcinogenic & lead to cancer.

The Indian Automakers were unhappy with this NGT's (National Green Tribunal) Ban on diesel vehicles in Delhi. The vehicles affected represent about 2% of company's total monthly sales. There were many external forces which affected the market like action taken by government, competitors etc. This lead to emphasize on the fact that environment provides both constraint & opportunities to grow, expand or run the business. To keep pace with changes in environment, every organization requires healthy interaction with external environment.



#### **1.1 Meaning of Business Environment**

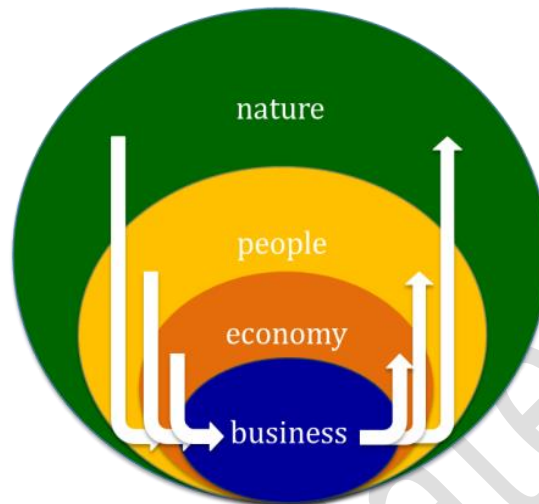
In the words of Keith Davis "Business Environment is the aggregate of all conditions, events and influences that surround and affect it."

According to Arthur Weimer "Business Environment encompasses the climate or set of conditions, economic, social, political or institutional in which Business operations are conducted."

The term Business Environment means the sum total of all individuals or organizations and other forces that are controllable or outside the control of business enterprise but may affect its performances. The economic, social, political technological and other forces which operate outside a business enterprise are part of its environment. Business Environment consists of both specific and general forces.

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- Specific forces refer to those forces which are having direct effect on day to day working of the business i.e. customers, competitors, investors etc.
- General forces refer to social, political, legal and other forces which have indirect effect on business operations.



### 1.2 Nature of Business Environment

The nature of Business Environment can be explained by following approaches.

1. System Approach – Business is a system by which goods & services are produced for satisfaction of wants, by using raw material, capital, labour etc. from the environment.
2. Social responsibility Approach – Business should fulfill its social responsibility towards several categories of society like government, employees, consumers etc.
3. Creative Approach – Business brings about changes in the society by giving attention to the needs of people. It gives shape to the environment by facing the challenges & availing the opportunities in time.

### 1.3 FEATURES OF BUSINESS ENVIRONMENT

Business Environment is characterized by following features.

1. **Aggregative** - Business Environment is the totality of all the external forces which influence the working and decision making of an enterprise.
2. **Inter-related** - Different elements of business environment are closely interrelated and interdependent. A change in one element affects the other element for example : Social pressure against pollution (social environment), led to the enactment of anti-pollution laws (political environment).
3. **Relativity** - Business Environment is a relative concept. It differs from country to country and region to region for example : Countries like USA and UK have different kind of education system from India.
4. **Uncertainty** - Business Environment is legally uncertain because it is very difficult to forecast future uncertainties. Changes are taking place very frequently. For e.g. Advancement in mobile technology.

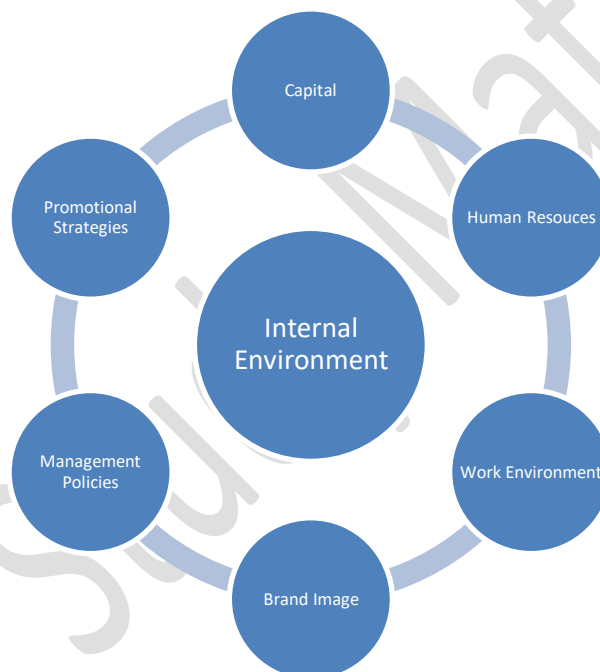
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5. **Complex** - Business Environment is very complex. It's difficult to know the impact of social, economic, political and technological factors on change in demand of a product.

### 2.1 *ELEMENTS OF BUSINESS ENVIRONMENT*

Business Environment is a combination of both internal and external environment. Business is surrounded by an internal environment which is in control of the business and external environment which is not in control of business.

### 2.2 *Factors of Internal environment*



**Internal environment includes components like:**

1. *Capital*
2. *Human resources*
3. *Work environment*
4. *Brand image*
5. *Management policies*
6. *Promotional strategies*

a) **Capital** - Finance is the life blood of the business. The management has to skillfully utilize the financial resources for growth of the organization. Optimum utilization of financial resources is one of the controllable factors.

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b) *Human resources* - Efficient human resource of the business takes the business to greater heights. The quality of goods and services provided by the business also depends upon the people employed in the business. Therefore, it is an internal factor which is in control of the business.

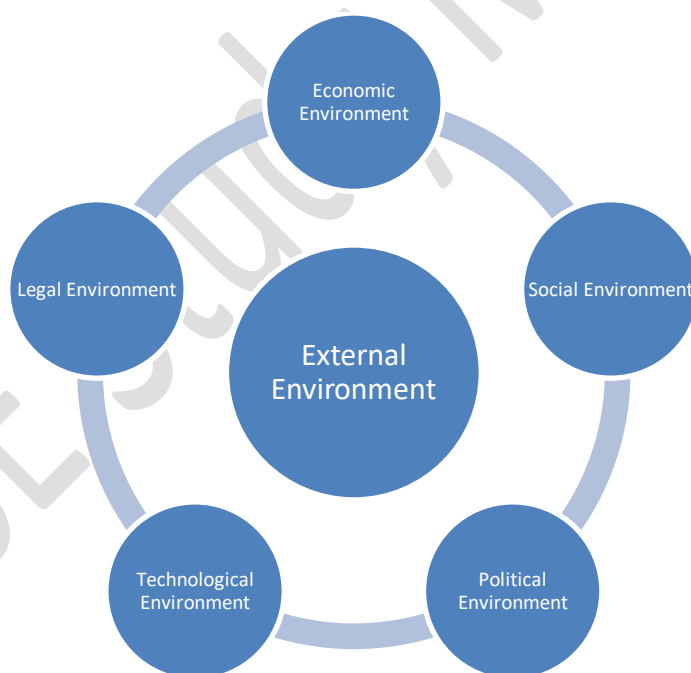
c) *Management Policies* - The board of directors should foresee the changes in external environment and form business strategies and policies accordingly. The business owner should also keep in mind business ethics and values so as to survive in the economy.

d) *Brand Image* - Promoting the brand of the business is completely in the control of the entrepreneur. If the business succeeds in providing quality goods and services to the customer's then business builds the best brand image.

e) *Promotional strategies* - It is in the control of the business to formulate the policies and strategies of promoting their business in this competitive world. They should work towards healthy competition and fulfill their business objectives.

f) *Internal work environment* - Business should promote healthier and happier environment inside the organization and provide good working conditions for the employees.

### 2.3 FACTORS OF EXTERNAL ENVIRONMENT



Contemporary Business Environment is made up of the following elements.

1. *Economic environment*
2. *Social environment*
3. *Political environment*
4. *Technological environment*



### 5. *Legal environment*

All these factors explain the general environment which mostly influences many enterprises at the same time. The business has to be aware of all the dimensions of business environment, so that they can identify threats and opportunities and cope up with all the rapid changes through proper planning and policy formulation.

**1. *Economic environment*** - The economic environment exercises most significant influence on business because business itself is an economic institution. Totality of Economic Factors, such as employment, income, inflation, value of rupee, interest rate, productivity, wealth, that influences the buying, behavior of the consumers and firms comprises Economic Environment. Since 1991 the government has announced several measures which are popularly known as economic reforms. It consists of **liberalization, privatization and globalization (LPG)**.

**LIBERALISATION** means removal of restriction on the entry and growth of private Sector firms.

**PRIVATISATION** means giving greater role to private sector and reducing role of public sector.

**GLOBALISATION** means integration of our economy with world economy to promote imports, exports and mobilizing exchange movement.

Examples of impact of economic environment on business are as follows :—

- a. A rise in income of people has created increasing demand for products.
- b. Globalization has resulted in entry of several multinationals into India.
- c. Rapid growth of Indian economy has been causing inflation.
- d. Stock markets in India have become more sensitive to change in international stock markets.

**2. *Social Environment*** - Social environment refers to characteristics of the society in which a business firms exists. It consists of social institutions and groups, educational system and literacy rates, custom beliefs, values and life styles, tastes and preferences of people. Demographic forces- size, population, occupational structure.

Examples of impact of social environment on business are as follows : —

- a. Changing attitude of Indians towards food and clothing have led to growth of fast food joints and ready-made clothing.
- b. Better education facilities for girls are creating greater demand for school dress, books and stationery.
- c. NGO's and courts are making business firms more responsible towards consumers and environment protection.

**3. *Political environment*** - Political environment comprises the elements relating to government affairs. It serves as regulatory framework of business.

The main constituents of political environment are as follows -

- Constitutional framework

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- Political ideology
- Philosophy of political parties
- Political stability
- Image of country and its leaders
- Defense and military policy
- Nature and extent of bureaucracy

Examples of impact of political environment on business are as follow -

- a) Coalition government at centre has reduced political stability increasing risks for business.
- b) Reservation for ST, SC AND OBC's etc in educational institutions.
- c) Creation of new states of Chhattisgarh, Jharkhand, and Uttaranchal is affecting transport, tourism and mining industries.

4. *Legal environment* - Legal environment consist of laws, rules and regulation, framed by the parliament under which the business must operate. To exist and grow the business has to follow all the law that constitutes this environment. Non compliance of laws can pose threats for business enterprises.

The main constituents of legal environment are -

1. Laws governing business- economic, commercial and labour laws.
2. Flexibility and adaptability of laws.
3. Implementation and effectiveness of laws, court decisions for protection of consumers.
4. Decision rendered by various agencies at center, states or local level.

Examples of impact of legal environment on business

- a) Chambers of commerce and industry try to influence the policies and rules through lobbying and public opinion.
- b) Restriction on sale of arms ammunitions, Explosive, dangerous drugs.
- c) Protect employee against unfair dismissal.
- d) Legislature for health and safety and workers.

5. *Technological environment*- It includes new approaches, new products and new equipments to transform inputs into outputs. It also facilitates an organization efficiency and effectiveness so that it can try to remain at par with best in the world. Technology changes provide opportunities and become threat for others.

**Example of impact of Technical Environment on business**

1. Mobile phones have taken over from landline phone.
2. E- ticketing for railways and airways.
3. Information technology and telecommunication have given rise to a global market which requires better system of production and distribution (Internet marketing).

### 3.1 Environmental Analysis

No business can afford to ignore changes in environment. A business firm can set its future directions only when it has visualized the constraints & opportunities that lie ahead. So environment analysis helps management to predict future development & take corrective actions to implement their plans. The major technique for analyzing & diagnosing the environment is SWOT analysis.

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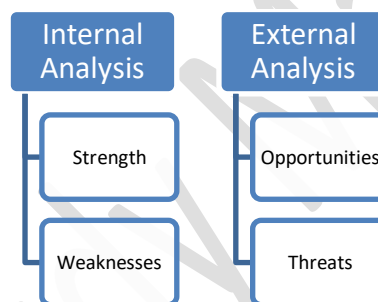
### SWOT Analysis

The organizations have to face challenges and adapt to changes that are taking place in the industry & market. For this good planning strategy is required by any business. Business operations have to be smooth for achieving its success.

In 1960's a team of researchers developed a new method to analyze corporate strategy. This method is known as SWOT Analysis.

SWOT is basically a business tool that deals with the internal and external factors of the business. It's an acronym which stands for Strength, Weakness, Opportunities & Threats. It uses basic data of the business to identify what strength & weaknesses that a business has and then spot the opportunities that arise & threats likely to face.

### Environmental Scan



### SWOT Matrix

	HELPFUL (for your objective)	HARMFUL (for your objective)
INTERNAL (within organisation)	<b>Strengths</b> • • • • <b>S</b>	<b>Weaknesses</b> • • • • <b>W</b>
EXTERNAL (outside organisation)	<b>Opportunities</b> • • • • <b>O</b>	<b>Threats</b> • • • • <b>T</b>

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**Strengths and weaknesses** – Strengths describe the positive factors of the business. Weaknesses are the activities which negatively impact the business. . They are completely under the control of business. It is an internal factor which can be used as a basis for developing a competitive advantage.

The internal factors include mostly the resources & experiences. General areas to consider are:

- Human resource – staff, board members, target customers
- Physical resources – location, building, equipments
- Financial resources – Grants, funds, credits
- Activities & Processes – Programs the business run, systems they employ.
- Past experience – Reputation of the co. brand name, patents.

### **Opportunities & Threats**

Opportunities are activities that the business does not currently have or do but that could positively impact the business if undertaken.

Threats are factors that negatively affect the business, if proper steps are not taken to mitigate them. The business has no control over the external factors which give rise to opportunity & threats. General areas to consider are –

- Future trends
- The economy – Local, national, international
- Funding sources – donors, legislature
- Demographics – change in age, race, gender, population shifts, culture of the society
- Economic Boom & Depression.

### **3.2 Advantages & Disadvantages of SWOT Analysis**

#### **Advantages**

Using the SWOT Analysis gives various benefits to the organization in the following ways –

1. It understands the business & organization better.
2. It helps in addressing the weaknesses of the business.
3. It helps in capitalizing the opportunities in the economy.
4. It helps in taking advantage of strengths of the business.
5. SWOT Analysis prioritizes business goals & strategies.
6. SWOT analysis also lays down the path for achieving the goals of the organization.

#### **Disadvantages**

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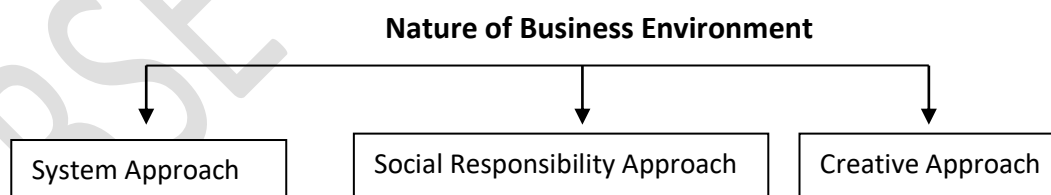
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SWOT Analysis is only one stage of the business planning process. For complex issues, more research & analysis is required. Various disadvantage of SWOT analysis are –

1. It does not prioritize issues & problems faced by the organization.
2. It does not provide solutions or offer alternative decisions.
3. It produces lot of information, but not all of it is useful.
4. It generates too many ideas but does not help to choose the best.

### **SUMMARY**

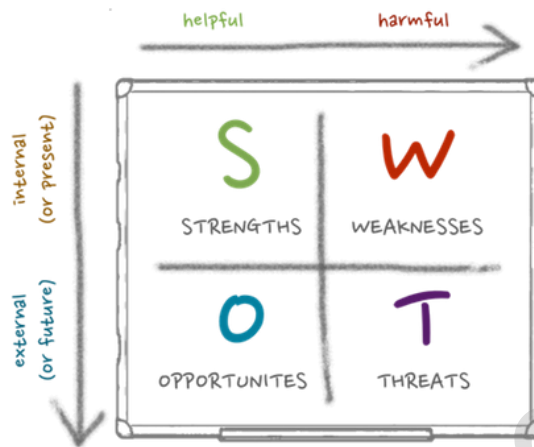
- **Business Environment:** Business Environment encompasses the climate or set of conditions, economic, social, political or institutional in which Business operations are conducted.
- **Nature of Business Environment**



- **Features of Business Environment**
  - ✓ *Aggregative*
  - ✓ *Inter-related*
  - ✓ *Relativity*
  - ✓ *Uncertainty*
  - ✓ *Complex*
- **Components of Internal Environment :** Capital, Human Resources, Work Environment, Brand Image, Management Policies and Promotional Strategies.

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- **Components of External Environment** : Economic, Social, Political, Technological and Legal Environment.
- **SWOT Analysis**



### Key Words

1. Business environment
2. Social responsibility
3. Human resources
4. Liberalization
5. Privatization
6. Globalization
7. SWOT Analysis
8. Strength
9. Weakness
10. Opportunity
11. Threat

### Self Test Questions

#### I. Choose the correct answer:-

1. The positive factors of business are called as .....  
a) Strength, b) Threat, c) Opportunity
2. .... are the factors that negatively affect the business  
a) Weaknesses, b) Opportunities, c) Threats
3. 'Coalition government at centre has reduced political stability, increasing risks for business.' It's an example of .....  
a) Technological environment, b) Legal environment, c) Social environment
4. .... refers to integration of our economy with the world economy.



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a) Liberalization, b) Privatization, c) Globalization

5. .... is the life blood of any business

a) Capital/Finance, b) Brand image, c) Work environment

### II. Fill in the blanks

1. Human resources are an ..... factor which is in control of the business.
2. .... environment refers to the characteristics of the society in which a business firm exist.
3. .... environment comprises the elements relating to government.
4. .... environment includes new approaches, new products and new equipments to transform inputs into output.
5. .... is a business tool that deals with internal and external factors of the business.

### III. Match the following

- |                   |  |
|-------------------|--|
| 1. Strength       | 1. These activities negatively impact the business and are in control of business. |
| 2. Opportunity    | 2. Removal of restrictions on private sector firms.                                |
| 3. Weakness       | 3. Describe the positive factors of business.                                      |
| 4. Threat         | 4. Giving greater role to private sector and reducing the role of public sector.   |
| 5. Liberalization | 5. They negatively impact the business but are out of control of the business.     |
| 6. Privatization  | 6. If undertaken, they can have positive impact.                                   |

### IV. True or False

1. SWOT analysis provides readymade solutions for all the business problems.
2. Stability of Government plays a vital role in the growth and development of a business.
3. Specific focus does not affect the day to day functioning of the business.
4. Business environment is differs from country to country and region to region.
5. Satisfied employees bring good profits for the organization.

### V. Answer the following briefly:-

1. What is included in legal environment of business? State
2. How does SWOT analysis prepare the business organization for the future?
3. Why business environment is considered to be complex in nature?
4. What is meant by business environment?
5. Which factors give rise to opportunities and threats?

**VI. Answer in detail.**

1. What role does economic environment play in the business?
2. How increasing competition & more demanding customers bring change in the economy?

### **Learning outcome:**

- Concept of product and its essential features or attributes
- Classify the product or goods on the basis of some characteristics
- Concept of services and its essential features or attributes
- Distinction between Product and Services
- Meaning of Consumer, identifying needs and classification of consumer

### **3.1 Concept of the Product:**

A product is a set of tangible physical attributes assembled in an identifiable form. Each product carries a name, such as car, iron, building etc. But in marketing, a product is anything which can satisfy a need, want or desire of consumers and can be offered in an exchange process. Hence, a product can be commodity, service, idea or a combination of all these. A commodity is a tangible object such as watch. A service is an intangible which provides benefits and satisfaction to the users such as health service or doctors' or nurses' service. An idea is a philosophy or concept-such as "stop smoking," "use seat belt during driving", "suggestion for doing physical exercises". etc.

When buyers purchase a product, they decide to buy after considering both tangible and intangible attributes of the product for example a car is a tangible product but its after sales service, durability, colour, manufactures reputation etc. are intangible part of product. Good products are key to market success and therefore products should be produced as per the needs and wants of target market.

#### **3.1.1 Definitions of Product**

"A product is a set of tangible and intangible attributes including packaging, colour, price, quality and brand plus the services and reputation of the seller. A product may be a tangible goods, service, place, person or idea" "A product should be considered as a bundle of utilities consisting of various product features and accompanying services."

- W. Anderson

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“A product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objectives, services, person, places, organisations and ideas.”

- Phillip Kotler

“Products are tangible objects that exist both time and space”

- (Shostack, 1982, p.49)

“Products are artefacts that supply the consumer with benefits, noting that production is usually separated by time and place from consumption.”

-Manzini (1996)

### 3.1.2 Features of the product

From the above definitions, some of essential features can be identified as given below :

**(A) Tangibility:** To be a product, it should have a tangibility character such as it can be touched or seen, for example a car, building, cloth etc.

**(B) Intangible Attributes:** The product may also be intangible in the form of services for instance, banking, insurance, music composition, repairing, nursing etc.

**(C) Associated Attributes:** A product may have number of features which differentiate it from competitor's products. Associated attributes usually cover the colour, package, brand name, installation instruction etc. For example Hindustan Lever's vanaspati ghee has a brand name DALDA and with its package it can be identified by the consumers. It has developed an image in such a way that all kinds of vanaspati ghee sold are being referred to as DALDA ghee.

**(D) Exchange Value:** A product may be tangible or intangible but it must have exchange value. It must be capable of being exchanged between seller and buyer at mutual agreed price.

**(E) Consumer Satisfaction:** A product should have the capacity to satisfy consumer's real or psychological needs and wants. At the same time, it must have capacity to generate profit for the

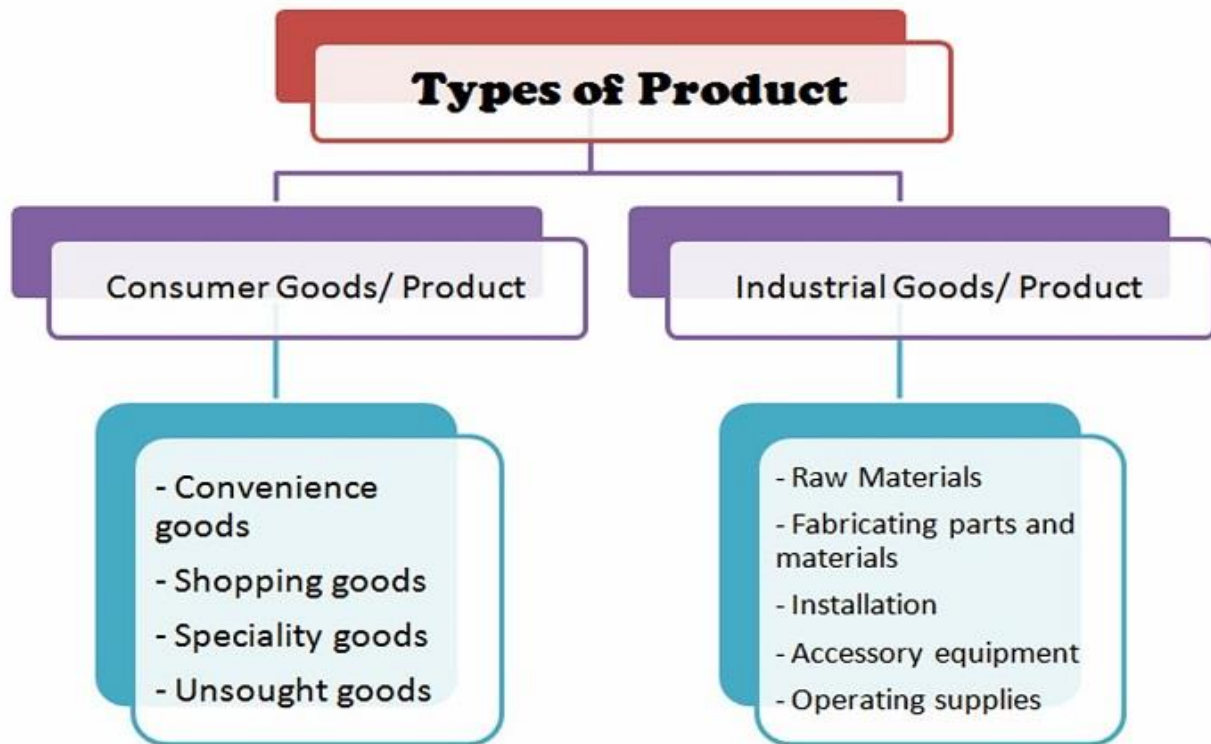
satisfaction of sellers.

### 3.2 Classification of Products

This form of classification is credited to Copeland (1923). This method of classification is one of the earliest classifications in marketing. In many literatures it is referred to as traditional classification.

Product can be classified into three group, according to their durability or tangibility as shown below:

1. **Non durable goods:** Non durable goods are tangible goods that are normally consumed in one or few uses. Examples are Beer, Toothpaste, Sugar, Soap and Salt. 2 These goods are consumed fast and purchased frequently by the consumers. Many fast foods fall into this category.
2. **Durable Goods:** These are tangible goods that normally survive many uses. Goods that fall under this category include Furniture, Refrigerator, Clothing, Rug etc. They are not frequently purchased as non-durable goods because they are used up slowly.
3. **Services:** These are activities, benefits or satisfaction that is offered for sale. Examples are Haircuts, Repairs, Banking Services and Dry cleaning. Services are intangible. They are usually produced and consumed in the same time frame unlike durable goods or non-durable goods that can be produced and shelved. The producer of goods may be far away from consumers, but service providers often work in the presence of the customers.



### 3.2.1 PRODUCT CLASSIFICATION: CONSUMER GOODS

Edward and Richard (1971) identified three classes of consumer goods namely convenience goods, shopping goods and specialty goods.

#### 3.2.1.1 Convenient Goods

These refer to items that the consumer buys with minimum shopping effort. Essentially these are goods that are habitual with the consumers. They are bought frequently but not in large quantities because they are non-durable goods. In other words they are ‘used up’ goods. The buying decision of the consumers for convenience goods is ignited by habit and he knows all the retail outlets. Under this category are Biscuits, Newspaper, Toilet Soap, Cigarettes etc.

There are three types of convenience products -staples, impulse and emergency products. These sub-categorisation of convenience goods are based on how the consumers think about the product and not on the characteristic features of the product.



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A cartoon illustration of a white ice cream truck with red and blue stripes. The words "ICE CREAM" are written in large, blue, block letters on the side. A window displays various ice cream cones and a sign with a blue wave. A driver is visible in the cab. Musical notes float above the truck, suggesting it plays music.

A cartoon-style illustration of a white ambulance. It features a red cross on its side, a red horizontal stripe, and a blue emergency light on top. The vehicle has black wheels and a grey bumper.

### 3.2.1.2 Shopping Goods

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appliances. Before a consumer makes up his mind to buy shopping goods, a lot of exercise must have been carried out to know the different prices of the various stores that sell the product. Shopping goods are more durable than the convenience goods. This is why a lot of parameters must be considered before procurement. The rate of the 'use up' of shopping goods is quite slow compare to convenience goods. Shopping products are products that a consumer feels are worth the time and effort to compare with competing products.

Kotler (1991) identified two classes of shopping goods: homogenous and Heterogeneous shopping goods.

- (i) Homogenous Shopping Product: These are products that the consumers see as basically the same and want at the lowest price. Some consumers feel that certain sizes and types of television sets are similar, so they shop for the best price. This is true of many shopping products.
- (ii) Heterogeneous Shopping Product: These are products the consumers see as different in features and would want to test and inspect for quality and suitability. For this category of shopping goods, quality and style matter more than price. This is also true when service is a major part of the product, as in a visit to a mechanic for car repair service what is of interest to the car owner is the quality of service of the mechanic and not the charges.

This is why branding may be less important for heterogeneous shopping products because the more customers compare price and quality the less they rely on brand names or labels. This explains why retailers carry competing brands so that consumers won't go to a competitor to compare price.

### 3.2.1.3. Specialty Goods:

These refer to goods for which consumers are habitually willing to make a special purchasing effort. These categories of goods possess unique characteristics or high degree of brand identification. Examples include specific brands and types of fancy foods, cars, stereo components, photographic equipment and suits. Specialty



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goods do not involve buyer in making comparisons buyers invest time only to reach the dealers of the specialty goods.

### 3.2.1.4. Unsought Goods:

These are goods that the consumer does not know about or know about but does not normally think of buying. Examples are insurance, cemetery plots, coffin and encyclopaedia. For consumers to be attracted to these products substantial marketing effort is required in form of advertising and personal selling.



William D. P. (1996) identified two types of unsought products:

- (i) New unsought products: These are products offering new ideas that potential customers seem not to know anything about. Sales promotion aimed at informing and convincing the customers can be carried out to end their unsought status. Many of the electronic gadgets that we have in the market today were once unsought goods because they were new innovations. The erratic power supply in Africa sub-region has made available television set that uses battery.
- (ii) Regularly unsought products: For this category of unsought goods potential customers are not motivated to satisfy the need. Examples of products under this category are gravestones. For these kind of products personal selling is very important.

### 3.2.2. INDUSTRIAL GOODS

This classification is based on relationship of the goods to the organisation's production process and cost structure. Industrial goods are intermediate goods and can be classified into three categories below:

#### 3.2.2.1 Foundation Goods

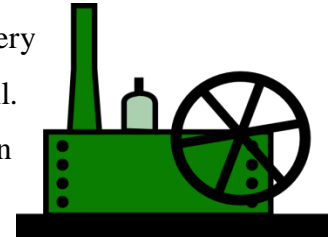
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These are manufacturing machines upon which production is dependent. They are not used up in the production process but over a course of years during which a part is charge off as depreciation. Foundation goods are long-term investment.

There are two types of foundation goods: installation and accessory equipment.

**A. Installations:** These are long - lasting products that are not bought very often. The number of potential buyers at any given time is usually small. These consist of buildings and fixed equipment. The producer must design it to specification and to supply post sale services.



**B. Accessory equipment:** These comprise of portable factory equipment and tools. These equipments do not become part of the finished product. They simply help in the production process. Quality features, price and services are major considerations in vendor selection.



### 3.2.2.2. Entering Goods

These refer to ingredients or components of product. These are the parts that material and fabricating materials.

**A. Raw materials:** These are goods that have been produced only enough to make handling convenient and safe. They enter the manufacturing process basically in their natural state. They originate either from agriculture or from industries such as mining and lumbering. Examples are cotton, man cue, crude oil and most farm produce.



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**B. Fabricating materials:** These undergo some degree of initial processing before they enter the product manufacturing process. This according to Rosenberg (1977) may be a relatively basic step such as changing iron ore into pig iron or wheat into flour. In other cases an ingredient may be completely prefabricated, such as an automobile tyre or an electric motor for home appliance. The more complicated a product is, the more likely it is to contain both raw and fabricating materials. Computers and calculators for example use basic material such as silicon crystal, glass and metals. They also use integrated circuits which are often manufactured by an outside company and supplied as fabricated materials.



**C. Facilitating Goods:** These are operating supplies that are used up in the operation of the firm but do not become part of the product. They are usually budgeted as expenses and have short life. The purpose of such goods is to keep the foundation goods functioning properly and to help in the handling and supply of the entering goods. Examples are lubricating oil; saw blades, cider forms and labels.



### 3.3. Concept of services

Marketing initially developed in connection with physical products. But in recent times the increasing growth in service industries has made this aspect of marketing important. Service industries vary. It ranges from government sector with its courts, hospitals, loan agencies, military services, police, fire departments and post office to private non profit sector with its museums, charities, churches in the service business.



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A service according to Kotler (1988) is any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything. Its production may or may not be tied to a physical product.

Services like consumer goods can be classified using several approaches. But we need to bear in mind that while goods are testable services are not. For example a consumer cannot test-drive a bank like you do for an automobile. Services are so important that all products require service commitments and this is reflected in the purchase price. Services are consumed as they are produced unlike consumer goods that could be stored in inventory.

### 3.3.1. Features of Services

Services have four major characteristics that affect the design of marketing programs - intangibility inseparability variability and perishability.

**(a) Intangibility:** Intangibility of services can be explained by a clear comparison between restaurants and soaps. Soap has a clear metric like 500 grams of soap and it is something which you can touch and feel and you know what the exact cost of the product is and what it has to be priced at. A service like a restaurant is always varying because you pay as per the service that you receive. You cannot taste the food in a restaurant and then order the food. You have to first order it and then hope that it is good in taste. Thus, unlike products, services cannot be touched or felt beforehand. They have to be first ordered and then they become tangible.

**(b) Inseparability:** Services are produced and consumed on the spot. This is unlike physical products that can be produced now and stored in inventory till later time for consumption. If a service is rendered by a person, the person and the service cannot be separated since the provider is present at the point of sale. This explains why there is a provider-client interaction in services marketing. It is the provider of the services that is very important in entertainment and professional services. Because of strong preferences for provider, a substitute will not in any way satisfy the buyer.

**(c) Variability:** Services are highly variable and they depend on who provides them and when and where they are provided. One Surgeon may be preferred to another because of hospital facilities and handling he has over and above the other. Service buyers are usually aware of this

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high variability and frequently talk to others before selecting a service provider. This explains why many banks, airlines and hotels spend substantial amount to train their 7 employees in providing good service the degree of variability can be reduces by training the service providers in response to customers demean.

**(d) Perishability:** Services as mentioned earlier cannot be stored. The reason why many doctors charge patient for missed appointments - is that service value existed only at the point when the patient should have shown up.

### 3.4. Classification of Services

There are three ways of classifying services: by buyer, by seller, by form of regulation.

**1. By Buyer:** Two major buyers are identifiable for every service. These are household buyers and industrial-buyer. Recreational services purchase by individual includes everything from tennis lessons to fortune telling. Many services purchased by individuals are households' in nature. For example Electricity, House painting and Insurance. The Industry also requires training, transportation and consulting services for smooth economic performance of the various sectors of the economy.

**2. By Seller:** There are three major groups under this classification of services:

(i) Service organisation owned by private individuals or groups, who share the profits or the losses, (ii) Privately owned organisation not for profit. e.g. private schools, symphony orchestras museums and Churches. (iii) Public owned companies e.g government parastatals

**3. By Form of Regulation:** Services may be categorised by the extent to which they are controlled by public regulations. Services can be classified by form of regulation into three classes.

**(i) Extensive Control Services:** Service under this category requires the certification of the supervise body before licensing. Examples are banks and electric utilities. To provide banking services, appropriate approval must have been obtained from the Central Bank before the commencement of operation. Appropriate agency must also certify the authenticity of an electrical contractor with National Electric Power Authority (NEPA).



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**(ii) Near Extensive Control Services:** Service under this category are theatre, travel agencies and hotels. The requirements for establishing them are not as tough as the banks mentioned earlier.

**(iii) Unregulated Services:** Most repairs services fall under this category. Many professional practitioners like lawyers and doctors are controlled by the regulation laid down by their professional body and not by public body.

In conclusion, the life cycle of a service is a marketing characteristic that must be considered in designing a marketing strategy for a service. It is therefore suggested that the offer characteristics and the marketing characteristics should be the basis for the formulation of any marketing strategy for any service classification.

### 3.5 Difference between Product and Services

1. Who comes to whom	
<b>Product</b>	Products come to customers whereas customers come to services. Product benefits are embedded inside the product / package and can be transported to their customers through distribution channels.
<b>Services</b>	Services are location-based and the customers need to travel to these service locations or the service personnel has to come to the customer location.
2. Quality	
<b>Product</b>	The quality expected from a product is mostly embedded in the product itself at the time of its manufacture and depends in turn on the quality of the materials

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	used and the setting of the machines.
<b>Services</b>	On the other hand the qualities that people expect from service are different : customization and variation is appreciated in service and this depends a lot on the experience, skill and motivation of the service-giver on the spot.
<b>3. Tangibility</b>	
<b>Product</b>	The products are tangible and can be inspected / sampled before buying.
<b>Services</b>	Service on the other hand is experiential and sometimes based on a belief.
<b>4. Scalability</b>	
<b>Product</b>	The product business is scaled up by expanding the manufacturing capacity , distribution and sales reach, and access to more customers.
<b>Services</b>	The service business is not easy to scale up - it needs a supply of trained service providers and this involving either poaching people from the competitors or increased activity of recruitment, induction, training and motivation. Attrition of trained manpower is a danger to service business.
<b>5. Ownership</b>	
<b>Product</b>	A product ( flat, car, machine) can be owned and can go into your balance sheet as an asset and is re-salable and you can accumulate it to build your wealth.
<b>Services</b>	A service ( degree, surgery, haircut) cannot be owned as is always shown as an expense. It is not resalable and cannot be transferred to someone else.
<b>6. Source of Value</b>	
<b>Product</b>	The customers buy "products" essentially for the value they find inside the box - whether a soap or a TV .
<b>Services</b>	the customers buy "services" for the value of they find in the "encounter" with the service provider - whether doctor, waiter or a consultant.

### 3.5.1 Meaning of Consumer:

The consumer is the one who pays to consume goods and services produced. As such, consumers play a vital role in



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the economic system of a nation. Without consumer demand, producers would lack one of the key motivations to produce: to sell to consumers. The consumer also forms part of the chain of distribution.

We will only gain a competitive edge if we have correctly identified our customer needs. In order to identify consumer needs and make use of this information we are supposed to do three things

1. Communicate with our customers and find out how you can satisfy their needs better
2. Establish ways to record and interpret consumer feedback
3. Use this information when making important decisions about marketing, buying, merchandising and selling.

The resultant competitive edge should

- Attract more customers than your competitors.
- Increase the amount that your competitors spend
- Persuade your customers to shop with you more regularly

### **3.5.2 Identifying Consumer Needs:**

Customer needs Customers have six basic buying needs pertaining to the product:

1. Safety.
2. Performance.
3. Appearance.
4. Comfort.
5. Economy.
6. Durability.

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Finding out which buying needs are most important to your customers will allow you to match these needs to the benefits of your products. For example, a customer's buying need might be for comfort and economy - "These slippers are made from wool and are padded with foam, so therefore will be extremely comfortable. They are also on 'special' this week so represent a great buy!"

### **1. Customer expectations**

Your customers will have differing needs and wants, however customers have common expectations. The importance of these expectations may vary, depending on the type of product or service they require. Common expectations are:

### **2. Service**

Customers expect a level of service that they think is appropriate for their type of purchase. Someone who makes a small, spontaneous purchase may have a lesser service need than a customer who makes a large purchase.

### **3. Price**

The cost of everything we purchase is becoming increasingly important, therefore the price component becomes a vital issue. The temptation for a business to compete on price is financially dangerous. It is a practice that should be avoided unless you have set out to be a 'discounter'. Alternatives to price cutting can include 'value adding' (can you add value to your products or services to make your business more competitive?)

### **4. Quality**

Customers have expectations of quality and durability. They are less likely to question price if they are doing business with a company that has a reputation for quality.

### **5. Action**

Customers need action when a problem or question arises. Everyone has a need for recognition and like to be treated as a 'priority'.

### **6. Appreciation**

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Customers need to know that we appreciate their business. Saying ‘thank-you’ through words and actions is a good starting point. Let customers know that you are glad they have chosen to do business with you - this conveys a positive message and encourages them to come back.

Your customers will have expectations of how their needs should be met. Find out what their expectations are and exceed them with exceptional customer service - this is a sure way of winning ‘life-long’ advocates for your business!

✓ Remember that in order to improve your business profitability you will need to:

- Become familiar with your customers and establish trusting relationships with them.
- Ask your customers what their expectations are.
- Live up to their expectations and plan to exceed them whenever possible.
- Be consistent and courteous when serving your customers.

### ➤ Key points to identify consumer needs

**1. Know your customers:** Gather information about as many of your customers as possible.

**2. Develop a personal relationship with customers:** When trying to understand their needs it may be useful to know personal details such as their lifestyle, occupation and interests. This information is easy to gather once rapport has been established.

**3. Introduce new initiatives such as Customer Focus Groups, Customer Surveys, or even a Suggestion Box:** These initiatives send a clear message to customers that you are interested in their input. In a focus group you can also find out valuable information such as what people like and dislike about the offerings of your competitors.

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**4. Listen to customer complaints:** Be grateful when a customer complains. Let them know that you appreciate feedback – and don't ignore it! Handled sensitivity, a dissatisfied customer often becomes your most loyal customer. The alternative is to let the customer relate their experience to others, resulting in negative, rather than positive, word-of-mouth advertising.

**5. Know the characteristics of your target market (your 'customer profile'):** This knowledge will assist you with overall business and marketing decisions.

### 3.5.3. Classification of Consumers:

When it comes to marketing, there is one aspect every business should be aware of: not all consumers are created equal. Just like there are different types of goods, services, and products, there are different types of consumers. They have different motivations for purchasing, different modes of engaging and different mindsets. In order to market a brand successfully, a business needs to understand the different consumer types and how to tailor effective marketing collateral for them. Let's take a look at five unique consumer types.

**1. Loyal Consumers:** Loyal consumers are likely to comprise a small segment of your consumer base. However, because of their loyalty, they are valuable to every business. Once they have found the right company to do business with they will remain loyal, often becoming a promoter of the brand by sharing their experience with their friends, family and extended social network. According to a recent study, only between 12 percent and 15 percent of consumers are loyal to a single retailer. However, that small group tends to generate between 55 percent and 70 percent of brand sales. How can a brand successfully market to a loyal consumer? The keys are personalisation, individualised attention, and repeated marketing contact. These kinds of marketing strategies will yield the biggest return on investment.

**2. Discount Consumers:** Discount consumers are always on the hunt for discounts, as the name suggests. Like loyal consumers, they also have a tendency to frequent the same organisations and brands. However, they only make purchases when there is some kind of sale or discount. To market to the discount consumer, you need to advertise your offers and specials! Social media is a great way to share sales and ongoing promotions, as are personalised emails or brochures. If you have a sale going on, you need to let your customers know.

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**3. Impulsive Consumers:** Impulse consumers are the most difficult when it comes to maximizing marketing collateral. These consumers often don't shop with a specific product or service in mind, let alone a brand. Rather they make purchases capriciously, buying when something strikes their fancy. Considering the whimsical nature of impulsive consumer purchasing habits, tailoring marketing efforts to them may not seem to be the best use of your resources, right? Wrong. The vast majority of purchases are actually impulse purchases.

When brands figure out how to effectively market to impulse consumers, they can drive up their sales. Keep in mind that impulse buying tends to be emotionally driven as opposed to logically driven. This is distinct from more rationally driven consumer types, such as discount consumers (driven by a desire to save money) and loyal consumers (driven by fealty to a specific brand). The key is to tap into the impulsive consumer's emotions.

**4. Need-Based Consumers:** Need-based consumers purchase to fulfill a need. Maybe they have run into financial trouble and need advice. Perhaps they are going on vacation and need a new set of luggage. They could be approaching a milestone in their life and are seeking legal advice. In order to market to a need-based consumer, your marketing strategy needs to anticipate these needs effectively. That means utility-centric marketing, across multiple channels, including print, online, and social media. You need to segment your consumers by needs and tailor a marketing strategy to each of these needs, outlining how you can help in a particular situation or promoting a specific service.

**5. Wandering Customers-** These are the least profitable customers as sometimes they themselves are not sure what to buy. These customers are normally new in industry and most of the times visit suppliers only for confirming their needs on products. They investigate features of most prominent products in the market but do not buy any of those or show least interest in buying. To grab such customers they should be properly informed about the various positive features of the products so that they develop a sense of interest.

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### **Learning Outcome:**

- Meaning of Business Organisation
- Definition of Business Organisation
- Characteristics of Business Organisation
- Significance of Business Organisation
- Types of Organisation

### **4.1 Meaning Business Organisation**

We have already learnt about the meaning of business and the various types of business activities like industry, trade, transport, banking, insurance etc. If we observe these business activities carefully we will realise that whatever business activity one may take up, he has to bring together various resources like men, money, materials, machines, technology, etc. to carry out that activity successfully. Not only that these resources are to be put into action in a systematic manner to achieve the objectives of business.



Let us take the example of a rice mill. First, the owner will have to acquire a land, construct a building, buy machines and install them, employ labour to work, buy paddy and then process the paddy to produce rice that will be sold to the customers. Thus, to produce rice from paddy you need to assemble resources like land, building, machinery, labour etc., and put these resources together in action in a systematic way. Then only it becomes possible to produce rice and sell it to the customers, and earn profit.

Thus, to carry out any business and achieve its objective of earning profit it is required to bring together all the resources and put them into action in a systematic way, and coordinate and control these activities properly. This arrangement is known as business organisation.

### **4.2. Definition of Organisation**

- According to Keith Davis, “Organization may be defined as a group of individuals, large or small, that is cooperating under the direction of executive leadership in accomplishment of certain common object.”

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- According to Chester I. Barnard, “Organization is a system of co-operative activities of two or more persons.”
- According to Louis A. Allen, “Organization is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationship for the purpose of enabling people to work most effectively together in accomplishing objectives.”
- According to Mooney and Railey, “Organization is the form of every human association for the attainment of a common purpose.

### 4.3. Characteristics of Organization:

#### 1. Outlining the Objectives:

Born with the enterprise are its long-life objectives of profitable manufacturing and selling its products. Other objectives must be established by the administration from time to time to aid and support this main objective.

#### 2. Identifying and Enumerating the Activities:

After the objective is selected, the management has to identify total task involved and its break-up closely related component activities that are to be performed by an individual or division or a department.

#### 3. Assigning the Duties:

When activities have been grouped according to similarities and common purposes, they should be organized by a particular department. Within the department, the functional duties should be allotted to particular individuals.

#### 4. Defining and Granting the Authority:

The authority and responsibility should be well defined and should correspond to each other. A close relationship between authority and responsibility should be established.

#### 5. Creating Authority Relationship:

After assigning the duties and delegations of authority, the establishment of relationship is done. It involves deciding who will act under whom, who will be his subordinates, what will be his

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span of control and what will be his status in the organization. Besides these formal relationships, some informal organizations should also be developed.

### 4.4. Significance of Organization:

The well-known industrialist of U.S.A. late Andrew Cannegi, when sold his famous 'United State Steel Corporation', showed his confidence in organisation by uttering the following words, **"Take away our factories, take away our trade, our avenues of transportation, our money, leave nothing but our organization, and in four years, we shall re-established ourselves."** Since ages and in every walk of life, organization has been playing a vital role. The significance or main advantages of organization are as follows:

#### 1. It Facilitated Administration and management:

Organization is an important and the only tool to achieve enterprise goals set b administration and explained by management. A sound organization increases efficiency, avoids delay and duplication of work, increases managerial efficiency, increases promptness, motivates employees to perform their responsibility.

#### 2. It Help in the Growth of Enterprise:

Good organization is helpful to the growth, expansion and diversifications of the enterprise.

#### 3. It Ensures Optimum Use of Human Resources:

Good organization establishes persons with different interests, skills, knowledge and viewpoints.

#### 4. It Stimulates Creativity:

A sound and well-conceived organization structure is the source of creative thinking and initiation of new ideas.

#### 5. A Tool of Achieving Objectives:

Organization is a vital tool in the hands of the management for achieving set objectives of the business enterprise.

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### **5. Prevents Corruption:**

Usually corruption exists in those enterprises which lack sound organization. Sound organization prevents corruption by raising the morale of employees. They are motivated to work with greater efficiency, honesty and devotion.

### **6. Co-ordination in the Enterprises:**

Different jobs and positions are welded together by structural relationship of the organization. The organizational process exerts its due and balanced emphasis on the co-ordination of various activities.

### **7. Eliminates Overlapping and Duplication or work:**

Overlapping and duplication of work exists when the work distribution is not clearly identified and the work is performed in a haphazard and disorganized way. Since a good organisation demands that the duties be clearly assigned amongst workers, such overlapping and duplication is totally eliminated.

### **4.5 Types of Organization:**

After identifying the business in any field e.g., Insurance, it is necessary then to have a legal entity to be known in the society. The legal entity can be in any form of a business organization. The various forms of organization are as follows:

- 1) Sole proprietorship
- 2) Partnership
- 3) Co-operative Society
- 4) Joint Stock Company (Private and Public)
- 5) These are explained in brief as follows:-

#### **4.5.1. SOLE PROPRIETORSHIP**

##### **4.5.1.1. Meaning:**

The sole proprietorship is a form of business that is owned, managed and controlled by an individual. He has to arrange capital for the business and he



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alone is responsible for its management. He is therefore, entitled to the profits and has to bear the loss of business; however, he can take the help of his family members and also make use of the services of others such as a manager and other employees. This type of business organisation is also called single ownership or single proprietorship. If the business primarily consists of trade, the organization is a sole trading organization. Small factories and shops are often found to be sole proprietorship organisations. It is the simplest and most easily formed business organization. This is because not much legal formality is required to establish it. For instance to start a factory the permission of the local authorities is sufficient. Similarly to start a restaurant, it is only necessary to get the permission of local health authorities. Or again, to run a grocery store, the proprietor has only to follow the rules laid down by local administration.

### 4.5.1.2. Features of Sole Proprietorship:

The important features of a sole-proprietary organization include the following:

- 1. Individual Initiative:** One person is the owner in a sole proprietary form of organisation.
- 2. Risk Bearing:** The proprietor is the sole beneficiary of profits in this form organisation. If there is a loss he alone has to bear it. Thus the risks of business are borne by the proprietor himself.
- 3. Management and control:** Management and control of this type of organisation is the responsibility of the sole proprietor. He may, however, employ a manager or other people for the purpose.
- 4. Minimum government regulations:** The government does not interfere with the working of the sole proprietorship organisation. However, they have to comply with the general laws and rules laid down by government.
- 5. Unlimited liability:** The sole proprietor has to bear the losses and is responsible for the liabilities of the business. If the business assets are not sufficient to meet the liabilities, he may also have to sell his personal property for that purpose.
- 6. Secrecy :** All important decision taken by the owner himself. He keeps all the business secrets only to himself.

### 4.5.1.3. Merits of Sole Proprietorship:

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**A sole proprietary organisation has the following advantages:**

- 1. Easy formation:** A sole proprietorship business is easy to form where no legal formality involved in setting up this type of organization. It is not governed by any specific law. It is simply required that the business activity should be lawful and should comply with the rules and regulations laid down by local authorities.
- 2. Better Control:** In sole proprietary organisation, all the decisions relating to business operations are taken by one person, which makes functioning of business simple and easy. The sole proprietor can also bring about changes in the size and nature of activity. This gives better control to business.
- 3. Sole beneficiary of profits:** The sole proprietor is the only person to whom the profits belong. There is a direct relation between effort and reward. This motivates him to work hard and bear the risks of business.
- 4. Benefits of small-scale operations:** The sole proprietorship is generally organized for small-scale business. This helps the proprietor's family members to be employed in business. At the same time such a business is also entitled to certain concessions from the government. For example, small industrial organisations can get electricity and water supply at concessional rates on a priority basis.
- 5. Inexpensive Management:** The sole proprietor does not appoint any specialists for various functions. He personally supervises various activities and can avoid wastage in the business.

### **4.5.1.4. Limitations of Sole Proprietorship:**

**A sole proprietor generally suffers from the following limitations:**

- 1. Limitation of management skills:** A sole proprietor may not be able to manage the business efficiently as he is not likely to have necessary skills regarding all aspects of the business. This poses difficulties in the growth of business also.
- 2. Limitation of Resources:** The sole proprietor of a business is generally at a disadvantage in raising sufficient capital. His own capital may be limited and his personal assets may also be insufficient for raising loans against their security. This reduces the scope of business growth.



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**3. Unlimited liability:** The sole proprietor is personally liable for all business obligations. For payment of business debts, his personal property can also be used if the business assets are insufficient.

**4. Lack of continuity:** A sole proprietary organisation suffers from lack of continuity. If the proprietor is ill this may cause temporary closure of business. And if he dies the business may be permanently closed.

From the above account of the merits and limitations it becomes clear that it is only personal services like repair work, tailoring etc. small factories, retail shops and professional activities which can be set up as sole proprietary organisations. In India, this form of organisation is quite popular and accounts for the largest number of business units.

### 4.5.2.PARTNERSHIP

#### 4.5.2.1. Meaning

Partnership is an association of persons who agree to combine their financial resources and managerial abilities to run a business and share profits in an agreed ratio. Since the resources of a sole proprietor to finance, and his capacity to manage a growing business are limited, he feels the need for a partnership firm. Partnership business, therefore, usually grows out of the need for expansion of business with more capital, better supervision and control, division of work and spreading of risks.



**The Indian Partnership Act** defines partnership as “**Partnership**” is the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all. The persons who have agreed to join in partnership are individually called “Partners” and collectively a ‘firm’. A partnership firm can be formed with a minimum of two partners and it can have a maximum of twenty partners.

#### 4.5.2.2. Features of Partnership:

**The features of partnership are as follows:**

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**1. Existence of an agreement:** Partnership is formed on the basis of an agreement between two or more persons to carry on business. It does not arise out of the operation of law as in the case of joint Hindu family business. The terms and conditions of partnership are laid down in a document known as Partnership Deed.

**2. Engagement in business:** A partnership can be formed only on the basis of a business activity. Its business may include any trade, industry or profession. Thus, a partnership can engage in any occupation - production and/or distribution of goods and services with a view to earning profits.

Sharing of profits and losses: In a partnership firm, partners are entitled to share in the profits and are also to bear the losses, if any.

**3. Agency relationship:** The partnership business may be carried on by all or any of the partners acting for all. Thus, each partner is a principal and so can act in his own right. At the same time he can act on behalf of other partners as their agent. Thus, every partner can bind the firm by his acts.

**4. Unlimited Liability:** The liability of partners is unlimited as in the case of sole proprietorship. In case some obligation arises then not only the partnership assets but also the private property of the partners can be taken for the payment of liabilities of the firm.

**5. Common Management:** Every partner has a right to take part in the running of the business. It is not necessary for all partners to participate in the day-to-day activities of the business but they are entitled to participate. Even if partnership business is run by some partners, the consent of all other partners is necessary for taking important decisions.

Restriction on transferability of share: No partner can transfer his share in partnership to any other person. He may, however, do so with the consent of all other partners.

**6. Registration:** To form a partnership firm, it is not compulsory to register it. However, if the partners so decide, it may be registered with the Registrar of Firms. There are advantages of registration, which are discussed later.

**7. Duration:** The partnership firm continues at the pleasure of the partners. Legally a partnership comes to an end if any partner dies, retires or becomes insolvent. However, if the remaining

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partners agree to work together under the original firm's name, the firm will not be dissolved and will continue its business after settling the claim of the outgoing partner.

### 4.5.2.3. Merits of Partnership

**A partnership form of organisation offers the following advantages:**

**Ease at formation:** A partnership is very easy to form. All that is required is an agreement among the partners. Even the expenses to be incurred for registration are-not much.

**1. Pooling of financial resources:** A partnership commands more financial resources compared to sole proprietorship. This helps in expanding business and earning more profits. As and when a firm requires more money, more partners can be admitted.

**2. Pooling of managerial stalls:** A partnership facilitates pooling of managerial skills of all its partners. This leads to greater efficiency in business operations. For instance, in a big partnership firm, one partner can handle production function, another partner can look after all marketing activity, still another can attend to legal and personnel problems, and so on.

**3. Balanced business decisions:** In a partnership firm, decisions are taken unanimously after considering all the major aspects of a problem. This ensures not only balanced business decisions but also removes difficulties in the smooth implementation of those decisions.

**4. Sharing of risks:** Unlike sole proprietary organisation, the risks of partnership business are shared by partners on a predetermined basis. This encourages partners to undertake risky but profitable business activities.

### 4.5.2.4. Limitations of Partnership

**A partnership form of organisation suffers from the following major limitations:**

**1. Uncertainty of existence:** The existence of a partnership firm is very uncertain. The retirement, death, bankruptcy or lunacy of any partner can put an end to the partnership. Further, the partnership business can come to a close if any partner demands it.

**2. Risks of implied authority:** It is true that like the sole proprietor each partner has unlimited liability. But his liability may arise not only from his own acts but also from the acts and mistakes of co-partners over whom he has no control. This discourages many persons with money and ability, to join a partnership firm as partner.

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**3. Risks of disharmony:** In partnership, since decisions are taken unanimously, it is essential that all partners reconcile their views for the common good of the organisation. But there may arise situations when some partners may adopt rigid attitudes and make it impossible to arrive at a commonly agreed decision. Lack of harmony may paralyse the business and cause conflict and mutual bickering.

**4. Difficulty in withdrawal from the firm:** Investment in a partnership can be easily made but cannot be easily withdrawn. This is so because the withdrawal of a partner's share requires the consent of all other partners.

**5. Lack of institutional confidence:** A partnership business does not enjoy much confidence of banks and financial institutions. It is because the nature of its activities is not disclosed at public and the agreement among partners is not regulated by any law. As a result large financial resources cannot be raised by partnership and growth of business cannot be ensured.

**6. Difficulties of expansion:** It is difficult for a partnership firm to undertake modernization of expansion of its operations. This is because of its inability to raise adequate funds for the purpose. Limited membership (restricted to 20) and their limited personal resources do not permit large amounts of capital to be raised by the partners. Therefore, large-scale business cannot generally be organised by partnerships.

It is quite obvious from the discussions that the partnership form of organisation is excellent when the size of business is medium, i.e. neither too small not too large, and when the partners can work in full co-operation with one another,

### 4.5.3. CO-OPERATIVE ORGANISATION

**4.5.3.1. Meaning:** A co-operative form of business organization is different from other forms of organization. It is a voluntary association of persons for mutual benefit and its aims are accomplished through self help and collective effort. The main principle underlying a cooperative organization is mutual help, i.e.,



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each for one and all for each. A minimum of 10 persons are required to form a co-operative society. To be called a co-operative society. It must be registered with the Registrar of Co-operative Societies under the Co-operative Societies Act. The capital of a cooperative Society is raised from its members by way of share capital. It can also obtain additional resources by way of loans from the State and Central Co-operative Banks.

### 4.5.3.2. Characteristics

The following are the main characteristics of cooperative societies:

- 1. Voluntary association:** In co-operatives, the membership is voluntary. Anybody having a common interest is free to join a co-operative society. The member can also leave the society anytime after giving proper notice.
- 2. Equal voting rights:** In a co-operative society, the principle of one-man one vote is adopted. A member has only one vote irrespective of the number of share(s) held by him. Thus, a co-operative society is run on democratic principles.
- 3. Separate legal entity:** A co-operative society is required to be registered under the Co-operative Societies Act. Registration provides a separate legal entity. Its existence is quite different from its members. The death, insolvency or lunacy of a member does not affect its existence. It can sue and be sued in its own name. It can make agreements as well as purchase and sell properly in its own name.
- 4. Service motive:** A co-operative society is based on the service motive of its members. It's main objective is to provide service to the members and not to maximize profits. Earning profit is the most important objective of other forms of business organisation. It is not so in the case of co-operatives.
- 5. Distribution of surplus:** Out of the profits of the cooperative, members are paid dividend and bonus. The bonus is given according to the volume of business transacted by each member with the co-operative society. For example, in a consumer co-operative society, bonus is paid in proportion to the purchases made by members during a year. In producers' co-operative the valued goods delivered for sale form the basis of distributing bonus.

### 4.5.3.3. Merits of Co-operative Organisations

**The co-operative form of organisation offers the following advantages:**

- 1. Easy to form:** A co-operative society is voluntary association and may be formed with a minimum of ten adult members. Its registration is very simple and can be done without much legal formalities.
- 2. Open membership:** Membership in a Co-operative organisation is open to all having a common interest. A person can become a member at any time he likes and can leave the society by returning his shares without affecting its continuity.
- 3. Democratic management:** A co-operative society is managed in a democratic manner. It is based on principle of one man one vote. All members have equal rights and can have a voice in its management. **Limited liability:** The liability of the members of a cooperative society is limited to the extent of capital contributed by them. They don't have to bear personal liability for the debts of the society.
- 4. Stability:** A co-operative society has a separate legal existence. It is not affected by the death, insolvency, lunacy or permanent incapacity of any of its members. It has a fairly stable life and continues to exist for a long period.
- 5. Economical operations:** The operation of co-operative society is quite economical due to elimination of middlemen and the voluntarily services provided by its members.  
**Government patronage:** Government gives all kind of help to co-operatives, such as loans at lower rates of interest and relief in taxation.
- 6. Other benefits:** Certain non-economic benefits are also derived by members through cooperatives. Credit cooperatives, for instance, promote habits of thrift and producers' co-operative encourage joint activity among members.

### 4.5.3.4. Limitations of Co-operative Organisations

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As against the above-mentioned advantages of cooperatives the following limitations and drawbacks of this form of organisation must also be noted:

**1. Limited capital:** Co-operatives are usually at a disadvantage in raising capital because of the low rate of return on capital invested by members.

**2. Inefficient management:** The management of a cooperative society is generally inefficient because the managing committee consists of part-time and inexperienced people. Qualified managers are not attracted towards a co-operative on account of its limited capacity to pay adequate remuneration.

**3. Absence of motivation:** A co-operative society is formed for mutual benefit and the interest of individual members is not fully satisfied. There is no direct link between effort and reward. Hence members are not inclined to put in their best efforts in a co-operative society.

**4. Differences and factionalism among members:** Once the initial enthusiasm about the co-operative ideal is exhausted, differences and group conflicts arise among members. Then it becomes very difficult to get full cooperation of the members. The selfish motives of members begin to dominate and service motive is sometimes forgotten. But the society continues because it functions in the interest of members.

**5. Rigid rules and regulations:** Excessive government regulation and control over Co-operatives affect their functioning. For example, a Co-operative society is required to get its accounts audited by the auditors of the co-operative department and submit its accounts regularly to the Registrar. These regulations and control may adversely affect the flexibility of operations and the efficiency of management in a co-operative society.

### 4.5.4. COMPANY

The company form of organisation is considered to be most suitable for organising business activities on a large scale as it does not suffer from the limitations of capital and management of other forms of organisation.





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The sole proprietorship, partnership and Co-operative organisation are not capable of undertaking large scale activity due to lack of adequate capital and limited managerial abilities. In a company organisation those problems can be easily overcome. It has the advantage of attracting huge capital from the public due to the limited liability of members. With adequate capital it can also employ trained and experienced managers to run the business activities efficiently.

### 4.5.4.1. Meaning

A company is defined as a voluntary association of persons having separate legal existence, perpetual succession and a common seal. As per the definition, there must be a group of persons who voluntarily agree to form a company. Once formed the company becomes a separate legal entity with a distinct name of its own. Its existence is not affected by change of members. It must have a seal to be imprinted on documents whenever required. The capital of a company consists of transferable shares, and members have limited liability.

### 4.5.4.2. Features of a Company

The following are the chief characteristics of the company form of organisation:

**1. Registered body:** A company comes into existence only after its registration. For that purpose, necessary legal formalities have to be completed as prescribed under the Companies Act.

**2. Distinct legal entity:** A company is regarded as a legal entity separate from its members. Thus a company can carry on business in its own name, enter into contracts, sue, and be sued.

**Artificial person:** A company is the creation of law and has a distinct entity. It is therefore, regarded as an artificial person. The business is run in the name of the company. But because it is an artificial person, its functions are performed by the elected representatives of members, known as directors.

**3. Perpetual succession:** A company has continuous existence independent of its members. Death, insolvency, or change of members has no effect on the life of a company. The common saying in this regard is that members may come, members may go, but the company goes on forever. The life of the company can come to an end only through the prescribed legal procedure.

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**4. Common seal:** Since a company is an artificial person, it has no physical existence. The activities of the company are carried through a group of natural persons elected by its members (called directors). Every company must therefore, have a common seal with its name engraved on it. Anyone acting on behalf of the company must use the common seal to bind the company.

**5. Limited liability:** The liability of the members of a company is limited. It is limited to the extent of capital agreed to be contributed. Beyond that amount, the members cannot be personally held liable for payment of the company's debts.

**6. Transferability of shares:** The capital of a company is divided into parts called shares. Normally the shares of a company are freely transferable by its members. However, transferability is restricted in the case of private company.

### 4.5.4.3.Merits of Company

The most important advantages of a company organisation may be stated as follows:

**1. Collection of huge financial resources:** The biggest advantage of a company organisation is that it has the ability to collect large amounts of funds. This is because a company can raise capital by issuing shares to a large number of persons. Shares of small value can be subscribed even by people with small savings. In addition, company can also raise loans from the public as well as different lending institutions. Availability of necessary funds makes it possible for a company to undertake business activities on a large scale.

**2. Limited liability:** Another advantage of the company form of organisation is the limited liability of members. With the liability of members limited to the value of their shares, company is able to attract many people to invest in its shares. It is thus in a position to undertake business ventures involving risks.

**3. Free transferability of shares:** A company permits its members to transfer their shares. Free transferability of shares provides liquidity of the member's investment. Thus, if a member needs cash he can sell his shares. Or, he can use the same amount to buy shares of another more profitable company. It enables profitable companies also to attract funds away from the less profitable ones.

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**4. Durability and stability:** A company is the only form of organisation which enjoys continuous existence and stability. The funds invested in a company by shareholders are not withdrawal until it is wound up. Also any change in the company's membership does not affect its life. As a result of this, a company can undertake projects of long duration and attract people to invest in the business of the company.

**5. Growth and expansion:** With the large resources at its command a company can organize business on a large scale. Once the business is started on a large scale it gives the company strength to grow and expand. This is because of high profits, which accrue from the economies of large-scale organisation and production.

**6. Efficient management:** Since a company undertakes large-scale activities, it requires the services of expert professional managers. Competent managers can be easily hired by a company because it commands large financial resources. Thus, efficient management is ensured in a company organisation.

**7. Public confidence:** A company enjoys great confidence and trust of the general people. Companies have to disclose the results of their activities and financial position in the annual reports. The reports are available to the public. It is on the basis of the annual reports and other information that investment is made in companies.

**8. Social benefits:** Apart from the benefits mentioned above, a company organisation also offers the following social benefits:

- **Democratisation of management:** In the company form of organisation, management of business is entrusted to the elected representative of shareholders, that is the directors. As a result of democratic management the business of company is run in the best interest of the majority shareholders.
- **Dispersal of ownership:** Since a large number of persons are associated with a company as members, its ownership is widely held. Thus the benefits of the company's operations are distributed among a large section of people.

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- **Assumption of social responsibilities:** Large companies often undertake and contribute to social welfare activities by making donations to schools and colleges, developing rural areas, running health-care institutions, and so on.

### 4.5.4.4. Limitations of Company Organisation

A company organisation suffers from the following limitations:

**1. Lengthy and expensive legal procedure:** The registration of a company is a long-drawn process. A number of documents are to be prepared and filled. For preparing documents experts are to be hired who charge heavy fees. Besides, registration fees have also to be paid to the Registrar of Companies.

**2. Excessive government regulations:** A company is subject to government regulations at every stage of its working. A company has to file regular returns and statements of its activities with the Registrar. There is a penalty for noncompliance of the legal requirements. Filing returns and reports involving considerable time and money is the responsibility of a company. All this reduces flexibility in operations. **Lack of incentive:** The Company is not managed by shareholders but by directors and other paid officials. Officials do not have investment in the company and also do not bear the risks. As such, they may not be as much motivated to safeguard the interests of the company as the shareholders.

**3. Delay in decision-making and action:** In large companies, decision making and its implementation happen to be a time consuming process. This is obviously because individual managers are unable to take decisions on their own. They may have to consult others which may take a lot of time. Similarly, after decisions are taken, they have to be communicated to people working at various levels of the organisation. It also delays the implementation of already delayed decisions.

**4. Conflict of interest:** A company is generally characterised by a large organisation with many groups operating in it. So long as the interests of these groups do not clash with each other they

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work for the good of the organisation. But sometimes, individual and group interests become difficult to reconcile. For instance, the sales manager may be interested in the quality of products to satisfy customers and increase sales, but the production manager may be more concerned with maximum production without regard to the product quality. In such a situation, the business is bound to suffer in course of time unless there is a reconciliation of the conflicting view points of the two managers.

**5. Oligarchic management:** The company management may seem to be fully democratic, but in actual practice, it is the worst form of oligarchy i.e. control by a small group of persons. People who are once elected as directors of a company adopt various means to get themselves re-elected over and over again. Such individuals often exploit the company for personal interests instead of working in the interest of shareholders.

**6. Speculation:** In speculation, profit is fought to be made by manipulating prices of shares without actually holding shares. A company organisation provides scope for speculation in shares by the directors. Because directors have knowledge of all information about the functioning of Company, they can use it to their personal advantage. For example, directors may sell or buy shares knowing that prices will decline or go up because of low or high profits. As a result of this, innocent shareholders may suffer loss.

**7. Growth of monopolistic tendencies:** A company because of its large size has the tendency to grow into a monopoly so as to eliminate competition, control the market and charge unreasonable prices to maximise profits.

**8. Influencing government decisions:** Big companies are generally in a position to influence government officials to make decision in their favour. This is because such companies have large financial resources and are in a position to bribe even high officials.

From the preceding discussion it is clear that the company form of organisation is best suited to those lines of business activity which are to be organised on a large scale, require heavy investment of capital with limited liability of members. That is why enterprises producing steel, automobiles, computers and high technology products are generally organised as companies.

### **4.5.5.Limited Liability Partnership (LLP)**

#### **4.5.5.1. Meaning**

LLP, a legal form available world-wide is now introduced in India and is governed by the Limited Liability Partnership Act 2008, with effect from April 1, 2009.. LLP combines the advantages of ease of running a Partnership and separate legal entity status and limited liability aspect of a Company.

#### **4.5.5.2. Main features of a LLP.**

1. LLP is a separate legal entity separate from its partners, can own assets in its name, sue and be sued.
2. Unlike corporate shareholders, the partners have the right to manage the business directly.
3. One partner is not responsible or liable for another partner's misconduct or negligence.
4. Minimum of 2 partners and no maximum.
5. Should be 'for profit' business.
6. Perpetual succession.
7. The rights and duties of partners in LLP, will be governed by the agreement between partners and the partners have the flexibility to devise the agreement as per their choice. The duties and obligations of Designated Partners shall be as provided in the law.
8. Liability of the partners is limited to the extent of his contribution in the LLP. No exposure of personal assets of the partner, except in cases of fraud.
9. LLP shall maintain annual accounts. However, audit of the accounts is required only if the contribution exceeds Rs. 25 lakhs or annual turnover exceeds Rs.40 lakhs.

#### **4.5.5.3. Merits**

1. Lower cost of formation.

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2. Lesser compliance requirements.
3. Easy to manage and run.
4. Easy to wind-up and dissolve.
5. No requirement of minimum capital contributions.
6. Partners are not liable for the acts of the other partners.
7. No minimum alternate tax (as of date).

### 4.5.5.4. Demerits

1. LLP cannot raise money from the public.
2. Financial Institution may not lend the large amount the LLP.

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3. **R.C. Bhatia**, “Business Organisation and Management”, ANE Books. (2009)
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## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

### *SESSION-1 — Meaning, Features, Merits and Demerits*

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the basic concept of Partnership, its features, merits and demerits.	<ul style="list-style-type: none"><li>• Meaning of Partnership.</li><li>• Characteristics of Partnership.</li><li>• Merits and Demerits of Partnership.</li></ul>	<ul style="list-style-type: none"><li>• Explain the meaning of Partnership.</li><li>• List out characteristics of Partnership.</li><li>• Enumerate the Merits and Demerits of Partnership.</li></ul>	Interactive lecture method.

### *Session 2— Types of Partners and Formation of Partnership Firm*

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the types of partners and formation of Partnership Firm.	<ul style="list-style-type: none"><li>• Types of Partners.</li><li>• Types of Partnership Firm.</li><li>• Formation of Partnership Firm.</li></ul>	<ul style="list-style-type: none"><li>• Explain the types of Partnership.</li><li>• Explain the various types of Partnership Firm.</li><li>• Explain the steps in formation of Partnership Firm.</li></ul>	<ul style="list-style-type: none"><li>• Interactive Lecture Method</li></ul>

### *Session 3— Meaning and features of Joint Stock Company*

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the meaning and features of Joint Stock Company.	<ul style="list-style-type: none"><li>• Meaning of Joint Stock Company.</li><li>• Definition of Joint Stock Company.</li><li>• Characteristics of Joint Stock Company.</li></ul>	<ul style="list-style-type: none"><li>• Define Joint Stock Company.</li><li>• Explain the various features of Joint Stock Company.</li></ul>	<ul style="list-style-type: none"><li>• Interactive Lecture Method</li></ul>

### *Session 4 — Types of Companies*

<i>Learning Objectives</i>	<i>Knowledge Evaluation</i>	<i>Performance Evaluation</i>	<i>Teaching method</i>
To understand the types of Companies.	<ul style="list-style-type: none"><li>• Meaning and features of Private Company.</li><li>• Meaning and features of Public</li></ul>	<ul style="list-style-type: none"><li>• Explain the difference between Private Company and Public Company.</li><li>• Describe the features</li></ul>	<ul style="list-style-type: none"><li>• Interactive Lecture Method</li></ul>



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	Company. <ul style="list-style-type: none"><li>• Meaning and features of One Person Company.</li></ul>	of Private Company and Public Company.	
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### ***Session 5 — Formation of Joint Stock Company***

<b><i>Learning Objectives</i></b>	<b><i>Knowledge Evaluation</i></b>	<b><i>Performance Evaluation</i></b>	<b><i>Teaching method</i></b>
To understand the formation of Joint Stock Company.	<ul style="list-style-type: none"><li>• Steps involved in all the stages in formation of Joint Stock Company.</li><li>• Promotion.</li><li>• Incorporation.</li><li>• Capital Subscription.</li><li>• Commencement of business.</li><li>• Documents used in formation of a Company.</li></ul>	<ul style="list-style-type: none"><li>• Explain the procedure in formation of a company.</li><li>• Distinguish between Memorandum of Association and Articles of Association.</li></ul>	<ul style="list-style-type: none"><li>• Interactive Lecture Method</li></ul>

**CLASS-XI  
UNIT - V**

## **FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

### **1.1 CASE STUDY**

For 2 years Rahul has been operating as a sole – proprietor & enjoying the control he maintains over his work & finance. As his business picks up, he finds it difficult to manage the business alone.

Recently an event management firm approached him and wanted him to provide innovative decoration ideas. He mentions this to his friend Nitin, who is happy that Rahul's new business venture appears to be succeeding. A month later, Nitin calls & asks Rahul to meet him for dinner. During dinner, Nitin proposes Rahul that two of them form a partnership firm, Elite Events. Nitin points out that taking on several large projects as a sole- proprietor is very risky and a partnership would mean shared risk responsibility. He also offers to contribute some initial capital to the newly formed partnership, which will provide financial support to their day to day operations. He also emphasizes that Rahul's talent & creativity and his business connections & experience would give an edge to their venture.

Surprised by the proposal; Rahul tells his friend that he needs time to think over it before committing. He calls his financial advisor to find out how the partnership would impact his business. He learns that he would be sharing control & even profits. Initially he seemed to be excited about such a proposal, but when he finds out that he would be responsible not only for the debts of the business but also action of his partner.

Rahul re - thinks about the proposal. He remembers now Nitin had started his business from a scratch without taking anybody's help but with his business acumen, hard work & hands on experience in a short period of time he managed to build a small business empire of his own. His formidable reputation & good will in the market is much talked about. He concludes that profit & losses are part of any business venture. His expertise and creativity and Nitin's business connections can make the partnership business successful. After all the legal formalities they form a partnership firm named Elite Events.

### **1.2 Meaning of Partnership –**

When business grows beyond the capacity of sole proprietorship, it becomes necessary to involve more people. Through the above example it's clear that, when two or more individuals agree to carry out a business it is termed as "Partnership". The people involved in running the business together are called 'Partners' and collectively called a 'Firm' Partnership is a popular form of business for small scale and medium scale enterprises.



### **1.3 Definition of Partnership –**

**According to Indian Partnership Act, 1932**

- Partnership is the relation between two or more persons who have agreed to share the profits of the business carried on by all or any of them acting for all.

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According to L.H. Haney

- Partnership may be defined as the relation between the persons who agree to carry on a business in common with a view to private gain.

### **1.4 Characteristics of Partnership**

The features of partnership are as follows —

1. **Formation** – The partnership form of business is governed by Indian Partnership Act 1932. It comes into existence through a legal agreement termed as 'Partnership Deed'. The partnership can be formed only for carrying on lawful business with profit motive.
2. **Liability** – The partners of a firm have unlimited liability. They are individually & collectively liable to pay the debts of the firm. In case of loss if the firm's assets are not sufficient to pay off the debts then the partners individual assets can be claimed to recover the debts.
3. **Mutual agency** – Mutual agency means that every partner is the owner (principal) as well as the agent of the firm. As an agent he represents other partners & binds them through his act. The contract signed by one partner is binding on other partners. As a principal (owner) , he is bound by the acts of the other partners.
4. **Members** – The minimum number of members to form a partnership firm is 2 and maximum number is 50 (According to the Companies (Miscellaneous) Rules, 2014, maximum partners in partnership firm is 50 people).
5. **Management & control** – The partners share the responsibility of managing the business. Decisions related to day- to –day business activities are taken with mutual consent
6. **Non- transferability of shares** – No partners can transfer or sell his shares to any other person without consent of all the partners. A partner can leave / retire from the firm only after giving due notice.
7. **Continuity** – The partnership comes to an end on death, retirement, insanity or insolvency of any partner. The remaining partners can continue the business under new agreement.
8. **Risk bearing** – The partners jointly bear the risk involved in running a business. They share the profits & losses in an agreed ratio & if no ratio is specified in the agreement then profits & losses are divided equally.

### **1.5 Advantages of Partnership**

1. **Easy formation** – Formation of Partnership business is easy. It doesn't involve any legal formalities except a formal agreement. Even registration of partnership firm is not compulsory.

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2. **More financial Resources** – As a number of partners contribute to the capital of the firm, it is possible to collect larger financial resources. There is a great scope for expansion or growth of business.
3. **Balanced Decision making** – The partnership firm enables pooling of abilities which helps in taking balanced decisions. It also helps in efficient management of business.
4. **Business Secrecy** - The partnership firms are not bound to publish & file its accounts & reports. So, the business secrets are confined amongst the partners only.
5. **Risk sharing** - In a partnership firm the risk is shared by all the partners. The survival capacity of business is higher than that of sole proprietorship.

### **1.6 Disadvantages of Partnership**

1. **Unlimited liability** – Every partner has an unlimited liability. In case the business assets are insufficient then the partners have to repay the debts from their personal property or assets.
2. **Lack of continuity** – The partnership business lacks continuity as death, insolvency, retirement may affect the existence of the business.
3. **Limited Resources** – The partnership firms are not suitable for the business which involve huge capital investments. Limited investments hamper the growth & expansion of the partnership firms.
4. **Possibility of conflicts** – Lack of mutual understanding & cooperation leads to disagreement amongst the partners resulting in conflicts. Difference of opinions & disputes can result in inefficient management of business.
5. **Lack of Public confidence** – The annual reports of the business are not published so the financial position of the business is not known to the general public. The Public has less trust & faith in partnership firm which makes it difficult for the business to get contracts & projects.

### **2.1 Types of Partners**

**There are different types of partners in a Partnership firm having specific responsibilities–**

1. **Active Partner** – An active partner contributes capital, shares profits & losses, has unlimited liability and manages business activities.
2. **Sleeping or Dormant Partners** – A sleeping partner contributes capital, shares profit & losses, has unlimited liability but does not participate in managing the day to day activities of business
3. **Secret Partner** – A secret partner contributes capital, shares profit & losses, has an unlimited liability, participates in business activities but his association with the business is kept secret.

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4. **Nominal Partner** - A Nominal Partner does not contribute capital, has no share in profit or losses, does not participate in management activities, but has an unlimited liability and allows the firm to use his name as partner for the goodwill of the firm.
5. **Partner by Estoppels** – A partner by Estoppel is a person who has no partnership in the firm but represents himself as a partner by his own words or conduct. He does not contribute capital, does not participate in management activities, does not share profit & losses, but has an unlimited liability.
6. **Partner by Holding out** – A Partner by Holding out is a person who is actually not a partner but when introduced by someone as a partner of the firm & he/ she does not object even after becoming aware. He has an unlimited liability and becomes liable to the creditors of the firm.

### **2.2 Types of Partnership Firm**

Partnership firms can be classified on the basis of duration and liability:-

#### **1. Partnership on the basis of Duration**

- (a) **Partnership at will** – This type of partnership is formed for an indefinite period. It continues at the will of the partners till they mutually agree to carry on the business. Any partner can withdraw his name from the business after giving a notice to the other partner.
- (b) **Particular Partnership** – This type of partnership is formed for the accomplishment of a specific project or any activity which is time bound. It dissolves after the completion of the project or when the duration expires.

#### **2. Partnership on the basis of Liability**

- (a) **General Partnership** – In this type of partnership the liability of partners is unlimited. All the partners actively participate in managing the business. The partnership dissolves on the basis of death, insolvency or retirement of the partners.
- (b) **Limited partnership** – In this type of partnership the liability of all the partners except one is limited. The partners with limited liability do not have the right to take part in the management of the firm. Death, insolvency of the limited partner does not affect the existence of the partnership firm.

### **2.3 Formation of Partnership Firm**

A partnership firm can be formed when two or more persons enter into an agreement. The agreement can be oral or written. There is no compulsion to get the partnership firm registered. But a firm which is registered and has a written agreement is always preferable and more beneficial for the firm.

### **2.3.1 PARTNERSHIP DEED**

A written agreement between the partners is called '**Partnership Deed**'. This deed specifies the terms & conditions that the partners have usually agreed amongst themselves to carry out the business.

#### **Contents of Partnership Deed.**

1. Name of the firm
2. Nature of business & location
3. Duration of business
4. Capital contributed by each partner
5. Profit sharing ratio
6. Duties & obligations of the partners
7. Interest on capital & interest on drawings
8. Salaries & withdrawals of partners
9. Terms governing admission, retirement & dissolution
10. Method of solving disputes
11. Preparation of accounts and auditing of accounts

### **2.3.2 Registration of Partnership Firm**

According to Indian Partnership Act 1932, it is not compulsory for a partnership firm to get itself registered. But a registered firm enjoys more benefits and has more advantage as compared to non- registered firm.

#### **Registration Procedure -**

A partnership firm can be registered at the time of formation or at any time during the existence of the firm. It requires the partners to file the application duly signed by all the partners with "Registrar of Firms" along with registration fee. The application should contain the following information-

- i) Name of the firm
- ii) Location of the firm
- iii) Name and permanent address of all the
- iv) Date of admission of partners
- v) Duration of partnership firm

The Registrar after approval will make an entry in the register of firms and will issue a "**Certificate of Registration**".

#### **Consequences of Non- Registration**

Registration provides proof of the existence of a partnership firm. The unregistered firm can face following problems –

- a) A partner of an unregistered firm cannot file a case against the firm or other partners

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- b) The firm cannot file a case against the partners of the firm.
  - c) The firm cannot file a case against the third party
- Therefore, it is advisable to get the firm registered.

### JOINT STOCK COMPANY

#### 3.1 Meaning & Definition of Joint Stock Company

A Joint Stock Company is an incorporated & voluntary association of individuals for the purpose of carrying on some lawful activity. When there is increase in the size & complexity of business, collection of more financial resources becomes necessary. For this purpose, the partnership & sole proprietorship forms of organization are not suitable. Joint Stock Company is considered to be most suitable form of organization for operating business on a large scale.

**The Company's Act, 1956 defines,** "A company is an artificial person having a separate legal entity, perpetual succession and a common seal"

**According to Justice Lindlay** "Joint Stock Company is an association of many persons who contribute money or money's worth to a common stock & employ it for some common purpose".



#### 3.2 Features of Joint Stock Company

The distinctive features of a Company are as follows –

1. **Artificial Person** – A Company is an artificial person created by law having a legal existence which is different from the members of the Company. It is an artificial person as it is intangible & has no attributes like a human being.
2. **Separate legal entity** – A company has a separate legal entity, independent from its members. A Company can carry on the business in its own name, can buy or sell or enter into contracts, own property in its own name. The member & the business are two separate entities.

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3. **Perpetual Succession** – A joint Stock Company has a continuous existence as it is created by law & can be brought to an end by Law. The Company is not affected by death, insolvency, disputes among shareholders,. The members may change but the Company's existence is perpetual.
4. **Limited Liability** – Liability of the members of a Company is limited to the value of the shares subscribed by the members. They cannot be asked to pay more than the amount invested by the shareholders in the Company for Ex – X has purchased 2000 shares of Rs 100 each, the his liability is limited to Rs 2,00,000 only.
5. **Common Seal** – A Company being an artificial person cannot sign itself. All the acts of the Company are done by using a common seal as substitute for its signature. All the documents bearing the common seal and witnessed by least two directors is legally binding.
6. **Control** – The shareholders elect a group of people amongst themselves to manage the day-to-day affairs of the Company. These elected members are called **Board of Directors**. These Directors are accountable to the shareholders.
7. **Transfer of share** – The shares of a Company are freely transferable. They can be purchased or sold through stock exchange or in the open market.
8. **Risk – Bearing** -The risk of losses in Joint Stock Company is borne by all the shareholders. The loss is shared by the shareholders in proportion to their investment in the Company.

### **4.1 Type of Companies**

Companies may be classified as Private Company or Public Company or One Person Company.

**Private Company** – A Private Company is an entity that is held by private owners. This entity limits owner's liability to their ownership stake and restricts the shareholders from trading shares publically.

**Private Company is a Company which has following features –**

1. It has a minimum of 2 & maximum of 200 members (shareholders) as per Section 2(68) of Companies Act, 2013.
2. It must use 'Private Limited' after the name of the Company. For example, Apex Pvt. Ltd.
3. It does not invite the public for issue of share or subscribe to its deposit
4. It restricts the shareholders to transfer its share.

Private Company is an ideal form of company for those who wish to run a large-scale business without involving a large number of shareholders

**Public Company** – A Public Company is an entity that has permission to issue registered securities to general public and it is traded on at least one stock exchange.



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**A Public Company has the following distinctive features –**

1. It has a minimum of 7 members & no limit on maximum. members
2. It has no restriction on transfer of shares
3. It has a minimum paid up capital of Rs. 5 lakh.
4. It can invite public to subscribe to its shares, debentures and public deposits.

### **4.2 Difference between Private Co. & Public Co.**

<b>Basis of distribution</b>	<b>Private company</b>	<b>Public company</b>
1. Number of members	Minimum – 2Members Maximum – 200 Members	Minimum – 7 Members Maximum – No limit
2. Name	Name must include 'Private Ltd.	Name must include 'Ltd.'
3. Number of directors	Minimum – 2 Directors	Minimum – 3 Directors
4. Transfer of share	Restriction on transfer of share	No restriction on transfer of shares.
5. Minimum paid up capital	One lakh rupees	Five lakh rupees
6. Allotment of share	Can allot share without receiving minimum subscription	Cannot allot share unless minimum subscription is received.
7. Commencement of business	Business can be started after getting Certificate of Incorporation	Business can be started after getting Certificate of Commencement.
8. Invitation	Public is not invited for issue of share	Share are issued to general Public

**One Person Company -** One Person Company has been one of the new concepts which has been added to the recent amendment of the Companies Act 2013. Section 2(62) defines One Person Company as a Private Company with only one share holder.

#### **Features of One Person Company –**

- The paid up Capital of the One Person Company can not exceed 50 lakh and annual turn over can not exceed Rs. 2 crore.
- The liability of the owner is limited as One Person Company has a separate entity.
- The minimum number of directors can be 1 and maximum 15.
- The share holder has to mention a nominee while registering the company. The nominee has to give his consent in writing and he/she can not be a member or nominee of any other one person company.

One Person Company are yet not very common in India. To overcome the problems faced by sole proprietorship, Companies Act 2013 initiated the concept of One Person Company.

### **5.1 Formation of Joint Stock Company**

## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

Joint Stock Company has to follow certain legal provisions to come into existence. A Company can be formed only when a proper procedure is followed as per the rules and regulations. Formation of a Company involves the following stages –

### **Private Ltd. Company**

- |              |                  |
|--------------|------------------|
| 1. Promotion | 2. Incorporation |
|--------------|------------------|

### **Public Company**

- |                            |                             |
|----------------------------|-----------------------------|
| 1. Promotion               | 2. Incorporation            |
| 3. Subscription of capital | 4. Commencement of business |

A Private Company has to undergo only 2 stages. It can start its business after obtaining the 'Certificate of Incorporation' but a Public Company has to undergo all the four stages and after obtaining "Certificate of Commencement of Business", it can start the business

### **5.1.1 Promotion –**

This is the first stage in formation of a Company. Promotion includes all the steps from conception of an idea to starting of the Company, till it is formed. The entire process of incorporation is initiated by a promoter. A promoter can be an individual a group of persons or an institution. The promoters have an important role in formation of a company. The functions performed by promoter during promotion stage are as follows –

#### **1. Identification of Business opportunity –**

The promotion stage begins with an idea to set up a business. The promoter has to identify the business opportunity. It can be to set up a new business or expansion of the existing business.

**2. Feasibility studies** – After identifying the business opportunity, the promoter starts investigating all the aspects of business. Depending on the nature of business the promoter carries out detailed feasibility studies in technical, financial & economic forms. For this specialists & experts like CA, Engineers etc. are required. Feasibility studies include –

- a) **Technical feasibility** – This study is undertaken to ensure the availability of the resources & technology required for the project. If any of the raw material or other inputs are not easily available then the project will not be possible.
- b) **Financial feasibility** – This study is undertaken to estimate the funds required to carry out the business idea smoothly. If the finance required is large & cannot be easily arranged then it's not feasible to carry on with the business opportunity.
- c) **Economic feasibility** – This study is undertaken to know the profitability of the business opportunity. After estimating the cost & revenues the promoter has to carry on with the idea only if the project is economically feasible.

## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

3. **Name Approval** - After the feasibility studies, it's time to give name to the Company. Promoters have to select the name & submit an application to the Registrar of Companies for approval. The application is filed in the state where the Company plans to have its registered office.
4. **Fixing up signatories to Memorandum of Association** - After the name approval, Promoters have to decide about the members who will be signing the Memorandum of Association. Usually the signatories become the first Directors of the Company. These Directors also take up the Qualification shares in the Company.
5. **Appointment of Professionals** - After fixing the signatories the Promoters have to appoint professionals like bankers, under-writers, brokers, solicitors, auditors to assist them in preparing necessary documents to be submitted with Registrar of Companies
6. **Preparation of necessary documents**– The final step in promotion is to prepare legal documents of the Company to be submitted with Registrar at the time of incorporation. The common documents are Memorandum of Association, Articles of Association, Prospectus etc.

### **5.1.2 Incorporation of the Company.**

Incorporation of the Company. is the next stage in formation of a Company. The promoter files an application with the Register of Companies under Co's Act 1956 and thus obtain '**Certificate of Incorporation**' The steps in incorporation are as follows –

<b>CERTIFICATE OF COMMENCEMENT OF BUSINESS</b>	
Pursuant to Section 149 (1) and (2) of the Companies Act, 1956	
I hereby certify that the .....Co. Ltd.....which was incorporated under the Companies Act, 1956, on the .....day of .....19.....and which has this day filed a duly verified declaration in the prescribed form that the condition of Section 149 (1)(a) to (d) of the said Act have been complied with, is entitled to commence business.	
Give under my hand at .....this .....day of .....one thousand nine hundred and.....	
<div style="border: 1px solid black; padding: 5px; display: inline-block;">SEAL Company Registrar</div>	Signature Registrar of Companies .....State

1. **Filing of documents** – After the approval of name the following documents have to be submitted with the Registrar which are duly stamped, signed and witnessed –
  - i) Memorandum of Association
  - ii) Articles of Association
  - iii) Consent of proposed directors with name, address,
  - iv) Agreement with proposed Managing Director
  - v) Copy of Registrar's letter approving the name of the Company.
  - vi) Name & address of Registered Office

## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

- vii) Statutory declaration stating that all the formalities related to the formation of Company are duly completed.
- 2. **Payment of fee** – Along with filing of the document the prescribed fees of registration also has to be deposited. Amount of fee depend upon the authorized capital of the Company.
- 3. **Registration** – Once the Registrar is satisfied that all the documents filed are in order and other statutory requirements have been complied with, he enters the name of the Company in his register.
- 4. **Certificate of Incorporation** – After entering the name of the Company in the register, the Registrar issues a '**Certificate of Incorporation**'. This certificate implies the birth of the Company. The Registrar also allots a CIN (Corporate Identity Number) to the Company. From this date onwards the Company is considered as a separate legal entity and can enter into valid contracts.

On issue of Certificate of Incorporation, a private Company can immediately commence its business, but a Public Company has to undergo 2 more stages before commencing its business.

### **5.1.3 Capital Subscription**

After getting the Certificate of incorporation the Public Company has to raise funds by issuing shares and debentures to the general public. For this it has to issue a Prospectus and meet certain formalities. The steps involved in capital subscription are follows –

- 1. **SEBI approval** – A Public Company has to take prior approval from SEBI (Securities Exchange Board of India) to raise funds from Public. Public Ltd. Company must submit all the relevant information with SEBI before issuing its securities in the capital market.
- 2. **Filing of Prospectus** - A Public Company has to prepare another important document called Prospectus or a Statement in lieu of Prospectus and file it with Registrar of companies. It is a document which invites public to subscribe for shares or debentures of the Company.
- 3. **Appointment of Professionals** - Professionals like Banker, Broker and underwriters are appointed after filing of Prospectus. Brokers are appointed to sell the shares. Bankers are appointed to receive & deposit the application money in bank. Underwriters are the persons who undertake to buy the shares if these are not subscribed by public. They charge commission for underwriting the shares.
- 4. **Minimum Subscription** – A Company can start the allotment of shares only when minimum number of shares have been subscribed and application money is received. As per Company Act the minimum subscription should be 90% of the issued capital. For ex A Company plans to issue 10,000 shares of Rs 100 each then it must receive application for minimum 9000 share within 120days of issue of prospectus. If amount is not received then application money must be returned to the applicants.

## Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY

5. **Application to stock exchange** – The Company may apply in any of the recognized stock exchanges to deal in its shares and debentures. If Company fails to apply to a stock exchange or fails to get permission within 10 weeks from date of closure of subscription list, the allotment becomes void.
6. **Allotment of share** – After getting the name listed and completion of all legal formalities, the Company allots shares to the applicants and issue allotment letters. The names & address of shareholders and the number of shares allotted to each is submitted to the Registrar within 30 days of allotment in a statement called '**return of allotment**'

### 5.1.4 Commencement of Business

After issuing the shares and receiving minimum subscription, a Public Company applies to Registrar for issue of '**Certificate of Commencement of Business**'. The Registrar will examine all the documents and after satisfaction a 'Certificate of Commencement' is issued. After this certificate a Public Company becomes a legal entity and can start the business activities.



#### Documents required are –

- i) A declaration that share have been subscribed & allotted up[to minimum subscription
- ii) A declaration that every Director has paid cash for application & allotment money on his share.
- iii) A declaration that no money is pending to pay back to the applicants
- iv) A statutory declaration that the above requirements have been complied with. This declaration has to be signed by a Director or a Secretary of a Company

## 5.2 IMPORTANT DOCUMENTS USED IN FORMATION OF A COMPANY

The most important documents used in formation of a company are

1. Memorandum of Association
2. Articles of Association
3. Prospectus

### 1. Memorandum of Association

Memorandum of Association is a principal document of a company it is considered as a Charter of company. It defines the powers, objectives, scope of operations of the company and its

## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

relationship with the stakeholders. It provides information to outsiders such as creditors, suppliers etc. It is also known as. **Doctrine of outdoor management**. No Company can be registered without a **Memorandum of Association**. If the company does any activity that is beyond the legal power & authority and is not provided for in Memorandum of Association then it is treated as ultra virus activity.

### **Contents of Memorandum of Association**

**The content of Memorandum of Association is in form of different clauses which are as follows –**

1. **Name clause** – It contains the name of the company.
2. **Situation clause** – It contains the name of the state where Registered office is situated
3. **Object clause** – It contains the main purpose for which the company is formed, and all the activities the company may undertake
4. **Liability clause** – It contains the liability of members which is limited to the amount unpaid on the shares held by them. For Example - A shareholder is allotted 1000 shares @10 per share. He has paid only Rs 6 per share, then at the time of winding up or losses of the Company he is liable to pay only Rs 4 per share i.e.  $1000 \times 4 = 4000$  Rs.
5. **Capital clause** – It contains the authorized capital of the company. It states the par value of each share & maximum number of shares a company can issue.
6. **Association Clause** – It contains the declaration by the directors that they are prepared to be associated with the company as member. It should be signed by all the directors.

### **2. Articles of Association**

Articles of Association contains rules and regulation regarding the management of company's internal affairs. It also states the duties, rights, power of the managers and directors. These are the 'Bye-laws' of the company or **Doctrine of indoor management**. The articles or provisions should be properly divided in paragraphs, numbered and signed by the signatory of Memorandum of Association, with one witness. All the Companies prepare their own Articles of Association, but if it does not want to prepare its own Articles of Association it can adopt the provisions given in Table 'A' of Schedule of Company Act 1956

#### **Contents of Article of Association**

1. The amount of share capital and different classes of shares
2. Rights of each class of share holder
3. Procedure for making allotment of shares
4. Procedure for issuing share certificates
5. Procedure for transfer of shares
6. Procedure for forfeiture and reissue
7. Procedure for conducting meetings, voting, quorum, proxy.
8. Procedure for appointment and removal of directors
9. Duties, power, remuneration of directors, managers and officers.
10. Procedure for winding up of company
11. Procedure for declaration and payment of dividend
12. Procedure for regarding maintenance of financial records and their audit
13. Seal of the company.

#### **Difference between Memorandum of Association and Article of Association**

Basis	Memorandum of Association	Article of Association
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## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

1. Nature	It is a charter of company	It is bye laws of the company
2. Scope	It defines objectives and power of company	It contains rules & regulations of the company.
3. Status	It is the principal document	It is a supplementary document.
4. Legal effect	Acts beyond the scope of Memorandum of Association are void	Acts beyond the Article of Association can be amended by the shareholders
5. Compulsion	Its compulsory to Prepare Memorandum of Association	Article of Association is not compulsory, company can adopt 'Table A'
6. Relationship	It defines relationship of the company with outside world	It defines internal relationship between company and Members
7. Alteration	Alteration in Memorandum of Association is a difficult, lengthy process Government approval is required	Alteration in Article of Association is easy as only members approval is required.

### **3. Prospectus**

It is an invitation to the general Public to subscribe for shares or debentures. According to Company Act "A prospectus can be a document, a notice, a circular, or an advertisement, inviting deposit or offers from public for the subscription or purchase of any share or debentures of a body corporate,

The information in prospectus helps the investor to take decision about investing in the company.

#### **Contents of prospectus**

1. Company name and address of Registered office
2. Nature of business
3. Number and class of shares
4. Main objective of the Company and other objectives
5. Name and address of signatories to Memorandum of Association and number of shares subscribed by each of them.

#### **SUMMARY**

1. **Partnership**– Relation between two or more persons, who have agreed to share profits of the business carried on by all or anyone acting for all
2. **Features of Partnership** –
  1. Easy formation,
  2. Unlimited Liability,
  3. Mutual agency,
  4. Number of members,
  5. Management and control,
  6. Non transferability of shares,
  7. Continuity,
  8. Risk Bearing



## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

### **3. Merits of Partnership –**

1. Easy formation, 2. More financial resources, 3. Balanced decision making,
4. Business secrecy, 5. Risk sharing

### **4. Demerits of Partnership**

1. Unlimited liability, 2. Lack of continuity, 3. Possibility of conflicts, 4. Limited resources, 5. Lack of public confidence.

### **5. Types of partners**

1. Active partner, 2. Sleeping Partner, 3. Secret Partner, 4. Nominal Partner,
5. Partner by Estoppel, 6. Partner by holding out

### **6. Types of partnership firm**

1. Partnership on the basis of duration
  - a) Partnership at will
  - b) Particular Partnership
2. Partnership on the basis of liability
  - a) General Partnership
  - b) Limited Partnership

### **7. Formation of Partnership. firm –** Partnership firm is formed by signing the agreement called Partnership Deed. Registration of the firm is optional.

### **8. Joint stock company –** It is an artificial person having separate legal entity, perpetual succession and common seal.

### **9 Feature of Joint Stock Company –**

- 1) Artificial Person, 2) Separate legal entity, 3) Perpetual Succession, 4) Limited liability, 5) Common seal, 6) Control, 7) Transfer of shares, 8) Risk bearing

### **10. Types of Company -**

- 1) Public company, 2) Private company, 3) One Person Company.

### **11. Stages in formation of company**

- 1) Promotion, 2) Incorporation, 3) Capital Subscription, 4) Commencement of Business

### **12. Important document involved in formation of business**

- (1) Memorandum of Association, 2) Articles of Association, 3) Prospectus

### **KEY WORDS**

- 1) Liability, 2) Subscription, 3) Partnership Deed, 4) Perpetual succession,
- 5) Prospectus, 6) Underwriters, 7) Memorandum of Association, 8) Articles of Association



## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

### **SELF TEST QUESTION**

**Choose the correct answer –**

1. The board of directors of a Joint Stock Company is elected by \_\_\_\_\_
2. The maximum number of Directors in One Person Company are \_\_\_\_\_
3. A partner whose association with the firm is unknown to the general public is called \_\_\_\_\_
4. Application for approval of name of a Company is to be made to \_\_\_\_\_
5. A prospectus is issued by a \_\_\_\_\_ company.

### **Match the following**

Minimum Subscription	Private company can start business
Partnership Deed	Application money received on minimum number of shares
Unlimited liability	Agreement among partners
Certificate of incorporation	Capital of a Company is divided into number of parts
Share	Claim over personal property

### **Answer in Brief.**

1. Describe the privileges of Private Company over Public Company.
2. What are the consequences of non- registration of partnership firm?
3. Explain any 2 features of Joint stock company.
4. Explain the following -
  - a) Nominal partner
  - b) Partnership at will
5. Define a prospectus and write its content

### **Answer In Details**

## **Unit 5 - FORMATION OF PARTNERSHIP FIRM AND JOINT STOCK COMPANY**

1. Distinguish between Memorandum of Association and Articles of Association.
2. Explain the procedure for formation of a company.
3. Explain 5 merits & 5 demerits of partnership.

## Unit 6- Business Correspondence

<b>Session 1: Meaning and Significance of Business Correspondence</b>				
	Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching & Training Method
	Meaning of Business Correspondence Relevance of Business correspondence in an organisation	Meaning of Business Correspondence Different forms of business communication Significance of Business Correspondence	What is business correspondence? What is business communication? What is the importance of business correspondence?	Interactive Lecture
<b>Session 2: Guidelines of Effective Business Communication</b>				
	Guidelines for effective business communication	Prerequisites of effective business communication	What are the essential features of good business communication?	Interactive Lecture
<b>Session 3: Essentials of Business Correspondence</b>				
	Features of business correspondence Forms of business correspondence	Different forms of business correspondence Important characteristics of business correspondence	What constitutes the effective parameters of a business correspondence? What are the different types of business correspondence?	Interactive Lecture
<b>Session 4: Forms and Types of Common Business Letters</b>				
	Different types of business letters	Meaning of each type of business letter Format of each type of business letter	What are the different types of business letters? Explain in brief each type of business letter with an example.	Interactive lecture with exercises

### Chapter -6

## Unit 6- Business Correspondence

### Business Correspondence

#### Key Agenda to be discussed:

**Meaning & Significance of Business Correspondence**

**Guidelines for Good Business Communication**

**Essentials of Business Correspondence**

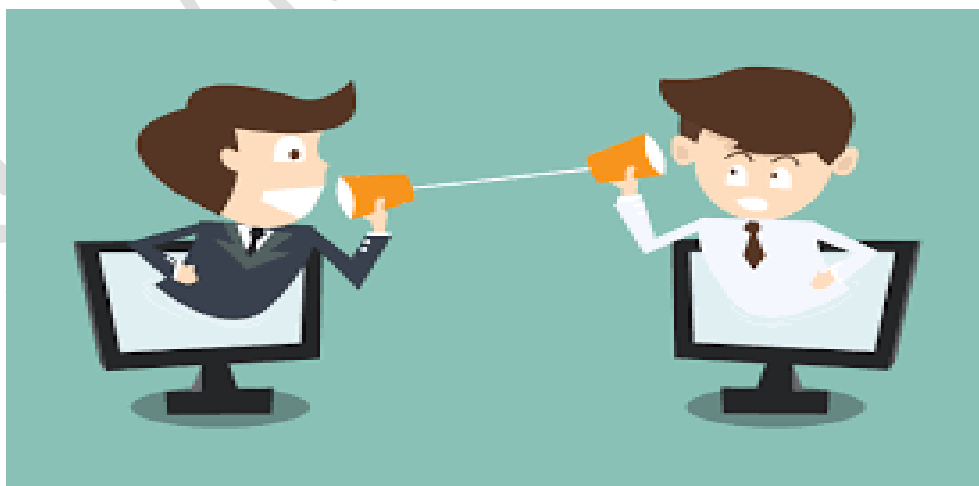
**Forms and Types of Business Letters**

#### Introduction

Have you ever pondered what it would be like if we had no way to communicate our thoughts and ideas? Man is a social animal. The society thrives on communication. It plays an essential role in daily life.

In the similar way, a business organisation also depends upon communication. Since the main motive of a business enterprise is to earn profits and goodwill, there should be effective communication.

The origin of the word “communication” is “communicare” or “communis” which means “to impart”, “to participate”, “to share” or “to make common.”



Following are the definitions given by some authors:-

## Unit 6- Business Correspondence

“Communication is a process of passing information and understanding from one person to another.”  
-Keith Davis

“Communication is an exchange of ideas, facts, opinions or emotions of two or more persons.”  
- William Newman and Charles Summer

“Communication is the process by which information transmitted between individuals and/or organisation so that an understanding results response.”  
-Peter Little

### Communication in an organisation can be classified as follows: -

- Downward, Upward and Horizontal Communication
- Informal and Formal Communication
- Written and Oral Communication

*Downward Communication* is the process of information flowing from the upper levels of a hierarchy. It is initiated by the top management in to convey orders, instructions, warnings or responsibilities to the subordinates working in the organisation.

*Upward Communication* is the process of information flowing from the lower levels of a hierarchy to the upper levels in an organisation. Upward communication flows from subordinate to superior.

*Horizontal Communication* is the transfer of information between people, divisions or departments within the same level of organizational hierarchy.

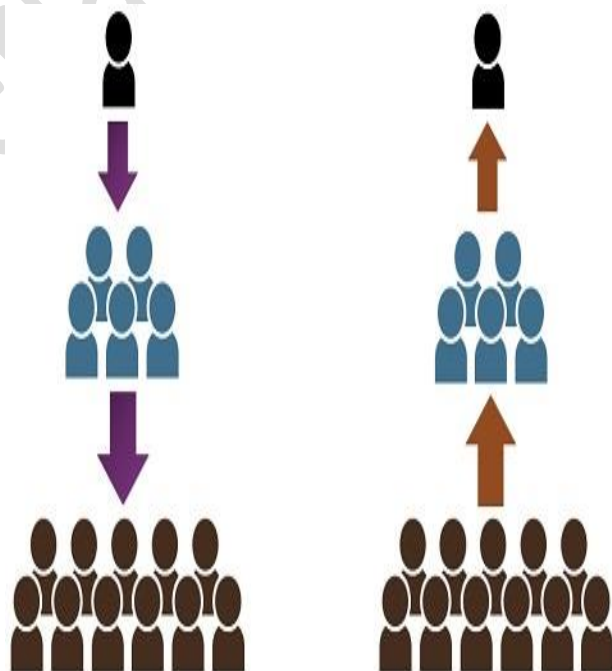


Figure 1: Communication- Downward and Upward

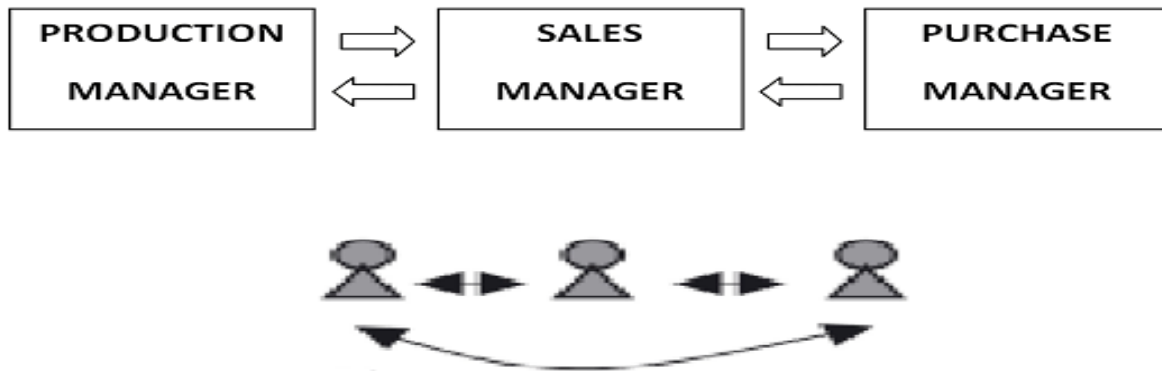


Figure 2: Horizontal Communication

*Formal Communication* is the communication which takes through hierarchical channels in an organisation. This type of communication takes place between managers or employees of same level or between superiors and subordinates and vice-versa.

*Informal Communication* does not follow any formal lines of communication. Such type of communication usually takes place among the workers to exchange their views and to satisfy their social needs.



Figure 3: Communication-Formal & Informal

*Oral Communication* is the exchange of ideas, information and message through spoken words. For E.g. Telephone Conversations, Classroom Lectures, Presentations, etc.

*Written Communication* is the exchange of information and message between sender and receiver through written or printed form. For E.g. Letters, Memos, etc.

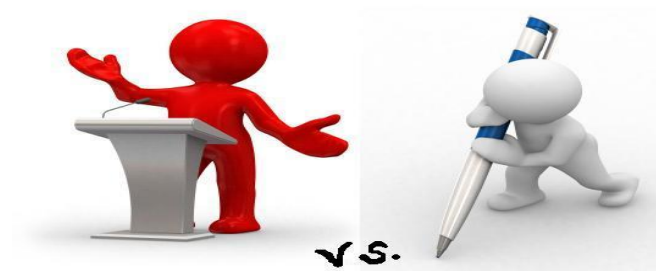


Figure 4: Communication- Oral and Written

## Unit 6- Business Correspondence

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The written form of communication is called business correspondence. It is basically a term which encompasses all form of written communication which can be with the parties both internal and external to the organisation.

Business correspondence is an indispensable tool for the day-to-day functioning of a company. It helps people within an organization communicate with each other. It assists an organization to transact and maintain cordial relationship with their business partners, customers, and other business enterprises. Business correspondence involves written communication which can be in the form of letters, memos, circulars, etc. This is generally kept for future record purposes. Owing to the emergence of technology, the enterprises are highly dependent on Emails which is also a form of written communication. When it is used for business purposes, it becomes a part of business correspondence.

### Significance of Business Correspondence

Let us understand the importance of business correspondence in detail.

#### ✓ *Enables maintenance proper relationship*

There is a need to maintain proper relationship among the business enterprises and customers by using appropriate means of communication. The customers as well as business enterprises are not confined to one place. Therefore, business correspondence plays an important role. The customers seek information about various products and services from the companies and the companies in return can reply regarding the supply side of it. For example: - Ram placed an order of a book on Amazon's website and the company replied that it would be delivered in the next working days. This is a form of business correspondence.

#### ✓ *Inexpensive and convenient mode*

This is considered as an economical and convenient mode of communication.

#### ✓ *Create and maintain goodwill*

Businessmen at times send emails or letters to enquire about complaints and suggestions of their customers. This can be a form of feedback mechanism. They also send letters or emails to update the customers about the availability of a new products, clearance sale,

## Unit 6- Business Correspondence

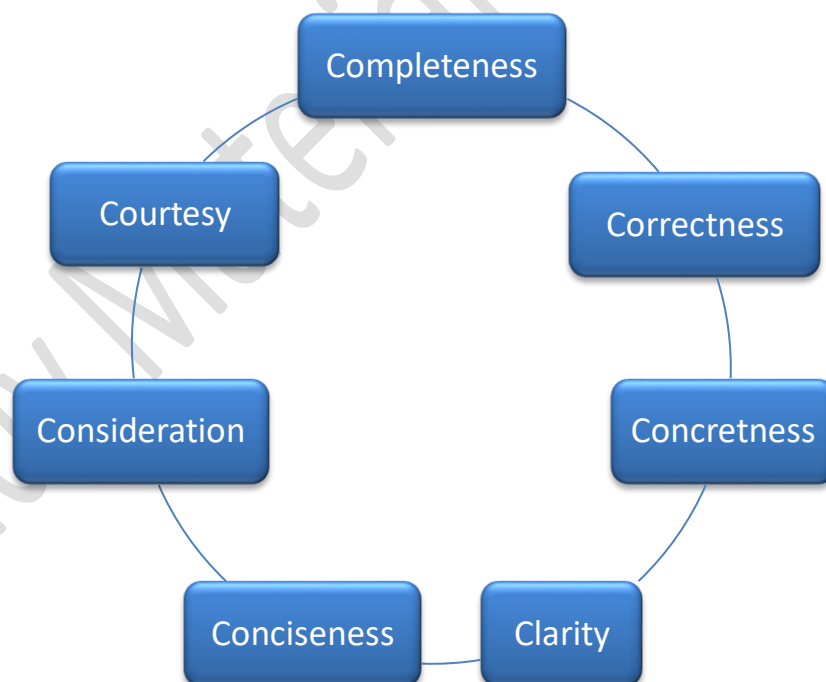
discounts, etc. This results in cordial relations with the customers which enhances the goodwill of the business.

### ✓ *Serves as evidence*

Business enterprises cannot memorise all facts and figures in a conversation that normally takes place among with internal as well as external parties. Through written communication in the form letters or emails, he can keep a record of all the information. Thus, business correspondence can serve as evidence in case of dispute between two parties.

### **Guidelines of Good Business Communication**

Francis J. Bergin propounded some guidelines or principles for effective communication. They are known as Seven Cs of communication.



**Figure 5: 7 Cs of Effective Communication**



## Unit 6- Business Correspondence

### 1. Clarity

Communication is a result of careful thought and planning.

There should be clarity in thoughts and clarity of expression.

By **clarity of thoughts**, the communicator should focus on the following

What to say (Subject Matter)

Why to say (Purpose)

When to say (Time)

Whom to say (The listener)

How to say (Language or Style)



### Clarity of expression

The communicator must ensure that he should choose the words carefully and appropriately.

The person at the receiving end should be able to interpret the message correctly. This call for following suggestions: -

- ✓ Avoid technical jargon.
- ✓ Use short sentences.
- ✓ Use simple words instead of pompous words.

For example:-

Pompous words	Simple words
Terminate	End
Facilitate	Help

- ✓ Avoid long phrases and use single words

For example: -

Long phrases (Avoid)	Single words (Use)
At all times	Always
Will you be kind enough	Please
Despite the fact that	Although
In the event that	If

### 2. Completeness

The communication should be complete. It should aim at providing all the relevant information including all the facts, figures and all the details related to the message. If the message is incomplete, it is confused and the motive of communication will be incomplete. This will waste time, money and efforts. The communicator should check five W questions: Who, What, Where, When and Why?



For example, the board announced a meeting for shareholders and they sent letters to them.

So the letter should include the following information: -

Who is to attend- Shareholders

What is to attend- Annual Board Meeting

Where- Company Headquarters

When- Thursday, 29.11.2018 at 11: 00 am

Why – To discuss about the quarterly results

If any of the above aspect is incomplete, the purpose of the communication will be rendered useless.

### 3. Conciseness

The term **conciseness** refers to speech or writing that is brief and to the point. In business writing, the communicator needs to be careful that the information sent to the receiver constitutes few words but not at the cost of appropriateness, clarity, correctness and completeness. He should value the time of the receiver.

The following suggestions should be considered while making the message concise.

- ✓ Include relevant facts
- ✓ Avoid repetition
- ✓ Do not use wordy expressions.

Wordy (Avoid)	Concise(Use)
At this point of time	Now
Due to the fact that	Because
In due course	Soon

## Unit 6- Business Correspondence

- ✓ Construct short and simple sentences.

For example:

**Verbose: We hereby wish to let you know that the management is delighted with the confidence you have reposed in us.**

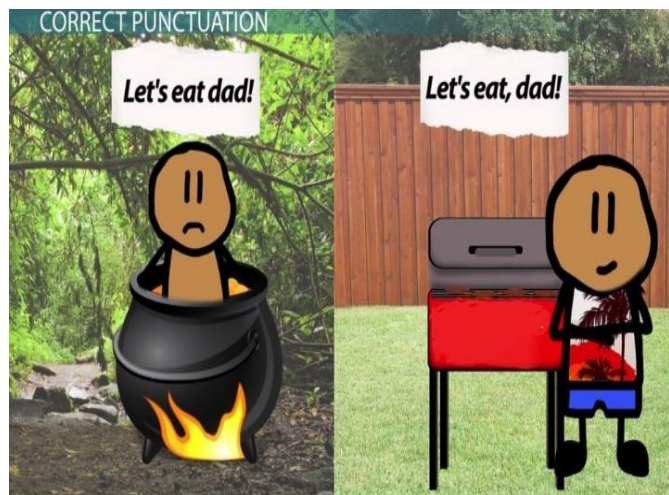
### 4. Correctness

Business communication is meant to achieve certain objectives. Therefore, the message transmitted by the sender should be correct and authentic in every sense. This includes all the facts and figures. Decisions based on wrong information received can be unfavourable for the business enterprise. For instance, a trader inquired from the manufacturer regarding the availability of a particular good. The supply manager informed without verifying that the goods are not available. Here, the information given to the trader was incorrect. The result was that the trader shifted to another manufacturer for buying those goods. In this situation, the company suffered loss in the form of revenues as well as the valued customer.

The information should be transmitted at the apt time. Outdated information is not useful. Besides this, the communication should be prompt. Say in the previous example, if the trader had queried on 10<sup>th</sup> October 2018 and he was replied back on 10<sup>th</sup> November 2018. In this case, the information is not of use at this moment.

The message should also be free from grammatical and punctuation errors.

Besides, this message can be customised as per the target receiver. If the receiver is layman, the communication should be simple. While if the receiver is expert in the given area, detailed information can be sent across.



## Unit 6- Business Correspondence

### 5. Concreteness

Concreteness in communication suggests being specific, definite and vivid rather than vague and general. If the message is concrete, the receiver is able to understand the meaning of the message. Ways to make a message concrete: -

- ✓ Use specific facts and figures.
- ✓ Use active voice rather than passive voice.
- ✓ Prefer vivid and image building language.

For example: -

Vague & general	Concrete & Effective
Goods will be dispatched soon.	Goods will be dispatched on 1 <sup>st</sup> December.
This land area is expensive	This land area costs only ₹ 50 Lakh.
Passive	Active
The match was won by our team.	Our team won the match.
Your efforts are appreciated by the management.	The management appreciates your efforts.

### 6. Courtesy

Courtesy in business communication calls for being polite and sensitive to the listener or receiver. Thus, courtesy requires being considerate and friendly towards others. This helps in maintaining relationships with concerned parties.

This can be achieved in following manner: -

- ✓ Apologise sincerely
- ✓ Thank profusely
- ✓ Empathise with the listener
- ✓ Avoid using annoying expressions like “you failed”, you are irresponsible”
- ✓ Reply promptly

### 7. Consideration

For an effective communication, the message should be communicated from the receiver's point of view. This can be referred to as putting yourself in other's shoes or simply empathy. Everyone is interested in maximising his or her own benefits. There are certain approaches which should be used while showing consideration to the listener or receiver.

- ✓ Focus on “you” instead of “I” and “We”.
- ✓ Show interest in the receiver.
- ✓ Emphasise positive and pleasant facts.
- ✓ Use positive words instead of negative words.
- ✓ Avoid using words like mistake, disagree, wrong, damage in business communication. Rather use words like please, thank you, cheerful, welcome, etc.

### Essentials of Business Correspondence

Now business correspondence is principally all the written communication between the organisation and its concerned parties. As discussed earlier, these parties are both external and internal to the organisation.

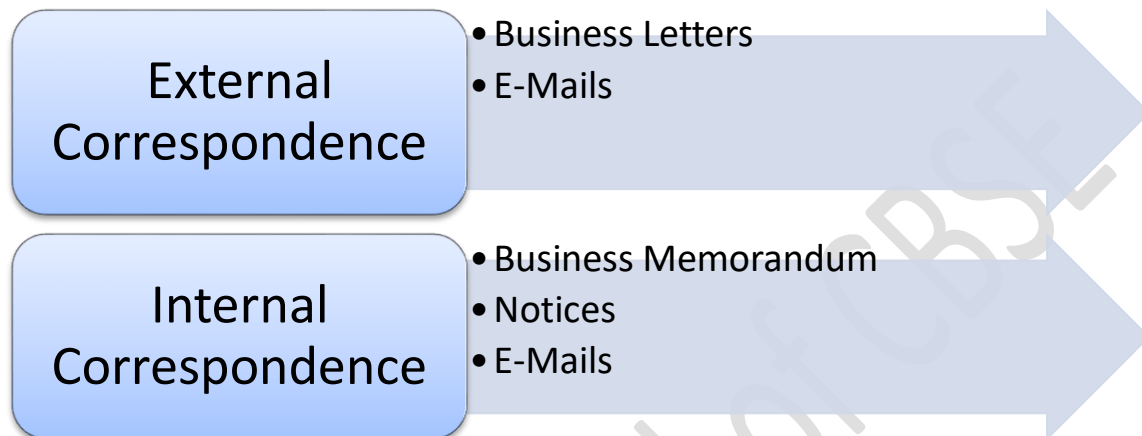


There are certain characteristics or features a business correspondence should possess. Before understanding these, let us first understand about the different types of business correspondence a business enterprise uses.

## Unit 6- Business Correspondence

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Business correspondence can be classified into following parts:



**Figure 3: Types of Business Correspondence**

**External correspondence** is with outsiders that include customers, suppliers, government agencies, other business houses and any other stakeholder.

- **Business Letter:** A business letter is a letter written in formal language, usually used when writing from one business organization to another, or for correspondence between such organizations and their customers, clients and other external parties.

**Internal correspondence** is with the internal parties of the organisation which is generally done with the employees.

Email has emerged as an important way of communication as it is quick, cheap and paperless.

- **Business Memorandum:** The term 'memorandum' is derived from Latin term 'memorale' which means 'to tell'. Business memos are a means of inter-organisational correspondence sent between employees in a company or between company subsidiary to convey ideas, decisions, requests or announcements. They are

## Unit 6- Business Correspondence

more private and more formal than emails but less formal than letters. They can also be compared to reports, but very short ones.

- **Notice:** A notice is a written statement that contains the particulars of holding any event in an organisation. It is a form of downward communication. The motive is to convey information to the concerned persons by requesting them and never ordering them. The language is simple and instructions are understandable.

For all the above types of business correspondence, the sender should take care of the following features: -

- **Simple**

Business correspondence should be simple in language. Verbosity should be avoided.

Difficult Expression (Avoid)	Easy Expression (Prefer)
Respectfully yours...	Yours faithfully
We shall be glad if you....	Will you please

- **Clear**

There should be clarity in respect of thought and expression in business correspondence. He should inform about all the facts and figures to the receiver in simple language. There should not be any ambiguity.

- **Public relations aspect**

Business correspondence promotes in building the reputation of the firm. Business letters are kept for future reference. Therefore, the communication representatives of the company should be cautious in framing the business correspondence documents.

- **Consideration**

The business correspondence should adopt “You-attitude” instead of “I” or “We”. This means that there should be empathetic approach towards the listener or receiver. The reader feels that the sender of the message is sensitive to his needs.

## Unit 6- Business Correspondence

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For example:

We-attitude (Avoid)	I-attitude (Prefer)
We have received your letter.	Thank you for your letter.
I am happy to report.	You will be happy to hear.

- **Courtesy**

It is very important to be courteous in business correspondence along with being considerate. It helps in building reputation of the company. For example, in the business letters to the customers, if the company shows gratitude as part of courtesy, it will help in increasing patronage and customer loyalty.

- **Coherence**

The term **coherence** refers to the smooth flow of ideas in a text. There are two main strategies that will make your writing coherent- organizing your ideas in a logical order and connecting them effectively by using transition words and phrases.

- **Care for culture**

In international business correspondence, the communication expert should take into consideration of the culture of the receiver (customer or company) situated abroad. This is due to differences in cultural background. One should avoid the use of slangs in international correspondence.

- **Positive language**

There should be an emphasis of usage of positive words instead of negative words in business correspondence. The motive of business correspondence is relationship development. Usage of negative words would hamper the relations. Words like mistake, damage etc should be refrained in business correspondence.

- **Tactful approach**

There are variations in communication situations and people to whom business correspondence is being addressed. So, the writer has to make his mind how he



## Unit 6- Business Correspondence

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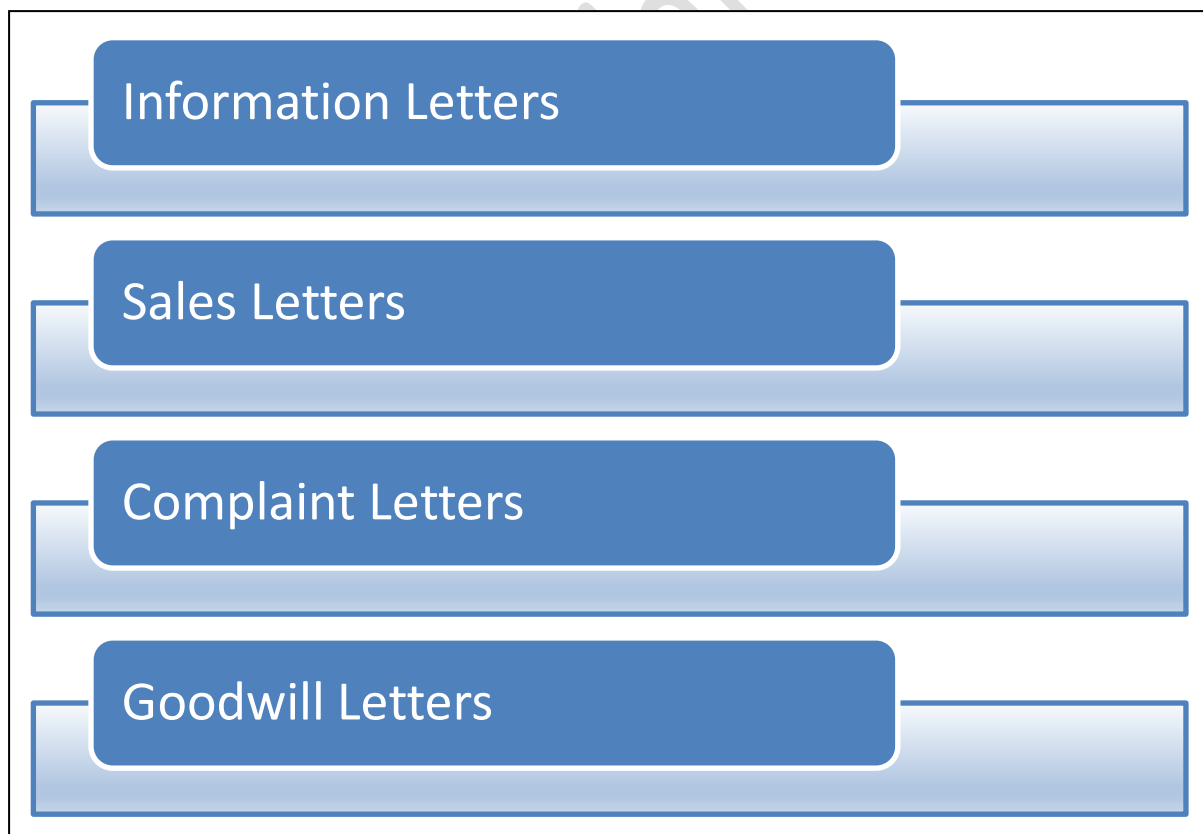
has to convey particular information. Sometimes, the writer may have bad news or information to be sent, so he has to handle it tactfully.

- **Persuasive**

Persuasion is the one of the most important components of any business communication. Generally, persuasion is required in business correspondence especially for the purposes of sales and marketing. While selling a product or the message should be persuasive so that the prospective consumer buys it. Thereby, it also requires usage of high-quality images and convincing language.

### **Forms and Types of Business Letters**

There are various types of business letters circulated in and out of a business enterprise. The purpose is to communicate with different stakeholders on different occasions.



**Figure 7: Types of Business Letters**

## Unit 6- Business Correspondence

**Information letters** can be further divided into routine and special purpose letters. The routine letters include correspondence regarding enquiries, orders, payments, collection letters etc. Circulars, personnel letters are included in special purpose letters.



**Sales letter:** A sales letter is a letter written to advertise and in due course sell a product or a service to the consumers. It is a type of business letter meant for generating business for the company. A letter from an organization to a supplier regarding the demand of the supply is also an example of a sales letter.



**Complaint Letter:** Business complaint letter is written by customers who are not satisfied by the levels of consumer services provided. This is generally to bring notice of the supplier any mistake, error, fault etc. in the products sent to the customer.

Let us  
understa  
nd some  
of the  
common



**Goodwill Letters:** Business enterprises as part of image development and to better connect with the stakeholders. For instance, firms send Thank you letters are send to the customers for their loyalty, Congratulatory letters to a particular employee for certain achievement. Sympathy letters and condolence letters are also a part of goodwill letters.

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business letters by following examples:

### Type of Information Letter

#### Example of an Enquiry Letter

Aggarwal Uniform Stores	
Model Town, Delhi	
RRG School Uniform	20 <sup>th</sup> December, 2018
Sadar Bazar, Delhi	
Dear Sirs,	
<p>We are a leading distributor of school uniform in North Delhi area since last 30 years. We are interested in purchasing school socks from your firm.</p>	
<p>Kindly send us the catalogue and price list. Since we have got multiple schools in our portfolio, you will get a large and a regular order. Please quote your most favourable prices and terms.</p>	
Yours faithfully,	

#### Reply to above letter

RRG School Uniform	
Sadar Bazar, Delhi	
Aggarwal School Uniform Stores	24 <sup>th</sup> December,
2018	
Model Town, Delhi	
Dear Sir	
<p>We thank you for your enquiry of 20<sup>th</sup> December, 2018 and are glad to know that you are interested in purchasing products from us.</p>	
<p>The catalogue of our prices and products are enclosed with this letter. Please note that we provide a 25% trade discount for an order of ₹ 1,00,000 or above. The order is dispatched within 30 days of the receipt of the order.</p>	
We assure you of best services.	
Yours faithfully,	

Dear Ms. Seema

Are you worried about the huge pile up of laundry to be washed on every weekend? We can understand the pain you go through when you have to do the laundry work along with other household chores.

According to a survey, 76% of Indian men believe that laundry is women's work.

But why get tensed when Dhulaiman is here...

Dhulaiman is a company based in Gurugram providing laundry and dry cleaning facilities in Gurugram and rest of India

We also provide Dry Cleaning Solutions, Laundry Equipment and Commercial Laundry Machines for Colleges, University, Hotels, Hospitals and for Industries.

Our flexible and easy-to-use service gives you a satisfying laundry experience. We just take one hour to clean your load of clothes. We also provide pick and drop facility to Dry-clean & Laundry in Delhi NCR. Don't you think it's an ease to get cleaned your cloths at your doorstep.

We also offer self-help laundry services based on the concept of laundromats or launderettes, the concept which is popular abroad.

Our prices are very economical. We have enclosed a brochure of our services and price quotations. Kindly go through that and revert back.

Yours faithfully,

Type of Complaint Letter

Dear Sir

Ref: Our order No.MS 280

Thank you for the prompt delivery. However, on opening the boxes we find that the supplies were not in conformity with our order.

We had ordered 100 chairs and 50 tables. But we received only 75 chairs and 35 tables.

We are sure that it is not your fault. Kindly let us know when you would be dispatching the remaining items.

We look forward to a timely action.

Yours faithfully

## Unit 6- Business Correspondence

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Reply to the above complaint

Dear Sir

Sub: Your letter dated...

Please accept our apologies for this lapse on our part. We do a physical verification of the supplies of our clients.

We regret that it was a clerical error on account of processing numerous orders.

We inform that your remaining items have been sent today as per your order No...of...

We once again regret the inconvenience caused to you.

Yours faithfully,

Type of Goodwill Letter

Dear Customer,

We wish to thank you for considering Dhulaiman for your laundry work. We are sure you would be happy and satisfied with our services. We will continue to provide you our services. As a token of our goodwill, we are offering selected customers like you for a free service of dry cleaning of 5 pieces of clothing.

Just present this coupon and avail this service in this month.

Name.....

Customer Code.....

Phone No.....

Address.....

Keywords:- Business correspondence, Business communication, Business Letters

## Unit 6- Business Correspondence

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### Self-Test Questions

#### I. Choose the correct answer:

1. Communication is the task of imparting.....  
a) Training b) Information c) Knowledge d) Message
2. Informal communication is also called.....  
a) Grapevine b) Downward communication c) Feedback d) Decoding
3. Communication is a .....process of understanding between two or more persons-sender or receiver.  
a) Two-way b) Easy c) Difficult d) Motivational
4. ....is not one of the 7 Cs of communication.  
a) Clarity b) Conciseness c) Correctness d) Character

#### II. Fill in the blanks:

1. The person who conveys the message is called.....
2. .... serves as a record in case of dispute between two business parties.
3. ....communication deals with the information exchange among the employees of the same level.
4. .... refers to smooth flow of ideas in text while framing business correspondence.

#### III. True or False

1. Communication is a static process.
2. The business correspondence should avoid using pompous words.
3. The business letters should use negative words.
4. There should be courtesy in business communication.

#### IV. Answer the following briefly:

1. What is informal communication?
2. What is the difference between formal and informal communication?
3. What do you mean by external business correspondence?
4. What is a business memorandum?

### **V. Answer in detail:**

1. What is the significance of business correspondence?

### **VI. Activity**

1. Visit a business enterprise nearby your locality. Find in detail the different types of business correspondence used by the firm.

Study Material of CBSE

## Unit 7 – Functional Areas of Management

<b>Session 1: Types of Management Functions &amp; Production Management</b>			
Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching & Training Method
Meaning of Management Production Management	Significance of Production function	What are the different functional areas of management? What are the different functions of production management?	Interactive Lecture
<b>Session 2: Financial Management</b>			
Finance Function and its Uses	Objectives of Financial Management Sources of raising finance	How is financial management useful in a business?	Interactive Lecture
<b>Session 3: Marketing Management</b>			
Marketing Management Significance of Marketing	Scope of Marketing Use of Marketing Management	How does business take advantage from marketing management function in its operations?	Interactive Lecture
<b>Session 4: Human Resources Management</b>			
Human Resource Management, Objectives and Significance of Human Resource Management	Definition of Human Resource Management, Functions of Human Resource Management	What do you mean by Job analysis? What is the difference between recruitment and selection?	Interactive Lecture
<b>Session 5: Information Technology</b>			
Information Technology, Need of Information Technology	Meaning of Information Technology, Benefits of Information Technology	How is Information Technology useful in business?	Interactive Lecture



## Unit 7 – Functional Areas of Management

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### Functional Areas of Management

In this unit we will learn about:

- What are the different functional areas of business management?  
What is the objective of production management in a business?
- What is the purpose of human resource management function in a business?
- What is the significance of finance in a business?
- What is the role of marketing in business?
- What is the importance of Information Technology in business?

#### Introduction

The scope of a business is very broad. Although, the core work of business is to identify the needs of consumers or other business houses and converting the inputs or factors of production to outputs namely goods or services. The main motive is to earn profits from the business activity being done. This is ensured by an effective management at disposal. It is the backbone for the success of the business enterprise. Now let us understand what is Management?

**Management** can be referred to as discipline of management principles and techniques. It can also be an individual or team of who performs the business activities. It can also be called as a process consisting of managerial activities which include planning, organising, staffing, directing and controlling. It is basically getting work done from people.

Here are some definitions given by some popular authors: -

According to Henri Fayol “**Management is conduct of affairs of business, moving towards its objective through a continuous process of improvement and optimization of resources**” while in the words of Koontz “**Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims**”

## Unit 7 – Functional Areas of Management

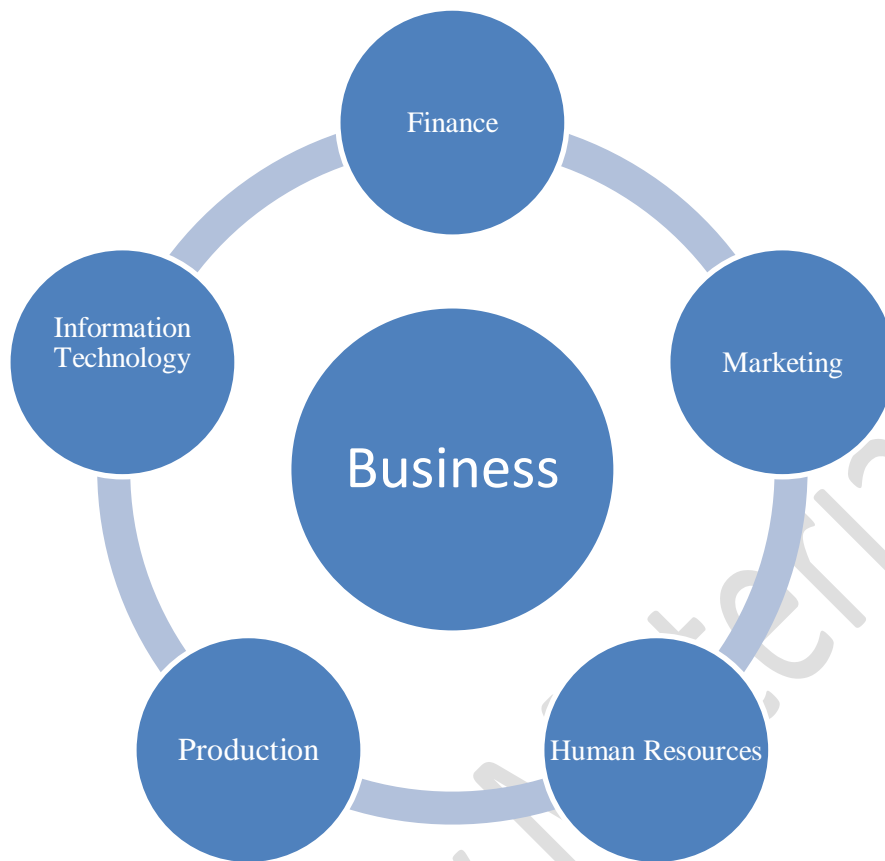
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A business consists of various functions which are interrelated. **A business function can be defined as a process performed on routine basis to undertake a part of the mission of an organisation.** As and when businesses have grown over a period of time, they could not be managed by an individual or handful of individuals. Thus, this has led to evolving the way the businesses functioned in olden times. The concept of expertise has paved the way for division of work into different functions.

The following are the functional areas of Management:

1. Production Management
2. Financial Management
3. Marketing Management
4. Human Resources Management
5. Information Technology

These functions are specialised in themselves as they are performed by people having specific skills and capabilities.



**Fig. 7.1 Functional Areas of Business**

### **Production Management**

Essentially in context of managerial economics, the production function is concerned with converting inputs into outputs through the stages of production processes. In simple words, production means manufacturing, creation or building.

E.L. Brech has defined Production Management as **“It is the process of effective planning and regulating the operations of that section of an enterprise which is responsible for the actual transformation of materials into finished products”**.

On the other hand, production management is responsible for production planning and control, quality control, procurement of raw materials and storage of raw materials. It is concerned with the management of ensuring that right good are produced, in right quantity, at the right time and at the right cost.

## Unit 7 – Functional Areas of Management

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### **Objectives of Production Management:**

#### **1. Right Quantity**

The most important objective of production management is ensuring production of right amount of goods so there is no shortage of goods in comparison to the demand. On the other hand, excess production leads to blockage of inventory and capital.

#### **2. Right Quality**

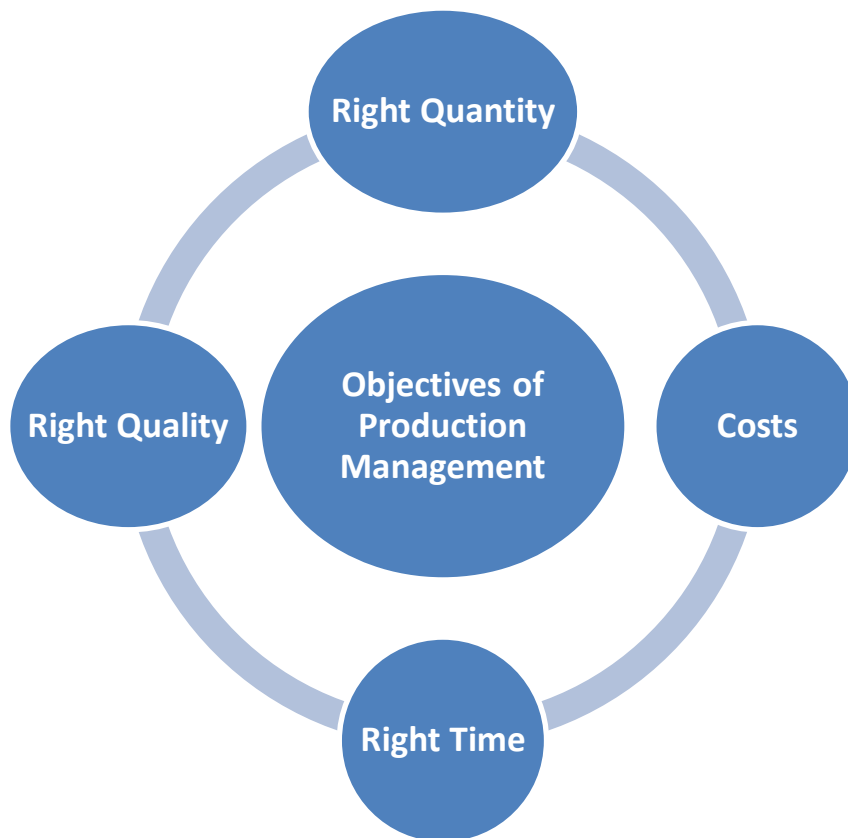
The quality of the product is set on the basis of customers' needs. These needs are decoded by the manufacturing department into measurable objectives. Besides this, the production management has to maintain a trade-off between cost and quality.

#### **3. Costs**

The manufacturing department fixes the cost of the product prior to actual production. Hence, it has to minimum variance between the actual cost and fixed cost of the final product.

#### **4. Right time**

The production department has to make sure that the goods should be produced in the stipulated time limit. This requires planning the resources and scheduling of the work in advance.



**Fig 7.2: Objectives of Production Management**

**Functions of Production Management:**

**i. Product design**

Product Design is the process of creating a new product to be sold by a business to its customers. This process leads to development of ideas and processes to design new products in an efficient and effective manner.

**ii. Location and layout of Plant**

Plant Location means setting the plant at a particular place. This decision involves deciding on the selection of geographic area, size of the area and the type of the area- urban or rural. The business owner takes into mind various factors before deciding on the location like proximity with the market, availability of labour, availability of facilities like transport, electricity, water, drainage, etc.

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Plant Layout refers to the physical arrangement of equipment and facilities within a plant. A good layout ensures a smooth flow of work, material, people and information. It also improves productivity, safety and quality of the work processes.

### **iii. Procurement and storage of raw materials**

This task includes procurement of all the things related to finished products- raw materials and spare parts. The storage of raw material requires ensuring adequate arrangements like containers, boxes, etc.

### **iv. Planning of factory operations**

Here, the focus is on planning of instructions and duties crucial for the success of the factory work to decrease the operating expenses and increasing the output.

### **v. Inventory control**

This process constitutes of continuous supervision of supply, storage and availability of items in order to ensure an adequate supply without excessive oversupply.

### **vi. Quality control**

It refers to the set of activities which ensure that the produced items are free from any of the defects.

### **vii. Research and development**

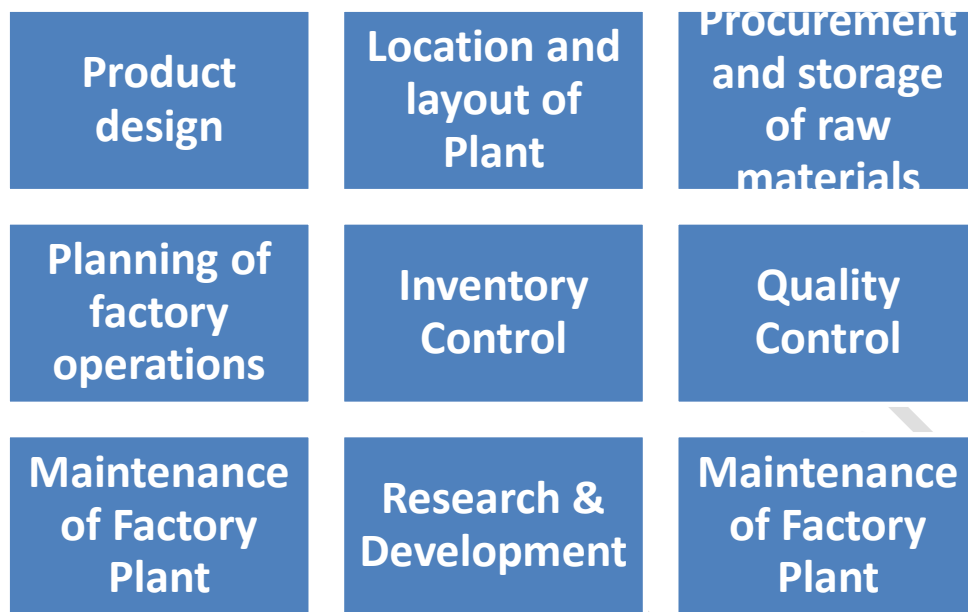
Research and development processes are aimed at improving processes of factory operations and reducing the cost of components.

### **viii. Maintenance of Factory equipment**

Continual maintenance of factory equipment includes taking care of timely repairs, oiling and greasing of the machinery to run it effectively for a longer duration.

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**Fig 7.3: Functions of Production Management**

### Financial Management

Finance is referred to as the lifeblood of any business. Financial Management involves procurement of required funds and making sure that they are parked at the right place. This is one of the crucial functions of the business activity.

According to Guthman and Dougal, “Financial management is the activity concerned with planning, raising, controlling and administering of funds used in the business.”

Over the years, finance function has come out as a separate function of a business enterprise. Traditionally, this function was seen as risk-averse while the new approach sees it as vision oriented and risk taking.

#### Objectives of the Financial Management:

- **Support all the business functions**

The business needs funds for procuring raw materials, paying salaries to the employees, bearing expenses of the administrations, etc. The funds are provided by the finance function.

- **Raising funds for the business**

The business owner can raise funds from various sources classified as:

## Unit 7 – Functional Areas of Management

**Long term sources:** These constitute term loans from banks, Owner Capital, Venture Capital and Internal Accruals. They are raised for the purpose of making long run capital expenditure.

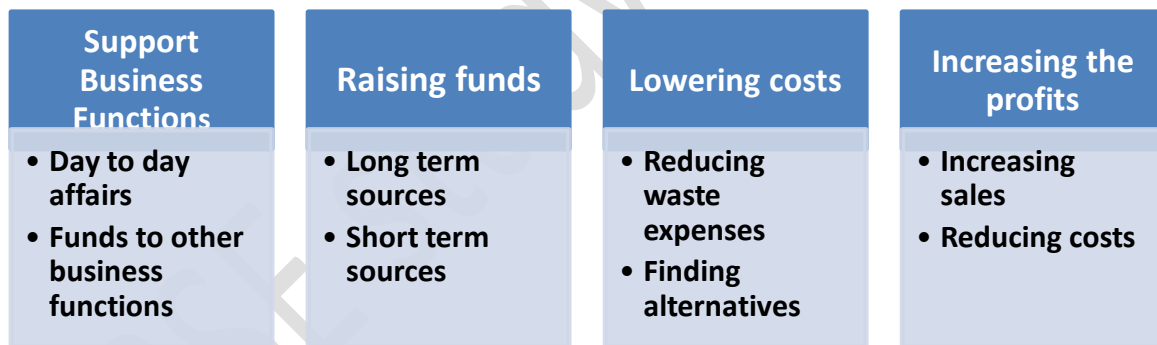
**Short term sources:** These consist of Trade credit, commercial bank loans, lease and overdrafts. The short-term funds are needed for meeting day to day expenses.

- **Lowering the costs**

The aim of the business is to earn profits for the owner. Now, this requires reducing costs on unnecessary areas like wastage of raw materials, keeping track of labour hours wastage, reducing overhead expenses. The person managing the finance function should make recommendations to different business functions for reduce the expenses.

- **Increasing the profits of the business.**

Profits of the business can be increased by improving the sales and decreasing the costs. The finance manager can also perform the role of advisor to the marketing department for increasing the sales.



**Fig 7.4: Objectives of Financial Management**

Broadly the financial management function of the business is entrusted with the following tasks:

- **Recording financial transactions**

In this task, daily book keeping entries of the financial transactions and maintenance of ledgers is done. This is done to find the right state of business at the end of the accounting period.



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- **Funds Management**

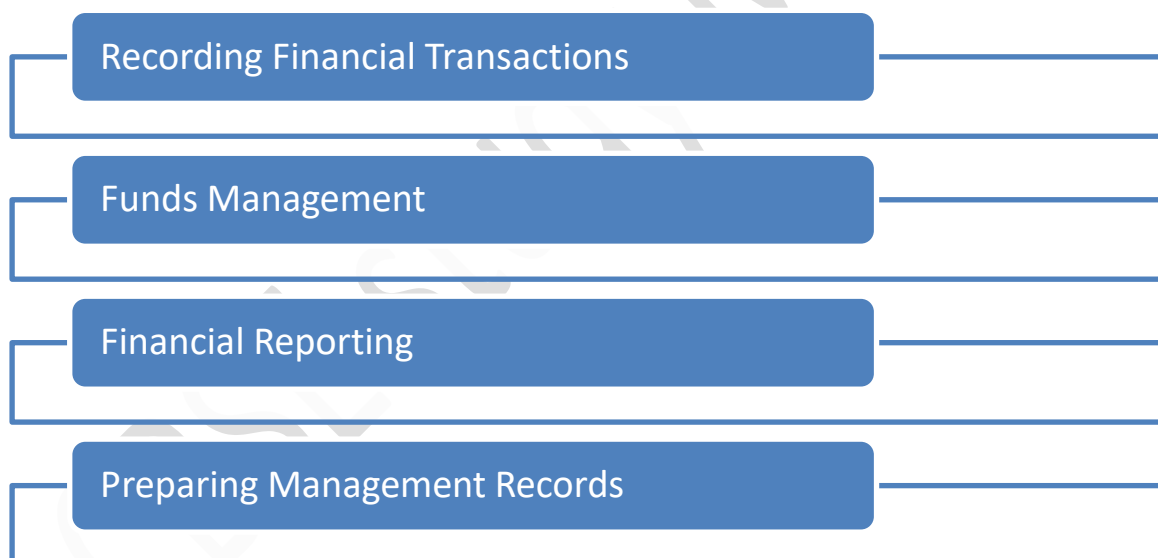
The business owner or the person responsible for handling the finance function ensures that the cash and the working capital are managed well. This task is also responsible for raising funds-long term and short term for the business.

- **Financial Reporting**

The finance manager ascertains the financial position of the business by making profit and loss account and the balance sheet in financial reporting. This is reported to the owner for further planning of business.

- **Preparing management Records**

This is done for internal reporting purpose. E.g. making cost records, budgets, decisions on investments, expenditures, etc.



**Fig 7.5: Functions of Financial Management Function**

### **Marketing Management**

Marketing function is responsible for connecting customers and the business enterprise. This function helps in for providing revenue and generating operational profitability for the business. Marketing includes all the activities related to buying and selling of product or

## Unit 7 – Functional Areas of Management

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service. It also involves market research, advertising and delivering products to the customers. On the other hand, **Marketing Management** is the management of the marketing activities in an organization and includes management of the processes of planning, organizing, directing, motivating, coordinating, and controlling.

Dr. Philip Kotler defines marketing as **“the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit.”**

According to Philip Kotler, **“Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target markets for the purpose of achieving organisational objectives”.**

The American Marketing Association has defined Marketing management as ‘It is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals.

### **Scope of Marketing**

The scope of marketing is very wide. Initially, it was just restricted to sale of the goods which has shifted to focus to after sale which is generally a part of relationship management. The competition was not stiff earlier so the producer was the king. But the concept changed in the later years due to entry of new producers and consumer awareness whereby the consumer is referred to as king. Marketing activities constitute lots of activities including market research, promotion and advertisement, distribution of product, after sale services.

### **Objectives of Marketing Management:**

Marketing management is an important function in a business enterprise. It helps in fulfilling the following objectives which are relevant at micro (firm) as well as macro (economy) level:

#### **1. Demand and Employment Creation**

The foremost objective of marketing is to create demand as per the tastes and preferences of the customers. This objective is the foundation for running the business. However, it also helps in increasing in per capita income by increasing employment along with demand.

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Marketing involves lots of functions like buying, selling, warehousing, packaging, etc. These functions are performed by different set of people which enables increase in employment.

### **2. Increasing market share**

To ensure long term continuity and profitability of the business enterprise, marketing management should aim at growing its marketing share. This can be achieved by constantly be in touch with market trends and researching about customer needs.

### **3. Profit Generation**

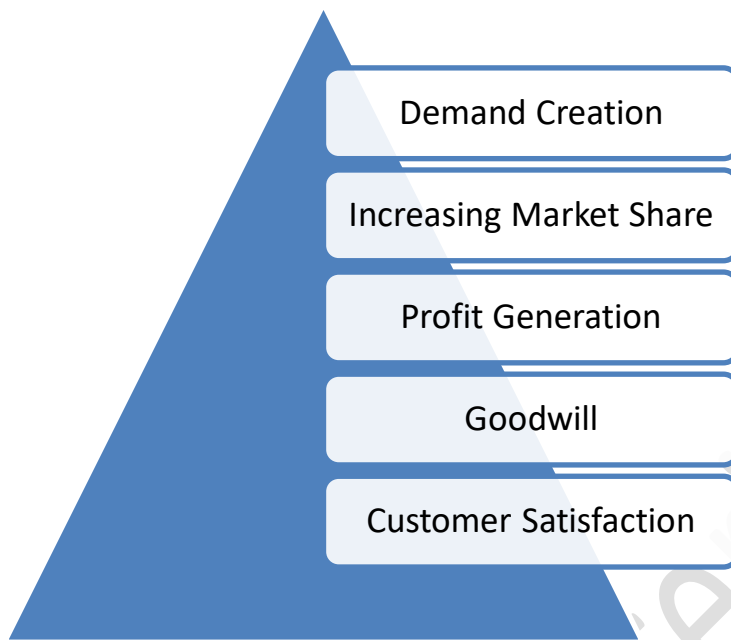
The marketing department is responsible for generating revenue for the business enterprise and hence profits for its long-term survival and growth.

### **4. Goodwill**

The marketing department has a direct role in increasing the goodwill of the firm by providing goods at best quality to the customers at reasonable prices.

### **5. Customer Satisfaction**

Customer satisfaction is the degree of satisfaction provided by the goods or services of a company as measured by the number of repeat customers. The marketing department is responsible for customer satisfaction.



**Fig 7.6: Objectives of Marketing**

### Functions of Marketing Management

The functions of marketing management in a business enterprise are as follows:

- 1. Functions of Exchange:** It includes all the activities that are concerned with the transfer of goods and services from producers to users. It involves following functions:

#### **1.1 Buying**

This function includes procuring raw materials to make products, knowing how much to keep in surplus and selecting suppliers.

#### **1.2 Selling**

This function is responsible for creating possession utility by transferring the title of product from seller to customer.

- 2. Functions of Physical Supply:** This function facilitates buying and selling processes of goods. It includes:

#### **2.1 Transportation**

It involves finding out mode of transport that provides an acceptable delivery of goods schedule at an acceptable price.

#### **2.2 Storing**

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This function takes care of storage of products to sell them at the best-selling price.

- 3. Facilitating Functions:** These functions have a direct association with the market process. The following sub-functions are included:

### **3.1 Market Research**

It means gathering, recording and analysing all the information related to issues of marketing which becomes base for marketing functions.

### **3.2 Product Planning and Development**

Product planning is concerned with the products' design, name, colour, size, etc. Development consists of all the activities from generation of new products to introducing product for sale.

### **3.3 Standardisation and Grading**

Standardisation is a process of setting standards for a product on the basis of its required qualities. Grading is dividing the products into lots, groups or classes as per the prior set standards.

### **3.4 Packaging**

It is the act of designing and producing package for a product. This ensures protecting the product from risk of spoilage, leakage, etc.

### **3.5 Branding**

This process facilitates identifying product with a name or trademark.

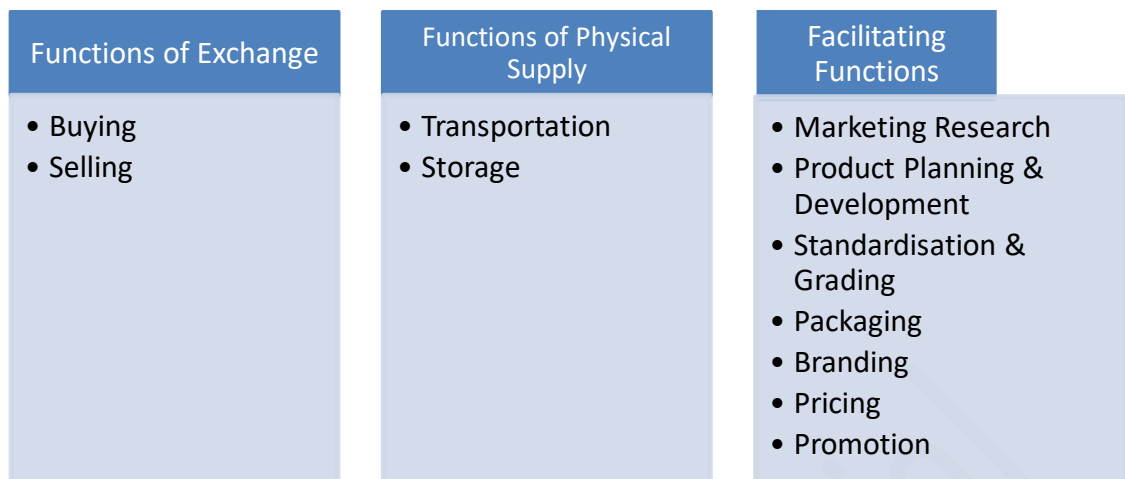
### **3.6 Pricing**

It is the task of assigning value of a product or service which is expressed in terms of money.

### **3.7 Promotion**

It constitutes of the activities of informing the customers about the product or service by the business to create, sustain and increase the demand.

## Unit 7 – Functional Areas of Management



**Fig 7.7: Functions of Marketing Management**

### Human Resources Management

A business enterprise has to get work from people. They are needed for effective utilisation of all the resources. Therefore, people are the most important resource for business. People alternately called manpower are referred as Human Resources.

According to Megginson, human resources mean **“the total knowledge, skills, creative abilities, talents and aptitudes of an organization’s workforce, as well as the values, attitudes and beliefs of the individuals involved.”**

A business performs the function of human resource management. It is the process of bringing people and organisations together to attain the objectives of each. Flippo defines human resource management as **“the planning, organising, directing and controlling of the procurement, development, compensation, integration, maintenance and reproduction of human resources to the end that individual, organisational and societal objectives are accomplished.”**

### Objectives of Human Resource Management in business

- To assist the business organisation to achieve its goals by providing well-trained employees.
- To utilise human resources effectively.
- To enhance job satisfaction of employees by encouraging them.
- To develop and retain healthy relations amongst employees.

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- To maintain quality of work life for employees

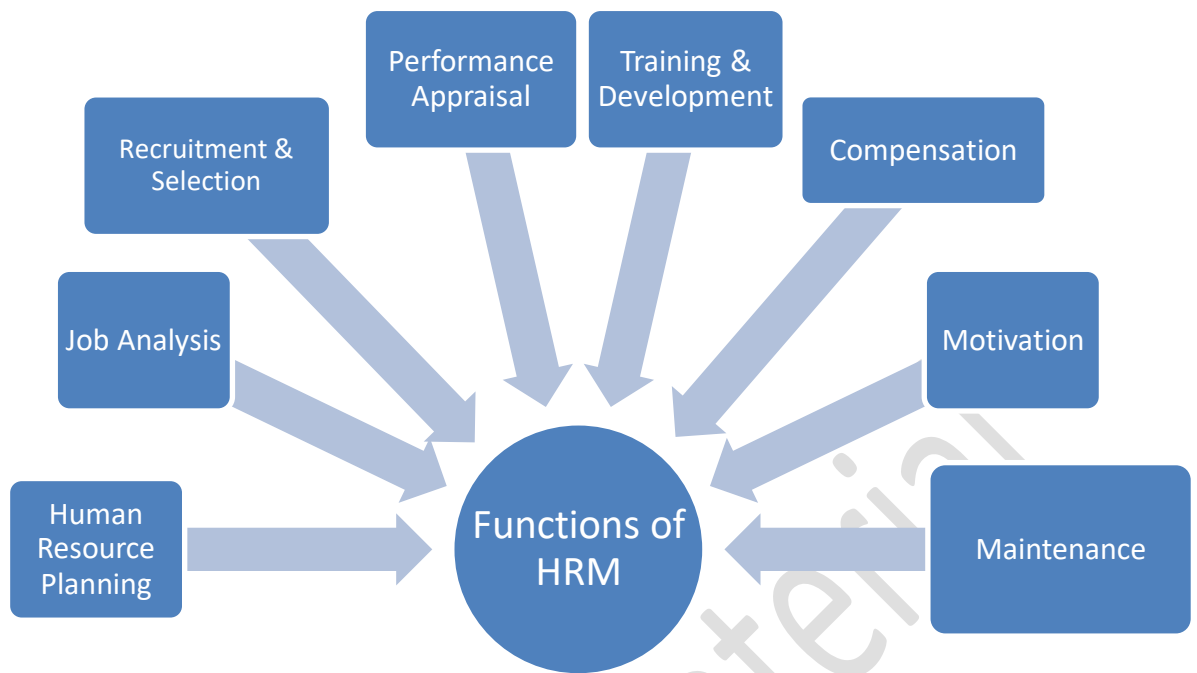
### Functions of Human Resource Management

In a business enterprise, the human resource management is performed by either the owner himself or human resource manager depending on the size of the business. The following functions come under human resource management: -

1. **Human Resource Planning:** This task entails estimating the current and future manpower requirements of the business. The process depends on projected sales of the business, number of people leaving the organisation, technological changes, etc.
2. **Job Analysis:** A job analysis is a detailed process whereby information regarding duties, responsibilities, skills and work environment for a particular job is collected. This helps in making job descriptions.
3. **Recruitment and Selection:** Recruitment means searching for people to work for the business enterprise. Selection implies choosing the suitable candidates with right skills for a job.
4. **Performance Appraisal:** It is the task of assessing or rating individual performance and abilities of the workers. This helps in identifying the potential in employees for their further development.
5. **Training & Development:** Training is a process of imparting knowledge and skills in an employee for making him perform a job. On the other hand, development brings about the activities which facilitate growth of employees in all respects.
6. **Compensation Management:** The business enterprise should make sure that fair and equitable compensation is paid to the employees. This is one of the crucial functions as it is responsible for productivity and motivation of employees.
7. **Motivation:** The employees of the organisation should be adequately motivated for the achieving their own goals along with the business enterprise's goals. The business should have a system of financial and non-financial rewards for motivating the employees.
8. **Maintenance:** This aspect is related to protecting and promoting the physical and mental health of employees. This includes designing of health, safety and welfare measures for the employees.

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**Fig 7.8: Functions of Human Resource Management**

### Information Technology

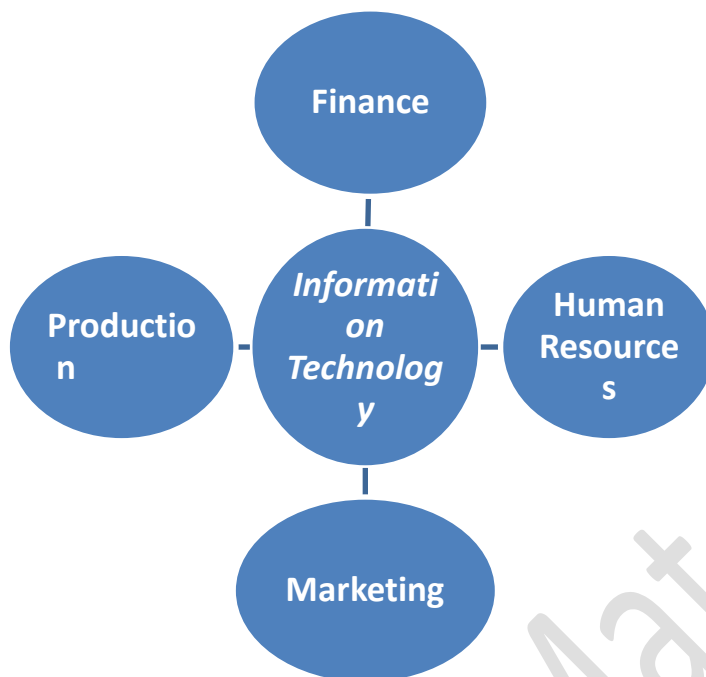
Information Technology in common parlance is known as IT. It consists of all types of technology used to exchange, store, use or create information. IT has become essential and integral part of any business. In the age of globalisation to survive in the stiff competition and growth of the business, IT has become imperative.

#### Objectives of Information Technology:

- IT enables information exchange amongst different stakeholders of the business.
- IT helps in improving business processes.
- IT helps in enhancing customer service.
- IT helps in boosting business efficiency.
- IT facilitates improvement in business productivity.
- IT drives competitive advantage.

Information technology performs various functions across all the business processes which can be discussed as follows:





**Fig 7.9: Functions of Information Technology**

### **IT in Production**

Technological advances play a vital role in improving productivity by introducing new techniques. Technology is used to maximise product quality and decrease production costs. For e.g. Inventory management systems provide an automated track of quantity required when it falls below a predetermined level.

### **IT in Finance**

IT helps a lot to the people in finance department. It helps in various activities like keeping automated recordkeeping, financial forecasting and budgeting. For e.g. Enterprise Resource Planning software in Finance helps in gathering financial data and generating reports.

### **IT in Marketing**

Technology has proliferated in the different tasks of marketing including market research, customer relationship management, etc. Business owners can use online search engines to

## Unit 7 – Functional Areas of Management

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research about consumer buying trends and identify profitable marketing opportunities. Information technology also helps in selling the products on online platforms. Businesses are using IT to improve the way they design and manage customer relationships for managing consumer interactions including order placing to after sale services.

### IT in Human Resource

Human resource management employs information technology for recruitment, payroll, training and development of its employees. Nowadays, Human resource information system is extensively used by business houses for collecting, storing, maintaining and retrieving the data on its human resources and personnel activities.

#### Summary:

- Business Management is integrated by various processes namely Production, Finance, Human resources, Marketing and Information Technology.
- Production management concerned with converting inputs to outputs.
- Financial management involves raising funds for business and putting them into right places to create profits.
- Human resource management function includes recruitment of people at the business and maintaining relations thereof.
- Marketing management includes all the activities related to buying and selling of product or service.
- Information Technology helps in information exchange and automation of processes of the business.

Keywords: -Business, Management, Production, Finance, Human Resources, Marketing, IT

### Self-Test Questions

#### I. Choose the correct answer:

1. .... is the life blood of business.  
a) Finance   b) Goods   c) People   d) Owner
2. .... function is responsible for converting inputs to outputs.  
a) Marketing   b) Selling   c) Production   d) Finance
3. Information Technology enables..... exchange.

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- a) People b) Market c) Information d) Automatic
4. .... estimates the current and future manpower requirements of the business.
- a) Market Planning b) Human Resource Planning c) Budgeting d) Financial Analysis

### II. Fill in the blanks:

1. Technology helps in improving ..... quality.
2. .... is a detailed process whereby information regarding duties, responsibilities, skills and work environment for a particular job is collected.
3. .... is the task of assigning value of a product or service which is expressed in terms of money.
4. .... refers to the physical arrangement of equipment and facilities within a plant

### III. True or False

1. The business should ensure fair and adequate compensation to all the employees.
2. IT does not improve competitive advantage.
3. Finance function raises money for the business.
4. Owner's capital is long term source of capital.

### IV. Answer the following briefly:

1. What is Job Analysis?
2. Why marketing is a relationship management function?
3. Why finance is called the life blood of a business?
4. How can IT help in marketing for a business?

### V. Answer in detail:

1. What is the significance of Human resource management in business?

### VI. Activity

1. Visit a factory or an office outlet near your locality. List down the processes of the business visited.

## Unit-8 Organisational Behaviour

Duration:			
<b>Session 1: Meaning and Significance of Organisational Behaviour</b>			
Learning Outcome	Knowledge Evaluation	Performance Evaluation	Teaching & Training Method
Meaning and features of organisational behaviour	Definition of Organisational behaviour, Characteristics of Organisational behaviour, Importance of Organisational behaviour Limitations of Organisational behaviour	What is the nature of organisational behaviour? What is the relevance of studying organisational behaviour? What could be the limitations of organisational behaviour?	Interactive Lecture
<b>Session 2: Levels and Challenges of Organisational behaviour</b>			
Different levels of organisational behaviour, challenges faced by managers in organisational behaviour	Levels of Organisational behaviour – Individual, Group and Organisation, Challenges in Organisational Behaviour	What are the different levels of analysis of Organisational behaviour? What are the challenges faced by managers in organisational behaviour?	Interactive Lecture
<b>Session 3: Models of Organisational Behaviour and Group</b>			
Models of Organisational behaviour. Introduction to Group and its features	Models of Organisational behaviour-Autocratic, Custodial, Supportive and Collegial Meaning, definition and features of Group	What are the different models of Organisational behaviour? What are the characteristics of group?	Interactive Lecture
<b>Session 4: Types of Groups and Group Dynamics</b>			
Types of Groups, Introduction to Group Dynamics, Group formation	Classification of Groups; Meaning & Definition of Group dynamics, Reasons of Group formation	What are the different types of groups? Why do groups form in an organisation?	Interactive Literature
<b>Session 5: Informal Groups</b>			
Importance of Informal Groups, Utilisation of Informal Groups	Merits and demerits of Informal Groups, Dealing with Informal Groups	What are the advantages and disadvantages of informal group?	Interactive Literature

In this unit we will learn about:

- What is organisational behaviour?
- What is the importance of organisational behaviour?
- What are the characteristics of organisational behaviour?
- How do groups form in an organisation?
- What do group dynamics mean?

### Introduction

Organisational behaviour (OB) is the study of human behaviour in organisations. It attempts to comprehend and predict behaviour in organisations. It focuses on the individuals and the groups and interactions between them in the organisation. It takes into consideration the environment in which the people have to work.

It is a **behavioural science** which deals with what people do in the organisations and how their behaviour affects the performance of the organisation. It is called behavioural science as it uses scientific methods to develop and evaluate how and why people behave in a specific way in organisations. This is due to the reason that same people don't always behave in the same way in different situations. Thus, managers need to understand the factors affecting human behaviour and accordingly act for various aspects related to employees like motivation, leadership, communication, conflict management, perception, learning, etc.

### Definition of Organisational Behaviour

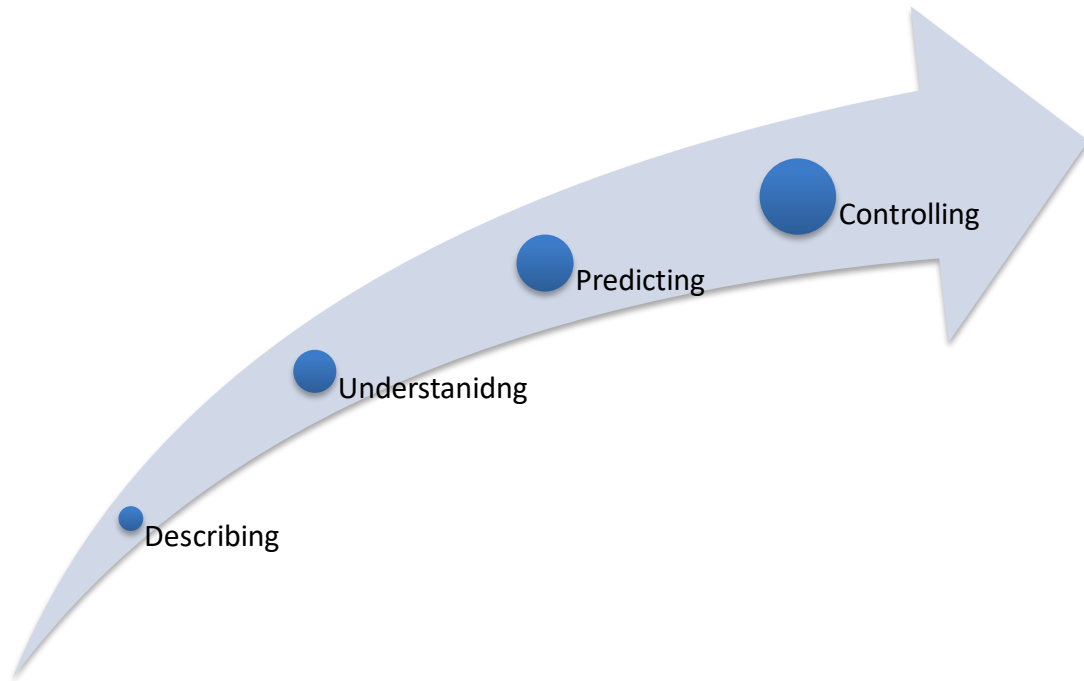
According to Cook and Hunsaker, "Organisational behaviour refers to the behaviour of individuals and groups within organisations and the interaction between organisational members and their external environments."

According to J.W. Newstrom, "Organisational behaviour is the systematic study and careful application of knowledge about how people- as individuals and as groups –act within organisations."

From the above definitions, we gather that organisational behaviour facilitates in improving managerial effectiveness by following ways:-

- **Describing behaviour:** Managers can describe how people behave in different conditions.

- **Understanding behaviour:** They understand why people behave differently in different situations.
- **Predicting behaviour:** Managers try to predict the future behaviour of employees.
- **Controlling behaviour:** They control the human behaviour at work through team effort, skill development, etc.



**Fig 1: Uses of Organisational behaviour**

### Characteristics of Organisational behaviour

The important characteristics of organisational behaviour are:

- Separate field of study:** It is a distinct field of study that centres its attention on human side of the organisation. This theory is based on various researches dealing with the people at work. It also emphasises that job conditions are not responsible for employees' behaviour but interpersonal relationships also play an important role.
- Part of Management:** Organisational behaviour is a crucial part of management dealing with the human aspect of the organisation. Since human behaviour is assuming an important role in organizations, it becomes imperative to study organisational behaviour as a separate field of study.

## Unit-8 Organisational Behaviour

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- iii. **Level of analysis:** The study of organisational behaviour analyses the behaviour at three levels- individual behaviour, group behaviour and behaviour of the organisations itself.
- iv. **A Science as well as an Art:** Organisational behaviour is a science as well as an art. The systematic knowledge about human behaviour is a science and the application of behavioural knowledge and skills is an art.
- v. **Interdisciplinary approach:** Organisational behaviour is draws rich knowledge from several other social sciences like psychology, sociology and anthropology.
- vi. **Rational Thinking:** The main objective of organisational behaviour is to describe and predict human behaviour in organisations which result in creating positive situations.
- vii. **Useful to both Organisation and Individuals:** The study of organisational behaviour creates an optimistic atmosphere whereby both the organisation and individuals help each other in achieving organisational objectives.



**Fig 2: Characteristics of Organisational behaviour**

### Importance of Organisational Behaviour

The objective of organisational behaviour is to aid in **understanding, explaining and predicting** human behaviour so that the organisational objectives are met by satisfying the employees.

## Unit-8 Organisational Behaviour

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The significant goals of organisational are explained below:-

- a. Understanding human behaviour:** OB helps in analysis of human behaviour at individual, group and organisational level. It helps in rational thinking amongst the employees of organisation if the understanding of the human behaviour is done without any biases.
- b. Predicting human behaviour:** OB provides necessary knowledge for predicting the behaviour of individuals by managers. The knowledge comes in the form of theories and researches which help the managers to anticipate the effects of certain actions and hence act accordingly.
- c. Creating an effective Organisational Climate:** Understanding of OB helps in creating an effective organisational climate. An organizational climate is a set of properties of the work environment perceived by the employees to be influencing employee behaviour. Satisfactory working conditions, sufficient compensation and better equipments for the job are necessary for creating effective organisational climate.
- d. Training the Managers:** OB has been recognised as a field of study which is taught formally in the educational curriculum. The managers can be trained by giving knowledge on OB concepts, approaches and techniques.
- e. Management of change in the organisation:** Introduction of changes in the organisation due to change in technological, social, political environment may be resisted by the employees. This can be managed well if the managers and the subordinates have sound understanding of organisational behaviour.
- f. Better communication:** OB helps in improving the communication in the organisation. This can be done by analysis of the factors which affect the communication and hence working on the same.

### Limitations of Organisational Behaviour

- ✓ Organizational behaviour cannot abolish conflict and frustration but can only reduce them. It is a way to improve but not an absolute answer to problems.
- ✓ The law of diminishing returns also operates in the case of organizational behaviour. It states, that at some point increase of a desirable practice produce declining returns and sometimes, negative returns. The concept implies that for any situation there is an optimum amount of a desirable practice. When that point is exceeded, there is a decline in returns. For example, too much security may lead to less employee initiative and growth.



- ✓ A significant concern about organizational behaviour is that its knowledge and techniques could be used to manipulate people without regard for human welfare.

### **Levels of Analysis of OB**

Organisational behaviour tends to focus on three levels of the organisation- individual, group and organisation. These levels are interdependent and understanding of behaviour at all these levels is pertinent for the managers.

#### **1. Individual Level**

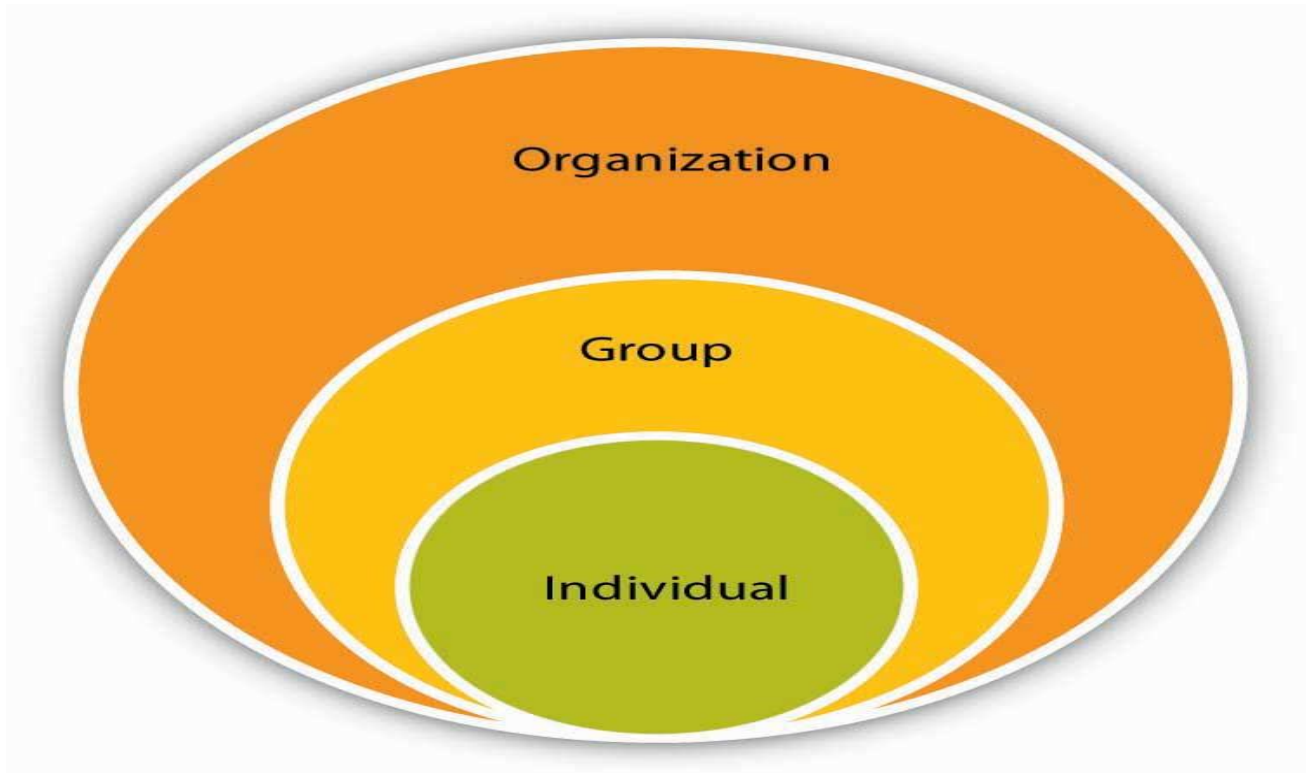
The study of behaviour at individual level is called as micro organisational behaviour. It is important to understand the human behaviour at the individual level as the individual members are the ones who are affected by the internal and the external environment. The factors affecting the human behaviour are personality, attitudes, perception, learning, motivation, etc and organisational behaviour takes into account these factors to understand human behaviour.

#### **2. Group Level**

The study of behaviour at the group level is known as meso organisational behaviour. Group formation is common in the organisation which are generally made due to cooperation or competition. Besides this, various factors affect behaviour of groups such as leadership, group goals, communication, etc. The managers should understand the group dynamics to reduce conflicts to improve morale and productivity.

#### **3. Organisational Level**

The study of behaviour at the organisational level is referred as macro organisational behaviour. This level encompasses a thorough analysis of an organization's culture, values, inter-organizational conflicts and environmental variables.



**Fig 3: Levels of Organisational behaviour**

### **Challenges in Organisational Behaviour**

Continual changes in the social, political, economic and technological environment bring about the lots of challenges which the managers have to face while adjusting their workforce with the changes. These challenges are as follows:

#### **1. Managing Globalisation**

Globalisation is a process of increasing the connectivity and interdependence of the world's markets and businesses. To remain competitive in the markets, the organisations have to adjust with the changes which come with globalisation. The major challenges with the adjustment of employees with the process of globalisation are unfamiliar laws, language barriers, changed management styles, foreign work ethics.

#### **2. Managing Technology**

The present business scenario is highly dependent on the information technology which has paved the way for business growth. All the important tasks from recruiting people to selling goods have been made possible using information technology. Besides this, the change in the technology is very swift that the employees need to be constantly prepared for the change by updating their skills, knowledge and also the attitudes towards learning the new technology.

### **3. Managing innovation and change**

It is said that change is constant but that doesn't make it easy. Nowadays, the organisations to survive in the fierce competitive environment need to transform their practices on a regular basis. The key to this change is only possible through the human resources. The managers are faced with the challenge of stimulating employee creativity along with preparing the members for the change.

### **4. Managing workforce diversity**

The managers are currently facing the challenge of managing the diverse workforce. This diversity is observed in terms of male and female workers, young and old workers, educated and uneducated workers, skilled and unskilled employees, local and foreign workers, etc. Thus, the challenge for the management is to address the aspirations and demands of the employees considering the non-uniformity in the workforce.

### **5. Improving quality and productivity**

Customer satisfaction is the crucial goal of the business enterprises which only depends if they are offering quality products and services in the markets. This is due to the reason that the consumer knowledge on the parameters namely price and quality of the products available either in local markets or foreign markets have increased. That's why the companies have started restructuring and redesigning the business processes and involving their workforce. The main aim of the processes is to improve quality and productivity.

### **6. Empowering workforce**

Empowering refers to providing the employees a certain degree of autonomy and responsibility for decision making regarding their tasks. This depends on the keenness of the managers to provide such freedom as well as the skills of the employees to make decisions on their own. Such a choice can be accomplished by developing understanding between the managers and the subordinates; giving respect to each other and providing adequate resources in form of training, authority, money, knowledge, etc.

### **7. Improving Ethical behaviour**

The employees at an organisation are faced with the challenge of defining the ethical behaviour at the workplace. The problem is that there is no clarity on ethical practices expected by people of the business enterprises. Managers must develop code of ethics to guide employees through ethical dilemmas. Along with this, activities like organizing seminars, workshops, training programs will help improve ethical behaviour of employees.

### **8. Ensuring work life balance**

## Unit-8 Organisational Behaviour

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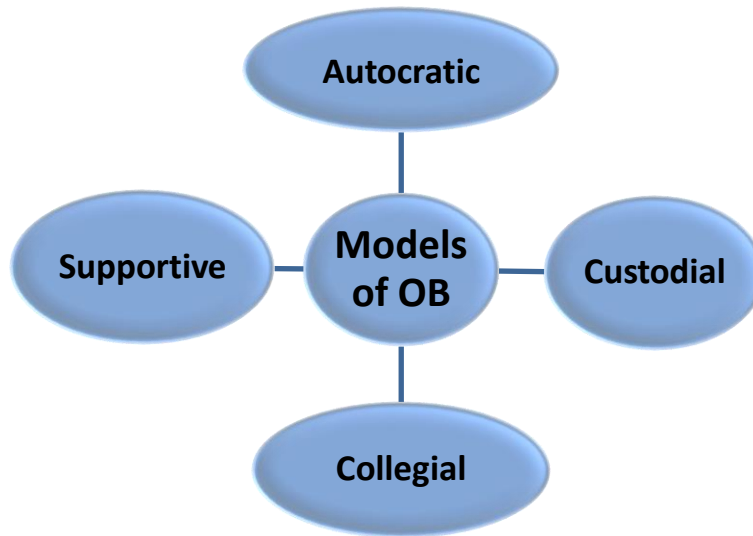
These days the employees strive for work life balance in a job. Companies can implement specific work-life practices within their organization to increase morale, productivity and profits.



**Fig 4: Challenges in Organisational behaviour**

### Models of organisational behaviour

The human interactions in an organisation depend on various factors and to understand the same, four models of organisational behaviour have been identified which are shown in the fig. 5. These models are based on certain assumptions.



**Fig 5: Models of Organisational Behaviour**

### **1. Autocratic Model**

The autocratic model is dependent on power of the boss and the employee orientation is also obedience to the boss. This model is ideal for situations where the workers are lazy and work shirkers. It is generally an authority oriented model. This model is not applicable in real sense as the workers are more educated and organised now.

### **2. Custodial Model**

The custodial model revolves around the concept of providing economic security to improve employer-employee relations. Here, the employer emphasises on security needs to motivate the employees. Hereby, the employees look upon the organisation for their welfare and development needs instead of their boss. It is observed that the employees offer passive cooperation as they are not strongly motivated.

### **3. Supportive Model**

The supportive model is an improvement over the earlier two models. In this model, instead of money or power, preference is given to leadership. The managers try to create a favourable atmosphere in the organisation so that workers take responsibility and make contributions. The assumption is that the employees are not lazy but can be self-directed if motivated.

### **4. Collegial Model**

The collegial model is an extension of the supportive model. This model takes into account that workers are partners in the organisation. There is a respect for each other between the workers and the management. It has been observed that the workers have job satisfaction, job

commitment and job involvement in case of custodial model. The model is aimed at infusing team spirit in the organisation.

### Group Dynamics

A group can be defined as several individuals who come together to accomplish a specific task or goal. Group dynamics refers to the attitudinal and behavioural characteristics of a group. Group dynamics are concerned with how groups form, their structure and process, and how they function. In an organizational situation, groups are a very common organizational entity and the study of groups and group dynamics is a significant area of study in organizational behaviour.

### Definition of Group

According to Edgar Schein, “A group is any number of people who interact with one another, are psychologically aware of one another, and perceive themselves to be a group.”



**Fig 6: Group in an Organisation**

### Features of a Group

A group has got following features:

#### **1. *Interaction between Members***

The members of a group must interact with each other. Each group member tends to influence the group in some or the other way and get influenced by others.

#### **2. *Norms***

Every group has a set of norms. A norm is defined as a code of conduct about what is acceptable behaviour. They may apply to everyone in the group or to certain members only. Some norms will be strictly adhered to while others permit a wide range of behaviour.

### 3. *Cohesiveness*

Cohesiveness is a measure of the attraction of the group to its members, the sense of team spirit, and the willingness of its members to coordinate their efforts. The members of a social group develop a sense of "we" feeling among them.

### 4. *Communication*

It is through communication that members of a group learn to understand one another and to influence, or be influenced by, each other.

### 5. *Awareness*

The people in a group should be aware of each other and must relate to each other in some way or other. The relationship between the group members is based on common areas of interest, goals and activities, etc.

### 6. *Common Objectives*

The group formation is directly based upon common objectives or purpose. Achieving the common goals of the group is the duty of each of the members.

## Types of Groups in an Organisation

Groups can be classified in the following ways:

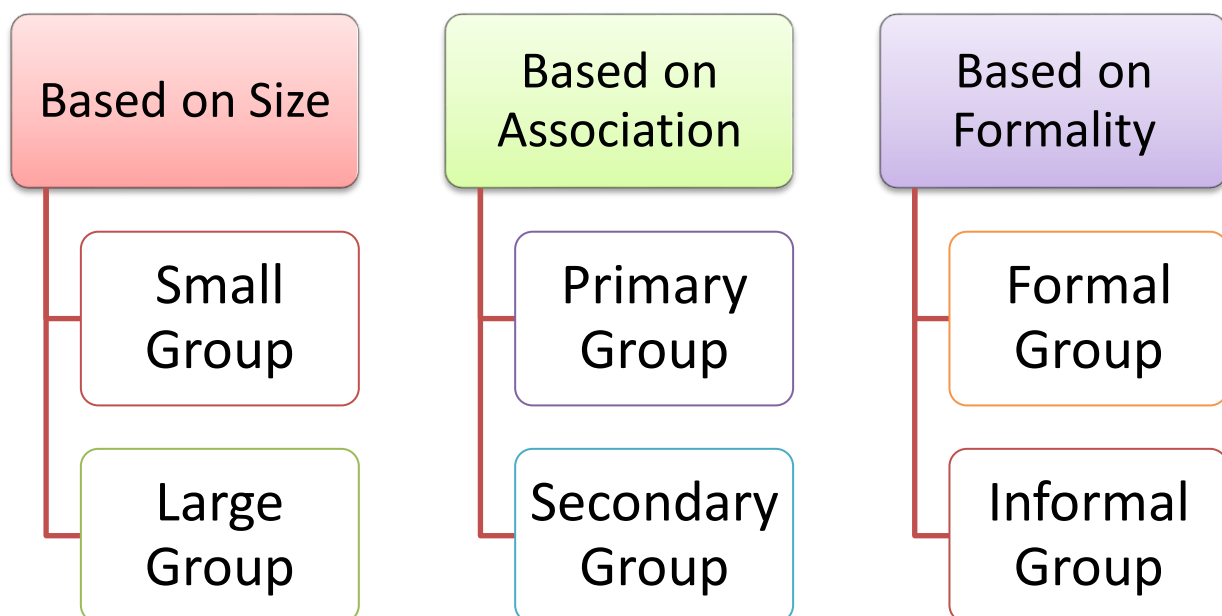


Fig 7: Types of Groups

### **1. Based upon Size**

The groups in an organisation are made on the basis of number of people in the group. Such groups are divided as small and large groups and they possess differential characteristics.

#### **1.1.Small Group**

Small group is closely and neatly packed set of few members. The people in the group can have face-to-face communication, interpersonal relations and interdependence. The smaller the group, the greater is the possibility of close relationships.

#### **1.2.Large Group**

On the other hand, a large group is a set of few small groups. Larger groups are effective when it requires the combining of individual efforts as in brainstorming. Examples of large group are society, nation, etc.

### **2. Based upon Association**

The groups are also formed on the basis of association. They are of two types divided as follows:

#### **2.1.Primary group**

A primary group is made up of a small group of people who interact regularly or those have got a close association. A small team with a leader is an example of a primary group. E.g. Family is an example of primary group. Within the primary group, values, beliefs and culture are all very important. There exists a shared sense of identity, goals and interests.

#### **2.2. Secondary group**

When many people get together (who do not normally get together) to form a group, it is called a secondary group. Secondary group members do not get the opportunity to get to know each other as well as primary group members because the interaction with each other is less than in a primary group. It is made on the basis of formal and contractual relationships.

### **3. Based upon Formality**

Generally in an organisation, two type of group emerge on the basis of formality namely formal group and informal group. These are discussed below.

#### **3.1.Formal Group**



A formal group is created within an organisation to complete a specific role or task. It is created deliberately by the management. It is formulated by the management by selecting people according to their capabilities in order to assign them their roles and tasks.

### ***3.2. Informal Group***

The informal groups surface in an organisation spontaneously owing to personal, social and natural instincts among the members. They are not governed by formal authority or relationship. An informal group stems from human interaction in the formal organisation on the basis of common interests, needs and values.

### **Meaning and Definition of Group Dynamics**

Group dynamics are concerned with the formation of groups, their structure and processes and the way they affect individual members, other groups and the organisation.

The term group dynamics was coined by Kurt Lewin to explain the way the groups and individuals act and react to changing situations.

According to Keith Davis, “The social process by which people interact face-to-face in small groups is called group dynamics.”

The study of group dynamics is of relevance so as to understand the working of the groups and understanding the ways of better utilisation of the groups for achieving organisational objectives.

Basic assumptions behind studying group dynamics are:

1. Group formation is unavoidable.
2. Groups tend to exercise significant impact on the behaviour and performance of its members.
3. Group formation can lead to both good and bad results for the organisation.
4. To facilitate organisational objective accomplishment, it is necessary that the management should have knowledge on group dynamics.

### **Reasons for formation of Groups**

The reasons for formation of groups in an organisation are explained as follows:

1. **Companionship:** Man is a social animal. There is a need for relationship with other people is one of the constant human drives. Becoming a part of an informal group allow him to gratify his needs of social needs on the job.
2. **Sense of Identification:** It has been observed that workers get more identified when they are members of a small and a distinct group. Researches prove that morale of such groups is high. In the recent scenario, the organisations encourage such formation of groups. Examples of small groups in the organisations are cultural societies, literary societies, sports club.
3. **Security:** By becoming a part of a group, an employee can reduce the insecurity of being alone. Groups also enable protection of the members from outside pressures like resistance to management expectations in form of working for long hours or increasing the output.
4. **Goal Achievement:** It is easy to complete tasks and goals in a group as same type of problems can be solved within the group members.
5. **Breaking Monotony:** A group helps in reducing the mental fatigue faced by the workers who are performing standardized jobs. This is possible by taking a break and having frequent interactions with each other at the work place.
6. **Vent for frustration:** The social and informal groups in an organisation provide an outlet for frustration for the employees. There are times when the workers are stressed due to family problems or work problems or sometimes simultaneously both. He can relieve the stress by discussing these issues with group members.
7. **Innovation and Creativity:** A group provides breeding ground to new ideas. Members of the group can try-out new ideas and find alternate methods of working. They also seek for agreement for their new ideas from the other members of the group.
8. **Source of information:** Informal group is a source of information to its members as the information communication generally is referred as very fast.



**Fig 8: Reasons for Group formation in an Organisation**

### **Benefits of Informal Groups to an Organisation**

Informal groups are important as they provide support to the management in following functions:

1. **Support to the formal structure:** Existence of informal groups provide human dimension to the organisational structure which is emotionless and hierarchical.
2. **Filling up the Gaps in Managers' Abilities:** An open-minded group can fill in the gaps in the managers' abilities. The members of the group can make for the abilities and skills the manager lacks in.
3. **Fast communication:** Communication in informal group is comparatively fast as it is free from barriers of status and position. Management can use this as for its benefit for speedy communication.
4. **Better relations and Coordination:** Managers can make better relations with the subordinates through informal contacts. They can seek their cooperation in getting work done from the workers.
5. **Solving work problems:** An informal group allows members to solve their work problems with the help of other members by sharing knowledge and experience.
6. **Social Functions:** Informal groups satisfy social needs of members such as security, sense of belonging, friendship, etc. They provide a place to express their feelings.

7. **Norms of behaviour:** Informal groups develop some norms of behaviour. These norms help in make a distinction good and bad conduct and between legitimate and illegitimate activities. This ensures discipline among the employees of the organisation.

### Demerits of Informal Groups

1. **Resistance to change:** Informal groups tend to resist changes which they think are a threat to their culture and structure. This kind of behaviour results may have negative effect on the organisational growth prospects.
2. **Restriction of output:** Sometimes informal groups may pressurise their members to limit their output or performance. This can cause mismatch between the organisational goals and the group goals.
3. **Role conflict:** Each of the members of an informal group is also a part of formal group. There could be a role conflict when the expectation of the informal group are opposite to the expectation of the formal organisation as per the behaviour of a group member is concerned. There are chances when the group member may conform to the social norms.
4. **Rumour:** Informal communication is responsible for carrying inaccurate, incomplete and distorted information called rumours. Rumours develop when the employees are not fully informed on the matters which may affect them. The other causes of rumours are anxiety, insecurity and the intention to put pressure on the management.
5. **Politics by Informal Leaders:** Power politics is generally done by the informal leaders in order to dominate the management and to undermine the structure, values and goals of the organisation.
6. **Social costs:** Although, informal groups provide a platform for sharing problems and venting out frustration. But after a certain point of time, informal groups become a place for joke sharing and gossiping which results in higher operating costs to the organisation.

Merits of Informal Groups	Demerits of Informal Groups
<ul style="list-style-type: none"><li>• Support to Formal Structure</li><li>• Filling up the Gaps in Managers' Abilities</li><li>• Fast communication</li><li>• Better Relations and Coordination</li><li>• Solving Work problems</li><li>• Social Functions</li><li>• Norms of Behavior</li></ul>	<ul style="list-style-type: none"><li>• Resistance to Change</li><li>• Restriction of Output</li><li>• Role conflict</li><li>• Rumour</li><li>• Politics of Informal Leaders</li><li>• Social Costs</li></ul>

**Fig 9: Merits and Demerits of Informal Groups**

### Dealing with Informal Groups

Informal groups are unavoidable part of the organisations and cannot be dissolved. Hence, the managers should make best use of the informal groups for meeting the organisational objectives. The effective use of the informal groups can be done in the following ways:

- 1. Positive Attitude towards Informal Groups:** The organisations should provide support and positive attitude with the aim of growth and development of these groups. These groups should be provided their due recognition.
- 2. Rapport with Informal Leaders:** The managers should maintain healthy relations with the informal leaders as they are the liaisons between the workers and the management. A manager can seek the advice in the areas of technical matters as well as human relations.
- 3. Involvement of Groups:** The management should try its level best to include the informal groups in important activities like decision making so that they feel recognised in the organisation. The management should be receptive of their ideas and suggestions.

4. ***Use of Informal Communication:*** Informal communication is also of immense help to the management as the manager can use informal contacts to encourage, guide and counsel the workers.
5. ***Developing common areas of interest:*** The managers should attempt for finding and developing common areas of interests and tasks which are in the large interest of organisations. For instance, while introducing any kind of change the informal leaders should be informed and taken into confidence.

### Summary

Organisational behaviour is a systematic study of behaviour of people in an organisation and how it affects the performance.

OB facilitates understanding, describing, predicting and controlling human behaviour.

OB helps in creating an effective climate in the organisation.

OB is studied at individual, group and organisation level.

The models of OB are Autocratic, custodial, supportive and collegial.

A group is formed of several individuals who come together to accomplish a specific task or goal.

Group dynamics are concerned with how groups form, their structure and process, and how they function.

Informal Groups are formed owing to the need of companionship, sense of identification, security, breaking monotony, etc.

Informal Groups are beneficial to the organisation as they provide support to the formal structure, help in speedy communication and improving relations resulting into coordination.

Informal group can be detrimental if issues like resistance to change, role conflict and rumour emerge.

## Unit-8 Organisational Behaviour

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Keywords: - Organisational behaviour, Group Dynamics, Formal groups, Informal Groups

### Self-Test Questions

#### I. Choose the correct answer:

1. A study of human behaviour in organisational settings is called:  
a) Organisational behaviour b) Group behaviour c) Individual behaviour d) None of these
2. ....is a measure of the attraction of the group to its members.  
a) Association b) Cohesiveness c) Norm d) None of these
3. A study of the culture and practises in different societies is called  
a) Personality b) Anthropology c) Perception d) Attitudes
4. Which of the following is not an influence on behaviour in work organisations?  
a) Individual b) Building c) Group d) Environment e) None of the above

#### II. Fill in the blanks:

1. Organisational behaviour related to individual behaviour is called.....
2. The autocratic model is dependent on.....of the boss.
3. ....is the attractiveness of the members towards the group or resistance to leave it
4. ....is a situation in which an individual is confronted by contradictory role expectations.

#### III. True or False

1. Beliefs, attitudes, traditions and expectations which are shared by group members is called group norms.
2. An interdisciplinary field, dedicated to the study of how individuals and groups tend to act in organizations, is called psychology.
3. Collegial Model of organisational behaviour is based on economic resources.
4. Formation of informal groups is always beneficial for the organisation.

#### IV. Answer the following briefly:

1. What are the characteristics of organisational behaviour?
2. What is the difference between formal and informal groups?
3. What are the features of organisational behaviour?
4. How should the management deal with the informal groups?

**V. Answer in detail:**

What are the merits and demerits of informal groups for the organisation?

**VI. Activity**

1. Visit a business enterprise in your area. Observe the organisational behaviour in terms of group formation. Note down the difference between the formal and informal groups existing in the organisation. Take a view from the management how do they deal with the informal groups.