**SYLLABUS**

*MODULE CONTENT PAGE*

|  |  |  |
| --- | --- | --- |
| *UNIT- I* | *Business Organisation: Meaning, Characteristics, Objectives And Importance.*  *Types Of Business Organisation: Sole Trader, Partnership Firm, Co-Operative Society And Joint Stock Company* |  |
| *UNIT -II* | *Sole Trading: Characteristics, Advantages And Disadvantages*  *Partnership Firm: Definition, Characteristics, Advantages And Disadvantages And Registration Of Partnership Firm.* |  |
| *UNIT -III* | *Company Organization: Definition, Characteristics, Advantages, Disadvantages And Formation Of Company.*  *Co-Operative Organization: Meaning, Advantage And Disadvantages* |  |
| *UNIT -IV* | *Management: Concept, Function, Significance.*  *Planning: Concept, Planning Process, Components Of Planning.*  *Decision Making: Concepts, Decision Making Process.* |  |
| *UNIT -V* | *Organizing: Concepts, Principles And Types Of Organizations.*  *Directing: Elements, Principles & Importance.*  *Motivation: Concepts, Importance*  *Controlling: Concept, Importance, Process And Techniques.* |  |

**UNIT 1**

**BUSINESS ORGANIZATION**

Introduction:

The subject of Business Organization and Management has acquired an important status in the field of business studies at the under-graduate level. It embraces the study of the methods, techniques and practices of efficient organizations and management of business. The knowledge of this subject is essential not only for the commerce students, but also for all those who want to enter into any line of business.

Meaning of Business Organization:

A business may be defined as an institution organized and operated to provide goods and services to the society with the objective of earning profit. L.R. Dickson has defined business as a form of activity pursued primarily with the object of earning profit for the benefit of those on whose behalf the activity is conducted. “Business involves production and/or exchange of goods and services to earn profits or in a broader sense, to earn a living. Profit is not the sole objective of the business. It may have other objectives like promotion of welfare of the workers and the general public. Business activities include production and distribution of goods and services which can satisfy human wants. The term business should be used to convey the same meaning as the term trade simply denotes purchase and sale of goods whereas ‘business’ includes all activities form production to distribution of goods and services. It embraces industry, trade and other activities like banking, transport, Insurance and warehousing which facilitates production and distribution of goods and services. According to F.C. Hopper “The whole complex field of commerce and industry which includes the basic industries, processing and manufacturing industries, and the network of ancillary services: distribution, banking, insurance transport and so on, which serve and inter penetrate the world of business as a whole” are called business activities.

Nature of Business:

A business enterprise has the following characteristics:

1. Dealing in Goods and Services: The first basic characteristic of a business is that it deals in goods and services. Goods produced or exchanged may be consumer goods such as bread, rice, cloth, etc., or capital goods such as machines, tools, etc., The consumer goods are meant for direct consumption either immediately or after undergoing some processes, whereas the capital goods are meant for being used for the purpose of further production. Capital goods are also known as producer’s goods. Services include supply of electricity, gas, water and finance, insurance, transportation, warehousing, etc.
2. Production and Exchange: Every business is concerned with production and exchange of goods and services for value (prices). Thus, goods produced or purchased for personal consumption (or) for presenting to others as gifts do not constitute business because there is no sale or transfer for value involved. If, for example ‘A’ buys a T.V. Set in Tokyo to be gifted to his brother on his return to New Delhi, it will not amount to business. But if the same person realize the price of the T.V. Set, it will come under the scope of business in a limited way provided the other conditions are also satisfied which are given below.
3. Regularity and Continuity in Dealings : One sale transaction cannot strictly constitute a business. A sale of a product can be called a business if it is undertaken frequently. If other essential characteristics of business are present and the production of goods or rendering of services for a price is undertaken regularly and continuously, this activity will be called a business.
4. Uncertainty or Risk: Business activities, as we have formed some definite ideas about it by now, carry an element of uncertainty or risk. It is true that the element of risk is present in almost all economic activities in a small or great measure. But it is certainly more significantly present in business activities. Risk involves the possibility of loss or what may be called uncertainty of return on investment made in the business due to a variety of factors over which the business enterprise has practically no control.
5. Profit Motive: Human-beings are engaged in business primarily with a view to earn profits and acquire wealth. This is not in any way reducing the importance of service motive in business. As a matter of fact, there is a positive relationship between proper and satisfactory services to the customers and to the society and the extent of profit. Normally, better services are accompanied by higher profits, but it may not always be so. Profit motive is also accepted as a desirable objective even for the Government enterprises engaged in business. It is called surplus instead of Profit in case of Government enterprises.

Importance of Business Organization:

To a layman, an objective is an aim or a goal. This is a very vague description as it does not convey a specific meaning. If this definition is followed, it will not be possible to distinguish the short-term objectives and the long-term objectives. In order to be specific, an objective of an activity should be defined in relation to its environment. Thus, we may define a business objective as purpose or the reason for its existence

Economic Objectives: Since business is essentially an economic activity, the primary focus of economic objectives is on three important constituents of the business system, namely:

(a) The owners (b) The employees and (c) The customers.

The owner(s) must get adequate return, on the capital invested and the risk undertaken by him or them in the form of profit or dividend. The employees must be adequately compensated through fair wages or salaries, allowances, bonus, and other welfare facilities in the form housing, medical and healthcare, education of children, recreational facilities, retirement benefits, etc. So that they devote heart and soul in organisation’s work and work in the spirit of doing it not as hired employees but as if they are doing their own work. Customers are the patrons of the business enterprise and their satisfaction must be uppermost in the mind of the businessmen. Customers feel satisfied if they are supplied with quality products at reasonable prices coupled with adequacy of regular supply, after sale service, courtesy, etc. “The customer is the foundation of a business and keep it in existence”. Business earns profit by satisfying the needs of the customers. As a matter of fact, the first and foremost objective of a business is creation and satisfaction of customers. Earning of sufficient profits is necessary not only to provide adequate rewards to the owners and the employees, but the employees, but also to provide for innovation and growth and diversification. The most important and remarkable benefits to the society through innovation and growth are in the form of better products at lower rates and increase in employment opportunities.

Human Objectives: Focus on human objectives is mainly on two constituents, namely, (a) employees and (b) customers, both of whom must have a feeling of having been treated as human beings by the business enterprise. Employees, in order to have a feeling of having been treated as human beings, look forward to a business enterprise for the following objectives: (i) They are treated as partners in the joint venture and not as inferior lot; (ii) They are able to acquire and develop new abilities and skills in the process of employment; and (iii) They derive job-satisfaction. (iv)These help them to develop commitment to their work and in turn to the organization in which they are working. Customers also look at the business enterprises as an institution which takes care of their needs as human beings. Hence the importance of courtesy, accommodation, understanding and fairness in dealings with the customers is quite obvious. This also points out the need for realization on the part of business enterprises that they do not fall prey to the temptation of profiteering through adulteration, hoarding, cornering of stocks, etc.

Organisational Objectives: Business enterprises, from the point of view of its growth and stability, can be compared with the human anatomy. Just as human body grows through a number of stages, that is, from infancy to childhood, from childhood to adolescence, from adolescence to adulthood and from adulthood to maturity, a business enterprise also passes through such phases during its existence. In order that a business may grow through these stages in time and with strength, it is necessary that the business strives for (a) ploughing back a part of its profits so that it may acquire strength to grow and survive in the face of competition; and (b) attaining an optimum size of operations so that it could avail of the economies of the scale.

Social Objectives: These objectives of business can be put in two categories: (i) Micro level (i.e.,) immediate environmental objectives); and (ii) Macro level (i.e., national objectives); Micro level social objectives. Under this category, this category, the business is expected help in the spread of literacy, education, training, medical care and public health, control of air and water pollution, development of backward classes and regions, and helping cultural, religious and charitable institutions engaged in the work of improving the lot of human beings.

Types of business organization:

A business enterprise may be owned by one person or a group of persons. When it is owned by one person, it is known as sole proprietorship. Except this form of organization, all other forms of business organizations come under the category of ‘group ownership’ or ‘joint ownership’. Group ownership of the business organisations may take any one of the following forms: (i) Sole Proprietorship (ii) Joint Hindu Family Firm (iii) Partnership Firm (iv) Joint stock company and (v) Co-operative Undertaking. The above mentioned forms of organisations are follows:

**Sole Proprietorship**: Business that runs under the exclusive ownership and control of an individual is called sole proprietorship or single entrepreneurship. It is started through the initiative of an individual and is run with the capital supplied by the proprietor from his resources or through borrowed means. The proprietor manages the business himself, bears all risks alone and gets all profits by virtue of the nature of this form of organization. He has almost unlimited freedom of action to run his business. He may choose to run any line of business without going through the legal formalities excepting those in which license may be required from the Health Department, the Municipal Authority, or some other body. The individual may run the business alone with the help of his own skill and intelligence or may employ a few employees for that purpose. It is the simplest and the oldest form of organization.

**Partnership Firm**: Section 4 of the Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.” Persons entering into partnership agreement are known as ‘partners’ and collectively as ‘firm’ or ‘partnership firm’. The name in which the business is carried on is called ‘firm name’. The partners provide the capital and share the responsibility for running the business of the firm on an agreed basis. In some cases, however, one partner provides whole or most of the capital and other contributes technical or managerial skill with or without some portion of capital. The terms and conditions of partnership are usually mentioned in the Partnership Agreement known as the Partnership Deed.

**Joint Stock Company**: A company is an incorporated voluntary association of persons in business having joint capital divided into transferable shares of a fixed value, along with the features of limited liability, common seal and perpetual succession. Chief Justice Marshal defined a company, in the Dartmouth College case, as “person, artificial, invisible, intangible and existing only in the eyes of law. Being a creation of law, it possesses only those properties which the charter of its creation confers on it either, expressly or as incidental to its very existence; among the most important of which are immortality and individuality.”

**Co-Operative Society**: According to the International Labour Office, a cooperative organization is “an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end, through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking.”

**The Hindu Undivided Family**: It can best be defined as a family that consists of a common ancestor and all his lineal male descendants and their wives and unmarried daughters. The Hindu Undivided Family (HUF) cannot be created by acts of any party. The only exceptions are in the case of an adoption or a marriage when a stranger may become a HUF member. An undivided family, which is a normal condition of Hindu society, is ordinarily joint, not only in estate but also in food and worship.

**UNIT II**

**SOLE TRADING**

Sole Proprietorship:

Meaning: Business that runs under the exclusive ownership and control of an individual is called sole proprietorship or single entrepreneurship. It is started through the initiative of an individual and is run with the capital supplied by the proprietor from his resources or through borrowed means. The proprietor manages the business himself, bears all risks alone and gets all profits by virtue of the nature of this form of organization. He has almost unlimited freedom of action to run his business. He may choose to run any line of business without going through the legal formalities excepting those in which license may be required from the Health Department, the Municipal Authority, or some other body. The individual may run the business alone with the help of his own skill and intelligence or may employ a few employees for that purpose. It is the simplest and the oldest form of organization.

Features:

It is the oldest form of commercial organization. It is because of its peculiar features that even in these days of modernisation individual proprietorship stand out unaffected.

(a) Single Ownership: This is owned by one man and nobody else contributes capital.

(b) Own Control: He has absolute control over the affairs of the concern. His decision is final. Since he need not consult others, he can take quick decision and gain enormously

(c) Own Profit: The attraction of reaping the entire profits motivates him to put forth the best in him. He strives tirelessly for the improvement and expansion of his business.

(d)Unlimited Liability: The liability of the sole proprietor is unlimited. As a result, when his business assets are not adequate for paying the debts, his private properties have to be sold. (e) Absence of Government Regulation: A sole proprietary concern is free from Government regulations. No formalities are to be observed in its formation, management or in its closure. (f) No Separate Entity: The sole trading concern is not regarded as an entity different from the proprietor. Consequently the business comes to an end with the permanent disability or death of the proprietor.

(g) Limited Capital: Since capital is contributed by only one individual it is bound to be small. Apart from this financial constraint his inability to manage beyond a level also impedes its expansion. The size of the business unit therefore tends to be small.

Merits:

1. Easy to Form and Dissolve: Since no legal formalities need to perform to start a sole proprietary business, it is most easy to start a business as a sole proprietary concern. Sometimes, a few restrictions are placed by local bodies such as from the watermark does not appear in the registered version view point of maintenance of health and sanitation. Just as it is easy to form, it is equally convenient to dissolve a sole proprietorship concern.
2. Direct Motivation: In this form, there is a direct relationship between rewards and efforts. The sole proprietor enjoys the entire profits and hence is inspired, induced and motivated to give his best of efforts and skills in running the business.
3. Absolute Control: The proprietor is free to prepare any plans and policies and execute them for the success of his business without any interference or clash of interest from any quarter. He is free to direct and control the operations of his business.
4. Business Secrecy: To face the challenge of competition in the market, maintenance of business secrecy provides and edge to the firm over its rival firms. The degree of retention of business secrecy is the highest in this form of organization.
5. Promptness in Decision-Making: A sole proprietor being a single owner is not required to consult anyone while taking decisions. This enables him to take prompt and quick decisions taking advantage of the opportunities which may arise in business from time to time.
6. Flexibility in Operations: If the situation demands changes in strategy, the same can be easily brought about to meet the changed situation without causing least of unsought consequences. Sole proprietorship offers the scope for flexibility in business operations by allowing the business to adapt and adjust itself to changing times and situations.
7. Personal Relations: Normally, the size of a sole proprietary business being small, the owner maintains a personal touch with his employees and customers. Personal attention to customers results in increased sales and individual attention to employees brings in efficiency and motivation on the part of employees there by reducing the cost of production. The resultant reduced costs and increased sales are reflected in increased volume of profits.
8. Credit Standing: Since a sole proprietor is liable to pay the debts of the business out of his private property and investment as well, the credit worthiness or standing of the sole property concern is greatly enhanced. The creditors, therefore, do not hesitate to lend to a sole proprietor.
9. Limited Regulations: The business activities of a sole proprietor are least regulated by law and the Government. No doubt, a sole proprietary business has to comply with labour laws and tax laws; there is no other interference in the day-to-day running of the business from the Government. Similarly, there is no Government regulation in respect of formation and dissolution of its business.
10. Independence: This form of organization offers a way of life for acquiring honourable living to those persons who do not want to serve others and take pride in ownership and control of their business. It provides an opportunity of business career to many people with available resources and there by utilizing their capacity and skills in the field of business. The sole proprietor being his own master and manager derives greatest possible satisfaction in terms of having created or rendered worthwhile commodity or service.

Demerits:

1. Limited Capital: Since the capital is contributed by one individual only, business operations have necessarily to be on a limited scale. Even when he wants to raise funds by borrowing, the borrowing capacity of one individual is bound to be limited. Thus large scale units which require enormous capital cannot be started by an individual.
2. Limited Managerial Skill: Whoever may be a person his resourcefulness and business management will be less effective beyond a certain stage. Further, since he has to keep his fingers on everything and has to work under severe stress, he likely to take wrong-decisions. Thus, these two factors, namely limited availability of capital and limited managerial ability do not allow the business unit to expand.
3. Unlimited Liability: The liability of a sole trader being unlimited, even his private assets are in danger of being lost.
4. Uncertainty of Continuity: Since the success of the sole trading concern hinges on the personal qualities of the proprietor, any prolonged illness or permanent disability or death brings the business to a standstill.
5. Inability to Avail of Specialization: Since the business unit is small and the financial resources limited experts in different fields cannot be employed to secure maximum advantage. He alone has to handle production, marketing, correspondence, etc. It is common knowledge that one cannot be an expert in all these varied fields of business activities, as a result, efficiency suffers.
6. Hasty Decision: Though quick decision is a definite advantage, sometimes the decision taken in a hurry is likely to spell ruin to the business. One has to agree with the proverb, ‘haste makes waste’

**Partnership Firm**

Introduction:

The limitations and deficiencies of sole proprietorship and Joint Hindu Family Business in respect of limited financial resources, limited managerial ability and skills and concentrated risk led to the emergence of partnership as a form of business organization. A partnership is an association of two or more persons who carry on business together for the purpose of earning profits.

Meaning:

Section 4 of the Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.” The name in which the business is carried on is called ‘firm name’. The partners provide the capital and share the responsibility for running the business of the firm on an agreed basis. In some cases, however, one partner provides whole or most of the capital and other contributes technical or managerial skill with or without some portion of capital. The terms and conditions of partnership are usually mentioned in the Partnership Agreement known as the Partnership Deed.

Features:

The essential features of a partnership firm are discussed below: -

1. Two or More Persons: There must be at least two persons to form a Partnership. The partnership Act fixes no maximum limit on the number of partners of a partnership firm. But the Companies Act, 1956 lays down that any partnership or association of more than 10 persons in case of banking business and 20 persons in other business operations as illegal unless registered as a Joint Stock Company. Thus, the maximum limit on the number of partners is ten in case of banking business and 20 in case of other lines of business.
2. Contractual Relation: The relation of partnership is created by contract and not by status as in case of Joint Hindu Family. There must be an agreement between two or more persons to enter into partnership. Such an agreement may be oral, written or implied. Since partnership is an out-come of a partnership the persons who enter into an agreement of partnership must be competent to enter into contract. Minors, lunatics, insolvent and other persons incompetent to enter into a valid contract cannot enter into a partnership agreement.
3. Lawful Business: The partners must agree to carry some lawful business. Mere holding of property in joint ownership cannot be considered as partnership unless it is accompanied by certain business activities and possesses other features of partnership.
4. Sharing of Profit: There must be an agreement to share the profits and losses of the business of the partnership firm. This is at the very root of bringing the persons together to carry on a business. However, sharing of profit is not a conclusive proof of partnership. Employees or creditors who share profits of the firm cannot be called partners in the absence of any agreement of partnership.
5. Agency Relationship: There must be an agency relationship between the partners. This is the crucial test of the existence of a partnership firm. Every partner is a proprietor as well as an agent of the firm. The business of the firm may be carried on by all or any of them acting for all unless otherwise agreed. Every partner is entitled to take part in management of day-to-day operations of the firm and to represent the firm and other partners in dealing with other parties.
6. Unlimited Liability: As a result of contractual relationship between the partners of a firm, all the partners are liable jointly and severally for all debts and obligations of the firm to an unlimited concern. That means if the assets of the firm are not sufficient to meet the obligations of creditors of the firm, the private assets of the partners can be attached to satisfy their claims. The creditors may even realize the whole of their dues from one of the partners. The partner from whose property the dues are recovered is entitled in law to obtain rateable contribution from the other partners of the firm.
7. Non-Transferability of Interest: A partner cannot transfer his proprietary interest to any person (except those who are already the partners) without the unanimous consent of other partners. The restriction on transfer of interest is based on the principle that the partner

Merits of Partnership:

1. Ease Formation: Like sole proprietorship, the partnership is also relatively free from legal formalities in terms of its formation.
2. Larger Resources: This form enables the pooling of larger resource than sole proprietorship, for a number of persons (partners) contribute to the capital of the business. Not only is this, the credit worthiness, which can also be used for borrowing larger sums of money, also greater in this form than in the case of sole proprietorship. This enables a partnership firm to undertake operations on a relatively larger scale and thereby reaping the economies of scale.
3. Combined Abilities and Judgment: In addition to the pooling of capital resources, the partnership combines abilities and skills of two or more persons (partners), and thus ensures better management of the business. Combined abilities and judgment, when properly integrated produces the results which are appreciably greater than the sum total of individual scattered efforts. Moreover benefits of specialized knowledge and division of labour can also be availed by judicious choice of partners possessing different business skills.
4. Flexibility: Since partnership business is not regulated by any law in its day to day just as a company business is regulated by Company Law, it imports flexibility in its operation. It can change its business whenever the partners like. Moreover, it is easier to change the line of business if the firm is not successful in one line of business because of its small scale operations.
5. Quick Decisions: A partnership firm is able to make decisions without delay because partners can meet and discuss the business problems more frequently. But in the case of a joint stock company, a good deal of time is wasted in calling the meeting of the Board of Directors and the shareholders.
6. Cautious Operations: Since the liability of the partners is unlimited, they are more cautious in running the business.
7. Survival Capacity: The survival capacity of the partnership firm is greater as compared to the sole trader ship concern. The partnership business need not come to an end on the death of a partner if the partnership deed does not provide so. Moreover, a partnership firm can undertake more than one line of business because it has more capital resources and it can compensate its loss in one line by the profit in other lines of business.
8. Public Relations: Every partner can be made to develop healthy and cordial relations with employees, customers, suppliers and citizens, etc. The fruits of such a relationship may be reflected in higher accomplishments and larger profits for the business. This will also result in enhancing the goodwill of the firm and pave the way towards its steady progress.
9. Protection of Minority Interest: According to the features of partnership, no major amendments affecting the basic nature of partnership can be made without the unanimous consent of all the partners. Thus every partner’s views-voice carries weight in partnership.

Demerits of Partnership Firm:

1. Lack of Harmony: The partnership business works steady as long as there is harmony and mutual understanding among the partners. If there is any occasion when this harmony is adversely affected that is the beginning of the end of a good partnership.
2. Limited Resources: Since maximum number of partners cannot exceed 20 in ordinary business and 10 in banking business, the amount of capital resources is limited to the contribution to be made by the partners. As we have observed earlier that the ideal number of partner is three to five, the contribution in terms of capital shrinks further.
3. Instability of Business: The partnership firm comes to an end with the death, retirement or insolvency of a partner. Not only this, it may also come to grief in the case of dissensions among the partners. Thus the life of a partnership firm is highly uncertain.
4. Lack of Public Confidence: Since a partnership business is not subjected to detailed regulations just as a company business is, it fails to inspire public confidence.
5. Risk of Implied Authority: A partner having implied authority to bind the firm by his acts of commission and omission, the firm may find itself difficulty in any moment.
6. Unlimited Liability: From this stand-point, a partnership is even worse than sole proprietorship because a partner is liable to the extent of his private property not only for his own mistakes and lapses but also for the mistakes, lapses and even dishonesty of his fellow partner or partners. Partners are both jointly and severally liable. This may have more dangerous effect of curbing entrepreneurship because the partners may be afraid of venturing into new areas of business activities for fear of losses.
7. Non-Transferability of Interest: Since no partner can transfer his interest to an outsider without the unanimous consent of all the partners, it makes investment in partnership business reluctantly shy.
8. Social Losses: If a partnership firm is dissolved because of lack of harmony among the partners, or the risk of implied authority, or on account of any such reason, it is a definite loss to the society both in terms of supply of goods and services and in terms of source of employment.

Partnership Deed:

Though a partnership agreement need not necessarily be in writing, yet to avoid future misunderstanding and mutual bickering. It is desirable to have a written agreement. Such a written agreement setting out all the terms and conditions of partnership is known as partnership Deed. A carefully drafted partnership Deed helps in bringing out differences which may develop among partners and in ensuring smooth running of the partnership business. It should be properly stamped and registered.

The usual contents are;

(i)Name of the firm (ii) Nature of the proposed business to be carried on by the partnership. (iii) Duration of the partnership business whether is to be run for a fixed period of Time or whether it is to be dissolved after completing a particular venture. (iv) The capital to be contributed by each partner. It must be remembered that capital Contribution is not necessary to become a partner for, one can contribute his organizing power business acumen, managerial skill etc. instead of capital. (v) The amount that can be withdrawn from the firm by each partner. (vi) The ratio in which the profits or losses are to be shared. (If the profit sharing ratio is not specified in the Deed, all the partners must share the profits and bear the losses equally) (vii) Whether any interest is to be allowed on capital and if so, the rate of interest. (viii) Rate of interest on drawings, if any. (ix) Whether loans can be accepted from the partners and if so the rate of interest Payable thereon. (x) Amount of salary or commission payable to partners for their services. (xi) Maintenance and audit. (xii) Matters relating to admission of a new partner. (xiii) Matters relating to retirement of a partner. The arrangement to be made for paying out the amount due to a retired or deceased partner must also be stated. (xiv) Method of valuing goodwill on the admission death or retirement of a partner. (xv) Distribution of managerial responsibilities. The work that is entrusted to each partner is better stated in the deed itself. (xvi) Procedure for dissolution of the firm and the mode of settlement of as thereafter. (xvii) Arbitration in case of disputes among partners. The deed should provide the method for settling disputes or difference of opinion. This clause will avoid costly litigations.

Registration of Firms:

The Indian partnership Act does not make registration of a partnership compulsory. But the disabilities of non-registration virtually make it compulsory.

Procedure for Registration:

A statement should be prepared stating the following particulars. (i) Name of the firm (ii) The principal place of business (iii) Name of other places where also the firm carries on business. (iv) Name and addresses of all the partners. (v) The date on which each partner joined the firm. (vi) The duration of the firm. This statement, signed by all the partners should send to the Register of firm along with the necessary registration fee of Rs.3. Any change in the above particulars must be communicated to the Register within 14 days of such alteration.

Effects of Non- Registration:

(i) An unregistered firm cannot file a suit to enforce its claims against third parties. If such rights arise out possible to recover debts from third parties. It has no right even to demand a set-off in any suit filed by its creditors. (ii) However it can sue other for enforcing rights arising otherwise than out of a contract. For example, it can bring a suit for wrongful infringement of trade make or patent. (iii) The right of third parties against the firm is not affected by non-registration. It means that they can sue the firm or any of its partners. A partner of an unregistered firm cannot sue the firm or other partners.

**UNIT III**

**COOPERATIVE SOCIETY**

Introduction:

The forms of business ownership and organization discussed so far are run basically with a view to make profit. The cooperative form a organization is different from the rest in so far as it is not set up with profit as the guiding motive but with the main purpose of rendering service to its members in particular and to the society in general. Cooperative organizations have emerged primarily to protect and safeguard the economic interest of the relatively weaker sections of the society in the face of exploitation by businessmen whose primary motive is profit maximization.

Meaning:

According to the International Labour Office, a cooperative organization is “an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end, through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking.”

Characteristics of Co-operative Organisation:

The cooperative organization, being different in its rationale and philosophy possesses certain features/characteristics which may be briefly explained as follows: (i) Voluntary Association : As stated above, persons desirous of pursuing a common objective can form themselves into as association and leave the same as and when one likes by withdrawing his capital. Thus, voluntary feature of the cooperative organization has two important connotations: (a) Any person may become a member of such an organization irrespective of his caste, creed, religion, colour, sex, etc., and (b) The members come together to form themselves into an association without any coercion or intimidation. (ii) Service Motive : As stated earlier, a cooperative organization is established primarily with a view to rendering service to its members in particular and to the society in general. This however, does not mean that such an organization will not work for profit. There are several cooperative organizations which are making reasonably good profits. What we reiterate here is the emphasis on service and not on profit. (iii) Capital : The capital of the co-operative organization is procured from its members in the form of share capital. However, the share capital constitutes only a limited source of business finance, the major part of which is raised by the cooperative organization either by way of loan from the Government and the apex cooperative institutions, or by way of grants and assistance from the government. (iv) Return on Capital : The return on capital subscribed by the members is in the form of a fixed rate of dividend which is a charge on the trading surplus of the organization. (v) Distribution of Surplus : The entire trading surplus earned by a cooperative organization after meeting its trading expenses and paying a fixed rate of divined is not distributed among the members. Under the present law governing co-operative organization a sum of about ¼ of its profits is to be transferred to general reserves. Similarly, a portion of the profit, not exceeding 10% may be utilized for the general welfare of the locality in which the society is functioning. The rest of the surplus may be distributed in the form of bonus on a certain agreed basis but not on the basis of the capital contributed by the members. The bonus may be paid to the members in proportion to the purchases made during the year by the members in case of Consumers’ Co-operative Stores, or in proportion to the goods delivered for sale to the society in the case of Producers’ Co-operative Store. (vi) Separate Legal Entity : Lake a company, a co-operative organization also enjoys a separate and independent entity distinct from that of its members. As such, it has a perpetual life and is not affected by the entry and exit of members. It can sue be sued in its own name. It can own property and dispose it of in its own name, likewise can enter into business contracts in its own name.

Merits:

Different types of co-operatives have distinct merits to their credit. But there are some common merits which can be witnessed in all co-operatives. These are as follows;

1. Easy Formation: Being a voluntary association, it is easy to form as it does not require long and complicated legal preliminaries. Any 10 adult persons can voluntarily form themselves into an association and get it registered with the Registrar of Cooperatives.
2. Democratic Functioning: As observed earlier, the management of co-operative is vested in a managing committee which is elected by the general members of the co-operative on the basis of ‘one-man-one-vote’. As such, it does not matter whether a member holds one share or more then one share.
3. Limited Liability: Like the liability of the shareholders in company form of organization the liability of the members in a co-operative organization is also limited to their capital contribution. The effect of limited liability is mentioned in the bye-laws of the co-operative which is checked by the registrar at the time of registering the same.
4. Internal Vitality: Co-operatives are not permitted to declare dividend for its members exceeding certain per cent, the balance of the surplus earned in any year by the co-operative can well be utilized for its growth, modernization and development. Thus, there is built in advantage of ploughing back of profits for the better health and prosperity of the organization.
5. Continuity: Like the company, the co-operative enjoys a separate legal entity of its own independent of the entity of its members who own it. Hence the life of co-operative organization remains unaffected by the death, insolvency or convinction of a member.
6. State Assistance: Since, Co-operatives have been adopted by the Government as an instrument of economic policy, a number of grants, loans and financial assistance are offered to them to make them function efficiently.
7. Social Service: Co-operatives foster fellow feeling among members and impart moral and educative values n their everyday life which are essential for better living.
8. Reducing Inequalities : Since the benefits and profits of co-operatives are enjoyed by those people who are relatively of moderate means, this helps in raising the economic status of the relatively poor people thereby reducing the disparity between the rich and the poor.

Demerits:

(i) Limited Capital: The amount of capital that a co-operative can muster is extremely limited because of the membership remaining confined to particular locality or region and also because of the principle of ‘one man-one vote’ and the divined restrictions. (ii) Plenty of State Regulation : Under the existing arrangement the co-operatives are subjected to a variety of regulations from the co-operative department of the State Government partly because the state offers a number of financial helps and partly because it is always anxious to see that the movement succeeds. All this has led to excessive state regulations in the day to day functioning of the co-operative which, at times, amounts to interference. (iii) Lack of Managerial Talent : Co-operatives at the primary level generally suffer from extremely limited managerial talent because they depend on the personnel drawn from amongst their own members to serve on the managing committee which, in turn, manages the day to day affairs of the co-operatives. However, at the higher levels, namely, State and apex federation level this constraint is not so acute. But if we compare the availability of managerial talent in a company form of organization, then again cooperatives do not stand anywhere near them. (iv) Lack of Secrecy : As is usually common with the forms of organization which enjoy separate legal entity and as such are under obligation to make fuller discoloured of their operations to their members, the co-operatives too being corporate in status fail to preserve their business secrets. In this respect, co-operatives are similar to the company from of organization. (v) Lack of motivation : The built in constraint that co-operatives society cannot offer dividend beyond a certain fixed rate the members of the managing committee with whom rests the responsibility of managing the co-operatives do not feel sufficiently motivated to do their best to see the co-operative a grand success. (vi)Differences among members: Although co-operatives are formed with great fanfare and with the great ideals of co-operation and self-help, but soon these higher values of human life disappear with the passage of time. There are often bickering, differences and bad blood created among members on petty matters. This marks the beginning of an end to the co-operative organization.

**Joint Stock Company**

Introduction:

The sole proprietorship and partnership forms of organizations have failed to meet the growing needs of modern industry and commerce. They possess many limitations like limited resources, unlimited liability and fear of discontinuity. To get over these limitations, joint stock company form of organization came into existence. Now it is the most widely used form of business organization not only in the private sector but also in the public sector. This form of organization has proved to be very suitable for large scale enterprises. It is also equally good for undertakings doing business on a small scale because of easier access to financial resources, limited liability and continued existence.

Meaning:

A company is an incorporated voluntary association of persons in business having joint capital divided into transferable shares of a fixed value, along with the features of limited liability, common seal and perpetual succession. Chief Justice Marshal defined a company, in the Dartmouth College case, as “person, artificial, invisible, intangible and existing only in the eyes of law. Being a creation of law, it possesses only those properties which the charter of its creation confers on it either, expressly or as incidental to its very existence; among the most important of which are immortality and individuality.”

Features: The definition given above reveals the following features of a company

1. Artificial Legal Person : A joint stock company is an artificial person created by law to achieve the objectives for which it is formed. A company exists only in the contemplation of law. It is a fiction of law but it cannot be called fictitious as it exists. It is an artificial person in the sense that it is created by a process other than natural birth and does not possess the physical attributes of a natural person. It is invisible, intangible, immortal (law alone can dissolve it), and exists only in the eyes of law. It has no body, no soul, no conscience, neither it is subject to imbecilities of the body.
2. Distinct Legal Entity : A company is a legal person having a juristic personality entirely distinct from and independent of the individual persons who are its members (owners). It has the right to own and transfer the title to property in any way it likes. No member can either individually or jointly claim any ownership right in the assets of the company during its existence or its winding up. It can sue and be sued in its own name by its members as well as outsiders similarly, creditors of the company are creditors of the corporate body and they cannot directly proceed against the members personally.
3. Perpetual Succession : A joint stock company has a continuous existence and its life is not affected by the death, lunacy, insolvency or retirement of its members or directors. Members may come and go, but the company continues its operations so long as it fulfils the requirements of the law under which it has been formed. Thus, a company has a perpetual succession irrespective of its membership.
4. Common Seal : A company being an artificial person cannot sign documents for itself whereas a natural person can do. The law has, therefore, provided for the use of a common seal, with the name of the company engraved on it, as substitute for its signatures. Any document bearing the common seal of the company and duly witnessed (signed) by at least two directors will be legally binding on the company.
5. Limited Liability : Liability of the members of a limited company is limited to the value of the shares subscribed to or the amount of guarantee given by them. Members cannot be asked to pay anything more than what is due or unpaid on the shares of the company held by them even though the assets of the company are not sufficient to satisfy fully the claims of creditors of the company in the event of its winding up. Thus, by virtue of this characteristic the personal property of a shareholder cannot be attached for the debts of the company if he holds a fully paid up share.
6. Transferability of Shares : Members of a public limited company are free to transfer the shares held by them to any one else. Shares can be sold and purchased through the stock exchange.
7. Separation of Ownership and Management : Ordinarily, the number of shareholders, who are the owners of the company, is fairly large and hence all of them or most of them cannot participate in the day-to-day management of the company.

Merits of a Company:

A company form of organization has become very popular not only in India but also outside India particularly for industrial and trading operations undertaken on a large scale. This is because of the following advantages/merits enjoyed by the company form of organization: (i) Large Financial Resources : The joint stock company can raise large amount of money or capital by issuing shares and debentures to the public. The capital of the company is issuing shares and debentures to the public. The capital of the company is divided into shares of small denominations of Rs.20, Rs50, or Rs.100 which attract person for investment with small income. The ease with which the investor can transfer his share holding is another attraction for the investors to raise vast funds to undertake its business activities from a position of strength.

1. Limited Liability: The liability of shareholders of a company is limited to the face value of the shares held by them. Their private property is not attachable to recover the dues of the company. Thus, this form of organization is a great attraction to persons who are not willing to take risk as is inherent in other forms of organization such as sole proprietorship and partnership as they do not possess the features of limited liability.
2. Continuity: A company being an artificial person created by law and enjoying a distinct and separate personality of its own is not affected by the entry and exit of its members. It continues to be in existence even if all the persons who promoted it leave or desert it or give up their membership. Hence as a body corporate, it enjoys perpetual existence. Being a stable form of organization it is suited for such business activities which require long period to establish and consolidate.
3. Transferability of Shares : The right of the shareholders of public companies to transfer the shares held by them imparts liquidity to the investments and thereby encourages investment of funds in the company. The existence of stock exchange and continuity of operations in it facilitate further the transferability of shares especially in respect of those which are listed on the stock exchange.
4. Benefits of Large Scale Operation: A company is in a position to raise large amount of capital and thereby undertake large scale operations. The largeness of the operations results in the economies in production, purchase, selling, management, advertising, etc. This in turn, leads to increase efficiency and the consequent reduction in the cost of production.
5. Professional Management: The largeness of the financial resources and the requirements of business operations prompt a company to hire the services of professional managers, both on the Board of Directors and in various management positions. The professional managers by applying their managerial skill and talent help the company to achieve greater heights of efficiency and competitive strength in relation to the rival firms.
6. Public Confidence: From inception to its winding up all the activities of a company are regulated by the provisions of the Companies Act. The companies are under legal obligation to get their accounts audited by a qualified Chartered Accountant and publicise their audited accounts, Director’s Report, etc. All this creates and promotes public confidence.
7. Scope for Expansion and Growth: The company form is conducive to the expansion of business operations and is also responsible for the growth of giant-size enterprises which operate not only within the country but also in a number of foreign countries. Two limiting factors viz., limited financial resources and unlimited liability are conspicuous by their absence in the case of company form of organization as a result of which the company form enjoys greater potentialities of growth over other forms of organization.

Demerits of a Company:

The following are the demerits of the company form of organization

1. Difficult and Costly Formation: The formation of a company requires fulfillment of a number of legal formalities. For this purpose provisions of the Companies Act are to be complied with and large amounts have to be spent in order to fulfill the preliminaries. In addition, it is time consuming as well for a number of sanctions and approvals are to be obtained from different authorities before a company gets going.
2. Lack of Personal Touch: There is a divorce between ownership and management of the joint stock company. The affairs of the company are managed by the professional managers. This may be responsible for lack of personal involvement and stake which characterize sole proprietary and partnership forms of business organization.
3. Oligarchic Management: The management of a company which is supposed to be conducted as per desires of the shareholders or owner turns out to be a plaything of a few individuals. In theory, every shareholder has a right to participate in the Annual General Meeting and other meetings of the company and to exercise his right to elect directors, to appoint auditors and participate in other matters.
4. Legal formalities: The procedure of formation of Co. is very long, time consuming, expensive and requires lot of legal formalities to be fulfilled.
5. Lack of secrecy: It is very difficult to maintain secrecy in case of public company, as company is required to publish and file its annual accounts and reports.
6. Lack of Motivation: Divorce between ownership and control and absence of a direct link between efforts and reward lead to lack of personal interest and incentive.
7. Delay in decision making: Red tapism and bureaucracy do not permit quick decisions and prompt actions. There is little scope for personal initiative.

FORMATION OF COMPANY

The whole process of formation of a company is divided into four steps for convenience.

A. Promotion of Company

B. Incorporation or Registration of Company

C. Floatation of Company

D. Commencement of Business

Promoter: Promoter is a person who initiates the process of formation of company. He undertakes to form a company with reference to a given project and takes the necessary steps to accomplish the purpose. Promoter assumes responsibility for all the matters relating to the formation of the company

The promoter takes the necessary steps for the registration and floatation of the company. A promoter occupies a fiduciary position [Relationship of trust and confidence] with the company and the persons whom he induces to be the shareholders of the company. On account of this relationship, the promoter has to make a full disclosure of all material facts relating to the formation of the company. A promoter is not forbidden from making a profit in the formation of the company, but the profit is not to be secret. “A promoter is neither the trustee nor the agent of the company, he promotes.” Reason is neither a company has been formed nor a principal is in existence. In the absence of the principal, an agent cannot represent the principal. Similarly, the beneficiary has not yet born for the trustee to act. Yet, the responsibility of an agent and trustee is placed upon the promoter. Consequently, a promoter must act honestly and must not make money, directly or indirectly, at the expense of the company. He has to account and give to the company, whatever money is secretly received by him.

INCORPORATION OR REGISTRATION OF COMPANY

For a public company, the minimum number of members is seven, while it is two in the case of a private company. The promoter has to gather the required number for subscribing to the Memorandum of Association.

The following are the steps for the incorporation of a company:

1. Application for Availability of Name: A company cannot be registered in the name of an existing company. It also cannot be registered in a name, which is undesirable in the opinion of the Central Government. Therefore, it is necessary for the promoters to find out the availability of the name of the company from the Registrar of Companies. The first step in the formation of a company is the approval of the name by the Registrar of Companies (ROC) in the State/Union Territory in which the company is to be registered. This approval is provided subject to certain conditions. For instance, there should not be an existing company by the same name. Further, the last words in the name are required to be “Private Ltd.” in the case of a private company and “Limited” in the case of a Public Company.

2. Filing of Documents: The following three documents are required to be filed with the Registrar of Companies of the State in which the registered office of the company is to be situated: (i) Memorandum of Association, (ii) Articles of Association, and (iii) Agreement with the company for the proposed appointment of the managing director, whole-time director or manager. The above documents (i) and (ii) are required to be signed by the seven persons in the case of the public company and two persons in the case of private company. 3. Payment of Stamp Duty and Filing Fee: The company has to pay the necessary stamp duty and filing fee, according to the authorized share capital of the company. 4. Declaration of Compliance of Act and Rules: A declaration that the requirements of the Act and the rules framed there under have been complied. This declaration is to be signed by an advocate of the Supreme Court or High Court or attorney or a pleader having the right to appear before High Court. Alternatively, this declaration can be signed by a Company Secretary or Chartered Accountant in whole time-practice, who is engaged in the formation of a company or a person named in the articles as a director. This declaration is also to be filed with the Registrar of Companies, where the registered office of the company would be located.

5. Additional Requirement, in Case of a Public Company: The following further requirements are to be complied with: (i) A list of persons who have consented to act as directors. (ii) Written consent of the directors to act in that capacity. (iii) An undertaking by the directors to take up and pay for the qualification shares.

6. Certificate of Incorporation or Registration: If the Registrar is satisfied that the requirements under the Act for the purpose of registration of a company have been complied with, he shall register the company and issue a certification of incorporation, under his hand and seal.

FLOATATION OF COMPANY

Once the Certificate of Incorporation is received, it means the company is registered. Then the next step is to raise the required finances for running the company. The company is ready for floatation.

In other words, the company can go ahead, with raising capital sufficient to commence the business and carry on it, satisfactorily. Prospectus & ‘Statement in lieu of Prospectus’: A private company is prohibited from raising funds from the public. It can arrange the capital, privately, from its friends and relatives. In the case of public companies, it has the option to raise the funds from the public or through private sources, without raising funds from the public. In case, it decides to invite the public to subscribe to its capital, the public limited company has to issue prospectus. In case, the funds are arranged privately, the public company has to file a ‘Statement in lieu of Prospectus’ with the Registrar of Companies.

CERTIFICATE OF COMMENCEMENT OF BUSINESS

A public company, having share capital, cannot commence the business, without obtaining the certificate of commencement of business. The certificate of commencement of business can be obtained, only after completing the floatation process. In other words, a public limited company has to file either prospectus or statement in lieu of prospectus and comply with the required legal requirements, relating to the capital requirements. Thereafter only, Certificate of Commencement of Business is issued by ROC.

However, a private limited company can commence the business, without obtaining the ‘Certificate of Commencement of Business’. There is no need for a private company to obtain Certificate of Commencement of Business. After obtaining the Certificate of Incorporation, it can immediately commence business. It is the privilege a private limited company enjoys.

MEMORANDUM OF ASSOCIATION

Public Documents: Memorandum of Association and Articles of Association are public documents. Anyone who deals with the company are presumed to be aware of the contents of those documents. Memorandum of Association is a document, which contains the fundamental conditions regarding constitution, objects or activities and powers of the company. It is a charter of the company. It is a principal document without which a company cannot be registered. It is a life-giving document. 12 Business Legislation Memorandum of Association is a document based on which the relations of the company is governed with outsides and members of the company.

Purposes: Memorandum of Association serves the following purposes: (A) It contains the fundamental conditions on which the company is formed. (B) It sets the boundaries of the company. Lord Macmillan has rightly observed that the purpose of Memorandum of Association is to enable the shareholders, creditors and those who deal with the company to know the permitted range of the enterprise.

CONTENTS OF MEMORANDUM OF ASSOCIATION

According to Section 13 of the Act, the Memorandum of Association of every company should contain the following contents:

(A) Name Clause: Once the name of the company is approved and registered by the Registrar of Companies, the name of the company must be painted or affixed outside of every office or place of business. The name and address of registered office of the company has to be mentioned in letter-heads, business letters, notices and common seal of the company.

(B) Registered Office: Every company must have a registered office from the date of commencement of business, or 30th day of the incorporation date, whichever is earlier. All the notices have to be sent to this address.

(C) Objects Clause: The objects clause of the company indicates the sphere of activities and powers of the company. The purpose of the objects clause is two-fold: (i) To inform the members and creditors of the company in what kind of business their capital and funds may be used, and (ii) To inform the persons dealing with the company what its powers are. The objects are divided into two parts. Now, it is compulsory to specify in clear terms the main and other objects of the company. (i) The Main objects to be pursed by the company on its incorporation and the ancillary objects incidental to the attainment of the main objects. The ancillary objects must have reasonable proximity or connection with the main objects. (ii) Other objects: These are the objects which are not included in the above. A company is prohibited from commencing any new business, though stated in the other objects, without passing the special resolution passed in the general meeting.

**UNIT IV**

**MANAGEMENT**

Meaning:

The definition suggests Management is understood in different ways by different people. Economists regard it as a factor of production. Sociologists see it as a class or group of persons while practitioners of management treat it as a process. For our understanding, management may be viewed as what a manager does in a formal organization to achieve the objectives. In the words of Mary Parker Follet management is “the art of getting things done through people”. This definition throws light on the fact that managers achieve organizational goals by enabling others to perform rather than performing the tasks themselves. Management encompasses a wide variety of activities that no one single definition can capture all the facets of management. That is why, it is often said that there are as many definitions of management as there are authors in the field. However, the definition given by James A.F. Stoner covers all the important facets of management. According to him: “Management is the process of planning, organizing, leading and controlling the efforts of organization members and of using all other organizational resources to achieve stated organizational goals”.

: Management is a continuous process; Several interrelated activities have to be performed by managers irrespective of their levels to achieve the desired goals; ӹ Managers use the resources of the organization, both physical as well as human, to achieve the goals; Management aims at achieving the organisation’s goals by ensuring effective use of resources in the best interests of the society.

Characteristics:

Management is a distinct activity having the following salient features:

1. Economic Resource: Management is one of the factors of production together with land, labour and capital. Efficient management is the most critical input in the success of any organized group activity as it is the force which assembles and integrates other factors of production, namely, labour, capital and materials. Inputs of labour, capital and materials do not by themselves ensure production; they require the catalyst of management to produce goods and services required by the society. Thus, management is an essential ingredient of an organization.

2. Goal Oriented: Management is a purposeful activity. It coordinates the efforts of workers to achieve the goals of the organization. The success of management is measured by the extent to which the organizational goals are achieved. It is imperative that the organizational goals must be well-defined and properly understood by the management at various levels.

3. Distinct Process: Management is a distinct process consisting of such functions as planning, organizing, staffing, directing and controlling. These functions are so interwoven that it is not possible to lay down exactly the sequence of various functions or their relative significance.

4. Integrative Force: The essence of management is integration of human and other resources to achieve the desired objectives. All these resources are made available to those who manage. Managers apply knowledge, experience and management principles for getting the results from the workers by the use of non-human resources. Managers also seek to harmonize the individuals' goals with the organizational goals for the smooth working of the organization.

5. System of Authority: Management as a team of managers represents a system of authority, a hierarchy of command and control. Managers at different levels possess varying degree of authority. Generally, as we move down in the managerial hierarchy, the degree of authority gets gradually reduced. Authority enables the managers to perform their functions effectively.

6. Multi-disciplinary Subject: Management has grown as a field of study (i.e. discipline) taking the help of so many other disciplines such as engineering, anthropology, sociology and psychology. Much of the management literature is the result of the association of these disciplines. For instance, productivity orientation drew its inspiration from industrial engineering and human relations orientation from psychology. Similarly, sociology and operations research have also contributed to the development of management science.

7. Universal Application: Management is universal in character. The principles and techniques of management are equally applicable in the fields of business, education, military, government and hospital. Henri Fayol suggested that principles of management would apply more or less in every situation. The principles are working guidelines which are flexible and capable of adaptation to every organization where the efforts of human beings are to be coordinated.

Concepts of Management

1. Management as a human activity.
2. Management as organ of business.
3. Management as specific discipline.
4. Management as economic resources.
5. Management as a process.

Functions of Management

Among the various approaches to the study of management, the process approach has gained wider acceptance. It is because this approach lays emphasis on what a manager does. A manager no matter his level in the organization performs several functions. There is no consensus among the management thinkers on the classification of management functions. The number of functions as well as the terminology used to describe them is not alike. Henry Fayol identifies five functions, viz., planning, organizing, commanding, co-coordinating and controlling. Koontz And O’Donnell classify the functions into Planning, Organizing, Staffing, Directing, And Controlling.

Planning:

Planning in simple is looking ahead. It is preparing for the future. It involves outlining a future course of action. Planning makes the things to happen. Therefore, it is needless to say that in the absence of planning, things are left to chance. Planning is unique in that it precedes all the other managerial functions. It involves deciding the objectives and formulating the policies and procedures to achieve them. Effective planning provides answers to questions like – what to do? How to do? Who is to do? and when to do? Planning is a function performed by managers at all levels. Though every manager plans, the plans developed by different managers may vary in respect of scope and importance. For example, plans made by top managers have a wider scope with a focus on the organization as a whole and normally cover a longer period. On the other hand, plans developed by middle and lower level managers relate to the divisions or departments and usually cover a short period. Systematic planning helps in facing the uncertainties of future with less embarrassment. It helps in making things happen in the expected way.

Organizing

Organizations achieve objectives by using physical and human resources. When people work in groups, everyone in the group should know what he/she is expected to achieve and with what resources. In other words, organizing involves establishing authority - responsibility relationships among people working in groups and creating a structural framework. Thus, the manager’s task in organizing aims at creating a structure that facilitates the achievement of goals. Organizing therefore involves: ӹ determination of activities required to achieve goals; ӹ grouping of these activities into departments; ӹ assignment of such groups of activities to a manager; ӹ delegation of authority to carry them out; and ӹ provision for coordination horizontally and vertically in the organization. 14 The managerial function of organizing involves designing the structure and establishing functional and operational relationships. The resulting structure varies with the task. A large organization with huge market needs a different structure compared to a small organization. Similarly, structure of an organization operating in a stable environment may be different from the one operating in a dynamic environment.

Staffing

Organising process results in the creation of a structure with various positions. Staffing involves manning the various positions of the organisation. It includes manpower planning, recruitment and selection of the right people, training and developing them, deciding financial compensation, appraising their performance periodically. There is a debate whether staffing function is to be performed by all managers in the organisation or handled by human resources department alone. However, some processes of staffing are performed by personnel department only. For example recruitment and selection, training, fixation of salary, etc. Performance appraisal, on the other hand, may be done by all managers.

Directing

Once plans are made and the organisation is created, the focus shifts to the achievement of objectives. This function is called by various names: directing, leading, motivating, actuating and so on. It basically involves directing or leading the activities of the people. The manager directs the activities of his subordinates by explaining what they have to do and by helping them perform it to the best of their ability. In leading the people, the manager performs the following three distinct tasks:

Communication: the process of information flow from one person to another and across the organization Leadership: the process by which a manager guides and Influences the work of his subordinates; and Motivation: the act of stimulating the people so that they give their best to the organisation. Leading is a function predominantly interpersonal in nature. In the organizational context many problems arise because of the failure of managers to understand the people, their aspirations, attitudes, and behaviour as individuals and in groups. If the manager fails in leading the people towards better performance, any amount of planning and organizing, however effective they are, may not help the organisation.

Controlling

Planning and controlling – the two functions are closely interrelated in that while plans specify the objectives to be achieved, control as a managerial function facilitates to know whether the actual performance is in conformity with the planned one. So that, in the event of deviations, appropriate corrective measures could be taken. In the absence of adequate control mechanism, unexpected changes in the environment may push the organisation off the track. Thus, controlling implies measuring and correcting the activities to ensure that events conform to plans. That is why planning and controlling is often described as the ‘Siamese’ twins of management. It involves four main elements: Establishing standards of performance; measuring the actual performance and comparing it against the standard performance; Detecting deviations, if any, in order to make corrections before it is too late; and Taking appropriate corrective measures.

**PLANNING**

Planning is an important managerial function in that there is no choice between planning and no planning. The choice is only in regard to the method and techniques used to plan. It is anybody’s knowledge that we plan many things in our day to day lives. We plan to go on a holiday trip, plan our careers, and plan our investments and so on. Organizations are no exception. Lot of planning is done by managers at all levels. Planning is the basic process by which we use to select our goals and determine the means to achieve them. Lot of information has to be gathered and processed before a plan is formulated. In other words, a plan is like a jigsaw puzzle. All the pieces have to be put together properly, so that they make sense.

Planning is necessarily forward looking. It is looking into the future. It bridges the gap between where we are and where we want to go. It involves visualizing a future course of action and putting it in a logical way. Let us look at the following observations about planning. ӹ “Failure to plan is planning to fail”. ӹ “Planning is outlining a future course of action in order to achieve objectives”. ӹ “Planning is looking ahead”. ӹ “Planning is getting ready to do something tomorrow”. ӹ “Plan is a trap laid down to capture the future”.

Concept-

Planning is deciding in advance what to do, how to do it, when to do it and who is to do it. Planning bridges the gap from where we are to where we want to go. It is one of the basic managerial functions. Planning involves setting objectives and developing appropriate courses of action to achieve these objectives. Thus it in closely connected with creativity and innovation.

Importance of Planning:-

1. Planning provides directions:By Stating in advance how work to be done planning provides direction for action. If there was no planning, employees would be working in different direction and the organisation would not be able to achieve its goods efficiently.

2. Planning reduces the risk of uncertainty:-Planning is an activity which enables a manager to look ahead, anticipate change, consider the impact of change and develop appropriate responses.

3. Planning reduces wasteful activities: **-** Planning serves as the basis of coordinating the activities and efforts of different departments and individuals useless and redundant activities are minimised.

4. Planning promotes innovative ideas:Planning is the first function of management : Managers get the opportunity to develop new ideas and new ideas can take the shape of concrete plans.

5. Planning facilities decision making**:** Under planning targets are laid down. The manager has to evaluate each alternative and select the most viable proposition.

6. Planning establishes standards for controlling: **-** Planning provides the standards against which the actual performance can be measured and evaluated. Control is blind without planning. Thus planning provides the basis for control.

Planning Process:-

1. Setting Objectives:The first and foremost step is setting objective. Objective may be set for the entire organisation and each department.

2. Developing premises:Planning premises are the assumptions about the likely shape of events of future. It forecasts the obstacles, problems or limitations in the path of the effective planning because of which the plans may deviate; planning premises supply relevant facts & information relating to future.

3. Identifying alternative courses of action: **-** Once objective are set and premises are developed. Then the next step would be to act upon them. All the alternative courses of action should be identified.

4. Evaluating alternative Courses**:** The next step is to be weight pros and cons of each alternative. Each course will have many variables which have to be weighed against each other.

5. Selecting an alternative: **-** After comparison and evaluation the best alternative is chosen for reaching organisation objectives.

6. Implement the plan**:** Once the plan is developed they are put into action.

7. Follow to action:To see whether plans are being implemented, activities are performed according to schedule.

Planning process

## Steps in Planning Function

*Planning function of management* involves following steps:-

### Establishment of objectives

* 1. Planning requires a systematic approach.
  2. Planning starts with the setting of goals and objectives to be achieved.
  3. Objectives provide a rationale for undertaking various activities as well as indicate direction of efforts.
  4. Moreover objectives focus the attention of managers on the end results to be achieved.
  5. As a matter of fact, objectives provide nucleus to the planning process. Therefore, objectives should be stated in a clear, precise and unambiguous language. Otherwise the activities undertaken are bound to be ineffective.
  6. As far as possible, objectives should be stated in quantitative terms. For example, Number of men working, wages given, units produced, etc. But such an objective cannot be stated in quantitative terms like performance of quality control manager, effectiveness of personnel manager.
  7. Such goals should be specified in qualitative terms.
  8. Hence objectives should be practical, acceptable, workable and achievable.

### Establishment of Planning Premises

* 1. Planning premises are the assumptions about the lively shape of events in future.
  2. They serve as a basis of planning.
  3. Establishment of planning premises is concerned with determining where one tends to deviate from the actual plans and causes of such deviations.
  4. It is to find out what obstacles are there in the way of business during the course of operations.
  5. Establishment of planning premises is concerned to take such steps that avoids these obstacles to a great extent.
  6. Planning premises may be internal or external. Internal includes capital investment policy, management labour relations, philosophy of management, etc. Whereas external includes socio- economic, political and economical changes.
  7. Internal premises are controllable whereas external are non- controllable.

### Choice of alternative course of action

* 1. When forecast are available and premises are established, a number of alternative course of actions have to be considered.
  2. For this purpose, each and every alternative will be evaluated by weighing its pros and cons in the light of resources available and requirements of the organization.
  3. The merits, demerits as well as the consequences of each alternative must be examined before the choice is being made.
  4. After objective and scientific evaluation, the best alternative is chosen.
  5. The planners should take help of various quantitative techniques to judge the stability of an alternative.

### Formulation of derivative plans

* 1. Derivative plans are the sub plans or secondary plans which help in the achievement of main plan.
  2. Secondary plans will flow from the basic plan. These are meant to support and expediate the achievement of basic plans.
  3. These detail plans include policies, procedures, rules, programmes, budgets, schedules, etc. For example, if profit maximization is the main aim of the enterprise, derivative plans will include sales maximization, production maximization, and cost minimization.
  4. Derivative plans indicate time schedule and sequence of accomplishing various tasks.

### Securing Co-operation

* 1. After the plans have been determined, it is necessary rather advisable to take subordinates or those who have to implement these plans into confidence.
  2. The purposes behind taking them into confidence are :-
     1. Subordinates may feel motivated since they are involved in decision making process.
     2. The organization may be able to get valuable suggestions and improvement in formulation as well as implementation of plans.
     3. Also the employees will be more interested in the execution of these plans.

### Follow up/Appraisal of plans

* 1. After choosing a particular course of action, it is put into action.
  2. After the selected plan is implemented, it is important to appraise its effectiveness.
  3. This is done on the basis of feedback or information received from departments or persons concerned.
  4. This enables the management to correct deviations or modify the plan.
  5. This step establishes a link between planning and controlling function.
  6. The follow up must go side by side the implementation of plans so that in the light of observations made, future plans can be made more realistic.

Decision making

It is said that decisions are the principal diet on which a manager thrives. It is decision-making power which distinguishes a manager from others in an organization. Hardly a day passes without making some decision or other in the executive’s life. Whatever a manger does, he does through making decisions. As such, decision-making constitutes the most exciting and eventful part of any executive’s career. Considering the importance of decision-making some authors even view it synonymously with management. In the course of managing an organisation, the manager is confronted with several problems which require immediate and appropriate solutions. Such problems are solved by making decisions.

Steps in the Decision-Making Process

Rational decision-making process contains the following steps:

1. Define the Problem: Problem definition is the most crucial step in the entire decision making process. As the saying goes, “a problem well defined is a problem half-solved,” utmost care has to be exercised in this stage for wrong definition of the problem leads to wrong solutions. This is also called diagnostic stage. Jumping to conclusions on the basis of certain symptoms has to be avoided. The problem has to be examined from different angles so as to identify the exact causes. Unless exact causes are identified, right decisions cannot be taken.
2. Analyze the problem: The problem has to be thoroughly analysed. The past events that contributed to the problem, the present situation and the impact of the problem on the future have to be examined. Problems do no crop up overnight. The genesis of the problem and the various contributing factors need to be analysed. In analysing the problem, personal prejudices have to be avoided. As far as possible, an objective assessment of the situation is useful to arrive at right decisions.
3. Develop Alternatives: There are hardly few problems for which there are not many alternatives. Effective decision-making depends on the development of as many alternative solutions as possible. The underlying assumption is that a decision selected from among many alternatives tends to be a better one. The ability to identify and develop alternative courses of action depends on the manager’s creativity and imagination. As the thinking of two people may not be similar, the skills and abilities in developing alternatives significantly vary from one manager to the other.
4. Evaluate Alternatives: The next step in the decision-making process involves evaluation of the alternative courses or solutions identified to solve the problem. Alternatives have to be evaluated in the light of the objectives to be achieved and the resources required. Evaluation involves a through scrutiny of the relative merits and demerits of each of the alternatives in relation to the objectives sought to be achieved by solving the problem.
5. Select and Implement the Decision: Scientific evaluation of the alternatives reveals the acceptability of various alternatives. After weighing the pros and cons in detail, the best alternative has to be selected and implemented. It may not always be possible to select the best alternative for a given problem for want of complete information, time and resources. In such a case, the manager has to satisfy with limited information and optimize the yields under a given set of circumstances. Once an alternative is selected that becomes the decision and it has to be implemented in a systematic way.
6. Follow-up and Feed back: Once the decision is implemented, it has to be closely monitored. Adequate follow-up measures have to be taken. In the course of implementation, so many unexpected events may render the decision ineffective. The decision may not yield the desired results. Constant follow up helps to take corrective measures as and when necessary. Further, such a follow-up enables to identify the shortcomings or negative consequences of the decision. It provides valuable feed-back on which the decision may be reviewed or reconsidered.

**UNIT IV**

**Organizing**

**Meaning of Organising:-**

After laying down the plans and objectives the next function to be performed by the managers is organising. It determines what activities and resources are required and decides who will do a particular task, where it will be done and

When it will be done. Thus organising means establishing relationship between various factors of production and it in concerned with establishing relationship amongst jobs, sections, department & position. Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.

Principles of Organizing

The organizing process can be done efficiently if the managers have certain guidelines so that they can take decisions and can act. To organize in an effective manner, the following principles of organization can be used by a manager.

### *Principle of Specialization*: According to the principle, the whole work of a concern should be divided amongst the subordinates on the basis of qualifications, abilities and skills. It is through division of work specialization can be achieved which results in effective organization.

### *Principle of Functional Definition*: According to this principle, all the functions in a concern should be completely and clearly defined to the managers and subordinates. This can be done by clearly defining the duties, responsibilities, authority and relationships of people towards each other. Clarifications in authority-responsibility relationships helps in achieving co-ordination and thereby organization can take place effectively.

### *Principles of Span of Control/Supervision*: According to this principle, span of control is a span of supervision which depicts the number of employees that can be handled and controlled effectively by a single manager. According to this principle, a manager should be able to handle what number of employees under him should be decided. This decision can be taken by choosing either from wide or narrow span.

### *Principle of Scalar Chain:* Scalar chain is a chain of command or authority which flows from top to bottom. With a chain of authority available, wastages of resources are minimized, communication is affected, overlapping of work is avoided and easy organization takes place. A scalar chain of command facilitates work flow in an organization which helps in achievement of effective results. As the authority flows from top to bottom, it clarifies the authority positions to managers at all level and that facilitates effective organization.

### *Principle of Unity of Command:* It implies one subordinate-one superior relationship. Every subordinate is answerable and accountable to one boss at one time. This helps in avoiding communication gaps and feedback and response is prompt. Unity of command also helps in effective combination of resources, that is, physical, financial resources which helps in easy co-ordination and, therefore, effective organization.

Organizational structure

Line organization is the oldest and simplest method of administrative organization. According to this type of organization, the authority flows from top to bottom in a concern. The line of command is carried out from top to bottom. This is the reason for calling this organization as scalar organization which means scalar chain of command is a part and parcel of this type of administrative organization. In this type of organization, the line of command flows on an even basis without any gaps in communication and co-ordination taking place.

### Features of Line Organization

1. It is the simplest form of organization.
2. Line of authority flows from top to bottom.
3. Specialized and supportive services do not take place in this organization.
4. Unified control by the line officers can be maintained since they can independently take decisions in their areas and spheres.
5. This kind of organization always helps in bringing efficiency in communication and bringing stability to a concern.

### Merits of Line Organization

1. Simplest- It is the most simple and oldest method of administration.
2. Unity of Command- In these organizations, superior-subordinate relationship is maintained and scalar chain of command flows from top to bottom.
3. Better discipline- The control is unified and concentrates on one person and therefore, he can independently make decisions of his own. Unified control ensures better discipline.
4. Fixed responsibility- In this type of organization, every line executive has got fixed authority, power and fixed responsibility attached to every authority.
5. Flexibility- There is a co-ordination between the top most authority and bottom line authority. Since the authority relationships are clear, line officials are independent and can flexibly take the decision. This flexibility gives satisfaction of line executives.
6. Prompt decision- Due to the factors of fixed responsibility and unity of command, the officials can take prompt decision.

### Demerits of Line Organization

1. Over reliance- The line executive’s decisions are implemented to the bottom. This results in over-relying on the line officials.
2. Lack of specialization- A line organization flows in a scalar chain from top to bottom and there is no scope for specialized functions. For example, expert advices whatever decisions are taken by line managers are implemented in the same way.
3. Inadequate communication- The policies and strategies which are framed by the top authority are carried out in the same way. This leaves no scope for communication from the other end. The complaints and suggestions of lower authority are not communicated back to the top authority. So there is one way communication.
4. Lack of Co-ordination- Whatever decisions are taken by the line officials, in certain situations wrong decisions, are carried down and implemented in the same way. Therefore, the degree of effective co-ordination is less.
5. Authority leadership- The line officials have tendency to misuse their authority positions. This leads to autocratic leadership and monopoly in the concern.

# Line and Staff Organization

Line and staff organization is a modification of line organization and it is more complex than line organization. According to this administrative organization, specialized and supportive activities are attached to the line of command by appointing staff supervisors and staff specialists who are attached to the line authority. The power of command always remains with the line executives and staff supervisors guide, advice and counsel the line executives. Personal Secretary to the Managing Director is a staff official.

|  |  |  |
| --- | --- | --- |
| MANAGINGDIRECTOR | | |
| ↓ | ↓ | ↓ |
| Production Manager | Marketing Manager | Finance Manager |
| ↓ | ↓ | ↓ |
| Plant Supervisor | Market Supervisor | Chief Assistant |
| ↓ | ↓ | ↓ |
| Foreman | Salesman | Accountant |

### Features of Line and Staff Organization

|  |
| --- |
| 1. There are two types of staff :    1. Staff Assistants- P.A. to Managing Director, Secretary to Marketing Manager.    2. Staff Supervisor- Operation Control Manager, Quality Controller, PRO 2. Line and Staff Organization is a compromise of line organization. It is more complex than line concern. 3. Division of work and specialization takes place in line and staff organization. 4. The whole organization is divided into different functional areas to which staff specialists are attached. 5. Efficiency can be achieved through the features of specialization. 6. There are two lines of authority which flow at one time in a concern :    1. Line Authority    2. Staff Authority 7. Power of command remains with the line executive and staff serves only as counselors. |

### Merits of Line and Staff Organization

1. Relief to line of executives- In a line and staff organization, the advice and counseling which is provided to the line executives divides the work between the two. The line executive can concentrate on the execution of plans and they get relieved of dividing their attention to many areas.
2. Expert advice- The line and staff organization facilitates expert advice to the line executive at the time of need. The planning and investigation which is related to different matters can be done by the staff specialist and line officers can concentrate on execution of plans.
3. Benefit of Specialization- Line and staff through division of whole concern into two types of authority divides the enterprise into parts and functional areas. This way every officer or official can concentrate in its own area.
4. Better co-ordination- Line and staff organization through specialization is able to provide better decision making and concentration remains in few hands. This feature helps in bringing co-ordination in work as every official is concentrating in their own area.
5. Benefits of Research and Development- Through the advice of specialized staff, the line executives, the line executives get time to execute plans by taking productive decisions which are helpful for a
6. concern. This gives a wide scope to the line executive to bring innovations and go for research work in those areas. This is possible due to the presence of staff specialists.
7. Training- Due to the presence of staff specialists and their expert advice serves as ground for training to line officials. Line executives can give due concentration to their decision making. This in itself is a training ground for them.
8. Balanced decisions- The factor of specialization which is achieved by line staff helps in bringing co-ordination. This relationship automatically ends up the line official to take better and balanced decision.
9. Unity of action- Unity of action is a result of unified control. Control and its effectivity take place when co-ordination is present in the concern. In the line and staff authority all the officials have got independence to make decisions. This serves as effective control in the whole enterprise.

### Demerits of Line and Staff Organization

1. Lack of understanding- In a line and staff organization, there are two authority flowing at one time. This results in the confusion between the two. As a result, the workers are not able to understand as to who is their commanding authority. Hence the problem of understanding can be a hurdle in effective running.
2. Lack of sound advice- The line official get used to the expertise advice of the staff. At times the staff specialist also provide wrong decisions which the line executive have to consider. This can affect the efficient running of the enterprise.
3. Line and staff conflicts- Line and staff are two authorities which are flowing at the same time. The factors of designations, status influence sentiments which are related to their relation, can pose a distress on the minds of the employees. This leads to minimizing of co-ordination which hampers a concern’s working.
4. Costly- In line and staff concern, the concerns have to maintain the high remuneration of staff specialist. This proves to be costly for a concern with limited finance.
5. Assumption of authority- The power of concern is with the line official but the staff dislikes it as they are the one more in mental work.
6. Staff steals the show- In a line and staff concern, the higher returns are considered to be a product of staff advice and counseling. The line officials feel dissatisfied and a feeling of distress enters a concern. The satisfaction of line officials is very important for effective results.

**Functional organization**

Functional organizing has been divided to put the specialists in the top position throughout the enterprise. This is an organization in which we can define as a system in which functional department are created to deal with the problems of business at various levels. Functional authority remains confined to functional guidance to different departments. This helps in maintaining quality and uniformity of performance of different functions throughout the enterprise.

The concept of Functional organization was suggested by F.W. Taylor who recommended the appointment of specialists at important positions. For example, the functional head and Marketing Director directs the subordinates throughout the organization in his particular area. This means that subordinates receives orders from several specialists, managers working above them.

### Features of Functional Organization

1. The entire organizational activities are divided into specific functions such as operations, finance, marketing and personal relations.
2. Complex form of administrative organization compared to the other two.
3. Three authorities exist- Line, staff and function.
4. Each functional area is put under the charge of functional specialists and he has got the authority to give all decisions regarding the function whenever the function is performed throughout the enterprise.
5. Principle of unity of command does not apply to such organization as it is present in line organization.

### Merits of Functional Organization

1. Specialization- Better division of labour takes place which results in specialization of function and its consequent benefit.
2. Effective Control- Management control is simplified as the mental functions are separated from manual functions. Checks and balances keep the authority within certain limits. Specialists may be asked to judge the performance of various sections.
3. Efficiency- Greater efficiency is achieved because of every function performing a limited number of functions.
4. Economy- Specialization compiled with standardization facilitates maximum production and economical costs.
5. Expansion- Expert knowledge of functional manager facilitates better control and supervision.

### Demerits of Functional Organization

1. Confusion- The functional system is quite complicated to put into operation, especially when it is carried out at low levels. Therefore, co-ordination becomes difficult.
2. Lack of Co-ordination- Disciplinary control becomes weak as a worker is commanded not by one person but a large number of people. Thus, there is no unity of command.
3. Difficulty in fixing responsibility- Because of multiple authority, it is difficult to fix responsibility.
4. Conflicts- There may be conflicts among the supervisory staff of equal ranks. They may not agree on certain issues.
5. Costly- Maintenance of specialist’s staff of the highest order is expensive for a concern.

Directing

**DIRECTING** is said to be a process in which the managers instruct, guide and oversee the performance of the workers to achieve predetermined goals. Directing is said to be the heart of management process. [Planning](http://www.managementstudyguide.com/planning_function.htm), [organizing](http://www.managementstudyguide.com/organizing_function.htm), staffing have got no importance if direction function does not take place.

Directing initiates action and it is from here actual work starts. Direction is said to be consisting of human factors. In simple words, it can be described as providing guidance to workers is doing work. In field of management, direction is said to be all those activities which are designed to encourage the subordinates to work effectively and efficiently. According to Human, “Directing consists of process or technique by which instruction can be issued and operations can be carried out as originally planned” Therefore, Directing is the function of guiding, inspiring, overseeing and instructing people towards accomplishment of organizational goals.

Direction has got following characteristics:

1. **Pervasive Function -** Directing is required at all levels of organization. Every manager provides guidance and inspiration to his subordinates.
2. **Continuous Activity -** Direction is a continuous activity as it continuous throughout the life of organization.
3. **Human Factor -** Directing function is related to subordinates and therefore it is related to human factor. Since human factor is complex and behaviour is unpredictable, direction function becomes important.
4. **Creative Activity -** Direction function helps in converting plans into performance. Without this function, people become inactive and physical resources are meaningless.
5. **Executive Function -** Direction function is carried out by all managers and executives at all levels throughout the working of an enterprise, a subordinate receives instructions from his superior only.
6. **Delegate Function -** Direction is supposed to be a function dealing with human beings. Human behaviour is unpredictable by nature and conditioning the people’s behaviour towards the goals of the enterprise is what the executive does in this function. Therefore, it is termed as having delicacy in it to tackle human behaviour.

Importance of Directing Function

Directing or Direction function is said to be the heart of management of process and therefore, is the central point around which accomplishment of goals take place. A few philosophers call Direction as “*Life spark of an enterprise*”. It is also called as on actuating function of management because it is through direction that the operation of an enterprise actually starts. Being the central character of enterprise, it provides many benefits to a concern which are as follows:-

1. **It Initiates Actions -** Directions is the function which is the starting point of the work performance of subordinates. It is from this function the action takes place, subordinates understand their jobs and do according to the instructions laid. Whatever are plans laid, can be implemented only once the actual work starts. It is there that direction becomes beneficial.
2. **It Ingrates Efforts -** Through direction, the superiors are able to guide, inspire and instruct the subordinates to work. For this, efforts of every individual towards accomplishment of goals are required. It is through direction the efforts of every department can be related and integrated with others. This can be done through persuasive leadership and effective communication. Integration of efforts bring effectiveness and stability in a concern.
3. **Means of Motivation -** Direction function helps in achievement of goals. A manager makes use of the element of motivation here to improve the performances of subordinates. This can be done by providing incentives or compensation, whether monetary or non - monetary, which serves as a “Morale booster” to the subordinates Motivation is also helpful for the subordinates to give the best of their abilities which ultimately helps in growth.
4. **It Provides Stability -** Stability and balance in concern becomes very important for long term sun survival in the market. This can be brought upon by the managers with the help of four tools or elements of direction function - judicious blend of persuasive leadership, effective communication, strict supervision and efficient motivation. Stability is very important since that is an index of growth of an enterprise. Therefore a manager can use of all the four traits in him so that performance standards can be maintained.
5. **Coping up with the changes -** It is a human behaviour that human beings show resistance to change. Adaptability with changing environment helps in sustaining planned growth and becoming a market leader. It is directing function which is of use to meet with changes in environment, both internal as external. Effective communication helps in coping up with the changes. It is the role of manager here to communicate the nature and contents of changes very clearly to the subordinates. This helps in clarifications, easy adaptions and smooth running of an enterprise.
6. **Efficient Utilization of Resources -** Direction finance helps in clarifying the role of every subordinate towards his work. The resources can be utilized properly only when less of wastages, duplication of efforts, overlapping of performances, etc. doesn’t take place. Through direction, the role of subordinates become clear as manager makes use of his supervisory, the guidance, the instructions and motivation skill to inspire the subordinates. This helps in maximum possible utilization of resources of men, machine, materials and money which helps in reducing costs and increasing profits.

Principles of Directing

Important principles of directing:

**(1) Principle of Maximum Individual Contribution:**

According to this principle, management should adopt that directing policy through which the employees get motivated and give their maximum individual contribution for the achievement of organisational objective.

**2) Principle of Harmony of Objectives:**

According to this principle, there must be full coordination between organisational and individual objectives. Employees work in an organisation with an objective to get better remuneration, promotion, etc. On the other hand, organisational goal can be to earn more profits and to increase market share.

Sometimes it is seen that there is a conflict between the objectives of both the parties, e.g., organisation wants that it should get a major share of profit whereas employees perceives that as they work directly on the job, so more profit must be shared among them in the form of bonus.

**(3) Principle of Unity of Command:**

According to this principle, a subordinate should get directions from one officer at a time. If the subordinate gets directions from more than one officer, the subordinate will be unable to priorities his work.As a result, situation of confusion, conflict and disarrangement is created. By following this principle, effective direction takes place.

**(4) Principle of Appropriateness of Direction Technique:**

According to this principle, appropriate direction techniques should be used, e.g., to supervise effectively, to provide able leadership, to adopt free communication and to motivate through right medium.

**(5) Principle of Managerial Communication:**

According to this principle, it should be monitored by the management that the subordinates get the same meaning for what has been said. This simplifies the job of the subordinates and they need not go to the managers repeatedly for enquiring.

**(6) Principle of Use of Informal Organisation:**

According to this principle, there must be a free flow of information between the seniors and the subordinates. The success of direction depends upon effective exchange of information to a great extent.Information should be given both through formal and informal mediums. Special attention should be given to the informal organisation. This strengthens the formal organisation.

**(7) Principle of Leadership:**

According to this principle, while giving directions to the subordinates a good leadership must be provided by the managers. By this, subordinates get influenced by the managers. In this situation, subordinates act according to the wish of the managers.

Motivation:

Motivation is one of the most frequently used words in psychology. It refers to the factors which move or activate the organism. We infer the presence of motivation when we see that people work toward certain goals. For example, we might observe that a student works hard at almost every task that comes to him/her; from this we infer that the person has motive to achieve. All human behaviour appears to arise in response to some form of internal (physiological) or external (environmental) stimulation. The behaviours, however, are not random. They often involve some purpose or goal. It is often held that behaviours take place as a result of the arousal of certain motives. Thus motivation can be defined as the process of activating, maintaining and directing behaviour towards a particular goal. The process is usually terminated once the desired goal is attained by the person.

KEY CONCEPTS OF MOTIVATION

There are certain terms which you will commonly come across when you learn this lesson on motivation such as needs, goals, incentives etc. Let us understand some of these concepts.

(a) **Needs and Motives:** A need is a condition of lack or deficit of something required by the organism.In order to maintain homeostasis or balance the organism finds it necessary to satisfy the needs. The needs are of different types. The need for contact with other persons is a social need. The other social needs include need for prestige, status, affection, self-esteem, and so on. The needs may be broadly categorised as, primary or physiological needs and secondary or social needs. Needs for food, water, sex, sleep and rest, and elimination are primary needs. Needs for achievement, affiliation, power are examples of social needs. The term ‘motive’ refers to goal directed behaviour and energising conditions within the organism that drive behaviour. It is generally used to refer to certain conditions which, besides arousing, predispose a person to respond, or behave in a way appropriate to that motive. Motives direct the activity of the individual towards person’s goals.

(b) **Goals:** Thinking about the goal motivates a person to organize his or her action. If hunger is a need, eating food is a goal. Thus goal is related to the need state. However, in certain cases, behaviour is also guided by intrinsic goals. It means behaviour does not always need external goal. It may be satisfying and enjoyable in itself. Some people may like to sing, dance or play just for the sake of singing, dancing or playing. They like such activities. Thus goals can be intrinsic or extrinsic.

(c) **Incentives:** Incentives refers to the goal objects which satisfy the needs. Incentives vary in quality and quantity which make them less or more satisfying and attractive. Thus one can put in greater amount of effort to attain a more attractive incentive. As a matter of fact many incentives assume considerable significance in the lives of people and they do every thing possible to attain those incentives.

(d) **Instincts:** Instinct is an old concept in the field of motivation. It is defined as an innate biological force that predisposes the organism to act in a certain way. At one time all behaviours were supposed to be results of certain instincts. Some of the instincts identified by early psychologists are fight, repulsion, curiosity, self abasement, acquisition etc. It was thought that instincts were inherited and compelling sources of conduct, but can be modified by learning and experience. This term is no more used in relation to human behaviour. Animal behaviour is sometimes explained using this term. In current usage 'instinct' is reserved for innate response tendencies found among animals

Importance of motivation

### Lead to profitable operation

Motivation is an important tool that leads the organization in profitable operations. Motivated workers perform their duties with full responsibility. The development of self responsibility among the workers contributes for the best utilization of available resources like materials, money, machines and others.

### High level of productivity

Motivation contributes to develop working efficiency of employees. When employees are actually motivated they improve their working efficiency. The development of working efficiency among workers leads to maximize production and productivity. Management can expand its business activities in large areas for organizational profitability and growth.

### Best remedy for resistance to change

The change in the management system and organizational structure is essential to adjust an organization and its business activities according to changing environment. In some situation workers, specially, their unions may create resistance to change. They think about their job security and stability. The motivated workers have knowledge about the outcome of changes.

### Effective use of human resources

Manpower is the main active factor of production and is responsible for the best utilization of organizational resources. Motivation is the main instrument which creates the willingness among workers to do their work in the best possible way. In other words, motivated employees make the best utilization of their skills, knowledge, capabilities etc. in the existing environment.

### Satisfaction of employees

The satisfaction of employees is essential for organizational effectiveness. Motivation helps satisfy employees and develop morality among them. Employees with high morale become dedicated to the organization. Generally, employees are motivated through facilities both financial and non financial. Financial facilities are essential to fulfill basic and other physiological needs. In a similar manner, promotion on the basis of efficiency and experience is essential to fulfill social needs.

Controlling

Controlling consists of verifying whether everything occurs in confirmities with the plans adopted, instructions issued and principles established. Controlling ensures that there is effective and efficient utilization of organizational resources so as to achieve the planned goals. Controlling measures the deviation of actual performance from the standard performance, discovers the causes of such deviations and helps in taking corrective actions

According to Brech, “Controlling is a systematic exercise which is called as a process of checking actual performance against the standards or plans with a view to ensure adequate progress and also recording such experience as is gained as a contribution to possible future needs.”

According to Donnell, “Just as a navigator continually takes reading to ensure whether he is relative to a planned action, so should a business manager continually take reading to assure himself that his enterprise is on right course.”

Controlling has got two basic purposes

1. It facilitates co-ordination
2. It helps in planning

### Features of Controlling Function

Following are the characteristics of controlling function of management-

1. Controlling is an end function- A function which comes once the performances are made in confirmities with plans.
2. Controlling is a pervasive function- which means it is performed by managers at all levels and in all type of concerns.
3. Controlling is forward looking- because effective control is not possible without past being controlled. Controlling always look to future so that follow-up can be made whenever required.
4. Controlling is a dynamic process- since controlling requires taking reviewal methods, changes have to be made wherever possible.
5. Controlling is related with planning- Planning and Controlling are two inseperable functions of management. Without planning, controlling is a meaningless exercise and without controlling, planning is useless. Planning presupposes controlling and controlling succeeds planning.

Importance of controlling

1. Helps in achieving organisational goals:

When the plans are made in the organisation these are directed towards achievement of organisational goal and the controlling function ensures that all the activities in the organisation take place according to plan and if there is any deviation, timely action is taken to bring back the activities on the path of planning.

When all the activities are going according to plan then automatically these will direct towards achievement of organisational goal.

2. Judging accuracy of standards:

Through strategic controlling we can easily judge whether the standard or target set are accurate or not. An accurate control system revises standards from time to time to match them with environmental changes.

3. Making efficient use of Resources:

Like traffic signal control guides the organisation and keeps it on the right track. Each activity is performed according to predetermined standards. As a result there is most and effective use of resources.

4. Improving employee motivation:

An effective control system communicates the goals and standards of appraisal for employees to subordinates well in advance.

A good control system also guides employees to come out from their problems. This free communication and care motivate the employees to give better performance.

5. Ensures order and discipline:

Control creates an atmosphere of order and discipline in the organisation. Effective controlling system keeps the subordinates under check and makes sure they perform their functions efficiently.

harp control can have a check over dishonesty and fraud of employees. Strict control monitor, employees work on computer monitor which brings more order and discipline in work environment.

6. Facilitate coordination in action:

Control helps to maintain equilibrium between means and ends. Controlling makes sure that proper direction is taken and that various factors are maintained properly. All the departments are controlled according to predetermined standards which are well coordinated with one another. Control provides unity of direction.

7. Controlling helps in improving the performance of the employees:

Controlling insists on continuous check on the employees and control helps in creating an atmosphere of order and discipline. Under controlling function it is made sure that employees are aware of their duties and responsibilities very clearly.They must know clearly the standards against which their performance will be judged. These standards help the employees to work efficiently.

Process of Controlling

Controlling as a management function involves following steps:

1. **Establishment of standards-** Standards are the plans or the targets which have to be achieved in the course of business function. They can also be called as the criterions for judging the performance. Standards generally are classified into two-
   1. Measurable or tangible - Those standards which can be measured and expressed are called as measurable standards. They can be in form of cost, output, expenditure, time, profit, etc.
   2. Non-measurable or intangible- There are standards which cannot be measured monetarily. For example- performance of a manager, deviation of workers, their attitudes towards a concern. These are called as intangible standards.
2. **Measurement of performance-** The second major step in controlling is to measure the performance. Finding out deviations becomes easy through measuring the actual performance. Performance levels are sometimes easy to measure and sometimes difficult. Measurement of tangible standards is easy as it can be expressed in units, cost, money terms, etc. Quantitative measurement becomes difficult when performance of manager has to be measured.
3. **Comparison of actual and standard performance-** Comparison of actual performance with the planned targets is very important. Deviation can be defined as the gap between actual performance and the planned targets. The manager has to find out two things here- extent of deviation and cause of deviation. Extent of deviation means that the manager has to find out whether the deviation is positive or negative or whether the actual performance is in conformity with the planned performance. The managers have to exercise control by exception. He has to find out those deviations which are critical and important for business. Minor deviations have to be ignored. Major deviations like replacement of machinery, appointment of workers, quality of raw material, rate of profits, etc. should be looked upon consciously.
4. **Taking remedial actions-** Once the causes and extent of deviations are known, the manager has to detect those errors and take remedial measures for it. There are two alternatives here-
   1. Taking corrective measures for deviations which have occurred; and
   2. After taking the corrective measures, if the actual performance is not in conformity with plans, the manager can revise the targets. It is here the controlling process comes to an end. Follow up is an important step because it is only through taking corrective measures, a manager can exercise controlling.