

Business Studies

CLASS- 12



**BOARD OF SECONDARY EDUCATION, RAJASTHAN
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Business Studies

Class - XII

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PREFACE

This book is designed to provide a comprehensive introduction of *Business Studies*. It is primarily a student oriented text book, as it satisfies the requirements of students for knowledge and examination.

The topics have been presented in a simple, concise and interesting style. Every attempt has been made to maintain easy readability and quick comprehension. Each chapter closes with a summary of important points that students should retain. The book included few case studies as introduction of new learning pedagogy, which will be a compulsory part of curriculum in higher studies of business management courses, such as masters and MBA.

Writers have understood the importance of adding new material and made coverage of emerging new topics, such as GST, CSR, Business Law and Contract Act, etc.

The book represents a synthesis of theory and practice of management approach. We hope the book will provide a solid foundation of knowledge.

We enthusiastically invite your feedback on this book. Please feel free to send it. Wish you all the best for your bright career and happy life.

Convener and Authors

SYLLABUS

Business Studies

Class-XII

Time- 3.15 hours

Max.Marks- 100

S.No.	Areas / Scope	Marks
1.	Theory	56
2.	Practice	08
3.	Case Study	16
4.	Sessional Evaluation	20

S.No.	Content	Preiod	Marks
1.	Management - Meaning, Definition, Nature - Functional Areas, Process - Principles, Managerial Roles - Emerging Trends : MBO, MBE Strategic management, Stress management	60	16
2.	Motivation and Leadership - Meaning, Definition, Needs, Techniques Theerics - Maslow Herzbery, xyz Leadership - Meaning, Definition, Traits, Styles	30	8
3.	Advertisement : Meaning, Definition, Objectives, Means, Merit, Danerits, Importance, Marketing Management - Meaning, Definition, Process, Importance Sales Promotion - Introduction, Importance, Types, Methods	30	8

4.	Business Law : Introduction, Scope, Terminology, Legal Provisions Contract Act - Legal Provisions	60	16
5.	Entrepreneurship - Introduction, Nature, Importance, Barriers Entrepreneur - Traits, Types, Women & Rural Entrepreneur, EDP - Government Efforts	30	8
6.	Insurance - Introduction, Scope, Types Objectives, Functions, Need, Importance, Social Security, Insurance Agent & Functions	30	8
7.	Corporate Social Responsibility CSR - Introduction, Legal Provisions Importance	30	8
8.	GST - Introduction	30	8

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CHAPTER 1

Management: Introduction, Nature, Significance & Scope

The connection of two or more than two is called bond, as if two atoms are bound to form an apparatus. A prefix of Sanskrit ('Pra' 'प्र') preceded by the bond ('Bandh' 'बंध') turn it into management (प्रबंध).

Two or more people comprise groups or organizations. This bond has created the family and society. Civilization and culture are created with the technique of the nurturing of family life, ways of living in the society and the nature of the process of using raw materials. Person, family, society or organization uses resources to fulfil their needs, but in order to use these resources efficiently the application of knowledge & science, philosophy & skill (art, experience, and tactics) are considered as a management or management study. Therefore, the inevitability of fundamental management is linked to the emergence and development of human civilization.

The first developed urban civilization of the human civilization all over the world is considered to be the civilization of the **Indus valley of the Indian subcontinent (Indus Valley)**, which is currently known as Mohanjodaro, Kalibanga and Harappa civilization cultures of its cities. According to recently concluded research study of Indian Institute of Technology (IIT) Kharagpur and Indian Archaeology Department and a research paper published in the world famous research magazine 'Nature' (May-2016) - this Indus Valley Civilization existed 8000 years ago, and may be even more ancient. From this research study and other available historical evidence, it is clear that the Indus Valley civilization is also 3000 years

older, even from the oldest known Egypt and Mesopotamian civilization. (In the civilization study of Egypt and Mesopotamia, the remains of the materials used in the Indus Valley Civilization have also been obtained.) It is a matter of self-pride for us that on the earth that we have born, was a developed civilization over 8000 years ago. *The Indian subcontinent is called the mother of civilization.*

Textiles were manufactured in the, 8000 years ago, developed Indus Valley Civilization, foodgrains storage in the big buildings of Mohanjodaro, use of carved bricks in the Kalibanga and the evidence of the oldest port are also found in 'Lothal'. Urban development was also superior in the Indus Valley Civilization. In the time of this civilization, trade was from neighbouring countries - i.e., 8000 years ago, the practice of management was also found. Establishment of huge foodgrains house, garment manufacturing, Lothal Port operations cannot be considered possible without Practicing management. On seeing the ancient Pyramid of Egypt, the oldest Hindu temple in Cambodia and many ancient heritages of the World, we are surprised at the details of their construction and use, which means that the use of management was done in the creation and development of ancient civilizations. Hence, the subject of 'management' is as ancient as the development of human civilization.

The resources used in different periods from the Stone Age, to till current information technology era such as material, machine, method,

money, man, market, have remained almost the same, Only the methods, techniques, process and ways of their application or use have been changing everyday based on research, experience and need.

Simplicity and convenience in life, prosperity and expansion in life has been the nature and purpose of human beings in every age. For its achievement, the human brain has been experimenting and researching the nature provided resources in various ways.

When deploying various resources, it is essential to keep in mind the goals in order to balance the responsibilities and boundaries. This skill requires special knowledge strategy. This requisite knowledge can be attained only through the learning process (teaching-training) management.

In each phase of development of the human civilization, the needs and goals of the society and organization have changed in the dynamic circumstances; accordingly the meaning of the management, work, theories, workplace, and importance has also been changing. Knowledge of management has also been developed gradually with the experiences and experiments, based on this, the concepts of management, theory, process, development and managerial techniques have evolved.

The goal of organized groups and resources is to achieve livelihood, to get the services of the living, to make profit, or can be anything else, for which they have to do some industrial work. The nature of the organization and workplace is influenced by the organization's goals and environment.

You can observe in your personal life that how many enterprises or organizations are working

in the world to fulfil all the needs and wishes of your life. Since we start our lifecycle from morning clock to toothpaste or all the other sources safety equipments needed from morning to night, are being provided by the business organizations, government and social organizations.

All the functions such as knowing, understanding, presenting your current and future needs, preparing products / services according to your budget, reaching out and arranging sales and then collecting their experiences from customers, these actions are possible due to the only element - management.

Request to the student and the teacher - Make a list of the goods and services being consumed by the students and you and your family, then write the name of the manufacturer, name of the marketer and service provider, and their address. The teacher can explain the most popular or most consumed products or services in the list, their manufacturers and marketers, the entire process of the manufacturing and marketing i.e. the factory, resources, manufacturing process, packaging and the process of operation of the entire business to make the product or services available to the market and customer and along with description and explanation the utility of management in the whole process. This company's story or description study is now practiced as a case study.

Management acquires resources such as man, capital, materials, machine-tools, production methods and market; create proper reconciliation between them in order to achieve predetermined objectives. Management is a very powerful and dynamic element that makes the economy of the country vibrant.

To change the condition and direction of individuals and families in our society; to provide healthy and high standard of living; to employ young educated people, to protect the nation and the only important elements that lead to economic and technological progress on the world scene is **"Effective Management and Efficient Manager."**

'Human' is the only living resource among the other resources used by the organization. All other resources - the capital, machines, methods and markets are non-living, which are used by humans only.

In order to understand the management, it is necessary to know the nature of these two classes (living and non-living), their utility and use. Human beings on this earth are the most complex creatures, whose nature and behaviour are completely impossible to understand. Human being is lazy by nature, and his behaviour changes every second, he cannot accomplish the task assigned by others (not able to do the same way) according to their expectations. Therefore, it is very challenging to work with the workers or employees and get the work done according to the predetermined standards. That is why the most prevalent definition of management is centered on the meaning that the **"Management is the art of getting work done form others."**

Competition and revolution in information technology in the globalized world has made the use of other resources more challenging. Presently, China's manufactured products are being sold all over the world due to the cheapest prices; thereby it is the most important challenge to minimize the production cost of products and services manufactured by the industries. Minimization or

control of production cost is not a magic, for this, resources have to be used efficiently by scientific methods. Therefore, the second prevailing meaning of management is centered upon **"Maximum production or profit with minimum effort and cost is called Management."**

There are also various different approaches and goals of using resources such as use of raw materials and capital economically, utilizing the available physical resources such as factory, building, machine, and human (operating the factory for 24 hours in 3 shifts), using latest techniques in production methods and creating new markets. Manager or management has different approach towards each and every resource. Not only that, manager has to perform various functions and activities in order to achieve the objective of **"Maximum Production at Minimum Cost and Efforts."** Therefore management is also known by the functions performed by the managers-" Management is the process of planning, organizing, staffing, directing, and controlling in order to achieve the predetermined objectives."

Management: Definitions:

Perhaps, the general meaning of management may have been understood from the above mentioned introductory description, because the use of management is universal and omnibus, therefore it has been defined with different approach and perspectives by many scholars. Some important definitions are as follows:

According to Mary Parker follet, "Managing is the art of getting work done through others."

Lawrence Appley has also given the definition. "Management is the accomplishment of results through the efforts of other people."

Harold Koontz has made certain changes in this definition and wrote - "The management is the art of getting things done through others and with formally organised groups."

In Kretiner's words, "management is the process of working with and through others to achieve organizational objectives in a changing environment. Central to this process is the effective and efficient use of limited resources".

In Glueck's words, "Management is the effective use of human and physical resources to achieve the objectives of the organization."

According to Taylor, the father of Scientific Management, "Management is the art of knowing what you want to do and then seeing that they do it in the best and the cheapest manner."

According to Stanley Vance, "Management is the process of deciding and controlling human actions with the aim of achieving pre-determined goals."

In Prof. Clough's words, "Management is the art and science of Decision-making and Leadership."

According to McFarland, "Management is the process by which managers create, direct, maintain and operate purposive organization through systematic, coordinated and cooperative human efforts."

According to Peterson and Plowman, "Management may be defined as the process by means of which the process and objectives of a particular human group are determined, clarified and effectuated."

In the words of George R. Terry "Management is a distinct process consisting of planning, organizing, actuating and controlling; utilizing in each both science and arts, and followed in order to accomplish pre-determined objective."

According to Wehrich and Koontz "Management is the process of designing and maintaining an environment in which individuals, working together in groups, efficiently accomplish selected aims."

Louise A. Allen's words, "Management is a group of systematic knowledge that is based on some principles of normalized management of the business profession."

Conclusion: On the above basis, it can be said that **“management is an art and science that is involved in overall activities from getting work done through others, minimizing the cost, and from planning and controlling to achieve the objectives of the organization with the help of humanitarian efforts.”**

Management : Features & Characteristics

Management is defined by scholars in various ways, after indepth analysis, the following features or characteristics of the management are described-

1. Managers get work done from other people and they themselves manage managerial work such as planning, organization, direction and control.
2. Managing work is not irrelevant and aimless. There are certain predetermined objectives of the management.
3. Managing work is easy to get done in a formal group. Groups of unorganized people are only crowded, which is difficult to manage.
4. Management is a human work. The management work is done by the best or special people of the society, such persons (managers) have specialized knowledge, experiences and cognition.
5. This is a very challenging task. It is able to

produce useful products or services using organized resources.

6. Managing is a creative task that contributes to the creation of maximum productivity by increasing the effectiveness and efficiency of these instruments.

7. Managing is a general principle. This theory has been developed, based on extensive research and wide experiences, by various academicians, thinkers and managers.

8. The manager should have the ability to lead.

9. The manager does whatever he does by decision-making. Sometimes, there has to be a decision either in relation to doing some work or regarding the avoidance of any work.

10. Managers can delegate some of their authorities to their subordinates for getting work done through others. Subordinate can further delegate some of their authorities to their subordinates. Therefore, every subordinate also becomes responsible for its assigned authorities. Consequently, the level of authorities and responsibilities at each level of the organization is created.

11. The management work is affected by the internal and external environment of the organization and at the same time affects it too. There are employees and resources employed in the internal environment, whereas in the external environment there is an economic, social, political and technological environment. This entire environment and management functions interact with each other strongly.

12. Management is the process of coordinating human efforts and physical resources of the organization. So that the objectives of the organization and the expectations of all sections related to it can be accomplished efficiently and

effectively.

13. The manager takes into account the effective productivity of its resources.

14. Management is Universal. It is the function taken in small, large, religious, political, military, social and business organizations.

15. Management is an invisible power. It cannot be seen and touched, but on the basis of results of its efforts, the presence of management can be felt. When all the work is done efficiently, the employees are satisfied, the organization has a cordial work environment, and then the presence of the management power is easily estimated. Sometimes the absence of invisible power of management is realized when the institution starts going towards failure. At such a time, the power of management can be acknowledged by saying that in the absence of it the organization can be flooded due to mismanagement.

Management: Objectives

Managing is a function and every function has its own objectives. In this way management also has some objectives. Since the management is a group of wide functions, therefore its objectives are also wide which can be divided mainly into four parts-

1. Primary Objectives
2. Secondary Objectives
3. Personal Objectives and
4. Social Objectives

1. Primary objectives- The primary objective of the management is to satisfy the aspirations of various stakeholders related to an organization, so that the organization can achieve its objectives for which it has been established. Therefore, the primary objective of the management-

- (A) To produce products and services at an

optimum cost.

(B) Distribution of products and services at reasonable prices, to provide full satisfaction to consumers.

(C) Organization need to give appropriate remuneration to all the resources, and

(D) The organization has to earn a suitable amount of profit.

2. Secondary Objectives- Secondary objectives are helpful in achieving primary objectives. Supporting objectives are related to the internal work system of an organization, so that efficiency can be achieved in work-performance. Under this, different resources of the organization are to be used in such a way so that the contribution of these resources can be maximized. These resources are in human financial and in physical form. The efficiency and contribution of resources depends on how well their quality is, how they are used and how these resources are coordinated with others. Therefore, the secondary objectives of management are:

(A) Generating quality in various resources.

(B) Use them at reasonable time and place.

(C) To bring together these resources in such a way so that all resources work in complementary form and result into effective functioning of the organization.

3. Personal Objectives - Personal objective of an organization is the satisfaction of human resources. As mentioned above, different resources are divided into human and other elements in an organization. Human resources are different from other resources because non-human resources are run by them. In any organization, human resources can be divided into three parts - entrepreneurs, managers and other employees. All sections have

different functions, responsibilities and aspirations. The aim of the management is to accomplish the aspirations of all these sections, and for that an environment and work system needed to be developed in the organization so that all individuals get satisfaction and can work with their full potential.

4. Social Objectives- The organization receives its resources from society, and converts some of them into products and services and again gives back to society. Every step of this process involves social objective. These objectives include the development and correct use of various resources of the society, fulfilment of the needs of each section of society, engagement in proper manner, presentation of good examples etc.

Management: Importance

The management was in the form of the development order of human civilization in some form, in which the humanity started working in an organized manner. Organized work cannot be achieved in any field be it economic, social, political or legal, without achieving its objectives of proper management. Similarly, whether there is any country or any economic system or any dispute, management is considered important equally. In this regard, the following statement of Urwick shows the importance of management - No theory; promise or political imagination can make maximum production achievable by using limited human and physical resources and with minimum efforts, it is only possible by effective management. On the basis of production, the level of high standard of living and more facilities can be laid. "

In the modern era, new techniques of management are being explored all over the world to make

different resources more efficient. Today the management has become the most important activity. Management was also essential in the ancient times and in today's environment it has become more important. There are two reasons- first, the nature of modern organizations has become quite wider than in the past; due to such changes, the complexities in implementation have increased a lot, which can be resolved only by effective management. Second, due to the globalization of business, every country and its organizations have to face world class competition. India is also not untouched by globalization in business. The process of economic liberalization began in the 1990s to make the economy of the country more effective, in which enormous changes were made in the economic policies. Consequently, there is a fundamental change in the prior liberalization and post-liberalization conditions and importance of management, which can be understood by the following table-

	Factors	Before Liberalization	After Liberalization
1.	Nature of the Market	Seller's market	Buyer's market
2.	Nature of competition	Monopoly and limited competition	Full competition
3.	The source of competition	Internal	External and Internal
4.	Basis of competition	License and quota	Development of competitive ability
5.	Business development	Internal	Capacity based business
6.	Objective of Business	More profits	Satisfaction of all stakeholders
7.	Importance of management	Secondary	Primary
8.	Management methods	Traditional	Modern
9.	Preference for Human Resources	Secondary	Primary

In this changing environment, in India and other countries, which are going through such a process, the importance of management is increasing, which we can see with the following details:

1. Facing Competition - In today's time, every business area has become competitive. This

competition has not only emerged due to internal organization, but also due to external organization. In such condition, the main function of the management is to make the organization competitive. To cope-up with the competition, it is necessary to emphasize on quality product manufacturing and keep the prices comparatively lower. It is possible only through effective management.

2. Development of Resources - Development of a country or organization requires development of its resources. The development of an organization does not depend on how much resources it is getting in succession, but it depends on how much resources it has developed itself. Management is very important in the development of resources.

3. Appropriate use of Resources - The development of various resources is not only important but their appropriate use improves the functioning of an organization. Though, the quantity of resources is limited and they can be used in various substitute activities, therefore it is necessary that resources should be used in those activities where their contribution is most appropriate. Management not only ensures that the use of which resource will be useful, but also ensures that resources are effectively used there.

4. Innovation and its use - In today's era Innovation and its use are essential for the development of an organization. Innovation means the production of a new item such as a synthetic detergent substituting fat-based washing soap: Innovation is to make a new object by altering it to make it more useful such as developing a Smartphone with the alteration in a small computer: finding new types of marketing and distribution such as delivery of goods to the

customer directly through online e-business and replacing a long series of wholesale, vendors, retailer etc. to reach customers, is included. The first and foremost aim of innovation is to provide maximum satisfaction to customers. Management is very important in innovation, because by this all activities of innovations are accomplished. The more consideration an organization gives to innovation, the more successful it is.

5. Organization Survival and Growth- There are mainly three objectives of an organization - survival protection, growth and profitability. These three objectives are mutually dependent, such as the existence of the organization is necessary for the growth; Profitability is necessary for long-term survival. Management ensures the survival and growth of the organization by establishing proper cohesion in different inputs such as raw materials, machines, other materials and various products and services of an organization. In the absence of this synchronization, organization begun to decline and ultimately its existence ends. In India, many such industries have come under such conditions such as soybean, small-scale steel, miniature cement, etc. On the contrary, the Tata Iron and Steel Company (TISCO), established in 1907, is the largest and most successful steel company in the private sector.

6. Economic Development of the Country

Management has a major contribution in the economic development of a country. According to Michael Porter, Competitive competence in any industry of any country depends on four factors - the position of the resource, the position of demand of products and services, the status of related and supportive industries, and competition among different organizations. If all these factors are favourable then the development of the country is

in a fast pace. There is abundance of demand for various resources-natural and human and products and services in India, but due to lack of competitiveness in related and subsidiaries and various organizations, the growth of any industry has not been so much that it can become internationally competitive (protection Growth is inhibited). Although the competition has increased after economic liberalization, but only the foreign companies are gaining the advantages only because competition is not affected by the internal factors of the country rather influenced by external factors. That is why for the development of the country, it is essential for management to focus on local organizations.

7. Coordination in different interests groups -

There are different interests groups in an organization, such as the employer, employee, customer, supplier, financial resources, investor, government and society in a business entity. All these groups have different expectations from the organization. For instance, customers want good products at low cost, employees expect more salaries and benefits, government expects more taxes more etc. In such a situation, the management coordinates the expectations of groups, which are related to the organization so that each expectation equals its contribution.

8. Stability in Society - Management plays an important role in bringing stability in social system. This stability is achieved by the persistence of change in society. When a new technique is developed or the new product is invented, the society gradually accepts it. In this process, society adopts new methods in place of its old traditional methods, which brings continuity in society. If such changes do not occur at a rapid pace, then

destruction begins in the society due to lack of continuity. Management saves the society from the results of this destruction.

Management : Nature

Over time - with a variation in the study and use of techniques of management, the nature of management keeps changing. such as management was first taken only as art , today management is considered as both science and art. Similarly the Management was first taken as the non-profession , now it is taken as a profession . Currently the nature of the Management can be seen in the following forms-

1. Management as Science and Art ,
2. Management as a multi-disciplinary
3. Management as profession and,
4. Universal process of Management

1. Management as Science and Art: Some people consider management as a science, some people consider it as an art and some people consider it as an inexact Science. To correct this notional variation, it is necessary to know the nature of science and art. Then it can be determined whether the management is science or art or both.

● **Management as a Science** - The science is a sequential study of any knowledge which establishes the relationship in cause and effect. According to George Terry, "Science is an accepted systematic body of knowledge in terms of any subject, objective or general truths of study." The principles of science are based on experiments and applied universally. Thus science has following characteristics:

1. Science provides a group of principles and Rules based on actual studies that can be universally applied.

2. Various theories are developed with the help of experiments so it is based on truths and facts.
3. Principles display the relationship in cause and effect.
4. The principles are used in the redressal of a problem or group of problems.
5. Various theories can be tested and each test results in one or other conclusion.

If the management is seen in the context of the above characteristics of science then there are some characteristics, which are acceptable upto extent. As the principles of management are interpreted on the basis of experiments; it reflects the cause and the result; these principles are used to solve various problems. But many other characteristics which are basic such as universality, exactness, are absolutely lacking; the principles of management are changeable and circumstantial. Hence the management cannot be classified as pure science. It can be kept in the category of inexact science, which indicates that scientific methods can be used in the management. With the use of scientific methods, traditional principles of management can be brought to the newest level, and new theories can be reproduced. But due to the use of scientific methods only the management cannot be classified as pure science.

Management as an Art Unlike science the art is not based on theories and rules rather it is based on behavior and practice. By using the management efficiently, the desired results can be achieved. According to Terry "Planning tactfully is the only art to achieve desired results." Art has the following characteristics:

1. Art is the method to achieve the desired results.
2. Achievement of desired results depends on personal tact and knowledge and its use.
3. Art is related to practical knowledge and

practices, therefore efficiency can be achieved from continuous practice for doing any work.

All the features of art are found in Management, which are as follows:

1. The management is based on personal qualities like other arts such as music, dance, painting etc.
2. Like other arts, skill can be achieved by continuous practice in management.
3. The creativity can be achieved in Management like other arts that can be used to solve problems.

Henceforth the Management can be unquestionably placed in the art category. In fact, the beginning of the management was in the form of an art that started using scientific methods later. If the Management is viewed in the perspective of science and art, it includes both properties and should be taken as both. With this combination, comparatively solutions to management problems can be done easily, as expressed by the following qualities-

Sr.No.	Management as a science	Management as an art
1.	Efficiency based on competency	Efficiency based on knowledge
2.	Development of the principles	Using the Principles
3.	Interpreting problems	Defining the Problems
4.	Decisions based on scientific representation(model)	Decisions Based On intuition and experience

Thus we can say that Management is science (Pure Science) and an art both. In Management, the knowledge of principles is as much essential as the art of using the principles. Both are complementary to each other and become useless in the absence of one of the other. The old saying that “Knowledge is Power” has been replaced by the new saying “Experimental Knowledge is Power”.

2. Management as a multi-disciplinary: Every independent branch of knowledge is called

discipline such as art, science, Commerce and Law. Each discipline has its own objectives and for the fulfilment of these objectives, various principles are developed. Though, management is itself an independent discipline, but it is considered as multi-disciplinary due to the contribution of the following various disciplines in developing its principles:-

Physics , Biology , Electronic , Social Sciences , Economics , Political science, scripture s , History Behavioural science, Psychology , Sociology , Anthropology etc.

All these disciplines have more or less contribution in the Management field, which are as follows:

1. Economics gave the theory related to decision-making process, allocation of resources, proper management of resources etc.
2. Political science gave the theories related to organization structure, organization Doctrine, bureaucracy, etc.
3. Biology and Psychology have proclaimed principles relating to understanding and controlling the behavior of the individual.
4. Sociology has contributed to understanding the concept of the individual behaving in group and their methodology.
5. The Anthropology has contributed to the development of ethical values and principles related to business ethics.

Here, it is important to mention that management has integrated the various concepts of all these disciplines and makes it usable by the managers.

3. Management as a Profession- In today's era, it has become a trend to take management as a profession. Management studies have also been put into a professional science category . In such a state it is necessary to determine whether the

Management is a profession or not. For this it is necessary to know the definition of the profession, its importance and its use in the characteristics of Management. . In different-times, the profession is defined in a varied manner that also distinguishes its characteristics. In 1928 Car Sandras had defined the profession as “Management is probably a business that is based on intellectual study and training, and aims to provide services to others in exchange of fees or salaries.”

According to this definition, any business or an occupation, especially one that involves prolonged training and a formal qualification, for a direct and definite compensation, can be placed in the category of profession.

Profession is a business for which specific Knowledge, efficiency and training are required and these competencies are used for the wide interests of the society and the success of any profession cannot be only measured in money acquisition.

Characterstics of Profession:

Mc Farland has given the five features of the profession -

- 1.The characteristics of Knowledge
- 2.Formally attainment of Knowledge
3. Representative Institution,
4. Ethical Code of Ethics and
5. Service Ttendencies.

If the Management is viewed in terms of all these charcaterstics, some of these features exist while some are lacking.

1. Management has evolved as a specific branch of knowledge and many institutions are indulged in expansion of this knowledge. So the Management can be placed in the category of profession
2. There is a formal arrangement and system to

attain such knowledge and provides degree for the same, for example, degree of B.B.A. or M.B.A. so far, the management can be kept in the category of profession, but the other side is that the MBA degree for the manager is not necessary. A person without any professional degree can also manage an organization. Therefore, management cannot be considered as a profession on this basis.

3. There are representative institutes in relation to medical and law like other ancient and established establishments such as the All India Management Association in India, American Management Association in the United States. but for managers, Institutional membership is not imperative as in case of medical and law, so the Management cannot be placed in the profession.

4. Like other professions management also has a system of code of Conduct. But many managers are not even familiar with this code of conduct. According to this, management is not even identifier of the established profession.

5. The inclination of service is essential for each profession. However, whether to follow such a tendency in a profession depends on the social and ethical system of the country. Management based on this trait can be placed in the profession category.

From the above analysis it is concluded that management can be considered as a profession on the basis of some characteristics, whereas not basis of all characteristics. Therefore, the management cannot be kept in the established profession category, but it can be kept in the forward-looking category, as shown in the following table:

Sr.No.	Category of profession	Features of Profession
1	Established profession	Based on the branch of knowledge such as medical, Law
2	Innovative Profession	Based on new subjects as chemistry, sociology
3.	profession-semi	Based on technical knowledge and practice as Nurse laboratory assistant
4	Future profession	Like based on modern business techniques
5	Marginal profession	Based on technical education such as Draftman

Professional Management- Theoretically it is not important whether to keep the management in the category of profession or not what is important is that how the management is adopted in an organization be it professional or non-professional. As L.C. Gupta said, "The appointment of professional manager and professional degree holders is not required but proper approach of management is needed. Professionals have more importance than professional degree." A professional management has the following features:

1. Dedicated to professional knowledge and technology
2. Using the techniques of modern Management
3. Emphasis on team spirit rather than individualism.
4. Be prepared to change and change management
5. In the organization appointment and promotion should be based on capabilities, rather than on basis of place of birth, family relations caste or religion
6. The optimal decision-making process in which the interest of all stakeholders is considered, and
7. Sense of responsibility towards the society and respect of national policies.

From the beginning to the first half of the twentieth century, the tradition of individual leadership in society and states was effective but in the changing environment the tradition of collective leadership was developed. The tendency of the collective leadership has given more importance to the effectiveness and efficient work. Hence the relevance of professional individuals is growing day-by-day.

4. The Universality of Management-

Universality implies that any knowledge is to be universally and equally applicable. There are two ideologies in respect of universality- one is in favour another is in against.

Arguments in favor of universality: Theo Heman said "The principles of Management can be implemented."

In favor of it these are the following arguments:

1. The process of Management (planning, organizing, staffing, directing and Control) is found in all kinds of organizations and equally in all countries.
- 2 . The principle of Management is universal although it is necessary to take into account the specific circumstances of the country or organization when using those principles.

Thus according to these thinkers Management is universal.

Arguments against the Universality:

According to Stephen Robbins, "There are more than five dozen principles in management. Although most of them apply in accordance with the situation, they cannot be called universal because they have not come true in the test of universality." Various researches has also confirmed that the principles of management applied in the US cannot be applied equally in all the countries of the world. Geert Hofstede, a researcher from the Netherlands, studied the management systems of 40 countries in the 1980's and concluded that since human attributes are different in different countries, American management principles cannot be universally applied. Not only this, but a single principle cannot be applied equally in two different types of undertakings in the same country. Thus, the implementation of any theory of management

depends primarily on three factors:

1. Culture of the country or organization
2. Objective of organization and
3. Managerial philosophy of organization

1. Culture of the Country or Organization-

Because the culture of each country is different, so all the principles of management cannot be applied equally in all the countries. Not only this, there is also sub-cultures in every culture, so the culture of two organizations of the same country can also be different, which affects the principles of management. Therefore, management is considered to be culture-bound.

2. Objective of Organization The Objectives of organization of different regions can vary, like business organizations and non-business organization. There can also be differences in the objectives of two business organizations. Due to the differences in the objectives, the use of management principles can also vary. According to Peter Drucker, the principles and competencies of business organizations can not be transferred to non-business organizations.

3. Managerial Philosophy of Organization - In managerial philosophy, those beliefs and convictions are included, on basis of which an organization can be organized. The managerial philosophy in the organization is determined by the high level managers. Since the managerial philosophy of different organizations can be different therefore different principles of management can be applied. S.K. Bhattacharya concludes after the research that there is a difference in the management principles of professional managed and family managed companies in India. Differences are in relation to

managerial capacity and qualities, performance, results, planning and decision methods, management practices and control.

Therefore the Management is universal but its principles are not universal but is circumstantial. So the management must take into account the following facts in the transfer of knowledge:

1. Those Principles of Management which are universal and the impact of human behaviour is negligible, can be perfectly transferred such as the principle of planning, theory of forecasting and so on.
2. In order to transfer those principles of management which are influenced by human behavior and are not universal, it is necessary for the country and organization to keep in mind, such as the principles of directing, the principles of motivation, the principles of leadership, etc. Transfer of knowledge of management can be done in the following ways:

- Study of the Management literature of developed countries and research of the traditional Management system
- Training of managers of underdeveloped countries in developed countries
- By managerial consultants of developed countries
- Case Studies of those Multinational companies that manages their business in less developed countries

The area of management is very broad, because where human beings work as a group, the concept of management exists in some form whether the group is small or big, in business or in other areas. In Henry Fayol's words, "**Management is a universal science, which is equally applicable, be it commerce, industry, political, religion, war or public welfare.**" That means where the human

beings are involved in attainment of objectives by collective endeavor, management is necessary. The field of management can be defined in two ways: First the activities performed in an organization, is called the functional area of management. Second- Various types of organizations in which management are used called the non-business area of management.

In the global competition market, the expectations of each stakeholder (shareholders, employees, customers, government) have become very high. In order to fulfill these aspirations, each task has to be done with the help of experts and specialized knowledge, whether it is a small work or a work which can directly affect the organization. In order to include specialization in the organization, management experts and managerial skills are being used for execution of every activity and for optimum use of every resource of the organizations. Therefore, every function of the institution or organization is being executed by professional managers; hence it is called 'the functional areas of management'.

From the point of view of study, functional areas of management are divided into three parts:

1. Functional area of business Management,
2. Functional area of non-business Management
3. Innovative functional areas of Management

A. Operational Areas of Business Management:

1) Production Management: This branch of management incorporates production planning, variety control, etc. in its field.

2) Material Management: This branch of management incorporates the process of purchasing, storing, lifting, hoarding, stock control etc. in its field.

3) Marketing Management: This branch of management incorporates the activities of sales of manufactured goods, sales promotion, market research, establishment and operations of sales branches, selection of distribution chains, sales management etc. in its field.

4) Financial Management: This branch of the Management incorporates the task of determining the needs of capital, the sources of financial management, obtaining the capital and making its best possible use in its field.

5) Service Class Management: This branch of Management involves recruitment, selection, training, work evaluation, eligibility assessment, Labor welfare, Social Security, prevention of accidents, Improving working conditions, disposal of disputes.

6) Office Management- This branch of management incorporates letter correspondance, receipt of information and its dispatch, maintaining a contact line within the organization, etc.

7) Transportation Management- This branch of management works to provide safe transportation of goods from one place to another, as well as individuals at minimum of time with low expenses.

8) Export and Import Management- This branch of management incorporates the export import related tasks into its area.

9) Management of Research & Development - This branch of Management includes the development, expansion, innovation etc of technology in its field.

10) Accountancy Management : This branch of management comprises of keeping accounts, preparing cost accounts, receiving payments, obtaining cash, accounting of assets, etc. in its area.

(B) Operational Areas of non-business Management

1. Managing Public Utility Services: This branch of management incorporates water, electricity, gas, transportation, communication, medical, etc. services in its area.

2) Managing Environment- This branch of management incorporates the work of protecting the environment from being polluted. It is increasingly becoming the responsibility of government, society and industry to prevent the atmosphere or environment pollution.

3) Management of Education: This branch of management deals with the development, expansion and operation of teaching-training facilities.

4) Defence Management - This branch of management deals with establishment, operation and control of military organizations so that national security can not be weakened.

5) Management of Justice- This branch of management deals with the interpretation of laws, hearing of crimes and its justice.

6) Management of Technology- This branch of management incorporates the growth and development of services and activities that promote knowledge and science in its field.

3. New Functional Area -

Due to the growing importance of management in today's business and industry sector, the areas of management have become important. But it depends on the nature, requirement, purpose and region of the industry. Therefore, following management areas are included in the new functional areas of management:

1.) Management of Public Enterprises

- 2.) Management of Export Imports
- 3.) Appropriation of Portfolio Management
- 4.) Entrepreneurship Management
- 5.) Small Business Management
- 6.) Farm Management
- 7.) Retail Business Management
- 8.) Risk & Security Management
- 9.) Management of Marketing Research
- 10.) Change Management
- 11.) Event Management
- 12.) Conflict Management
- 13.) Learning Management
- 14.) Time Management
- 15.) Knowledge Management

Summary

The art of getting work done from other people is the only management which has been running from the very ancient times. The means of production, labor, capital, machinery, production methods and human beings in the market are alive. Therefore by managing all these, everything can be managed. This is what minimizes the costs and maximizes the production.

It is concluded from various definitions that getting work done from other people and planning, organization, coordination and direction and control is the only way to achieve the objectives of the organization.

Characterstics : Human work, challenging tasks, creativity, general principles, leadership ability, universal functions, invisible power, etc. Importance : Before and after liberalization, facing competition, development of resources, proper utilization of resources, innovation, protection and growth rate of survival, economic development of the country, sustainability in society etc. Nature :

Management in multi-disciplines, science and art, in the form of profession and universal functions. Objectives: Primary, Secondary, Personal and Social Objectives. Areas: Functional areas of Management, Functional areas of Non-business management, and innovative functional areas.

EXERCISE

Very Short Questions-

1. Write definition of management as given by Lawrence Appley.
2. State any two features of management.
3. Mention any two secondary objectives of management.
4. What is meant by “would be profession”?
5. Management is universal. Justify this statement.
6. Management is intangible force. How?

Short Answer Questions-

1. Explain any four characteristics of management.

2. What are the primary objectives of management?
3. Give any four points of importance of management in preliberalised economy.
4. Give any four points of importance of management after liberalization policy.
5. Management is both art as well as science. Explain.
6. Management is multi-disciplinary. Explain.

Essay Type Question -

1. Explain the objectives of management, giving its definition.
2. Explain the importance of management.
3. What is the meaning of universality of management and give arguments in favour and against.
4. Explain the functional areas of management.

CHAPTER- 2

Management: Process, Managerial Roles and Levels

Management is a definite process of accomplishing the task, which continues till the pre-determined goal is achieved. In the words of Stoner, "Process is the definite way to do the work." Management is a complex and dynamic process. Process which is to be completed by the manager consists of different steps, functions or elements. These elements are not independent in their own but are inter-dependent on each other and are also influenced by a number of elements. There is a continuous series of tasks to be done right from beginning till end. There are many steps or phases in this series that have to be completed in a sequential manner, till the goal is achieved and even after that, it has to be continued persistently. In the process of planning from beginning to implementation, after evaluating the work done in the beginning, the manager executes many managerial tasks like objective assessment, planning, organization, appointment, directing, leadership, communication, motivation and control. It is co-ordinated or collectively called '**Management Process**'. This management process is also called as 'Management Model'.

Management Process: Features

1. It is a continuous and dynamic process of managing tasks.
2. All the tasks of management are done by the managers, so this is a human process.
3. The activities of management basically depend on the interactions between individuals. Therefore, management is a social action.
4. The manager tries to achieve the goals

through his influence. Hence this is an effective and result oriented process.

5. The process of achieving goals ranges from personal life to all small business-non-business organizations, hence management is called universal process.

Management Process: Phases (Management: Functions)

There are lot of tasks involved in the management process, but there is difference of opinion among experts regarding these tasks, which is due to the vocabulary used by them, their views and their experiences. This is evident from the following table -

"Management Function", according to the expert's opinions are:

1. Ralph Davis : Planning, Organization, Control
2. Koontz O'Donnell : Planning, Organization, Appointment, Direction, Control
3. Breck : Planning, Organization, Motivation, Coordination, Control
4. Henri Fayol : Planning, Organization, Order, Coordination, Control
5. Lyndall Urwick : Planning, Organization, Order, Coordination, Messaging, Forecasting, Research
6. Luther Gulick : Planning, Organization, Appointment, Direction, Coordination, Giving Details, Budgeting

In addition to the above functions, many experts have also given other functions of management. The list of functions performed by the manager can be in detail, but in terms of studies, these functions can be divided into two parts- (A) Key Functions (B) Auxiliary Functions

(A) Key Functions: On the analysis of the table mentioned above, there are similarities of three functions amongst different management thinkers. These functions are - Planning, Organization and Control. It can also be expressed in other words such as Planning, Execution and Control. In order to implement planned functions, appointment of qualified persons and their guidance is also necessary. The jobs assigned to the recruited staff are also to be checked. Some experts believe that manager gets work done from all and allocate resources. He has to walk along taking everyone with him meaning thereby it becomes necessary to co-ordinate. Therefore, following points can be included in the main functions of the management:

1. Planning
2. Organization
3. Direction
4. Control
5. Coordination

1. Planning: The outline or illustration of the work is accomplished to achieve any goal is planning. For example, to reach a destination for a job, we consider the following things - when to reach, how far is the distance, which way and which means will be suitable, what to carry, how much to spend etc., and by preparing the appropriate answer to all these questions (selecting one of the available options) we plan to reach to the destination at the right time. This is planning. The manager also creates outline of work or action-plan before considering the same questions for achieving the goals of the

organization, so that the targets may be easily achieved. The Manager also decides the techniques, methods, procedures, rules, events, time and budget (capital) for so, along with the action plan.

In the words of Neil's- "Planning is a vigilant process of making and developing best work path to meet any purpose." Planning is essentially selecting the best or appropriate selection of the various options available to perform each task, and being aware about the change of alternative with changing circumstances. Therefore, according to Goetzy, "Planning is a selection process, and the problem of planning starts with the discovery of alternate methods to work. The main components or elements of the work planning are - objective, policy, work methods, procedures, rituals, rules, programs, strategies, norms or criteria; time, budget etc. Planning can be long-term or short-term, considering the future timing.

2. Organization: This is an important function of the management process. Determination of the necessary tasks or actions to achieve the objective, to assign, divide and classify those tasks, to determine the eligibility of those people, to determine the rights and obligations to all the employees, determination of mutual relationship, division of equal work, structuring organization etc has to be done by the managers. From this department-department officials, officers-subordinate relationships, communication formats and control rules are prescribed. The success and stability of the organization depends on its organization composition and organizational work. Therefore, the management has described this as an equivalent to the 'Spinal Cord' in the human body.

3. Direction- How to use the available resources to perform a task that achieves maximum success or

goal - this is called the Direction. Despite the similar resources, the results of each director (manager) are different. A good example is found in the Indian film industry. In 1917, on a romantic novel 'Devdas' written by Sharat Chandra Chaptopadhyay, from 1927 to 2013, 14 film directors made 16 films in Hindi and regional languages, but the result of all was different (earnings). This is a unique example of making so many films based on a novel. The major research university of America has done a comparative study of presentation of films made in four times in Hindi i.e. in 1935, 1955, 2002 and 2009. The film director directs - acting heroes, heroines, villains and all the characters. The composer, the cameraman, the dress designer and the commander of all the people engaged in the production of the film, motivates, explores and examines, then combines and prepare the film for release. Perhaps you have been able to understand the generality, relevance and complexity of the direction of work. The manager orders - instructions, persuade, leads, communicates, and supervises employees working in the organization. By direction, the manager makes the behavior of the employees friendly, generates belongingness towards the organizations, so that they willingly or readily contribute to achieve the objectives. For these various tasks contained in the direction, it is necessary to have the effective personality of the director. The main component of direction work is discipline; order-instructions; delegation of authority; motivation; leadership; supervision etc.

4. Control : With control, efficient execution of managerial tasks is possible. The amount of work is determined with the goal setting at the time of planning. By comparing the actual results of the work done by the employee to those pre-determined standards, the deviations (+/-) are

identified. Identified deviations are used to make corrective efforts or to use in upcoming expansion plans.

According to Henri Fayol- *"Control is to check whether all the functions or plans of the organization are executed according to the instructions given and prescribed rules. The purpose of control is to find out errors in the work, thereby improving it as much as possible and preventing repetition of such errors in the future."*

There are four main elements of the control process - determining the standard; evaluate the work and prepare the result details; to compare deviations from actual results, to find deviation and to modify or take corrective action based on deviations.

5. Coordination- There are substantial differences in the functioning of the employees, work procedures, work capabilities and qualities in the organization, thereby the possibility of individual and interpersonal conflict exists. But the manager has to create uniformity and harmony in his efforts to achieve a fixed target at a minimal cost. Due to the limitation of physical resources and the constraint of maximum use, their allocation also has to be adjusted so that the cost per unit overhead can be minimized. According to Messy- *"Coordination is the result of proper implementation of the functions of the management."* Hence, Koontz O' Donnell has said, *"Coordination is the essence of management."*

(B). Auxiliary Functions: To accomplish the major tasks of management, the work done for its sub-division or assistance are called auxiliary functions. Auxiliary functions can be many according to the organization, manager, and resource. The work normally done from it is the following:

1. Decision Making- This is the process of

selecting one of the 'Best' options available in relation to doing or not doing any work. This is an intellectual process, by which a suitable option is selected from some of the possible options for the solution or objective of a problem. Managers have to make important decisions every moment, which affect the organization's functioning and performance. This managerial task is involved in every action of 'decision making'. Therefore, Herbert Simon says that "Decision making and management are synonymous."

2. Appointments- Organization structure has two major parts - first, arranging and organizing physical structure - including building equipment-machine, material and capital etc. Second, Human Structure- in which the work of recruitment and development of qualified employees is done. According to the functions in the organization, manager selects eligible person on an appropriate remuneration. All the work from employee recruitment to retirement is included in this. In the transformation phase, the recruitment of workers or employees due to changing product-technology, and market placements continues. It is a continuous auxiliary/ supportive function in management.

3. Innovation - The revolutionary era of information technology is changing every moment. We all use mobile. You must have noticed that, everyday new types of mobile phones with new features are launched in market. Not only this, there is continuous improvement or development in the functions of the applications being used in mobile, this is an innovation. In the changing environment it is the task of manager to work on continuous product development and research. Not only this, the creation or discovery of new markets, finding new suppliers to get raw materials at cheaper rates, finding new technology and machines and linking the right, efficient and effective people to the

organization, efficient manager keeps on doing all these work on continuous basis. This is indispensable for the expansion of the organization's existence, success and development. This work has been described as the most vital and important task of management.

4. Communication- Communication is the exchange of ideas, facts, information and feelings between the manager and the employees. Communication is broadcasting of messages, instructions, orders, suggestions and information at different levels of management, so that the employees may complete their tasks efficiently. It is the manager's important task to implement a smooth communication system or structure in an organization. Empiricism, rumors, conflicts, or malicious spreading amongst the employees can be overcome by effective communication system.

5. Representation- Staying in touch with the external constituents or elements affecting each business, building good relationships with them, maintaining those relationships, conversing with them, getting them engaged and protecting the interests of organizations, all these work is absolutely necessary in today's era. The manager represents the organization and participates in the related association, party or union for so.

All the above mentioned functions are performed by the managers in an organization. But the question arises that

Do all the managers give equal time to each function? OR

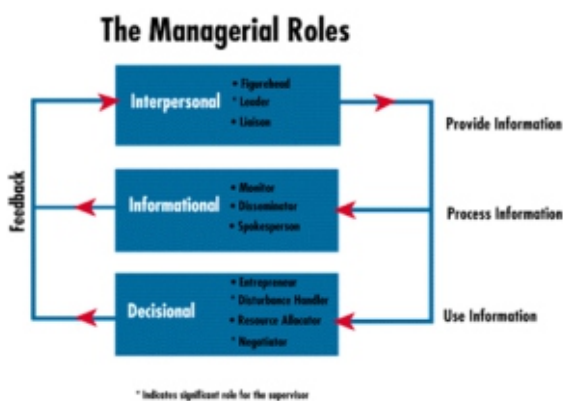
What functions are actually performed by the Managers?

Management thinker H. Mintz Berg of MacGill University studied the management functions and stated that time given on each task varies with the managerial level. Generally, higher level manager spends more time on Planning, Middle level

managers spend more time on directions, leadership, coordination and communication and low level managers spend more time on direction, motivation and supervisory-control.

What these managers do?

Mintz Berg has answered with the help of task or role oriented approach



Managerial Roles

Role- Role means the manager's behaviour, duties and activities of manager, that is expected by the society and organization and accordingly, manager reflects these qualities and performs his or her role. Professor Henry Mintz Berg studied the activities and role of higher level managers (Chief Executive Manager) of five big industrial organizations. His research study was based on the following assumptions:-

1. Managers get high positions and decision making authority in an organization.
2. The official power and high position helps him in public behaviour and creating interpersonal relationships with his subordinates and colleagues.
3. Managers' high position in the organization, interpersonal relationships with the subordinates and public behaviour create various roles of managers.

Managerial roles depend upon the position, status and level of authority over it in an organization.

With the manager's personal skills, if their positions and rights are added, then the roles of managers arise or are determined. Henry Mintz berg has defined and laid down 10 types of roles and described it into 3 major roles.

(A). Interpersonal Roles-

The manager maintains an interpersonal role due to his formal power, position and state. These roles include the following:

1. **Figure-Head Role** - In this role, being the head or president of the organization, managers signal activities and preside over the functions etc.
2. **Leader** - In the role of leader, the manager motivates their subordinate for achieving organizational goals. They establish the integration of the needs of the people and the organization's goals through their power, coordination techniques and motivational measures.
3. **Liaison officer** - The manager also plays the role of liaison person between their organization and external parties and various departments and organizational units. This role is very important in terms of exchange of information and coordination.

(B). Informational Roles-

In these roles, managers collect and distribute various information, facts and knowledge. These types of organizations are considered as Nerve Centers. They have the following three roles related to them :

1. **Monitor Role** - The manager needs different information for planning, decision making and other managerial tasks. He therefore, collects information materials from various knowledge sources about his organization and its environment. He receives information through his officials, subordinates, co-managers and other contact sources.
2. **Dissemination Role**- Manager in his role

distributes and disseminates information collected to its subordinates and related entities as per its utility and necessity. Both factual information and valuable information are transmitted in it. Value information is related to the manager's approach and priorities etc.

3. Spokesperson Role - In the role of Spokesperson, the manager conveys various types of information to the external parties - Customers, Government, Community, Institutions etc. about organization's plans, policies, programmes through proper communication media.

(C). Decisional Roles-

It is the role of managers to create strategy formulation and decision making. These roles are of three types

1. Entrepreneur - In this role, the manager identifies different possibilities, opportunities and dangers for his organization and implements their corresponding changes and then reforms. He applies innovations to the organization to take advantage of the change in the environment.

2. Disturbance Handler- The manager removes the daily riots, troubles, products, conflicts and disturbances that occur day to-day in an organization. He expresses his response to various problems and pressures of the employees. He discusses about strikes, contractual breakdowns, lack of raw materials, complaints of employees and the difficulties and overcomes them using power of his post, position and authority.

3. Resource Allocator- In this role, the manager creates an action plan about subordinates time, management, resources and functions, decides about the allocation of finance, raw materials, equipment, other supplies etc, resolves resource preferences of different departments, prepares budget etc. Thus, the manager decides how, when,

why and for whom the resources of the organization are to be spent.

4. Negotiator - The Manager negotiates with different groups of different parties such as Labor Union, Clients, Government and other agencies and benefits the organization. The manager plays the role of inter-mediator for the reconciliation of various disputes.

Managerial Levels / Hierarchy

Managerial Hierarchy - are those management levels which create an order or communication chain between different managers and describes the interrelationships between them. There are various levels in the organization structure that tells the difference between power, rank, positions etc. These levels are called as Hierarchy.

How many hierarchy of management will be there in an organization depends upon the organization's size, characteristics and limitations of the organization, the capabilities of managers, the centralization of rights or decentralization policy.

In every organization, functions and rights are divided amongst employees from top level to low level. As a result of it, the relationship of the officer-subordinate is established. These relationships are perceptible and this leads to the creation of managerial level. Initially, there were only two levels - one higher who was employed by the employer and the lower level of all the employees. But in the changing environment, the organization's size is becoming very large and the modus-operandi is getting complicated. The real owners of the organization also do not participate in business activities, in such situation the employers have begun to split all the tasks and rights at three levels.

The first level is called the highest or top management, which works for the attainment of the

goal while protecting the interest of the employers. So in this case, most rights are concentrated with them. The management of the top level spends the maximum time and energy in everyday life and complex organizations to face emerging new challenges and to simplify the complexity into simplicity. The employees, who have given the responsibility or liability to supervise and complete the work on the main ground in an organization, are called first or lower level managers. Mid-level employees are appointed in the middle link to get the first line employees to work and check or inspect their works. Thus, this type of managerial hierarchy or level has become universal in large-scale organizations, operating in the modern era.

Top (High) Level Management - Generally, the group of active managers at higher or higher positions is called high level or higher management. In other words, according to the functional ideology of management, Planning and Policy making management in the organization is called as high level management. According to Louis A. Allen, "Higher management is policy-determining group, which is responsible for the direction and success of all the actions of the company." In this way, the board of directors, managing directors, general manager etc. come in high level management. It is also known as the Chief Executive.

The main task of the high level management is to determine the policies of the organization so that the organization can be operated efficiently. According to Livingston, there are three functions of high level management-

1. Decision Function - Origin of ideas, planning, determining objectives, process structure, coordination and appointment of officers, policy making and analysis, implementation, transfer of

rights, selection of financial resources, mobilization and distribution of benefits.

2. To know the opinion of others.

3. Judicial Work - Comparing the achievement of judicial work policies and objectives, evaluating cost and alternate basis.

The following are the *auxiliary works* of high level management:

1. Define the purpose of the undertaking and explain the policies.
2. Disseminating important order and instructions
3. Discuss important matters
4. Bring long-term stability in the venture.
5. Approval of the budget.
6. Examining plans and results.
7. Developing and maintaining a sense of working on a voluntary basis in subordinates under organization-structure.
8. Maintaining high levels of frugality and work-efficiency amongst the officials.
9. Choosing the CEOs.
10. Protecting the property of the venture while working as a trustee or depository of it

Middle Level Management - Middle level management refers to the level between the high and lower level management. In other words, the management at the middle level of the chairman and first person manager of different departments is called middle-level management. According to *Mary Kushing Niles*- "Mid-level management implements policies with the efforts of their subordinates. They send order-instructions and consultation downward and send suggestions, requests and complaints upward."

In this way, in the middle-level management there are divisional managers, plant managers, departmental manager - production, marketing, distribution and personnel manager and regional

manager, etc. The main function of mid-level management is to establish coordination between functional or operational manager and high-level managers. The following other functions of the middle level management are:

1. Explain and understand policies,
2. Give detailed instructions for the operation,
3. Evaluate the progress of daily work,
4. Cooperating in decision making for actionable tasks,
5. Collaborate in the coordination of departmental work,
6. Motivate the operating staff,
7. Give necessary training to supervisory managers,
8. Solve problems of supervisory staff,
9. Settlement of disputes arising at the supervisory management level,
10. Try for research and investigation.

The First Line or Supervisory Management-

The first line or supervisory management, also called a lower-level management, refers to those executive leadership positions whose work is mainly to inspect and direct the work of the executive staff. In the words of R.C Davis, "The supervisory management is meant by those managers whose main work is to inspect and direct the operating staff. Their work is related to the execution of daily work and is of technical nature." In this way first-line or lower-level management involves the Branch Manager, Chief Supervisor, Office Superintendent, Chief Clerk, Accountant, Inspector, Foreman, Section In-charge and In-charge Supervisor.

The main task of first-line management is to work according to the plan, to coordinate tasks, to solve the problems of supervisors and workers etc. The following are other functions of first-line

management:

1. Create operating Plans
2. Inspect the task of employees and improve their mistakes
3. Review the work of employees
4. Getting employees to know about working methods
5. Assign workload to employees or workers
6. Establish Coordination in various operational tasks
7. Submit social progress details to higher level managers
8. Keep in touch with the officials and give the necessary information
9. Take control on the flow of daily work
10. Send the employees' matters to the high level officials
11. Motivating employees and maintaining discipline in them
12. Providing necessary educational training to the employees
13. Maintain personal relationship with employees
14. To give consultation, guidance and solve work related problem of employees
15. To evaluate the work task of employees

Important Points/ Summary-

The planned group efforts made to achieve each goal is called management. There is a continuous series of management tasks, done from beginning to end. There are lots of tasks involved in the management process, but main task which is done everywhere is - planning, organizational structuring, appointment, instructions and control. Apart from this, there are many small tasks which are inspired by the organization and its goal. Overtime, in the changing environment, the relevance of various tasks increases-decreases or

new tasks begin. In the beginning of the 21st century, task of creativity and innovation emerged as important, changes occurred in communication system and business methods, changes happened in the nature of working conditions and employees resulting in new management styles and techniques.

In 21st century, the size of the organization, nature and goal also expanded. With the expansion of trade and industry globally, earning the highest profits became a focal point for contemplation and goal. In such complex and challenging circumstances, the role of professional managers became important for working with the large staff. Managers work at many levels in an organization, which is classified into three levels based on liability and rights - Top, Middle and Supervisory (Lower Level) managers.

What do the managers do? What is their role in an organization? To make it understand to common people, Henry MintzBerg did a research work and explained the managerial role. The entire chapter explains the functioning of the management, the process of operation and its nature and level.

EXERCISE

Very Short Questions:

1. What do you mean by management process?
2. What does innovation imply?
3. What do you mean by management function?
4. What are the primary functions of management?
5. State the meaning of interpersonal role.
6. What is the primary function of management according to Peter F. Drucker?
7. What is the subject matter if Mintzberg's research works?
8. Mention the different levels of management?

9. What do you mean by liasoning role?

Short Answers Questions:

1. Give the points of importance of management.
2. What were the assumptions of Henry Mintzberg's research study?
3. State the decision making role of management?
4. Which is top level management?
5. Differentiate between top level and middle level management.
6. Give the functions of supervisory level of management.
7. List out the secondary functions of management.
8. What do you mean by negotiation?
9. Who are the middle level executives of an organization?

Essay Type Questions:

1. What do you understand by process of management? Explain its salient features.
2. What is management process? Discuss various functions of management.
3. Give the meaning of 'Role of Management'. Elucidate the managerial role stated by Mintzberg.
4. Why is there a need of different levels of managerial functions? Explain the functions performed by managers at different levels.

Chapter- 3

Principles and Techniques of Management

Managing is universal, important and useful in achieving desired and effective results. But the question comes in how effective management is done? How to create a good and effective manager? How to be educated-trained? The answer to these types of questions is - 'The principles of management'. Since modern management has been established as a branch of science and knowledge and is moving forward towards the future profession, therefore there is some fundamental principle of management science.

"On the basis of sufficient evidence in the context of a topic, the opinion or idea fixed after the argument, which satisfies the test of time, experience and observation, is called 'theory'."

Principles are effective rules or elements in the form of a guide in our activities, practice and decision making. Not being punished for not following rule or principle, only fear of uncertainty remains in the results of the work. When the rule or principle becomes impractical in the state of the country-time-period, it is amended or changed. This elasticity only makes acceptance of principles universal. Doctrines of management do not work completely like the principles of science, nor give a similar result. Because management is done for collective efforts, in which participation of human and human behaviour is greater and human behaviour is driven by its cultural background, which is different from each terrain or country, hence the principles of management neither apply equally to the nation and organization nor give

results equally. The practical application of the principles of management depends on the circumstances of each organization, society and country. Therefore some principles can be completely practical or impractical in a country or organization, then some can be implemented partially (limited) or even more than the fixed scale.

In general, keeping in mind the goals or results, the rules or theories are made for action plans, conduct and their successful operation. The pre-millennial organization, society and rulers (kings) aimed only for the service and welfare of the people and all the lives. The organization was conducted by keeping the goal based on the concept of Vasudev Kutumbakam “Sarve Bhavantu Sukhinah.” whereby there is a sense of equality and cooperation in society.

The formula (theory) of management available in the mythological texts and para-scriptures of India and Shiya terrain is inspired by human and social welfare. But the changes that started from the 18th century, especially after the First World War, in the technical development, mechanization, industrialization revolution, communication and transport development, the entire system and philosophy (contemplation) in the whole world were completely reversed. Now the goal of the organization and society has been reversed by 'Vaasudev Kutumbakam' and the 'Survival of fittest' has become. In which every individual or organization attempts to prove himself the best in every work and results. As a result, competition is born.

The pace and volume of the work of technical and technology development has increased, the traffic became intense and facilitated by the development of transport technology, the Communication and Information revolution made the whole world a global village. Because of this, the market and the industry also became global, in which competition also became from domestic to global. So how is the successful operation of the organization in global competitive and modern scientific era? And how to achieve the desired results (more profit and market leadership), it has been challenging. The principles of modern management and management are being useful in making this challenging task simple and easy.

Modern management is also called scientific management. The concept of this scientific management emerged - developed by Henry Fayol - 'Administrative Management Model', in which Henry Fayol demonstrated the principles of management. Then F. W. Taylor, Max Weber, Elton Mayo, etc. and many management scholars or thinkers did research work on workers and employees, on their different practices and behaviour in different factories, and rendered about 6 to 54 different management principles. In scientific age, theories have emerged as a research-based and model; nevertheless its results are influenced by the times of the country. Due to the diversity of different nations of the whole world, it is not possible to use all the principles universally. But as a general guide, Henri Fayol's management theory, being more flexible, has been universally accepted and used.

The Principles of Management help in improving the efficiency of the work and the right attitude towards the work, the teaching of management

(teaching - training) becomes easier, effective and valid from the principles of management, by which the management is developing into a profession. Continuous research work is being carried out on the principles of management to maintain and enhance the effectiveness and efficiency in the changing environment, and efforts are made to make it acceptable by changing and expanding as required. Therefore, the universal accessible principles of management are as follows:-

1. Division of Work - Fayol has used the principle of Division of Work to take advantage of the specialization. According to this principle workers and managers engage in specific tasks. Therefore, to increase the work capacity, the work should be divided so that the work and the worker are in harmony and the full capacity of the workers can be utilized. It is necessary that the manager be engaged in managerial functions and labours be engaged in the execution functions.

2. Authorities and Responsibilities Authorities and responsibilities are related to each other, so there should be uniformity in both. When a person is given a task in the organization, then the responsibility for the execution of that work is on that person. The execution of the work can be done appropriately only if the person gets the proper authority. If there is no equality in accountability and authority, then there is unnecessary centralization of rights in the organization or the person responsible for the work has to be dependent on other persons. In both these situations the overall efficiency of the organization is reduced.

3. Discipline - The principle of discipline is implemented on the employees to create such behaviour, which is helpful in fulfilling the organization's objectives. Disciplined behaviour

requires that the inspection system is appropriate in the organization, proper contract between the employee and the organization, and provision of penalty for non-disciplined behaviour. Fayol has expressed this view in relation to the penalization that all those situations should be kept in mind while giving the punishment due to which the behaviour of indiscipline is generated in the employees, so that employees do not feel oppressed by themselves

4. Unity of Command - This means that an employee should receive orders from only one senior officer, not from many high officials. Due to the orders received from many officers and especially differences in those orders, not only create confusions for employees, but he or she also gets distracted from his or her responsibilities. According to Fayol, if the principle of unity of orders is dissolved then the organization faces problems such as defiance of the officer, increase in conflict, conflict in the system decreases in discipline.

5. Unity of Directions- Unity of Directions states that all those activities of the organization whose objectives are the same should be kept under the one manager and one plan. Unity of direction is different from unity of orders. The unity of direction is related to the division of actions and grouping, whereas the unity of order reflects the organizational relationships of individuals. The main purpose of the unity of direction is to reconcile in different aspects of the same task. Fayol has said in a laughable manner regarding the importance of the principle of direction that, "The two-headed body is considered to be a monster in the social and animal world and experiences difficulty in survival."

6. Subordination of Individual interests for collective interests- In an organization if there is a conflict between the interests of the organization and the personal interests, then the interest of the organization should be paramount and for this, personal interests should be abandoned. Conflicts between organizations and personal interests can be for many reasons.

Managers should keep in mind that such conditions should not arise which can cause conflict in the organization and personal interests. This is necessary for the advancement of the organization.

7. Employees' Remuneration - Employees are rewarded for their performance in their work. This reward is in the form of wages and salaries, various types of financial motivations and non-financial motivation. While determining the remuneration it is necessary to ensure that it is fair and rational.

8. Centralization- According to Fayol, there should be necessary reconciliation between the centralization and decentralization of rights in an organization. This cohesion depends on the organization's size and management system, like decentralization of rights in a larger organization is more appropriate, while centralization of authorities in smaller organizations is more appropriate. While deciding the centralization of authorities in the larger organization, the issues of the organization's welfare, the feelings of the employees and the nature of the work should be considered, so that the proper authority can be redistributed at each level of management.

9. Scalar Chain - A link between the highest authorities and the officials below should be a link and the message should flow by this link. This link is shown in the picture:

According to the picture A is at the best level of the organization and it has two direct subordinate B and L. Similarly, the subordinate of B and L and the subordinates of those subordinate are stuck which ends at G and Q. The message sent from A will be approached by G, C, D, E, F by G.

Similarly, if G is to send a message to upper level, then it will reach through A by F, E, D, C, B. According to Fayol, this system keeps structure in the organization, but in certain circumstances, communication through this system is delayed. In these special circumstances, officers of the same level who are in separate link, can communicate with each other. As shown in Figure is relation to F, P. In such a situation, the concerned officer should inform his direct superior about the purpose of this kind of dialogue and its contents - what was the content?

10. Order-Order means that 'there is a fixed place for each object and every object should be at its place and the right person should be in the right place.' The purpose of this principle is that the proper function should be assigned to the appropriate persons, The work is properly executed and the execution is in proper control, thereby increasing the working capacity of the organization.

11. Equity - Equity is a mixture of justice and kindness. Equity means that all persons should be looked after in equality and there is no discrimination in their remuneration and punishment system. This creates loyalty towards the organization among the employees.

12. Stability of tenure of Personnel - According to this principle, the appointment of employees on one task must be made at least for a certain time. One benefit of this is that the employee becomes

familiar with the nature of his work, the circumstances of the work, etc., which increases his work capacity. With more interchange (change) of employees, employees cannot create proper harmony between themselves and their actions, which have adverse effects on their efficiency.

13. Inspiration - Keeping in view the authorities and discipline, managers should inspire their subordinates to take initiatives in any work. This not only creates new ideas, but there is a feeling of satisfaction in the subordinates.

14. Esprit de Corps (Spirit of cooperation) - The success of an organization depends on the spirit of mutual cooperation of the employees. This principle is based on 'Unity is power'. It is necessary for the manager to take such steps which can create a sense of mutual trust and cooperation in the employees .

The above list of theories of management is not ultimate; Fayol has described these 14 principles as an example. Contraction and expansion is possible as per the requirement. In the field of management, Taylor, Koontz O'Donnell, Harry, Urwick etc. and other management thinkers or theorists also rendered many theories. Such as the principle of expansion of control, theory of purpose, theory of exception, principle of weighting, theory of social responsibility, theory of participation etc.

Henri Fayol's contribution in the Development of Management

It is possibly better to name French Engineer Henri Fayol as the father of modern or administrative management principles. Fayol spent his entire executive life in the company Commentary-Four Chambault, and on this long experience, wrote several books on the subject of management and

related topics, including the publication of '*Administration Industrielle at Generale*' 1916 in the French language is special, and in this various aspects of management were made clear. Due to the fact that the book was in French, there was not a wide spread of ideas of Fayol. The English translation of the book was published in 1929, but its distribution was restricted to European countries. After that the English translation of the book was published in the United States in 1949, and only after that the contribution of Fayol to the management was accepted.

Fayol studied the problem of management from the point of view of upper level of management. He divided the activities of an industrial organization into 6 classes:

1. Technical Actions - Activities related to production.
2. Commercial Activities - Purchase - Activities related to sales and exchange.
3. Financial Actions - actions related to the receipt and utilization of capital.
4. Protective actions - actions related to property and safety of goods.
5. Accounting Activities - Activities related to stock valuation, preparation of financial records, statistics etc.
6. Managerial activities - planning, organization, direction, coordination and control activities

According to Fayol, all the above mentioned activities are performed in any industrial organization. They found that proper knowledge exists in relation to the first five activities. Therefore, he focused his attention on managerial actions. Regarding managerial actions, Fayol has divided his ideas into three main parts:

1. Managerial Qualifications and Training

2. The Elements of Management and
3. Theories of Management

Managerial qualifications and training

In order of Management development, Fayol was the first person to influence managers' competency and their training. According to him, a manager has the following 6 characteristics: -

1. **Physical**- Health, Amiable temperament and vitality
2. **Mental** - ability to understand and learn cautiousness, vigilance and decision-making ability.
3. **Virtue** - Ability to accept responsibility, ability to take initiative, loyalty, magnificence.
4. **Academic**- Knowledge of actions related to the subject matter and their rendering.
5. **Technical** - Knowledge of matters related to work.
6. **Experience** - Having skill by working.

Elements of management

According to Fayol, the management should take the form of a process in which five elements are essential - planning, organization, direction, coordination and control. According to him, planning is the most important act of management, because on the basis of which all the work is outlined. In the absence of proper planning, doubt is maintained in the performance of new tasks in any enterprise. Organization structure is required for the execution of the tasks determined by the planning, through which the work is distributed to different individuals. After distribution of the activities, proper instructions are made to the subordinates. One action is performed by many persons, so coordination is required in their work. Control is required to ensure that the

work is done according to planning. Fayol believes that all these functions are executed at all levels of management, although according to the level of management, the importance of these functions is wide-ranging.

21st Century Management Guru-Peter Drucker (1909- 2005; Born in Austria, 2002- American Presidential Award)

American Magazine Business Week and McKinsey have embellished 'Peter Drucker' as 'the most respected guru', the most widely-read, and most respected master in the field of management.

Drucker gave new direction to managerial behavior and ideology. Attracting the attention of the communist world, he was probably the only management thinker of the Western world (America). Drucker was initially opposed to bureaucratic management, he considered management as creative action, that the main function of the manager is creation and innovation. They believed that the person only manages, not 'powers' or 'fact'. Drucker writes-Managing is not a value-free science. Management is tied in culture and should be. Management itself provides a direction and structure to the entire society and culture

In the book 'Managing in Turbulent Times' written by Peter F. Drucker in 1980, he described the present challenges of management. Indicating the increasing importance of management, he wrote that 'management is part of various institutions' a part that converts the crowd into an organization, and converts human efforts into consequences.

According to Drucker's opinion, the main task of management is to achieve goals and objectives;

Productive work and labour achievement; Social impact and social responsibility; Time Dimension, Administration and Entrepreneurship. The ideology of management by objective or technique of management is considered to be a significant contribution by the Drucker in 1954.

Considering the present crisis of the present generation due to the changing environment, he described organizational reality and gave rise to the new principles of organization structure.

Management: Techniques (innovative trends)

The effects of changes in the environment on the operation and existence of personal life and organization falls directly or indirectly. At present, all components of external environment (geographical, legal, technology, political, socio-cultural, economic) are changing at a rapid pace. The effect of which is on the life philosophy and abilities of the human being and also on the internal environment of the organization. Geographical distances are decreasing, the geographical environment is uncertain; technology is inventing innovation at every second. Society's beliefs are changing, consequently political leadership and constitution are changing, and transparency and accountability are being taken care of. Global treaties (SAARC, BRIC, WTO, G-20) have been experiencing intense competition in business and industry. The effect of these changes is also on the managerial efforts for the achievement of organization's objectives. Consequently, to complete managerial work with success and ease, every day new practice or techniques have to be adopted. Now the new dimension of new management techniques or managerial work has

emerged as necessary in the managerial field

1. Managing by Objectives
2. Management by Exception
3. Strategic Management
4. Productivity Management
5. Technology Management
6. Management Information System
7. Managing Changes
8. Management of Conflict
9. Operational Management
10. Management of knowledge
11. Mechanism Approach
12. Contingency or Conjunctive Approaches

Management by Objectives

In the twentieth century, many new concepts and techniques have been developed in the management world. 'Managing by Objectives' is one of the most important management techniques and ideas. In 1956, Drucker had presented this idea, which was later presented by Professor Saleh as 'Management by Results'. The creation of each organization is done to achieve some results. According to Terry, "Managing is purposeful; it is done to accomplish some achievements." The success of management depends on a number of objectives, determining objectives and achieving results accordingly. Objective focused management is the real management. According to Koontz and Donnel, "Managing without explicit purposes is a chaotic and inattentive task."

In simple words, the purpose of all managerial actions is to be oriented towards the objectives. In other words, by determining management by objectives, the management process is done on this basis.

According to the management by objective, the

objective is to arrange a systematic philosophy and technique of management, at each stage of the organization, determining objectives, goals and obligations jointly, planning effective work and evaluating performance in the context of achieving goal. In other words, management by objective is a time-bound, organized method, to determine the general objectives mutually by management and subordinates, to define the area of responsibility of each person in the context of the expected outcomes (target) and on the basis of it subordinates create their own action plan and its progress and performances are evaluated by the authorities to evaluate the progress and results of their work.

"Management by Objectives" is defined by various scholars as follows: -

According to Anne Raya, *"The management by result is the oriented philosophy which emphasizes on achievement and results."*

Generally, its goal is to increase individual and organizational effectiveness.

According to Aureen Uris, *"Fundamentally, management by objective is a simple concept; it is guided or path-directed work performance and achievement by the desired results."*

According to Cast and Rosensgev, *"MBO is one of the most comprehensive approaches to integrating personal and group goals with broad organizational goals". 'Managing by Objectives' attempts to structure this type by including all the levels of management in the goal-setting process. In each of these programs, each manager works with his subordinates in setting specific action plans for setting up and achieving goals. "*

It is clear from the appropriate definitions that "Managing by Objectives" is a process and

system in which all levels of managers and subordinates jointly determine institutional, departmental and individual objectives, and then conduct managerial activities for their achievement. By which resources can be used effectively, and integration into the person, organization and environment can be established.

Managing by Objectives: Nature

The nature of 'management by objectives' can be understood by its characteristics-

1. This is a functional concept, which gives utmost importance to the process of objective determination.
2. This concept emphasizes the process of determining objectives, not on the means of their implementation.
3. This outcome is an ideological philosophy.
4. This ideology is based on the idea of participation, which believes that people are more committed to the objectives set by them.

Managing by Objectives: Benefits or Attributes

The management system has many benefits through objectives. In this, the entire institution, the higher managers and the subordinate employees are benefited. The following is the description of the benefits they receive -

(A) Advantage to the Organization: By adopting the management by objective, the institution can have the following benefits:

1. Best Management: - The management system improves managerial skills and performance according to the objective. By adopting this system, the managers achieve their organization's goals.
2. Best planning: Effective planning is possible through clear determination of purpose,

construction of action plans and determination of liabilities.

3. Clarity of the organization: The position of organizational roles, structure, power, delegation, work, etc. with this system becomes very clear.

4. Committed Execution: 'Management by Objectives' creates commitment among employees in their work and objectives. Their goals are clear before each employee, and he is working to get something.

5. Effective control: Effective control over employees, goals, plans, activities, work progress etc. due to 'management according to purpose' remains.

(B) Advantages of higher managers: - Managers benefit from 'Management by Objectives'. These advantages are as follows:-

1. It is easy to guide subordinates.
2. Assessment of the functions of the subordinates gets the proper basis.
3. Subordinate can be easily motivated.
4. Coordination between departments and employees becomes simpler.

(C) Advantages of subordinates: -

The subordinates receive the following benefits from 'management by objectives': -

1. The employee gets the knowledge of his goal, so his attainment becomes simpler.
2. Work satisfaction increases, and disappointment ends.
3. Subordinates are motivated to do more work.
4. They can understand the expectations of their managers well.
5. Due to continuous interaction with senior managers, misconceptions do not arise.
6. Personal initiative and capacity increase.

Managing by Objectives: Limitations

As with other management techniques, the system of management is also not free of limitations. Many scholars have criticized it, and have mentioned the shortcomings. The following are some of the major limitations:

1. **Difficulty in Objective Determination:** The object elements of management by objective are 'objects', but there are many difficulties in determining the exact and verifiable objectives. The task of objective determination is not easy due to future uncertainty, difficulties of forecasts, dynamic environment, government policies, interventions of objectives etc.
2. **Balance Problems:** To maintain harmonization and balance between short-term and long-term objectives is also an important problem of management.
3. **Difficulty of insecurity:** In spite of rapid changes in policies, priorities and conditions, it is not possible to make any changes in the objectives according to them. As such, the employees continue to follow the unrealistic purposes, but such objectives are meaningless.
4. **Other flaws**
 1. Lack of participation and cooperation of higher managers.
 2. Increasing pressure of excessive time on subordinates. Preferences are not fixed.
 3. subordinates are not properly motivated. Absence of proper rewards and accreditation.
 4. Individual conflicts among the senior manager and subordinate.
 5. Managers lack the true integrity of the program.
 6. According to some scholars, excessive time is spent on 'management by purpose'.
 7. The main thrust of the management according

to the objective is 'outcome', so the proverb that "can prove the justification of the objective resources" applies in this regard. As a result, employees also adopt wrong means for achieving results.

8. It ignores long term planning and emphasizes short-term goals.

Management by Exception- MBE

Business management has become a very complex task in modern times. Increasing competitions are compelling managers that they should focus on the contribution of cost and benefits in all areas of business. In the absence of the organizer's organized and systematic plan, the manager can be loaded with the bulk of the information, and the management work can be beyond his ability, even if he work for hours. In these circumstances, the technique of "management by exception" can contribute significantly. Because this technique of management emphasizes the need to present only the information before higher managers, which they need, and their attention also needed to attract specific problems and circumstances only when it is required. This technique is adopted in all areas of business management equally. Depending on the important managerial function like 'exception by management principle', the unnecessary managerial intervention in the working area of the subordinates also ends, and the purpose of control is also fulfilled. This system emphasizes the need to focus on complex, important, necessary and creative matters, by removing attention from unnecessary and secondary importance.

"Managing by Exception" is the technique, which states that the attention of the higher managers should not be attracted in all those tasks and

matters, which are regularly giving the results of the prescribed outcomes. Those tasks should be done by the subordinate managers only. The attention of the higher officials should only be attracted to the circumstances and matters which are arising out of the exception. According to Lester R. Betel, MBE is "the system of identification and communication that gives a signal to the manager at the time when his attention is needed.

On the contrary, this system remains calm till that time, that the management's attention is not necessary. "The primary purpose of such a system is to simplify the management process so that the problem can be addressed as quickly as possible, and on those individuals and matters higher managers do not have to spend time on which their subordinate are already paying good attention to.

According to Raymond McLeod - "Most managers have so many responsibilities that paying proper attention to all matters is impractical or difficult. Managers should focus their attention on very good and extremely bad execution."

According to the management scholar Star - "When the program is going on well, the manager does not work there. When the exception (problem, obstruction, importance) arises, then the manager is required, and he uses his discretion. This work or process is called 'Management by Exception'.

In short, we can say that the management by the exception of "precedent" is the system that encourages managers to search for those exceptions, which allow them to use their creative abilities. Thus "This is not only the technology of control but also the method of finding opportunities".

Management by Exception: Importance

The history of the application of this technique is quite old, but its application in the field of business was identified at the end of the 19th century. The credit for the identification of the application is given to the father of the scientific management Taylor. Taylor and other leading people of scientific management have considered this technique as useful for effective management and prevention of excessive management.

In essence, the importance of this system can be understood in terms of the following benefits being received from it-

1. The personal time of managers saves.
2. Executive efforts can be focused on the desired time and place.
3. Complex problems and cases cannot escape the attention of high officials.
4. It is easy to provide broad coverage to the managerial sector.
5. Decision-making frequency can be reduced.
6. The full use of information available for synchronization, history and trends is possible.
7. People with more Qualified and High Salaries can be employed on higher affluence.
8. Crisis and difficult problems can be known quickly. Management can be cautious about opportunities and difficulties.
9. Qualitative and quantitative criteria are set for evaluation of circumstances and individuals.
10. It is easy for Experience-less or less experienced managers to complete new tasks without training.
11. Extensive information about all aspects of business activities and encourages effective

communication between different parts of the organization.

Management by Exception: Limitations

The major limitations are as follows-

1. This organization enhances personal views of the individual.
2. It is often based on incredible synchronization.
3. It requires extensive observation and reporting which is not possible.
4. It increases paperwork.
5. It often follows an inauspicious stability in business matters, while such stability is not noticed.
6. This system assumes that all the work is being done properly in the absence of presentation of exceptions. This gives false security to management
7. This system does not properly measure many components such as human behavior.

Strategic Management

It is a matter of determining the nature of various actions keeping in mind the internal and external components for achieving the objectives of the organization. According to the U.S. Stanford Research Institute, Strategy is a methodology in which the organization uses its main resources and efforts to achieve the objectives in view of the environment. "Strategic management means the future direction for the organization to achieve pre-determined objectives. It is about making decisions and implementing those decisions.

According to Stoner & Freeman- "strategic management is such a management process, which forces an organization to plan strategies and execute those plans"

According to Gulick, "Strategy is a stream of

decision-making and action, which paves the way for the development of effective strategies to help in achieving corporate objectives. It is the path of strategic management process in which the strategist decides the objectives and makes strategic decisions.

Thus, the meaning of strategic management is such a managerial process of determining the objectives of the organization, formation, implementation and execution of the composition, and the appropriate corrective steps related to them are taken from time to time.

Strategic Management: Characteristics

The following are the strategic management features.

1. **Formal Managerial Process:** - Strategic management is a formal managerial process, because under it the remedial steps related to the organization's purpose, design, and implementation are taken.

2. **Managers' Commitment:** - It manifests the commitment of managers in such a way that they will adopt certain strategies and will provide such resources so that the purpose of the organization can be met.

3. **Systematic Process:** - It is a systematic process because rational and sequential steps are used to achieve the pre-determined objective of the organization such as analyzing the environment, determining objectives, constructing strategies, implementing, evaluation and follow-up etc.

4. **High Level Management:** - The purpose of strategic management is done by the high level management in the organization. For this, they develop the overall organization's objectives and strategies, manage operations and develop

administrative management.

5. Means and Instrument: - Strategic management is related to both the means and the instrument. The reason for this is that it emphasizes the management of an organization as a means of achieving its goal, keeping in mind the relationship with its environment.

6. Instructional Planning: - Since strategic management is done keeping in mind the long-term goal.

Therefore, it is the instructional planning to inspire the organization's efforts in a certain direction. Therefore, in order to guide the organization, policies are created, short-term and long-term objectives are established and strategy is decided so that the objectives of the organization can be achieved.

7. Dynamic Process: - Strategic management is a dynamic process because changes in business objectives, policies, decisions and evaluation are done in accordance with changed circumstances in the different areas outside the organization and within the organization. Not only this, it is also needed due to the interest of the various interests groups of organizations within the organization.

8. Future-oriented Process: - Strategic Management is the process of forward-looking, because under it future events, opportunities, challenges and vulnerabilities are estimated. Apart from this formulation and implementation of strategies are according to the future assessment. In relation to this, Pierce and Robinson said, "This is a future-oriented plan adopted by managers to interact with their competitive environment."

Strategic Management: Importance

The success of modern business depends on

winning the tough competition. Today, in this cut-throat competition and globalization environment, the importance of strategic management has increased due to defeating other companies. Apart from this, making a profit in competitive environment is also not an easy task. For this, the institution has to resort to strategic management. The importance of strategic management is as follows: -

1. Efficient operation of business: - Efficient operation of any business is possible by strategic management. The reason for this is that changes can be easily assessed with this type of management, innovation can be done to take advantage of new opportunities and by estimating the future, the business risk can be reduced, its Additional business opportunities can be availed

2. Clarity of Objectives: - Through strategic management, the employees of the organization are aware of the objectives of the organization, so that they can follow them and be motivated to achieve objectives. Thus, it is known to the employees that what is the organization hoping for them, and where is the organization going?

3. Facing environmental challenges and the benefits of opportunities: - With strategic management, managers are able to cope not only with environmental challenges, but also qualify to take advantage of special occasions. In the same way, this task also helps to managers to better manage and continuous adjustment with the environment.

4. Help in the best decision: - Strategic management helps in making best decisions, because-

(a). He provides them with essential elements and information.

(b). Helps investigate the main problem of the institution.

(c). This is a safe way to make important decisions.

(d). It shows the best option.

(e). Force managers to think of the future.

5. Increase in the ability and capacity of the organization: - The ability of the organization to increase through competency management and capacity is the reason that it establishes optimal coordination with the environment, helps in reducing conflict in performance, and ensures success at low line level. In addition, it also reduces the interval and repetition between the actions of different individuals and groups, as it explains the role of each person under participation.

6. Improvement in Employee motivation: - By strategic management, the essential steps contained in strategic planning, the purpose and goal is clarified, inherent productivity - prize relations are praised by the employees. As a result of these entire employee - motivation increases.

7. Decrease in Resistance of Changes: - Strategic management reduces the resistance of changes because it removes their misconceptions, rumours, false assumptions by providing interaction with employees, discusses with them, gives economic inspiration, explains the benefits of appropriate changes and develops the competitive spirit and makes the changes even easier.

EXERCISE

Very Short Questions:

1. What is the nature of the principles of management?
2. What does the principle mean?

3. Who is the founder of 'Managing by Objectives' idea?
4. What is the original mantra of management by exception?
5. Which principles of management have been accepted universally?
6. What is the meaning of 'system of law'?
7. What condition or situation of the market has emphasized the adoption of Strategic management techniques?
8. What is 'Management by Objectives'?
9. What is called Strategic management?

Short Answers Questions:

1. In the case of "mutual interest conflict", what kind of interest did Fayol suggest?
2. Instructional suggestions for the delegation of the authority are inherent in which of the principles of Henri Fayol?
3. When was the publication of the English edition of the famous book of Henri Fayole in America?
4. In what six categories Fayol has divided all the activities of the industrial organization for the research work of management problems?
5. Who is the leader of 'Management by Exception'?
6. The focus of managers is concentrated on complex and necessary matters; what management techniques should be used for this?
7. Which management technique includes mutual determination of objectives of the organization,

department and individual?

8. Explain any two benefits of management by objectives.
9. What managerial techniques should be used to take advantage of the opportunities available in the environment and to meet the challenges appropriately?

Essay Type Questions:

1. What does the principle of management mean? Describe Fayol's management principles.
2. Describe the contribution of Henri Fayol in the field of management.
3. Discuss the idea of 'management by exception'.
4. What do you understand by 'management by objective' technique? Explain its advantages and disadvantages.
5. Write comment on strategic management in detail.

Chapter - 4

Motivation

In the current times the main objective of every organisation is efficient and best utilisation of human resources. Efficient utilisation of human resource is challenging and complex task for any organisation. This is because every individual has different perspective of completing work. Under all the available resources of production human being is the only resource which is living and dynamic in nature. To achieve the organisation objectives in efficient and effective manner, it is important to motivate the employees in right manner. Motivation minimises the difference between the individual's capacity to work and actual capacity they are using to perform a work. Motivation acts as a psychological power which drives individual to achieve organisational objectives.

Meaning and Definitions of Motivation

Management is a novel concept and motivation is an integral part of management function. Introduction of new thoughts and constant research in the field of motivation has generated different viewpoints of renowned scholars about the concept of motivation. Luthans has rightly said that “Today every individual, layman and renowned scholars have their own definition of motivation.”

In general terms, motivation is an internal feeling or emotion which motivates employees to achieve predetermined objectives. Some of the important definitions of motivation are as follows:

According to Stanley Vance “Motivation is that feeling which changes the urge of an individual that they are motivated to work.”

In the words of Koontz & O'Donnell, “Motivation is driving people to work in a desired manner.”

According to MC Farland, “The concept of motivation is mainly psychological. It relates to those forces operating within the individual employee or subordinate which impel him to act or not to act in certain ways.”

According to William G. Scott, “Motivation means a process of stimulating people to take action to accomplish desired goals.”

According to William Glueck, “A motivation is an inner state that energises, activates or moves individual behaviour towards goals.”

Thus, by studying and analysing the definitions described above, it is clear that motivation is an important task of management, which studies the emotions, desires, feelings and needs of an individual's to satisfy them, so that individuals work with full efficiency to achieve organisational objectives.

Characteristics of Motivation

After studying the various definitions of motivation following important characteristics of motivation are derived such as:

- It is a continuous process.
- It is a psychological approach.
- It satisfies human needs and wants.
- Human resources can only be motivated.
- Motivation has different techniques.
- Motivation is not cause of satisfaction but result of it.
- Motivation is different from morale.
- It is the reason and result of managerial

success.

- It increases the individuals working capacity and work effectiveness.
- Under motivation process the whole individual is motivated.

Motivation: Need and Importance

From all the available factors of production, human resource is the only factor which is alive and active. The individual can be kept active and alive through motivation. If the human resource gets prepared to work through motivation than all the other factors of production can be used efficiently, which will result in easy achievement of organisational goals. Considering the importance of motivation Rensis Likert had stated that "motivation is the core of management."

Motivation is basically related to human being. Through motivation performance is improved and individual is satisfied. If the employees of any organisation are not motivated, then their efficiency and capacity will be depreciate a day by day. Thus Allen has rightly said "Poorly motivated people can nullify the soundest organisation."

Before studying the importance of motivation in detail one should clearly understand that studying human behaviour is a complex and a challenging task. Through motivation employees desires, emotions, aspirations, feelings and wants are understood and their behaviours are made favourable for the achievement of organisational goals. Feeling of belongingness, dedication and faithfulness amongst the employees is developed towards organisation, once they are motivated. The Ex-chairman of General Food Corporation Clarence Fransis has rightly described the importance of motivation by stating that "you can purchase any person's time, you can purchase

physical presence of an individual at special place but you cannot purchase enthusiasm, initiative and faithfulness. The importance of motivation is described in points given below :

1. Helps in achieving determined Goals

To achieve the predetermined goals and objectives of any organisation motivation plays an important role. Through motivation employees are motivated to accomplish those tasks which will help in achieving organisational objectives. Even though the organisation has in abundance the financial resources, good quality of raw material, best and modern techniques of production, but in the absence of appropriate method of motivation organisation cannot achieve desired objectives. Allen has rightly said that "Inadequately motivated employees will reduce the impact of sound organisation."

2. Increase in Job Satisfaction

The interest towards the work performed by the employees can be increased by motivation. If the employee does not have interest in the task assigned to him he will never feel enthusiastic about that task. Not only this, employee will always compare the profits received by him with others and when his profits are more than others then only he will be satisfied and motivated. Motivation increases the satisfaction level of an employee by fulfilling his desire by means of financial and nonfinancial motivation techniques.

3. Proper Utilisation of Resources

To effectively utilise the organisations resources it is important to motivate the employees. If an efficient employee is not motivated properly then his working efficiency will be equivalent to an inefficient employee. With the help of motivation

employees capabilities can be developed for organisational benefit. Highly motivated employee always places organisational gains to first to priority than his personal gains.

4. Improves Morale

Morale is synonym to the desire to work. Due to motivation, employee's needs are fulfilled and they get mental satisfaction. As a result of mental satisfaction employees behaviour and attitude towards organisation becomes positive and they develop desire to work best for the organisation.

5. Build good Labour Relations

Motivation lays emphasis on the notion that employees are human being. Thus they should be treated well with respect. Motivation acts as a bridge of cooperation and trust between the management and the employees. Because of this corporation employees complain, strike, lockouts and conflicts are reduced which develops better labour relations in organisation.

6. Reduced Employee Absenteeism and Turnover

Motivated employees are satisfied with work and working condition. To achieve organisation objectives they always give positive contribution as a result of this employee absenteeism is reduced. Motivated employees stay longer in an organisation which reduces labour turnover rate. Employee's turnover and absenteeism can be reduced with adequate motivating methods substantially in an organisation.

7. Basis of Managerial Functions

Motivation is vital to perform the managerial functions such as planning, organising, coordination, direction, controlling etc. If

employees are not motivated properly then they will not properly execute these functions of management. According to Breach, "Motivation is the key to the effectiveness of all management functions."

8. Facilitates Change

Normally the employees have negative approach towards the change initiated in an organisation, due to this negativity they always resist changes in organisation. Through motivation negative philosophy of an employee can be changed to positive philosophy in trouble-free manner. As a result of this employees will simply accept the technical and conceptual changes in the organisation.

9. Development of Team Spirit

Due to the implementation of motivation techniques employees are satisfied and benefited and amongst the team they develop emotion of affection, corporation and coordination. With the development of these feelings team spirit is developed in an organisation.

10. Enhances Corporate Image

In the business world the goodwill of an organisation is increased if it keeps its employees happy and satisfied. Employees also prefer working in those organisations which fulfill their needs and desires. In such organisations employees of other organisations are also willing to work.

11. Key to Behavioural Management Action

E.F.L breach has stated that motivation is key to behavioural management and its effective execution is prime task of a manager. In all the management functions motivation is most important. Effective execution of motivation can

only bring momentum in other managerial functions.

Techniques of Motivation

To motivate the employees various resources and techniques are used by the organisation. From the point of view of study these techniques can be classified into two heads:

Financial techniques

Financial techniques play an important role in motivating the employees. Management thinkers unanimously agree to the importance of financial techniques. Financial techniques are related to money or monetary motivation. It is a proven fact that monetary gains satisfy the basic needs of an individual along with the social and leisure needs. High salary, salary increment, bonus, participation in profit, pension gratuity, insurance, and employee stock plan options etc. are all techniques of financial motivation.

Non-financial technique

Non-financial technique of motivation has no relationship with money or currency. These techniques are more psychological in nature, which helps in fulfilling the desires and feelings of an individual. These techniques can be both individual and group related. Individual related non-financial techniques of motivation are promotion, opportunity for growth, job enrichment and recognition. Group discussion, participation, conferences and seminars, group training etc are different types of motivation techniques for a group. Some important non-financial techniques of motivation are discussed in detail below:

1. Status and Job Security

Job security is provided to the employees

continuously by providing them permanent job. By providing job security, employees become free from the risk of retrenchment and termination etc. and it becomes easy to motivate them. Similarly, the employees also want to achieve higher positions in hierarchy and maintain their current positions, this can be done by giving them job security.

2. Praise and Honour

Employee should be publicly praised and honoured when they successfully complete their responsibilities. Employees self respect, self confidence and morale are increased when they are praised and honoured. They can be praised and motivated by giving promotions, certificate of appreciation and recognition.

3. Participation in Management

Employees can be motivated by encouraging their participation in important decision making, in setting up of organisational objectives, goals, strategies and policies etc. Employees become more responsible and creative when they participate in decision making, and it increases the sense of belongingness towards the organisation. By participating in decision making, the employees get abided by the decisions and the goals of the organisation are easily achieved and the employee feels proud of themselves.

4. Effective Leadership and Supervision

Effective leadership in an organisation always have positive and respectful attitude towards the employees, they show interest in solving employees problem. While supervising the employee's leaders should show positive behaviour towards them, which leads to harmonious and cordial relationship with the employees. Effective

leadership always generates the interest of employees towards the work. Supervisor plays an important role while motivating the employees. A good supervisor creates informal relationships with employees with their human behaviour and practical and collaborative supervision, it increases the enthusiasm and interest of employees for attaining goals.

5. Delegation of Authority

When employees are given responsibility to perform a task then appropriate authority should be given to them to perform the work. Top management can motivate the subordinates by delegating the authority. Right amount of authority delegated to employees awakens confidence of employees, and it encourages a sense of work and increases the working capacity of the subordinates.

6. Job Expansion and Alteration

Job expansion and alteration are a useful way out for motivating employees. Under this instead of delegating work to single individual, work is delegated to group which helps in developing social relations while executing work. In job alteration employees are shifted from one job to another job to reduce monotony and increase their interest towards work. Employees experience and psychological growth is enhanced through job alteration.

7. Group Discussion

Under group discussion companies employees get involved in group decision making by thinking analytically. Employees get opportunity to present their point of view and understand the point of view of other employees. Through this method employee's confidence, morale and knowledge is increased.

8. Opportunity for Development

Employees can also be motivated by giving them opportunities to enhance their skills and capabilities. For this organisation should organise training and development programs from time to time for the employees.

9. Competition and Challenges

Many employees of the organisation do not work with full commitment even after being efficient, thus healthy competition should be encouraged amongst employees to motivate them. Employees put all the efforts to set the new records and win the competition, they feel proud in accepting the challenges and winning them. To motivate the employee's organisation should set challenging goals and tasks for the employees.

10. Healthy Environment

Healthy working environment at workplace gives employees satisfaction and satisfied employees work hard and with more interest for the organisation. The working conditions should be good in an organisation. Not only this but the place where employees rest after the work should also be neat and clean.

Theories/ Concepts of Motivation

Various management thinkers, psychologists and social scientists have given different theories of motivation. The renowned contributors to motivation theories are Abraham H. Maslow, Herzberg, McGregor, William Ouchi, Mary Parker, Rensis Likert, Vroom etc. Some of the important theories of motivation are discussed below:

Maslow's Hierarchy of Needs Theory

This theory of motivation was proposed in year 1943 by famous psychologist Abraham H. Maslow, which is one of the best theories of motivation. It is

based on the concept that human needs are infinite and they strive hard to satisfy these needs. According to Maslow, employees can be motivated if their unsatisfied needs are identified and these needs are satisfied by the organisation. According to Maslow every individual has hierarchy of five needs which are as follows:

1. Physiological Needs

Physiological needs are the primary needs of human being. To maintain the existence of a human life, fulfilling physiological needs is essential. These needs are most important, effective and powerful which are satisfied by an individual in any condition. These needs include food, clothes, shelter, love, fresh air and sunlight. When these needs are satisfied they no more motivate the individuals.

2. Safety Needs

These are also known as security needs which arise once the physiological needs are satisfied. These needs are concerned with protecting oneself from physical and emotional danger by safe guarding against the uncertain future. Safety needs mean physical, economic and psychological safety. Physical safety means saving oneself from accidents, diseases and other unforeseen situations. Economic safety means security of employment and making provision for old age such as pension and retirement plans.

3. Social Needs

Once the basic physiological and security needs are satisfied, people seek relationships from which their need for love and belonging can be satisfied. Man is a social being and wants to live in society with honour, respect and position. He seeks love, affection, belongingness, care and friendship from

the others and society. These needs are met through pleasing and fulfilling relationships with others. A pleasing and fulfilling relationship would imply acceptance of individual by others. If social needs are not satisfied then the individuals turn out to be rebellious and non cooperative.

4. Esteem or Ego Needs

After satisfying social needs, individual's ego and esteem needs arise. Esteem needs are for a higher position within a group and act to foster pride in the work and in themselves as individuals. The esteem needs are concerned with self respect, self confidence, feeling of personal worth, feeling of being unique and recognition. These needs include self-esteem, respect, achievement, confidence, recognition, and accomplishment. From these esteem needs some of the needs are satisfied and some needs remain unsatisfied for lifelong. Individuals with special capabilities and skills can only satisfy these needs. These needs of layman generally remain unsatisfied.

5. Self Actualization needs

According to Maslow the final step under the need hierarchy model is the need for self-actualization. This level of need pertains to what a person's full potential is and realizing that potential. "What a man can be, he must be" is the basis of the perceived need for self-actualization. Maslow describes this as the desire to become everything that one is capable of becoming. The self-actualization needs are never fully satiable. As an individual grows psychologically, opportunities keep cropping up to continue growing. For example- a musician wants to be proficient in the art of music, an artist wants to gain proficiency in creating works of art and similarly, a poet wants to be an expert in the art of

writing poems.



Herzberg's Two Factor Theory

The motivation's two factor or hygiene theory was proposed by a well known psychologist Fredrick Herzberg. Herzberg and his associates conducted interviews of 200 Engineers and Accountants working in 11 different companies in the Pittsburgh area in Pennsylvania of the United States. They were asked to relate elements of their jobs, which made them extremely happy or extremely unhappy. The researchers asked the respondents questions such as

- When did you felt exceptionally good about your work?
- When did you felt exceptionally bad about your work?

Herzberg analysed these responses and grouped them into factors namely: Hygiene Factors and Motivator.

Hygiene Factor: Herzberg found that there are some factors which are necessary to maintain a reasonable level of satisfaction among employees. These factors do not provide any satisfaction to the employees but their absence will dissatisfy them.

Hence these factors are called dissatisfiers or hygiene factors or maintenance factors. The hygiene factors are related to job environment which are mainly:

- Company policies
- Administration
- Working conditions
- Supervision
- Interpersonal relations
- Salary or wages
- Fringe benefits
- Job security

Motivating Factors: These factors are necessary to satisfy employees. These factors provide satisfaction to the employees but their absence does not dissatisfy them. These are intrinsic parts of the job content. These factors are also called satisfiers or motivators because the presence of these factors satisfies the employees. These factors are:

- Achievement
- Recognition and Honour
- Development or advancement
- Responsibility
- Personal development
- Nature of job

According to Herzberg motivating factors has deep influence on the performance of organisation. These factors help in creating better environment in the organisation which influences the capabilities of the individuals. These factors maintain the work performance of the employees. Thus they are also called as maintenance factors. Herzberg has concluded that only motivating factors can motivate an individual.

“X” and “Y” Theory of McGregor

Motivation's theory 'X' and 'Y' was propounded by

renowned writer and psychologist Douglas McGregor in his book named "Humans side of Enterprises." Theory X and Theory Y suggested two aspects of human behaviour at work, one of which is negative, called as Theory X and the other is positive, so called as Theory Y. According to the perception of McGregor individuals can be motivated after studying the aptitude of employees based on these theories.

Theory "X"

Theory X has negative approach towards the employees. This is the traditional theory of human behavior which emphasizes on controlling the human being. The main assumptions of this theory for the employees are as follows:

1. The average human being has an inherent dislike of work and will avoid it if he can.
2. He lacks ambition, dislikes responsibility and prefers to be directed.
3. He is inherently self-centered, indifferent to organizational needs.
4. They resistant to change and likes working with traditional methods and hence there is little scope for the development and research.
5. Since the employee does not want to work, he must be persuaded, compelled, or warned with punishment so as to achieve organizational goals.
6. He is gullible, not very bright.
7. They work for economic and monetary gains.

Theory 'Y'

Theory Y offers a positive view towards employees, assuming that people can exercise self-direction, accept responsibility and consider work to be as natural as rest of play. The main

assumptions of this theory of employees are as follows:

1. Employees assume work as a natural part of life and likes work.
2. They are ready to accept new methods and changes.
3. They are ambitious and ready to see the responsibility.
4. These employees are more creative and imaginative.
5. They are self motivated and self directed.
6. These employees make maximum use of their capacity and efficiency.
7. These employees are motivated for self esteem and self actualization but not for the primary needs.

William Ouchi's Z Theory

The theory Z of motivation was proposed and propounded by Professor William G. Ouchi. In his book published in year 1981 named "How American business can meet the Japanese challenge", he discovered theory Z. Professor Ouchi studied the management practices of big companies of America and Japan, he concluded his research under the name Z theory based on his observations.

Theory Z is based on the analytical study of management practices of American and Japanese companies. He gave emphasize on the positive aspects of the companies of both the countries. Professor Ouchi has identified best Japanese management practices which are superior than the American management practices. According to Professor Ouchi three fundamental basis of Japanese management are trust, subtlety and intimacy. According to him all these factors can motivate employees. The main characteristics of

theory Z are:

1. Lifetime Employment

According to Prof. Ouchi employees should be given lifetime employment opportunities. In Japanese organisation once the employees are appointed for the job, they are not retrenched or terminated in the times of recession and the company bears all the cost and losses. This makes employees loyal and committed towards the organisation.

2. Slow Evaluation and Promotion

Ouchi concluded in his research that Japanese management is of point of view that efficiency or effectiveness of organisation is result of group efforts rather than result of an individual effort. Therefore an individual should not be promoted on the basis of his personal achievements rather his promotion should be based on how he motivates the group. He also emphasized on horizontal promotion of employees in place of vertical promotions. He suggested that performance of employee should be evaluated over a long period of time using both quantitative and qualitative techniques. Japanese management for the first time evaluates the performance of their employees after 10 years of continuity on job.

3. Career Paths

In Japan much emphasis is not placed on specialisation of managers in particular field. This theory assumes that employee's career path should be based on non specialised basis. Japanese management laid emphasis on policy of job rotation so that managers can understand work of different departments.

4. Emphasis on Humanity

This theory suggests that management should show concern towards their employees and also towards employee's families, his hobbies, ambitions etc. Employees should be treated with humanity, care and affection by the organisation.

5. Collective Decision Making

Theory Z suggests that involvement of employees in related matters improves their commitment and performance. Involvement implies meaningful participation of employees in the decision-making process by asking their suggestions and feedbacks, particularly in matters directly affecting them. Such participation generates a sense of responsibility and increases enthusiasm in the implementation of decisions.

6. Human Resource Development

Managers and team leaders should take up the responsibility to develop the capability of employees and enhance their performance. The contribution of each and every employee is identified and their skills are developed through training and coaching. Employees and subordinates path of growth and success can be ensured through job enlargement and enrichment.

7. Informal Control

Organisation should develop informal relation with the employees and informally control the employees. For this purpose emphasis should be on mutual trust and cooperation with employees rather than on superior-subordinate relationships.

Hence, it can be reiterated that theory Z is a combination of Japanese and American business management styles. While Japanese management system comprises group decision-making, security

in job, employee welfare, etc, American system of management includes taking risks and quick decision-making.

EXERCISE

Very Short Questions:

1. What is Motivation?
2. Write the name of Maslow's need hierarchy.
3. Narrate the main needs of Maslow's physiological needs?
4. Write names of two techniques of motivation.
5. State the 'Hygiene factors' of Herzberg.
6. Explain some forms of non financial motivation.
7. Write the motivating factors of Herzberg.
8. Who invented 'Z' theory of motivation?

Short Answers Questions:

1. Narrate any four characteristics of motivation.
2. Explain the Maslow's love of belongings need.
3. State the main assumptions of McGregor's Y' theory.
4. Describe the main assumptions of McGregor's 'X' theory.
5. Explain the financial motivation.
6. Narrate the main points of Hygiene & Motivating factors.

Essay Type Questions:

1. What do you mean by Motivation? Explain its main characteristics.
2. Define the motivation and enlighten its importance.
3. Explain the various theories of motivation.
4. Explain in detail the Maslow's theory of motivation.
5. Discuss critically the Herzberg's theory of motivation.
6. Explain the theory 'Z' of William Ouchi.

Chapter - 5

Leadership

Leadership holds a vital place in world of management. The success and failure of an organisation to an extent depends upon the responsible leadership. In the absence of effective leadership no organisation can climb the ladder of success. In any organisation work performed by a group can be implemented effectively with the help of efficient leadership. Manager should fulfil his leadership responsibility effectively to ensure success of organisation. According to Peter F Drucker "Manager is a major and scarce resource of production in any organisation. The important reason of failure of most organisations is ineffective leadership."

Meaning and Definitions

Leadership has been define differently by different scholars, Behavioural Management thinkers has defined leadership as a process of influencing others. While other management thinkers have defined, leadership as an art to give directions and instructions to followers to achieve organisational goals. In general terms, leadership is that quality of an individual which he guides others. Some of the important definitions of leadership are as follows:

According to Chester I Barnard, "*Leadership is that behavioural quality of individuals where they guide individuals or their activities in group effort.*"

According to Wehrich and Koontz, "*Leadership is the art or process of influencing people so that they strive willingly and enthusiastically towards the achievement of group goals.*"

According to George R Terry, "*Leadership is the ability to influence others to willingly contribute for mutual goals.*"

According to Franklin G Moore, "Leadership is the ability to prepare individual for action according to the wishes of the leader."

According to Keith Davis, "*Leadership is the ability to persuade others to seek defined objectives*

enthusiastically. It is the human factor which binds a group together and motivated towards the goals." Thus it is clear that leadership is an individual quality through which an individual influences desires of others to achieve organisational goals willingly and enthusiastically.

Characteristics of Leadership

The various characteristics of leaders are highlighted after studying various leadership definitions:

1. Personal ability or quality

Leadership is a personal quality of a leader. It is a behavioral quality of a leader rather than physical quality. Leader through his behaviour influences others and motivate them to achieve predetermined objectives. Bernard has stated that leadership is that quality of individuals behaviour through which he directs and guides others.

2. Followers

The leadership always presupposes followers, without followers a leader cannot exist. Leadership can only be exercised on subordinate a group of followers. In the absence of followers leadership is incomplete and meaningless.

3. Art of Influencing

Under leadership a leader influences his followers in such a way that they are ready willingly to perform a task. A leader does not imposes his wishes or desires on others rather he influences others by his direction and exemplifying his behaviour to willingly contribute to organisational goals.

4. Community of Interest

A leader and his followers should always have common goal. If in any organisation the goals of leader and followers are different than leadership cannot be effective. George R. Terry has rightly said leadership is the activity of influencing people to strive willingly for mutual objectives.

5. Leadership Ability can be Developed and Achieved

Traditional concept states that leaders are born they

cannot be made, but in modern times this concept has changed. Today leadership quality can be developed in a systematic way by constant education and training. To develop this ability help of working environment, rights and initiatives factors are used. Professor Ross and Hendry are of opinion that, “leadership ability takes birth, it grows and it can be achieved.”

6. Based on Interpersonal Relationship

Leadership is based on the interpersonal relationship between leader and subordinates, between leader and leader, between followers and followers. Thus leader influences his followers and at the same time gets influenced by the followers.

7. Exemplary Conduct

Followers are influenced by the conduct and behaviour of their leader. Thus the behaviour of leader should always be like a role model to the followers. His saying and doing should be similar. He should always show ideal behaviour to his followers so that they can follow the leader. According to Urwick, followers are not only influenced by what their leaders do, write but they are influenced by who leader is, what work he performs and how does he behaves.

8. Dynamic Process

Leadership is a dynamic and continuous process. The function of leadership is carried forward from establishment of organisation to its existence. Leadership's different techniques and methods can be used according to the different situations, thus leadership is conditional.

9. Formal and Informal

Leadership can be formal and informal. Though the position of leader is formal in an organisation but at times leader may initiate informal style of leadership to win the confidence of followers.

10. All Managers are not Leaders

One of the important characteristics of leadership is that all the managers are not leaders. A manager has authority to get the work done by the others but leaders get work done by the subordinates willingly. Thus leadership and management are different.

Qualities of leadership

Success and failure of any organisation depends upon the quality of leadership presented in

organisation. Thus a leader should have special qualities to be successful. Various scholars have identified different qualities of a leader. According to renowned scholars leaders should possess following qualities:

1. According to Henri Fayol, a leader should have following qualities

- Health and physical capabilities
- Competencies and mental balance
- Moral values
- Knowledge and
- Managerial abilities

2. According to Ordway Tead, good leaders should have following qualities:

- Knowledge of goals and directions
- Physical energy
- Friendliness and affection
- Enthusiasm
- Education
- Decision making ability
- Intellectual tact
- Sound Character
- Reliability
- Maturity
- Technical ability

3. According to Chester I Bernard, leader must have the following qualities:

- Decision Capability
- Responsibility
- Courtesy
- Intellectual Strength
- Energetic and Tolerance power
- Social Consciousness
- Beautiful Personality

4. According to the Stogdill, leader should have the following qualities:

- Physical and structural properties
- Intellectual abilities
- Self-confidence
- Will power
- Initiative
- Courage
- Excitement and enthusiasm
- Originality and alertness
- Socialism

5. C L Urwick has defined various qualities of leader such as:

- Courage
- Will power
- Flexibility of mind
- Knowledge
- Strong character

6. George R Terry has suggested the following qualities for a leader:

- Power
- Emotional stability
- Knowledge of human relations
- Self motivation
- Communication skills
- Social skills
- Technical competencies

After studying the point of view of various scholars it can be concluded that a leader should possess following qualities:

1. Sound Health

A leader should possess sound health and physique. As it is rightly said that sound mind exists in sound body. Leader should have sound health and stamina to work hard, if a leader does not have good health than he will face lot of complications in getting task completed.

2. Sharp intelligence

A leader should be intelligent to be successful. Leader with sound intelligence can only solve problems in complex situations with patience and maturity. Various studies have concluded that a leader should be more intelligent in comparison to his followers.

3. Self confidence and Willpower

Effective leader should have self confidence and will power. A leader with self confidence can win easily the confidence of others. L.F. Urwik has rightly said that, "To gain full confidence of followers a leader should be self confident." Self confidence is the first step towards success. In the absence of will power leader cannot achieve his goals effectively. Complex and complicated task can also be completed easily with strong will power.

4. Vitality and Tolerance

A leader should always remain viable and not lose patience in difficult and uncertain times. Than only leader can give right direction to his followers. A

leader with strong tolerance quality has harmonious relations with his subordinates.

5. Sound character

A leader should possess sound character which can inspire others. If character of leader is weak then he cannot inspire his followers. As it is rightly said, that loss of character is loss of everything. Thus a leader should always possess strong and sound character.

6. Capacity to take decisions

A leader should have an exceptional decision making capabilities to become effective. A leader should have capabilities to select the best alternative to solve the problems looking at the current and future situations. Such alternatives can be selected on the basis of foresightedness and decision making capacity of a leader. In the absence of decision making capacity of a leader an organisation cannot achieve its objectives.

7. Teaching and Technical ability

A leader should have analytical ability to evaluate the work of his followers and improve their performance by taking corrective actions. The leader should have ability to satisfy the curiosity of his followers and give them right direction. A leader should have knowledge of his work related activities, technology, rules and laws otherwise he cannot give right directions to his followers.

8. Motivating ability

A leader should possess ability to influence his followers to work in a particular manner to achieve predetermined objectives. A leader should have knowledge of interest, feelings, emotions and needs of his followers so that he can satisfy his followers and motivate them.

9. Foresightedness

A good leader should always be visionary, he should have ability to forecast future and make plans accordingly. In current scenario change is rapid and the leader who can forecast these changes can achieve success easily.

10. Human approach and capacity to build human relations

Successful leaders always behave well with his followers. The main function of leader is to give direction and get the desired work done by the

followers. Thus a leader should have complete knowledge of follower's desires, emotions, strength and weaknesses. He should also know how to satisfy economic, social and mental needs of followers. On the basis of above facts only a leader can establish harmonious relationship with followers.

11. Sense of Responsibility

A leader should have feeling of accepting the responsibility and fulfilling it. A leader can become effective only when he accepts responsibilities. A leader gets authority by virtue of his position, but authority always comes with responsibility.

12. Team Spirit

Leader should always give importance to the group interest rather than his individual interest. He should always lay emphasis in achieving the organisational goals. If a leader ignores group interest than he can never become a good leader.

13. Social and Tactful

Good leader should always be social and cooperative with others. He should incorporate feeling of mutual trust, team spirit and harmony amongst the followers. He should get corporation from his followers by satisfying their needs. Thus a leader should change his social life and behaviour to inspire followers.

2. Discuss different features of Leadership.
3. Elucidate the qualities of a good leader as suggested by Henry Fayol.
4. Explain briefly any five qualities of a good leader.
5. Which all qualities a leader should possess, according to George R. Terry?

ESSAY TYPE QUESTIONS:

1. What do you understand by 'Leadership'? Explain its features.
2. Elucidate the qualities required to become an efficient leader in management.
3. Explain in detail the benefits offered by Advertisement and limitations of Advertising.

EXERCISE

VERY SHORT QUESTIONS:

1. What do you mean by Leadership?
2. Describe a defecation of Leadership?
3. Give any two features of Leadership?
4. Sate any two traits of Leader?
5. Why good health is required for a Leader?

SHORT ANSWERS QUESTIONS:

1. Explain the meaning of Leadership.

Chapter - 6

MARKETING

The global market is witnessing a sea of changes and the economies round the globe, are refining their business practices continually. There are a large number of sellers in the market and the competition has grown intense more than ever. In such a scenario, **marketing** has emerged as one of the most important business management function. Marketing is so much involved in our day to day lives that it influences every activity that we do. Be it the food we eat, clothes we wear, movies we watch, mobile phones we use; everything comes under the purview of **marketing**. From a narrow perspective, marketing refers to those activities that anticipate the customer needs and direct the flow of goods and services to satisfy them. From a broader perspective it can be defined as a process that directs the flow of goods and services, to establish a balance between demand and supply. However, in the simplest terms, marketing is a process that includes all the activities, starting from what to produce, to the activities done after sales.

The business philosophy has evolved gradually, and so has the role of marketing. This evolution has been since selling surplus goods produced by the companies, till the philosophy of '*customer is king*' and eventually the consumers have become the core of all the marketing activities. Thus regardless of one's business interests, studying the fundamentals of marketing is of much relevance in the present scenario.

Marketing management is a part of the business management. It refers to the planning, organizing, directing and controlling of those activities which

makes the exchange of goods and services easy between the sellers and consumers. Marketing management focuses on obtaining desired results from the market. Here the definitions given by some of the experts are being discussed.

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

According to Cundiff & Still- "*Marketing management is a branch of the broad area of management. It is concerned with the direction of purposeful activities towards the attainments of marketing goals.*"

According to Stanton- "*Marketing management is the marketing concept in action.*"

After going through the above definitions, it can be concluded that marketing management is a branch of general management, in which the study of consumer needs is done and in order to satisfy them analysis planning, implementation and controlling of effective marketing programme is undertaken.

Functions of Marketing Management

A marketing manager performs several functions for directing the flow of goods and services towards the consumers. In other words, the marketing process includes an array of activities. Every function has its own importance and a marketing manager needs to undertake all these functions round the year, to operate the marketing system

successfully. The next section is a brief description of various activities undertaken by the marketing manager:

1. Marketing Analysis: One of the important functions of a marketer is gathering market related information and its analysis. The initiation of marketing activities occurs with the analysis of market. Through this the marketing managers obtain knowledge about their consumers' needs, desires, interests, etc. Also, the information regarding the demand and supply is gathered with the help of market analysis. The managers can also search for prospective consumers with it. Apart from this market analysis is essential for the study of marketing environment, and gathering information about the consumers' purchasing power, income, purchasing objectives etc. Thus, managers are able to understand the existing conditions of the market and their consumers.

2. Marketing Planning: For achieving the marketing objective of an organization, one more function that is important for the marketing manager is the development of a suitable marketing plan. For this a detailed marketing plan needs to be made according to the predetermined objectives, in which increase in the level of production, product promotion etc. activities are included and implementation programmes are also determined.

3. Marketing Communication: Communication is an important function of management. Every marketing manager needs to keep in place an effective marketing communication system. The important elements of marketing communication are advertisement, sales promotion, marketing research, sales creativity, publicity, feedback or survey, etc. The elements like advertisement,

publicity are used for spreading important messages or information to present and prospective consumers and elements like marketing research (survey) are helpful in getting complaints and suggestions from the consumers. Thereby a manager arranges for a two-way communication.

4. Product Design & Development: Another important function of marketing manager is product design and development. Product design helps in making the products attractive for the target consumers. A better design can increase the utility of the product and result in its enhanced competitiveness in the market.

5. Market Segmentation: Any organization cannot satisfy all its consumers with any of the products. Therefore, every organization has to select a particular customer group from the whole market and make efforts to satisfy them. The heterogeneous market is divided/ classified into homogenous groups (sub-markets), on the basis of common characteristics like needs, interests, etc. The organizations can choose one or more markets and design their marketing programme according to the needs of those chosen markets.

6. Standardization And Grading: The term standardization refers to the production of goods according to the predetermined specification in order to maintain uniformity. It assures the purchasers that the goods are according to the predetermined quality, price and packaging. Grading includes dividing the goods produced into different classes according to their type and quality. Both these functions help in identification and price determination of goods.

7. Packaging & Labeling: Packaging includes designing the package for the product. Label means

designing a label for the product. Packaging provides protection to the product's colour and quality. Also, the product is presented in an attractive form so that people are motivated to purchase it. Consumers at times assess the quality of products on the basis of its packaging itself. Packaging has played a significant role in the success of various consumer brands like Lays, Uncle Chips, Pantene Shampoos, and Cadbury Dairy milk etc.

8. Branding: The selection of a right brand-name plays an important role in the success of a product. It is an important decision whether the product should be sold according to the category it belongs to or under a brand name. A brand name distinguishes a product from others. This develops a liking towards that product and it makes the sales promotion easy.

9. Customer Support Services: Customer support services prove effective in promoting repetitive purchases and developing brand loyalty. These services include after sales service resolution of consumer complaints, credit services, maintenance services, technical assistance and providing consumer information. These all are meant to provide maximum satisfaction to a consumer which is a key to success in the present scenario.

10. Price Determination: The demand of a product is directly related to its price. Usually, if the price is low, product demand is higher and vice versa. The price of a product is the amount, which is paid by the consumer in exchange of the product. Price is a significant element which influences the success and failure of a product in the market. The marketers should engage in proper analysis of the price determinant factors and pricing policy.

11. Sales: Under this function, the marketing department transfers the ownership of products or initiates a contract for the same. For this, the activities like determining the price and sales conditions, publication of price list, appointing salesmen etc are undertaken.

12. Transportation: Transportations refers to the movement of goods/products from one place to another. The function is important since it involves the collection of products from different producers and making it available to different consumer timely. It leads to the generation of 'place utility'. The marketing department employs various means of water, land and air transportation. Also, this involves making arrangements for insurance policies for goods transportation.

13. Storage: Generally, there is a gap between the sales and production activities. Therefore the marketing department arranges for storage of products in certain circumstances e.g. when the demand is lower than the supply of goods. Certain products like vegetables, fruits, cereals are produced only at particular time periods or seasons. Such products also need to be stored in order to make them available after the season ends. This function is meant for establishing a balance between the demand and supply of products.

14. Financial Facilities: The function includes making arrangements of adequate finance for activities undertaken like purchase of goods, storage, and for other expenses of the marketing department. The department makes the top management aware of its needs and obtains enough financial aid like loan, EMI, Lease etc. At times, the department itself obtains financial assistance through loans from banks and other financial institutions.

Importance of Marketing Management

The importance of effective marketing is growing day by day. The reasons behind this is the changing consumer needs, rising supply over demand, gaps in consumer behavior and need hierarchy, varying consumer interests, etc. Effective marketing efforts can help the nation in rapid economic development by making optimum utilization of limited resources to meet the consumer needs.

Marketing is a continuous process and the activities involved are undertaken regularly like the market analysis, communication, product diversification, etc. For the convenience of study the importance of marketing management can be divided into following beneficiaries:

1. Importance for the businessmen / enterprises
2. Importance for the consumers
3. Importance for the society
4. Importance for the nation

Importance for the Businessmen/Enterprises:

In modern times, no organization can develop without an effective marketing system. In an era of cut throat competition, the survival, development and success of a business depends upon the quality of their marketing system. The importance of marketing for a firm has been discussed as under:

1. Survival In Competition: In the present competitive scenario, the organization can survive only through its marketing activities. Any firm can make an effective marketing strategy and compete successfully with the other players.

2. Basis Of Planning: Marketing is a process which is related to the market and consumers. Therefore, it helps in gathering knowledge about consumer needs, interests, desires, etc. Due to this

reason, every organization focuses on the production of those products which are preferred by the consumers and the company makes its plans on the basis of various marketing information like market routes, competition, fashion, consumer interest, purchasing power, etc.

3. Growth In Sales: Marketing management helps in market and consumer analysis and through which knowledge regarding changing interests of consumers, needs and fashion can be gained. This helps in producing the goods according to the market needs and thus helps in increasing sales.

4. More Production: Increase in sales, results in the need for increase in production due to which the organizations are able to produce more and achieve the objectives of long term production.

5. Distribution At Minimum Cost: Due to an effective marketing when a firm is able to generate long term production, it ultimately results into reduced cost per unit.

6. Increase In Profits: An effective marketing system helps in increasing profits of an organization. When the demand increases, more production is undertaken at the minimum cost and the increasing demand is satisfied on market price. This assures an increase in profits.

7. Helps In Attracting Middlemen: An effective marketing system makes it easy to gain middlemen like agents, wholesalers, retailers, etc. as the middlemen prefer those producers whose marketing systems are consumer oriented and effective.

8. Creation Of Goodwill: When consumers get quality products meeting their need at minimum costs, they become satisfied. This results in an increasing number of satisfied consumers in the

market and which eventually incases the goodwill of the organization. Advertisement and sales promotion also help in increasing the goodwill of an organization.

9. Development And Expansion: Marketing management is helpful in activities of product diversification and new product development. Organisations can add new products according to its existing structure, and also expand its current capacity. Therefore, the increase in the production capacity, the possibilities of development increase.

10. Fulfillment Of Social Responsibility: In an effective marketing system, all the activities are undertaken considering the satisfaction of consumer as the basis. Therefore, modern marketing also helps in the fulfillment of social objectives and responsibilities.

11. success In International Trade: An effective marketing system helps in gathering information regarding the needs, traditions, and competitive conditions etc. of the foreign markets. This helps in producing goods of required colour, design, shapes, etc. and which in turn helps in gaining success in international trade.

Importance for the Consumers

An effective marketing system also benefits the consumers. It protects the consumer interests. The consumer gets benefits in the following manners:

1. Availability Of Cheaper And Quality Goods:

A good marketing plan results in reduced production and marketing costs. A competitive scenario forces the businessmen to make products available at competitive prices. Thus, products are made available to the consumers at competitive prices.

2. Fulfillment Of Needs: An effective marketing

system is consumer oriented, where consumer needs, interests, etc. are of prime importance. With the help of marketing research, the changing pattern of consumer needs, interest and fashion can be traced out, and production of new products is possible. Thus the consumer needs are satisfied by making available a wide variety of new and substitute products.

3. Increase In Knowledge: Advertisement, sales promotion, etc help in providing information to the consumer regarding different aspects of the products. In this way, marketing is helpful in educating customers and making them aware.

4. Appropriate Use/ Proper Utilization of Money:

In the present scenario, consumers are very much aware and well informed to compare different products and their colours, design, quality, and prices etc. and takes purchase decisions according to their needs, interests and budget. They can make a comparative analysis of products simply by the information that they receive from advertisements at their homes. This helps them in utilizing their money economically and also it increases their purchasing power.

5. increase In Living Standard: Marketing management helps in increasing the living standard of consumers by making available several products of utility & convenience and entertainment & luxury.

6. After Sales Services : Marketing benefits the consumer by making available to them various after sales services like home delivery, instructions for use, exchange of goods, installation, repair at free of cost, etc.

7. Awareness About Market Information: An effective marketing system is based on a strong

communication system and thus the consumers keep getting information related to the market. Advertisements, sales personnel and sales promotion help consumers to obtain information regarding the products as well as the alternatives available from time to time.

8. Availability Of Products At Right Time: Today consumers are made the products available, when and where they need. Various products and services can be availed by the consumers 24 x 7.

9. Availability Of Products At Right Place: An effective marketing system has helped to consumers to draw the products at their doorstep. Not just in the urban areas, most of the products are being made available in rural areas as well. Every consumer is able to get most of the products from very convenient places.

10. Consumer Satisfaction: The main objective of marketing management is consumer satisfaction. By making available the desired products at right time, at right price, at right place in adequate quantity, thus marketing provide satisfaction to the consumers.

11. Comfort And Convenience: It is because of an effective marketing effort that the companies provide their consumers means of comfort, entertainment and luxury, which increase the work capacity, efficiency, living standard and overall satisfaction of consumers.

Importance for the Society

The entire society gets benefit from an effective marketing system, which has discussed as under:

1. Availability Of Products At Cheaper Or Economical Prices: The masses are able to get products and services at reasonable prices and thus

the society is benefited at large.

2. Increase In Employment: The broad scope of marketing activities like distribution, advertisement, sales promotion, packaging, market research, etc. leads to increase in employment opportunities. Apart from this, marketing also promotes some indirect activities like transport, communication, banking, insurance, storage, capital market, etc. which increases employment opportunities at large.

3. Freedom From Malpractices: Due to an effective marketing management system like branding and packaging, authorized distribution centers reduces the malpractices like adulteration, hoarding, misleading advertisements, black marketing etc.

4. Establishment Of Social Values: The modern approach of marketing is based on consumer satisfaction. The businessmen consider consumer as the central point of their activities.

Importance for the Nation

The entire nation gets benefit from an effective marketing system, which has discussed as under:

1. Optimum Utilization Of National Resources: Marketing management leads to creation of time, place, ownership, form and knowledge, utility of products. Due to this the natural and capital resources are properly distributed and utilized.

2. Protection/ Safety From Recession: Marketing helps to maintain a balance between demand and supply. By creation of demand it saves the country from economic recession, unemployment, poverty, etc.

3. Increase In National Production: Marketing management promotes demand for products and services in society, which leads to increase in

production activities that's resemble in GDP.

4. Increase In Export: With the help of international market research, marketing management helps to enter in foreign markets. Also, by improvement in quality and cost effectiveness, it helps to get entry and establish the product in export market. In this way, marketing management helps to earn foreign currency.

5. Government Income: An effective marketing system results in increased production, sales and profits. Therefore it increases the direct and indirect taxes income of Govt.

6. Development Of Agriculture And Allied Industries: Mass production needs large industries. Large industries promote agriculture and other allied industries. This leads to integrated development of the Nation.

Thus, it can be conclude that marketing management contributes to the development of each section of society. It's not only useful for businessmen who indulge in the business activities and earn profit, but the consumer, society and Nation also get benefits.

Important Points

Marketing management is a important part of the business management. It refers to the planning, organizing, directing and controlling of those activities which makes the exchange of goods and services easy between the sellers and consumers. Marketing management focuses on obtaining desired results from the market.

Functions of Marketing: (1) Market analysis, (2) marketing planning, (3) marketing

communication, (4) product design and development, (5) market segmentation, (6) standardization and grading, (7) packaging and labeling, (8) branding, (9) customer support services, (10) price determination, (11) sales, (12) transportation, (13) financial arrangement, (14) risk taking.

Importance of Marketing Management: **(A) For Businessman:** (i)Survival in competition, (ii)Basis of planning, (iii)More sales, (iv)More production, (v)Distribution at minimum cost, (vi)Increase in profits, (vii)Helps in attracting middlemen, (viii) Creation of goodwill, (ix)Development and expansion, (x) Fulfillment of social responsibility, (xi)Success in international trade. **(B) for the Consumers:** (i) Availability of cheaper and quality goods, (ii) Fulfillment of needs, (iii) Increase in knowledge, (iv) Appropriate use/proper utilization of money, (v) Increase in living standard, (vi)After sales services, (vii)Awareness about market information, (viii)Availability of products at right time, (ix) Availability of products at right place, (x)Consumer satisfaction, (xi)Comfort and convenience. **(C) For the Society:** (i) Availability of products at cheaper or economical prices, (ii)Increase in employment, (iii)Freedom from malpractices, (iv) Establishment of social values. **(D) For the Nation:** (i)Optimum utilization of national resources, (ii) safety from recession, (iii) Increase in national production , (iv) Increase in export, (v) Government revenue, (vi) Development of agriculture and allied industries.

EXERCISE

Very Short Questions:

1. What do you mean by marketing management?
2. Give names of any two functions of marketing management.
3. Which are the customer support services?
4. Give any two importance of marketing management for Businessmen.
5. Give any two importance of marketing management for Consumer.
6. Give any two importance of marketing management for Society.
7. Give any two importance of marketing management for Nation.
8. How does the knowledge of consumer increase through marketing management?

Short Answers Questions:

1. Discuss four functions of marketing management.
2. Explain following function of marketing management:-
 - (i) Market Analysis
 - (ii) Marketing Planning
 - (iii) Marketing Communication
3. Explain the following function of marketing management :-
 - (i) Packaging and Labeling
 - (ii) Storage

(iii) Transportation

4. Discuss the importance of marketing management under four heads 'For Businessmen'.
5. Discuss the importance of marketing management 'For Consumers'.
6. Discuss the importance of marketing management 'For Nation'.
7. Discuss the importance of Marketing Management 'For Society'.
8. Explain the four points of process of marketing.

Essay Type Questions:

1. Throw light on the meaning and importance of Marketing Management.
2. Explain in detail the functions of Marketing Management.
3. Explain the functional process of Marketing Management.

Chapter- 7

SALES PROMOTION

Sales Promotion is an activity or bunch of activities planned and perform to increase or promote sales. The contemporary market is a consumer's or buyers oriented market. Global market has changed the market scene. (Now a days), large number of sellers and substitutes are available for a product in the market. In such scenario, only advertisement doesn't works, personal selling and aggressive sales promotion schemes are to be used for growth in sales and market share. Thus, sales promotion is an important activity or function of sales management of increasing sales.

Meaning And Definition

Sales promotion refers to those non-recurrent activities that are undertaken to increase sales. The literal meaning of the term is to increase the sales of a product or service. In a narrow sense, it includes activities which are helpful in personal selling. However, in a broader sense, it includes all the activities which are undertaken for increasing sales. Considering this view point, sales promotion includes advertisement, personal selling, bringing new products, and improvement in marketing systems, discount offers, exchange offers, credit facilities, exhibitions, demo & test drive, etc. Specially, sales promotion includes the activities undertaken for increasing sales, apart from advertisement and personal selling.

Sales promotion has defined by various thinkers or management experts in different way, few **definitions** are as under:

According to the **American Marketing**

Association- *Sales promotion is “those marketing activities other than personal selling, advertising, and publicity that stimulate consumer purchasing and dealer effectiveness such as display shows, expositions, demonstrations and various non-recurrent selling efforts not in the ordinary routine”.*

W. J. Stanton defined sales promotion as those promotional activities (other than advertising, personal selling, and publicity) that are intended to stimulate customers demand and to improve middlemen's marketing performance.”

According to **George W. Hopkins**, “*Sales Promotion is an organised effort applied to the selling job to secure the greatest effectiveness for advertising and for dealer's help.*”

As per these definitions, we can say that sales promotion includes only those activities that are required to increase sales of a firm in a short period (short term incentives). These sales efforts are non-recurrent/ irregular which are meant to motivate consumers to purchase more and motivate traders to sale products in an effective manner. It does not include advertisement, personal selling and publicity.

Methods Of Sales Promotion

The main objective of sales promotion is to motivate traders for increasing sales and consumers for purchasing. The scope of sales promotion is quite broad and therefore various techniques are used for this purpose. Generally, the methods of sales promotion can be divided into

three categories, on the basis of objective, on the basis of products, and on the basis of area.

On the **Basis of Objective**, sales promotion can be further divided into two methods –

A) Consumer Promotion Tools/Techniques

B) Trade Promotion Techniques

Similarly, on the **Basis of Nature of Products**, sales promotion can be divided into two categories

A) Consumer Product Promotion Methods and

B) Industrial Product Promotion Methods.

On the **Basis of Sales Area**, producers use –

A) Domestic Trade Promotion Methods and

B) Export Sales Promotion Methods.

It is not possible to discuss in detail all the above categories here and therefore the first two methods have been discussed here:

A) Consumer Promotion Methods

Consumer promotion methods are directly related to consumers and motivate them to purchase more and more. These methods are implemented in the residential areas, work places or at the shops of retailers. The main techniques include:

1. Distribution of free samples: Free samples are distributed to the prospective consumers when a new product enters in the market. It is an important and effective method of sales promotion. With the help of samples, consumers can evaluate the products quality, use and utility and make purchase decisions. Free samples can be distributed at shops, on roads or at work places or at doorsteps of customers or with news papers or magazines. FMCG products samples can be distributed directly to users but recommended or reference products like medicines or books can't be circulated directly among consumers. Therefore, pharmacy companies distribute free medicine

samples to doctors for prescriptions and book publishers provides specimen copy to teachers. Following points to be considered under this method:

- (i) Samples should be actual representative of the product,
- (ii) Samples should be attractive and assessable,
- (iii) The words 'not for sale' or 'free sample' should be written so that no misuse occurs.

2. Competitions/ Contest: Producers organise various competitions for consumers before launch new products in market, to beat competition, and increase sales. To participate in such competitions, consumers need to show the cash memo or a part of the product packing. Winners are offered by cash prizes, gift products, or traveling packages and hotel stays. The competitions may be of following kinds:

- (i) Completing incomplete sentences about the product - for e.g.- I use *Lux* soap because '.....'.
- (ii) Give name or title on given picture of a product . The best name/ title will be awarded by prize.
- (iii) Asking jingles/few lines about the product, e.g.- '*I am a Complain boy*'.
- (iv) Asking the consumers to solve riddles.
- (v) Ask the consumers to write a letter about the product or a SMS (Text Message).

3. Price Discounts: Manufactures offer price discounts to attract consumers on some occasions like festivals, New Year, National days, etc. where they offer products on prices lesser than the 'list price', e.g. a shoe manufacturing company offers up-to 50% off or a cloth manufacturer offers 50% + 40% off or flat 25% or buy two and bring three. The products that are old fashioned or which run

out of trend and old stocks are sold with using this method.

4. Coupons: Under this method consumers are offered price discounts or some free products on presenting the coupons. Coupons are placed in the packaging of a product or can be published in a newspaper. Usually, when the consumer opens a packet, they find the discount or gift coupon offered by the company. The consumer receives the percentage discount mentioned on the coupons or the product mentioned for free. Rajasthan-Patrika and Dainik-Bhaskar e.g. use this method to maintain the existing consumer base and also to expand it. Coupons can be seen in the sachets of shampoo, soap packets, tea packets, etc.

5. Fairs and Exhibitions: This method plays an important role in sales promotion products are displayed in an attractive manner in the fairs and exhibitions. Some brochures or handouts can be distributed regarding the product in such fairs to visit their stall. National Book Fair, Shoe Fair, *Swadeshi Melas*, Cooperative Products and Handicraft Fairs and Exhibitions are some examples.

6. Premium: It refers to the additional products received as gift by the consumers, when they purchase some product. Some examples are- free toothbrush offered with toothpaste, free erasers with pencil packets, exchange offers (price discounts in new products) on giving old/used products to the producer. Premium motivates consumers to purchase the product.

7. Extra Quantity of Product: Usually this method of sales promotion is used by FMCG companies like hair oil, tooth pest, bath soap, and shampoo etc. cosmetic product companies. For e.g. 20% extra offered for free with same old price.

8. Demonstration: Under this method manufactures demonstrate the use of their products in their showrooms or fairs and exhibitions. The products of technical nature like - Computer, Mixer, Washing Machine, food processor, kitchen appliances, water purifier etc. are sold with using this method. It helps in doubt clearance of consumer's myths and brings confidence that they can use the product and can evaluate practically, all these exercise boosts purchase decision of a prospective buyer.

9. After sales service: Under this the sellers offer consumers a free services and warrantee after sales for a certain period. Due to this, during this period the consumers can avail maintenance, repairs etc for free. This method is popular for products like machines, fans, bikes, scooters, cars, fridge, etc. Consumers prefer those products which offer better after sales services.

10. Packaging: Attractive and beautiful packaging motivates consumers to purchase products and also reflect the quality, price, brand characteristics, etc. The reason behind higher sales of tea and food oils offered in glass or plastic packaging is their packaging.

B. Trade Promotion Methods

Trade promotion methods are those in which the middlemen (wholesalers, retailers, etc.) are motivated to purchase bulk orders and sale further to the consumers. The success of marketing depends upon the middlemen. The following methods are used under this:

1. Sales Contests: Various contests are organized to push the traders to increase sales. In this, the contests like highest sales, best seller, counter decoration, etc are organized. The winners receive

prizes from the producers.

2. Allowances: The manufacturers offer various allowances to the middlemen which include:

- (i) **Purchase Allowance:** Manufacturer offers this allowance to the traders for purchasing a fixed/particular quantity in a particular period, e.g. on the bulk order for Rs. 1,50,000/- will be provided a certain amount of discount.
- (ii) **Product Allowance:** When the trader purchases the products only from a single manufacturer, such allowance is offered. For e.g. instead of purchasing from different companies, the trader keep only single brand of clothing i.e. Bombay Dyeing, then he is offered such allowances.
- (iii) **Advertisement Allowance:** It refers to the part of advertisement expenses borne by the manufacturer, on behalf of the tradesmen.
- (iv) **Decoration Allowance:** It refers to the part of the decoration expenses borne by the manufacturer, on behalf of the retailer. Consumers are attracted towards the shops when they see goods/products displayed in a creative manner.

3. Meetings And Conferences: The manufacturers arrange meetings and conferences from time to time for trade promotion. It provides a platform to the middlemen/ retailers where they can share their achievements, experiences and problems. In problem-solutions session invites the discussion and suggestions. The manufacturers discuss new changes that occur and specify their sales policy. This also enhances the mutual cooperation between producers and traders and which is helpful in sales promotion.

4. Training : The functionality of medical representative/ sales personnel of finance

companies and electronic products companies makes it very clear that training is very useful in sales promotion. Producers provide training to the middlemen and retailers about the products, in general and on specifications. sales creativity, trade policy are a part of usual training. For specification training other aspects like technical and functional aspects of products are covered.

5. Fashion Shows: Manufacturers organize fashion shows to publicize the products offered by the traders to consumers. In such shows, the products are displayed in an attractive manner, so that the consumers are motivated to purchase those products. Jewellery and automobile manufacturers organize fashion shows from time to time.

6. Trade Premium: Manufacturers offer the premium for purchasing in bulk orders or selling a particular quantity/amount of products; in form of expensive products like TV, silver jewelry etc. for free.

7. Special Facilities/ Services: Manufacturers offers credit facilities, buy-back guarantees and repair services to retailers to motivate them to purchase goods. Credit facilities are offered for particular period, and due to which the middlemen need not worry about financial issues. Also, buy back guarantees are offered to them. The repair facility/service includes offering the service of repair of products in case of damage by visiting their facility/showrooms.

8. Managerial Assistance : The manufacturers assist their middlemen on new managerial techniques, government policies, financial management, sales management, decoration, redressed of consumer grievances, etc. Due to this, the work capacity and wealth utilization of the traders improve.

Importance Of Sales Promotion: Sales promotion benefits producers, traders, consumers and society at large. It reduces the gap between advertisement and personal selling, and makes them effective.

1. Increase In Effectiveness Of Advertisement & Personal Selling: Sales promotion techniques (price discounts, sales competition, free samples, gifts, coupons, scratch cards) motivate the consumers to rush themselves and push to the traders point and demand for products. Due to this, the sellers do not need to convince, resolve consumer grievances or motivate consumers to purchase their products.

Under sales promotion, consumers and traders are given various incentives and offered schemes so that advertisement efforts can be converted into sales. Apart from this, through the sales promotion techniques, the consumers get an opportunity to use and evaluate the advertised products and this removes their doubts. This helps in increasing sales and making them effective.

2 Increase In Sales: Sales promotion includes distributing free samples / coupons, organizing fashion shows, offering discounts, various competitions etc. This leads to increase in trust of consumers for the brand and they are motivated to purchase more products, which leads to increase in sales.

3. Achieving Success In Competition: the present scenario is a competitive one. In such an era, the role of sales promotion is very important. By using different ways of sales promotion the organization can achieve a competitive edge over other.

4. Increase In Goodwill: Sales promotion techniques help the brand in becoming popular and win a lot of consumers. This results in an increased

goodwill.

5.increase In The Knowledge And Trust Of Consumers: Sales promotion techniques by using various incentives, help consumers gain information about quality and uses of the products and also this develops trust for the products.

6.entering New Markets: With the help of sales promotion techniques manufacturers can easily enter in new markets.

7.increase In Profit: Consumers are motivated to purchase more products because of sales promotion programmes. This results in increased sales and also in order to meet the growing demand, large scale production is required Large Scale production leads to economics of large scale and which results in reduced per unit cost and increase in profit.

8.better Facilities To Middlemen: Under the sales promotion techniques, producers provide various facilities to the middlemen like advertisement from retailer's side, decoration of shops, free goods and gifts, etc.

9.improvement In Living Standard: Consumers are getting new and qualitative products on competitive price with various promotional schemes, its increase purchasing capacity of consumers, which results in variety purchasing of products. Variety and new products consumption improve their living standard.

Important Points/ Points To Ponder

Sales promotion is a supportive activity which helps to consumer in buying decisions and motivates to buy more than capacity; at the same time it helps to retailers to facilitate their customers. All these reflect in sales growth and leading towards market leader.

Importance of Sales Promotion: 1. Increase in effectiveness of advertisement & personal selling, 2. Increase in sales, 3. Achieving success in competition, 4. Increase in goodwill, 5. Increase in the knowledge and trust of consumers, 6. Entering new products, 7. Increase in profit, 8. Better facilities to middlemen, 9. Improvement in living standard.

Methods of Sales Promotion: The methods of sales promotion can be divided into two categories: Consumer Promotion and Trade Promotion Methods-

(A) Consumer Promotion Methods : 1. Distribution of free samples, 2. Competitions / Contest, 3. Discounts, 4. Coupons, 5. Fairs and Exhibitions, 6. Premium, 7. Additional Products, 8. After sales service, 9. Demonstration, 10. Packaging.

(B) Trade Promotion Methods: 1. Sales contests, 2. Allowances: (i) purchase allowance, (ii) product allowance (iii) advertisement allowance (iv) decoration allowance; 3. Meetings and conferences, 4. Training, 5. Fashion shows, 6. Trade premium, 7. Special facilities/ services, 8. Managerial assistance.

EXERCISE

Very Short Answers Questions

1. What do you understand by Sales Promotion?
2. Name any four Consumer Promotion Methods.
3. Name any four Trade Promotion Methods.
4. What is meant by Consumer Promotion Methods?

5. What is meant by Trade Promotion Methods?
6. Mention any two importance of Sales Promotion.
7. Explain the contest method under the Consumer Promotion Methods.

Short Questions

1. Sales Promotion increase sales. Comment.
2. Discuss any five importance of sales promotion.
3. Discuss any five methods of trade promotion.
4. Discuss any five methods under the consumer promotion.

ESSAYTYPE QUESTIONS

1. What do you understand by sales promotion? Describe the consumer promotions methods.
2. What is meant by trade promotion? Describe the trade promotion methods?
3. What is sales promotion? Explain its importance.
4. Describe the methods of sales promotion.

Chapter : 8

ADVERTISEMENT

In general terms, advertisement refers to provide information about some facts/ particulars; however the term has a broader meaning in the business world. We come across a number of advertisements everyday which make us aware about various products and services available in the market like- investments, insurance policies, detergents, cold drinks, educational institutes, auto mobiles, cars, hospitals, hotels, entertainment etc. Advertisements by the means of print media, electronic media, cinema and social media etc. inform to the masses about products and services available in the market. Advertisements promote sales by capturing a larger audience.

It is a paid form of non-personal communication with an identified sponsor, who pays for the promotion of a particular product or service. Three general objectives of advertisement are to inform, persuade, and remind people about company's products and services.

Definitions of Advertisement

According to **Philip Kotler**- "*Advertising is any paid form of non-personal presentation and promotion of ideas, goods and services through mass media such as newspapers, magazines, television or radio by an identified sponsor.*"

According to **Wheeler**- "*Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducing people to buy.*"

According to **American Marketing Association**- "*Advertising implies any paid form of non personal presentation and promotion of ideas, goods and*

services, by an identified sponsor."

After having a look on the above definitions, it can be concluded that- advertisement is a non-personal communication/ message, which includes video and audio messages, spread by the means of television, radio, newspaper, magazine, sign-boards, transport mediums, internet, social media, etc. that are meant to inform masses about the products and services so that they may be motivated to purchase more and more.

Objectives of Advertisement: Advertisement has faced a lot of criticism, where it has been considered as an unnecessary expenditure which only increases cost, induces unnecessary needs and reduces social values. Nevertheless, it also has been argued that advertisement is of much significance as it helps in reaching a greater audience, reduces per unit cost and contributes to the development of economy. There are different types of objectives of advertisement, which are being discussed under:

1. **Increase in Sales:** The ultimate objective of advertisement is to motivate consumers and increase the sale of products and services. It helps increasing demand on a continuous basis.
2. **Attract New Customers:** Another objective of advertisement is to attract new customers. Advertisements inform the audience about the availability, price, use, etc. of a product or service and consumers can make a rational and convenient purchase decision by evaluating various alternatives available.
3. **Entering New Markets:** The objective of advertisement is to increase demand, and also

motivate consumers to purchase new products by altering their old pattern of consumption. As a result, consumption increases, and also the opportunities of entering new markets grow.

4. **Attracting Middlemen:** As a result of continuous and effective advertising, goodwill of an organization increases, and due to which strong and reputed middlemen desire to associate with the organization.

5. **Persuading Customers for Purchasing Particular Brands:** Advertisements help into creating sales by persuading consumers to purchase a particular brand amidst the wider choice available. When consumers are in a confusion regarding what product must be purchased, or should the product be purchased or not, the objective of an advertisement is to make the consumer purchase and that too the manufacturer's brand.

6. **Increase Awareness and Anxiousness towards Brands:** Another objective of advertisement is to increase awareness and arouse interest towards the company's brand. If a consumer starts trusting a particular brand, it is easy to make him purchase a brand's products. Therefore, an advertisement if effective enough has the power of converting prospects into loyal consumers of a brand.

7. Another objective of advertisement is to remind consumers regarding the presence of a brand and why they should feel happy to be associated with it.

8. Last but not the least objective is to attract consumers of another brands and motivate them to switch towards the organization's products and services.

Advertising Media/ Means Of Advertisement

Advertising/ Advertisement media are the means

through which the advertisement message is conveyed to the audience. As it was discussed earlier, the objective may be to inform, persuade or remind consumers about the brand products. There are different media that can be used by the companies to spread their message:

(A). External Advertisement: External Advertisement is the ones that are presented through walls, transportation mediums, posters, electrical sign boards, hoardings, stickers, etc. These advertisements make use of various colours and pictures which draws the attention of people passing by e.g. a hoarding with the picture of the chief minister Mrs. Vasundhre Raje draws the attention of citizens as they pass by. The means of external advertisement can include:

1. **Walls:** Under this the advertisement sponsors get their messages written/ painted on house walls, bridges, shop walls, etc.

2. **Posters and Hoardings:** Posters can be hung or pasted on walls, street corners, railway stations, telephone poles, uni-pole, gentry, etc. The message is written on papers, cardboards, iron sheets or wooden boards with a cloth stuck on them. The hoardings are placed on road sides of highways, circles, multi-story buildings' terrace, or street corners.

3. **Electrical Sign Boards:** In this the advertisement boards are decorated with colorful bulbs or gas tubes. These attract customers in the night time, as they pass by.

4. **Transportation Advertisement:** These use transportation medium (buses, rails, cars, airplanes etc.) to spread advertisement message. **Car Cards** are a popular means used under this category. Car Cards are placed inside the buses, taxis, rail coaches, car glasses, etc. It takes time for the

consumers to reach their destination and car cards can be used by them to utilize their time. Apart from the car cards, advertisement messages can be displayed by sticking or hanging posters on the outer side of transportation media.

(B). Internal/ Indoor Media: These are the ones that have an indoor access to customers, and message can be spread to the masses. These include media like newspapers, magazines, television, radio, point of purchase advertisement etc. The internal media are discussed in detail in the next section.

1. Newspaper Advertisement: Newspapers are a popular means of advertising. Two types of advertisement can be seen in newspapers.

(A) Firstly, the classified advertisements: which are printed at particular pages under a particular size and title e.g. Vacancy/ Job, Purchase, Sales, Education, Matrimonial, etc. A limited number of words are used under such categories. A sample classified advertisement has been shown below:

(B). Non-Classified Advertisement: No particulars place/ pages are decided for such advertisements. As per the discretion of the sponsor, the advertisement can be published on any page. Such advertisements may be in coloured and in half or full page or jacket and use pictures along with the information, regarding the products, their characteristics, and the place of availability etc. Newspaper advertisements help the marketer to reach a greater audience. Nevertheless, they have a short span of life and are only suitable for an educated audience.

2. Magazine Advertisements: The advertisements that are published in weekly, monthly, quarterly, or annual magazines are known as magazine advertisements. Magazines can be of economic,

religious, political, literary, dramatic interest. Some examples are India Today, Business World, Femina, Economic and Political Weekly, etc. Magazine advertisements are more attractive and have a long life span than the newspaper advertisements.

3. Sandwich Man Advertisement : It is a method of advertising in which a person is made to wear bizarre/strange outfit and carry a board in front and or behind, or the posters that display images, characteristics and other details about the product, are hung or pasted on him. The weird attire attracts people and they read the information carried by the person, out of curiosity. Various food stores, cafes, etc. make use of this method.

4. Direct Advertisement by Post: Under this method, the marketers send the advertisement message with the help of postal/mail services. The prospective or existing consumers are sent the sales letter, catalogues, folders, books, price list, etc. so that they can be motivated to purchase. This method establishes a direct contact between the businessmen and consumers, and a detailed message can be conveyed to the consumers.

5. Entertainment Advertisements: Under this method, the means of advertising include radio, television, cinema, cassettes, fairs, exhibitions, drama, and music concerts. Amongst all radio and T.V. are the most popular ones. Television advertisements can be broadcasted at local, national and international levels.

Under the cinema advertisements, the advertiser uses cinema slides or short films to advertise their message. The video cassette, films (movies), drama, etc. are related to

Under this, advertisements are shown during the intervals/break. In fairs and exhibitions, the

institutions display their advertisement by the means of kiosks or shops etc. The stalls, or kiosks that we come across in the book fairs or handicraft exhibitions that we visit, which advertise their automobiles, investment plans, etc. are an example of this method.

6. Point of Purchase Advertisements: Under this method, the purchase counters or points of purchase of the shops are decorated enough, in order to attract the people that pass by and motivate them to visit those shops. By decorating the counters attractively, consumers are motivated to purchase products and services. The samples of different products are displayed at the counters.

Advantages of Advertisement:

Advertisement is a means of communicating with the prospective and existing consumers. In absence of an effective advertising programme, all other marketing efforts of a company might go in vain. Therefore, advertisements are of much significance in the present scenario, where the markets witness so much of intense competition. The various advantages of advertisement are discussed below:

1. **Economy:** By the help of advertisements, a large section of consumers can be captured. The total advertisement expenditure is distributed amongst the factors of communication and this reduces the per target unit cost.

2. **Clarity:** Advertisement catalyses the consumer interests in new products. With the development of art, computer designing and graphics, advertisement has become a strong means of communication. Due to which, a simple product or message can also be presented in a creative and attractive manner.

3. **Information:** Advertisement is a means of

informing the consumers that what products that are available in the market to satisfy their needs. Due to this the consumers get to know what variety is available, where the products are available and how much utility they hold. Advertise is the simplest, cheapest and an effective method that reaches masses and spreads the information to a larger area.

4. **Trust:** The manufacturers cannot stay in touch with all the consumers personally, therefore advertisements help establish a trust for products available. When consumers find that the products sold by the company are according to the features shown in the advertisement, a trust is developed eventually for the brand. Thus, the products developed by the brand in future are easily accepted by the consumers. Consumers prefer the products of such brands and are ready to pay more price for it, as compared to the products of competitor brands products.

5. **Convenience:** Advertisements help build the brand image, which is important for increasing sales. A good brand provides enough convenience to the consumers and they do not feel the need to re-assess the brand every time they think of purchasing its products.

6. **Freedom of Choice:** Advertisements make the consumers aware about different products available in the market. Thus consumers have a variety of products to choose from. If the use of some particular brand doesn't satisfy their need, they have many options to choose from and satisfy their needs.

The above points reflect the significance of advertisements for our life and help us understand why this method has been able to spread its roots deeper in the present social scenario.

Disadvantages / Criticism Of Advertisement

The advertisement method has also attracted a lot of criticism. It has been argued that it propagates the sale of awful products. The next section discusses the criticism of the advertisement method in detail:

1. **Less Effective:** Advertisement is a non-personal form of communication. It has been considered lesser effective than personal selling, and audience cannot be compelled to pay attention every time an advertisement is broadcasted or displayed.

2. **Defective Sales organisation:** Advertisements motivate consumers to purchase products and attracts them to the shops. But, if the seller is ineffective himself, then the advertisements lose their effect.

3. **Poor Feedback:** How much effective has the advertisement been, is a difficult question to answer, since there is no means of assessing and record its effectiveness, as soon as it is seen by the consumers (lack of immediate feedback)

4. **Lack of Appropriate Media:** While choosing the advertisement media, the cost of using that media, nature of products, and nature of purchasers should be kept into focus. In absence of an appropriate advertisement media, advertisement becomes ineffective and irrelevant.

5. **Low Quality Products:** If a product is of low quality, it will eventually lose in the competition. It is only once that advertisement can help the seller sell such products. In the long run, products cannot be sold using misleading advertisements

6. **Lack of Flexibility:** Advertisements are designed according to particular standards. It is not possible to customize advertisements according to every consumer or prospect.

7. **Seller's Market:** In a situation of seller's market,

sellers don't need to make extra efforts to sell their products. The demand for products comes naturally e.g. LPG and Kerosene.

8. **Products with Inelastic Demand:** When the change in demand of a product is less than the change in its price, it is known as inelastic demand. Also, when there is no effect of change in price on the demand of its product, it is known as perfectly inelastic. There is no effect of advertisements for such products. For e.g. we can use salt in a limited quantity only, and don't go beyond a certain quantity.

9. **Advertisement against the interest, traditions and feeling of general public:** Consumers purchase products according to their social, religion, socio-religious feelings, traditions, and interests. If the advertisements broadcasted are not aligned with the above, then they will not be able to influence the audience. For e.g. for a vegetarian, an advertisement of meat selling brands is totally irrelevant.

Need For Advertising:

In the present scenario, technological up gradation is so common, and every now and then, a new product enters the market. The manufacturers need to communicate with their consumers, and advertisements provide a perfect platform to do so. The manufacturers desire to increase the demand for their products and services. They motivate the consumers to demand their products and services, by broadcasting attractive advertisements. Advertisements are the simplest, cheapest and most effective means of informing, persuading and reminding the audience about the product and services available under the manufacturer's brand. The next section will help us understand the need of

advertisement better.

1. Information about New Products:

Manufacturers inform their target audience, that they have brought a new product in the market, how it will be useful for them, how it will benefit the consumers and how it can be best consumed. Advertisement help the stage for that product even before it enters the market and they prospective consumers are motivated to purchase it. This helps the manufacturer to establish a market for its products and services a continuous demand for them.

2. Information about newness in Products: The changes brought about in the products like the colour, smell, weight, packaging, quality etc are brought to the knowledge of consumer with the help of advertisements. This is done to keep the consumers aware about the products, so that they do not hesitate while witnessing those changes, and be clear that it is the same product that they have been buying.

3. Search for New Consumers: Advertisements help in searching new consumers for the manufacturer's products. Efforts are made to increase the demand of products, and also to motivate the consumers to prefer manufacturer's brand among the variety available in the market.

4. Correct Information about The Products:

There are number of products available in the market, which appear to be similar to the consumer. This creates confusion and they are not able to make a choice regarding what to purchase, or what would be beneficial for them. The advertisements make it very clear to the consumers that what are the offers available on products, the product is meant for what type of uses etc. This helps the

consumers to identify the right products and avail all the benefits associated to those products.

5. Help to the Sellers: A product for which, advertisements have been broadcasted are already known to the consumers and this makes it easy for the sellers to save their products in the market.

6. Information about Changes in Price: Any change in price of the product can be brought to the knowledge of consumers. This helps the consumers to purchase the products by removing all the doubts and reduces the risk of decrease in sales.

Importance Of Advertisement:

The modern era is an era of advertising and it penetrates every activity of our life. It is not only beneficial for the businessmen, but also for the society. It spreads awareness and people come to know about their rights, needs and how to fight the social evils. Advertisements help increase demand, to increases sales. It makes it convenient for the consumers to purchase products and this increases the goodwill of the organization. Therefore it is also said that the expenditure made on advertisements is an investment. The importance of advertisement has been discussed in detail below:

- 1. Importance for the manufacturers.**
- 2. Importance for the consumers**
- 3. Importance for the middlemen**
- 4. Importance for the society and nation**

1. Importance For The Manufacturers:

i) **Helpful in Competition:** Manufacturers can take the help of aggressive advertising in order to win in a cut throat competition.

ii) **A Guide for the Consumers:** Advertisements inform the consumers about the price, quality, packaging, use, schemes, offers etc of a product. This helps a manufacture in selling that product to

the consumers, who purchase the product without any hesitation.

iii) **Attracting Middlemen:** The organization that does effective and regular advertising becomes popular. This helps the company gain a strong goodwill that attracts the reputed and well established middlemen.

iv) **Helpful in Production of New Products:** Advertisement results in demand for new products and the manufacturers can bring new products in the market and sale them with an ease.

v) **Development of Business:** Advertisements help in increasing the sales of organization, and which ultimately results in increased profits. Due to this, the old plant and machinery can be replaced by new and upgraded machinery. Also new units can be established and increase production capacity easily. Thus it helps in expanding and developing businesses.

vi) **Increase in Sales:** Advertisements help in increasing sales by gaining a constant demand for the manufacturer's brand.

vii) **Increase in Production:** Advertisements increase the demand of a brand's products and in order to meet the increasing demand, the production capacity needs to be increased by the organization.

viii) **Economy:** The increase in production due to the increasing demand leads to the internal and external economies of large scale. As a result the production cost and per unit cost decrease.

ix) **Higher Profits:** The increase in sales due to rising demand, producers are able to earn higher profits.

x) **Increase in Goodwill:** When a company involves in various media of advertising, a larger section of audience becomes aware of the product

assortment, achievements and unique features of the manufacturer's brand. This results in a rising goodwill and brand loyalty. The leading industrialists of our country like Tata, Birla, Bajaj, etc. have been able to build such a strong image because their apt and effective advertising programmes.

2. Importance For The Consumers:

i) **Educating/Spreading Awareness:** Advertisements make the consumers aware about the new products and their uses.

ii) **Time Saving:** Consumers come to know about the product features in their homes itself, and they don't need to wander to purchase the right products.

iii) **Purchase Convenience:** Advertisements inform the consumers about the availability, price, uses of the product etc and they are able to evaluate the alternatives available in the market rationally, and purchase with an ease.

iv) **Availability of Quality Products:** When consumers do not find products according to the advertisement, a disliking develops and the products go out of trend eventually. Therefore, producers are very particular to make available for the consumers, quality products and thus consumers benefit from the same.

v) **Improvement in Living Standard:** According to Sir Winston Churchill, "Advertisement develop interest for various products and consumers can improve their living standard by using them."

vi) **Consumer Surplus:** With the help of advertisements, consumers are informed about various products, their substitutes, prices, availability, guarantee, warranty, utility etc. This helps them to make use of their money rationally and receive higher utility than the price paid.

3. Importance For The Middlemen:

- i) **Contact with the Producers:** Producers advertise their products, due to which middlemen contact with them to undertake their agency. Also the middlemen advertise, like the retailers and wholesalers. Due to which the manufacturers are able to contact them, and find the right middlemen.
- ii) **Help in making Sales:** Advertisements also carry the information about the middlemen carrying the products. Thus consumers can contact them to acquire the right products. Apart from this, the advertisements carry information like the price, quality, methods of use, discounts etc. due to which the sellers do not need to make extra efforts to push the products.
- iii) **Reduces Risk:** Advertisements push sales of a product and thus the middlemen are not at a risk of the stock wastage or stocks going obsolete.
- iv) **Increase in Profits:** Advertisements increase the profits earned by middlemen in many ways. First of all they do not need to advertise for products separately. Secondly advertisements increase the sales themselves, and they do not need to employ more sales personnel. Thus, there is reduction in various expenses.
- v) **End of Unhealthy Competition:** There is a control over the prices of the products that are advertised. Thus there is no unhealthy competition in the market.
- vi) **Motivation for Salesmen/Sales Personnel:** Manufacturers employ sales men depending upon the sales volume and offer them commission/rewards accordingly. This results in an increased motivation for the salesmen who aggressively work for increasing sales.

4. IMPORTANCE FOR THE SOCIETY:

- i) Advertisements portray the life style of a nation.
- ii) It increases the employment opportunities
- iii) Advertisement lead to increase in demand, due to which there is a decrease in production cost and consumers get products at cheaper prices, which eventually raises their living standard.
- iv) Advertisements promote research and development, which lead to new product development.
- v) Advertisements provide the society, products according to its needs.
- vi) It motivates consumers to become educated, which increases the literacy rate.
- vii) Advertisements motivate the consumers to fight the social evils.
- viii) It makes communication stranger. A strong communication platform provides unbiased information to the society.
- ix) It provides means of entertainment to the consumers at economical rates.

Techniques of Advertisement:

In the present scenario every organization needs to advertise its products and services to inform its customers, acquire sales, and earn name and fame. Every business enterprise needs to spend money on advertising, but the expenditure pays off only when correct techniques of advertisement are used. Therefore, the advertisers use these techniques selectively, so that desired results can be obtained. The techniques of advertisement have been discussed under:

- 1. **Emotional appeal:** - This technique of advertisement is based on two factors, consumer needs and fear factors. Both the factors have been discussed under:

- **Consumer Needs:**
- Need for doing something new
- Need for acceptance
- Need to be noticed
- Need to change old products
- Need for safety
- Need to become attractive
- **Fear Factors:**
- Fear of accident
- Fear of death
- Fear of getting sick
- Fear of becoming obsolete

2. **Advertisement for Publicity:** Under this consumers are given free samples of products. In order to gain attention of consumers, trade fairs, publicity, events and advertisement campaigns used to present the products in front of consumers.

3. **Brand Advertisement:** Under this technique, those who have purchased that product are motivated together and are ready to look forward to it. For e.g. the advertisement of Pantene shampoo says that 15 billion women trust the brand.

4. **Facts and Figures:** Under this the advertisers, use facts and figures to portray their product as better e.g. Colgate is recommended by 70% dentists of the World.

5. **Incomplete Advertisement:** Under this the advertisers present their product as a quality product but not in comparison to the competitors. For e.g. the advertisement of **Horlicks**, portrays it as a product that provides higher nutrition daily, but does not specify how much.

6. **Ambassadors:** Under this advertisers ask celebrities to promote their brand' products. These celebrities share their experiences with the products and express their support for the brand. For example Mr. Amitabh Bachchan and his wife

Mrs. Jaya Bachchan advertised for a jewellery brand, where it was portrayed how the brand products have influenced Mrs. Jaya Bachchan.

7. **Ideal Family and Ideal Children:** The advertisers use this technique to portray how the families using their products are lucky enough. For e.g. the advertisement of Dettol soap shows how a family that uses that soap stays protected from germs.

8. **Patriotic Advertisements:** Such advertisements show how the use of said product or service reflects a support for the nation. For e.g some products claim to offer a part of what consumers pay towards child education in their advertisements.

9. **Consumers Feedback:** Under this the advertisers try to get consumer feedback by asking questions related to their products.

10. **Discount:** Under this techniques, the advertisers offer price discounts to the consumers e.g. Buy/Get/Free or 20% off on all products and services on a two year membership in a club.

11. **Surrogate Advertisement:** It is a form of advertising where the companies do not promote their products directly due to legal constraints, so companies use indirect techniques i.e. 'surrogate' to advertise their products. Eg. Bagpiper soda, Imperial Blue Cassettes and CD's etc.

The Advertisers make use of the above said techniques to promote their products. Apart from the above, techniques for online advertisements are also used, e.g. web links, advertisements on web pages, product websites etc.

Important Points/ Points To Ponder

It is a paid form of non-personal communication with an identified sponsor, who pays for the promotion of a particular product or service. Three

general objectives of advertisement are to inform, persuade, and remind people about company's products and services.

Objectives of Advertisement: 1. Increase in Sales, 2. Attract New Customers, 3. Entering New Markets, 4. Attracting Middlemen, 5. Persuading Customers for Purchasing Particular Brands, 6. Increase Awareness and Anxiousness towards Brands, 7. Another objective of advertisement is to remind consumers regarding the presence of a brand and why they should feel happy to be associated with it. 8. To attract consumers of another brands and motivate them to switch towards the organization's products and services.

Advertising Media/ Means Of Advertisement

1. External Advertisement- (i) Walls (ii) Posters and Hoardings (iii) Electrical Sign Boards (iv) Transportation Advertisement. 2. Internal/Indoor Media (i) Newspaper Advertisement (ii) Non-Classified Advertisement (iii) Magazine Advertisements (iv) Sandwich Man Advertisement (v) Direct Advertisement through Mail (vi) Entertainment Advertisements (vii) Point of Purchase Advertisements

Advantages Of Advertisement:

1. Economic, 2. Clarity, 3. Information, 4. Trust, 5. Convenience, 6. Freedom of Choice.

Disadvantages Of Advertisement: 1. **Lesser Effective**, 2. Defective Sales organisation, 3. Poor Feedback, 4. **Lack of Appropriate Media**, 5. **Low Quality Products**, 6. **Lack of Flexibility**, 7. **Seller's Market**, 8. **Products with Inelastic Demand**, 9. **Advertisement** against the interest, traditions and feeling of general public. **Need For Advertising:** 1. **Information about** New Products,

2. Information about newness in Products, 3. Search for New Consumers, 4. Correct Information about the Products, 5. Help to the Sellers, 6. Information about Changes in Price. **Importance Of Advertisement:**

1. Importance For The Manufacturers: i) **Helpful in Competition**, ii) A Guide for the Consumers, iii) **Attracting Middlemen**, iv) **Helpful in Production of New Products**, v) **Development of Business**, vi) **Increase in Sales**, vii) **Increase in Production**, viii) **Economy**, ix) **Higher Profits**, x) **Increase in Goodwill**.

2. Importance For The Consumers: i) Educating/Spreading Awareness, ii) Time Saving, iii) Purchase Convenience, iv) Availability of Quality Products, v) Improvement in Living Standards, vi) Consumer Surplus. 3. Importance For The Middlemen: i) Contact with the Producers, ii) Help in making Sales, iii) Reduces Risk, iv) Increase in Profits, v) End of Unhealthy Competition, vi) Motivation for Salesmen/Sales Personnel. 4. Importance For The Society: i) Advertisements portray the life style of a nation. ii) It increases the employment opportunities, iii) Advertisement lead to increase in demand, iv) Advertisements promote research and development, v) Advertisements provide the society, products according to its needs. vi) It motivates consumers to become educated, which increases the literacy rate. vii) Advertisements motivate the consumers to fight the social evils. viii) It makes communication stranger. ix) It provides means of entertainment to the consumers at economical rates.

Techniques Of Advertisement: 1. Emotional Appeal, 2. Advertisement for Publicity, 3. Brand Advertisement, 4. Facts and Figures,

5. Incomplete Advertisement, 6. Ambassadors
7. Ideal Family and Ideal Children, 8. Patriotic
Advertisements, 9. Consumers Feedback,
10. Discount, 11. Surrogate Advertisement

Exercise

Very Short Questions:

1. What do you mean by advertisement?
2. Mention any two objectives of advertisement.
3. Mention any two purposes of advertisement.
4. Mention any two advantages of advertisement.
5. What is meant by a classified advertisement?
6. What is meant by sandwich man advertisement?
7. Mention any two disadvantages of advertisement.
8. What is the importance of advertisement for manufacturers?
9. What is the importance of advertisement for consumers? Mention any two points.
10. What is the importance of advertisement for manufacturers? Mention any two points.
11. What is the importance of advertisement for the middlemen? Mention any two points
12. Discuss any two techniques of advertisement.

Short Type Questions:

1. What do you understand by the term advertisement? Discuss any five objectives of advertisement.
2. Discuss any five advertising media.

3. Write a note on newspaper advertisements.
4. Write a note on external advertisements.
5. Mention any five points of disadvantages of advertisement.
6. Mention any five points of advantages of advertisement.
7. Briefly explain the importance of advertisement for the manufacturers.
8. Explain the importance of advertisement for the consumers.
9. Explain the importance of advertisement for the society.
10. Explain the importance of advertisement for the middlemen.
11. Discuss any five techniques of advertisement.

Essay Type Questions:

1. What do you understand by advertisement? Explain the role of advertising in the growth and development of a business.
2. Describe in detail the various advertisement media.
3. Explain the meaning of advertisement and discuss the techniques of advertisement.
4. Write a short essay on importance of advertisement.
5. Describe in detail the advantages and disadvantages of advertisement.

Chapter -9

Business Law and Contract Act

To maintain an environment of economic, social, political, educational, religious, technological developments and law and order of a country, the government, society and other classes operate activities through customs, traditions, rules, by-laws, which fulfil the country. Peaceful arrangements, effective management and resources can be creatively used. In order to systematize and control this effort, the law regulation system and other laws are required. In the field of business, for quick and uninterrupted business operations and regulations in the environment of e-commerce, laws are needed.

Meaning of law

In general terms, the meaning of the law is legal activities by central, state or local government, in order to organize and control human behaviour in the socio-economic, political sphere, rules, by-laws, legal procedures etc., created by the government. These are also known as act or law.

According to the scholar –

“Laws mean the group of theories that are recognized and used by the state as means of administering justice.”

Meaning of Business Law

According to Professor M.C. Shukla, "Business laws is the branch of rule that describes the rights and obligations of the business persons, which are traded in the general sense of business dealings related to business property, Group of statutory rules that are systematic and effective, are called business laws. In a general sense, a business practice or a group of statutory rules that affect the

regular control arrangements is called a business law.

Scope of business law

The most important act that comes in the field of business laws as follows:

1. Indian Contract Act 1872
2. The Sale of Goods Act 1930
3. The Indian Partnership Act 1932
4. Negotiable Instrument Act 1881
5. Arbitration and Conciliation Act 1996
6. Company Act 2013
7. Banking Companies Act 1949
8. Consumer Protection Act 1986
9. Essential Commodities Act 1955
10. Industrial Laws
11. Labour Laws
12. Insurance Act
13. SEBI Act
14. Foreign Exchange Management Act 1999
15. Patents, Trademarks and Copyright Act
16. Information Technology Act
17. Goods Transportation Act

Sources of Indian Business Law

There was British rule for hundreds of years in India. Due to this, the main source of Indian commercial laws is based on the Commercial Act of England, but its structure has been kept in mind, the available environment, customs, business dealings and special circumstances in India. The main sources of Indian business laws are as follows:

1. **English Common Law** - This is England's oldest rule of law. It is composed by the qualified judges

on the basis of the judgment given in important matters.

2. **Statutes** - The Statute implies from acts which are made by Member of Parliaments (MP) and Legislatures under the Parliament of any country, in which special circumstances of the country are kept in mind.

3. **Indian customs** – The customs and uses of a particular trade are an important source of Indian merchantile law. They play an important role in regulating the business dealings.

4. **Important decisions given by courts** - Keeping in view the current circumstances, the decisions made by other courts and the Supreme Court, on disputes arising on new subjects, have been used as an illustration while deciding by the subordinate court (lower). The past judicial decisions of courts are the important source of law.

5. **Justice** - When general rules cannot solve simple rules for then execution / disposal of disputed business matters, then the court has the right to settle disputes on the basis of justice.

An Introduction to The Indian Contract Act 1872

The Indian Contract Act 1872 is an important branch of business law. Every person in general life, comes in contact with someone, at every moment and this is the basis of the contract. We fulfil the various needs of our life - to move around, to arrange for taxis, read books, buy necessities, tailor made clothes, buy tickets for travel or entertainment, etc. All these activities are based on contracts.

In a way we all have lives based on contracts. In the business world, the parties who are doing business from the Contract Act get protection of their business rights. Without the contract act, the

building of all business world will be left and without a full commercial transaction an atmosphere of fear will arise.

The Indian Contract Act 1872 was implemented in our country in September 1872, in which there were a total of 266 sections, but some sections were dismissed from this in 1930 and 1932. The Sale of Goods Act, 1930 and The Indian Partnership Act 1932 were introduced. Following these changes, the subject matter of The Indian Contract Act 1872 is currently as follows:

1. General Principles of contract and Quasi-contract (Section 1 to 75)
2. Contracts of Indemnity and Guarantee (Section 124 to 147)
3. Contracts of Bailment and Pledge (Section 148 to 181)
4. Contracts of Agency (Section 182 to 238)

Meaning and definition of Contract

The term contract is derived from the Latin word "*contractum*", which literally means "meeting with one another", so the contract is an agreement between two or more parties (individuals), which creates legal obligation and rights.

In the Indian Contract Act, the contract has also been defined. Also various scholars and judges have explained it in their decision. We study here the definitions given by some scholars and in the Act-

1. According to Sir William Anson - "*Contract is a legally binding agreement, made between two or more persons by which, rights are acquired by one or more to acts or forbearances on the part the other or others.*"

2. According to Justice Salmond – "*A contract is an agreement creating and defining obligations between the parties*"

3. According to Section 2 (h) of The Indian Contract Act 1872 - “An agreement, enforceable by the law, is a Contract.”

From all the above definitions it is clear that there are mainly two elements in the contract

1. An agreement between parties, and
2. The agreement must be enforceable by law.

Section 10 of the Indian Contract Act, clearly explains that “All agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void.”

By analyzing all above definitions, it is clear that there are two major elements in contract -

1. The contract is an agreement, which is created by the acceptance of proposal.
2. This agreement is enforceable by law and creates legal obligation between the parties.

Contract = Agreement + Enforceable by law

Essential elements of a valid contract

Section 2 (h) of the Indian Contract Act indicates the contract's definition, while Section 10 of the Act deals with the validity of the contract. The description of all these essential elements, is as follows:

1. **To have two or more parties** - The first element of any valid contract is to have at least two parties. A proposer or promiser and the other, is called offeree or the promisee. The proposer holds the proposal and the offeree can accept that proposal. Just like marriage requires two parties, bride and bridegroom, it is mandatory to have at least two parties for the contract. Such as landlord and tenant, insured and insurer in the insurance contract, buyer and seller in the case of sale of goods etc.
2. **Agreement** - There should be an agreement

between the two parties for the creation of any valid contract. The offer, when accepted, becomes agreement. But if the two parties offer simultaneous purchases and sales of the same item, simultaneously at the same time, then it is not treated as an agreement. It is a cross offer.

Example - Seema proposes to sell Rita, her beauty parlor for ₹ 50,000. Rita accepts this proposal. It is an agreement between Seema and Rita, because Rita gets beauty parlor and she gives ₹ 50,000 to Seema as consideration.

3. Intention to create legal relationship - The intention of both parties must be to establish a mutual legal relationship. We make many such agreements in daily activities such as playing together, going to a picnic, going to a club, going to a wedding or birthday, going to a function, eating together, walking around, etc. Such instances create family, political or social obligations. But their aim is not to establish any kind of legal relationship. For this reason, such agreements are not contracts. For the valid contract, both the parties must be certain that they owe some legal rights to each other and if either party does not complete the contract, it will be completed by the court.

Example - Ram invites his friend Shyam for dinner on birthday party of his daughter Apurva. Shyam accepted the invitation, but on that day and time, Shyam did not reach for dinner, for some reason. On which Ram presented a dispute in the court on Shyam for the price of the food items unconsumed, which was canceled by the court, because the agreement was not done with the intention of establishing legal relation.

4. Contractual capacity in parties - The parties to the contract must be competent to

contract. i.e., an adult person, of sound mind, and not disqualified by any law.

5. **Consent** - It is necessary for the parties to mutually agree, that means all parties of the agreement must agree upon the same thing and in the same sense.

6. **Free consent of parties** - It is compulsory for the parties to have the consent to be free. If physical and mental pressures are allowed for contract with deception, delusion or mistake, then it is not considered to be a free consent. This means that such consent should not be obtained on the basis of coercion, undue influence, fraud, misrepresentation and mistake.

7. **Lawful consideration** - Lawful consideration to legal contract is mandatory. The agreement without consideration is usually considered as void. Consideration, in other words, mean 'something for something'.

8. **Lawful objectives** - The objectives of the contract must be lawful. The objectives of contract is not lawful if it is illegal, defeats the provisions of any law, is fraudulent, immoral, or against public policy.

9. **Certainty** - Certainty in the contract is compulsory. Therefore, the conditions of agreement which are meaning, value, quantity, time of delivery, location, execution method, nature of the goods, etc. must be certain.

10. **Possibility of performance** - If it is impossible to perform any kind of performance, then this agreement becomes void. Some agreements are such that execution is impossible from the beginning. Other agreements are those that are possible to execute while doing it, but later it becomes impossible to execute some situations. Such as destruction of subject matter, due to war, due to foreign enemies, etc. due to the rule of law.

11. **Agreement, not expressly declared void** - Some Agreements of the Contract Act have been expressly, declared void. If any agreement is from those agreements, then it can never be valid contract. For example, agreement without consideration, agreement with minor, agreement in restraint of trade etc.

12. **Completion of legal formalities** – Contract Act does not require a contract in writing for its being valid. An oral agreement is as good as written one. In certain cases, only when it is mandatory by any act or law, the contract must be written, certified or registered by the witness.

Contract Act Terminology

1. **Agreement** – An agreement is created when one person propose to another and the other accepts it.
Agreement = Proposal + Acceptance

2. **All contracts are agreements but all agreements are not contracts.** Only those agreements become contract, which are enforceable by law.

3. **Valid Contract** – An agreement, enforceable by law and which create legal obligations between parties.

4. **Void Agreement** - An agreement, which is not enforceable by law and which does not have any legal effects.

5. **Void Contract** – It is valid at the time creation but later it becomes void due to changes in circumstances.

6. **Voidable Contract** – It is an agreement which is enforceable at the option of one party ie aggrieved party. If such a party does not opt to avoid the contract, it remains valid.

7. **Illegal agreement** – An agreement, which is expressly or impliedly prohibited or forbidden by law, is an illegal agreement. Such an agreement is

void from the beginning.

8. **Unenforceable contract** – This type of agreement is basically valid but cannot be implemented due to some technical defects. Such a contract can be enforced, after removing legal technical impairments.

9. **Express Contract** – An express contract is one in which parties make oral or written declaration of terms and conditions of the contract, in word.

10. **Implied contract** – An implied contract is inferred from the acts or conduct of the parties or by their surrounding circumstances, but not by the written or spoken word of the parties.

11. **Quasi-contract** - It is an agreement which is not done by the parties' mutual exchange of promises but is imposed on the parties by law, on the ground of principle of equity.

12. **Executed contract** – In this contract, all parties have performed all their obligations.

13. **Executory contract** – This is the type of contract, in which all the parties still have to perform their obligation.

14. **Bilateral agreements** – A bilateral contract is one in which both the parties exchange a promise to each other, to be performed in future.

15. **Proposal** - When a party expresses its intention to do or not to do any work, before any other party, with the intention of obtaining the consent of the other party, then it is called as the proposal.

16. **Express Proposal** – An offer made in words, written or spoken, is called as an Express Offer.

17. **Implied Proposal** - Proposal by actions or conduct is called Implied Offer.

18. **Specific Offer** - When a proposal is made for a particular person, it is known as Specific Offer.

19. **Counter Offer** - When an offer is accepted on the terms and conditions other than set out by the offer or it is said to be a counter offer.

20. **Free Consent** - Consent is considered free when it is not affected by coercion, undue influence, fraud, misrepresentation and any mistake.

21. **Coercion** – Coercion is the committing, or threatening to commit, any act forbidden by the Indian Penal Code or the unlawful detaining, or threatening to detain any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement.

22. **Undue Influence** - When a person is in a position to influence another person's wishes and uses the situation to obtain unfair advantage, in contract with that other person.

23. **Fraud** – When a wrong representation is made by a party with the intention to deceive the other party or to cause him to enter into a contract, it is said to be a fraud.

24. **Misrepresentation** – A representation when wrongly made, either innocently or unintentionally, is called misrepresentation.

25. **Mistake** – When the consent of one or both the parties to a contract is caused by misconception, the contract is said to be induced by mistake.

26. **Consideration** – Consideration consists of promises or performances that the parties to a contract, exchange with each other.

27. **Contingent contract** - An agreement to do or not to do any work, in which the collateral of the contract, promises to fulfill that contract, if any specific future event is happening or not happening. Indemnity, guarantee and insurance contracts are considered as contingent contracts.

28. **Quantum Meruit** - It means “As much as earned”. It means that a person can recover compensation in proportion to the work done or services rendered by him.

29. **Injunction** - The court order which prohibits

the party to a contract from doing a particular thing or from doing something against the terms of the contract.

30. **Indemnity Contract** – A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself or by the conduct of any person, is called a Contract of Indemnity.

31. **Guarantee contract** – A contract of guarantee is a contract to perform the promise, or discharge the liability of a third person in case of his default.

32. **Specific or Simple guarantee** - When a guarantee is given for a specific loan or transaction, it is known as specific or simple guarantee.

33. **Continuing guarantee** - which extends up to a series of deals or transactions, it is known as continuing guarantee.

34. **Bailment contract** – Bailment is the delivery of goods by one person to another for some purpose, upon a contract that they shall, when the purpose is accomplished, to be returned or otherwise disposed of according to the directions of the person delivering them.

35. **Bailor and Bailee**- The person who deliver his goods called Bailor. Person to whom the goods are delivered for specific purpose is known as the bailee.

36. **Gratuitous bailment** – Bailment without any charges or reward.

37. **Non-gratuitous bailment** – Bailment for some charges or reward.

38. **Right of Lien** – Right of a person to retain the possession of any property of some other person, until the charges due to the person in possession are paid.

39. **Pledge** – The bailment of goods as security for payment of a debt or for performance of a promise is called pledge.

40. **Pawnor or Pledgee** – The person who delivers the goods.

41. **Pawnee or Pledgee**- The person to whom the goods are delivered as security.

42. **Agency** - There is a relationship generated by the agreement between the agent and the principal, in which the Principal authorized the agent to represent him or establish his contractual relationship with the other parties.

43. **Agent** - The person who has been authorized by any person to represent himself and establish his contractual relationship with other parties.

EXERCISE

Very Short Type Answer

1. Is the Indian Contract Act part of the Business law?
2. What is the meaning of the contract?
3. State any four features of the contract.
4. What is a Void contract?
5. Is all agreement are contracts?
6. What is a valid Agreement?
7. What is the unenforceable contract?
8. What do you mean by “As much as earned”?

Short Type Answer

1. Is the Indian Contract Act adequate?
2. What is the scope of ??the Indian Contract Act?
3. A Contract is an agreement which is enforceable by the law. Why?
4. When does an agreement become a contract?
5. What do you mean by illegal agreements?

Essay Type Answer

1. What is the contract? Briefly explain the essential elements of a valid contract?
2. 'All Contracts are agreements, but all Agreements are not contracts. Discuss?
3. What is the source of the Indian Contract Act?

Chapter - 10

Contract: Legal provisions

Definition of contract, according to section 10 of Indian contract act, was explained in previous chapter, along with its characteristics. In this chapter, legal provisions regarding contract are explained, in detail.

1. Legal Provisions Related with Proposal

The major provisions related to the proposal are as follows:

1. There must be two parties for a proposal.
2. Proposal can be positive or negative
3. It must be express and implied. It must be specific or general.
4. Proposal is done with intention to create a legal relationship.
5. The conditions of a proposal must be certain.
6. Offer is only considered as communicated only when the proposed person knows about the proposal. An offer is effective and complete only when it is communicated to the person to whom it is made. Naturally the offer can be accepted only when the offeree knows about it and offer accepted without the knowledge of the offeree does not give any legal rights against the offer. Offer can be written, oral, symbolic, face to face, telephonic, through radio, TV, newspaper or handbills. Even offer can be made through the medium of birds and animals but Judiciary does not consider the tape recorded offers as legal. Offer must not contain any such statement, so that other party is bounded to give the acceptance of the offer.
7. The desire to offer cannot be considered as an

offer, so the auction advertisement shows a desire to offer. Invitation to proposal is not considered as proposal. The catalog, price list, hotel menu card, reply of an enquiry, prospectus of a company, time table of railway, advertisement for insurance, application for vacant posts etc. are example to invitation of offer, not an offer.

2. Legal provisions related with acceptance

Following are the legal provisions related to acceptance:

1. Acceptance must absolute and unconditional.
2. It must be in prescribed manner. If the proposal prescribes some mode of acceptance, it must be accepted in that particular manner. If the proposal does not prescribe any mode of acceptance, it must be accepted in usual and reasonable manner.
3. It may be express or implied by conduct.
4. Acceptance must be given within the prescribed time or within a reasonable time. Acceptance given after prescribed or reasonable time, does not create any contract.
5. It must be communicated to the offeree. An acceptance is incomplete and ineffective when it is not communicated to the offeree. In order to constitute a contract, there must be an acceptance of an offer and there can be no acceptance, unless there is knowledge of the offer. (Lalman Shukla v/s Gauri Dutt)
6. Acceptance must be given by the party to whom the offer is made. If it is accepted by any other person except offeree, it will not be

treated as a legal contract. A general offer may be accepted by general public.

7. Proposer can set a mode of acceptance but acceptance cannot be presumed from silence. In some exceptional cases, it can be presumed from silence and legal bindings are created.
8. Acceptance must be communicated by competent or authorized person. If it is given by any unauthorized person, it will not create any legal binding.
9. Acceptance must be given in usual and reasonable manner, if mode of communication is not otherwise prescribed. Postal acceptance is valid, only if acceptance letter is properly addressed. In case of telephonic communication, the contract is concluded as soon as the offerer receives or hear the acceptance.
10. Acceptance cannot be given before communication of offer. It must be made before the offer lapses or is withdrawn.

3. Legal provisions related with contractual capacity

According to Section 11 of the contract act, every person is competent to contract, who is of age of majority, according to the law to which he is subject and who is of sound mind and is not disqualified fro contracting, by any law to which he is subject.

Persons disqualified from contracting: Minor, Persons of unsound mind and Persons disqualified by statute of his own country.

1. Provisions related to minor

1. An agreement with a minor is void ab initio (from the very beginning). It is an established rule in India that an agreement with a minor is void ab initio ie this is based on the decision

made in the case of Mori BeeBee V/S Dhurmodas Ghose by Privy Council.

2. Liability for necessities: A minor is incompetent to contract i.e he is not personally liable for the payment of necessities of life, which are supplied to him or his legal dependents. His property, if any, is liable. Necessities include food, clothes, shelter, house rent, medical expenses etc.
3. A minor cannot become a partner in a partnership firm. However, with the consent of all partners, he can be admitted to the benefits of partnership.
4. A minor cannot be adjudged insolvent.
5. A minor can act as an agent and only his principal is liable for his acts but he will not be personally liable for his acts.
6. Contracts by guardian, for the benefit of minor, are enforceable by law.
7. Under an agreement, if a minor, receives benefits from the other party, the court may order the minor to restore the benefits, at the time of rescission of the agreement.
8. Minor can be a beneficiary. Minor is allowed to enforce the agreement to realize his benefit and nothing is admitted by Court to create his personal liability.
9. A minor is not bound by the rule of estoppel. Minor can always plead his minority. Even if he has falsely represented to be a major and induced the other party to contract, can later deny the stand.
10. A minor is liable for a tort i.e. civil wrong committed by him.
11. The parents of a minor are not liable for agreement made by their minor ward.
12. If a minor enters into a marriage agreement at

minority age, then that marriage agreement is void.

13. Ratification on attaining majority is not allowed.
14. Minor is not competent to contract, he cannot become a member of a joint stock company.
15. A minor may become a member of the registered trade union and may enjoy all rights of a member and execute all instruments however keeping the provisions of the contract act in mind he will not be personally liable for his acts.
16. Documents jointly executed by minor and major person shall be void in relation to minor.

2. Provisions related with person of unsound mind

Section 12 of the contract act lays down that “A person is said to be of sound mind for the purposes of making a contract if, at the time when he makes it, (i) he is capable of understanding it and (ii) he is capable of forming a rational judgement as to its effect upon his interests.” Generally idiot, lunatic, drunken, hypnotized person and mentally decayed person are treated as unsound mind person. Where a person is usually of unsound mind, the burden of proving that at the time of execution of a document, he was of sound mind lies on the person who affirms it. Lunatics and idiots cannot make a valid contract. They cannot be held personally responsible. Their property is liable for necessities supplied to them.

3. Provisions related to person disqualified by law

In addition to minors and persons of unsound mind, there are other persons who are disqualified by law

from contracting; because of their political position, profession or legal status; either wholly or partially, so that the agreements made by such persons are void. These are: Alien enemy, foreign sovereigns and diplomatic representatives, President of India, Governor of states and their agents, Incorporated bodies, Public authorities, Convicts and insolvents.

4. Legal provisions related with free consent

Section 13 of Contract act defines “Consent” as “Two or more persons are said to be consent when they agree upon the same thing in the same sense.” For a legal contract, consent is necessary. “No Consent, No Contract”.

Free consent is the real consent which is required to make a valid contract. According to section 14 of the contract act, “Consent is said to be free when it is not caused by 1. Coercion 2. Undue influence 3. Fraud 4. Misrepresentation and 5. Mistake.”

For example: Jai threatens to kill Vijay if he does not agree to sell his car to Jai for Rs. 25,000. Fearing death, Vijay enters into an agreement with Jai for the sale of his Car for Rs. 25,000 only. This agreement is voidable at the option of Vijay.

A. Provisions related to Coercion

1. section 15 of the Indian contract act defines “coercion’ is the committing or threatening to commit, any act forbidden by the Indian penal code or the unlawful detaining, or threatening to detain, any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement.”
2. The coercion must be the committing of any act forbidden by the Indian Penal Code, like killing or beating another person, entering into freedom of another person etc.
3. The coercion must be the threatening to

commit any act forbidden by the Indian Penal Code.

4. The coercion must be the unlawful detaining or threatening to detain any property.
5. The acts of coercion must be done with the intention of causing the other party to enter into a contract.
6. The Indian Penal Code may or may not be in force where the coercion is committed.
7. The acts of coercion may be initiated by any person: even by a stranger. Similarly, it may be directed against any person including a stranger.
8. The coercion may be by way of threat to commit suicide.
9. Threatening of strike to employer, by employees, for their legal demands, is not considered as coercion.

B. Provisions related to Undue influence

According to section 16 of Indian Contract Act, A contract is said to be induced by undue influence'where the relations subsisting between the parties are such that one of the parties is in a position to dominate the will of the other and uses that position to obtain an unfair advantage over the other. These following types of relations can use undue influence (i) Solicitor and client. (ii) Doctor and patient. (iii) Spiritual adviser and devotee. (iv)Parents and child. (v) Guardian and ward. (vi) Trustee and beneficiary.

C. Provisions related to Fraud

According to Section 17 of the Indian Contract Act - Fraud simply means intentional or willful misrepresentation of fact. When a wrong representation is made by a party, with the intention to deceive the other party or to cause him to enter into a contract, it is said to be a fraud.

Any of the following act will be considered as fraud:

1. A representation or assertion of a fact which is not true
2. To deceive another person
3. To perform any act which is declared as deceiving activity by law.
4. Sometimes silences is also considered as fraud.
5. Active concealment of fact by one having knowledge.

D. Provisions related to Misrepresentation

According to Section 18 of The Indian Contract Act, 1872 - Misrepresentation means a false representation which is made innocently. A representation means a statement of facts made by one party to the other with a view to induce the other party to enter into the contract. The representation must relate to some fact, which is material to the contract.

E. Provisions related to Mistake

According to section 20 of Indian contract act, Mistake is a misconception or misunderstanding or erroneous belief about something. When the consent of one or both the parties to a contract is caused by misconception or erroneous belief, the contract is said to be induced by mistake. For example: A agrees to buy from B a certain horse. It turns out that the horse was dead at the time of the bargain, though neither party was aware of the fact. The agreement is void.

5 Legal provisions related with consideration

The term consideration is generally used in the sense of quid pro quo i.e. something in return. It is

the price that one party to contract pays for the promise or performance of the other party.

For eg. Sudha offers Madhuri to sell her car for rs. 90,000 and Madhuri accepts. Sudha's consideration is rs. 90,000 and Madhuri's consideration is car.

According to Blackstone: "Consideration is the recompense given by the prty contracting to the other."

As per section 2(d) of Indian contract Act, "When at the desire of the promisor, the promise or any other person has done or obtained from doing or does or abstains from doing, or promises to do or to abstain from doing, something, such act or abstinence or promise is called a consideration for the promise."

Essentials of valid consideration in Indian Contract Act are as follows:

1. Consideration must move at the desire of the promisor. Acts done or services rendered voluntarily, or at the desire of third party, will not
2. The consideration need not benefit the promisor himself.
3. Consideration may be given by the promise or any other person.
4. Consideration may be positive or negative. An act of promise at the desire of the promisor is positive consideration and if not, then it is negative consideration.
5. Consideration may be past, present or future.
6. Contract without consideration is void. The consideration need not to be adequate.
7. Consideration must be real and competent. If the consideration is misleading, deceptive, impossible and illusive then it cannot be considered as a real aand competent

consideration.

8. Consideration must be lawful. Unlawful consideration renders the agreement void.
9. Consideration must be possible and certain.
10. According to section 25 of Indian Contract Act, "An agreement without consideration is void." Following are the exceptional cases, under which agreement is valid and enforceable even without consideration:
 - a. When a written and registered agreement is made on account of natural love and affection by the parties standing in near relation.
 - b. When an agreement is to compensate past voluntary services
 - c. When an agreement is for payment of a time barred debt
 - d. Gifts actually given and taken
 - e. Promise to charities where liability has been created by the done on the hope of it
 - f. Gratuitous bailment
 - g. Agency, since no consideration is necessary to create an agency.

1. Legal provisions related with legality of objective and consideration –

Both the objective and consideration of valid contract should be valid. If anyone is unlawful or illegal, then it becomes void. According to the Indian Contract Act, in following circumstances, agreement becomes unlawful:

1. If it is forbidden by law
2. If permitted, it would defeat the provisions of any law.
3. If it is fraudulent
4. If it involves injury to another person, property or country
5. If the court regards it as immoral
6. If the court regards it as opposed to public

policy. An agreement harmful to the social, political, economic and other interest and welfare of the public is said to be against public policy.

7. Legal Provisions related with Void Agreement

An agreement which is not enforceable by Law of court is a void agreement. A void agreement does not create any legal rights and obligations. Such a party will not be able to compel the other party to obey his promise. Following are the agreements which have been expressly declared as void under the Act:

- (a) Agreements by persons who are not competent to contract e.g. minors, persons of unsound mind and persons disqualified by law of the land.
- (b) Agreements under a mutual (bilateral) mistake of fact material to the agreement.
- (c) Agreements under the mistake of foreign laws.
- (d) Agreements with unlawful consideration or object.
- (e) Agreements in restraint of marriage of any person other than a minor, is void. The law regards the marriage as the right of every person, so person has the freedom to marry.
- (f) Agreement by which anyone is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void. The Constitution of India guarantees the citizens of this country the fundamental right to freedom to exercise any profession, trade or business.
- (g) Agreements in restraint of legal proceedings are void.
- (h) Agreements, the meaning of which is not certain or capable of being made certain, are void. The courts will not enforce a vague or

uncertain agreements. For example- Ram agreed to sell his Horse to Shyam for Rs. 5000 or Rs.10000. The agreement is void as there is no certainty about the price.

8. Legal Provisions related with Contingent Contracts

A contingent contract is a contract which is dependent on the happening or non- happening of some event. The performance of contingent contract becomes due only upon the happening or non happening of some future uncertain event. It is a conditional contract. For example If Ram contracts to pay Rs. 1Lakh to Ramesh if his (Ramesh's) house is burnt. This is a contingent contract as its performance is dependent upon an uncertain event (i.e. burning of Ramesh's house). Following are the main provisions of contingent contract:

- a. The performance of a contingent contract depends upon the happening or non- happening of some future events.
- b. The event upon which performance of a contingent contract depends must be collateral or incidental to the contract, not a part of consideration of the contract.
- c. A contingent contract must have all essential elements of a valid contract.
- d. Contract of Indemnity, Guarantee and Insurance are also a contingent contract. Wagering agreements are basically contingent agreements but keeping the public interest in mind, it has been declared a void in the Act.

9. Wagering Agreements

The nature of the Wagering agreements is such that there is a gain or win of a party of the

agreement and the loss or defeat of the other party. So these agreements treated as void. For example if Ram agree with Shyam that if it rains today he will pay Rs. 10000. If there is no rain Shyam will pay Ram Rs. 10000. The agreement is a wagering agreement and void. Keep in mind that there are some agreements which look wegering by nature, but it is not really so that such agreements have been considered valid agreements. Agreements of Horse race, Chit fund schemes, Contract of insurance, commercial transactions, Crossword or literary competitions are not considered as wegering agreements so these all are valid agreements.

10. Agreement contingent on impossible event is also void. For example if Kamal agree to pay Rs. 5000 to Deepak if Deepak will marry with Reeta. Reeta was dead at the time of the agreement. The agreement is void.

11. These agreements are void which are impossible to do at the time of agreement. For example if Pandit Gyaneshwar agree with a King to discover treasure by magic. The agreement is void.

12. Legal provisions related with performance of Contract

When the parties of contract perform their respective obligations, the object is fulfilled and the liability of the parties comes to an end, it is called performance of a contract. In case of death of promisor before performance, his representatives are bound to prform the promise unless a contrary intention appears from the contract and contract not depends on personal skill or ability.

Contract may be performed in either of the two ways: (i) Actual Performance - Actual performance

take place when both the parties to a contract perform their respective promises and nothing remains to be performed in future by them. (ii) Offer or Tender of performance- When a party offers performance of his obligation to the other party, it is called a tender of performance.

The performance of a contract is not required in case of (1) When performance becomes impossible, (2) When a contract is rescinded, (3) When agreement becomes unlawful.

13. Legal provisions related with end of Contract

When the parties fulfil their respective obligations, their liability under the contract, comes to an end and the contract is said to be discharged. Parties are no more liable under the contract. In other words, a contract is said to be discharged when both the parties either perform or extinguish their respective obligations under the contract and contractual relations comes to an end. Following are the various moes in which a contract may be discharged:

- (i) By performance
- (ii) By Mutual agreement or consent
- (iii) By lapse of time
- (iv) By Operation of law i.e. Death of Party, Insolvent of party , Material alteration ect.
- (v) By breach of contract
- (vi) By Impossibility of performance

14. Legal provisions related with Breach of Contract

If a party refuses to perform his respective obligations, the breach of contract takes place. And the other party (i.e. the aggrieved or injured party) is not liable to perform his obligations and he has right to rescind the contract. For example, If A

agreed to sell 10000 bags of cement at the rate of Rs.230 per bag. On certain date A does not deliver the cement bags. B is entitled to rescind the contract. An injured or aggrieved party has one or more of the following remedies:

- (i) Suit for rescission of the contract
- (ii) Suit for damages
- (iii) Suit for quantum meruit
- (iv) Suit for specific performance
- (v) Suit for injunction

15. Legal provisions related with Quasi Contract

Contract is the result of an agreement enforceable by law. But in some case there is no offer, no acceptance, no consensus, no intention on the part of parties to enter into a contract and still the law, from the conduct and relationship of the parties, implies a promise imposing obligation on the one party and conferring a right in favour of the other. Such obligations imposed by law are referred to as 'Quasi-Contracts' or 'Constructive Contracts'. A Quasi contract is not a real contract it imposed by law on the ground of principle of equity. It is not created by any agreement. A quasi contract does not possess all the essentials of a valid contract, but person liable for breach will held liable in the same way as in case of breach of an ordinary contract.

Kinds of Quasi Contracts

Following are the Quasi Contract contained in Section 68 to 72 of the Indian Contract Act:

1. Supply of necessities to persons incompetent to contract. For example if Vimal supplied to Rekha, a lunatic, the necessities suitable to his condition in life. In this case, Vimal is entitled to be reimbursed from Rekha's property.
2. If a person makes the payment which is the legal

duty of another person. In such cases, the person who made the payment can recover such money from the person who is legally bound to pay. For example if Ram agreed to purchase certain mills from Shyam. Certain municipal taxes were due on the mills. In order to save the mills from being sold in execution of the decree, Ram paid the due municipal taxes. It was held that Ram was entitled to recover the amount of municipal tax from Shyam. In this case by agreeing to purchase the mills, Ram had acquired sufficient interest in the mills.

3. Where a person lawfully does anything for another person, or delivers anything to him not intending to do so gratuitously and such other person enjoys the benefits thereof, the latter is bound to make compensation to the former in respect of, or to restore, the things so done or delivered. For example Jai a tradesman, left certain goods at Vijay's shop by mistake. Vijay treated the goods as his own and used them. In this case, Vijay is bound to pay for the goods to Jai.

4. If a person finds certain goods, belonging to some other person, In such cases, the goods do not become the property of the finder.

5. If a person to whom money has been paid or anything delivered by mistake or under coercion, must repay or return it.

SPECIAL CONTRACTS:

1. Legal provisions related with Contract of Indemnity

According to section 124 of Indian contract act- A contract of indemnity is a contract in which one person promises to protect or compensate the other for the loss suffered by him due to the conduct of the promisor or any other person. For example Ram

parked his scooter at the college scooter stand. He lost his token given by the scooter stand contractor. The scooter stand contractor refuses to return the scooter to Ram unless he (Ram) gives him an indemnity bond against any loss which he may suffer if any other person claims the scooter from the contractor.

The party who promises to save other from loss is known as 'indemnifier'. The party who is promised to be saved or protected against loss is known as the indemnity-holder or indemnified. In this contract the indemnity-holder is entitled to recover all damages, all costs which he had paid, from the indemnifier.

2. Legal provisions related with Contract of Guarantee

Today the construction of buildings, business establishments, jobs, cars, scooters and vehicles, loans given by financial institutions, are conducted as guarantee contracts. So, guarantee contracts not only a necessity but it is essential at present. According to section 126 of Indian contract act- A contract of Guarantee is a contract in which a person promises to discharge the liability of a third person in case the third person fails to discharge his own liability.

The party who gives the guarantee is known as surety. The party on whose behalf the guarantee is given is known as a principal debtor and the party to whom the guarantee is given is known as creditor.

Example: Ram advanced a loan of Rs. 5000 to Shyam at the request of Sita. And Sita promised to Ram that if Shyam does not repay the amount then she (Sita) will pay. This is a contract of guarantee. In this case Ram is the creditor, Shyam is the principal debtor and Sita is the surety.

Contract of Guarantee generally fulfill three objectives- (i) for payment of debt or loan, (ii) for payment of the price of the goods to be sold on credit, and (iii) honesty or good conduct of a person employed.

Main features of Guarantee Contract:

1. Guarantee is given by the surety at the request of the principal debtor.
2. The surety has secondary liability. Surety becomes liable only when the principal debtor fails to perform his promise.
3. All the material facts which are likely to affect the degree of surety's responsibility and his decision for giving guarantee must be disclosed to the surety before he enters into the contract.
4. The contract of guarantee may be either oral or in writing. Generally bank related guarantee should be in written.
5. The liability of the surety is co-extensive with that of the principal debtor. It means that the surety will be liable to the same extent as the principal debtor is towards the creditor.
6. In some cases if original contract is void or voidable but surety is held liable.
7. Death of surety operates as a revocation of a continuing guarantee as regards future transaction, but remain liable for the transactions already taken place.
8. Any variance made without the surety's consent, in the terms of the contract between the principal-debtor and the creditor, discharges the surety as to transactions subsequent to the variance.
9. Any guarantee which has been obtained by means of misrepresentation made by the creditor, or with his knowledge and assent, concerning a material part of the transaction, is invalid.
10. Any guarantee which the creditor has obtained

by means of keeping silence as to material facts of circumstances, is invalid.

11. Upon payment of debt or discharge of the liability of the principal debtor, the surety becomes entitled to all the rights which the creditor could have enforced against the principal debtor.

3. Legal provisions related with bailment

A bailment is the delivery of goods by one person to another for a definite purpose and upon the agreement that they shall be returned or disposed, according to the directions of the deliverer when the purpose is accomplished. The person delivering the goods is called the bailor and the person to whom they are delivered is called the bailee. Examples of bailment include: giving car or scooter for repairing, delivery of clothes to laundryman for washing, parking a cycle, scooter or car at parking stand, taking material from tent house, hiring cab or taxi for travelling, getting books from library etc.

Explanation by example: Rakesh gives his books of chemistry and physics for a month to Suresh, for the preparation of the examination of the PMT. there is a bailment contract. Rakesh, who is delivering books, will be considered as bailor and Suresh will be considered as bailee.

Key points related to the bailment contracts:

1. Movable property is essential for the bailment.
2. Delivery of the goods is only for temporary purpose.
3. The bailment is done for a particular purpose.
4. Even after the change in the nature of the goods, delivery of goods can be done to bailor. Like getting gold ornaments in exchange of gold etc.
5. Money deposited in a bank account is not a bailment because bank does not guarantee to return

the same currency notes to the depositor. If a person keeps his valuable items, jewellery, bonds etc. in bank lockers and vaults, then it is a bailment contract.

6. If the bailment contract is damaged or destroyed due to accidental events such as earthquake, rains, storms, foreign invasion, then in such cases, there is no obligation of bailee.

7. There are two types of bailment:

- a. Gratuitous bailment – Where no consideration is passed or remuneration passes between the bailor and the bailee
- b. Non- Gratuitous bailment – Where at least consideration is passed or remuneration passes between the bailor and the bailee

8. Duties of a bailor include:

- a. Deliver the goods to bailee
- b. To disclose faults in the goods
- c. To pay remuneration or charges to bailee
- d. To receive back the goods or to give direction for its disposal.

9. Duties of a bailee include:

- a. To take care of the goods bailed.
- b. To indemnify in case of negligence
- c. Not to do any act inconsistent with the conditions
- d. Not to mix the goods with this own goods.
- e. To return the goods
- f. To pay compensation, in case of failure in returning goods.

10. Finder of the goods is a person who finds goods of another and takes them into his possession. He is subject to the same responsibility as the bailee.

11. The finder of the goods may retain the goods till the owner is found out and the finder get the reward and expenses incurred are repaid. When the

owner could not be found, finder may sell the goods.

4. Legal provisions regarding contracts of pledge

Pledge is a special kind of bailment. As per Indian contract Act, the bailment of goods as security for payment of a debt or performance of a promise is called pledge. The person pledging the goods as security for payment of a debt or performance of a promise is called as pledger and the person receiving the goods as security for payment of a debt or performance is called the pledge. Thus, a pledge is the delivery of goods by the pledger to the pledgee by way of security upon a contract that when the debt is discharged or promise is performed.

Essential conditions of pledge:

1. Only existing goods can be pledged. Pledged units must be divisible.
2. Rights of pledgee:
 - a. Right to retain the pledged good.
 - b. Right to receive extraordinary expenses
 - c. To sell the goods after giving reasonable notice
 - d. To sue against the pledgor
3. Duties of pledgee:
 - a. To take care of the goods pledged.
 - b. Not to use the goods pledged, personally.
 - c. To return the goods after payment of debt or performance of promise, along with necessary expenses.
 - d. To act according to the conditions of pledge.
4. Rights of pledgor:
 - a. A pledger has the right to get back the goods pledged, by the debt or performing the promise.

- b. Pledger may claim damages for any loss caused to the goods pledged.
 - c. Pledgor has the right to sell the goods, if the debt is not paid on time.
5. Duties of pledgor:
 - a. To disclose the defects in the goods pledged.
 - b. To pay the debt, interest and other expenses at the specified time.
 - c. To perform the promise and make payment to redeem the goods before sale.
6. In general legal principle, only the owner of goods can pledge his goods. In case of co-ownership of goods, any one of the co-owners can make a valid pledge of the goods, with the consent of other co-owners. But a non-owner of goods generally cannot pledge the goods. However, in exceptional cases, non-owner can also pledge the goods, like trade agent, person having limited interest in goods, etc.

5. Legal provisions related with agency

The term agency has not been defined in the Indian Contract Act. But the provisions relating to principal and agent are defined in sections 182 - 238. Thus, an agency is the relation between an agent and his principal.

According to a judicial decision – Agency is that, where an agent is authorized by his principal to represent him and establish contractual relations with third parties.

Essential elements for agency: An agency is created by an agreement between agent and principal, not necessarily by contract. So, a minor can become an agent. The principal must be competent to contract. No valuable consideration is necessary for agency contract. The person for whom an agent works as representative, is known

as principal, owner or employer.

Who can appoint an agent:

- a. Major persons
- b. Persons of sound mind
- c. Person who is competent to act for himself
- d. Appointed by any corporation or company
- e. Natural guardian or any guardian appointed by court.

Who can become an agent:

Any person whether or not, he is competent to enter into contract, may be appointed as an agent. So, a minor or a person of unsound mind may be appointed as an agent because only agreement is sufficient for establishment of agency. Contract is not compulsory, but to appoint a minor or person of unsound mind, as an agent is risky.

Difference between agent and servant:

- a. An agent has the authority to create contractual relationship between the principal and the third party whereas a servant has no such authority.
- b. An agent is paid commission or fees on the basis of work done whereas a servant is paid by the way of salary or wages.
- c. An agent may work for a number of principals at the same time but a servant usually serves under one master/ employer.
- d. An agent cannot be a servant at the same time but a servant can become an agent, along with servant.

Difference between agent and contractor:

- a. An agent acts under the supervision or control of his principal whereas a contractor is liable to work according to his contract.
- b. Contractor may become agent in specific conditions but an agent cannot become a

contractor.

Creation or establishment of agency:

- a. Agency by express agreement when authority is conferred on an agent either by written or spoken words.
- b. Implied agency may be inferred from the conduct or relation of the parties.
- c. Sometimes a principal, by his conduct or words creates an impression that a certain person is his authorized agent. Such an agency is agency by estoppel.
- d. Agency by necessity comes into existence when certain circumstances compel a person to act as an agent for another without his express authority.
- e. Agency by ratification arises when some act is done by a person on behalf of another without his authority and the act is affirmed or ratified by the other i.e. purported principal.

Rights of an agent:

- a. Right to receive remuneration
- b. Right to claim compensation in case of injury due to principal's neglect.
- c. Right to be indemnified against the consequences of lawful acts within his authority.
- d. To perform necessarily in crisis.
- e. To become free from agreement after giving appropriate notice.
- f. To act according to business's usual manner.
- g. To appoint sub-agent and substituted agent.

Rights of Principal with agent:

- a. To direct the agent for the conduct of his business.

- b. To claim the benefits from a transaction without his consent or knowledge.
- c. To accept or reject the misconducts of agent.
- d. To increase, decrease or terminate the rights of agent.
- e. To refuse the payment of agent in case of misconduct.
- f. To demand proper accounts of the business of agency.
- g. To claim compensation for loss or damages caused by agent's neglect or misconduct.

Note: Rights of agent will be duties of principal and duties of agent will be rights of principal.

Agreement:

Every promise and every set of promise, forming consideration for each other, is an agreement.

A proposal, when accepted, becomes promise. An agreement is created by exchange of promises by the parties. So it can be stated that offer is an essential element of an agreement. Certain and enforceable agreement must be there among parties. For example: Ram proposes to purchase Shyam's bike for Rs. 20,000 and Shyam accepts this offer; then there is an agreement between both of them. Ram is promising to pay Rs. 20,000 and Shyam is promising to sell his bike. Both the promises are in consideration of each other.

Offer:

When one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence, he is said to make an offer.

Any offer represents the desire of one party to do or not to do any work, in front of another party.

Example: Ramesh tells Sunil that "I want to buy your shop for Rs. 5,00,000. Will you sell it?" This offer is made by Ramesh to Sunil with the intention that Sunil accepts the offer.

Acceptance:

When the person to whom, the proposal is made, signifies his assent thereto, the proposal is said to be accepted. Acceptance must be given in a usual (implied, written, oral or symbolic) manner unless some other special manner is given in the offer. Acceptance to any offer can only be 'yes' or positive. It cannot be given as 'no' or negative.

Example: In the above example, if Sunil says yes to Ramesh, then this will be acceptance to sell the shop for Rs. 5,00,000.

All contracts are agreements but all agreements are not contracts.

According to Indian Contract Act 1872, there is a clear distinction between nature, definition and explanation of agreement and contract. Above statement can be divided into two parts:

1. *All contracts are agreements.*
 2. *All agreements are not contracts.*
- 1. All contracts are agreements – With a view to test the veracity of this statement, it is required to understand the definition of contract as well as agreement. Agreement is defined as "every promise and every set of promises forming consideration for each other, is an agreement."*

Contract is defined as "Contract is an agreement enforceable by law." Thus, the term contract includes agreement and its enforceability. Agreement which is not enforceable always remains agreement only and never becomes contract. A contract must include all the legal provisions which are stated in chapter-9. Every

contract possesses, all of the characteristics of agreement. Therefore, every contract is necessarily an agreement.

2. All agreements are not contract – Promise between parties is necessary for an agreement, but not its enforceability. Therefore, every agreement is not a contract. With mutual consent of parties, agreement may be enforceable but when enforced, it converts into contract and does not remain agreement.

So it can be said that all contracts are agreements but all agreements are not contracts.

By above definition it is clear that, only following persons / parties can enter into contract:

1. Major person
2. Person of sound mind
3. Person not disqualified by law, from contracting, by any law to which he is subject.

Following persons / parties cannot enter into contract:

1. Minor person
2. Person of unsound mind
3. Person disqualified by law, from contracting, by any law to which he is subject.

Case Name – MOHIRI BIBEE VS DHARMODAS GHOSH

In this case, a minor (Dharmodas Ghosh) mortgaged his house for Rs. 20,000 and received Rs. 10,000 from the mortgagee. Subsequently, the mortgagee sued for setting aside the mortgage on the ground of his minority at the time of execution of mortgage deed. . The Privy council held that according to section 11, a minor is incompetent to contract and therefore, minor's agreement was absolutely void, not merely voidable. Hence, mortgage was cancelled. Moreover, the mortgagee's request for refund of Rs. 10,500

(which he had advanced to the minor) was also turned down on the ground that minor's agreement was void from beginning and not void subsequently and therefore, mortgagee has no right of restitution under section 65.

EXERCISE

Very Short Answer Type

1. What is the difference between contract and Quasi contract?
2. Define Consideration.
3. Define Misrepresentation.
4. Define Coercion.
5. Is insurance contract is a Wagering agreement?
6. What do you mean by Quasi contract?
7. What is the guarantee contract?
8. Who can become an agent?
9. Who is the Bailor?
10. Who the Pawnor?
11. Define Void agreement.
12. Is threatening to suicide is Coercion?
13. How many parties are in the contract of Indemnity?
14. Is the ornaments deposits in the bank locker are bailment Contract?
15. What is the difference between agent and servant?

Short Answer Type

1. Describe the difference between the proposal and the intention to proposal.
2. What is the meaning of capacity to contract?
3. Explain the meaning of Fraud with example.
4. Write comment on contingent contract.

5. What are the significance of the Quasi contract?
6. Describe different types of Bailments.
7. Explain the essential elements of the contract of pledge.
8. What is the agency by necessity?"
9. "No consideration, no contract". Explain.
10. In what conditions the guarantee will be invalid?

Essay type

1. Explain the legal provisions regarding offer and acceptance?
2. What is the meaning of free consent? Explain its importance for the contract?
3. Explain the void agreements declared by the Indian Contract Act?
4. What are the special rights of a minor under the Indian Contract Act?
5. What is the bailment? Mention the duties of the bailor and the bailee?
6. What is the agency? Explain the rights and duties of an agent?

Chapter- 11

Entrepreneurship: An Introduction, Nature, Importance & Problems

Entrepreneur has an important contribution in the economic development of any country. The resources of the country are best utilized by the entrepreneur. Entrepreneurs take the risk of using the resources of the country and complete the task of new creation. At present, entrepreneurs are emerging as a source of inspiration for young people. Today's youth consider entrepreneurs like Bill Gates, Mukesh Ambani, Mark Zuckerberg, Narayana Murthy, Kumar Mangalam Birla as their ideal, and this is the reason that in the survey conducted by the Opinion Research Council of the United States, young people between the age group of 18 to 24 years Of them, 58 percent expressed their desire to start their business.

The emergence of entrepreneurship took place with humans taking risks of business and facing uncertainty. Look at the history of the last 150-200 years, there have been many entrepreneurs who have attracted the attention of the world. Entrepreneurship has become very important in the present age. Today, the world acknowledges the importance of entrepreneurship that the economic advancement of any nation is dependent on entrepreneurship. Today, governments of different countries urge their entrepreneurs to respect, control and urge them to invest, the same fact explains the importance of entrepreneurship.

Economic development of any nation is affected by the availability of various means of production, technical knowledge, market conditions, etc. But due to increasing competition, innovation and risk in the business sector, entrepreneurship has a

special contribution in national development. Survey of an organization named Ernest and Young confirms this fact. A survey conducted by this institution found that 78 percent of influential people believe that Entrepreneurship will determine the trend of the century.

The development of entrepreneurship is happening at very fast in our country. In the world, our country is second in the Entrepreneurship Development Index. It is a sign that Indian youth is now interested in setting up a business of their own. There are adequate infrastructures available for the development of entrepreneurship in our country, exemptions and concessions are provided in Government policy and control for the entrepreneurship development. 'Tax-free' schemes are being set up for new ventures, facilities for teaching-training are being developed, technological changes are being implemented, in such a scenario, there is strong potential for the development of entrepreneurship.

Meaning and Definitions of Entrepreneurship

Entrepreneurship is defined by various scholars with various meanings and attitudes. Some scholars have defined it as adjectives and some have clarified it as verb. In general, entrepreneurship is the plan and the courage to bear the risk and face the uncertainties.

In the modern times, the field of entrepreneurship has expanded, in fact, the establishment of new ventures, its direction and control, change in the enterprise and creativity, the ability to take risks of

corrective action is called entrepreneurship. Those who have these qualifications are known as entrepreneurs or adventurers.

Definitions Related To Establishing Business and Enterprise:

According to Prof. Musselman and Jackson: “Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful.”

According to Prof. Udai Pareek & Manohar Nadkarni: “Entrepreneurship refers to the general trend of setting up new enterprises in a society.”

Definitions related to functions and activities:

In the words of Joseph A. Schumpeter:

“Entrepreneurship is an innovative function. It is leadership rather than ownership.”

According to Peter Kilby: “Entrepreneurship involves a wide range of activities which includes acquiring knowledge of market opportunities, adjusting and managing the means of production, adoption of production, technology and commodities.

Definitions related to organization of combination:

According to Howard Johnson: “Entrepreneurship is the composite of three basic elements- inventions, innovation and adaptation.”

According to Franklin Lindsay: “Entrepreneurship is the anticipating the future requirements of society and successfully meeting these needs with new, creative and imaginative combinations of resources.”

Definitions related to decision-making:

According to H.N. Pathak: “Entrepreneurship involves a wide range of areas on which series of

decisions are required, which can be broadly grouped into categories, viz relating to (1) Acquiring knowledge of an opportunity, (2) organizing an industrial unit, and (3) running the industrial unit as a profitable, going and growing concern.”

Definitions related to Innovation:

According to Robbins & Coulter:

“Entrepreneurship is the process where individual or group of individuals risk time and money in pursuit of opportunities to create value and go through innovation regardless of the resources they currently control.”

According to Prof. Rao & Mehta:

“Entrepreneurship can be described as creative and innovation response to the environment.”

In essence, entrepreneurship is the process in which entrepreneur creates creative innovation by exploring opportunities, raises the risks of social innovation and the business to be dynamic, in which the entrepreneur establishes and operates new business organizations and courage to offers a new product or service.

Characteristics/Nature of Entrepreneurship

After studying the meaning of entrepreneurship and definition, the following key features of entrepreneurship are found:

1. Innovation: At present, Entrepreneurship is not the only act of performing traditional tasks, but it involves innovative technology, innovative products or any other kind of innovation. Only when the entrepreneur adopts innovation in his business, it is justified to put him in the category of entrepreneur. Peter Drucker has written "Innovation is a specialty of entrepreneurship".

2. Creative Activity: By entrepreneurship through

entrepreneur, the use of utilities and the location, colour, form of the object or service is made more useful to the society. According to the Hisrich & Peters, "Entrepreneurship is a process of proving utility." Entrepreneurship helps in transforming useless things into useful things by transforming the utility goods into creative work. Peter F Drucker explains that "Entrepreneurship can turn a heap of soil into gold."

3. Risk Bearing: Entrepreneurship is synonymous with risk taking ability. An entrepreneur raises the risk by establishing and operating a new venture, presenting innovative production in the market, investing his wealth, time, and hard work to determine pricing between the market's uncertainties. An entrepreneur values □□are always surrounded by high trends, changes in customer's interests, competition, changing government policies etc. It not only carries the financial risk but also the mental risk.

4. A Process of Searching Opportunity: Entrepreneurship is the process of finding opportunities. An entrepreneur seeks entrepreneurial opportunities and executes the problems of individuals in their needs and aspirations, social and technological changes, competition etc. As there is no small hotel or restaurant for eating an industrial area, entrepreneur opens a new Tiffin centre to find new opportunities in the problem of individuals.

5. Establishment and Operation of Enterprises: Entrepreneurship is the business mainstream. It inspires individuals to establish new businesses and successfully operate it. Entrepreneurship can only be established by establishing innovative ventures in society. It is impossible to create new industrial units in the absence of this.

6. It is the result of high achievement/ ambition: Entrepreneurship is the result of high achievement aspiration. Entrepreneurs always look forward to hard work and struggle to fulfill the ambition of their achievement. They want to achieve their goal anyhow. Galerman has written that " Entrepreneurs are devoted to the goal of higher achievements and are not satisfied without receiving them. "

7. Based on principles, not on Intuition: Entrepreneurship is based on principles. It is not based on the intuition of a person. Entrepreneurship is based on the principles of business science, economics, psychology, law, sociology, management.

8. Professional Activity : Entrepreneurship in the present age is a professional and earned qualification. If a person wants to achieve this qualification, then he can acquire qualifications by getting education training in various teaching training institutes. Not only that, various government organizations are currently operating programs and schemes to develop and awaken the entrepreneurship trend.

9. It is result of different changes: Entrepreneurship is the result of a change in the rapid pace of social, economic, political, technical, government policies and regulations. There has been changes in the thoughts and attitudes of individuals due to the changes and development of entrepreneurship.

10. Entrepreneurship is a practice: Entrepreneurship is done by the entrepreneur and not the character of his personality. The more entrepreneur will bear the risk of his behavior, innovate, innovation, the more intense he becomes the big entrepreneur. The management expert

Drucker has written that "Entrepreneurship is neither science nor art, it is behavior."

11. Essential in all type of Business:

Entrepreneurship is essential in all types of business. Whether the business is small or big, related to the manufacturing process or the marketing process, operating in a developing economy or operating in a developed economy, entrepreneurship is necessary everywhere.

12. Essential in all activities : Entrepreneurship is not necessary only in economic activities, but it is necessary in every action. In addition to the economic sector, in the area where there is no courage, decision to take risks or to make a choice, there is a great need for entrepreneurship.

13. Different types of Entrepreneurship: The economic, social, political, legal status of each and every society is different and the viewpoint of the people of that society is also different. In such a situation, differences are found in the types of entrepreneurship. It can be known by personal entrepreneurship, centralized entrepreneurship, decentralized entrepreneurship, small entrepreneurship, major entrepreneurship, traditional entrepreneurship, innovative entrepreneurship etc.

In addition to the above main features, according to the experts, attributes of entrepreneurship are included that entrepreneurship is based on knowledge and accomplish the action of personality creation.

Importance Of Entrepreneurship

Entrepreneurship is the pillar of economic and industrial progress of any country. This is a reflection of the economic and industrial development of the country. Entrepreneurship

plays an important role in all the situations, whether the economy of any nation is developing or developed, whether the ideology of that nation is capitalist or communist or socialist, whether the leadership of that nation is republican or monarchy or authoritarian. It also does not conform to the life of an individual, but provides a developmental direction to the entire economy. For this reason, Yale Bojan has said that, "entrepreneurship is an integral part of economic development."

Entrepreneurs use natural resources and human resources available in any nation efficiently and pave the way for the economic progress of the residents there. He works by doing innovative ventures, searching for new markets, presenting innovative products, and fulfilling desires of the people. Increase the quality of life of the people. Dolinger has just written that "Survival of new businesses in modern market-based economies is the key to technological and economic development. Through entrepreneurship, people will continue to live better, longevity and more prosperous lives."

Eminent economist Marshal, while highlighting the importance of entrepreneurship, writes that "Entrepreneur is the business captain. It is not only a carrier of risk and uncertainty, but a manager, a visionary, the inventor of new product methods and the economic structurer of the country. Based on the above explanation, the importance of entrepreneurship can be explained by the following points-

1. Basis of Economic Development of Nation

Entrepreneurship helps in fast and balanced development of the country. Entrepreneurship is not only the basis of business activities but by generating employment opportunities in the

country, it increases the national income by utilizing the resources, thereby strengthening the capital formation and the rapid development of the country.

2. Helps in Establishing new enterprises

Innovative industries are established by the entrepreneur. Entrepreneurs also establish new industrial units in the risky areas by arranging necessary resources. Many enterprises have been set up by various industrial houses in the country and inspired by these, new entrepreneurs are also setting up industries of new products by making many decisions. "Tata, Birla, Ambani, Dalmiya have consistently established innovative ventures in the country and are doing so on continuous basis.

3. Contribution in Development & Expansion of Existing Enterprises

Entrepreneurship also plays an important role in the successful operation and development of existing undertakings. Due to entrepreneurship, new products are manufactured, new product methods and techniques are invented, new markets are invented, so that the existing units remain in the market for a long time and they continue to grow and expand. In the words of Peter F. Drucker, "Entrepreneurship plays an important role in the development of business, innovation and expansion".

4. Helps in developing new Products and Techniques

Due to entrepreneurship, it is possible to develop new products and innovative techniques. The availability of various products coming in human life has been possible due to entrepreneurship. Similarly, innovative techniques are developed by improving and transforming the existing production methods from entrepreneurship.

5. Opportunity to Exploit full human potentiality

In entrepreneurship the entrepreneur establishes his own venture and makes full use of his potential to make him successful. He works with his full physical, mental and intellectual capacity to develop and expand his business. Thus, the usefulness of human ability from entrepreneurship is possible.

6. Creation of Employment Opportunity

Due to entrepreneurship new jobs are created in the country. An entrepreneur establishes a new equipment, produces and distributes new goods and services, this creates a job opportunity automatically. In the words of Ribson, "entrepreneur creates job opportunities in the developing world".

7. Promotes Capital Formation

As a result of Entrepreneurship, an entrepreneur develops and expands innovative ventures and develops existing industries. For this, he utilizes the capital of public and his public through debentures. Generating an investment trend encourages savings and promotes capital formation. According to Razor Naskat "Only entrepreneurship in developing countries can play a key role in breaking the impregnable fortress of capital and can accelerate economic powers in capital formation"

8. Balanced Economic Development

Professor Nurkse has written clearly that "entrepreneurs pave the way for balanced economic development." Enterprises can be established in every corner of the country by the development of entrepreneurship. In areas which are less developed, balanced economic development can be done by developing

differentiated areas by providing various types of concessional discounts to entrepreneurs.

9. Helps in execution of Government Policies and Plans

Through entrepreneurship there is not only implementation of industrial policy, but it also plays an important role in implementing other schemes and policies made for the development of the country. Entrepreneurship provide participation in various public welfare schemes run by the Central and State Governments and assist in their implementation.

10. Helps in Social Change

Entrepreneurship helps in eradicating superstition, conservatism and mischief by spreading the evidence of scientific research by awakening the education and awakening in the society. Similarly, Entrepreneurship increases the income of individuals by providing employment. As a result, their level of living increases, resulting in easy positive change in society.

11. Encourage to Research and Investigation)

Entrepreneurship emphasizes innovation and innovation can be related to product, technology or market. Continuous research and investigation work is done to maintain innovation and at the present time, different departments have also been started in the undertakings. The main task of research and investigation department is to adopt a scientific approach and to innovate.

Traits/ Qualities of Entrepreneur

The success of any entrepreneur depends on personality and behavior. An entrepreneur has to do different things from the establishment of business to the service after the sale. There are many qualities needed for accomplishing and execution

of these different functions. This idea of Emerson is 100% true that "Business is a game of tact, which every person cannot play." If an entrepreneur has to reach to success, he must have the tact and skill of various types. Entrepreneur has an inclusion of normal individual qualities as well as of professional knowledge and decision making ability, creativity, managerial and administrative capacity.

Qualities of a Successful Entrepreneur

The scholars are not unanimous about the qualities of a successful entrepreneur. Many managers and economists have described the attributes of the entrepreneur. According to various scholars, a successful entrepreneur should have the following qualities:

(a) According to McClelland, the following qualities are found in successful entrepreneurs:

- i. Extraordinary creativity
- ii. The ability to bear the risk and
- iii. Aspiration to achieve success.

(B) According to the famous economist J.B. Say, the entrepreneur should have the following qualities:

- i. Decision ability
- ii. Firm determination
- iii. Business knowledge and
- iv. Supervision and administrative capacity

(C) James Burna has considered these qualities in the entrepreneur

- i. Organizational and administrative qualifications
- ii. Technical and business knowledge
- iii. Awareness of opportunities
- iv. Interest in accepting changes and
- v. Psychological ability to take risk.

(d) According to Hornaday and Aboud-

- i. Risk taking ability
- ii. The ability to combine resources
- iii. Structural and administrative qualifications
- iv. The temptation to discover new opportunities and
- v. Interest in changes

(E) In the vision of A.C. Bredford, an entrepreneur should have the following qualities:

- i. Knowledge of basic principles
- ii. Co-ordination and cooperation among business groups
- iii. Human approach and training
- iv. Human Resource Selection and Training Ability
- v. Attitudes driven by the ideal of service

After studying the views and suggestions of various scholars, the properties of an entrepreneur can be divided into three parts:

- i. Physical and Mental qualities
- ii. Social and Moral Qualities
- iii. Professional Qualities

I. Physical and Mental Qualities:

1. Sound Health and Stamina-

Entrepreneur's health should be good. Someone just wrote that healthy body is home to a healthy brain. Good health is a very important element of personality. A person with a healthy body moves forward towards achieving its objective with its full potential. People with weak health are often unable to take risks and do innovation, so the health of the entrepreneur should be good. Not only this, the work force of the entrepreneur should also be good. Only after having the strength to work in it, he will be able to accomplish his work with complete emotions and

enthusiasm otherwise he will feel tiredness, annoyance etc. and will not be able to do his work skilfully.

2. Hardworking-

In Indian philosophy, it has been said that "*Udhmen he sidhyanti karayani manorath*" ("उद्यमेन हि सिध्यन्ति कार्याणि मनोरथ"). An entrepreneur must work hard to succeed. Entrepreneurs should be positive towards karma. The person who stole from work, success never comes near him. It has been said that "Diligence is the key to success" There is no substitute for hard work to keep yourself in the market in the current competitive era.

3. Imaginative-

It is also imperative to have the imagination power in the entrepreneur. From the establishment of the enterprise to its operation, the entrepreneur has to take various innovations which are possible only when he is imaginative. The fantasies should not be merely complete fantasies, but it should be close to reality. In *the words of Arther Alps* "The ambition of a person is fulfilled only if he/she is a Karmaveer. Only by imagining, a person cannot accomplish his ambitions.

4. Sharp Intelligence & Memory-

Entrepreneurs should be rich in sharp intelligence. Only after having a strong intellect, the accuracy and promptness can be achieved in the decision. On completion of different types of tasks in a judicious manner, the venture is dynamic on the path of progress and development. Similarly, entrepreneur should have memory power. The execution of when, where and what to do etc. becomes easy when it comes to acute memory.

5. Self Confidence-

"Confidence is the mother of success." This expression seems true in the context of the entrepreneur. Many inaccessible and difficult works can be accomplished easily with the help of self-confidence, while in the absence of it, normal work cannot be accomplished. An entrepreneur faces many situations for achieving the goal, the role of confidence is important in combating these different types of situations.

6. Optimist-

It is very essential for an entrepreneur to be optimistic as he constantly faces uncertainty and risk. Keeping the original mantra of "success is hidden in failure", the entrepreneur should not be discouraged from the failure, but should be quick to reach the target with passion and enthusiasm. Stevenson has written exactly that "The conditions of success are easy; we have to do some hard work, bear some, have faith and never have to turn back.

7. Foresightedness-

The entrepreneur has to make a decision on the basis of the future, and therefore he should be visionary. By fostering customers' future interest, government policy, competition, market prospects etc., an entrepreneur can develop and expand his or her enterprise.

8. Effective Personality-

Entrepreneur's personality should be effective and attractive. For effective personality, the entrepreneur must be serious, gentle, patient and serene. Cheerful nature, happy expressions, sweet dialogue, gesture and dress, etc. enhance personality.

9. Capacity to take Decisions-

A successful entrepreneur should have an extraordinary decision-making ability.

Entrepreneurs should be able to make decisions as quickly as possible. An entrepreneur needs to make decisions while keeping existing and future situations in to consideration to solve any problem and the right decision taken at the right time opens the door to success for the entrepreneur.

II .Social & Moral Qualities- Social and moral qualities also have an important place in the success of an entrepreneur. A successful entrepreneur should have the following social and moral qualities:

1. Sociable

Entrepreneur's sociable nature also has a great contribution in his success. The entrepreneur should have a friendly conversation with everyone. He should be very humble with every person who comes in contact with him and should create mutual affection. Due to sociable nature of him, people's confidence in the entrepreneur is increased. So entrepreneurs should be friendly.

2. Cooperative

Entrepreneurs should be affiliated to all sections. It should also be cooperative and harmonious with business owners, employees, creditors, suppliers, customers and even their competitors. Entrepreneurs should have the ability to compromise and accept their mistakes and faults.

3. Politeness

An entrepreneur should be polite. It has been said that "Humility does not seem to be of value, one can get too much from it." Happiness increases the popularity of the entrepreneur. Humility does not mean that it should act against its reputation and self respect.

4. Sound Character

The character of an entrepreneur should be clear.

Renowned entrepreneurs leave their mark on the people who come in contact with their work and behavior and make them their own. It has been said in relation to the character that if "the character is lost, then everything is lost." According to Prof. Hownice, The character person puts his mind in his people, through his eyes, through his gestures, through his speech, by his own words and by his statements and facts.

5. Honesty

Entrepreneurs should be honest. Fraud and wrong entrepreneurs can succeed for a short time, but for long-term success, it is necessary to have faithfully implement business activities. The entrepreneur should determine and follow their policies and plans based on "Integrity is the best policy".

6. Loyal

An entrepreneur should be loyal to his colleagues, clients, suppliers, government etc. not only in general but also in special and crisis situations. The entrepreneurs should not tamper with their loyalties of different classes by adopting such schemes as black money, artificial shortage of items, profiteering and black-marketing.

7. Humanity

An entrepreneur should take a humanitarian approach to the employees working in the venture. He should treat his employees and subordinates with affection, warmth, love and sympathy. The building of pleasant relations with the staff is less labor turnover, thereby increasing the stay of experienced and qualified employees and increases the spirit of honor, value and respect towards the entrepreneur.

8. Likable Disposition

Entrepreneur's temperament should be sound. An entrepreneur who possesses qualities such as

humility, behavior, virtue, etc. attains success in business. A person with an amiable nature has the ability to make his opponents even themselves.

9. Respectful

A successful entrepreneur should have the qualities of respect. Everyone who comes in contact with him be it small, poor, rich, educated and uneducated, he should respect them, because, it has also been said that "respect does not come from seeking, but respecting others."

10. Professional or Business Qualities

For the success of an entrepreneur, it is necessary to have business qualities in it because business qualities directly affect the success of the entrepreneur. Henry P. Dutton has written rightly - "The person who once acquired the knowledge of the business's work, financial management, accounting and who has understood the basic principles of leading and working with the colleagues, employees, he will soon be able to acquire skills and success in business." The following business qualities are expected in a successful entrepreneur.

EXERCISE

Very Short Type Questions-

1. What do you mean by entrepreneurship?
2. Quote any one definition of entrepreneur?
3. Who is an 'Entrepreneur'?
4. Give the meaning of risk.
5. Define the term 'Innovation.'

Short Type Questions-

1. Explain the concept of entrepreneurship.
2. Enlist the characteristics of entrepreneurship.
3. Elucidate any five traits of a successful entrepreneur.

4. Explain the physical and mental qualities expected in an entrepreneur.
5. Explain the social qualities of an entrepreneur.
6. State the professional traits of an entrepreneur.

Essay Type Question-

- Q1.** What do you mean by entrepreneurship?
Explain its features.
- Q2.** Explain the role and importance of entrepreneurship.
- Q3.** Discuss the required qualities of successful entrepreneur.

CHAPTER- 12

Entrepreneurship Development Programme - Meaning, Objective and Importance

An entrepreneur has a special contribution in the economic development process of any nation. The entrepreneur is the carrier of economic development in which he uses the available resources in the country in national interest. The development of economy cannot be imagined without the development of entrepreneurship. In such situation, planned efforts must be made for the entrepreneurship development programme. The Entrepreneurship Development Programme is an attempt made in this direction only. This program creates new entrepreneurs, paves the way for the creation of a superior society and creates healthy and creative thinking among the entrepreneurs.

Meaning and Definition of EDP

In general terms, the Entrepreneurship Development Program is any such programme whose purpose is to find the potential entrepreneurs, develop entrepreneurial spirit in the mass group and to help them in establishing and operating their own ventures by providing technical and managerial training. Through these programs planned efforts are made for the development of industries and their proper and overall development is undertaken. Thus, the meaning of entrepreneurship development programme is through those efforts by which-

1. By imparting training to the entrepreneur, his intellectual technical and conceptual abilities are confined.
2. Through entrepreneurial activities, they are

supported in establishing their own ventures.

3. By Developing the entrepreneurs inner power and stimulating the motivation for entrepreneurship, entrepreneurs are encouraged to adopt the path of courage
4. Generating entrepreneurial behavior in daily activities and improvement is emphasized on the same.

Objectives of EDPs

Following are the objectives of Entrepreneurship Development Programme:
To Promote First Generation Businessmen & Industrialists

"Entrepreneurs are born cannot be developed." It is the objective of the Entrepreneurship Development Programme to change this ideology giving appropriate training for entrepreneurship. Motivating the generation who has never spoken of business at their home is the first objective of Entrepreneurship Development Programme.

1. To develop entrepreneurs' qualities:

Entrepreneurship development programme is designed and trained to identify persons with entrepreneurial motivation and an attempt is made to develop the essential qualities of entrepreneurship in them. The success of an entrepreneur depends on its qualities and development of these qualities is possible through these entrepreneurship development programmes.

2. To provide knowledge about Government Planning and Programmes:

It is also the objective of the Entrepreneurship Development Program to make information available of various government schemes and programs to the entrepreneurs and to create awareness about them. The purpose of the Entrepreneurship Development Program is to provide useful information such as how to use these schemes, where the trustful information about these schemes should be obtained from, and what information will be provided by which department.

3. To help in formulation of Projects:

Entrepreneurship Development Programme provides entrepreneurs with the necessary assistance in project formulation. It facilitates project construction by providing entrepreneurs with the necessary fundamental facts, synthesis, financial and government knowledge for building project.

4. To provide knowledge about advantages and disadvantages

The Entrepreneurship Development Programme makes entrepreneurs aware with the advantages and defects of entrepreneurship so that it become easy for them to combat with the difficulties coming in setting up and operating of any enterprise. What are the benefits of entrepreneurship and what are the potential challenges that are made aware to the entrepreneur with these programmes.

5. To develop enterprises in all areas of country

For the balanced economic development of the country, industries should be established in every sector. Entrepreneurs prefer to set up an enterprise where the enterprises are already

established, in such a case, entrepreneurs are encouraged to undertake ventures in under-developed areas.

6. To provide training to operate Business and Marketing

Entrepreneurship development programme also aims that entrepreneurs should be taught how to do business, how to develop a good relationship with different parties, how to do market analysis, how to counter the competition, what should be the method of sale, advertising and sales promotion for marketing of goods.

7. To develop small and cottage industries:

Entrepreneurship Development Programme aims to exploit locally available natural resources and provide motivation to set up small and cottage industry. Small and cottage industries has an important place in the country's economy and efforts are made to develop these industries by providing training and technical knowledge to the local community.

8. To provide solutions to entrepreneurs about doubts and problems:

When an entrepreneur establishes a business, he faces many doubts and problems. Effective diagnosis of these doubts and problems is also the main purpose of this program. Not only this, experts are also organized and entrepreneurs are invited to rectify their problems directly and also seek suggestions from entrepreneurs and implement them.

Importance/ Role of EDP's

Entrepreneurship programme plays an important role in economic and industrial development of the country. These programs have significant contribution in creating employment

opportunities in the country, balanced industrial development and making youth a business entrepreneur. According to Yale Bojan "Entrepreneurship development program is an integral part of economic development". Similarly, recognizing the social utility Arthur Coal has also written that "the study of entrepreneurship development programs helps in economic and social action". In essence its importance can be explained by the following points:

1.(Encouragement to innovation and product diversification)

Entrepreneurship development program encourages innovation and production diversification and by this it is possible to produce new items, use new technology, new instruments and machines. Through entrepreneurship development program research and investigation is promoted and new markets are tracked.

2. Rapid economic and balanced development of the nation:

Economic development of any nation depends on its entrepreneurs. Today, countries such as Japan and China have a place in the world economy due to their entrepreneurs. India is also progressing to stand in the line of developed nations by 2020. This is possible only when the new chain of entrepreneurs will be created in the country. Entrepreneurship Development Program can prove to be very helpful in creating new entrepreneurs.

Not only this, these programmes are pillar of balanced development, as entrepreneurs are ready to set up industries in undeveloped and underdeveloped areas, inspired by these programs

by which there is balanced economic development in the country. Professor Narksey has written "Entrepreneurs pave the way for balanced economic development".

3. Optimum utilization of resources:

The entrepreneurship development program teaches the methods and techniques for the best use of resources to entrepreneurs by which they try to combine different resources of production and make better use of them. Not only this, the entrepreneur receives each resource by giving money, so he always remains vigilant towards its maximum utilization.

4. Helpful in capital formation:

Our basic concept is "high income and low expenses". As a result of this, there is increase in savings. Entrepreneurs directly promote these savings using them as letter for loan etc and directly creates capital formation. They use these savings in productive work and increase the rate of capital formation.

5. Build Industrial Environment:

As a result of the Entrepreneurship Development Programme, entrepreneurs establish new business enterprises, produces new goods and services, discover and develop new markets, establishes industry ventures in less developed places, extend and renew existing undertakings, thereby increasing the industrial activities in the country and creating industrial environment.

6. Knowledge of Legal Provisions and Government Policies to Entrepreneurs:

The entrepreneurial development program gives entrepreneurs basic knowledge of legal provisions and key government policies by which establishment and operation of venture becomes

easy. Similarly, the various policies that are set by the Central and State Governments are also provided to the entrepreneurs, which facilitates their coordination and implementation easily.

7. Remedies of entrepreneurs' doubts and problems:

Entrepreneurs have to face different doubts and problems during the establishment and operation of the venture. Due to these doubts and problems, even new entrepreneurs discard the idea of setting up a new entrepreneurial enterprise. In such a situation, the Entrepreneurship Development Programme encourages them by diagnosing the doubts and problems of these entrepreneurs at a rapid pace.

8. Execution of Government Policies & Planning:

Entrepreneurship development programme plays an important role in the implementation of government policies and schemes. There are also some policies and schemes of the government that are very dependent on the implementation of entrepreneurship like reducing jobs, encouraging self-employment, selling loss-making public state ventures etc. Success of such schemes depends on entrepreneurship development programme.

9. Development of Small Scale & Cottage Industries:

The Entrepreneurship Development Program helps the local community to set up small and cottage industries by exploiting natural resources available in the local area. Through these program, they are trained on technology, market and get higher production at low cost.

10. Increase in Employment Opportunities:

Development of entrepreneurship creates direct and indirect employment opportunities in the country. The establishment of new industries in the country, expansion in the development of operational ventures, many employment opportunities get available due to the use of innovative and modern techniques, etc. This not only increases employment in the industrial sector, but also in agriculture, services, and business too. According to Ribson " Entrepreneur generates employment opportunities in the country".

11. High Standard of Living:

Due to entrepreneurship, there is availability of employment in the society and different products are available to many consumers in the market. Due to competition, entrepreneurs strive to make the best product available at the lowest price to the society. Employment, capital formation, availability of products at minimum value, availability of products according to consumer interest and fashion improves the standard of living of the public.

12. (Medium of Social Change)

Donald B. Tro has given an important statement which says "Entrepreneurship is an important means of establishing social change and entrepreneurial culture". Due to the entrepreneur, the establishment of a self-sufficient society is possible, society creates an industry-oriented society which reduces superstition and conservatism, Casteism/ Racism ends and promotes social harmony, new traditions and practices in society come in vogue. In essence, there is a positive change due to entrepreneurship in

living standards of society, ethics, food and meditation.

EXERCISE

Very Short Type Questions-

1. What do you mean by Entrepreneurship Development Programme?
2. What is innovation?
3. What is product diversification ?

Short Type Questions-

1. Explain the concept of EDP.
2. State the three objectives of EDP
3. Explain optimum utilization of resources.

Essay Type Question-

1. Define the term EDP explain its role in economic development.
2. Explain the importance and role of entrepreneurship Development Programme.

Chapter- 13

Insurance: Introduction and Importance

In today's world everybody is surrounded by risks and uncertainties. Everyone has fear of losing their valuables, whether he is the richest person in the world or any normal human being. Politicians, Businessman, Factory owner, small shopkeeper, Actor, sportsperson, farmer, labour or organizer of any event everyone is afraid of the unforeseen. Someone is worried about his health, someone about loss in business or about what will happen to his family after his/her death. Loss of property and people from natural calamities such as earthquake, famine, drought, floods, avalanches, fire is yet another biggest fear among people. Employees are worried about their job security and employers about the welfare and well being of their employees. Businessman is about risk posed from competition, consumers are worried about adulteration, and creditors are worried about their lending. From all this we can infer that everybody is worried about something or the other. We have all risks and uncertainties around us. In this modern era, we all are loaded with unforeseen events which may pose various threats to us and our properties.

Human being has always been protected about his belongings. He has always preferred a safe environment. To secure himself and his property is the ultimate goal of one and for that Insurance provides a way. Insurance is one of the methods for providing security financially, emotionally and materialistically. Insurance is as old as our civilization. Rig-Veda has identified insurance as "Yogshem". Even in Manusmriti topic of insurance is covered through various mediums and understanding the peripheral

terms related to insurance such as purchase price, selling price, quality and quantity, related expenses and ways to increase the production and investment with security. Initially insurance was identified with respect to ensure safety and security of man and his property but later on it turned out into ever growing industry providing employment to a large number of people.

Insurance helps us to deal with all the uncertainties that is why insurance is important for every individual, business organization, society and nation. Insurance covers all such risks and uncertainties and help each building block of nation to grow. Insurance is that weapon through which humans can turn uncertainties into certainties and can lower the risk. This is that provision which can increase the chances of profit and success. Through this the needy can sort help from those who have surplus funds. Insurance works on the golden rule of human welfare that is sharing and caring.

Meaning and Definition of Insurance:

Many scholars have tried to define insurance in different ways. **Insurance** is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. In the functional scenario, it is a social device providing financial compensation for the efforts of misfortune, the payment being made from the accumulated contributions of all the parties participating in the scheme. Likewise scholars have given various definitions for insurance which

can be classified under General, Functional and Legal heads for easy understanding and clarity

Lets us discuss those definitions in details:

(a) General Definitions of Insurance:

Insurance is a term in law and economics. It is something people buy to protect themselves from losing money. People who buy **insurance** pay a "premium" and also promise to be careful. William Henry Beveridge worked upon the social facet of insurance and said that burden of loss will not be borne by individual alone but by all the society at large. In his words "the collective bearing of risk is insurance."

Magge defined insurance as a scheme in which large number of people participate and share their risk. According to him "Insurance is a plan by which large number of people associate themselves and transfer to the shoulder of all risks that attach to individuals."

According to Boon and Kurtz, "insurance is a substitution for a small known loss (the insurance premium) for a large unknown loss which may or may not occur."

Hoopkins and Others opinions "Insurance is the protection against economic loss provided by sharing the risk with other."

Thus, it is clear that insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured

Functional or Economic or Business definitions

These definitions are based on economic or business oriented since it is a device providing financial compensation against risk and uncertainties. Here are some definitions:

1. According to D.S. Hansell: Insurance may be defined as social device providing financial compensation for the efforts of misfortune, the payments being made from the accumulated contributions of all the parties participating in the scheme.
2. Encyclopedia of Britannica: Insurance may be described as a social device whereby a large group of people through a system of equitable contribution may reduce or eliminate certain measureable risk of economic loss common to member of the group."
3. According to Mehar and Commack, "Insurance may be defined as a device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all units in combinations."
4. Federation of Insurance Institute, Mumbai, "Insurance is a method in which a large number of people posed to a similar risk make contribution to a common fund out of which, the losses suffered by the unfortunate events due to accidental events, are made good."
5. According to Reiger and Miller, "Insurance is a social device whereby the uncertain risks of individuals may be the combined in a group and thus made more certain small periodic contributions by the individuals providing a fund out of which those who suffer loss may be reimbursed."

Thus it is clear insurance is a system of protection against financial loss in which risk is shifted to a professional risk bearer, an Insurance company in exchange for a certain sum of money (insurance premium), the insures agrees to pay the insured if losses occur.

II) Contractual or Legal Definitions

These definitions consider insurance as a contract to indemnify the losses on happening of certain contingency future. It is a contractual relationship to secure against risks. Some of such definitions are:

- (a) In the words of Justice Tindal, “Insurance is a contract by which a sum of money is paid to the assured consideration of insurer's incurring the risk of paying a large upon a given contingency.”
- (b) According to Reiger and Miller, “ In its legal aspect it is a contract, the insurer agreeing to make good financial loss of insured may suffer within the scope of the contract and the insured agreeing to pay a consideration(the premium).”
- (c) In the words of E. W. Patterson,” Insurance is a contract by which one party for a consideration called the premium , assumes particular risks of other party and promises to pay to him or his nominee a certain or fixed sum of money on a specified contingency.”

Thus, insurance may be defined as a financial arrangement for redistributing the cost of unexpected losses as a legal contract whereby an insurer agrees to compensate an insured for losses. A loss is defined as an desired, in planned reduction of economic value, or utility. A chance of loss represents the probability of the losses occurring.

Characteristics or Nature of Insurance

The study and analysis of the definitions of insurance reveal the following characteristics or nature of insurance.

1. Protection against risks - Insurance provides protection against risks involved in life, materials and property.

2. Division of Risks Insurance is a cooperative device to share the burden of risk which may fall on happening of some unforeseen events, such as the death of head of the family, or on happening or marine, accident loss by fire.
3. Cooperative device Insurance is a cooperative form of distributing a certain risk over a group of person, who are exposed to it.
4. Wider scope - The scope of Insurance is much wider and extensive as various types of policies have been developed in the country against the risk on life, marine, accident, theft, agriculture, hut, medical, vehicle and trustable insurance.
5. Insurance of pure risks only There are 2 types of risks 1) Pure and 2) speculative. Pure risk is focused on only losses the insured, and no profits. Example of pure risks is accident, misfortune, death, injury etc. Which are all one sided risks and the ultimate result in loss. Insurance companies issue policies against pure risk only not against speculative.
6. Evaluation of Risk: For the purpose of ascertaining the insurance premium, the volume of risks is evaluated which forms the basis of insurance contract.
7. Spreading of Risk: Insurance is a plan which spreads the risk and losses of few people among large number of people. It is a scheme under which the loss is transferred to the shoulders of large number of people.
8. A contract: It is a contract. All the valid points of Contract are applicable to it. It is a legal contract between the insurer and insured under which the insurer promises to bear the risk of loss for a premium.
9. Based on Mutual Good faith: Insurance is a

contract based on good faith. Both the parties are bound to disclose true facts and shall not omit any fact which is material.

10. Transfer of Risk: Insurance is a plan in which the insured transfers his risks on the large numbers of persons and in a way transfers the risk. It is transferring the economic losses to the insurer otherwise it would have borne by the insured.
11. Large number of insured persons the success of insurance business depends on the large number of persons insured against the similar risk. This will enable the insurer to spread the losses of risk among large number of persons, thus keeping the rate of premium at minimum.
12. Ascertaining the losses: By taking a life insurance policy, one can ascertain his future losses in terms of money. This is done by the insurer to determine the rate of premium which is calculated on the basis of maximum risks.
13. It is a social phenomenon: Insurance is a social activity because it is for the society of the society and from the society.
14. Insurance is not gambling: Insurance is not gambling.
 - 1) It is a valid contract to indemnify losses, but gambling is illegal which gives gain to one party and loss to other.
 - 2) In insurance, Insurable interest is present but not in gambling
 - 3) Insurance is done in public interest and not gambling
 - 4) Insurance is plan for social welfare and indicator of social prestige, but gambling is a social evil and a gambler has no place in society.
15. Insurance is different from assurance:

- 1) Insurance is used against indemnity but assurance indicates certainty.
 - 2) Insurance is not certain that the event insured against may happen or not in assurance it is bound to happen,
 - 3) The principle of indemnity is the basis of insurance contract, but principle of indemnity doesn't apply in assurance.
16. Insurance is not donation: Insurance is different from donation, because insurance companies do not compensate the insured from their pockets, but pay from the funds provided by the insured in terms of premium. It is not the concept of donation.

Objectives/Functions of Insurance:

According to Reigel and Miller, "The purpose or function of Insurance is primarily to decrease uncertainty of events." In real insurance searched as collective/group efforts to certainty in people's uncertainty. But nowadays insurance is fulfilling many things and coercing various purpose.

Based upon the definitions, the objectives /functions of insurance may be discussed under the three headings:-

- 1) Primary function/ Objective
- 2) Secondary Function/ Objective
- 3) General Function/ Objective

The description of these objectives/functions is given as under:-

Primary Objectives/ Functions:

1. To provide certainty against the probable risks: -
The primary objective or function of the insurance is to provide protection against future risks, accident and uncertainty. The insurance cannot check the happening of risk in future, but it can surely provide for losses at the happening

of risk. The insurer gives certainty of payment of loss to assured by charging premium.

2. To provide security: the next primary function of insurance is to provide security to the insured person. The insured person feels fully secured just after insurance with the insurer, like a mother with an infant kid in her lap to secure him/her against any probable losses. Prof. Hopkins observe, "Insurance is a security against economic loss by sharing the risks with others." He further says insurance is protection against economic loss.
3. To spread or divide risk: Insurance is a plan which spreads and distributes risks and losses of the few people among a large number of people.
4. Evaluate risk Insurance determines probable level of risk and various factors which give rise to risk.
5. To do Market Research In this function insurance companies collect the data and information regarding their business at regular basis. They involved in the life insurance business have all the data regarding birth rate, death rate, census, health services, etc.
6. To create insurance awareness - For this purpose insurance select the effective and constructive advertising appeals and apply these appeals on the target market through aggressive advertising programmes. The purpose of insurance awareness is to prepare a large group of the insured persons. Therefore, not only the insurance company gets the profitable business, but the insured person has to pay a little amount of premium.

Secondary Objectives: -

- 1.) To alert for prevention of losses: - Insurance

cautions individuals and businessmen s to adopt suitable device to prevent unfortunate consequences of risk by observing safety instruments, installation of automatic sparkles or alarm system etc. Prevention of losses causes lesser payment to the assured by the insurer and this will encourage for more savings by way of premium. Reduced rate premiums stimulate for more business and better protection to the insured.

- 2.) To provide financial assistance - The insurance companies collect a huge amount in a very short span of time. They use this amount t fulfill the capital requirements of trade, business, industry for development. Insurance policy performs as an important basis for the short term and middle term credit. With this loan is easily available.
- 3.) To increase in work efficiency It helps to increase the work efficiency because it eliminates worries and miseries of loss such as death and destruction of Property.
- 4.) Ensuring welfare of the society "Insurance is a social service and security" to the society. Security of life and property given by it brings peace of mind to the insured. The investment of LIC in welfare schemes, like electricity, housing, water supply, agriculture and agro industries have solved many pressing problems in India.
- 5.) To contribute in development of large scale enterprises: - Insurance is helpful in developing of large scale enterprise and industries because of more risks. So those in these condition insurance companies assist those enterprise or enterprises who have insured them assets.

General Objectives:

- 1) To encourage export: Insurance solves many problem of the insurance trade. Different types of policies exist for many different purposes under export and import trade which makes it easy to trade worldwide. In case of marine peril or foreign exchange exposure the risk is covered under various insurance policies available.
- 2) Meaning of saving and investment: Insurance serves as medium for saving and investment so that money can be used in future when in actual need. Although investment is in the primary function of the insurance, but it end results lead to saving money which in turns leads to investment.
- 3) Provide social security: through various social plans, insurance provide social protection to people. It not only provides security at the time of death but also at the time of old age, sickness and maternity etc.
- 4) To contribute in Foreign Monetary Fund: Insurance is an international business. The country can learn foreign exchange by way of issuing marine insurance policies and various other ways.
- 5) To contribute in rural development programme - The object or function of insurance also contributes in the rural development programme as it has various policies and plans for various rural issues such as crop insurance, hut insurance and animal insurance etc.

Scope and Kinds of Insurance:

The earliest reference of insurance has been found in Babylonia, the Greeks and the Romans. The use of insurance appeared in the account of North Italian Merchant Banks who then dominated

the international trade in Europe at that time. Marine insurance is oldest form of insurance followed by Life and Fire insurance.

In the present age, scope of Insurance became very fast. For convenience of study, Insurance may be classified into the following types

- 1) Classification on the basis of nature
- 2) Classification on the basis of business and
- 3) Classification on the basis of Nature.

1) Classification on the basis of Risk -

The classification on the basis of the risk, insurance can be classified into four categories 1) personal insurance 2) property insurance 3) Liability insurance 4) Fidelity guarantee insurance.

2) Classification on the basis of business -

The classification on the basis of business can be classified into 1) Life and 2) General.

3) Classification on the basis of Nature -

On the basis of nature of business, Insurance may be classified into 5 types

1) Life insurance The life of men are insured in life insurance. In this subject matter of insurance is the 'human life'. Life insurance is a contract , whereby the insurer, in consideration of a premium paid either in lump sum or periodical installments, undertake to pay an annuity or a certain sum of money either on the death of the insured or on the expiry of certain number of years.

A contract of life insurance, as in other forms of insurance, requires that the assured must have at the time of the contract as insurable interest in

his life upon which the insurance is affected. Life insurance is both a protection and investment. The purchase of life insurance policy is usually invested in protecting against risk of premature death as well as saving and investing his income on a long term basis. In our country Life insurance business are done by LIC, Kotak Mahendra, Bajaj Alliance, ICICI Prudential.

2) Fire Insurance fire insurance is a contract to indemnity, to the insured for destruction of or damage to the property caused by fire. A fire insurance policy is usually taken for one year's only according to the terms of policy. The scope of insurance is much wider because in this risk directly involved by fire is not only included, but lightening, explosion, aircraft damage, riot strike, malicious, terrorism, storm, cyclone, typhoon, tempest, hurricane, tornado, flood and inundation, impact damages are also included. The importance of fire insurance is going more in modern industrial age because insurance minimizes losses, decrease in the probabilities of fire losses, and increase in the growth of business.

3) Marine Insurance The business of effecting, cargoes, freights and other interest which may be legally insured in or in relation to such vessels, cargoes and freight, goods, merchandise and property of whatever description insured for any transit by land or water or both are covered in marine insurance policy. There are two types of Marine insurance 1) Ocean and 2) Inland.

4) Social Insurance The social insurance is to provide protection to the weaker section of the society who is unable to pay the premium for adequate insurance. Pension plans, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the various forms of social insurance. With the increase in socialistic ideas, the government of the country must provide social insurance to its masses. According to National Labour Commission.

“Social insurance is defined as an economic security to weaker section of the society who is unable to pay the premium for adequate insurance.”

The following types of Insurance can be included in social insurance

1) Sickness Insurance In this type of insurance medical benefits, medicine and reimbursement of pay during the sickness period etc. are given to the insured person, who fell sick. The subsidiary companies of General Insurance Corporation Issue 'Med claim Policies' for this purpose.

2) Death Insurance Economic assistance to is provided to the dependants of the assured in case of death during the employment. The employer can transfer such liability by getting insurance policy for his employees.

3) Disability Insurance - There is a provision of compensation in case of disability total or partial. According to the Employee Compensation Act, the responsibility to pay compensation is vast with the employer. But the

employer transfers his liability on the insurer by taking group insurance policy.

4) Unemployment Insurance In case the insured person becomes unemployed due to certain specific reasons, he is given economic support till he gets employment.

5) Old AGE Insurance In this category of Insurance, the insured or his dependents is paid, after certain age economic assistance.

Miscellaneous Insurance:

The process of fast development in the industrialization, technical development and urbanization etc. gave a number of risks or hazards. To provide protection against such hazards various policies are there in the market. The important among them are: -

(a) Vehicle insurance: Vehicle insurance on buses, cars, trucks and motorcycle etc. made compulsory, so that the losses due to the accidents can be claimed from the insurance company. Vehicle insurance is for one year period only. In such type of insurance, if accident happens, insured may be bound to pay the third party.

(b) Personal Accident Insurance: In case of accidental death or total or partial disability, a fixed amount as per conditions of insurance, is paid to the insured. GIC's subsidiary companies issue "Janta Accident policy" such type of insurance is considered very essential in modern time. Death and Bodily injuries in road accident are the order of the day.

(c) Burglary Insurance: Burglary insurance enables the business house to recoup the losses

suffered by them consequent on burglary or house breaking. In order to give covers, burglary department has also devised other types of policies besides burglary policy following upon the entry of the premises by violent and foreseeable means. Burglary insurance is useful for cinemas, petrol pumps, residential hotels, banks, financial institutions and jewellery etc.

(d) Live Stock Insurance It refers to the Insurance of Horses and cattle. It provides cover against death of animals like Bulls, buffaloes, cows, donkeys, camels etc. arising as a result of accident, diseases and mal-nutrition as the case may be.

(e) Crop Insurance In crop Insurance crops are insured against the losses caused due to famine, floods, excessive rains etc.

(f) Offence Insurance This insurance provides protection against coordinated activities of theft and plotting. Banks, Financial Institutions, Hotels, Petrol Pumps etc are secured through this.

(g) Other Insurance In addition to the above insurance plans are available against crime, medical insurance, bullock cart, jewelry, air travelling etc.

(h) Pradhanmantri Suraksha Beema Yojana- PSBY was started by Honorable PM Shri Narendra Modi in 2015. This type of Beema Yojana is for that person of 18 to 21 years of age. That person deposits Rs. 12 in his bank account. This is one year insurance.

(i) Pradhanmantri Jeevan Jyoti Beema Yojana: PMJJBY was also started by present Prime Minister honorable Narendra Modi. This is for all those are 5 to 18 years. In this security up to 2

lac is given and it is also for one year and premium paid is 380 Rs for one year.

Need or Importance of Insurance:

Now a days, we look many and more risks, uncertainties, mentally disturb, dangers, variedness other s to human life. As rightly said by prof. Dinsdale “No one in the modern world can afford to be without Insurance”. Not only had this Prof. Lord Hardvick also said, “The operation of Business is impossible without insurance.”

The need of Insurance can be explained by dividing it onto following heads:

- 1) From Individual or family point of view.
- 2) From economic or business point of view
- 3) From social point of view
- 4) From National Point of view

The description for every point follows here:

1) From Individual or family point of view

a) Insurance provides security & safety:

Insurance gives a sense of security to the policy holder. Insurance provide security and safety against the loss of earning at death or in old age, against the loss at fire, against the loss at damage, destruction of property, goods, furniture etc.

Life insurance provides protection to the dependents in case of death of policyholders and to the policyholder in old age. Fire insurance insured the property against loss on a fire. Similarly other insurance provide security against the loss by indemnifying to the extent of actual loss.

(b) Encourage Savings: Life insurance is best form of saving. The insured person must regularly save out of his current income an amount equal to the premium to be paid otherwise his policy get lapsed if premium is not paid on time.

(c) Providing Investment Opportunity: Life insurance provides different policies in which individual can invest smoothly and with security; like endowment policies, deferred annuities etc. There is special exemption in the Income Tax, Wealth Tax etc. regarding this type of investment.

(d) Fosters Economic Independence: Death or accident is the instances in which the people become unsupportive. On the death of the earning member, the family member, especially the dependants face much problems of subsistence. Insurance is such a mean to make one reliant economically.

(e) Mental piece: - A sense of security removes all the tensions and worries. It stimulates more and better work because of insurance. It eliminates the constant worry about the loss of their possessions.”

(f) Safety of Domestic Asset from all the risks: - Insurance policy ensures safety of the entire domestic asset from any sort of risk.

(G) Awareness towards Losses: Insurance Companies give suggestion to many companies to adopt various measures for preventing losses to its customer.

(h) Cover for legal Liabilities: It protect against all the legal issues arising out of the legal matters.

(i) Tax Exemption: Insurance is as easy way to obtain tax exemptions, there are various

provisions made under the Income Tax act, Life Insurance Act and various other legal enactments which provide tax benefits and deductions.

- (j) **Safety against Decree:** the money saved towards the payment of premium is totally safe, because insurance policy cannot be acquired through any decree by creditors. It is possible only against the property but not policy.
- (k) **Goodwill:** It helps in enhancement of the goodwill of the firm/business. Those having the insurance policy are considered to be secured and settled people.
- (l) **Investment:** The elements of investment, i.e. regular savings, capital formation, bonus and return of the capital are observed in life insurance. Magee has said remarkably in this regard, "Although investment is not the main crux of insurance but it sure does help in saving and encourages investment."
- (m) **Protects Mortgaged property:** Insurance provides protection to the mortgaged property.
- (n) **Fulfills the need of Business:** The needs of a person may be divided into 1) Family needs 2) Old age needs 3) re-adjustment needs 4) special needs including need for education, marriage, settlement of children, 5) clean up funds for ceremonies. Insurance helps for meeting requirements and necessary needs.

2) From Business or economic point:

- (a) **Shifting of Risk:** Insurance is a social device whereby businessmen shift specific risks to the insurance company. This helps the businessmen to concentrate more on important business issues.
- (b) **Assuring Expected Profits:** An insured businessman or policyholder can enjoy normal

expected profits as he would not be required to make provisions or allocate funds for meeting future contingencies.

- (c) **Improve Credit Standing:** Insured assets are easily accepted as security for loans by the banks and financial institutions so insurance improves credit standing of the business firm
- (d) **Business Continuation** With the help of property insurance, the property of business is protected against disasters and chance of closure of business is reduced.
- (e) **Protection from loss of key men:** Person having experience and expertise is a boon to every company and having lost him due to any reason can be harmful for the firm/company. Insurance can arbitrage and hedge such losses occurring from the loss of Key person of the organization.
- (f) **Increase in efficiency:** It increases the efficiency of the organization by ensuring continuous supply of funds and hedging losses in case of uncertain event takes place.
- (g) **Protect Employees interest:** By insurance employee interest can be protected because in the position of loss, adverse effects may be on employees but due to the presence of insurance the loss will not be borne by them but by the insurance company.
- (h) **Promotes Foreign Trade:** Insurance provides goodwill and enhances image hence provides opportunity for foreign trade and creates goodwill for import and export of goods and services.
- (i) **Reduces cost:** Prof Angell has said, "Insurance may enable a manufacturer to sell a product at lower cost because through insurance he is able to cover many risks of production for a small premium."
- (j) **Helps in development of Infrastructure for**

arrangements of those estates become sound.

(3) From social point of view:

- Industrialization:** Insurance provides finance when need at correct time and help in development of infrastructure and cover any loss from any natural disaster.
- (k) **Security from civil liabilities-** Insurance Companies secure many civil liabilities.
 - (l) **Protection from loss of Profits:** Among with the development of business activities in modern time, insurance also has extended its role of protecting different activities. It provides protection against arising shops and factories. It also undertake to indemnify the loss of profits from business function way. This way loss of profits and profit are protected.
 - (m) **Financial assistance to Industrial estates:** Insurance companies provide financial assistance to the industry estates as loan on the basis of long term. In this regards LIC and GIC are very important.
 - (n) **Underwriting of securities:** Insurance companies undertakes underwriting of new issue of shares and debentures of newly formed companies and public limited companies. This way they resolve the problem of newly formed companies in subscribing their shares of debentures.
 - (o) **Investment in securities:** Insurance companies extends its support for the development and expansion of industrial and commercial activities by investing in securities in shares, debentures etc. Issued by the industrial units.
 - (p) **Contribution in Management Arrangement** at present insurance companies provides financial help to those industrial estates, there in board of director, they right to appoint as a director. In this condition management
- (a) **Stability in family life:** Life insurance makes available funds at the time of emergency and, therefore, it act as a source to protect family from dis - interaction. In case death of earning member of the family the burden of supporting the family falls n the next senior member. It ecomes difficult to control the depending members in the family. LIC providing money at the appropriate time o the family protects from disintegration.
 - (b) **Distribution of risks -** Insurance distributes the risks of a person among a number of people. George Rejda writes”Insurance distributes the burden of loss of a person among the shoulders of entire society.” In addition of this angel said “by distribution of cost of accidents amounting a large group of persons, the cost of such misfortune can be easily borne.”
 - (c) **Capital Formation:** As institutional investors, insurance companies provide funds for financing economic development. They mobilize the saving of the people and invest these saving into more productive channels
 - (d) **Generating Employment Opportunities:** With the growth of the insurance business, the insurance companies are creating more and more employment opportunities.
 - (e) **Promoting Social Welfare:** Policies like old age pension scheme, policies for education, marriage provide sense of security to the policyholders and thus ensure social welfare.
 - (f) **Helps Controlling Inflation:** The insurance reduces the inflationary pressure in two ways, first, by extracting money in supply to the amount of premium collected and secondly, by

providing funds for production narrow down the inflationary gap.

- (g) Prevention of social evils:** The root cause of any evil in the society is lack of education. Poverty and unemployment. The lack of opportunity to the people makes the way for committing social evils, like - theft, dacoit, prostitution etc.
- (h) A symbol of civilization:** Insurance is earning and saving. Insurance companies provide employment to large number of people in the country with good income by way of salaries and commission. It improves the standard of living of people.
- (i) Alertness towards health:** it provides information and risk cover regarding serious health conditions.
- (j) Promotes Education:** Insurance facilitates and encourage for education in the society. Insurance policies support education of the children of policy holder by providing them liquidity whenever needed.
- (k) Helps fulfill the social responsibilities:** insurance helps to fulfill social liabilities towards people, like companies, suppliers, customer, governments and managers etc.
- (l) A means of social change:** Insurance is means of social change.

(4) From National Point of View:

- (a) Provide safety and security:** Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is

provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

- (b) Generates financial resources:** Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilized for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.
- (c) Life insurance encourages savings:** Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract. Thus life insurance encourages savings.
- (d) Promotes economic growth:** Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.
- (e) Medical support:** A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of

great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

- (f) **Spreading of risk:** Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.
- (g) **Source of collecting funds:** Large funds are collected by the way of premium. These funds are utilized in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.
- (h) **Contributes to the development of the money market:** Insurance contributes in the development of money market of country from big amount of insurance premium.
- (i) **More productivity:** Insurance does fearless to the people. As a result without tension a worried they work as well as more, accept challenges and full utilized efficiency and resources.
- (j) **Contributes to the foreign currency fund:** Insurance companies do the insurance business in other countries so that received foreign currency as on premium, result is contributed to the foreign currency fund.
- (k) **Possibilities of Continuous development:** At present many such insurance policies developed, which they provide continuous security. As for example Insurance of security

of profits, re established insurance etc.

- (l) **Continuous to the functions of public welfare:** Insurance also contributes to fulfill functions of public welfare, like education, medical, social welfare, social justice, balanced economic development etc.
- (m) **Overall development of the nation:** Insurance all rounds develop like employment opportunities, more saving and capital formation etc.
- (n) **Helps to develop stock exchange** The insurance companies with its vast premium funds and reserve funds, invest in stock market and take part regularly in the functioning of stock exchanges. In addition to this, many insurance companies now insure the brokers and this way they ensure the stability in the stock market operations.

Social Security:

Social security is "any government system that provides monetary assistance to people with an inadequate or no income. According to a definition given in the ILO publication', "Social security is the security that society furnishes through appropriate organization against certain risks to which its members are exposed. These risks are essentially contingencies of life which the individual of small means cannot effectively provide by his own ability, or foresight alone or even in private combination with his fellows".

William Beveridge has defined social security as "a means of securing an income to take the place of earnings when they are interrupted by unemployment, sickness or accident to provide for the retirement through old age, to provide against loss of support by death of another person or to

meet exceptional expenditure connected with birth, death, or marriage. The purpose of social security is to provide an income up to a minimum and also medical treatment to bring the interruption of earnings to an end as soon as possible.”

In simple terms, the signatories agree that society in which a person lives should help them to develop and to make the most of all the advantages (culture, work, social welfare) which are offered to them in the country.

Social security may also refer to the action programs of organization intended to promote the welfare of the population through assistance measures guaranteeing access to sufficient resources for food and shelter and to promote health and well-being for the population at large and potentially vulnerable segments such as children, the elderly, the sick and the unemployed. Services providing social security are often called social services

Social security may also refer to Social insurance, where people receive benefits or services in recognition of contributions to an insurance program. These services typically include provision for retirement pensions, disability insurance, survivor benefits and unemployment insurance. Services provided by government or designated agencies responsible for social security provision. In different countries, that may include medical care, financial support during unemployment, sickness, or retirement, health and safety at work, aspects of social work and even industrial relations. Basic security irrespective of participation in specific insurance programs where eligibility may otherwise be an issue. For instance, assistance given to newly arrived refugees for basic

necessities such as food, clothing, housing, education, money, and medical care.

A brief description of these is given as under:

Compensation:

Compensation ensures security of income. It is based on this consideration that during the period of contingency of risks, the individual and his/her family should not be subjected to a double calamity, i.e., destitution and loss of health, limb, life or work.

Restoration:

It commutates cure of one's sickness, reemployment so as to restore him/her to earlier condition. In a sense, it is an extension of compensation.

Prevention:

These measures imply to avoid the loss of productive capacity due to sickness, unemployment or invalidity to earn income. In other words, these measures are designed with an objective to increase the material, intellectual and moral well-being of the community by rendering available resources which are used up by avoidable disease and idleness.

Scope:

The term 'social security' is all embracing. The scope of social security is, therefore, very wide. It covers the aspects relating to social and economic justice.

All social security schemes furnished by the government are broadly classified into two types:

- (i) Social Assistance, and
- (ii) Social Insurance.

According to the Social Security (Minimum Standards) Convention (No. 102) adopted by the ILO in 1952, the following are the nine components of social security that configure its scope:

- (i) Medical care,
- (ii) Sickness benefit,
- (iii) Unemployment benefit.
- (iv) Old age benefit,
- (v) Employment injury benefit,
- (vi) Family benefit,
- (vii) Maternity benefit,
- (viii) Invalidity benefit, and
- (ix) Survivor's benefit

Need for Social Security:

One moot question to be answered is why there is a need for social security especially in India. As has already been mentioned, the underlying philosophy of social security is to ensure a minimum level of material living to the needy or helpless ones of the society by the State.

Our accumulated experience reveals that in an industrial economy, the workers have been subjected to periodic unemployment due to cyclical fluctuations in business, sickness, industrial accidents and old age. In fact, there is nothing more disconcerting to worker and his/her family than unemployment.

Similarly, while sickness suspends earning capacity of a worker temporarily, industrial accidents may disable him/her partially or even permanently, and old age may put a stop to his/her ability to earn and support himself/herself and the family. The capitalist having sufficient resources

have no problem in facing such risks of life. But, the worker does not have resources required to face the risks caused by sickness, accidents, unemployment and old age.

Nor has he/she alternative sources of livelihood or accumulated property to overcome the period of adversity. Such a situation underlines the need for social security to be provided to such needy workers/people. Naturally, the Government has, then, the obligation to help the needy and helpless workers and provide them security to pass through in period of adversity.

They constitute an important step toward the goal of a Welfare State, by improving living and working conditions and affording the people protection against the uncertainties of the future. These measures are also important for every industrialization programme, for not only to enable workers to become more efficient but they also reduce the wastage arising from industrial disputes.

The man-days lost on account of sickness and disability also constitute a heavy drain on the slender resources of the worker and on the industrial output of the country. Lack of social security impedes production and prevents the formation of a stable and efficient labour force. Social security is, therefore, not a burden, but a wise investment in the long run.”

Thus, the need for a comprehensive programme of social security in India is so strong that it needs no more proof or evidence. It is must to ensure a minimum level of living for those who are helpless on various counts.

Insurance Agent

A person licensed by a state and generally

employed by an insurance company to sell insurance policies on the company's behalf. The agent generally receives a commission for this service. He/she attempts to extract the maximum value for the insurance company in all his/her dealings. An insurance agent should not be confused with an insurance broker or an insurance underwriter.

An agent is a person who represents an insurance firm and sells insurance policies on its behalf.

Difference between an Agent & Servant

1. Authority to create contractual relationship:

Apart from acting on behalf of his/her principal, an agent has the authority to create contractual relations between the principal and a third party. A servant ordinarily, has no such authority.

2. Control and Supervision: A servant is bound to work under direct control and supervision of his employer. A 'principal' directs the agent as to what is to be done, but a master or employer of a servant not only has that right, but also the right to direct how it is to be done.

3. Number of Masters: A servant usually serves only one master, but an agent may work for several principals at the same time.

4. Remuneration: The mode of remuneration is usually different. Remuneration for a servant is paid by way of salary or wages, whereas an agent generally gets his remuneration in terms of commission calculated on the basis of the amount of business transacted

5. Duty Assignment: A servant in certain cases to some extent may be assigned the duties of an agent, and may act as one. For example, the secretary of a company is regarded as the servant of the company, but in respect of the matters that come under his/her

domain he/she becomes an agent in their dealings with third persons. An agent as such never occupies the position of a servant because whenever he acts, he acts on behalf of his principal and binds him/her (principal) to third parties.

6. Liability: A principal is liable on contracts made by his agent within scope of authority. But a master is answerable for any wrongful act of his servant if it is committed in the course of the servant's employment.

Characteristics of an Agent:

1. Entrepreneurial mind set Being an insurance agent has a big similarity with owning a business in such a way that the income is not fixed on a certain rate. Should the agent decide to exert more effort, he can increase his commissions but if he becomes too complacent, he won't get enough sales and consequently, not earn enough commissions.

2. Good speaker In offering insurance plans, a sales agent needs to make people realize the need for their product. Simply narrating the benefits of insurance wouldn't help. The agent should be able to deliver the explanation in a convincing way.

3. Intelligent This trait is necessary, especially for insurance plans that are more complicated. For this reason, it is always required for an insurance agent to at least, have a bachelor's degree.

4. Good Listener The agent should be able to discern what the consumer wants or needs and be able to provide the product that will satisfy the consumer.

5. Available in different time schedules Most of the consumers are income-earners who have a stable job or managing a business. For this reason, they would always want to meet with an insurance agent after office or business hours.

6. Motivated Being able to close a deal with a consumer is certainly a triumphant moment for an agent but he shouldn't be frustrated whenever a client refuses his offers. During these times, it is important that insurance is always motivated to help him keep going in spite of failures.

7. Outgoing An agent needs to have as much connections as possible and it would help a lot if he is always willing to go out and mingle with different sets of people where he can meet new acquaintances and potential clients.

8. Persistent There are a couple of clients, especially those who are busy with their job or business, who just needs to be reminded or persuaded about getting an insurance that will be beneficial to them. And for these clients, calling them for a reminder about the insurance plan that the sales agent is offering can make a difference.

9. Knows When to Stand Back A lot of complaints about insurance agents are their being overly persistent. It is important to keep in touch but they shouldn't overdo it to avoid irritating the prospective client which will make him reject the offer.

10. Sees Their Profession as a Fulfilling Venture Rather Than A Job- One way to help an insurance remain in his profession is to see it as a fulfilling and rewarding venture rather than a job. If an agent sees it as his opportunity to help people prepare for unexpected events rather than to make a sale then get money, it wouldn't be a job at all for him.

Functions:

1. The insurance agent helps in promoting and selling of insurance products and services to its customers.

2. Giving sound financial advisory services and customer support to the clients
3. Needs to deal with not only individuals but their families and corporate businesses too.
4. Needs to have good relationship including good rapport with his/her existing and prospective clients.
5. Promotion of insurance brands needs to have a carefully drawn roadmap.
6. Well-planned strategies and plans needs to be chalked out.
7. Public-relation (PR) building exercise should be given significant importance
8. Business Development tactics needs to be pursued aggressively

Insurance Agent cannot perform following functions:

- 1) Recover of Amount
- 2) Give rebate or commission for insurance.
- 3) Accept of any risk for insured
- 4) Give advertisement in newspaper
- 5) Interfere in the function of other agents
- 6) Working without license or with an expired license.

Qualification of Insurance Agent:

According to Insurance Act and Insurance Agents Regulations, 2000 the following qualifications must be to an Insurance Agent

- 1) If he/she has completed 18 years of age
- 2) He is civilian of India
- 3) He should be of sound mind.
- 4) He was not defaulter by court.

EXERCISE

Very Short Questions:

1. What is risk?
2. Define insurance?
3. Insurance is a cooperative device. How?
4. What do you mean by social security?
5. State the difference between an agent and an employee?
6. Who can be an insurance agent?
7. What is Pradhan Mantri Surksha Beema Yojna?
8. What is social insurance?
9. In which epic 'Yogkshem' is mentioned?
10. What is the basic objective of insurance?

Short Answers Questions:

1. Define insurance.
2. Differentiate between Assurance and Insurance.

3. State the difference between insurance and gambling.
4. Insurance is a method of spreading the risk, not prevention of risk. Comment.
5. Mention the primary function of insurance.
6. Write a brief note on crop insurance.
7. "Insurance gives peace of mind." Comment.
8. Insurance has elements of protection and investment both. How?

Essay Type Questions:

1. Give various definitions of insurance. Explain its features.
2. Explain in detail the scope of insurance.
3. What do you mean by social security? Discuss the role of insurance in social security.
4. Define an insurance agent. Explain the functions and duties of an insurance agent.
5. Explain the socio-economic significance of insurance.

Chapter-14

Social Responsibility in Management and Corporate Social Responsibility

What is Management? What is the importance of Management? How Management improves the performance? We have already tried to answer all these questions in previous chapters of this book. In today's world, where the competition is increasing day by day different policies are created by government to meet the dynamic business scenario, ever changing legal, economical, social, cultural and technological environment which in turn increases the importance of Management. A business cannot survive without management because management is its means of support. Management is concerned with acquiring maximum prosperity with minimum efforts. Management is essential wherever group efforts are required to be directed towards achievements of common goals. Business is a part of society. So, a business enterprise should do business and earn money in ways that fulfill the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well being. The businessmen make use of resources of society and earn money from the members of society so that they may do something for the society.

Opinions are divided in this issue, for some Business is responsible only to its owner Like Henry Ford said once "Business is business, it is not a social institution." Even Fredman once wrote in one of his article that Responsibilities are for people and not for Organizations to perform. While some others believe that a better business can survive and grow only in a better society through

catering to the needs of the society the reason being that all the businessmen take the required resources from society only. For those having conflicting opinions on the concept of Social Responsibility, Government has made legal provisions for Business organizations to spend a specified part of the profit occurring to the business towards welfare of the society.

In this management conscious age, the significance of Business management can hardly be over emphasized. It lays down the importance of participation of Business organizations and firms towards the upliftment of society if we are able to manage the business well and earn profit then only we will be able to supplement and support society.

Some underestimate the importance of management in business but the latest researches have shown that it is certainly not the case. The input of the labour, capital and raw materials can never become production without the catalyst of management. Management is a dynamic life-giving element in an organization. In its absence, the resources of production remain underutilized and can never become production. In fact, without efficient management, no country can become a nation and contribute towards global welfare and development.

Under the worldwide recognized and accepted Management principles, the available resources of production are put to use in such a way

that all sort of wastages and inefficiencies are reduced to a minimum so that scarce resources may be used in the best possible way and business may cater to the requirements of stakeholders such as government, creditors, investors, consumers etc. Management creates and maintains an environment conducive to higher efficiency and performance.

A business enterprise operates in a constantly changing environment. Changes in the business environment create risk and also provide opportunities for growth. A conducive and encouraging environment is indispensable for any business to grow and perform its obligation towards society. They may start with creating awareness among public at large especially consumers, woman and children, preventing pollution of any kind, planting more trees, keeping the city clean, helping in conservation of natural resources etc. It is the duty of all businessmen of our society to work towards protection and conservation of our environment as every businessman earns profit through, the cost of resources needed by society, if society will not flourish, how would the business flourish?

Business organization may undertake various modes and perform various activities to fulfil their responsibility regarding welfare and upliftment of society like educating children, funding NGO's in promoting clean and green city, providing employment opportunities to youth of the country, helping the nation in combating corruptions, undertaking various missions, programmes and campaigns to preserve and

protect our natural resources, provide free education to poor people, providing technological support and availability of computers and internet in government schools, donating funds to public welfare organizations, creating awareness on sanitation and hygiene, providing and improving credit facilities, establishing branches in rural areas and villages, organizing fair which are both entertaining and informative, providing free medical aids, spreading importance of education and sports, working for gender equality etc. All these activities results into a prosperous and progressive society which in turns benefits business in long run. This is social responsibility.

Further elaborating the concept of Social Responsibility, H.R. Bowen has said "Social Responsibility means to implement such policies, to undertake such decisions and perform such acts which are important for the implementation of social values and beliefs." According to Andrew businessmen and wealthy individuals were the caretakers or stewards of their property holding it in trust for the benefit of society as a whole.

Social Responsibility: concept

Many Scholars have different opinions on the concept of Social Responsibility. Some think that by giving the best quality goods and services and meeting the requirements of society, businessmen will perform their duty of social responsibility whereas some scholars think that working for some social cause like providing free medical aids to poor, working for children education, spreading awareness about pollution

etc. accounts for Corporate Social Responsibility. Here we would like to mention the vision behind the TATA NANO car which was laid down by Ratan Tata; this one-lakh-rupee car was aimed at providing a safe and comfortable mode of transport to millions of Indians at an affordable price. Ratan Tata, the man behind the 'Nano project' set a great example of Social Responsibility.

Social Responsibility is the boosting agent behind the development of society while fostering social values, beliefs and business ethics. It further helps in protection of interest of consumers, meeting the requirements of various classes and sections of society including woman, working professional, children, old age people, disabled people, business class people, villager people, urban dwellers etc. through various programmes, campaigns, events focused on Social Responsibility and social welfare.

R. Joseph Monsen had illustrated four levels of implementation of Social Responsibility namely:

- 1) Abiding by Law First Level
- 2) Meeting the expectations of society Second level
- 3) Gauging the expectations of society before hand or in advance Third level
- 4) Nurturing the expectations of society Fourth level.

Let's elaborate:

First Level- This is the minimum level of Social Responsibility that we can expect from the businessmen. It refers to fulfillment of all the legal requirements by the businessmen and corporate which are applicable on them.

Second Level- It is the next stage after complying with the legal requirement, which focuses on meeting the expectations of different sections of the society.

Third Level- It is the next stage and more advanced stage, where the organizations find about the likes and dislikes of the public, identify their needs and takes steps towards satisfaction of those needs.

Fourth Level- It is the last stage, where businessmen and organizations use their caliber, knowledge and resources in increasing the living standard of public by providing them access to new technology, gadgets, inventions and ideas of life.

One interesting way of telling how the management concepts of proper managerial behavior have evolved over time has been nicely described by Robert and Ed Gray. They identified three phases:

Phase 1: Profit maximizing management: - it was derived from Adam Smith's Wealth of Nations. He believed that entrepreneurs should be allowed to pursue their own self interest for the benefit of all.

Phase 2: Trusteeship management: This phase began with the diffusion of the corporate ownership as thousands of stockholders shared ownership in a single enterprise. This concept gained popularity after the great depression in 1930s.

Phase 3: Quality-of-life Management: It came upon in 1960s, with the concept “what is good for the society is good for the company” and aimed at understanding and partnering with the government.

Ackerman also emphasized on the importance of Social Responsibility and Responsiveness program that can be used to assess the value and contribution in the fields of welfare

of Society and strategic management. According to Edward Cole in today's world the biggest challenge is ever changing environment and expectations of society.

The Concept of Social Responsibility has to be proactively and voluntarily taken up by the Corporate and other Organizations to follow and preach the concept of social welfare not only in words but in true letter and spirit. It should not be followed due to the fear of penalty under law. Corporate should work whole heartedly towards the progress of society and bring prosperity towards society. In short there are three levels of Corporate Social Responsibility: -

1) Low Level- Social concerns and Duties: Corporate, Organizations, firms and all the other similar entities should perform their duties as specified under law and various other provisions applicable.

2) Medium Level- This level focus on performing and taking up more responsibility than what is mandated in law. Corporate, in this level identify the needs and desires of the society and strive towards attaining them. All the Corporate should act in good faith, share the profit with stakeholders, be true to the society and act as a good corporate citizen by following as the desired social norms.

3) High Level- In this level main focus is given on crude problems of society. Here the corporate don't wait for any mishap or problem to occur they proactively track down the issues of society which are very deeply grounded and try to

remove them for ever. Corporate become more far sighted and don't wait for any law or expectations to guide them through their duties and responsibilities.

Social Responsibility towards different interest Group:

1) Responsibilities towards Oneself: One should not hurt others while pursuing his/her goals. Following are some other points:

- Keeping in mind social concerns and issues while taking up decisions
- Maintaining decorum and decency in business
- Obtaining the membership of Professional Organization
- Following the code of conduct
- Following professionalism and Business ethics
- Support and lend in the development and research methodologies.

2) Responsibilities towards one's organization:

These points should be kept in mind:

- Successful working of the business
- Meeting the continuous demand in the market
- Maintaining healthy competition in the market
- Bringing newness in the business
- Developing and extending the business
- Investing in the research activities
- Increasing the profit making capacity of the Business
- Developing and maintaining
- Developing the goodwill of the company.

3) Responsibilities towards Stakeholders: Due to the difference between managers and

stakeholders of the Companies, Management has certain duties towards the stakeholders of the company as enumerated below:

- Keeping the capital invested by the stakeholders in safe custody
- Utilizing the capital invested for desired objectives and purposes
- Distributing the profit earned and sharing the benefit
- Act with equality and respect towards all the different stakeholders
- Disseminating required information to all the stakeholders
- Not to make secret profit and not to commit any fraud
- Not to create any hurdle in transfer of shares and units

4) Responsibilities towards Creditors: To meet the financial requirement of the business, creditors help in great deal by providing cash and credit facility as and when required. Management and Businessmen have certain duties towards them also:

- Utilizing the credit amount and facility efficiently
- Keeping apt terms and condition on credit facility
- Making payment of Loan and interest on time
- Keeping the Mortgaged property safely
- Keeping inform the Creditors on regular basis

5) Responsibility Towards workers: No Enterprise can succeed without the whole-hearted

cooperation of the employees. Responsibility of business towards employees is in the form of training, promotion, proper selection, fair wages, safety, health, worker's education, comfortable working conditions, participation in management etc. here are some of the duties mentioned:

- Providing fair compensation and benefits,
- Providing good, healthy and safe Working conditions
- To develop a sense of belongingness
- To implement good motivational policies and programmes to encourage employees
- To provide enough security and protection to employees
- To Work towards labor welfare
- To provide Social Security in form of Pension, Gratuity, Insurance etc.
- To allot work as per the caliber and interest of employees
- To provide adequate training to employees
- To provide promotion opppourtuniites
- To involve their ideas in Employee Management Programmes
- Provide them Bonus and share in Profit
- Increase their potential and knowledge by adequate exposure

6) Responsibilities towards Consumers: Consumers are the King of Market. They are the main focus of a business. Buying capacity and consumer preferences should be taken into consideration while deciding the manufacturing policies. Care must be exercised in supplying of goods to avoid any adverse effect on the health

of consumers. Consumer should always be happy and satisfied. Certain other duties towards consumer:

- To understand the needs and interest of the customers
- To supply right quality of goods & services at reasonable prices.
- Provide certified quality of products
- Avoid malpractices such as adulteration, hoarding, window dressing of accounts, wrong measurement etc.
- Immoral, False and Misleading advertisement should not be used for promotion
- Accomplish all the promises and services offered at the time of sale
- To handle the customers grievance promptly.
- Follow the code of conduct
- Conduct research on market, customers and products
- Inform consumers about the use of products
- Manufacture such products which will raise their standard of living
- Maintain adequate supply to meet the demand

7) Responsibilities towards Suppliers:

Following are the duties towards suppliers:

- Provide apt price for the goods supplied by the suppliers
- Pay suppliers on time
- Keep suitable conditions of purchase
- To bring and support innovation in raw material and supply
- Provide market related information to the suppliers

8) Responsibilities towards other Businessmen:

Following are the duties towards other businessmen:

- Maintain healthy competition
- Not to involve in any word war with other businessmen or talk ill about them
- To work only towards welfare and future of society and benefit of market
- Do not create or support monopoly
- No to use the trademark, brand and goodwill of other Businessmen.

9) Responsibilities towards Business association and Professional Institution:

Following are the duties towards Business association and Professional Institution:

- To become member of Chamber of Commerce and other similar associations
- To follow and use the materials published by these association and professional institutions
- To follow the code of conduct of these associations and institutions
- To employ the students of these professional institutions and nurture and harness their talent
- To support such associations and institutions financially
- To take part in their conferences and programmes

10) Responsibilities towards Regional Masses:

Following are the duties towards regional masses:

- Protect the natural resources and environment
- Prevent air, water and noise pollution
- To provide employment opportunities to people
- To establish hospitals, schools, old age homes

for the benefit of society

- Provide financial support to woman's, handicapped people and weaker sections of the society for their upliftment
- Follow and respect the local values and belief of the society

11)Responsibilities towards Government:

Following are the duties towards Government:

- To observe rules and law laid down by the government
- To work according to the policies of government
- To utilize the full production capacity and licensed capacity
- To avoid corrupting government employees
- To pay taxes honestly
- To donate money and fund in the programmes of government focused on the well being of people

12)Responsibilities towards World: Today the business is growing at fast pace and international boundaries act as no barriers to businessmen any more. World has itself become the market place for trade. Following are some duties which businessmen and corporate should perform towards world and world economy:

- To supplement and support international trade and business
- To gain values from the policies and programmes of other nations
- Not to interfere in the domestic matters of other countries
- To accept technological advancement and development of developed nations
- To follow International code of conduct

- To reconcile cultural differences and respect social values of other countries
- To help underdeveloped and developing nation in acquiring new technology and adopt new set skills of management
- Adhere to lawful behavior, maintain healthy competition and respect mutual decisions

Corporate Social Responsibility CSR

Corporate have a responsibility towards society and environment which they should perform timely and make genuine efforts to improve the quality of life of people which they are accustomed to serve. It is expected from corporate and businessmen that they will look after the benefits and interest of the society as whole especially the weaker section of the society. Lately, corporate social responsibility has attracted attention from businesses and stakeholders in regard to its benefits and what it is. Corporate social responsibility has been defined differently by different writers based on what they perceive about the concept. Having learnt from the devastating effects of corporate social irresponsibility, companies are focusing on the impacts of their operations not only on profits but towards society and environment at large. Therefore, corporate social responsibility refers to "the ethical principle that an organization should be responsible for how its behavior might affect society and the environment"

Government after realizing that to implement Corporate Social Responsibility at a larger scale a law is required made provisions for Corporate

Social Responsibility in the Companies Act, 2013 under section 135 for the first time. In simple words Corporate Social Responsibility is all the efforts, work and actions which corporate take for the benefit and in the interest of the weaker section and society as whole.

As per section 135 of Companies Act, 2013, Responsibilities is mainly fixed on large corporations, who have enough finance and liquidity to supplement the progress of society both economically and socially. According to the provisions given under section 135, Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

The Corporate Social Responsibility Committee shall formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII. Committee shall recommend the amount of expenditure to be incurred on the activities. Also, Committee is required to monitor the Corporate Social Responsibility Policy of the company from time to time. All this information should also be provided by the corporate on their working website.

The Board of every company and the committee so formed shall ensure that the company

spends, in every financial year; at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy and such amount should be preferably spend in the local area.

Provided that if the company fails to spend such amount, the Board shall, in its report made under section 134(3) of Companies Act, 2013 should specify the reasons for not spending the amount.

Provisions under Companies Act, 2013:

Here are the detailed provisions covered under section 135 and its sub sections:

- 1.)Applicability:** Corporate social Responsibility is applicable to every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. [Section 135(1)]
- 2.)The Board's report shall disclose the composition of the Corporate Social Responsibility Committee. [Section 135(2)]
- 3.)The Corporate Social Responsibility Committee shall,
 - (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

- (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
- (c) Monitor the Corporate Social Responsibility Policy of the company from time to time. [Section 135(3)]
- 4.) The Board of every company shall, -
- (a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and
- (b) Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company
- 5.) Amount required to be spent: The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy
- 6.) Preference to Local Areas: the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities.
- 7.) Mention the unspent amount: If the company fails to spend such amount, the Board shall, in its report made under sub-section (3) of section 134, specify the reasons for not spending the amount.
- 8.) Calculation of profit: For the purposes of this section “average net profit” shall be calculated in accordance with the provisions of section 198
- 9.) Other provisions: In exercise of the powers conferred under section 135 and sub-sections (1) and (2) of section 469 of the Companies Act, 2013, the Central Government has made Companies (Corporate Social Responsibility Policy) Rules, 2014 which are applicable from 1st April, 2014. Main points covered under these rules are as follows:
- (i) Provisions made under section 135 of Companies Act, 2013 for Corporate Social Responsibility are applicable to the specified companies which meet the criteria given under sub section (1) of section 135 as well to its holding, subsidiary and Foreign Company having a branch office or project office in India.
- (ii) A company can also collaborate with other companies for undertaking projects or programs of CSR activities in such a manner that the CSR committees of respective companies are in a position to report separately on such projects or programs in accordance with these rules.
- (iii) Provided that the CSR projects or programs or activities undertaken in India only shall amount to CSR expenditure.
- (iv) The CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities in accordance with section 135 of the Act.

- (v) An unlisted public company or a private company covered under sub-section (I) of section 135 which is not required to appoint an independent director, it shall have its CSR Committee without such director.
- (vi) A private company having only two directors on its Board shall constitute its CSR Committee with two such directors.
- (vii) The CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.
- (viii) An Annual Report on CSR shall be included in the Board's Report of a company pertaining to the concerned Financial Year.
- (ix) It should be noted that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.
- (x) The company shall disclose the CSR Policy so adopted and all the activities taken up by the company under section 135 of Companies Act, 2013 on its working website.
As per the report published under the Indian CSR Outlook, for the year 2015-16, more than 250 companies have spent an amount of one crore or more under the provisions of Corporate Social Responsibility.

A Case Study on CSR

Success story of Cairn Corporation and its efforts under Corporate Social Responsibility in western Rajasthan.

Corporate Social Responsibility (CSR) is an integral part of Cairn's business philosophy and strategic planning, as sustainable and inclusive growth in our area of operation is essential for the holistic development of communities that are the target beneficiaries of our CSR initiatives. Rajasthan State government has held hands in hands with various organizations and corporate including Cairn for the development of various districts and parts of Rajasthan. Barmer is one such region. In 2004, when India's one of the largest oil reserves were discovered near Barmer, Cairn corporation with due coordination from State Government started extracting oil from Barmer and brought barmer recognition in the International scenario. In previous 2 years, Cairn Corporation and Rajasthan State Government has collaborated and conducted various social programs, events and seminars to improve the condition of Barmer. Here is an illustration of some of the work done by Cairn Corporation:

1.) Jeevan Amrit Project:

Providing safe drinking water to the rural population in Cairn's operational vicinity by setting up water kiosks using RO technology. This also involves implementing one of largest community drinking water project of its kind in India. Under this initiative, 330 plus water purification units will be set up across the district to provide safe drinking water to the community in partnership with PHED, Government of Rajasthan. The operating model will ensure community ownership, usage of renewable energy to run the units, doorstep

delivery of water and reject disposal through evaporation pits.

2.) Household Sanitation Programme:

Providing access to sanitation facilities to rural households in partnership with the local panchayat. Multiple areas under different panchayats will be covered over the period of the project. Panchayats have made toilets for about 2657 households out of 4500 households.

1.) Solar Project:

Providing access to electricity to households in remote rural areas through solar PV based projects, in partnership with the government.

2.) Education Project:

A three year program in partnership with local government and NGO partners that aims to improve the quality of education in over fifty rural government schools (primary and secondary). The program is targeting improved academic performance and enrolment, and reduction in the gender gap and drop-out rate.

3.) Mobile Health Van Project:

Providing Mobile Health Van services for the rural population in Cairn's area of operation to provide access to preventive health care. Over 250,000 people benefit from this initiative every year. This program is implemented through NGO partners and the local government under the National Rural Health Mission scheme.

4.) Green Barmer Mission: Environment Sustainability

Increasing the green belt in our areas of operation towards achieving environmental

sustainability. This program will be carried out in partnership with local panchayats, NGO partners and the forest department.

5.) Special services in Government Hospital:

A five year program in partnership with local Government and NGO to improve the health care services. This program aims to reduce child and maternal mortality, control prevalent diseases and improve access to primary healthcare.

6.) Construction of Toilets in the Schools of Barmer:

The main aim of this project to support the ideology of Swacch Bharat Abhyan and provide clean and healthy environment to students. Cairn corporation constructed 161 toilets in 91 schools of Barmer and been donated to them.

7.) The Cairn Center of Excellence:

This excellence center established by Cairn will provide advanced vocational skill training in various industrial trades. The center aims to train and employ over 12000 plus rural youth in the near future. Training will be undertaken by specialized training partners. Here soft skills and spoken English classes are also held to provide overall development to youngsters.

8.) Employment enhancing vocational skills:

Employment linked vocational skills training that aim to train and employ over 4000 youth in the rural areas over the next five years. Training will be undertaken by multiple specialized training providers.

9.) Livelihood and income enhancement:

Increasing livelihood opportunity and sustainable income for the community through

water harvesting, improved practices in agriculture and livestock rearing, and produce market linkages. This is expected to increase the income of over 20,000 farmers in Cairn's operational vicinity over the next five years. The program will be implemented through NGO partners.

10.) Aanganwadi Project:

Joining hands with Ministry of Woman and Child development by signing a MoU, Cairn Corporation has to establish 50 Aanganwadis as the part of the First Phase of MoU. The first stepping towards the project of developing 4000 Aanganwadi's on national level was laid down in Barmer itself.

11.) ITI Adoption Programme:

While keeping in mind the new technical advancement in the Industrial sector, a change is required in ITI training to raise the bar of quality and performance so that we can compete in international market. Again on the basis of signed MoU with the technical department of Government, Cairn has adopted the ITI institutions of Barmer and Balotra to provide them with world class facilities and Infrastructure so that quality training could be provided to students.

EXERCISE

Very Short Questions:

1. What is Social Responsibility?
2. Write down anyone definition of Social Responsibility?
3. What is meant by Social consciousness?
4. What is meant by corporate body/corporation?

Short Answers Questions:

1. Describe in brief the concept if Social Responsibilities of Management.
2. Explain the new concept of Social Responsibility of Business.
3. Explain in brief the Social Responsibilities of Management towards itself.
4. Explain in brief the responsibilities of business towards consumers/customers.
5. Explain in brief the responsibilities of business towards the Government.

Essay Type Questions:

1. What do you understand by Social Responsibility of Management? Discuss its concepts.
2. Explain in brief the Social Responsibility of business.
3. Explain the provisions for corporate Social Responsibilities under company Act 2013.

Chapter- 15

Goods and Service Tax (GST)

An Introduction: GST has been implemented in whole of India (including J & K) w.e.f. 01st July 2017. It is very significant step in field of indirect tax reforms in India. The bill is passed by almost all state assemblies. At center after passing the bill at Lok Sabha & Rajya Sabha, it received assent of President on 12th April 2017 and now it has become Goods & service Tax Act, 2017.

History & Development

In India, the tax is imposed in any form on production, sale etc. Evidences are available in 4th B.C. during the rule of Maurya and in 19th Century tax was imposed on salt by British Government. In 1917, tax are imposed on production of motor spirit & kerosene. In 1943, during Second World War, tax was imposed on production of tobacco for arranging extra finance. In 1948, Excise duty was imposed on Cigarette production.

Before introduction of Central Excise Act - 1944, there were 16 Acts which were already existing. Hence, the Government has merged all the taxes into single framework under Central Excise Duty & Salt Act, 1944.

Tax on sale and purchase is first time introduced under Indian Government Act, 1935. After that, many State Government have passed Sales Tax Act for recovery of tax on sale and purchase within a State. Madhya Pradesh Government was the First Government who introduced Sales Tax Act in 1938.

The Government of India appointed a committee in 1953 under the chairmanship of Dr. John Mathai, who makes research for increasing

tax in the field of indirect taxes. After, discussing with various states Government and considering the recommendations of various committees. The Government of India amended Article 286 of Constitution of India in September, 1956. In 1965, various steps were taken for bringing reforms and simplifications in direct and indirect tax structure by appointing Bhootlingam Committee.

Service Tax have been introduced in India w.e.f. 1st July, 1994, at that time only 3 services (Communication, Insurance & Share Brokerage) were included in scope of Service Tax. This law is applicable to whole India except Jammu & Kashmir. The concept of Service Tax is introduced for increasing the revenue of Government on recommendation of Dr. Raja J. Chillai. After that, many services are covered under the scope of Service Tax.

On the basis of above discussion, it is observed that the indirect tax structure in India is seems to be in multiple directions due to which many dealers are confused. So, there is need to convert the indirect tax structure into One Nation One Tax. Hence, on this concept the Goods and Service Tax have been introduced in India.

Basic of GST

GST is an indirect tax which is levied on supply of goods and service or both. Presently, there are 3 taxes in India namely Excise Duty, Service Tax & State VAT. Now, GST has replaced all the above 3 taxes.

The India has adopted dual GST model in view of federal structure of country. Central & State will simultaneously levy GST on taxable supply. Thus, tax is imposed concurrently by the Central & States on Intra-State supply of goods and/or services called the Central Goods and Service Tax (CGST) and that levied by the States / Union territory is called State Goods and Service Tax (SGST) / Union Territory Goods and Service Tax (UTGST).

Similarly, Integrated Goods and Service Tax (IGST) is levied and administered by Central Government on every inter-state supply of goods and service. IGST is approximately a sum total of CGST and SGST / UTGST and is levied by Central Govt. on all inter-State supplies.

Meaning of GST

GST is a value added destination based tax on consumption of goods & services or both. It is levied at all stages right from manufacturer and upto final consumer on value addition only.

Example:

Suppose Shri Gajanan have purchased goods for Rs 2000 and sold it to Shri Hemant for Rs 3000 then Rs 1000 is being added for his profit and it is treated as value addition. He is required to pay GST on such value addition only. Calculations can be illustrated by following way: (if CGST rate is 9% and SGST rate is 9%)

GST payable/paid on goods purchased

Particular	Amount (Rs.)
Purchase Price	2,000/-
Add : CGST @ 9 %	180/-
Add : SGST @ 9 %	180/-
Total Amount Paid	2,360/-

GST collected on goods sold

Particular	Amount (Rs.)
Sale Price	3,000/-
Add : CGST @ 9 %	270/-
Add : SGST @ 9 %	270/-
Total Amount Received	3,540/-

Calculation of Tax Payable/Refundable

Particular	CGST (Rs.)	SGST (Rs.)
GST collected on sale (output)	270/-	270/-
Less : GST paid on purchase(ITC)	180/-	180/-
Total GST Payable Amount	90/-	90/-

Features of GST

1. It is a destination based tax on consumption of goods & services or both.
2. It is levied on all stages of sale.
3. It is applicable on all taxable supply of goods & services which takes place for consideration but it is not applicable on following:
 - Exempted goods & services
 - Prescribed turnover limit (presently it is Rs. 20 lakh)
4. Dual GST model is adopted in country (both Central Government and State Government can impose tax on intra state supply but single return is filled by assessee.)
5. CGST & SGST both are realized on intra state supply.
6. For inter-state supply of goods & services only single tax is levied by Central Government (IGST) and credit is distributed on basis of

consumption)

7. IGST is levied on export and import of goods & services (outside state) and branch or agent transfer also.
8. Goods can be exported at zero rate of tax and ITC can be claimed as refund.
9. Power to recover 1 % extra GST is not available to previous manufacturer.
10. Following items are not covered under GST
 - a. Alcoholic liquor for human consumption
 - b. Electricity
 - c. Real state
 - d. Petroleum product
 - e. Tobacco
11. Composition scheme is applicable to those dealers whose aggregate turnover during PY is limited up to Rs 1 crore only. They have to pay tax in lumsump @ 1 % on their turnover.
- 12 HSN (Harmonized System of Nomenclature) is used for classification of goods.
13. Present coding is used for services.

List of Taxes merged in GST & not merged in GST

Taxes Merged in GST	Taxes not Merged in GST
Central Taxes	Central Taxes
Central Excise Duty	Basic Custom Duty
Additional Duties of Excise	Research & Development Cess
Duties of Excise (Medicinal & Toilet Preparation)	Export Duty
Additional Duties of Custom (CVD)	Anti Dumping Duty
Special Additional Duty of Custom (SAD)	Safeguard Duty
Service Tax	
Central Surcharge & Cess	

State Taxes	State Taxes
State Tax	State Excise Duty
Central Sales Tax collected by state	Stamp Duty
Purchase Tax	Professional Tax
Entertainment Tax	Tax on motor vehicles.
Luxury Tax	
Entry Tax	
Tax on lottery, betting & gambling	
Surcharge & Cess on above	

Rates of GST- There are four slab rates used in GST:

- 5 % (essential items)
- 12 % (common items)
- 18 % (minerals)
- 28 % (minerals)
- Zero Rate

Important Terminology & its meaning:

1. Aggregate Turn over (u/s 2(6)): Aggregate Turnover means the aggregate value of-

- All taxable supplies (excluding the value of inward supplies on which tax is payable by a person on reverse charge basis)
- Exempt supplies,
- Exports of goods or services or both, and
- Inter-State supplies of persons having the same Permanent Account Number(PAN), to be computed on all India basis, but excludes
 - Central Tax
 - State Tax
 - Union Territory Tax
 - Integrated Tax, and
 - Cess.

2. Person (u/s 2 (84)) : “Persons” includes

- an individual;
- a Hindu Undivided Family;
- a company;
- a firm;

- a Limited Liability Partnership;
- an association of persons or a body of individuals, whether incorporated or not in India or outside India;
- any corporation established by or under any Central Act, State Act or Provincial Act or a Government Company as defined in Section 2(45) of the Companies Act, 2013;
- anybody corporate incorporated by or under the laws of a country outside India;
- a co-operative society registered under any law relating to co-operative societies;
- a local authority;
- Central Government or a State Government;
- Society as defined under Societies Registration Act, 1860;
- Trust; and
- Every artificial juridical person, not falling within any of the above.

3. Union Territory (u/s 2(114)) : “Union territory: means the territory of

- The Andaman and Nicobar Islands;
- Lakshadweep;
- Dadra and Nagar Haveli;
- Daman and Diu;
- Chandigarh; and
- Other territory.

4. Taxable Supply (u/s 2(108)) : “Taxable Supply” have the following characteristics:

- Transactions should include goods or services or both;
- Transactions should be covered under the definition of Section 7;
- Transactions should not be covered under the Schedule 3 of this Act;
- Supply should be taxable under GST Act.

5. Goods (u/s 2(52)) : “Goods” means every kind of movable property Other than-

- Money, and
- Securities.

But includes -

- Actionable claim;
- Growing crops, grass and things attached to or forming part of the land which are agreed to be served before supply or under a contract of supply.

6. Services (u/s 2(102)) : “Services” means every kind of movable property, Other than-

- Goods;
- Money, and
- Securities.

But includes -

- the use of money; or
- its conversion by cash or any other mode, from one form, currency or denomination, to another form, currency or denomination
- For which a separate consideration is charged.

Meaning & Scope of Supply (Section 7): Basis of charge is relevant for determining taxable amount. The GST law provides one comprehensive taxable event i.e. supply of goods or services or both:

Supply includes All forms of supply of goods or services or both such as sale, transfer, barter, exchange, license, rental, lease or disposal made or agreed to be made for a consideration by a person in the course or furtherance of business,

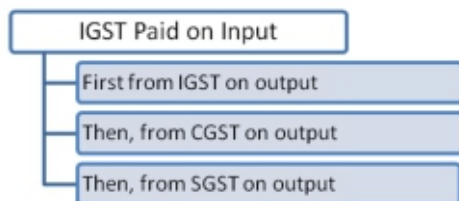
- Import of services for a consideration whether or not in the course or furtherance of business;
- The activities specified in Schedule-I, made or agreed to be made without a consideration; and

- The activities to be treated as supply of goods or supply of services as referred to in Schedule-II.

Input Tax Credit under GST: In GST, four types of taxes are imposed-

- **IGST** : levied on Inter State purchase or sale of goods and services.
- **CGST** : levied on Inter State sale of goods and services.
- **SGST** : levied on Inter State sale of goods and services.
- **UTGST** : levied on sale and services within Union Territory.

Credit of IGST: if any dealer purchase goods from outside the State (Inter-State Purchase) then, he have to pay IGST on it. It's credit is allowed in following manner:



Example: Jai & Company of Rajasthan, purchase goods from Ahmedabad for Rs. 2,00,000/- & paid Rs. 36,000/- IGST. During the month his output tax for IGST is Rs. 15,000/-, for CGST is 19,000/- and for SGST is Rs. 16,000/-. Now as per order of taking ITC is as follows:

Total IGST on Input	36,000/-
(-) First adjust IGST on output	15,000/-
Remaining	21,000/-
(-) Then, adjust CGST on output	19,000/-
Remaining	2,000/-
(-) Then, adjust SGST on output	2,000/-
(Up-to Available only)	NIL

Hence, Balance of Rs. 14,000/- from SGST is paid

in cash (16000 2000).

Credit of CGST: Credit of CGST is allowed firstly from CGST. Then from IGST. Here CGST credit is not allowed against SGST.

Credit of SGST: Credit of SGST is allowed firstly from SGST. Then from IGST. Here SGST credit is not allowed against CGST.

Example (1) :

Registered manufacture dealer purchase raw material for Rs. 8,00,000/- from registered dealer of Jaipur & Paid 14% CGST & 14 % SGST, he makes value addition of Rs. 16,000/- & sold 16,000/- finished goods unit including profit for Rs. 15,00,000/- to other registered dealer. He charge 14% CGST & 14 % SGST on sale. Calculate the tax payable.

Solution:

Tax on Input

Particular	Amount (Rs.)
Purchase Price	8,00,000/-
Add : CGST @ 14%	1,12,000/-

Tax on Output

Particular	Amount (Rs.)
Sale Price	15,00,000/-
Add : CGST @ 14%	2,10,000/-

Calculation of Tax Payable

Particular	CGST (Rs.)	SGST (Rs.)
GST on Output	2,10,000/-	2,10,000/-
Less : GST on Input	1,12,000/-	1,12,000/-
Total GST Payable Amount	98,000/-	98,000/-

Example (2) : Trader from Rajasthan purchase goods for Rs. 18,00,000/- from Jaipur and paid 6% CGST & 6% SGST. He sold 3/4th of goods to the registered dealer in Rajasthan for Rs. 20,00,000/- & charge 6% CGST & 6% SGST. Remaining goods are sold to trader of Gujarat for Rs. 6,00,000/- & Charge 12% IGST. Calculate the tax payable.

Tax on Input

Particular	Amount (Rs.)
Purchase Price	18,00,000/-
Add : CGST @ 6 %	1,08,000/-
Add : SGST @ 6 %	1,08,000/-
Total Amount Paid	20,16,000/-

Tax on Output

Particular	Within State	Inter State
Sale Price	20,00,000/-	6,00,000/-
Add : CGST @ 6 %	1,20,000/-	-
Add : SGST @ 6 %	1,20,000/-	-
Add : IGST @ 12 %	-	72,000/-
Total Amount Recd.	22,40,000/-	6,72,000/-

Calculation of Tax Payable

Particular	IGST (Rs.)	CGST (Rs.)	SGST (Rs.)
GST on Output	72000/-	120000/-	120000/-
Less : GST on Input	Nil	108000/-	108000/-
Total GST Payable Amount	72000/-	12000/-	12000/-

Example (3) : A Dealer from Rajasthan purchase goods for Rs. 12,00,000/- from Ahmedabad (Gujarat) and paid IGST @ 5%. He also purchase goods worth Rs. 6,00,000/- from registered dealer in Jaipur & Paid 2.50% CGST & 2.50% SGST. He sold 1/5th Portion of goods for Rs. 4,00,000/- to registered dealer of Agra (IGST 5%) and remaining goods are sold in Rajasthan for Rs.24,00,000/- & he collect 2.50% CGST & 2.50% SGST. Calculate the tax payable.

Solution:

Tax on Input

Particular	Inter State	Within State
Purchase Price	12,00,000/-	6,00,000/-
Add : CGST @ 2.50 %	-	15,000/-
Add : SGST @ 2.50 %	-	15,000/-
Add : IGST @ 5 %	60,000/-	-
Total Amount Recd.	12,60,000/-	6,30,000/-

Tax on Output

Particular	Inter State	Within State
Sale Price	4,00,000/-	24,00,000/-
Add : CGST @ 6%	-	60,000/-
Add : SGST @ 6%	-	60,000/-
Add : IGST @ 5 %	20,000/-	-
Total Amount Recd.	4,20,000/-	25,20,000/-

Calculation of Tax Payable

Particular	IGST (Rs.)	CGST (Rs.)	SGST (Rs.)
GST on Output	20,000/-	60,000/-	60,000/-
Less : GST on Input	60,000/-	15,000/- 40,000/-* (IGST Adjusted)	15,000/-
Total GST Payable Amount	40,000/-* (Adjusted from CGST)	5,000/-	45,000/-

Payment of Tax (Section 49) :

1. Modes of Payment : Payment of tax, interest, penalty, fee or any other amount by a person can be made :

- By internet banking; or
- By using credit or debit cards; or
- By National Electronic Fund Transfer (NEFT); or
- By Real Time Gross Settlement (RTGS); or
- Over the Counter payment through authorized bank for deposit upto Rs. 10,000/- per challan per tax period, by Cash, Cheque or Demand Draft.

2. The amount so paid shall be credited to the electronic cash ledger of such person. Self assessed ITC shall be credited to electronic credit ledger.

3. Utilisation of amount in Electronic cash ledger : The amount available in the electronic cash ledger may be used for making any payment towards tax, interest, penalty, fees or any other amount payable under the provisions of this Act or the rules made there under in such manner and subject to such conditions and within such time as may be prescribed.

4. Utilisation of amount in Electronic credit ledger For payment of output tax under CGST and IGST Act [Section 49(4)] : The amount available in the electronic credit ledger may be used for making

any payment towards output tax under this Act or under the Integrated Goods and Service Tax Act in such manner and subject to such conditions and with in such time as may be prescribed.

5. Manner of utilisation of amount in Electronic credit ledger [Section 49(5)]: The amount of input tax credit available in the electronic credit ledger of the registered person on account of

- a) Credit of IGST To be utilised for payment of IGST, CGST, SGST and UTGST sequentially :** Integrated tax shall first be utilised towards payment of integrated tax and the amount remaining, if any, may be utilised towards the payment of Central Tax and State Tax, or as the case may be, Union Territory Tax, in that order.
- b) Credit of CGST To be utilised for payment of CGST, & IGST sequentially:** The Central tax shall first be utilised towards payment of central tax and the amount remaining, if any, may be utilised towards the payment of Integrated Tax.
- c) Credit of SGST To be utilised for payment of SGST, & IGST sequentially:** The State tax shall first be utilised towards payment of state tax and the amount remaining, if any, may be utilised towards the payment of Integrated Tax.
- d) Credit of UTGST To be utilised for payment of UTGST, & IGST sequentially:** The Union Territory tax shall first be utilised towards payment of Union Territory tax and the amount remaining, if any, may be utilised towards the payment of Integrated Tax
- e) Credit of CGST-** Cannot be utilised for payment of SGST and UTGST: The central tax shall not be utilised towards payment of State Tax or Union Territory Tax

f) **Credit of SGST/UTGST-** Cannot be utilised for payment of CGST: The State tax or Union territory tax shall not be utilised towards payment of Central Tax.

6. Refund of balance in electronic ledger [Section 49(6)] : The balance in the electronic cash ledger or electronic credit ledger after payment of tax, interest, penalty, fee or any other amount payable under this Act or the rules made there under may be refunded in accordance with the provisions of Section 54.

Blocked Credit [Section 17(5)]: Input tax credit shall not be available in respect of the following namely-

Motor vehicles and other conveyances	Motor vehicles and other conveyances. "Conveyance" includes a vessel, an aircraft and a vehicle. [Section 2(34)]
Goods and services for food, beauty treatment, health mainly for personal consumption	The following supply of goods or services or both – <ul style="list-style-type: none"> • Food and beverages, outdoor catering, beauty treatment, health services, cosmetic and plastic surgery. • Membership of a club, health and fitness centre. • Rent-a-cab, life insurance and health insurance. • Travel benefits extended to employees on vacation such as leave or home travel concession.
Work contract services	Work contract services when supplied for construction of an immovable property. However, credit is allowed – <ul style="list-style-type: none"> • Where it is an input service for further supply of works contract service. • Where it is supplied for construction of plant and machinery.
Inputs and Input services for construction of immovable property	Goods or services or both received by a taxable person for construction of an immovable property on his own account including when such goods or services or both are used in the course or furtherance of business.
Inputs under Composition Scheme	Goods or services or both on which tax has been paid under section 10.
Inputs by NR	Goods or services or both received by a non-resident taxable person except on goods imported by him.
Personal Consumption	Goods or services or both used for personal consumption.
Lost, Stolen goods etc.	Goods lost, stolen, destroyed, written off or disposed of by way of gift or free samples; and
Evasion, confiscation etc.	Any tax paid in accordance with the provisions of sections 74, 129 and 130. (These sections prescribe the provisions relating to tax paid as a result of evasion of taxes, or upon detention of goods or conveyances in transit, or towards redemption of confiscated goods/ conveyances.)

Job works under GST: Many manufacturing unit sends their goods to other person for further

treatment or processing, it is called Job Work.
Example:

- Engineering unit send their goods for Drilling, Welding, Painting etc.
- Textile Unit send their goods for Bleaching, Dying or Painting etc.

In GST Act, Section 43A is prescribed for Job Work.

43A Special procedure for removal of goods for certain purposes.

The commissioner may, by special order and subject to conditions as may be specified by him, permit a registered taxable person (hereinafter referred to in this section as the "Principal") to send taxable goods, through payment of tax, to a job worker for job work and from there subsequently sent to another job worker and likewise, and may after completion of job work, allow to-

Brink back such goods to any of his place of business, without payment of tax, for supply there from on payment of tax within India, or with or without payment of tax for export as the case may be; **or**

Supply such goods from the place of business of a job worker on payment of tax within India, or with or without payment of tax for export as the case may be.

The responsibility for accountability of the goods including payment of tax thereon shall lie with the "Principal".

Administration Structure: Administration Structure for CGST & SGST is different. The work relation to CGST & IGST is monitored by CGST Department (under old law it is Excise or Service Tax Department which is converted into CGST

Department) & its functions under control of Central Government.

The work relating to SGST is monitored by VAT Department in each State. The VAT Department is converted into SGST Department. Example : In Rajasthan, it is known as Rajasthan GST Department.

Hence, the power relating to survey, search, seizing, assessment etc are vest with above 2 Departments.

Registration: GST is realized by both Central & State Government but dealer have take only one online registration & have to file one return.

The registration in GST is PAN based + State specific. Here, One registration per State/ Union Territory. Thus, there is no centralized registration under GST. However, a business entity having separate business verticals in a State may obtain separate registration for each of its business verticals. GST identification number is known as “GSTIN”- a 15 digit number and a certificate of registration incorporating therein this GSTIN is made available to the applicant on the GST common portal. Registration under GST is not tax specific, i.e. single registration for all the taxes i.e. CGST, SGST/UTGST, IGST and cesses.

It has following types:

- Persons liable for Registration (U/s 22)
- Compulsory Registration (U/s 24)
- Voluntary Registration [U/s 25(3)]
- Deemed Registration (U/s 26)
- Registration by Prescribed/ Authorized Authority (Rule 16)

Status of Existing Registered Dealer: The dealers who are already registered under Excise law or Service Tax Law or State VAT law will automatically get GSTIN by providing some

addition details using registration. The data base of dealer can be used by both NSDL & GSTIN.

Registration of New Dealer: Those dealers who want to take new and fresh registration first time under GST Act, they have to register themselves at GST Portal. Following scanned documents shall be attached with application;

- Partnership deed for firms, Registration Certificate for Societies or Trust. In case of Company registration through MCA 21 need not to attach document due to online verification.
- Evidence of place of business (Title Deed or Rent Deed).
- Bank Statement Copy.
- Authority Letter for Representation.
- Photo of individual, Karta, Partner, Managing Director, Trusty etc.

After verification of the information, Registration Certificate will be issued to concerning dealer.

Return Filling: Every dealer have to file Monthly or Quarterly Returns. Dealer having Turnover upto Rs.1.50 Crore can select option of Quarterly Return. Every dealer (Except Composition Dealer) has to file following 3 returns.

a) Statement of Outward Supplies (Section 25) GSTR 1 :

- This Statement signifies the tax liability of the supplier for the supplies affected during the previous month.
- It needs to be filed by the 10th of every month in relation to supplies effected during the previous month.

b) Statement of Inward Supplies (Section 26) GSTR 2 :

- This Statement signifies accrual of ITC (Input Tax Credit) from the inputs received during the previous month.
- It is auto-populated from the GSTR-1 filed by the corresponding supplier of the Tax payer except for a few fields like imports and purchase from unregistered supplier.
- It needs to be filed by the 15th of every month in relation to supplies received during the previous month.

c) Return GSTR 3 :

This is consolidated return. It needs to be filed by the 20th of every month. It consolidates the following details:

Outward Supplies (Auto Populated from GSTR-1)

Inward Supplies (Auto Populated from GSTR-2) ITC availed

Tax payable

Tax Paid (using both Cash & ITC)

Notes:

- The composition dealer is required to file return of Inward Supplies and Outward Supplies in GSTR-4 up to 18th of Next Month.
- Nil return is to be filed by all dealer if there is no sale or purchase.
- Presently, the GST software is not working properly. So, there can be change in due date of return filling which can be tracked from GST portal.

Levy of Late Fees-

If the dealer fails to file the return on due date then there is provision to levy late fees U/S 33. Following are the provisions:-

- Dealers who failed to furnish details of

Outward & Inward Supplies -

- Rs. 25 Per Day but maximum upto Rs. 5,000/-
- Dealers who failed to furnish details of Annual Return -
- Rs. 100 Per Day or 0.25% of turnover (Whichever is lower)

Unanswered Questions under GST: (Yet to be decided)

1. Presently there is an exemption limit allowed to assessee for Rs. 1.50 Crore under excise law, upto Rs. 10 Lac under VAT, Upto Rs. 10 Lac, under Service Tax Act. Under GST there is no answer regarding exemption limit and which persons are treated as SSI (Small Scale Industries). This issue is still unanswered.
2. Whether every dealer has to make communicate with both CGST Department and SGST Department, which department is responsible for allowing refund, What is the working of both departments etc. is still not answered.
3. Whether both departments (CGST Department and SGST Department) are empowered to conduct proceeding of search and seizure or not or any one of them is having power for search and seizure. What is the scope of work for both departments is still unanswered.

EXERCISE

Short Type Questions:

1. When GST is implemented in India? What is the procedure for its implementation?
2. Write down short summary of GST?
3. Explain the concept of value addition under GST with example?

4. Write any four characteristics of GST?
5. Which Taxes are merged in GST, Explain them?
6. What is GSTIN?
7. Name any 4 documents which are enclosed with application for taking registration?

Essay Type Questions:

1. Write a summary of GST and explain its characteristics?
2. Explain the registration procedure under GST?
3. What is the dual model of GST? How it is implemented in India? Explain in details?
4. Which returns and statement are submitted by dealer under GST, explain them?

Practical Questions:

1. A manufacturer dealer of Rajasthan purchased raw material for Rs. 15,00,000 from a trader in Jaipur who charged 12% CGST & 6% SGST. The manufacturer produced 56,000 units of goods X from raw material and he also incurred Rs. 8,60,000 as an additional expenditure on it. He sold all units to registered trader in Jaipur for Rs. 25,00,000 including profit and collect 12% CGST & 6% SGST. Calculate Tax payable by him?
2. A Trader of Rajasthan purchased raw material for Rs. 6,00,000 from a trader in Jaipur who charged 12% CGST & 6% SGST. He sold $\frac{3}{4}$ part for Rs. 8,00,000 to register trader in Rajasthan and collect 12% CGST & 6% SGST. Remaining $\frac{1}{4}$ th part is sold to trader in Madhya Pradesh for Rs. 1,00,000 and collects IGST @14%. Calculate Tax payable by him?