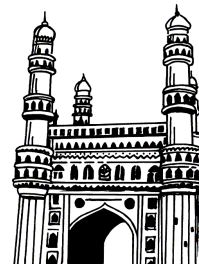


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## **BUSINESS ORGANIZATION AND MANAGEMENT**

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## Frequently Asked & Important Questions

### UNIT - I

1. What do you understand by business? Explain the main characteristics of business in the modern world.

*Ans :* (Nov.-19, Dec.-20, Imp.)

Refer Unit-I, Q.No. 1

2. Explain the objectives of business.

*Ans :* (Nov.-19, Imp.)

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3. What are the functions of business ?

*Ans :* (Dec.-20, Imp.)

Refer Unit-I, Q.No. 11

4. What are the functions of business ?

*Ans :* (Dec.-20, Imp.)

Refer Unit-I, Q.No. 11

5. Define Social Responsibility. Explain the need of social responsibility.

*Ans :* (Nov.-19, Imp.)

Refer Unit-I, Q.No.12

6. Define business organization and explain its main characteristics.

*Ans :* (Imp.)

Refer Unit-I, Q.No.16

7. What do you understand by "Sole Trading Concern or Sole Proprietorship" and state its merits and demerits.

*Ans :* (Imp.)

Refer Unit-I, Q.No.19

8. What do you understand by partnership? Discuss the advantages and limitations of partnership business.

*Ans :* (Dec.-20, Imp.)

Refer Unit-I, Q.No.21

9. Explain the various types of partners.

*Ans :* (Dec.-20, Imp.)

Refer Unit-I, Q.No.23



**10. What are the points usually dealt within partnership deal?**

*Ans :* (Imp.)

Refer Unit-I, Q.No.27

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**11. Explain the Concept of Limited liability partnership**

*Ans :* (Dec.-20)

Refer Unit-I, Q.No.30

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## UNIT - II

**1. Define a joint stock company and explain the characteristics of Joint stock company?**

*Ans :* (Nov.-19, Dec.-20, Imp.)

Refer Unit-II, Q.No. 1

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**2. Explain the advantages and disadvantages of joint stock company.**

*Ans :* (Dec.-20, Imp.)

Refer Unit-II, Q.No.2

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**3. Explain the classification of companies.**

*Ans :* (Imp.)

Refer Unit-II, Q.No.3

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**4. Explain the procedure involved in promotion of a public company.**

*Ans :* (Nov.-19, Imp.)

Refer Unit-II, Q.No.5

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**5. Define Promoters. State the characteristics of a promoter.**

*Ans :* (Imp.)

Refer Unit-II, Q.No.6

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**6. What is memorandum of Association? Explain its features.**

*Ans :* (Dec.-20, Imp.)

Refer Unit-II, Q.No.11

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**7. Give various clauses of memorandum of Association ?**

*Ans :* (Dec.-20, Imp.)

Refer Unit-II, Q.No.12

---

**8. What is Articles of Association? What are the contents of the Articles association?**

*Ans :* (Dec.-20, Imp.)

Refer Unit-II, Q.No.14

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9. Explain the concept of statement in lieu of prospectus.

*Ans :* (Nov.-19, Imp.)

Refer Unit-II, Q.No. 20

### UNIT - III

1. Define Management. What are the main characteristics of management?

*Ans :* (Nov.-19, Dec.-20, Imp.)

Refer Unit-III, Q.No. 1

---

2. What are the functions of management ?

*Ans :* (Dec.-20, Imp.)

Refer Unit-III, Q.No.5

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3. Explain the levels of management.

*Ans :* (Dec.-20, Imp.)

Refer Unit-III, Q.No.6

---

4. Explain the various skills of manager.

*Ans :* (Nov.-19, Imp.)

Refer Unit-III, Q.No.7

---

5. Define scientific management. What are the features of scientific management ?

*Ans :* (Nov.-19, Imp.)

Refer Unit-III, Q.No.10

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6. Explain the objectives of scientific management.

*Ans :* (Nov.-19, Imp.)

Refer Unit-III, Q.No.11

---

7. Explain the criticism of scientific management.

*Ans :* (Nov.-19, Imp.)

Refer Unit-III, Q.No.13

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8. Explain the Fayol's in principles of management.

*Ans :* (Dec.-20, Imp.)

Refer Unit-III, Q.No.14

**UNIT - IV**

**1. Define Planning.**

*Ans :* (Dec.-20, Imp.)

Refer Unit-IV, Q.No.1

**2. Explain the advantages and disadvantages of planning.**

*Ans :* (Imp.)

Refer Unit-IV, Q.No.4

**3. Explain the various approaches in planning.**

*Ans :* (Imp.)

Refer Unit-IV, Q.No.5

**4. Define MBO. Explain the features of MBO.**

*Ans :* (Dec.-20, Imp.)

Refer Unit-IV, Q.No.7

**5. Explain the benefits and weaknesses of MBO.**

*Ans :* (Dec.-20, Imp.)

Refer Unit-IV, Q.No.10

**6. What are the Principles of Organization?**

*Ans :* (Imp.)

Refer Unit-IV, Q.No.16

**7. Define Formal Organization. Explain the features of formal organization.**

*Ans :* (Imp.)

Refer Unit-IV, Q.No.17

**8. What is meant by line and staff organisation? Explain the advantages and disadvantages of line and staff organization.**

*Ans :* (Dec.-20, Imp.)

Refer Unit-IV, Q.No.23

**9. What are the causes of conflict between line and staff ?**

*Ans :* (Dec.-20)

Refer Unit-IV, Q.No.24

**10. Define span of management.**

*Ans :* (Dec.-20)

Refer Unit-IV, Q.No.26

**11. Explain the factors influencing the span of management.**

*Ans :* (Dec.-20, Imp.)

Refer Unit-IV, Q.No.27

**UNIT - V**

1. Define authority ? Explain sources of authority.

*Ans :* (Imp.)

Refer Unit-V, Q.No.1

2. Define responsibility. Explain the features of responsibility.

*Ans :* (Imp.)

Refer Unit-V, Q.No.6

3. Define Accountability. Explain the nature of accountability.

*Ans :* (Imp.)

Refer Unit-V, Q.No.8

4. Define delegation. Explain the characteristics of delegation.

*Ans :* (Imp.)

Refer Unit-V, Q.No.10

5. What are the difficulties involved in Delegation of Authority ?

*Ans :* (Nov.-19, Imp.)

Refer Unit-V, Q.No.13

6. Define Decentralization. Explain the types of decentralization.

*Ans :* (Nov.-19, Imp.)

Refer Unit-V, Q.No.15

7. Explain the importance of Decentralization.

*Ans :* (Nov.-19, Imp.)

Refer Unit-V, Q.No.16

8. Define Co-ordination. Explain the need of co-ordination.

*Ans :* (Dec.-20, Imp.)

Refer Unit-V, Q.No.18

9. Discuss the techniques of Effective Co-ordination.

*Ans :* (Dec.-20, Imp.)

Refer Unit-V, Q.No.21

10. Define Control ? Explain the importance of controlling ?

*Ans :* (Dec.-20, Imp.)

Refer Unit-V, Q.No.22

11. Discuss briefly about controlling process.

*Ans :* (Imp.)

Refer Unit-V, Q.No.26

12. Explain the essential conditions for effective control.

*Ans :* (Dec.-20, Imp.)

Refer Unit-V, Q.No.28

# UNIT I

## INTRODUCTION AND FORMS OF BUSINESS ORGANISATIONS

: Concepts of Business, Trade, Industry and Commerce - Objectives and functions of Business –Social Responsibility of a business - Forms of Business Organization - Meaning, Characteristics, Advantages and Disadvantages of Sole Proprietorship –Meaning, Characteristics, Advantages and Disadvantages of Partnership -Kinds of Partners - Partnership Deed - Concept of Limited liability partnership – Meaning, Characteristics, Advantages and Disadvantages of Hindu Undivided Family – Meaning, Advantages and Disadvantages of Co-Operative Organization.

### 1.1 CONCEPTS OF BUSINESS, TRADE, INDUSTRY AND COMMERCE

**Q1. What do you understand by business? Explain the main characteristics of business in the modern world.**

*Ans :* (Nov.-19, Dec.-20, Imp.)

#### Introduction

Business is a state of being busy. The primary aim of conducting business is to earn profit.

Business is related to the continuous and regular production & distribution of goods & services for the purpose of satisfying human wants and earning profit. Production refers to changing the form of resources and/or adding value to them so that they can be used for consumption.

Goods can be either agricultural goods or manufactured goods. Such goods are made with the help of manpower or with the use of machines.

#### Example

Growing mangoes on a piece of land is an example of agricultural production. Converting the mangoes into pulp/juices and selling them in the market is an example of manufactured goods.

Distribution, on the other hand, is the process of making the products and/or services available for consumption in the market. This process includes actual buying and selling along with the arrangement for trans-portionation, advertising, warehousing and

other aids to trade that help the products to reach the consumers.

#### Definitions of Business

**Stephenson defines business** as, "The regular production or purchase and sale of goods undertaken with the object of earning profit and acquiring wealth through the satisfaction of human wants".

**According to Prof. Haney,** "Business activities are all those human activities which are directed towards the production and processing of wealth".

#### Characteristics of Business

The following are the essential characteristics of business :

##### 1. Exchange of goods and services

A business must involve exchange of goods and services for value. The goods to be exchanged may either be produced or procured from other sources. The exchange of goods and services is undertaken with profit motive. Production or purchase of goods and services for personal use or consumption do not come under business. The purchase of goods by a retailer constitutes business, while the purchase of goods by a consumer is not business. The same principle is applicable to services. If a person cooks his food at home, it is not business. But if the same person cooks food at a hotel, it is business, because he exchanges his services for money.

**2. Dealings in goods and services**

Business consists of dealings in goods and services. The goods may be consumer goods or producers goods. Business also deals with services such as insurance, transport, banking, warehousing etc. These services are intangible and invisible goods.

**3. Continuity of transactions**

In business, only those transactions are included which have regularity and continuity. A single transaction involving buying and selling does not become business. For example, if a person sells his motor car and makes a profit, it does not amount of business. On the other hand, if he keeps a stock of cars and sells them to customers, it becomes business. Similarly, if a house building society builds houses and sells them, this will be called business. Recurring sale rather than an isolated deal is the hallmark of business.

**4. Profit motive**

The profit motive is an important feature of business. Every business is carried on with the purpose of earning money and acquiring wealth. An activity undertaken without profit motive is not business. A businessman tries to earn more and more profits out of his business can survive for long without earning profits. Even Government enterprise and expected to earn profit or surplus. However, profits must be earned through legal and fair means and by serving society. Therefore, earning of money through gambling, cheating and smuggling cannot be called business.

**5. Risk or uncertainty**

Risk implies the uncertainty of reward or the possibility of loss. The element of risk is present in almost all economic activities. It is more significant in business. Though business aims at profits, losses are quite possible and

common. Before an activity can be called business there must, therefore, exist not only the goal or profit but also the risk of loss. Risk or uncertainty arises because the future is unknown and businessmen have practically no control over several factors affecting profits. These factors include :

- a) Changes in consumer's tastes, fashions and demand;
- b) Changes in technology;
- c) Increase in the degree of competition in the market;
- d) Shortage of raw-materials, power, fuel etc.,
- e) Labour troubles;
- f) Faulty managerial decisions,
- g) Fire, theft and other natural calamities;

**6. Creation of utility**

The goods are provided to the consumers as per their likings and requirements. Business creates various types of utilities in goods so that consumers may use them. The utility may be form utility, time utility etc.

**7. Satisfying social needs**

The business should aim at serving the society at large. The business is a socioeconomic institution. It must look to the public good.

**Q2. What is profession? What are the features of profession.**

*Ans :*

**Meaning of Profession**

Profession is the utilization of special knowledge and skills that empowers an individual to provide services in order to earn a living. In order to become a professional, a person has to attain a certain degree of knowledge, formal education and undergo training. Profession is an intellectual activity.

For e.g. Teachers, lawyers, doctors, engineers, chartered accountants, etc. are known as Professionals.

**Features****i. Qualification**

- ▶ A person has to acquire certain expertise to offer professional services.
- ▶ Every profession has its own definite body of knowledge.
- ▶ The knowledge required for practicing a profession has to be acquired through systematic and formal training.
- ▶ A person cannot practice a profession, unless he has the prescribed qualification, education and skills.

**ii. Motive**

- ▶ Profession is an economic activity.
- ▶ Every economic activity is undertaken for earning money.
- ▶ However, profession should also have the motive to provide diligent service to the clients.
- ▶ A professional renders services of special nature to solve the problems and work for the well being of his clients.
- ▶ For e.g. A doctor treating the illness of a patient should aim at improving the health of the patient rather than just focusing on money.

**iii. Monetary Returns**

- ▶ A professional renders services in exchange of 'Fees'.
- ▶ Income of profession depends upon the expertise, quality of service and experience of the professional.
- ▶ The income of self employed professional, in particular is uncertain.
- ▶ For e.g. A doctor having his own clinic is self employed and so his income will be uncertain whereas, a doctor working in a hospital is considered as an employee, whose income is certain.

**iv. Capital**

- ▶ The capital required by a self employed professional is low as compared to a businessman.
- ▶ If a professional is working under someone else, he usually does not require any capital.

**v. Requirement of Registration**

- ▶ Every professional needs to register himself/herself with the respective council and get a certificate of practice after successful completion of the specified education and training.
- ▶ For e.g. The Bar Council of India for Lawyers, Council of Architecture, India for Architects etc.
- ▶ Generally, professions have a distinct national level council that lays down the code of conduct to be followed by them. The professionals have to strictly adhere to the code of conduct prescribed by their respective councils. It protects the interests of both, the professionals as well as their clients.

**vi. Non transferability**

- ▶ Unlike a business, profession cannot be transferred to some other person as per the will of a professional.
- ▶ To practice a profession, one requires to have the prescribed qualification, education and skill.
- ▶ However, it can be transferred to a person who is equally qualified in the said profession.
- ▶ For e.g. A lawyer cannot transfer his office or his practice to his son who has not completed his education in law. However, it can be transferred to another lawyer.

**vii. Nature of Work**

- ▶ A professional renders expert services to his clients based on his formal education, training and skills in exchange of fees.
- ▶ For e.g. A doctor treats the illness of a patient and accepts fees.

**Q3. What is employment? What are the features of employment.***Ans :***Meaning of Employment**

Employment is an economic activity wherein a person appoints another person for the purpose of completing a job, task or assignment and pays wages / salary in return. The person who assigns the task is known as an Employer and the one who is expected to perform the assigned task is known as an Employee.

For e.g. Factory workers, office assistants, managers, etc. are employees of a company.

Employment may be full time, part time, permanent or temporary in nature.

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

**i. Qualification**

Qualification required for an employment may or may not be specific.

Some jobs do require specific qualifications, whereas some do not.

The qualification required to perform a job depends upon the nature of the job.

As the nature of job changes, the qualification also changes.

The criteria for qualification can be used for employing skilled as well as unskilled employees.

For e.g. A driver should know how to drive a car.

**ii. Motive**

The motive of employment is to earn money in order to satisfy the primary and secondary needs.

**iii. Monetary Returns**

An employee gets returns in the form of 'Wages' or 'Salary' for the work completed by him.

The returns of employees are certain as they are paid on the basis of pre determined terms of engagement. Wages are paid daily or weekly while salary is paid monthly.

An employee may also get incentives and rewards in the form of travelling allowances, rent allowance, bonus, commission etc.

**iv. Capital**

No capital is required to be invested by an employee.

An employer provides the employee with all the material, infrastructure, tools and equipment that is required to complete the given job.

**v. Code of Conduct**

An employee has to abide by the rules and regulations as specified by the employer.

These rules are agreed by the employee at the time of accepting the employment.

For e.g.: Reporting time to office, dress code etc.

**vi. Non Transferability**

Every employment is an individual and independent contract which cannot be transferred from one person to another.

For e.g. If a manager retires, he cannot transfer the job to his son / daughter, provided certain provisions and guidelines are given on Government level.

**vii. Nature of Work**

The nature of work depends upon the job profile of the employee.

An employer assigns a task and the employee is expected to complete the same.



**Q4. Distinguish between Business, Profession and Employment?***Ans :***Comparison between Business, Profession and Employment**

Basis		Business	Profession	Employment
1.	Nature of Work	It involves production and exchange of goods and services.	Providing specialised personal service.	Performing the work assigned by the employer
2.	Qualifications	No specific qualifications are required.	Specialised qualifications prescribed for the profession will be required.	Qualifications are linked to the nature of work to be undertaken.
3.	Establishment	Legal formalities, if required will be performed.	Membership of a professional body is needed.	Appointment will be sufficient to take up the job.
4.	Investment	Investments are needed as per the nature and scale of operations.	Some investments are needed to set up office.	No investment is required.
5.	Reward	Profit is the reward for business.	Professional fee is charged from the clients for service.	Salary or wage is the reward to service.
6.	Risk	It is faced by lots of risks	Risk is limited.	There is no risk.
7.	Code of Conduct	It may follow the code of conduct devised by business or trade associations.	Following of code of conduct of professional body is essential.	Only rules and regulations related to the job are followed.
8.	Motive	Profit earning is the motive.	Service of society and earning of income or fees is the motive.	Earning of salary or wage is the motive.

**Q5. Define trade and explain the various classifications of Trade.***Ans :***Trade**

Trade is the process of taking goods from the source of production or place of procurement to the consumer. The producers cannot come into direct contract with the consumers, so there should be some channel which will facilitate the transmission of goods from the producers to the consumers. The channel which helps the exchange of goods is known as Trade.

**Types of Trade**

The trade may be classified as :

- a. Internal Trade
  - i. Local Trade
  - ii. Provincial or State Trade

- iii. Inter-State Trade
- b. External Trade
- c. Wholesale Trade and Retail Trade

#### (a) Internal Trade

The purchase and sale of goods inside the country is called internal trade. Goods can be taken to any place but within the boundaries of the country. Internal trade may be divided as such :

- i. **Local Trade** : When the demand for products is limited only to a particular place, it is called local trade. Goods are produced according to the local needs of the customers. The producer and the consumer belong to the same place.
- ii. **Provincial or State Trade** : These goods are of durable nature and are sent throughout the state or province the trade is limited to the boundaries of the states. Goods are produced according to the needs, requirements or customs of a particular region or state, then the goods are not required outside the boundaries of the state.
- iii. **Inter-State Trade** : The trade conducted throughout the country but within the national boundaries is called inter-state trade. The goods traded are of durable nature and can be stocked for a longer period. The production of these goods is on a large-scale basis and they are sent to all parts of the country.

#### (b) External Trade

When trade takes place between two countries, it is called foreign trade. Two countries are involved in foreign trade. External trade requires the permission from the respective countries. External trade may be import trade or export trade. When goods are purchased from outside countries, it is called import trade. When goods are sold and sent out to other countries, it is called export trade.

#### (c) Wholesale Trade and Retail Trade

Goods are purchased in large quantities and are sold to retailers in wholesale trade. A wholesaler is a link between the producer and the retailer. This helps the producers in making bulk production and selling in large quantities to traders. A wholesaler does not come into direct contact with the consumer.

#### Q6. What do you understand by Industry ? and explain the various types of industry.

*Ans :*

#### Industry

Industry refers to the production of goods and materials. It is that part of business activity which concerns itself with the raising of production, processing or fabrication of products. It includes activities like extraction, production, conversion, processing or fabrication of products.

The products of an industry may be consumer goods or producer goods. When goods are finally used by consumers, they are known as "Consumer goods". The examples of such goods are cloth, bread, drug, radio, scooter etc. When goods are used by other businesses for further production, they are known as "Producer goods". The production of machines, tools, machinery and equipment are examples of producer goods. These are also called "Capital goods".

#### Types of Industry

Industrial activities may be classified into primary and secondary. Primary industry may be either extractive or genetic. Secondary industry may be either manufacturing or construction.

1. **Extractive industries** : These industries extract or draw out various products from natural sources such as earth, sea and air. The products raised by these industries are provided of such industries are used by manufacturing and construction industries for producing finished goods. Agriculture, mining, fishing, hunting, lumbering, oil - exploration etc., are some of the examples of extractive industries.
2. **Genetic industries** : Genetic means "parentage or heredity". Genetic industries are engaged in breeding plants and animals. Forestry, plant-breeding farms, poultry farms, fish farms, hatcheries etc., are some of the examples of genetic industries. The plants are grown and animals are reared and then sold at profit. Nature, climate and environment play an important part in these industries. Human skill is also important in these industries.

3. **Manufacturing industries** : These industries are engaged in the conversion of transformation of raw-materials or semi-finished products into finished products. Such industries, therefore, create "form utility". Most of the goods which are used by consumers are produced by manufacturing industries. These industries supply machines, tools and equipments to other industries too. The products of extractive industries are generally used as raw-materials by manufacturing industries. Manufacturing industries are of the following types:

- a) **Analytical** : In an analytical manufacturing industry, a basic raw material is analyzed and separated into a number of products. For example, an oil refinery separates crude oil into kerosene, diesel oil, lubricating oil and petrol.
- b) **Synthetic** : In these industries two or more materials are mixed together to manufacture a new product. For example, Cement is produced by mixing concrete, gypsum and coal. Products like soaps, paints, fertilizers and cosmetics are other examples of synthetic industry.
- c) **Processing** : These industries are engaged in the processing of raw materials through different stages of production. Textiles, sugar and steel are examples of processing industries.
- d) **Assembling** : In this case, various components or parts are brought together to produce a finished product. Production of automobiles, watches, televisions, bicycles, railway wagons, etc., are the typical examples of assembly industry.

4. **Construction industries** : These industries are engaged in the construction of buildings, roads, dams, bridges and canals. These industries use the products of other industries, such as cement, iron, bricks, wood etc. The important features of these industries are that their products are not carried to the market for sale. Their products are made at fixed sites.

5. **Service industries** : These industries are engaged in the provision of essential services to the community. Banking, transport, insurance etc., are some of the examples of service industries.

Industries may also be divided into different categories on the basis of size and investment. According to scale of operations, industries may be divided into two types, namely large scale industries, and small - scale industries.

On the basis of investment, industries may be classified into two types : (1) heavy industries and (2) light industries. Industries requiring huge investment and sophisticated technology are known as "heavy industries". Shipbuilding, iron, and steel, petroleum refining etc., are examples of heavy industries.

Industries requiring small investment and simple technology are known as "light industries". Sugar, Paper, Textiles etc., are some of the examples of light industries. But all such classifications are relative rather than absolutely watertight categories.

**Q7. What do you understand by Commerce? Explain the main classifications of commerce. (Or) "Commerce comprises trade and the various services that make trade possible." Explain.**

*Ans :*

### **Commerce**

Commerce is an important branch of economics which is concerned with the exchange of goods and services. It includes all those activities which ensure a free and smooth flow of goods and services from producers to consumers. It is an organized system for the exchange of goods between the members of the industrial world. It links the industrial producer with consumers. It bridges the gap between producers and consumers through creation of possession, place, and time utilities.

### **Classification of Commerce**

Commerce is classified into two groups of activities :

- a) Trade
- b) Aids to Trade

- a) **Trade** : Trade refers to sale, transfer or exchange of goods and services. It involves the buying and selling of goods and services. It involves the buying and selling of goods and services. Trade is the nucleus of commerce. The person who conducts the trade is called the trader. The trader buys goods from the producer and sells them to the consumer. He thus brings the producer and consumer together. Trader is the main link between consumer and producer.
- b) **Aids to Trade** : Activities which facilitate the trade are called aids to trade. It includes transport, insurance, banking, warehousing, advertisement and salesmanship. Without these aids to trade or helper to trade, trade cannot prosper and flourish in the country. Exchange of goods and services is not a simple and smooth process. There are many hindrances of trade. They are as follows :
- (i) **Hindrance of Persons** : The producers of goods may not be able to come into direct contact with the consumers. The producers have to know consumers. A chain of middlemen acts between the producers and consumers. The middlemen purchase goods from the producers and take them to the consumers. The chains of wholesalers, retailers, brokers etc. operate between the producers and consumers and remove the hindrance of persons.
  - (ii) **Hindrance of Place** : Goods may be produced at places where the demand is less. These goods are to be taken to the place of consumption. With the help of transport facilities, place utility in goods can be created. The goods are taken from a place where there is less demand to the places where there is more demand.  
  
The place utility helps the producer to increase the production and earn a remunerative price. The various modes of transport have helped the growth of commerce. With the tremendous improvements in the transport facilities, the hindrance of place is overcome.
  - (iii) **Hindrance of Finance** : There is always a time lag between the production and sale of goods. The traders purchase goods from the producers and then sell them to the consumers. It takes time to collect money after sale. There is need to finance trade activities. Lack of adequate finance is a big hindrance. The commercial banks help in overcoming financial problem. They help trade in the form of loans, overdrafts, cash credit etc. Hence the hindrance of finance is removed by banks .
  - (iv) **Hindrance of Time** : Goods are produced in anticipation of demand. They may also be produced at a time when they are not needed. So there is need to store them and make them available as and when the consumers demand them. The hindrance of time is removed by warehouses. Warehouses afford not only storage facilities but also maintain the quality of the goods stored therein.
  - (v) **Hindrance of Risk** : During transportation and storage, goods are subject to several types of risk. Goods may be stolen or damaged. Fire, floods, earthquake, storm, riot etc, and other calamities may result in the destruction of goods. Insurance removes these hindrances by covering the risk of loss or damage to the goods.
  - (vi) **Hindrance of Knowledge** : The consumers may not be aware of the availability of various goods in the market. The absence of information about goods is a great hindrance in the way of consumers buying them. Advertising and publicity provide the necessary information to consumers. They help to remove the hindrance of knowledge.

**Q8. Distinguish between trade, commerce and industry.**

*Ans :*

Trade	Commerce	Industry
<b>i) Meaning</b>		
It is related to the purchase and sale of goods.	It deals with all those activities which deal with the taking of goods from producers to consumers.	All those activities which deal with the conversion of raw material into finished goods are covered in Industry.
<b>ii) Capital</b>		
The requirements of capital are more in trade as compared to commerce.	Commerce requires less capital.	Capital needs are high for industry because it requires purchase of huge raw materials and investments on goods in process.
<b>iii) Scope</b>		
Trade deals only with purchase and sale of goods.	Commerce included trading and other servicing activities.	Industry deals with those which relate to primary, manufacturing etc.
<b>iv) Risk</b>		
It involves a greater amount of risk or fall in prices or change in demand is borne by the trade.	The risk involved in commerce is comparatively less.	Industry involves greater amount of risk as compared to any other activity.

**Q9. Write short notes on the requirements of a successful business ?**

*Ans :*

#### **Requirements of a Successful Business**

- a) **Clear objectives** : Every business concern must have a set of objectives to be achieved. The objectives are Primary and Secondary Objectives. They determine the plan of action or the work to be done. Determination of objectives is very important and an essential pre-requisite for the success of business. They must not be unrealistic. There is also need for classifying the objectives into long-range and short-range objectives. A proper balance must be maintained between them.
- b) **Efficient business planning** : Planning is an essential requisite for successful operation of a business firm. It enables the firm to meet the contingencies of the future and thus helps it to run smoothly. Planning assures reasonable success in any business. It is foreseeing and charting out a future course of actions. Effective plans should be formulated for every department of the business firm.

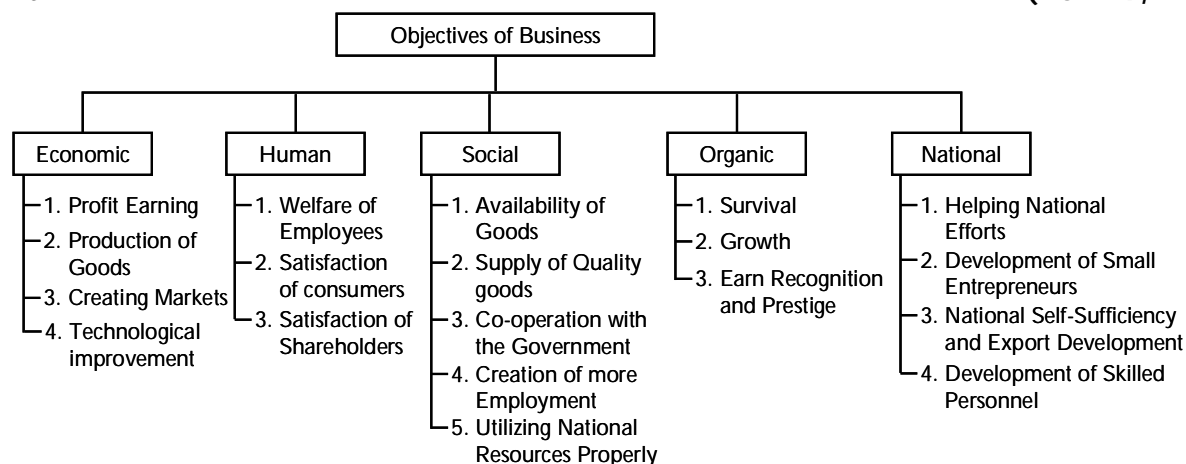
- c) **Sound organization** : In order to achieve the objectives of a firm, there is need for sound organization. The firm must be staffed with sufficient number of people of different talents and skill. A suitable internal organization, an appropriate form of ownership should be chosen.
- d) **Financial planning** : Finance plays a vital role in setting up of a business. The success of business depends on the availability of adequate finance both for long-term and short-term purposes. Hence the businessmen must correctly estimate the financial requirements and make arrangement for securing the finance. A proper financial planning is necessary for the fulfillment of business objectives.
- e) **Proper location, layout and size** : The success of a business firm depends to a great extent on its location, layout and size. The location of the firm influences the cost of production and effectiveness of marketing. The size affects the efficiency and profitability of the concern. Hence the businessmen have to take care in the initial stages to find out a suitable place for locating a unit and to fix a proper size for it. The plant layout is also essential as it provides for the effective utilization of men, materials and machines.
- f) **Effective and efficient management** : A business firm should have an effective and efficient management in order to achieve its objectives. The people working in a firm, will give desired performance under effective management. The efficient utilization of resources depends on the efficiency of the management.
- g) **Effective distribution system** : Effective handling of distribution of goods has a great bearing on the success of a business. If the distribution or sale of products is not organized efficiently, then there will be accumulation of stock of unsold goods and the production may have to be stopped or at least reduced. Therefore, there is need for efficient distribution system.
- h) **Research and development** : Technology and customer are important. In order to develop new and more efficient techniques and process of production, research and development is required. Systematic and permanent facilities for research also enable the firm to offer new and better products to the customers. Innovation is the essence of business.
- i) **Maintenance of better relations with employees** : There should be an encouraging relationship between the management and the employees. The employees must be rewarded properly. They should be treated as human beings and proper arrangement should be made for their welfare and development.

## 1.2 OBJECTIVES AND FUNCTIONS OF BUSINESS

**Q10. Explain the objectives of business.**

*Ans :*

(Nov.-19, Imp.)



### Profit not the Only Objective

Every work is started with an objective. The objective is a goal, the achievement of which is a necessity and all efforts are concentrated for the fulfillment of the objective. According to Peter Drucker, "Objectives are needed in every area where performance and results directly and vitally affect survival and prosperity of the business."

The main objective of a business undertaking is to earn profits. Profit-earning is considered necessary for the survival of the business. Now-a-days, the values of society have changed and society expects more from the business than merely earning profits. The objectives of business may be categorized under five heading :

- A) Economic Objectives
- B) Human Objectives
- C) Social Objectives.
- D) Organic Objectives
- E) National Objectives

#### A) ECONOMIC OBJECTIVES

1. **Profit Earning:** It cannot be denied that business is started for earning profits. Profit is the basic incentive to business pursuits. Profits are needed to face various uncertainties like trade cycle, change in demand pattern, fluctuations in money markets. A business needs profits not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments, workers want higher wages and the entrepreneur needs money for reinvesting.
2. **Production of Goods:** The profit can be earned only when exchange of goods and services takes place. So, the next objective is to produce more goods and sell them to the consumers. The producers estimate the demand for goods and produce accordingly. The tastes, preferences and paying capacity of consumers must be taken into account.
3. **Creating Markets:** The aim of the businessman is to sell products. Marketing consists of the efforts which effect transfers in ownership of goods and care for their

physical distribution. Marketing covers all those activities which relate to the creation of time, place and possession utility. The businessman searches for new consumers for increasing his sales. An effort is made to retain old consumers by supplying them better quality goods at reasonable prices.

4. **Technological Improvement.** A businessman should always strive to use latest metaphors of production. In the world of competition, everybody tries to sell its products by offering good quality products at lower prices. This is possible when latest technology is used for producing goods.

#### B) HUMAN OBJECTIVES

Human objectives of business require that a workable balance should be maintained among the claims of various interested groups like employees, shareholders and consumers. These objectives can be discussed as follows :

1. **Welfare of Employees.** The employees should be looked upon as human beings. The old theory that workers should be coerced to get more work is no longer valid. The traditional businessman in India has always been in favour of 'Iron rod theory'. With the advent of industrialisation, production has increased many times resulting in more profits to the businessman. The employees of an enterprise help in increasing the profitability and they should also be given a due share in profits. It may be in the form of bonus, increased allowances or spending money on their welfare.
2. **Satisfaction of Consumers.** The consumers should be provided quality goods at reasonable prices. The tastes, likings and requirements of the consumers should be given due weightage. The business is meant for consumers and their satisfaction should be the main objective of the business. So, responsibility to consumers means setting up and maintaining standards of quality and service in addition to reasonable price.
3. **Satisfaction of Shareholders.** In the present world ownership and management are in two different hands. The shareholders

are spread all over the country and they have no hand in the day-to-day working of the business. The management should give reasonable return on the money invested by the shareholders.

### C) **SOCIAL OBJECTIVES OR SOCIAL RESPONSIBILITY OF THE BUSINESS**

**The business has two aspects :**

- i) Individual ; and
- ii) Social.

Profit motive can be counted as individual aspect and social obligations can be considered as social aspect. Business exists in society and is a part of it. The business should conform to various social needs. The present business activities are different from older times. The business is required to meet varied needs of the society. The social responsibility of the business can be studied as follows:

1. **Availability of Goods.** The business should ensure the supply of goods to meet the requirements of the society. The business should estimate the total demand for various commodities and adjust the production accordingly. The Governments are also undertaking the work of co-ordinating business activities according to the needs of the society. This is done through various licensing laws. The licences are issued according to the demand for various goods.
2. **Supply of Quality Goods.** The supply of quality goods and services to consumers at reasonable price is the reasonability of the business. The business should aim at consumer satisfaction. The supply of adulterated goods, poor in quality, unusable or harmful to health will be against business ethics. In the present scarcity-ridden periods, the consumer is worst affected. He is supplied poor quality goods at higher prices and still the goods are not made available in abundance. A business cannot flourish in the long run if it ignores consumers. It is the duty of the business to study wants and needs of consumers and provide them with quality goods at reasonable prices.

3. **Co-operation with the Government.** Business should co- operate with the Government in helping it to achieve the objectives of socialistic pattern of society. The Government of India has devised rules both for public and private sectors. The Government has fixed priorities for the execution of major policies for the growth and development of the nation. It is not uncommon on the part of Indian businessmen to adopt tactics and strategies that go counter to the declared policies of the Government. The businessmen also try to evade various taxes.

4. **Creation of more Employment.** The business can help the society by creating more and more job opportunities. The expansion of business not only helps in employing more persons in the factory but it has a multiple effect. Persons are required at various levels in the channels of distribution from the producers to the consumers. The business community should plough back its profit for further expansion of business activities which will ultimately create new job opportunities.

5. **Utilizing National Resources Properly.** The business should put the scarce national resources to the best possible use. Wastage of anything will not only be the loss of the enterprise but it will be a national loss.

### D) **ORGANIC OBJECTIVES**

A business enterprise consists of people and it is organised to meet social needs. A business has the following organic objectives :

1. **Survival.** The first objective of business is to survive. It has to ensure that only those activities are taken up which are beneficial to the society. It should try to create demand for its products so that it is able to earn profits. Various factors of production are paid out of profits. A losing concern cannot survive for long.
2. **Growth.** A business enterprise may be compared to human anatomy . As a human body grows through various stages, that is, from infancy to childhood, from childhood



to adolescence, from adolescence to adulthood and from adulthood to maturity, a business unit also passes through various phases during its existence. A business unit tries to utilize its resources properly so that it is able to plough back its profits for further expansion and diversification.

3. **Earn Recognition and Prestige.** A business enterprise always aims to get recognition from those with whom it deals. This is possible only if it serves them well. It should have good rapport with the suppliers and dealers by keeping proper schedules of payments and supply of goods. The consumer should be supplied good quality products at reasonable prices. The payment of various taxes, etc.

#### E) NATIONAL OBJECTIVES

A business does not exist for itself only, it contributes substantially to the national uplift. It should see the needs and requirements of the nation and meet priorities fixed by the government.

**A business has the following national objectives :**

1. **Helping National Efforts.** A business aims at helping the national efforts of improving economic position of the society. Every government fixes national priorities for the nation. The business should enter those fields of industrial activity which remained neglected so far Rural industrialisation and balanced regional growth are the priorities of Indian Government. Businessmen should set up new units in backward and under-developed areas so that people living there get employment opportunities and resources available there are fully utilized.
2. **Development of Small Entrepreneurs.** Big business houses should help in the development of small undertakings. They should not treat small-scale as their competitor. Small units should be patronised by purchasing their products for further assembling etc. Big units may also help by encouraging ancillary units to sell their products to them and arranging industrial inputs for them.

3. **National Self-Sufficiency and Export Development.** Business can play an important role in making the country self reliant. It should produce all those goods which are imported from outside. Efforts should also be made to produce those goods which find ready market in foreign countries. This will help in earning foreign exchange. A self-reliant nation has more prestige in international community.
4. **Development of Skilled Personnel.** Every country needs trained and skilled personnel for the development of its industry. Business houses can provide technical knowledge and training to their employees. This helps in skill formation for the country's growth and development. In India.

#### Q11. What are the functions of business ?

*Ans :*

(Dec.-20, Imp.)

A business has to perform a number of functions in order to achieve its objectives. The various functions are as follows :

- a) **Production Function :** It involves transformation of raw materials into goods and services and making them useful. A number of other inputs such as labour, capital, machinery will also be necessary to carry out his function. The production function has become a specialized function in modern business. A number of other factors like plant location, layout, production planning and control, quality control etc are also needed.
- b) **Marketing Function :** Marketing is a process involving activities ranging from getting goods from producers and sending them to ultimate consumers or users, it involves all efforts to create customers for the products and provide maximum satisfaction to them. This function involves the development and use of an appropriate marketing mix consisting of product, price promotions and physical distribution. This mix has to be decided by keeping in view the business environment on a particular time. It also involves decisions like product design, package, brand name, pricing policies, advertising methods etc.

- c) **Personnel Function** : It is concerned with people at work and with their relationship within an enterprise. It aims to bring together and develop into an effective organization the men and women who make up an enterprise. This function is concerned with employment, development and compensation of the personnel and the provision of working conditions and welfare measures to maintain a goods working force in the organization. The enterprise should endeavour to make proper utilization of human resources. This will require an attractive wage policy, incentive plans, and proper motivational approach.
- d) **Finance Function** : It is important of all business functions. It remains in focus of all activities. It is not possible to substitute or eliminate this function because the business will close down in the absence of finance function a business needs finance for developing and expanding an enterprise. The funds will have to be raised from various sources. The sources will be selected in relation to the implications attached with them. The management should have an idea of using the money profitably.

### 1.3 SOCIAL RESPONSIBILITY OF BUSINESS

**Q12. Define Social Responsibility. Explain the need of social responsibility.**

*Ans :* (Nov.-19, Imp.)

A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfil the aspirations of the society. Thus social responsibility relates to the voluntary efforts on the part of the businessmen to contribute to the social well being. The businessmen make use of resources of society and earn money from the members of society so they must do something for the society.

According to **Keith Davis and Blamestorm**, "social responsibility refers to the obligation of decision makers of the business to take actions which protect and improve the welfare of the society as a whole along with their own interests."

According to **J.L Paluszek**, "Corporate social responsibility is seriously considering the impact of company's activities in society.

#### Need of Social Responsibility

1. **Justification for Existence and Growth:** Business is the creation of society therefore at should respond according to the demands of the society. To survive and grow in society for long run the business must provide continuous services to the society.
2. **Long term Interest of the firm:** A firm can improve its image and builds goodwill in the long run when its highest goal is to 'serve the society'. If it indulges in unfair Trade Practices e.g., adulteration, hoarding, black-marketing it may not be able to exist for long.
3. **Avoidance of government regulations:** Business can avoid the problem of government regulations by voluntarily assuming social responsibilities.
4. **Availability of reserves with business:** Business has valuable financial and human resources which can be effectively used for solving problems of the society.
5. **Better environment for doing business:** Social responsibility creates better environment for business operations as it improves Quality of life and standard of living of people. So, business will get better community to conduct business.
6. **Contribution to social problems:** Some of the social problems have been created by business firms themselves such as pollution, creation of unsafe work places, discrimination etc, Therefore, it is the moral obligation of business to solve such social problems.

**Q13. Discuss the arguments against social responsibility**

*Ans :*

1. **Profit Motive:** A business is an economic entity that is guided by profit motive. It should not waste its energies and resources in fulfilling social responsibility.

2. **Burden on consumers:** Involvement of business in social responsibilities involve a lot of expenditure which will ultimately be borne by the customers.
3. **Lack of Social Skills:** The business firms and managers have the skills to handle business operation. They are not expert to tackle the social problems like poverty, over population etc. Therefore, social problems must be tackled by social experts.
4. **Lack of public support:** Generally public does not like business involvement in social problems. Therefore, business cannot fulfill social responsibility because of lack of public confidence & cooperation.

**Q14. Discuss the various kinds of Social Responsibility.**

*Ans :*

1. **Economic Responsibility:** As economic responsibility business is expected to produce goods and services according to the needs of the customers and sell them at a profit.
2. **Legal Responsibility:** Every business enterprises in expected to operate within the laws of our society. A law abiding enterprise gets no interference of government and is considered as a socially responsible enterprise.
3. **Ethical Responsibility:** Ethic is much more than law. While behaving ethically business enterprises should not be involved in adulteration, black marketing, unduly high prices etc
4. **Discretionary Responsibility:** This responsibility is purely voluntary. This includes contribution in charity, to help weaker sections of the society, helping people attested by flood etc.

**Q15. Explain the Social Responsibility towards Different Interest Groups.**

*Ans :*

Business has Interaction with several interest groups such a shareholders, workers, consumers, government and community Business is responsible to all these groups.

#### 1. Responsibility towards share holders

- i) To ensure a fair and regulate return on the investment of shareholders.
- ii) To ensure the safety of their investment
- iii) To strengthen financial position of the company.
- iv) To safeguard the assets of the business.
- v) To protect the interest of all types of investors in the business.

#### 2. Responsibility Toward workers

- i) Providing four composition and benefits.
- ii) Providing good and safe working conditions.
- iii) To develop a sense of belongingness.

#### 3. Responsibility toward consumers

- i) To supply right quality of goods & services at reasonable prices.
- ii) To ensure regular and adequate supply of products.
- iii) To inform them about new products and new uses of existing products.
- iv) To handle the customers grievance promptly.

#### 4. Responsibility towards Government

- i) To pay taxes honestly
- ii) To observe rules laid down by the government.
- iii) To avoid corrupting government employees.

#### 5. Responsibility towards community

- i) To make available opportunities for employment.
- ii) To avoid polluting the environment.
- iii) To uplift the weaker sections of society.

### 1.4 FORMS OF BUSINESS ORGANIZATION

**Q16. Define business organization and explain its main characteristics.**

*Ans :* (Imp.)

A business organization is an institutional arrangement to conduct any type of business activity. It is also called Business Undertaking. The undertaking may be run by one person or association of persons. It may be based on formal or informal agreement among persons who undertake to run the concern.

#### Characteristics of Business Organization

1. **Exchange of Goods and Services :** A business undertaking deals in exchange of goods and services. The goods to be exchanged may either be produced or procured from other sources.
2. **Dealing in Goods and Services :** All business undertakings deal in goods and services. The goods may be consumers' goods or producer goods. The services may be water supply, electricity supply, transport facilities etc.
3. **Profit Motive :** All business undertakings are run to earn profits. An undertaking started to social service will not be called business undertaking because the aim is not to earn profits.
4. **Continuity of Transactions :** The transactions in a business undertaking are continuous or regular. They are engaged in a series of successive transactions over time and space.
5. **Risk and Uncertainty :** Every business undertaking is exposed to risks and uncertainties, business is influenced by future events and future is always uncertain. All the factors like price fluctuations, demand changes etc make a business undertaking risky and uncertain.
6. **Social and Responsibility :** The aim of business undertakings is not to increase profits. They owe some responsibility to the society. The society expects business undertakings to provide cheap and better quality goods to consumers. They should avoid water and air pollution.

**Q17. Explain the various forms of business undertakings.**

*Ans :*

#### Forms of Business Undertakings

The various forms of business undertakings are :

- A) Private Undertakings
- B) Public Undertakings
- C) Joint Sector Undertakings

#### A) Private Undertakings

These are again classified as :

- i. **Sole Proprietorship :** The form of organization in which a single individual promotes and controls the business undertakings and bears the whole risk himself is called Sole Proprietorship. He takes all the profits and bears all risks alone.
- ii. **Partnership :** A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses. The partnership may come into existence either as a result of the expansion of the trading concern or by means of an agreement between two or more persons desirous of forming a partnership. This form of organization grew essentially out of the failures and limitations of sole proprietorship.
- iii. **Joint Hindu Family Business :** This form of organization is prevalent only in India and that too among Hindus. The business of Joint Hindu Family is controlled under the Hindu Law instead of Partnership Act. The membership of this form can be acquired only by birth or by marriage to male person who is already a member of Joint Hindu Family.
- iv. **Joint Stock Company :** A company is an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business and who share the profit and loss arising from there. It is an artificial person created by law with corporate personality, limited liability, perpetual succession and transferable shares.

- v. **Co-Operative Societies** : Co-operative societies are voluntary associations started with the aim of service to members. Their aim is to increase profits as in other undertakings but service to members is their important goal.

### B) Public Undertakings

Business undertakings owned or operate by public authorities are called public or state undertakings. They are classified as :

- i. **Departmental Organization** : This form of organization is used for managing state enterprise. The enterprise works as a part of government and management is in the hands of civil servants. It is suitable for public utility services and strategic industries.
- ii. **Public Corporations** : They are created by a special statute of a State or Central Government. A legislative act is passed by defining the sphere of work and mode of management or the undertakings. This is a separate legal entity created for a specific purpose.
- iii. **Government Companies** : The Company owned by Central and / or State Government is called Government Company. They are registered both as public limited and private limited companies but the management remains with the government in both the cases. Government companies enjoy some privileges which are into available to non-government companies.

### C) Joint Sector Undertakings

Joint Sector is a form of partnership between the private sector and the Government where management will generally be in the hands of private sector and overall supervision will lie with the Board of Directors giving adequate representation to Government representatives. They ensure the use of development technology and resources of government and private sector.

### Q18. What are the factors influencing the choice of suitable forms of organizations ?

*Ans :*

1. **Easy to start and easy to close** : The form of business organization should be such that it should be easy to start and easy to close down. Hassles or long procedures should be minimal in the process of setting up a business or shutting it.
2. **Division of Labour** : There should be a possibility to divide the work among the available owners. The idea is to pool the expertise of all the people in business and run the business most efficiently.
3. **Large amount of resources** : Large volume of business requires large volume of resources. Some forms of business organizations do not permit to raise large resources. Select the one which permits to mobilize them.
4. **Secrecy** : The form of business organization you select should permit you to keep and secure business secrets. We know that century-old business units are still surviving only because they could successfully guard their business secrets.
5. **Transfer of Ownership** : Transferring ownership to the legal heir should be simple.
6. **Ownership, management and control** : It ownership, management and control are in the hands of one person or a small groups of persons, communication will be effective and coordination easier.
7. **Liability** : The liability of the owners should be limited to the extent of money invested in business. They should not bring in their personal properties to make up the losses of the business.
8. **Taxation** : More profit means more tax. Choose a form which allows for lower taxes.

9. **Flexibility** : Business should be flexible enough to allow shifting from one line to the other in bad times. The lesser the funds committed in a particular business, the better it is.
10. **Personal contact with customers** : Most of the times, customers provide the clue to improving the business. So choose one which keeps you close to them.
11. **Continuity** : The business should continue forever and ever irrespective of future uncertainties.

#### 1.4.1 Sole Proprietorship - Meaning

##### 1.4.1.1 Advantages and Disadvantages of Sole Proprietorship

**Q19. What do you understand by "Sole Trading Concern or Sole Proprietorship" and state its merits and demerits.**

(Or)

**"One man control is the best in the world, if that one man is big enough to manage everything." Comment.**

*Ans :*

(Imp.)

#### Sole Proprietorship

The form of organization in which a single individual promotes and controls the business undertakings and bears the whole risk himself is called Sole Proprietorship. He takes all the profits and bears all risks alone. This form of organization is also called sole trading concern, sole ownership, and single entrepreneur business. It is the oldest form of business ownership. It is also the simplest and most natural. It is the most convenient and effective form of business organization.

#### Merits

1. **Easy to form** : It is very easy to form a sole trading concern. Registration is not required. There is no need to observe legal formalities. There is no need to observe legal formalities. Any one with necessary capital and skill can start any lawful business he likes.
2. **Direct Motivation** : The sole proprietor takes keen interest in the working of the business. He manages the business to the best of his ability. He manages the business more efficiently and economically. He tries to put his heart and soul in the business so as to earn as much profits as he can.
3. **Absolute Control** : The proprietor is the sole master of his business. He controls all functions of the business. He himself takes decisions at appropriate time. He is free to direct and control the operations of his business.
4. **Promptness in Decision-Making** : He is free to take any kind of decisions related to his business at any time. He is the supreme and sole master of his business. He need not consult anyone on any issue. So he can take quick and clear decisions.
5. **Flexibility in Operations** : Change is the rule of present day business. A sole trader can easily and quickly change the nature and methods of business according to changes in tastes, fashions and circumstances.
6. **Maintenance of Secrecy** : A sole trader can maintain strict secrecy of his business conditions and methods. He is not expected to share his trade secrets with anybody else. He is not required to disclose accounts or the profits or any other materials fact to the public.
7. **Personal Contact with Customers** : A sole trader himself manages the business. So he can establish and maintain personal contact with his customers. He can easily study the tastes and requirements of the customers and produce or purchase goods according to their tastes. As a result his customers will be fully satisfied.
8. **Training to Children** : A sole trader is usually helped by his children. This makes his children learn business methods and working. As a result if the owner dies there is every possibility of business carried on by his children.
9. **Minimum Government Regulations** : The business activities of a sole trader are least regulated by law and the Government. The proprietor is not required to submit the results of his business to any authority. There is no restriction in changing the nature of the business.

- 10. Credit – Standing :** The liability of the sole proprietor is unlimited. It extends to his private property. So the creditors' can have a claim over the private property of the owner. The creditors feel secured in extending credit to individual proprietors.

#### Demerits

- 1. Limited Credit and Capital :** The capital required by the business is provided or supplied by the sole proprietor himself. He may provide capital out of his own savings or borrowings. But he personal savings of the proprietor may be limited. So he may not be in a position to provide the entire capital necessary for a growing business. A sole trader finds it difficult to provide necessary capital for the development of his business.
- 2. Limited Managerial Ability :** The managerial ability of the sole trader is also limited. He may not be expert in each and every function of the business. He may not be able to devote sufficient time for all types of activities. He will have to depend upon his paid employees. Limited managerial ability acts as a brake to the development and expansion of business.
- 3. Unlimited Liability :** The liability of a sole trader is unlimited. It extends to his private property also. His private property is also liable for the debts of the business. The creditors can recover their loan amount not only from the assets of the business but also from the private assets of the proprietor.
- 4. No Continuous Existence :** The life of the business is limited to the life of the proprietor. The business comes to an end if anything happens to the proprietor. The business sinks and swims with its owner. The business may suddenly come to an end with the death or physical incapacity of the proprietor. The successors of the sole proprietor may not have an aptitude or ability to continue the business.
- 5. Absence of Specialization :** The sole trader is the manager and controller of the business. He has to look after purchases, sales, correspondence, accounts etc. hence he is

overburdened with a number of duties. He may not be efficient in all these activities. As a result, the management may not be efficient due to limited finance it is not possible to employ trained professional managers. So this type of business organization cannot enjoy the benefits of specialization. It cannot also enjoy the benefits of large scale operation.

- 6. Restricted Growth :** Growth is the normal rule of life. A business unit, like a living organ, is to survive and grow. A sole trading concern may not grow in size and maturity due to limited financial resources and managerial ability.
- 7. More Risks Involved :** A sole trader is the supreme and sole master of his business. So he need not consult anyone while taking decisions. So there is a possibility of taking wrong decisions. Wrong decisions may at times result in heavy losses. The losses are all to be borne by a sole proprietor. Nobody shares his losses or risks.

#### 1.4.1.2 Characteristics of Sole Proprietorship

**Q20. What are the main characteristics of sole trading concern ?**

*Ans :*

- 1. Single Ownership :** The sole trader is the sole owner of the firm. He fully owns the business.
- 2. Management and Control :** The proprietor manages the whole business himself. He prepares various plans and executes them under his supervisions. He is free to direct and control the
- 3. Undivided Risk :** The proprietor takes all profits and bears losses, if any. Nobody shares his profits or losses.
- 4. Unlimited Liability :** The liability of the proprietor is indefinite or unlimited. He is personally responsible for the payment of business debts if he makes a heavy loss, he may lose his capital and even his entire private property.
- 5. Proprietor and the Firm Identical :** In law there is no difference between the firm and

the proprietor the firm. They both are same. The business and owner exist together. The proprietor owns everything the firm owns, and owns everything a firm owes.

6. **Limited Area of Operation** : The sole trade business has generally a limited area of operations.
7. **Free From Government Regulations** : There is no special Act governing the work of a sole proprietor. He will be subject to the general laws of the country. The business is free from government regulations.

#### 1.4.2 Partnership - Meaning

##### 1.4.2.1 Advantages and Disadvantages of Partnership

**Q21. What do you understand by partnership? Discuss the advantages and limitations of partnership business.**

(Or)

**Explain the superiority of partnership over a sole trading concern.**

*Ans :* (Dec.-20, Imp.)

Partnership form of organization has developed due to the limitations of sole trading concern. It is governed by the partnership Act, 1932. Section 4 of the Act 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 who enter into partnership are individually called "partners" and collectively a "firm". The name under which the business is carried on is called the "firm name".

##### **Advantages of Partnership**

Partnership firm enjoys many advantages. It is superior to a sole trading concern. The reason is a partnership firm enjoys more advantages compared to a sole trading concern. The following are the advantages of partnership :

1. **Facility of formation** : Like the sole proprietorship, a partnership can be formed without much expense and legal formalities. There is no need to prepare and file documents as in the case of a Joint-Stock Company. A simple agreement among partners is sufficient to start a partnership firm.

The agreement need not essentially be in writing. Even registration of the firm is not compulsory.

2. **Larger financial resources** : The resources or saving of more than one person are available for the business. The combined resources of many persons would be certainly larger than the limited resources or capital of a sole trader. So a partnership commands more resources. As a firm requires more resources, more partners can be admitted. New persons can also be admitted as partners to secure more capital that may be needed for the expansion of business.
3. **Benefits of division of labour** : Division of labour can be introduced in the management of the partnership. Work may be distributed among the partners according to their abilities. One partner may be in charge of accounts, the other may supervise correspondence, and another may look after sales and so on. Division of labour or work among partners increases the efficiency of the business resulting in more profits. This is an importance advantage over the sole proprietorship.
4. **Flexibility of operations** : This form of organization is highly flexible. This business is free from legal restrictions on its activities. The nature and place of business can be changed when ever the partners desire. The agreement can be altered and new partners can be admitted when ever necessary. The change does not require either the approval of the government or the sanction of the court. The changes can be made easily depending upon the business opportunities.
5. **Promptness in decision-making** : The partners meet frequently and they can take prompt decisions. The firm will not lose any business opportunities because of delay in taking a decision. The decisions taken by partners are usually quite balanced.
6. **Relationship between reward and work**: The partners try to put more labour to earn more and more profits. There is direct relationship between reward and work. So the more they work, the more they will be benefited.



7. **Reduced risk** : The risk or loss of business will be shared by all partners. Hence the burden of every partner will be less as compared to the burden of sole trader. Further the business expansion will not be affected by fear of risk.
8. **Personal supervision** : Partners look after the business personally. They take personal and active interest in supervision and management. As a result, waste and inefficiency are minimized or eliminated. Management by partners may also be economical as compared to management in joint-stock companies. As the partners themselves look after the business, there is also great scope to develop cordial relations with the employees, customers and others and this would help the business in many ways.
9. **Protection of minority interest** : The minority interest in a partnership is well protected by law. Each partner is as important as the other. All important decisions can be taken only by the consent of all partners. No decision can be made without the consent of minority group. In fact the law gives each partner the right to be heard and consulted. If a majority decision is enforced on minority, then affected partners can get the business dissolved.
10. **Maintenance of secrecy** : The secrets of business are very important for small concerns. A partnership concern is not expected to publish its profit and loss account and balance sheet as is necessary for a company. The partners can keep the business secrets to themselves. They can maintain secrecy from their competitors.
11. **More credit - standing** : The partners may have sufficient contacts in the market. They can offer more securities to the financial institutions. The liability of partners being unlimited, they will be able to raise more finance easily and at lower rates of interest. As compared to a sole trade business, partnership concern has more credit-worthiness.

12. **Easy dissolution** : Dissolution of firm is not difficult. The partnership can be dissolved on insolvency, lunacy or death of a partner. If the partnership is "at will", then any partner can get the firm dissolved by giving notice to other partners. No legal formalities are to be observed at the time of dissolution. So it is easy to start as well as to dissolve a partnership concern.

### Disadvantages of Partnership

Partnership suffers from the following disadvantages or limitations :

1. **Unlimited liability** : Partners are liable to the debts of the firm to an unlimited extent. Every partner is jointly and severally liable for the entire debts of the firm. If the business assets are not sufficient for the payment of the debts, partners must sell their private properties and pay off the debts. If the firm makes heavy losses, partners will lose not only their capital but also their private properties. So unlimited, joint and several liability of partners discourages them to undertake risky business like mining and ship-building. The great disadvantage of this form of firm is that the partners become fully liable for its losses upto the limit of their resources.
2. **Continuity is uncertain** : The continuity of the business of the firm is uncertain. Death, insolvency, insanity, or incapacity of one of the partners may lead to dissolution of the firm. The lack of trust among partners can also lead to dissolution. Thus instability is the worst disadvantage of partnership.
3. **Lack of harmony** : Partnership implies collective as well as individual liability and responsibility. This necessitates close operation among the partners. But many a time the firm may become the hotbed of quarrels and clashes of interests and of views between partners. Due to divided responsibility, each of them may try to shift the blame on others. Mutual conflicts and lack of team - spirit among partners may lead to loss of reputation and finally to closure of business. A large number of firms have failed because of mistrust and suspicion among partners.

4. **Restriction on transfer of interest :** No partner can transfer his interest or share in the firm to outsiders without the unanimous consent of all other partners. A partner feeling necessity of hard cash cannot sell his interest in the firm as a matter of course. Lack of liquidity discourages many from investing in partnership business.
5. **Burden of implied authority :** A partner can bind the business by his acts. He can act as an agent of business. A dishonest partner may land the business in difficulties. The other partners will have to meet the obligations incurred by the partner. The provision of implied authority may create problems for the business.
6. **Lack of public confidence :** The accounts of partnership concerns are not published. So public is unaware of the exact position of business. There is a suspicion in public mind that these concerns earn huge profits at the cost of consumers. Besides, the affairs of the firm are not legally controlled as in case of companies. So partnership concerns lack public confidence.
7. **Inadequate capital :** A partnership firm can raise more capital than a sole trader. But it may not be able to raise or secure adequate capital for expansion beyond a certain limit. The business resources are limited to the personal funds of the partners. Borrowing capacity of the partners is also limited. The number of partners to be added is also limited.  
  
The number of partners cannot exceed 10 in banking business and 20 in other types of business. The limit on the number of partners limits the amount of capital that can be raised. So a partnership cannot secure adequate capital for large scale business.

In spite of the above disadvantages, partnership organization is admirably suitable for medium - size concerns where personal efforts of the owners are essential. In recent years, however, this form of organization is on its decline.

#### 1.4.2.2 Characteristics of Partnership

**Q22. What are the chief characteristics of partnership firm ?**

*Ans :*

1. **Association of two or more persons :** In partnership, there must be at least two persons. It is the outcome of a contract, so there must be two or more persons. The persons becoming partners must be competent to enter into a contract. According to Companies Act, the maximum number of partners engaged in a banking business cannot exceed ten and twenty in any other business.
2. **Contractual Relation :** The persons joining the partnership enter into a contract for running the business. According to Partnership Act, the relation of partnership arises from contract and not from status. The contract may be oral or written.
3. **Earning of Profits :** Purpose of a business is to make profits and distribute them among its partners. If a work is done for charity purposes or to serve the society it will not be called partnership.
4. **Existence of Business :** Partnership can only be for some kind of business. Business includes all activities concerning production, distribution and rendering of services for the purpose of earning profits. If the work is related to social service, it is not called business and so no partnership.
5. **Implied Authority :** There is an implied authority that any partner can act on behalf of the firm. The business will be bound by the acts of partners.
6. **Unlimited Liability :** Liability of the partners of a firm is unlimited. But in some cases obligations may arise then not only the partnership assets but also the private property of the partners can be taken for the payment of liabilities of the firm to the third parties. The creditors can claim their dues from anyone of the partners or from all the partners. The partners are liable individually and collectively.

7. **Principal and Agent Relationship :** A relationship between Principal and Agent exists. It is not necessary that all partners should work in the business. Any one or more partners can act on behalf of other partners. Each partner is an agent of the firm and his activities bind the firm. He also acts as a principal because he is bound by the activities of other partners.
8. **Utmost Good Faith :** The very basis of the partnership business is good faith and mutual trust. Every partner should act honestly and give proper accounts to other partners. The partnership cannot run if there is suspicion among partners. It is very important that partners should act as trustees and for the common good of all. Distrust and suspicion among partners lead to the failure of many firms.
9. **Protection of Minority Interest :** All important decisions are taken by consensus. It ensures protection of those who may not agree to the majority. A partner may even ask for the dissolution of partnership if he feels aggrieved.
10. **Common Management :** Every partner has a right to take part in the running of the business. It is not necessary for all partners to participate in the everyday activities of the business but they are entitled to participate. Even if partnership business is run by some partners, the consent of all other partners is necessary for taking important decisions.
2. **Sleeping or dormant Partner:** A sleeping partner is one who contributes capital, shares profits and contributes to the losses of the business but does not take part in the working of the concern. A person may have money to invest but he may not be able to devote time for the business : such a person may become a sleeping partner. Sleeping partner is liable for the liabilities of the business like other partners. He cannot bind the business, i.e., firm, to third parties, by his acts. He is not known to the public as a partner; so he may be called as 'secret partner.'
3. **Nominal Partner:** A nominal partner is one who lends his name to the firm. He does not contribute any capital nor does he share profits of the business. He is known as a partner to the third parties. On the strength of his name, the business may get more credit in the market or may promote its sales. A nominal partner is liable to those third parties who give credit to the firm on the assumption of the person being a partner in the firm.
4. **Partner in Profits:** A person may become a partner of sharing the profits only. He contributed capital and is also liable to third parties like other partners. He is not allowed to take part in the management of the business. Such partners are associated for their money and goodwill.
5. **Partner by Estoppels or Holding Out:** When a person is not a partner but poses himself as a partner, either by words or in writing or by his acts, he is called a partner by estoppels or by holding out. A partner by estoppels or by holding out shall be liable to outsiders who deal with the firm on the presumption of that person being a partner in the business even though he is not a partner and does not contribute anything to the business.
6. **Secret Partner:** The position of a secret partner lies between active and sleeping partner. His membership of the firm is kept secret from outsiders. His liability is unlimited and he is liable for the losses of the business.

#### 1.4.2.3 Kinds of Partner

**Q23. Explain the various types of partners.**

*Ans :* (Dec.-20, Imp.)

There are different kinds of partners and they may be classified as under :

1. **Active Partner:** An active partner is one who takes active part in the day-to-day working of the business. He may act in different capacities such as manager, organizer, adviser and controller of all the affairs of the firm. He may also be called as working partner.

He can take part in the working of the business.

7. **Sub-Partner.** A partner may associate anybody else in his share in the firm. He gives a part of his share to the stranger. The relationship is not between the sub-partner and the firm but between him and the partner. The sub-partner is a nonentity for the partnership. He is not liable for the debts of the firm.

8. **Minor as a Partner.** A minor is a person who has not yet attained the age of majority. A minor cannot enter into a contract according to the Indian Contract Act because a contract by a minor is void *ab initio*. However, a minor may be admitted to the benefits of an existing partnership with the consent of all partners. The minor is not personally liable for liabilities of the firm, but his share is the partnership property and profits of the firm will be liable for debts of the firm. A minor has the following rights and liabilities under the Partnership Act :

- 1) A minor has a right to such share of property and of profits of the firm as may be agreed upon by all the partners.
- 2) A minor may inspect the accounts of the firm or take note of the accounts.
- 3) The personal property of the minor is not liable for the debts of the firm. But his share is property of the firm and profits is liable for the debts and obligations of the firm.
- 4) So long as a minor remains a partner he cannot file a suit against other partners for accounts or for the payment of his share in the property or profits of the firm. He can do this only when he wants to swear his relations with the partnership firm.
- 5) At any time within 6 months of his attaining majority (*i.e.*, completing 18 years of age) the minor may give public notice of the fact that he has decided to become or not to become a partner in

the firm. In case he does not give any such notice within six months, it shall be presumed that he has opted to become a partner.

- 6) In case a minor decides to become a partner, he will be personally liable to third parties for all acts of firm, since he was admitted to the benefits of the firm.
- 7) If a minor decides not to become a partner, his rights and liabilities continue to be those of a minor upto the date on which he gives public notice. His share will not be liable for any acts of the firm done after the date of the notice.

**Q24. Is registration of partnership compulsory under Partnership Act, 1932? Give the procedure required for a registration of a firm.**

*Ans :*

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

Registration of a partnership firm is compulsory in England. But in India it is not compulsory. The Indian Partnership Act provides that if the partners so desire, they may register their firm with the Registrar of Firms of the State. Thus registration is optional. But the Act imposes certain disabilities on the partners of an unregistered firm so as to make registration very desirable.

**Ex :** No partner of an unregistered firm can file a suit to enforce his rights under the partnership deed.

Thus the Partnership Act has introduced certain disabilities which make registration necessary and desirable.

Registration of the firm does not provide separate legal entity to the concern as in the case of a joint-stock company. Partnership does not need registration for coming into existence because it is created by an agreement among two or more persons. The registration of a firm merely certifies its existence and non-registration does not validate the transactions of the firm.

#### **Procedure for Registration**

The procedure consists of two parts :

- a) Filling an application
- b) Certificate

a) **Filling an Application** : The first thing to be done is to file an application with the Registrar of Firms on a prescribed form. A small amount of registration fees is also deposited along with the application. The application should contain the following information :

1. Name of the firm
2. Place or places of business of the firm
3. Names and full addresses of the partners of the firm
4. Date on which the partners have joined
5. Duration of partnership

The application form should be signed and verified by each partner. Along with the application, a copy of the partnership deed signed by all the partners should be submitted to the Registrar.

b) **Certificate** : The particulars submitted to the Registrar are examined. All the legal formalities required are also observed. If everything is done, then the Registrar will register the particulars in the Register of Firms. The firm is considered registered thereon. The entries made by the Registrar are treated as conclusive.

**Q25. What are the effects of non-registration Partnership?**

*Ans :*

The Partnership Act has introduced certain disabilities which make registration necessary. The disabilities are as follows :

1. A partner of an unregistered firm cannot enforce his claims against outsiders or against his colleagues or the firm.
2. An unregistered firm cannot enforce its claims against the third party in the court of law. But it can sue a third party for a sum not exceeding Rs. 100.

3. The third party is at full liberty to file a suit against any unregistered firm or against any partner in such a firm to recover its claims.

4. Unregistered firms cannot sue its partners.

The non-registration of a firm does not affect the following rights :

1. The rights of third party to sue the firm or any partner,
2. The right of a partner to sue for the dissolution of the firm or for the settlement of its accounts.
3. The right or power of an Official Receiver or Official Assignee to realize the share of the insolvent partner.
4. The unregistered firm or its partners may sue or claim a set off where the subject matter of the suit does not exceed Rs. 100 in value.

**Q26. State the advantages of registration of partnership.**

*Ans :*

**Advantages of Registration**

- i) **Advantages to the firm** : The firm gets a right to sue the third parties for getting its rights enforced.
- ii) **Advantages to the creditors** : A creditor can sue any partner for recovering his money due from the firm. All partners whose names are given in the registration are personally responsible to the outsiders. So the creditors can recover their money from any partner of the firm.
- iii) **Advantages to the partners** : The partners can approach a court of law against each other in case of dispute among them. The partners can sue outside parties also for recovering their amounts.
- iv) **Advantages to the outgoing partners** : The registration of firm benefits the outgoing

partners in a number of ways. On the death of a partner, his successors are not responsible for the liabilities incurred by the firm after the date of his death. In case of a retiring partner, he continues to be responsible upto the time he does not give a public notice.

- v) **Advantages to the incoming partners :**  
A new partner can fight for his rights in the firm if the firm is registered. If the firm is not registered, then he will have to depend on the honesty of other partners.

#### 1.4.2.4 Partnership Deed

**Q27. What are the points usually dealt within partnership deal?**

(Or)

**What is a partnership deed? Discuss its main contents and utilities.**

*Ans :*

(Imp.)

#### Partnership

Partnership is the result of an agreement. The agreement may be express or implied. It may be verbal or written. It is always desirable to have the agreement in writing for the following reasons :

- i) Partnership in an agreement based on utmost good faith. The success of partnership depends upon mutual understanding. The affairs of the business must be conducted in such a way that, there is no scope for misunderstanding between partners. Each partner should know clearly what he can do and what his duties and responsibilities are.  
  
It is desirable that these details are discussed at the time of formation of partnership and incorporated into the agreement. If the duties and responsibilities are not clearly defined, partners may act beyond their authority and this may cause misunderstanding among partners leading to disputes and litigations.
- ii) The rights and duties of partners are determined by agreement. The partnership Act also defined the rights and duties of partners, but these will come in to operation only when there is no agreement. Differences may develop, if the rights of partners are to

be determined according to law. For example, no salary can be claimed by a partner as a matter of right, even if he devotes all his time for the business. Similarly, in the absence of agreement; a nominal interest of 6% per annum is allowed by law on loans advanced by partners. Hence it is desirable that the agreement is reduced to writing.

- iii) Banks and other financial institutions insist on the production of written agreements for granting loans and advances to firms.

The agreement in writing containing the terms and conditions of the partnership is called "Partnership Deed". The deed has to be stamped as per the Indian Stamps Act. Each partner should have a copy of the deed with him. It is desirable to entrust the preparation of the deed to an experienced lawyer.

#### Precautions

The following precautions are suggested to ensure smooth working of Partnership :

- i) The success of partnership depends upon mutual trust and confidence among partners. It is therefore necessary to be careful and cautions are selecting partners of partners. Only persons with established reputation, character and integrity should be admitted into partnership. It is said that choosing a partners is like choosing a wife. In either case there is need for second thought and sure knowledge. Thorough enquiry should be made about the antecedents and character of the person, before taking a decision on his admission into partnership.
- ii) The duties, rights and responsibilities of the partnership, and other terms and conditions of partnership should be thoroughly discussed in advance. A Partnership Deed should them be prepared incorporating the details of the agreement.
- iii) The number of partners should be small as far as possible. It is desirable not to have more than five partners. If the number is too larger, it will be difficult to reconcile differences.

Further there may be too much interference in the day-to-day administration of the business.

- iv) The partners should meet frequently and evolve common views and procedures regarding the conduct of business.
- v) The partners should work sincerely and in good faith. No one should try to gain at the expense of others.
- vi) There should be proper balance in the firm. The partners should possess diverse skills and talents so that all types of problems that come before the firm will not be able to enforce its right against third parties.

#### Contents of Partnership Deed

A properly drawn up partnership deed should cover the following points:

1. The name of the firm.
2. The name and addresses of the partners composing the firm.
3. The nature of business.
4. The town and places where the business will be carried on.
5. The amount of capital to be contributed by each partner and the rate of interest, if any, payable thereon.
6. Rate of interest, if any, payable on loans advanced by partners over and above their capitals.
7. The duties, rights and obligations of partners.
8. Salary, if any, payable to any partner or partners.
9. The amount of private drawing allowed for each partner and the rate of interest, if any, chargeable thereon.
10. Profit sharing ration.
11. The method of preparing accounts and arrangements of audit.
12. The method of valuation of goods will on admission or death or retirement of a partner.

13. The method of revaluation of assets and liabilities on admission or death or retirement of a partner.
14. The procedure to be adopted for the expulsion of any partner.
15. The circumstances under which the partnership will stand dissolved and the custody of books in case of dissolution.
16. Method of arbitration to settle difference and disputes among partners.
17. Arrangement in case of insolvency of a partner.

#### Q28. What are the rights and duties of partners?

(Or)

**Examine the rights and duties of partnership business in the absence of a partnership agreement.**

*Ans :*

#### Rights of Partners

The following are the rights of partners in the absence of an agreement:

- 1) Every partner has a right to take part in the management of the firm, He has a right to be consulted on ordinary matters, which will be decided by majority vote. Fundamental matters like admission of a partner, change in the nature of business etc., will require unanimous consent of the partners.
- 2) Every partner has a right to inspect books of account and records and take a copy of them.
- 3) Every partner has a right to recover any amount spent by him in the ordinary and proper conduct of the business. He has also a right to be indemnified for any loss suffered by him in the conduct of such business.
- 4) Every partner has a right to receive interest on loans advance to the firm over and above the capital, at the rate of six percent per annum.
- 5) Every partner has a right to share the profits of the firm equally along with other partners.

- 6) A partner has a right to have the property of the firm applied exclusively for the purpose of the firm.
- 7) A partner is not entitled for any remuneration or salary for taking part in the conduct of the business.
- 8) A partner is not entitled to claim interest on the capital contributed by him.

### Duties and Obligations

The following are the obligations of partners :

- 1) All the partners must be faithful to one another and to the firm.
- 2) Partners should give full and correct information and render true accounts of the firm to one another.
- 3) Every partner must diligently carry on the business of the firm to the maximum advantage of all the partners and the firm.
- 4) Every partner has to indemnify the firm against any loss caused by his willful misconduct.
- 5) No partner should make any profit for himself by way of secret commission on sales or purchases made be behalf of the firm.
- 6) Every partner has to share losses equally along with other partners, unless there is an agreement to the contrary.
- 7) No partner shall engage himself in any business which competes with that of the firm.
- 8) No partner can assign or transfer his interest in the firm to any other person without the consent of all other partners.
- 9) A partner must act within the scope of his authority. He must indemnify the firm if he exceeds the powers.

### Liabilities and Obligations to Third Parties

The liabilities and obligation of the partners to third parties arise on account of the agency relationship between partners and also between each partner and the firm.

- 1) Partners are jointly and severally liable to third parties for the act of the firm. If the assets of the firm are not sufficient to meet the liabilities i full, creditors can process against any or all the partners for the recovery of the amount due.
- 2) The firm will be liable for any loss caused to third parties by wrongful act of any partner.
- 3) A retiring partner will be liable for all the debts of the firm contracted before is retirement.
- 4) The firm will be liable for any misapplication of money or price of property received from third parties by a partner of the firm.

### Q29. Distinguish between Partnership and Sole Trade.

*Ans :*

	Partnership	Sole-Trade
1. Membership	Partnership is owned by two or more persons known as partners.	Sole-trade business in owned and controlled only one persons. If a second person joins then it becomes a partnership.
2. Agreement	To constitute partnership, an agreement is required in the form of a partnership deed. The agreement among partners may be express or implied.	A sole-trade does not require any formality to start the concern. There is no need of agreement in this business.



<b>3. Registration</b>	A partnership concern needs registration to get certain advantages of registration. Though registration is not compulsory but not registration bars it from taking legal remedies.	No registration of a sole-trade business is required except under Shops and Establishment Act.
<b>4. Management</b>	All partners have equal rights and all of them can participate in the management. They can be running the business by their acts.	This business is controlled by one person only. His order is a law & he is the final authority in the concern.
<b>5. Risk</b>	The business risk is shared by all the partners in proportion of their shares.	The whole risk is shared by the sole-trader.

#### 1.4.2.5 Concept of Limited liability partnership

#### Q30. Explain the Concept of Limited liability partnership

*Ans :*

(Dec.-20)

The Parliament of India passed the Limited Liability Partnership Act in 2008 to govern LLP businesses in India. According to Section 2 of this law, an LLP is a partnership registered under the Act. Further, an LLP agreement means a written agreement either between an LLP's partners or between the LLP itself and its partners. This agreement defines the rights, liabilities, duties, and powers of the partners.

Since the Limited Liability Partnership Act, 2008 specifically governs limited liability partnerships in India, the provisions of the Indian Partnership Act, 1932 are not applicable to LLPs. They only apply to traditional partnership firms.

#### Features of LLP

1. The LLP has Separate Legal Entity i.e. the LLP and the partners are distinct from each other.
2. Minimum of 2 partners are required to form a LLP. However, there is no limit on the maximum number of partners.
3. No requirement of Minimum Capital Contribution.
4. The LLP Act does not restrict the benefit of LLP structure to certain classes of Professionals only and would be available for use by any enterprise.

#### 1.4.3 Hindu Undivided Family

##### 1.4.3.1 Advantages and Disadvantages of Hindu Undivided Family

#### Q31. What do you understand by "Joint Hindu Family Firm". State the advantages and disadvantages of Joint Hindu family firm.

*Ans :*

#### Hindu Undivided Family Firm

Joint Hindu family business is a peculiar form of business found in India. In this form of business ownership, all members of a Hindu undivided family do business jointly under the control of the head of the family. The head of the family is known as "Karta". The firm is owned by the members of an undivided Hindu family who have inherited an ancestral property.

The property inherited by a Hindu from his father, grandfather and great grandfather is regarded as ancestral property. The members of the family are known as co-parceners. The Joint Hindu family firm comes into existence by the operation of Hindu Law and not out of contract. Thus, the Joint Hindu family firm is a business owned by co-parceners of a Hindu undivided estate.

**Advantages of Hindu Undivided Family Firm**

Following are the advantages of a Joint Hindu family firm :

- 1) **Centralised management** : The management of a Hindu Joint family firm is centralised in the hands of one man known as "Karta". He being the eldest and most experienced person gives a very disciplined management. Karta takes all decisions and gets them implemented with the help of other members. No other member interferes in his management.
- 2) **Quick decisions** : As Karta is the only decisions maker, he can take a very quick decision. A quick decision is of great advantage. Some times a profitable activity is lost due to lack of quick decision. The Karta takes not only quick decision but his decisions are final and unchallengeable.
- 3) **Credit facilities** : For every business money is required. In joint Hindu family firm the credit facilities are more. One reason for this is that the liability of the Karta is unlimited. There is also a pious obligation on the part of sons of Karta to satisfy even the unsatisfied debts raised by him during his life time.
- 4) **Work according to capacity** : The work is assigned to the members according to their capacity. A physically handicapped or a partly disabled member may be assigned a little work or no work at all. This will not disentitle him of his various needs and the benefits which are given to other members. A person who is more strong than others may be assigned work of physical nature. Infants are not required to do any work at all. This is a great advantage of Joint Hindu Family firm.
- 5) **Economy** : In a business, for its success, economy is a must. It is well balanced and maintained in Joint Hindu Family firm. Karta spends money with great caution and economy.

**Disadvantages of Hindu Undivided Family Firm**

Following are the advantages of Joint Hindu family firm :

- 1) **Limited capital** : The investments are limited only upto the resources of one family. They may be sufficient to meet business requirements for expansion.
- 2) **Limited managerial skill** : Only the Karta is to manage the family business. He performs the functions of the management. He may not be well conversant with the knowledge of business skill and other problems of the business management. Limited managerial skill will hinder the growth of concern.
- 3) **No reward for efficiency** : All the members of the family are provided with basic needs and other facilities. The persons who work more efficiently and dedicatedly are not rewarded for their work. So efficient workers are also tempted to work less. It encourages laziness on the part of family members. The members try to avoid work.

**Q32. Distinguish between Partnership firm and Joint Hindu Family.**

*Ans :*

Partnership Firm	Joint Hindu Family Firm
<b>Governance</b>	
It is governed by the Indian Partnership Act.	It is governed by two schools : Mitakshara and Dayabhaga of Hindu law.
<b>Mode of Creation</b>	
It is created by the mutual agreement between the partners. The agreement may be written or oral. It is a result of a contract or agreement between two or more persons.	It arises from status and not by an agreement. It always arises by operation of law.

Legal Position	
In the eyes of law, a partnership firm has no separate identity. Partners and the firm are one and the same.	It has separate identity of its own. Members of the family are merely co-owners.
Number of Members	
The maximum number of members is fixed. In the case of a banking business and twenty in other cases.	No maximum number is fixed in this type of firms.
Admission of a Member	
No new partner can be admitted into the business without the consent of all other existing partners.	A person becomes a member in this firm by his birth.
Position of a Minor	
A minor cannot become a partner. He can be admitted to the benefits of the firm with the consent of other partners.	A male minor becomes a member by birth in the family.
Management	
Every partner can take active part in the management of a partnership firm.	The power to manage is centralised in the hands of Karta. All the affairs of the business are controlled and managed by Karta.
Liability of Members	
The liability of the partners is unlimited. The private properties of partners are also liable to the debts of the firm in addition to their shares in the business.	The liability of Karta is unlimited. All the other members are liable only to the extent of their share in the joint family business.
Accounts	
Accounts are to be properly maintained and any partner can inspect the accounts at any time in case of partnership firm.	Karta is not under any obligation to maintain accounts. No member can even ask for the accounts from Karta.
Dissolution	
Partnership firm can be dissolved on the death or insanity of a partner.	The continuity of a Joint Hindu Family is not affected by death or insanity of a member. Only partition can bring it to an end.
Registration	
Registration of the partnership firm is not compulsory but the law indirectly made registration necessary.	Registration is not all necessary.

Accounts	
Accounts are to be properly maintained and any partner can inspect the accounts at any time in case of partnership firm.	Karta is not under any obligation to maintain accounts. No member can even ask for the accounts from Karta.
Dissolution	
Partnership firm can be dissolved on the death or insanity of a partner.	The continuity of a Joint Hindu Family is not affected by death or insanity of a member. Only partition can bring it to an end.
Registration	
Registration of the partnership firm is not compulsory but the law indirectly made registration necessary.	Registration is not all necessary.

#### 1.4.3.2 Characteristics of Joint Hindu Family

**Q33. What are the characteristics of Joint Hindu Family ?**

*Ans :*

##### Characteristics

The following are the characteristics of a Joint Hindu family firm :

- 1) Governed by Hindu law :** The control and management of the Joint Hindu family firm is done according to the uncodified or codified Hindu Law. The uncodified Hindu Law consists of two schools-mitakhara and Dayabhaga. In the same way, rights and duties of members are governed by uncodified Hindu Law. The firm is also governed by the codified law namely, the Hindu Succession Act, 1956.
- 2) Membership by birth :** The membership of the family can be acquired only by birth. Whosoever is born in the family becomes a member. Unlike in other business organisations, outsiders cannot be admitted to this by contract.
- 3) Management :** The family affairs are managed by the senior most male member of the family known as "Karta" or "Manager".
- 4) Liability :** All the members in Joint Hindu family have limited liability to the extent of property which is jointly held by the family. The self-acquired property of any member cannot be taken on order to satisfy the loans taken by the family. It is only the Joint family property which is liable for satisfying debts. However, Karta is also liable personally for loan taken on promissory note. Thus the liabilities of Karta are unlimited but the liability of other members is limited to their shares in the business.
- 5) Continuity :** The continuity of a Joint Hindu family firm is not affected by death or insanity of a member. It continues for ever.
- 6) Minor also a member :** A person becomes a member of a Joint family business by birth. So a minor can be a member of this form of organization. But in partnership firm, a minor cannot become a partner.

- 7) **Accounts** : Karta's powers are unlimited. He acts on behalf of the members of the family but is not like a partner. The accounts of the firm are maintained by the Karta. But he is not accountable to any member. No member can ask what was the income and what was the expenditure. The Karta is the great master of the grand show.
- 8) **Implied authority of Karta** : The Karta has implied authority to act on behalf of the other members of the family. These acts are binding on the entire family. No other member has such an authority.

#### 1.4.4 Co-operative Organization - Meaning

**Q34. Define co-operative organisation. Explain the features of co-operative organization.**

*Ans :*

##### Meaning

In the major forms of business organisation discussed so far in this book, tribasic objective of the owner or owners is to make profit. The co-operative form of organisation is different from these in one basic respect, it is set up not with profit as the guiding motive but with the fundamental object of organising and rendering service for the organisation and its members.

A co-operative society is essentially an association of persons who join together on a voluntary basis for the furtherance of their common economic interests. It may be described as a protective device used by the relatively less strong sections of society to safeguard their economy interests in the face of exploitation by producers and sellers working solely or maximising profits.

##### Features

As a form of organisation, the co-operative association is marked by the following distinctive characteristics :

##### i) Voluntary association

"A co-operative society is a voluntary association of persons and not of capital." Any person, irrespective of his caste and creed, can join a co-operative society of his free will

and can leave it at any time after giving due notice to the society. While leaving, he can 'withdraw his capital from the society. He cannot, however, transfer his share to another person. The voluntary character of the co-operative association has two major implications : (a) none will be denied the right and opportunity to become its member, and (b) the co-operative society will not compel anybody to become a member.

##### ii) Finance

The capital of a co-operative society is raised from members by way of share capital. Since co-operatives are organised by relatively weaker sections of society, the share [capital is generally limited. However, it is a part of Government policy to assist and encourage co-operatives and, therefore, a co-operative society can usually augment its resources by loans from the State and Central Co-operative Banks.

##### iii) Control and management

Democracy is the key-note of the management of co-operative society. Since most of these societies operate on a local scale, the meetings of the members are generally well attended. At these meetings, the members elect the managing committee lay down the policy which it must follow to promote their common interests. Each member, whatever be his stake in the society, has one vote and hence an equal right to participate in the management of the society. Members cannot vote by proxy. Besides, the organisation and control of a co-operative society tend to be perfectly democratic in so far as its bye-laws are approved by the members after it has been registered. Not merely this, even the day-to-day work of a co-operative society may be carried on by the members working in different capacities, and outside may be employed only when the society grows too large.

##### iv) Service motto

A co-operative society is organised prime with the object of rendering maximum service to its members in a certain field. It does not aim at profit at the cost of its members, for it is

formed basically for providing certain essential facilities to members..

**v) Disposal of surplus**

It is usual for commercial concerns to distribute profit among the owners in the ratio of their capital contribution, or in an agreed ratio. A co-operative society differs from the trading companies in this respect. Under the co-operative form of ownership and organisation, the surplus arising out of a year's working is given to the members not directly as dividend on [shares held by each of them, but in the form of a bonus which need not be proportionate to their respective capital contributions.

The bonus may be paid to the members in proportion to purchases made during the year in the case of a consumers' co-operative store, or in proportion to the goods delivered for sale to the society in the case of a producers' co-operative store. In fact, the profit arising out of a difference between the cost price and market price may not be distributed among members but may be utilised in extending amenities and facilities to the members or for undertaking certain social activities for the benefit of the members.

**vi) Fixed return on capital**

One of the basic principles of co-operative organisation, laid down by the pioneers of the co-operative movement like Rochdale and Owen, was that a fixed or limited return on capital subscribed to the society must be paid out of the surplus to that members) "Making the payment of fixed interest on paid-up capital definitely a first charge on the trading surplus, gave those who joined the society a solid reason for leaving their saving in deposit with it."

**vii) State control and corporate status**

Although voluntary in their basic character; the co-operative societies are subject to considerable State control and supervision In India, the co-operative societies are registered under the Co-operative Societies Act, 1912 or the relevant State Co-operative Societies

Act, as the case may be. the co-operatives desiring to be registered must fulfil the following broad and basic requirements : (i) A co-operative society must have at least 10 members who have attained majority in age (*i.e.*, are above 18 years of age). (ii) The members should be bound together by a common bond, *e.g.*, they may belong to the same village or locality, tribe, or occupation, etc. (iii) The members should present a joint application to the Registrar of Co-operative Societies furnishing important particulars like membership, share capital, objects, etc. (iv) A copy of the bye-laws and the scheme of organisation should be submitted to the Registrar. On registration, the co operative society will attain the corporate status (the status of a company) and will become entitled to certain privileges.

**1.4.4.1 Advantages and disadvantages of co-operative organization.**

**Q35. Explain the advantages and disadvantages of co-operative organization.**

*Ans :*

**Advantages**

**1. Voluntary organization**

The membership of a cooperative society is open to all. Any person with common interest can become a member. The membership fee is kept low so that everyone would be able to join and benefit from cooperative societies. At the same time, any member who wants to leave the society is free to do so. There are no entry or exit barriers.

**2. Ease of formation**

Cooperatives can be formed much easily when compared to a company. Any 10 members who have attained majority can join together for forming a cooperative society by observing simple legal formalities.

**3. Democracy**

A co-operative society is run on the principle of '*one man one vote*'. It implies that all members have equal rights in managing the affairs of the enterprise. Members with money

power cannot dominate the management by buying majority shares.

#### 4. **Equitable distribution of surplus**

The surplus generated by the cooperative societies is distributed in an equitable manner among members. Therefore all the members of the cooperative society are benefited. Further the society is also benefited because a sum not exceeding 10 per cent of the surplus can be utilized for promoting the welfare of the locality in which the cooperative is located.

#### 5. **Limited liability**

The liability of the members in a cooperative society is limited to the extent of their capital contribution. They cannot be personally held liable for the debts of the society.

#### 6. **Stable existence**

A cooperative society enjoys separate legal entity which is distinct from its members. Therefore its continuance is in no way affected by the death, insanity or insolvency of its members. It enjoys perpetual existence.

#### 7. **Each for all and all for each**

Co-operative societies are formed on the basis of self help and mutual help. Therefore members contribute their efforts to promote their common welfare.

#### 8. **Greater identity of interests**

It operates in a limited geographical area and there is greater identity of interest among members. Members would be interacting with each other. They can cooperate and manage the activities of the society in a more effective manner.

#### 9. **Government support**

The government with a view to promote the growth of cooperative societies extends all support to them. It provides loans at cheap interest rates, provides subsidies etc.

#### 10. **Elimination of middlemen**

Cooperatives societies can deal directly with the producers and with the ultimate consumers. Therefore they are not dependent

on middlemen and can save the profits enjoyed by the middlemen.

#### 11. **Low taxes**

To promote the co-operative movement and also because of the fact that it is a non-profit enterprise, government provides various exemptions and tax concessions.

#### 12. **Rural credit**

Co-operative societies have contributed significantly in freeing villagers from money lenders. Earlier, money lenders used to charge high rates of interest and the earnings of the villagers were spent on payment on interest alone.

Co-operatives provide loans at cheaper interest rates and have benefited the rural community. After the establishment of co-operatives, the rural people were able to come out of the grip of money lenders.

#### 13. **Role in agricultural progress**

Co-operative societies have aided the government's efforts to increase agricultural production. They have improved the life of the people in rural areas. They serve as a link between the government and agriculturists. High yielding seeds, fertilizers, etc. are distributed by the government through the cooperatives.

#### 14. **Own sources of finance**

A cooperative society has to transfer at-least one-fourth of its profits to general reserve. Therefore it need not depend on outsider's funds to meet its future financial requirements. It can utilize the funds available in the general reserve.

#### 15. **Encourages thrift**

Cooperative societies encourage the habit of savings and thrift among their members. They provide loans only for productive purposes and not for wasteful expenditure.

#### 16. **Fair price and good quality**

Co-operative societies buy and sell in bulk quantities directly from the producers or to

the consumers. Products are processed and graded before they are sold. Bulk purchases and sales ensure fair prices and good quality.

### 17. Social benefit

Co-operative societies have played an important role in changing social customs and curbing unnecessary expenditure. The profits earned by the co-operatives have been used for providing basic amenities to the society.

### Disadvantages

#### 1. Limited funds

Co-operative societies have limited membership and are promoted by the weaker sections. The membership fees collected is low. Therefore the funds available with the co-operatives are limited. The principle of one-man one-vote and limited dividends also reduce the enthusiasm of members. They cannot expand their activities beyond a particular level because of the limited financial resources.

#### 2. Over reliance on government funds

Co-operative societies are not able to raise their own resources. Their sources of financing are limited and they depend on government funds. The funding and the amount of funds that would be released by the government are uncertain. Therefore co-operatives are not able to plan their activities in the right manner.

#### 3. Imposed by government

In the Western countries, co-operative societies were voluntarily started by the weaker sections. The objective is to improve their economic status and protect themselves from exploitation by businessmen. But in India, the co-operative movement was initiated and established by the government. Wide participation of people is lacking. Therefore the benefit of the co-operatives has still not reached many poorer sections.

#### 4. Benefit to rural rich

Co-operatives have benefited the rural rich and not the rural poor. The rich people elect themselves to the managing committee and

manage the affairs of the co-operatives for their own benefit.

The agricultural produce of the small farmers is just sufficient to fulfill the needs of their family. They do not have any surplus to market. The rich farmers with vast tracts of land, produce in surplus quantities and the services of co-operatives such as processing, grading, correct weighment and fair prices actually benefit them.

#### 5. Inadequate rural credit

Co-operative societies give loans only for productive purposes and not for personal or family expenses. Therefore the rural poor continue to depend on the money lenders for meeting expenses of marriage, medical care, social commitments etc. Co-operatives have not been successful in freeing the rural poor from the clutches of the money lenders.

#### 6. Lack of managerial skills

Co-operative societies are managed by the managing committee elected by its members. The members of the managing committee may not have the required qualification, skill or experience. Since it has limited financial resources, its ability to compensate its employees is also limited. Therefore it cannot employ the best talent.

Lack of managerial skills results in inefficient management, poor functioning and difficulty in achieving objectives.

#### 7. Government regulation

Co-operative societies are subject to excessive government regulation which affects their autonomy and flexibility. Adhering to various regulations takes up much of the management's time and effort.

#### 8. Misuse of funds

If the members of the managing committee are corrupt they can swindle the funds of the co-operative society. Many cooperative societies have faced financial troubles and closed down because of corruption and misuse of funds.



**9. Inefficiencies leading to losses**

Co-operative societies operate with limited financial resources. Therefore they cannot recruit the best talent, acquire latest technology or adopt modern management practices. They operate in the traditional mold which may not be suitable in the modern business environment and therefore suffer losses.

**10. Lack of secrecy**

Maintenance of business secrets is the key for the competitiveness of any business organization. But business secrets cannot be maintained in cooperatives because all members are aware of the activities of the enterprise. Further, reports and accounts have to be submitted to the Registrar of Co-operative Societies. Therefore information relating to activities, revenues, members etc becomes public knowledge.

**11. Conflicts among members**

Cooperative societies are based on the principles of co-operation and therefore harmony among members is important. But in practice, there might be internal politics, differences of opinions, quarrels etc. among members which may lead to disputes. Such disputes affect the functioning of the co-operative societies.

**12. Limited scope**

Co-operative societies cannot be introduced in all industries. Their scope is limited to only certain areas of enterprise. Since the funds available are limited they cannot undertake large scale operations and is not suitable in industries requiring large investments.

**13. Lack of accountability**

Since the management is taken care of by the managing committee, no individual can be made accountable for in efficient performance. There is a tendency to shift responsibility among the members of the managing committee.

**14. Lack of motivation**

Members lack motivation to put in their whole hearted efforts for the success of the enterprise. It is because there is very little link between effort and reward. Co-operative societies distribute their surplus equitably to all members and not based on the efforts of members. Further there are legal restrictions regarding dividend and bonus that can be distributed to members.

**15. Low public confidence**

Public confidence in the co-operative societies is low. The reason is, in many of the co-operatives there is political interference and domination. The members of the ruling party dictate terms and therefore the purpose for which cooperatives are formed is lost.

## Short Question and Answers

### 1. Business

*Ans :*

**Stephenson defines business** as, "The regular production or purchase and sale of goods undertaken with the object of earning profit and acquiring wealth through the satisfaction of human wants".

**According to Prof. Haney**, "Business activities are all those human activities which are directed towards the production and processing of wealth".

### 2. Profession.

*Ans :*

Profession is the utilization of special knowledge and skills that empowers an individual to provide services in order to earn a living. In order to become a professional, a person has to attain a certain degree of knowledge, formal education and undergo training. Profession is an intellectual activity.

For e.g. Teachers, lawyers, doctors, engineers, chartered accountants, etc. are known as Professionals.

### 3. Employment

*Ans :*

Employment is an economic activity wherein a person appoints another person for the purpose of completing a job, task or assignment and pays wages / salary in return. The person who assigns the task is known as an Employer and the one who is expected to perform the assigned task is known as an Employee.

For e.g. Factory workers, office assistants, managers, etc. are employees of a company.

Employment may be full time, part time, permanent or temporary in nature.

### 4. Trade

*Ans :*

Trade is the process of taking goods from the source of production or place of procurement to the consumer. The producers cannot come into direct contract with the consumers, so there should be some channel which will facilitate the transmission of goods from the producers to the consumers. The channel which helps the exchange of goods is known as Trade.

### 5. Industry

*Ans :*

Industry refers to the production of goods and materials. It is that part of business activity which concerns itself with the raising of production, processing or fabrication of products. It includes activities like extraction, production, conversion, processing or fabrication of products.

The products of an industry may be **consumer goods** or **producers goods**. When goods are finally used by consumers, they are known as "Consumer goods". The examples of such goods are cloth, bread, drug, radio, scooter etc. When goods are used by other businesses for further production, they are known as "Producers goods". The production of machines, tools, machinery and equipment are examples of producer goods. These are also called "Capital goods".

### 6. Genetic industries

*Ans :*

Genetic means "parentage or heredity". Genetic industries are engaged in breeding plants and animals. Forestry, plant-breeding farms, poultry farms, fish farms, hatcheries etc., are some of the examples of genetic industries. The plants are grown and animals are reared and then sold at profit. Nature, climate and environment play an important part in these industries. Human skill is also important in these industries.

**7. Manufacturing industries***Ans :*

These industries are engaged in the conversion of transformation of raw-materials or semi-finished products into finished products. Such industries, therefore, create "form utility". Most of the goods which are used by consumers are produced by manufacturing industries. These industries supply machines, tools and equipments to other industries too. The products of extractive industries are generally used as raw-materials by manufacturing industries.

**8. Construction industries***Ans :*

These industries are engaged in the construction of buildings, roads, dams, bridges and canals. These industries use the products of other industries, such as cement, iron, bricks, wood etc. The important features of these industries are that their products are not carried to the market for sale. Their products are made at fixed sites.

**9. Commerce***Ans :*

Commerce is an important branch of economics which is concerned with the exchange of goods and services. It includes all those activities which ensure a free and smooth flow of goods and services from producers to consumers. It is an organized system for the exchange of goods between the members of the industrial world. It links the industrial producer with consumers. It bridges the gap between producers and consumers through creation of possession, place, and time utilities.

**10. Aids to Trade***Ans :*

Activities which facilitate the trade are called aids to trade. It includes transport, insurance, banking, warehousing, advertisement and salesmanship. Without these aids to trade or helper to trade, trade cannot prosper and flourish in the country. Exchange of goods and services is not a simple and smooth process. There are many hindrances of trade.

**11. Social Responsibility of Business***Ans :*

A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfil the aspirations of the society. Thus social responsibility relates to the valunitary efforts on the part of the businessmen to contribute to the social well being. The businessmen make use of resources of society and earn money from the members of society so they must do something for the society.

According to **Keith Davis and Blame-storm**, "social responsibility refers to the obligation of decision makers of the business to take actions which protect and improve the welfare of the society as a whole along with their own interests."

According to **J.L Paluszek**, "Corporate social responsibility is seriously considering the impact of company's activities in society."

**12. Characteristics of Business Organization***Ans :*

- 1. Exchange of Goods and Services :** A business undertaking deals in exchange of goods and services. The goods to be exchanged may either be produced or procured from other sources.
- 2. Dealing in Goods and Services :** All bus undertakings deal in goods and services. The goods may be consumers' goods or producer goods. The services may be water supply, electricity supply, transport facilities etc.
- 3. Profit Motive :** All business undertakings are urn to earn profits. An undertaking started to social service will not be called business undertaking because the aim is not to earn profits.
- 4. Continuity of Transactions :** The transactions in a business undertaking are continuous or regular. They are engaged in a series of successive transactions over time and space.

**13. Sole Proprietorship**

*Ans :*

The form of organization in which a single individual promotes and controls the business undertakings and bears the whole risk himself is called Sole Proprietorship. He takes all the profits and bears all risks alone. This form of organization is also called sole trading concern, sole ownership, and single entrepreneur business. It is the oldest form of business ownership. It is also the simplest and most natural. It is the most convenient and effective form of business organization.

**14. Partnership**

*Ans :*

Partnership form of organization has developed due to the limitations of sole trading concern. It is governed by the partnership Act, 1932. Section 4 of the Act 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 who enter into partnership are individually called "partners" and collectively a "firm". The name under which the business is carried on is called the "firm name".

**15. Sleeping or dormant Partner**

*Ans :*

A sleeping partner is one who contributes capital, shares profits and contributes to the losses of the business but does not take part in the working of the concern. A person may have money to invest but he may not be able to devote time for the business : such a person may become a sleeping partner. Sleeping partner is liable for the liabilities of the business like other partners. He cannot bind the business, i.e., firm, to third parties, by his acts. He is not known to the public as a partner; so he may be called as 'secret partner.'

**16. Contents of Partnership Deed**

*Ans :*

A properly drawn up partnership deed should cover the following points :

1. The name of the firm.

2. The name and addresses of the partners composing the firm.
3. The nature of business.
4. The town and places where the business will be carried on.
5. The amount of capital to be contributed by each partner and the rate of interest, if any, payable thereon.
6. Rate of interest, if any, payable on loans advanced by partners over and above their capitals.
7. The duties, rights and obligations of partners.
8. Salary, if any, payable to any partner or partners.
9. The amount of private drawing allowed for each partner and the rate of interest, if any, chargeable thereon.
10. Profit sharing ration.

**17. Hindu Undivided Family Firm**

*Ans :*

Joint Hindu family business is a peculiar form of business found in India. In this form of business ownership, all members of a Hindu undivided family do business jointly under the control of the head of the family. The head of the family is known as "Karta". The firm is owned by the members of an undivided Hindu family who have inherited an ancestral property.

The property inherited by a Hindu from his father, grandfather and great grandfather is regarded as ancestral property. The members of the family are known as co-parceners. The Joint Hindu family firm comes into existence by the operation of Hindu Law and not out of contract. Thus, the Joint Hindu family firm is a business owned by co-parceners of a Hindu undivided estate.

**18. Co-operative organization**

*Ans :*

In the major forms of business organisation discussed so far in this book, tribasic objective of

the owner or owners is to make profit. The co-operative form of organisation is different from these in one basic respect, it is set up not with profit as the guiding motive but with the fundamental object of organising and rendering service for the organisation and its members.

A co-operative society is essentially an association of persons who join together on a voluntary basis for the furtherance of their common economic interests. It may be described as a protective device used by the relatively less strong sections of society to safeguard their economy interests in the face of exploitation by producers and sellers working solely or maximising profits.

### 19. Functions of Business

*Ans :*

A business has to perform a number of functions in order to achieve its objectives. The various functions are as follows :

- a. **Production Function :** It involves transformation of raw materials into goods and services and making them useful. A number of other inputs such as labour, capital, machinery will also be necessary to carry out his function. The production function has become a specialized function in modern business. A number of other factors like plant location, layout, production planning and control, quality control etc are also needed.
- b. **Marketing Function :** Marketing is a process involving activities ranging from getting goods from producers and sending them to ultimate consumers or users, it involves all efforts to create customers for the products and provide maximum satisfaction to them. This function involves the development and use of an appropriate marketing mix consisting of product, price promotions and physical distribution. This mix has to be decided by keeping in view the business environment on a particular time. It also involves decisions like product design, package, brand name, pricing policies, advertising methods etc.

### 20. Characteristics of Sole Proprietorship

*Ans :*

1. **Single Ownership :** The sole trader is the sole owner of the firm. He fully owns the business.
2. **Management and Control :** The proprietor manages the whole business himself. He prepares various plans and executes them under his supervisions. He is free to direct and control the
3. **Undivided Risk :** The proprietor takes all profits and bears losses, if any. Nobody shares his profits or losses.
4. **Unlimited Liability :** The liability of the proprietor is indefinite or unlimited. He is personally responsible for the payment of business debts if he makes a heavy loss, he may lose his capital and even his entire private property.
5. **Proprietor and the Firm Identical :** In law there is no difference between the firm and the proprietor the firm. They both are same. The business and owner exist together. The proprietor owns everything the firm owns, and owns everything a firm owes.

### 21. Active Partner:

*Ans :*

An active partner is one who takes active part in the day-to-day working of the business. He may act in different capacities such as manager, organizer, adviser and controller of all the affairs of the firm. He may also be called as working partner.

## *Choose the Correct Answer*

1. The primary aim of business is : [ a ]  
(a) To earn profit (b) To help its employees  
(c) To help society (d) All of the above
2. Non-economic activities aim at : [ a ]  
(a) Social service (b) Profit maximisation  
(c) Consumer satisfaction (d) None of the above
3. Business includes only : [ c ]  
(a) Social activities (b) Institutional activities  
(c) Economic activities (d) Non-economic activity
4. Industry is related to : [ a ]  
(a) Manufacturing of goods (b) Trading  
(c) Exchange of goods (d) Selling
5. Growing of plants comes under : [ c ]  
(a) Extractive industry (b) Genetic industry  
(c) Primary industry (d) All of the above
6. Raising of wealth from soil, climate etc. relate to [ b ]  
(a) Manufacturing industry (b) Extractive industry  
(c) Synthetic industry (d) Genetic industry
7. Commerce is related to : [ c ]  
(a) Production of goods (b) Providing of service  
(c) Exchange of goods (d) All of the above
8. Internal trade takes place : [ b ]  
(a) Between two countries (b) Inside a country  
(c) Both (d) None
9. In wholesale trade goods are exchanged : [ b ]  
(a) In small quantities (b) In large quantities  
(c) None of the two (d) None
10. Organisation, management and control are closely held by [ a ]  
(a) Sole trader (b) Departmental undertaking  
(c) Partnership (d) Joint stock company
11. The disadvantage of sole trader form of business organisation is [ c ]  
(a) Direct motivation (b) Total control  
(c) Low bargaining power (d) Minimum interference from government

12. The sole trader form of organisation is not suitable when [ c ]  
(a) Business is of small  
(b) It requires low volume of capital  
(c) Risk is high  
(d) Personal attention is necessary to take care of the customers
13. The closure of partnership is called [ d ]  
(a) Resolution (b) Revolution  
(c) Solution (d) Dissolution
14. The written agreement among partners is [ c ]  
(a) Trading deed (b) Demand draft  
(c) Partnership deed (d) Bill of exchange
15. The kinds of partners include the following except [ a ]  
(a) Normal Partner (b) Sleeping Partner  
(c) Partner by Estoppel (d) Partner by Holding out
16. Working partner is also called [ d ]  
(a) Nominal partner (b) Minor partner  
(c) Sleeping partner (d) Active partner
17. The partner who neither contributes to capital nor takes part in the affairs of business is [ b ]  
called  
(a) Active partner (b) Nominal partner  
(c) Sleeping partner (d) Minor partner
18. The partner who contributes to capital but does not take part in the affairs of the partnership [ c ]  
known as  
(a) Working partner (b) Nominal partner  
(c) Sleeping partner (d) Minor partner

## *Fill in the blanks*

1. Business means exchange of goods and services for mutual \_\_\_\_\_
2. An \_\_\_\_\_ transaction will not be called business.
3. Business creates various types of \_\_\_\_\_ in goods.
4. A business should aim at serving the \_\_\_\_\_ at large.
5. The business should use \_\_\_\_\_ national resources properly.
6. Commerce includes trade and \_\_\_\_\_ to trade.
7. Trade is the process of taking goods from \_\_\_\_\_ to \_\_\_\_\_ consumer.
8. When demand of goods is limited to a place, it is called \_\_\_\_\_ trade
9. Hindrance of knowledge is removed with the help of \_\_\_\_\_
10. Hindrance of risk is removed by \_\_\_\_\_
11. The liability extending to the personal property of the trader is called \_\_\_\_\_
12. The degree of freedom or flexibility is large in case \_\_\_\_\_ form \_\_\_\_\_ of organisation.
13. The partners have \_\_\_\_\_ and \_\_\_\_\_ liability, besides unlimited liability.
14. The minimum number of members in case of partnership is \_\_\_\_\_ and maximum is \_\_\_\_\_ in case of banking business.
15. The partners collectively are called \_\_\_\_\_
16. Every partner is both agent and principal. This relationship is called \_\_\_\_\_
17. The closure of partnership is called \_\_\_\_\_
18. The partner, who gives an impression that he is partner of the firm and becomes liable for the claims, is called \_\_\_\_\_
19. A \_\_\_\_\_ partner can be admitted for the benefits of the firm.
20. An artificial person created by law with perpetual succession and common seal is called \_\_\_\_\_

### ANSWERS

- |                    |                         |
|--------------------|-------------------------|
| 1. Benefit         | 11. Unlimited liability |
| 2. Isolated        | 12. Sole trader         |
| 3. Utilities       | 13. Joint, several      |
| 4. Society         | 14. Two and ten         |
| 5. Scarce          | 15. Firm                |
| 6. Aids            | 16. Mutual agency       |
| 7. Producer        | 17. Dissolution         |
| 8. Local           | 18. Partner by estoppel |
| 9. Advertisement ; | 19. Minor               |
| 10. Insurance      | 20. Joint stock company |



# UNIT II

**JOINT STOCK COMPANY:** Joint Stock Company - Meaning - Definition - Characteristics - Advantages and Disadvantages - Kinds of Companies - Promotion - Stages of Promotion - Promoter - Characteristics - Kinds - Preparation of Important Documents - Memorandum of Association - Clauses - Articles of Association - Contents - Prospectus - Contents - Red herring Prospectus - Statement in lieu of Prospectus (As per Companies Act. 2013).

## 2.1 JOINT STOCK COMPANY - MEANING, DEFINITION AND CHARACTERISTICS

**Q1. Define a joint stock company and explain the characteristics of Joint stock company?**

*Ans :* (Nov.-19, Dec.-20, Imp.)

### Joint Stock Company

A company is "an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and who share the profit and loss arising there from".

**- James Stephenson**

"A Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership".

**- L.H.Haney**

"A corporation is an artificial being, invisible, intangible and existing only in contemplation of the law. Being a mere creation of law, it possesses only the properties which the charter of its creation confers upon it either expressly or as incidental to its very existence."

**- Chief Justice Marshall**

Indian Companies Act does not define company as such. According to Section 3 of Indian Companies Act 1956, "A company means a company formed and registered under this Act." According to clause (ii) of Section 3, "Existing Company means a company formed and registered under any of the previous company laws."

### Characteristics of Joint Stock Company

The following are the characteristics of a Joint Stock Company :

- 1) **Association of Persons:** A company is an association of persons joining hands with a common motive. A private limited company must have at least two persons and a public limited company must have at least seven members to get it registered. Furthermore, the number of shareholders should not exceed 50 in private companies but there is no maximum limit for the members in a public limited company.
- 2) **Independent Legal Entity :** The Company is created under law. It has a separate legal entity apart from its members. A company acts independently of its members. The company is not bound by the acts of its members and members do not act as agents of the company. A person can own its shares and can be its creditor too. The life of the company is independent of the lives of its members. The company can sue and be sued in its own name.
- 3) **Common Seal :** A company being an artificial person cannot put its signatures. The law requires every company to have a seal and get its name engraved on it. The seal of the company is affixed on all important documents and contracts as a token of signature. The directors must witness the affixation of the seal.
- 4) **Limited Liability :** The liability of its shareholders is limited to the value of shares they have purchased. In case the company incurs huge liabilities, the shareholders can

only be called upon to pay the unpaid balance on their shares. The company being a separate legal entity can incur debts in its own name and the shareholders will not be personally liable for that. However, shareholders of a limited company have unlimited liability. The liability of members of a company limited by guarantee is limited to the guaranteed amount.

- 5) **Transferability of Shares :** The shares of a company can be transferred by its members. Whenever the members want to dispose off the shares, they can do so by following the procedure devised for this purpose. Under Articles of Association, the company can put certain restrictions on the transfer of shares but it cannot altogether stop it. However, private companies can put more restrictions on transferability of shares, virtually making it zero.
- 6) **Separation of Ownership and Management :** The shareholders of a company are widely scattered. A shareholder may like to invest money but may not be interested in its management. The companies are managed by the Board of Directors. The ownership and management are in two separate hands. The shareholders do not get any right to participate in company management. The right to manage company affairs is vested in the directors who are elected representatives of the shareholders.
- 7) **Perpetual Existence :** The Company has a permanent existence. The shareholders may come or may go but the company will go on forever. The continuity of the company is not affected by death, lunacy or insolvency of its shareholders. The company can be wound up only by the operation of law. The shares of the company may change hands a number of times, but the continuity of the company is not affected at all.
- 8) **Corporate Finance :** A Joint Stock Company, generally, raises large amounts of funds. The capital is divided into shares of small denomination. A large number of persons purchase shares and contribute to the capital of the company. Since there is no

limit on number of maximum members in public companies, large amounts of sources can be raised from persons in different walks of life.

- 9) **Centralized and Delegated Management :** A Joint Stock Company is an autonomous and self-governed body. The shareholders being large in number cannot look after the day-to-day activities of the company. They elect Board of Directors in general body meeting for managing the company. All policies of the company are decided by a majority vote. All important decisions are taken in a democratic way. The centralized management and democratic functioning brings in unity of action.
- 10) **Publication of Accounts :-** A joint stock company is required to file annual statements with the Registrar of Companies at the end of a financial year. The annual statements are available for inspection in the office of the Registrar.

### 2.1.1 Advantages and Disadvantages of Joint Stock Company

**Q2. Explain the advantages and disadvantages of joint stock company.**

*Ans :* (Dec.-20, Imp.)

#### Advantages of Joint Stock Company

Various advantages of joint stock company are :

- a) **Large Financial Resources:** A joint stock company is able to collect a large amount of capital through small contributions from a large number of people. In a public limited company, shares can be offered to the general public to raise capital. They can also accept deposits from the public and issue debentures to raise funds. Thus, a joint stock company is able to accumulate a huge capital which can meet the financial requirements of large industrial and commercial houses.
- b) **Limited Liability:** In the case of a joint stock company, the liability of its members is limited to the extent of the value of shares held by them. Private property of members

cannot be attached for debts of the company. It should be noted that the shareholders are free of their liability, the moment their shares are fully paid-up. This advantage attracts many people to invest their savings in the company and it encourages the owners to take more risk. This promotes the growth and expansion of the company.

- c) **Democratic Management :** The management of a company is vested in the hands of directors, who are elected democratically by the members or shareholders of the company. These directors as a group are known as the board of directors. The board manages the affairs of the company and is accountable to the members. The members of the company elect capable persons, having sound financial, legal and business knowledge to the board so that they can manage the company efficiently.
- d) **Economies of Large-scale Operations:** A joint stock company enjoys economies of large scale operations. Due to the availability of large financial resources and technical expertise, it is possible for the companies to have large-scale production. It **enables** the company to produce more efficiently and at lower cost. This also enables it to provide quality goods to the consumers at reasonable prices, which in turn helps in the smooth functioning of the business.
- e) **Statutory Regulations :** Joint stock companies are formed and regulated under the Companies Act, 1956. It is established by law and can be dissolved only by law. It is obligatory for the company to maintain and publish the books of account as per the provisions of the Companies Act. This imparts transparency to the functioning of the company. It also builds public confidence, gains public patronage, promotes healthy business management and at last facilitates the smooth functioning of the business.
- f) **Public Confidence:** The general public feel confident about the company, as its affairs are regulated as per the provisions of the

Companies Act, 1956. It publishes a true and fair statement of its affairs to the public. Moreover, it also publishes its annual reports. Due to this, people invest their hard-earned money in shares and securities of reputed companies. This promotes capital formation, which in turn facilitates industrial development and generates employment opportunities.

- g) **Availability of Expert Services:** Being a large-scale business, the company can hire the services of experts and specialists. Various business functions are performed by the competent and highly qualified persons like cost accountant, commercial artists, advertising experts, sales experts, professional managers, etc., who specialise in their field. Moreover, the board of directors, consisting of competent persons, provide for an efficient and capable management for the company.
- h) **Research and Development:** Research and development requires a huge investment and has a very long gestation period. It is only a company form of organisation that can afford to invest a huge sum of money on research and development for the improved processes of production, new designs, better quality products, etc. It also undertakes research and development programmes for enhancing the skills, knowledge and attitudes of its employees. This enhances the corporate image of the firm.
- i) **Tax Concessions:** According to the provisions of the Income Tax Act, companies have to pay taxes which are levied at flat rates. These rates are lower than the tax rates for individuals in the higher income brackets. Thus, the company form of organisation involves a reduced tax liability. A company set up in backward or remote area can enjoy tax holidays, tax subsidies and tax incentives. Thus, a joint stock company is relieved from the burden of high taxation.
- j) **Bolder Management:** The company form of organisation has huge financial and physical resources. At the same time, its ownership is spread out to a large number of investors. All major decisions in the company

are taken by the board of directors, who generally own a very small part of the total share capital of the company. Companies are managed by managers, who are the paid employees of the company. Therefore, the board of directors and managers can take bold decisions for grabbing new opportunities.

- k) **Contribution to Society:** A joint stock company offers employment to a large number of people. It facilitates promotion of ancillary industries, trade and auxiliaries to trade. Companies do donate money for social cause such as education, health and community services. They mobilise the small savings of people and direct them to productive activities. Large-scale production reduces cost of production and makes available goods to consumers at reasonable rates. Thus, it promotes welfare of the society.
- l) **Economic Development:** The government gets good revenue on account of income tax, sales tax, excise duty and so on from the industrial sector. This revenue is invested by the government in the projects of social development. Development of companies also results in the development of trade, commerce and industry. It also helps in developing trade with other countries, which, in turn, helps in earning foreign exchange for the country. Thus, a joint stock company helps in boosting the economic development of a country.
- m) **Social Desirability:** The company has brought about the democratisation of the ownership of large-scale business. The capital of a company is divided into a large number of shares of small face value. They are within the reach of the common men. A person with limited means can also become a part owner of the company along with his own occupation by investing a small amount. It can be said that a company can provide means of canalising small savings of individuals into productive channels.

### Disadvantages of Joint Stock Company

A Joint stock company suffers from the following disadvantages :

- a) **Difficulty in Formation:** The formation of a joint stock company involves too many legal formalities. A number of legal documents and formalities have to be completed before a company can start its business. It requires the services of specialists such as chartered accountants, company secretaries, etc. A large number of authorities are required to be approached for capital formation. Therefore, the process of formation of a joint stock company is time-consuming and expensive.
- b) **Bureaucratic Administration:** A company form of organisation does not enjoy flexibility of operation. The actual administration of a company is in the hands of paid officers. They have no proprietary interest in the company since it is not a personal organisation. The officers and their assistants do not enforce any decisions promptly. Sometimes, even the directors are at the mercy of bureaucracy. Thus, it makes a company an inflexible form of organisation.
- c) **Lack of Personal Touch:** A company organisation lacks a personal touch with either its customers or employees, which is a prominent feature of simpler forms of organisation. An employee feels that he is working for a machine, and that his personal well-being is of secondary importance in relation to profit. Large companies often tend to become even larger, making its functioning more complex and widening the gap between the labour and the management.
- d) **Excessive Government Control:** The government exercises strict control over the companies. Joint stock companies are regulated by the government through the Companies Act and various other legislations and statutory bodies like the SEBI. In particular, public limited companies are required to adhere to various legal formalities as provided in the Companies Act and other legislations. Non-compliance with these may invite heavy penalty.

- e) **Concentration of Economic Power and Wealth:** A joint stock company is a large business organisation having huge resources. This gives a lot of economic and other powers to the persons who manage the company. Any misuse of such power creates unhealthy conditions in the society. It also results in a number of social evils such as concentration of economic power, hostile takeovers, creation of monopolies, and exploitation of the workers, consumers and investors.
- f) **Undue or Reckless Speculation in Shares:** A company form of organisation facilitates speculation and gambling in shares on the stock exchange. The market value of shares of the company depends on the financial standing and goodwill of the company. However, in many cases the directors and other interested parties manipulate the prices of shares in order to promote their narrow interests. The violent fluctuations in shares may, sometimes weaken the confidence of investors and lead to a financial crisis.
- g) **Lack of Motivation:** The ownership and management of the company is separate. It is not possible for the shareholders to run a company, because of large numbers and also because they are scattered. Therefore, the company organisation does not give scope for personal initiative, which results in inefficiency and waste. The company is managed by the directors and paid officials. One cannot expect them to look after the interest of the company with as much enthusiasm as proprietors do.
- h) **Delay in Policy Decisions:** Generally, policy decisions are taken by the board of directors at the board meetings of the company. Further the company has to fulfil certain procedural formalities before making policy decisions and implementing them. These procedures are time consuming and therefore, may delay the action on the decisions. Sometimes, such delay in decisions and consequent action may cause a company to suffer heavy losses.
- i) **Incapable Management and Fraudulent Tactics:** There are fraudulent promoters who promote bogus companies, collect money from people and use such money for their personal benefit. Such fraudulent companies make poor investors suffer. Sometimes, the management of a company may prove to be incapable of performing its duties. It may misuse company's property, goods and money for its personal benefit and may harm the interests of the shareholders and create panicky among the investors.
- j) **No Business Secrecy:** A company form of business organisation cannot enjoy business secrecy, since it has to publish its books of accounts annually. As per the Companies Act, it is obligatory for the company to keep its investors informed about its various activities and performance. At the same time, the company also needs to file all information with the Registrar of Companies. Thus, business secrecy which is enjoyed by other personal forms of organisation is not enjoyed by a joint stock company.
- k) **Conflicts of Interest:** A company consists of a large number of stakeholders, viz., creditors, consumers, workers, government and so on. These groups have their own vested interest in the company. Hence, there are frequent conflicts between the members and management, the management and consumers, the management and employees and also among different categories of shareholders. These conflicts adversely affect the functioning and goodwill of the company.
- l) **Limited Suitability:** A company form of organisation is not suitable for small-scale business where quick decisions are to be taken and changes in the market conditions, fashion, taste and preference of the consumers and government policies need to be responded quickly. Under such circumstances, a sole trading concern or a partnership firm are more suitable forms of organisation. The business that requires quick adaptation to the changing market trends cannot be carried through this form of organisation.

## 2.2 KINDS OF COMPANIES

**Q3. Explain the classification of companies.**

*Ans. :* (Imp.)

Companies can be classified into following categories :

**I) Companies on the basis of incorporation or Registration :**

**a) Chartered Companies:** Historically, most of the early companies were set up through a Royal Charter issued by the head of the state or monarch. The rights, duties liabilities and exclusive privileges of such companies 'were defined by the Royal Charter. The formation of such companies started during the 17<sup>th</sup> century, i.e., during the era of the Industrial Revolution. *For example*, the East India Company and the Bank of England are chartered companies. Such companies do not exist in India since there is no system of monarchy.

**b) Statutory Company:** A statutory company comes into existence by a special act of the parliament or legislature of the nation or the state. Its rights, duties, liabilities, powers, objects, scope, etc. are clearly defined in the Act, which brings the company into existence. Generally, the formation of such a company is directly linked with social, economic or national interests. *For example*, the Reserve Bank of India (RBI), State Bank of India (SBI) and Life Insurance Corporation of India (LIC) have been established by the special Acts of the parliament and therefore, are the statutory companies.

**c) Registered Companies:** Companies which are registered under the provisions of the Companies Act of the nation concerned are known as 'Registered Companies'. The Act lays down the procedure for their formation, working and winding up. It also defines the rights, duties, powers, liabilities and other

obligations of its members and directors. In India, the companies are registered under the Companies Act, 1956. *For example*, Tata Iron and Steel Industry and the Mafatlal Fine Spinning and Weaving are the registered companies.

**II) Companies on the basis of Liability**

**a) Companies with unlimited liability:**

According to Section 12 of the Companies Act, 1956, the promoters of a company can form a company with either limited or unlimited liability. The Articles of Association specifies the nature of liability of members of the company. In the case of unlimited liability, a shareholder has to meet debts of the company even from his private property in the event of winding up of a company. Though the formation of such a company is permitted under the Companies Act, it is not widely used.

**b) Company with liability limited by guarantee:** The liability of members in such a company is limited to a specific amount guaranteed by the members. The purpose of such a guarantee is to enable the company to have funds to meet its liability at the time of winding up of a company. Generally, such companies are non-trading or non-profit making concerns. Such companies are formed with a view to promote art, science, sports, culture, etc. Chambers of Commerce (CoC) is an example of this type of a company.

**c) Companies with liability limited by shares:** The liability of members in such a company is limited only to the amount of the shares held by them. In the event of winding up of a company, if the assets of the company are insufficient to meet the liabilities and creditors, the private property of the shareholders is not affected. Most of the

companies in India belong to this class. A company with liability limited by shares may have directors with unlimited liability. L&T and Reliance Industries are the examples of such companies.

### III) Companies on the basis of Public Interest

a) **Private Company:** A private company is one which, by its Articles:

- Limits the number of its members to fifty, excluding past and present employees;
- Restricts the right of the members to transfer the shares; and
- Prohibits the invitation to public to subscribe to the company's shares and debentures.

A minimum of two members are required to form a private limited company. A private company has to undergo fewer legal formalities.

b) **Public Company:** The Indian Companies Acts, **1956**, defines a public company under Section **3(1)** (iv), as 'all companies other than private companies are known as public companies'. In other words, a public company does not limit the number of members to fifty, it does not restrict the right of members to transfer their shares and finally it does not prohibit invitation to public to subscribe to its shares and debentures. The minimum number of members required to form a public company is seven with no upper limit.

c) **Holding Company and Subsidiary Company :** When a company controls another company, the controlling company is known as a 'Holding Company' and a company which is being controlled is known as a 'Subsidiary Company'. A company may control another company by securing control over its board of directors or acquiring more than half of its share capital or voting power. Holding companies and subsidiary companies are separate companies and possess separate legal identities.

d) **Government Companies:** A government company is one in which at least 51 per cent of the paid-up capital is held by the Central Government or by any state government or partly by the Central Government and partly by one or more state governments. A company which is a subsidiary of a government company is also termed as a 'Government Company'. Government companies are regulated by the provisions of the Companies Act. *For example*, Air India, all nationalised banks, Hindustan Petroleum, etc.

### IV) Companies on the basis of Nationality:

a) **Indian Company:** A company registered in India having place of business in India is called as Indian company. It may be private company or public company. It may be noted that where, all the shareholders of a company are foreign citizens, a company shall be called as Indian company if it is registered in India.

b) **Foreign Company:** A company registered outside India and having its place of business located in foreign country may be called as foreign company. The term place of business does not mean agency business in India. It may be noted that where, all the shareholders of a company are Indian citizens, a company shall be called as foreign company if it is registered outside India.

**Q4. Differences between Public Limited Company and Private Limited Company.***Ans :*

	Private Company	Public Company
1.	<b>Number of Members</b>	
	To constitute a private company two members are a must. The number of members cannot exceed fifty.	A public company can be started by seven persons and there is no maximum limit for members.
2.	<b>Commencement of Business</b>	
	The business can be started after getting the certificate of incorporation.	The business can be started only after getting the certificate of commencement of business. This certificate is issued only when minimum number of shares have been subscribed by the public.
3.	<b>Transfer of Shares</b>	
	The transfer of shares is generally restricted by the articles. There cannot be any appeal to the Central Government against disallowing the transfer of shares.	Transfer of shares is freely allowed, though some procedure for transfer has to be followed.
4.	<b>Issue of Prospectus</b>	
	A private company cannot issue a prospectus giving public invitation for purchase of its shares. No public notice for the sale of shares or debentures can be issued.	A public company must issue a prospectus or a statement in lieu of prospectus for inviting public for the purchase of its shares and debentures.
5.	<b>Statutory Meetings</b>	
	A private company is not required to call a statutory meeting and to submit statutory report to the Registrar of Companies.	A statutory meeting must be held within a prescribed period. A statutory report is also submitted to the Registrar of Companies.
6.	<b>Quorum for Meeting</b>	
	The quorum for a meeting of a private company is zero.	Five members constitute the quorum.
7.	<b>Number of Directors</b>	
	A minimum of two directors must be there. The company can increase the number of directors with the prior permission of the Central Government.	A minimum of three directors must be there and the names and addresses of directors must be intimated to the Registrar of Companies along with the memorandum of association.
8.	<b>Filing of Documents</b>	
	A private company need not send the list of directors, their consent, etc. to the Registrar of Companies.	The list of directors, their consent and a contract with them must be sent to the Registrar of Companies.
9.	<b>Use of the word 'Limited'</b>	
	In case of private company, the word 'Pvt Limited' must be used at the end of the name of the company.	Only the word 'Limited' is used with the name of a public company.



### 2.3 PROMOTION - STAGES OF PROMOTION

**Q5. Explain the procedure involved in promotion of a public company.**

*Ans :* (Nov.-19, Imp.)

#### Promotion

The promotion of every business requires a process to be followed. A number of formalities have to be completed before a unit can come into existence. The length of process and the number of formalities vary with the type of organization and scale of operations. It is easy to start sole trade and partnership concerns but a joint stock company requires a lengthy process.

"Promotion may be defined as the process of organizing and planning the finance of a business enterprise under the corporate form".

- L.H. Haney

"Promotion may be defined as the discovery of business opportunities, and the subsequent organization of funds, property and managerial ability into a business concern for the purpose of making profits there from."

- C. W. Gernstenberg

#### Stages of Promotion

There are four stages in the promotion of a Joint Stock Company. These are stage are :

- 1) Discovery of an Idea
- 2) Detailed Investigation
- 3) Assembling the Requirements
- 4) Financing Proposition

**1) Discovery of an Idea :** The first stage in company promotion is the conception of a new idea. A person visualizes that there are opportunities for a particular type of business and it can profitably run. The idea may be to exploit a new area of natural resources or more profitable ventures in an existing line of business. He develops this idea with the help of technical experts in that field. If they are convinced that profitable avenues are available in that line of business then the idea is taken forward for more exhaustive analysis.

**2) Detailed Investigation :** The promoters will estimate total demand for the product. There may be certain concerns already in that type of business and so he will determine his share of demand. After determining the prospective demand for goods he will think of arranging finances for the venture. The availability of power, labour, raw materials and machinery is also considered. The cost structure of the product is analyzed to find out profitability from the venture. An expert opinion is sought of the viability of the project.

The work of estimation becomes more difficult if the proposed line of business is new. The estimates should be based on proper analysis of different factors. A guess work creates problems later on.

**3) Assembling the Requirements :** After making sure that the proposition is practical and profitable, the promoter proceeds to assemble the requirements. He persuades some more persons to join hands with him by becoming directors or founder members. If he has invented something new, he should get it registered in his name. He may also acquire some patent rights.

The promoter selects the factory site, decides about plant and machinery and contacts suppliers or raw materials, etc. He does not purchase all these because it involves huge sums of money. Instead of going for outright purchase he uses option methods. The contracts are finalized by paying option money and the ultimate purchase is done only when the company is incorporated. If the company fails to come up, the promoter only loses option money.

**4) Financing the Proposition :** The promoter decides about the capital structure of the company. The requirements of finances are estimated first. Then the sources from which this money will come are determined. How much share capital will be issued, the type of the shares to be issued, and the nature of loans, whether debentures or borrowing from financial institutions for a longer period all are finalized. Generally, commercial banks are helpful only in financing working capital

requirements the financial institutions for a longer period.

The financial requirements for short period and long period are estimated separately so that capital figures may be given in the memorandum of association. The mode of issuing shares and debentures is also decided by the promoter. Whether the issue is to be underwritten through some agency or the company is to issue securities itself is decided after considering money market position and the expected response from the public.

### 2.3.1 Promoter – Characteristics

**Q6. Define Promoters. State the characteristics of a promoter.**

*Ans :*

(Imp.)

#### Promoter

A promoter conceives an idea for setting up a particular business at a given place and performs various formalities required for starting a company. A promoter may be an individual, firm, association of persons or a company. The persons who assist the promoter in completing the various legal formalities are professional people like Solicitors, Accountant etc, and not promoters.

#### Characteristics of a Promoter

- ♦ A promoter conceives an idea for the setting up a business.
- ♦ He makes preliminary investigations and ensures about the future prospects of the business.
- ♦ He brings together various persons who agree to associate with him and share the business responsibilities.
- ♦ He prepares various documents and gets the company incorporated.
- ♦ He raised the required finances and gets the company going.

### 2.3.2 Kinds of Promoters

**Q7. Explain briefly the different types of promoters.**

*Ans :*

#### Types of Promoters

The different types of promoters are :

- (a) Professional Promoters
  - (b) Occasional Promoters
  - (c) Financial Promoters
  - (d) Managing Agents as Promoters
- (a) Professional Promoters :** These are the persons who specialize in promotion of companies. They hand over the companies to shareholders when the business starts. In India there is a lack of professional promoters.
- (b) Occasional Promoters :** These promoters take interest in floating some companies. They are not in promotion work on a regular basis but take up the promotion of some company and then go to their earlier profession. For example, Engineers, lawyers etc.
- (c) Financial Promoters :** Some financial institutions of financiers may take up the promotion of a company. They generally take up this work when financial environment is favourable at the time.
- (d) Managing Agents as Promoters :** In India, managing agents played an important role in promoting new companies. These persons used to float new companies and then got their managing agency rights.

**Q8. Briefly state the duties and liabilities of Promoters.**

*Ans :*

#### Duties And Liabilities Of Promoters

- i) **Observance of fiduciary relationship :** A promoter can neither be termed as an agent nor as a trustee of a company which has not come into existence. But he had wide powers

relating to the formation of the company. Law has, therefore, put the relationship of the promoters with company they bring into existence as well as with those whom they induce to become shareholders in it as that of a fiduciary character.

Lord Blackburn has made the following observation regarding the position of promoters : "Those who accept and use such extensive powers are not entitled to disregard the interests of the corporation altogether. They must make a reasonable use of the powers which they accept from the legislature; and consequently they do stand, with regard to the corporation, when formed, in what is commonly called a fiduciary relation to some extent."

- ii) **Disclosure of all material facts** : This fiduciary relationship imposes an obligation on the promoters to disclose fully all material facts relating to the formation of the company. The disclosure of all material facts, regarding contracts made and profits earned by them from the formation of the company, should be made and profits earned by them from the formation of the company, should be made to be independent and competent board of directors. Company may set aside the transaction and recover the benefit earned by the promoters if they fail to disclose complete facts.

However, it may be a difficult task for the promoters to find an independent Board particularly because a company may consist of a few friends or members of the same family. In such a case the disclosure in order to be effective must be made to the shareholders as a body and not to a selected circle of the promoter's nominees. The disclosure be made to the members of the purchasing company by its Articles or Prospectus or any other method. If this has been done absence of an independent board of directors will not invalidate the agreement.

- iii) **Liable for false statements, omission of facts etc.** : A promoter is also liable for omission of facts or false statements in the prospectus. Company can also proceed against the promoters for any damage caused to it on account of their breach of duty. The estate of a deceased promoter shall remain liable in an action by a company for deceit or breach of trust if any benefit has accrued to the estate.

## 2.4 PREPARATION OF IMPORTANT DOCUMENTS

- Q9. **What are the legal formalities involved in starting a new company?**  
(Or)

**What are the documents required for starting a new company ?**

*Ans :*

### Registration

A company comes into existence only after registration under the Companies Act. Hence companies should necessarily be registered. A company can be registered as a private limited company or as a public limited company. The promoters of the company have to take several steps to get the company registered with the Registrar of Joint Stock Companies. They have to decide the name of the company. Several prescribed documents have to be duly prepared. Necessary stamp duty, registration fees and filing fees and also to be paid at the time of filing documents.

### Documents to be Filed

The following documents are to be filed with the Registrar of companies :

1. **Memorandum of Association** : It is the basic document of the company. The company is born on the basis of memorandum. Hence, memorandum is called the charter or life giving documents of the company. It is the fundamental and unalterable law of the company. It is the foundation on which the structure of the company stands. It defines and confines the scope of activity of the company. It must be

printed, divided into paragraphs and serially numbered. It must be dated and properly stamped. In the case of a private company, it must be signed by at least two persons. In case of a company, it must be signed by at least seven persons.

2. **Articles of Association** : It contains rules, regulations and by laws for the internal management of the company. It states the rights and duties of the members of the company. It also states the powers of officers and directors of the company. It determines the relationship between the company and its members. It must be printed, divided into paras, and serially numbered. It must be signed by each subscriber of the memorandum in the presence of a witness it must be duly stamped.
3. **Statement of Nominal Capital** : If the nominal capital exceeds rupees one crore, a certified copy of the permission of the Securities Exchange Board of India should be filed.
4. **List of Directors** : This list contains the names and addresses and occupation of the persons who have agreed to act as the first directors of the company.
5. **Written consent of directors** : If the directors are appointed by the articles or named in the articles, their written consent to act as directors should be filed.
6. **Undertaking by Directors Regarding Qualification Shares** : A written undertaking to take up and pay for the qualification shares by directors should be filed. This is not required for a private company.
7. **Statutory Declaration** : A declaration that all the formalities with regard to registration are fulfilled is to be filed. This declaration may be signed by an Advocate or a Chartered Accountant or a Director or Secretary or any other officer of the company engaged in its formation.

**Q10. What are the certificates required for a company ?**

*Ans :*

### **Certificate of Incorporation**

Promoters should pay the necessary filing and registration fees. The Registrar will examine the documents. If they are found to be correct and in order, he will enter the name of the company in the register. Afterwards he will issue a certificate known as "Certificate of Incorporation." It contains the name of the company, the date of its issue and the signature of the Registrar with his seal.

This certificate is more or less the certificate of birth of a company. It is also called birth certificate of a company. It recognizes the company as a separate legal personality having perpetual succession. The company attains maturity at its birth. The certificate cannot be disputed on any grounds what so ever. It is a conclusive evidence of the formation of the company. The certificate of incorporation, even if it is irregular, cannot be cancelled.

### **Certificate of Commencement of Business**

A private limited company can start its business soon after receiving the certificate of incorporation. But a public company cannot do any business and cannot exercise any borrowing powers. It can do so only after obtaining another certificate called certificate of commencement of business. For obtaining this certificate, the following conditions must be fulfilled :

1. **Filing of prospectus** : A copy of the prospectus should be filed with the Registrar. If prospectus is not issued, a statement –in-lieu of prospectus must be filed.
2. **Receipt of minimum subscription** : The amount of minimum subscription should be received.
3. **Payment by directors** : The directors should pay the amount due on their qualification shares.
4. **Filing of declaration** : A declaration signed by any director of the company or its secretary that the necessary requirements have been complied with should be filed with the Registrar.

**2.4.1 Memorandum of Association**

**Q11. What is memorandum of Association? Explain its features.**

*Ans :* (Dec.-20, Imp.)

**Memorandum of Association**

The Memorandum of Association is the constitution of the company and provides the foundation on which its structure is built. It is the principal document of the company and no company can be registered without the memorandum of association. It defines the scope of the company's activities as well as its relation with the outside world.

According to Lord Macmillan, "The purpose of the memorandum is to enable the shareholders, creditors and those who deal with the company to know what is permitted range of enterprise."

Section 2 (28) of the Companies Act defines a memorandum as "the memorandum of association of a company as originally framed or as altered from time to time in pursuance of any previous Company Laws or of this Act." The content of the memorandum are explained in Section B of the Act.

**Features**

The following are the features of a Memorandum of Association :

- a) Every company must prepare its own Memorandum of Association
- b) It is the constitution of the company.
- c) It is an unalterable charter of a company.
- d) It shows the permitted range of activities.
- e) It is prepared in paragraphs, numbered properly and in sequence.
- f) It is prepared by the promoters
- g) It is signed by at least seven persons in a public company and by two persons in a private company.

**2.4.1.1 Clauses of Memorandum**

**Q12. Give various clauses of memorandum of Association ?**

*Ans :* (Dec.-20, Imp.)

**Clauses of Memorandum**

The memorandum of association contains the following clauses :

1. **The Name Clause :** A company being a separate legal entity must have a name. A company may select any name which does not resemble the name of any other company and it should not contain the words like king, queen, emperor, government bodies and the names of world bodies like U.N.O., W.H.O. World Bank, etc. The name should not be objectionable in the opinion of the government. The word 'limited' must be used at the end of the name of a Public and 'Private Limited' is used by a Private Company. These words are used to ensure that all persons dealing with the company should know that the liability of its members is limited. The name of the company must be painted outside every place where business of the company is carried on.

If the company has a name which is undesirable or resembles of the name of any other existing company, this name can be changed by passing an ordinary resolution.

2. **Registered Office Clause :** Every company should have a registered office, the address of which should be communicated to the Registrar of Companies. This helps the Registrar to have correspondence with the company. The place of registered office can be intimated to the Registrar within 30 days of incorporation or commencement of business, whichever is earlier.

A company can shift its registered office from one place to another in the same town with intimation to the Registrar. But if the company wants to shift its registered office from one town to another town in the same state, a special resolution is required to be passed. If the office is to be shifted from one state to another state it involves alternation in the memorandum.

3. **Object Clause :** This is one of the important clauses of the Memorandum of Association. It determines the rights and powers of the company and also defines its sphere of activities. The object clause should be decided carefully because it is difficult to alter this clause later on. No activity can be taken up by the company which is not mentioned in the object clause. Moreover, the investors i.e., shareholders will know the sphere of activities which the company can undertake. The choice of the object clause lies with the subscribers to the memorandum. They are free to add any thing to it provided it is not contrary to the provisions of the Companies Act and other laws of the land.

The object clause offers protection to the shareholders by ensuring that the funds raised for undertaking are not going to be risked in any other undertaking. The creditors also feel protected by this clause. By confining the activities within a specified field, it serves the public interest also.

The object clause can be changed to enable a company to carry on its activities more economically, or by improved means to carry on some business which under existing circumstances may conveniently be combined with the object clause.

4. **Liability Clause :** This clause states that the liability of the members is limited to the value of shares held by them. It means that the members will be liable to pay only the unpaid balance of their shares. The liability of the members may be limited by guarantee. It also states the amount which every member will undertake to contribute to the assets of the company in the events of its winding up.
5. **Capital Clause :** The clause states the total capital of the proposed company. The division of capital into equity share capital and preference share capital should also be mentioned. The number of shares in each category and their value should be given. If some special rights and privileges are conferred on any type of shareholders, mention may also be made in the clause to enable the public to know the exact nature of capital structure of the company.

6. **Association Clause :** This clause contains the names of signatories to the memorandum of association. The memorandum must be signed by at least seven persons in the case of a public limited company and by at least two persons in case of private limited company. Each subscriber must take at least one share in the company. The subscribers declare that they agree to incorporate the company and agree to take the shares stated against their names. The signature of subscribers are attested by at least one witness each. The full addresses and occupations of subscribers and the witness are also given.

#### Q13. Explain the importance of memorandum of association ?

*Ans :*

Memorandum is the fundamental document of a company which contains conditions upon which the company is incorporated. This document is important for the following reasons :

1. Memorandum defines the limitations on the powers of the company established under the Act.
2. The whole structure of the company is built upon memorandum.
3. It explains the scope of activities of the company. The investors know where their money will be spent and outsider also knows the nature of activities the company is authorized to take up.
4. It is a basic document of the company with regard to its constitution.
5. It is a charter of the company which sets out its written goals.

#### 2.4.2 Articles of Association

##### 2.4.2.1 Contents of Article of association

#### Q14. What is Articles of Association? What are the contents of the Articles association?

*Ans :*

(Dec.-20, Imp.)

#### Articles of Association

Articles of Association are the regulations and bye-laws for governing the internal affairs of the company. They may be described as the internal

regulations of the company governing its management and embodying the power of the directors and officers of the company as well as the powers of the shareholders.

The companies Act defines 'Articles' as "Articles of Association of a company as originally framed or as altered from time to time in pursuance of any previous company law or this Act." [Sec. 2 (2)] They also include so far as they apply to the company, those in Table A in Schedule I annexed to the Act or corresponding provisions in the earlier Acts.

According to section 26 of the Companies Act, the following companies must file their own articles along with the Memorandum of Association for registration :

- i) Private Limited Companies
- ii) Companies Limited by Guarantee
- iii) Unlimited Companies

The Articles of Association of a private company must contain the statutory restrictions which make them private companies. The Articles of a guarantee company should state the number of members with which the company is to be registered and the articles of an unlimited company should state both the number of members as well as the amount of share capital (if any) with which the company is to be registered.

Articles of Association are to be printed, divided into paragraphs, each consisting generally of one regulation, serially numbered and signed by each subscriber to the Memorandum in the presence or at least one attesting witness with their addresses and occupations (Sec. 30).

### Contents

The Articles of Association of a company usually deal with the following matters.

- (i) The exclusion, total or partial of Table A.
- (ii) Adoption or execution of preliminary contracts.
- (iii) Definition of important terms and phrases.
- (iv) Share capital and rights attached to different classes of shares.

- (v) Procedure as to making of calls and forfeiture of shares.
- (vi) Appointment of managerial personnel e.g. directors, managing directors etc., their rotation, powers (including borrowing) and duties.
- (vii) Rules as to :
  - a. Transfer and transmission of shares
  - b. Issue of share warrants
  - c. General meetings
  - d. Common seal of the company
  - e. Dividend, reserves and capitalization of profits
  - f. Accounts and audit
  - g. Lien on shares
  - h. Remuneration of managerial personnel
  - i. Issue of redeemable preference shares
  - j. Paying commissions and fixing rate thereof for subscribing or agreeing to subscribe etc. For any share in the company.
  - k. Paying interest out of capital
  - l. Winding up of the company.

In framing Articles of Association, care must be taken to see that regulations framed do not go beyond the powers of the company itself as contemplated by the Memorandum of Association nor should they be such as would violate any of the requirements of the Companies Act itself.

### Q15. How do you know about the binding effects of the Articles of Association ?

*Ans :*

The Articles bind the company to its members, the members to the company and the member to each other.

1. **Binding the company to its members :**  
The Company is bound to the members to observe and follow the articles. In case the company commits a breach of the articles, members can restrain the company from

doing so, by bringing an injunction against the company. But only a shareholder or a member of the company, in the capacity of a member and not in any other capacity, can enforce the rules and regulations contained in the Articles. Thus, a solicitor of a company, named as such in the articles, subsequently became a member of the company. He failed to save himself from removal from office by seeking to enforce the Articles in question against the company. A person, who is not member of the company, has no right to take benefit of the Articles. Third parties, who are not members of the company, cannot prevent the company from acting in contravention of its Articles.

2. **Binding on members in their relation to the company :** Articles of Association is a contract of the most sacred character' between the company and each member, binding the members to the company under the Memorandum or Articles shall be debt due from him to the company. Articles are taken to be signed and agreed to be observed by each member. Members are bound by the articles just as if every one of them had contracted to conform to them. But no articles can constitute a contract between the company and a third person. A company can use its members for the enforcement of its Articles as well as for restraining their breach.
3. **Binding between members :** Articles also form a contract between individual members qua members and that this contract can be enforced directly by one member in his own name against another without joining the company as a party to the action.

It is to be noted that the contractual force given to the articles is limited to matters arising out of the company's relationship of the members and does not extend beyond the company's relationship. It was held in *Khusiram v. Hanutmal* that 'articles do not affect or regulate the rights arising out of a commercial contract with which the members have no concern, since such rights are completely outside the company relationship.'

**Q16. What are the differences between memorandum of association and Articles of Association ?**

*Ans :*

**Difference between Memorandum of Association and Articles of Association**

Memorandum of Association	Articles of Association
<b>Scope</b>	
The memorandum is a sort of constitution of the company. The company works in the framework given in the memorandum.	The articles contain bye-laws for the day-to-day working of the company. Articles are framed in the orbit of the memorandum of association.
<b>Necessity</b>	
The memorandum is a must for getting a company registered.	Public companies may not have their own articles, but can adopt Table A of Schedule I as its articles. Private companies limited by guarantee and unlimited companies - must have their own articles.
<b>Provision</b>	
The memorandum cannot contain - in anything contrary to Companies Act.	The articles of association are subordinate to the memorandum and Companies act - and cannot contain anything contrary to both.



Limitation	
A company cannot do anything beyond the scope of the memorandum. Any act act beyond its scope done will be void.	Anything done beyond the scope of the articles will not be void and it can be - ratified by passing a special resolution.
Relationship	
It regulates the relationship between - company and the members of the public.	If defines relationship between company and the members and among members themselves.
Alternation	
Memorandum can be altered only under special circumstances and involves many formalities.	Alternation of articles is not difficult. It can be altered by passing special resolution.

### 2.4.3 Prospectus

**Q17. Define Prospectus. Explain its objectives.**

*Ans :*

#### Prospectus

A document containing detailed information about the company and an invitation to the public for subscribing to the share capital and debentures issued is called prospectus. The prospectus explains the prospects of the company. It may be issued in the form of a notice, circular, advertisement or any other form of invitation to the general public. It brings to the notice of the public that a new company has been formed. It the document inviting deposits from the public or inviting offers from the public for the subscription of shares in or debentures of a company.

#### Objectives of Prospectus

- ♦ To bring to the notice of the public that a new company has been formed.
- ♦ To arouse interest of the public to make investment in the company.
- ♦ To create confidence in the public about the company, its directors and its profitability and
- ♦ To secure that the directors of the company accept responsibility of the statements in prospectus.

### 2.4.3.1 Contents of Prospectus

**Q18. Explain the contents of prospectus.**

*Ans :*

Prospectus must contain facts and only facts. Any false information or misstatements in it, invite civil and criminal liabilities for the persons responsible for such untrue statements. The essential particulars to be specified in the prospectus and the reports attached to it are as follows:

- a) Date of incorporation of the company.
- b) Location of registered office.
- c) Names of the Stock Exchanges where listing is proposed.
- d) Minimum subscription.
- e) Dates of opening, closing and earliest closing of subscription list.
- f) Disclaimer clause of SEBI.
- g) Capital structure of the company.

- h) Highlights and risk factors.
- i) Brief history of the company, its main objects and present business activities.
- j) Names and description of promoters/directors and changes, if any.
- k) Management of the company.
- l) Objects of the present issue.
- m) Cost of the project and means of financing.
- n) Details of the projects such as
  - ▶ Location of project.
  - ▶ Requirement of plant and machinery and arrangements made there for.
  - ▶ Land and building.
  - ▶ Technical arrangements.
  - ▶ Manufacturing process.
- (o) Infrastructure facilities such as:
  - ▶ Requirement and source of raw materials.
  - ▶ Requirement of power and arrangements made therefor.
  - ▶ Requirement of water and arrangements made therefor.
  - ▶ Status of Pollution control and clearance obtained for that purpose.
- (p) Justification of premium.
- (q) Outstanding litigations/disputes against the company and promoters and its impact on the company.
- (r) Material developments since the date of the last balance-sheet.
- (s) Authority for the present issue.
- (t) Profitability projections and comments regarding appraisal, etc.
- (u) Name and address of company secretary, compliance officer, legal advisor and auditor.
- (v) Agents and Trustees for debenture holders.

- (w) Credit rating.
- (x) Underwriters, bankers and its collecting branches, lead managers, co-managers, legal adviser and registrar to the issue.
- (y) Availability of application forms and prospectus.

#### 2.4.3.2 Red herring prospectus

##### Q19. Discuss about red herring prospectus.

*Ans :*

A **red herring prospectus**, as a first or preliminary prospectus, is a document submitted by a company (issuer) as part of a public offering of securities (either stocks or bonds). Most frequently associated with an initial public offering (IPO), this document, like the previously submitted Form S-1 registration statement, must be filed with the Securities and Exchange Commission (SEC).

A red herring prospectus is issued to potential investors, but does not have complete particulars on the price of the securities offered and quantum of securities to be issued. The front page of the prospectus displays a bold red disclaimer stating that information in the prospectus is not complete and may be changed, and that the securities may not be sold until the registration statement, filed with the market regulator, is effective.

Potential investors may not place buy orders for the security, based solely on the information contained within the preliminary prospectus. Those investors may, however, express an "indication of interest" in the offering, provided that they have received a copy of the red herring at least 48 hours prior to the public sale. After the registration statement becomes effective, and the stock is offered to the public, indications of interest may be converted to purchase orders, at the buyer's discretion. The final prospectus must then be promptly delivered to the buyer.

"Red-herring prospectus" means a prospectus that does not have complete particulars on the price of the securities offered and quantum of securities offered. The red herring statement contains:

1. purpose of the issue;
2. disclosure of any option agreement;
3. underwriter's commissions and discounts;
4. promotion expenses;
5. net proceeds to the issuing company (issuer);
6. balance sheet;
7. earnings statements for last 3 years, if available;
8. names and address of all officers, directors, underwriters and stockholders owning 10% or more of the current outstanding stock;
9. copy of the underwriting agreement;
10. legal opinion on the issue;
11. copies of the articles of incorporation of the issuer.

#### 2.4.4 Statement in Lieu of Prospectus

**Q20. Explain the concept of statement in lieu of prospectus.**

*Ans :* (Nov.-19, Imp.)

If a public company does not raise its capital by the public issue of shares or debentures, then it need not publish a prospectus. In such a company, capital may be collected privately and shares may be allotted by the mutual agreement of a few people. Such public companies having a share capital, and not issuing a prospectus must prepare a statement in lieu of the prospectus and file it with the Registrar of Companies. It is filed at least three days before the first allotment of shares or debentures. The contents of the statement in lieu of prospectus are more or less similar to the prospectus. It should be signed and dated by the directors.

The prospectus or a statement in lieu of the prospectus should not contain any false statement. Misrepresentation or misstatement of facts in such documents is punishable under the Companies Act, 1956.

The following points must be noted about the statement in lieu of prospectus:

- a) **Form:** It should be as per the form specified in the Companies Act.
- b) **Filing:** It should be filed with the Registrar at least three days before the allotment of shares.
- c) **Need :** It is needed by small companies where the Directors can collect capital from their friends and relatives.
- d) **Decision:** Prospective investors can take decisions on the basis of the statement regarding investing in the company.
- e) **Contents:** It contains the following information :
  - ▶ Name and address of the company;
  - ▶ Date on which it was registered;
  - ▶ Number and types of shares;
  - ▶ Rights of shareholders;
  - ▶ Particulars regarding directors, managing directors; etc.
  - ▶ Details regarding preliminary expenses incurred.
  - ▶ Details regarding underwriting of shares.
  - ▶ Treatment of reserves
  - ▶ Names and addresses of auditors, bankers, legal advisors, etc.
  - ▶ Objects of the company.

## Short Question and Answers

### 1. Joint Stock Company

*Ans :*

A company is "an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and who share the profit and loss arising there from".

– James Stephenson

"A Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership".

– L.H.Haney

"A corporation is an artificial being, invisible, intangible and existing only in contemplation of the law. Being a mere creation of law, it possesses only the properties which the charter of its creation confers upon it either expressly or as incidental to its very existence."

– Chief Justice Marshall

### 2. Characteristics of Joint Stock Company

*Ans :*

The following are the characteristics of a Joint Stock Company :

- i) **Association of Persons:** A company is an association of persons joining hands with a common motive. A private limited company must have at least two persons and a public limited company must have at least seven members to get it registered. Furthermore, the number of shareholders should not exceed 50 in private companies but there is no maximum limit for the members in a public limited company.
- ii) **Independent Legal Entity :** The Company is created under law. It has a separate legal entity apart from its members. A company acts independently of its members. The company is not bound by the acts of its

members and members do not act as agents of the company. A person can own its shares and can be its creditor too. The life of the company is independent of the lives of its members. The company can sue and be sued in its own name.

- iii) **Common Seal:** A company being an artificial person cannot put its signatures. The law requires every company to have a seal and get its name engraved on it. The seal of the company is affixed on all important documents and contracts as a token of signature. The directors must witness the affixation of the seal.

### 3. Chartered Companies

*Ans :*

Historically, most of the early companies were set up through a Royal Charter issued by the head of the state or monarch. The rights, duties liabilities and exclusive privileges of such companies 'were defined by the Royal Charter. The formation of such companies started during the 17<sup>th</sup> century, i.e., during the era of the Industrial Revolution. *For example*, the East India Company and the Bank of England are chartered companies. Such companies do not exist in India since there is no system of monarchy.

### 4. Statutory Company

*Ans :*

A statutory company comes into existence by a special act of the parliament or legislature of the nation or the state. Its rights, duties, liabilities, powers, objects, scope, etc. are clearly defined in the Act, which brings the company into existence. Generally, the formation of such a company is directly linked with social, economic or national interests. *For example*, the Reserve Bank of India (RBI), State

Bank of India (SBI) and Life Insurance Corporation of India (LIC) have been established by the special Acts of the parliament and therefore, are the statutory companies.

### 5. Registered Companies

*Ans :*

Companies which are registered under the provisions of the Companies Act of the nation concerned are known as 'Registered Companies'. The Act lays down the procedure for their formation, working and winding up. It also defines the rights, duties, powers, liabilities and other obligations of its members and directors. In India, the companies are registered under the Companies Act, 1956. For example, Tata Iron and Steel Industry and the Mafatlal Fine Spinning and Weaving are the registered companies.

### 6. Promotion

*Ans :*

The promotion of every business requires a process to be followed. A number of formalities have to be completed before a unit can come into existence. The length of process and the number of formalities vary with the type of organization and scale of operations. It is easy to start sole trade and partnership concerns but a joint stock company requires a lengthy process.

"Promotion may be defined as the process of organizing and planning the finance of a business enterprise under the corporate form".

- L.H. Haney

### 7. Characteristics of a Promoter

*Ans :*

- ♦ A promoter conceives an idea for the setting up a business.
- ♦ He makes preliminary investigations and ensures about the future prospects of the business.
- ♦ He brings together various persons who agree to associate with him and share the business responsibilities.

- ♦ He prepares various documents and gets the company incorporated.
- ♦ He raised the required finances and gets the company going.

### 8. Explain briefly the different types of promoters.

*Ans :*

#### Types of Promoters

The different types of promoters are :

- (a) Professional Promoters
  - (b) Occasional Promoters
  - (c) Financial Promoters
  - (d) Managing Agents as Promoters
- (a) **Professional Promoters** : These are the persons who specialize in promotion of companies. They hand over the companies to shareholders when the business starts. In India there is a lack of professional promoters.
- (b) **Occasional Promoters** : These promoters take interest in floating some companies. They are not in promotion work on a regular basis but take up the promotion of some company and then go to their earlier profession. For example, Engineers, lawyers etc.
- (c) **Financial Promoters** : Some financial institutions of financiers may take up the promotion of a company. They generally take up this work when financial environment is favourable at the time.
- (d) **Managing Agents as Promoters** : In India, managing agents played an important role in promoting new companies. These persons used to float new companies and then got their managing agency rights.

### 9. Certificate of Incorporation

*Ans :*

Promoters should pay the necessary filing and registration fees. The Registrar will examine the

documents. If they are found to be correct and in order, he will enter the name of the company in the register. Afterwards he will issue a certificate known as "Certificate of Incorporation." It contains the name of the company, the date of its issue and the signature of the Registrar with his seal.

This certificate is more or less the certificate of birth of a company. It is also called birth certificate of a company. It recognizes the company as a separate legal personality having perpetual succession. The company attains maturity at its birth. The certificate cannot be disputed on any grounds what so ever. It is a conclusive evidence of the formation of the company. The certificate of incorporation, even if it is irregular, cannot be cancelled.

### 10. Memorandum of Association

*Ans :*

The Memorandum of Association is the constitution of the company and provides the foundation on which its structure is built. It is the principal document of the company and no company can be registered without the memorandum of association. It defines the scope of the company's activities as well as its relation with the outside world.

According to Lord Macmillan, "The purpose of the memorandum is to enable the shareholders, creditors and those who deal with the company to know what is permitted range of enterprise."

Section 2 (28) of the Companies Act defines a memorandum as "the memorandum of association of a company as originally framed or as altered from time to time in pursuance of any previous Company Laws or of this Act." The content of the memorandum are explained in Section B of the Act.

### 11. Features of a Memorandum of Association

*Ans :*

- Every company must prepare its own Memorandum of Association
- It is the constitution of the company.
- It is an unalterable charter of a company.

- It shows the permitted range of activities.
- It is prepared in paragraphs, numbered properly and in sequence.
- It is prepared by the promoters
- It is signed by at least seven persons in a public company and by two persons in a private company.

### 12. Name Clause

*Ans :*

A company being a separate legal entity must have a name. A company may select any name which does not resemble the name of any other company and it should not contain the words like king, queen, emperor, government bodies and the names of world bodies like U.N.O., W.H.O. World Bank, etc. The name should not be objectionable in the opinion of the government. The word 'limited' must be used at the end of the name of a Public and 'Private Limited' is used by a Private Company. These words are used to ensure that all persons dealing with the company should know that the liability of its members is limited. The name of the company must be painted outside every place where business of the company is carried on.

If the company has a name which is undesirable or resembles of the name of any other existing company, this name can be changed by passing an ordinary resolution.

### 13. Object Clause

*Ans :*

This is one of the important clauses of the Memorandum of Association. It determines the rights and powers of the company and also defines its sphere of activities. The object clause should be decided carefully because its is difficult to alter this clause later on. No activity can be taken up by the company which is not mentioned in the object clause. Moreover, the investors i.e., shareholders will know the sphere of activities which the company can undertake. The choice of the object clause lies with the subscribers to the memorandum. They are free to add any thing to it provided it is not contrary to the provisions of the Companies Act and other laws of the land.

The object clause offers protection to the shareholders by ensuring that the funds raised for undertaking are not going to be risked in any other undertaking. The creditors also feel protected by this clause. By confining the activities within a specified field, it serves the public interest also.

#### 14. Liability Clause

*Ans :*

This clause states that the liability of the members is limited to the value of shares held by them. It means that the members will be liable to pay only the unpaid balance of their shares. The liability of the members may be limited by guarantee. It also states the amount which every member will undertake to contribute to the assets of the company in the events of its winding up.

#### 15. Capital Clause

*Ans :*

The clause states the total capital of the proposed company. The division of capital into equity share capital and preference share capital should also be mentioned. The number of shares in each category and their value should be given. If some special rights and privileges are conferred on any type of shareholders, mention may also be made in the clause to enable the public to know the exact nature of capital structure of the company.

#### 16. Articles of Association

*Ans :*

Articles of Association are the regulations and bye-laws for governing the internal affairs of the company. They may be described as the internal regulations of the company governing its management and embodying the power of the directors and officers of the company as well as the powers of the shareholders.

The companies Act defines 'Articles' as "Articles of Association of a company as originally framed or as altered from time to time in pursuance of any previous company law or this Act." [Sec. 2 (2)] They also include so far as they apply to the company, those in Table A in Schedule I annexed to the Act or corresponding provisions in the earlier Acts.

#### 17. Contents of the Articles

*Ans :*

The Articles of Association of a company usually deal with the following matters.

- i) The exclusion, total or partial of Table A.
- ii) Adoption or execution of preliminary contracts.
- iii) Definition of important terms and phrases.
- iv) Share capital and rights attached to different classes of shares.
- v) Procedure as to making of calls and forfeiture of shares.
- vi) Appointment of managerial personnel e.g. directors, managing directors etc., their rotation, powers (including borrowing) and duties.

#### 18. Prospectus

*Ans :*

A document containing detailed information about the company and an invitation to the public for subscribing to the share capital and debentures issued is called prospectus. The prospectus explains the prospects of the company. It may be issued in the form of a notice, circular, advertisement or any other form of invitation to the general public. It brings to the notice of the public that a new company has been formed. It the document inviting deposits from the public or inviting offers from the public for the subscription of shares in or debentures of a company.

#### 19. Objectives of Prospectus

*Ans :*

- ♦ To bring to the notice of the public that a new company has been formed.
- ♦ To arouse interest of the public to make investment in the company.
- ♦ To create confidence in the public about the company, its directors and its profitability and
- ♦ To secure that the directors of the company accept responsibility of the statements in prospectus.

**20. Contents of Prospectus***Ans :*

Prospectus must contain facts and only facts. Any false information or misstatements in it, invite civil and criminal liabilities for the persons responsible for such untrue statements. The essential particulars to be specified in the prospectus and the reports attached to it are as follows:

- a) Date of incorporation of the company.
- b) Location of registered office.
- c) Names of the Stock Exchanges where listing is proposed.
- d) Minimum subscription.
- e) Dates of opening, closing and earliest closing of subscription list.
- f) Disclaimer clause of SEBI.
- g) Capital structure of the company.
- h) Highlights and risk factors.
- i) Brief history of the company, its main objects and present business activities.
- j) Names and description of promoters/directors and changes, if any.
- k) Management of the company.
- l) Objects of the present issue.

**21. Red Herring Prospectus***Ans :*

A **red herring prospectus**, as a first or preliminary prospectus, is a document submitted by a company (issuer) as part of a public offering of securities (either stocks or bonds). Most frequently associated with an initial public offering (IPO), this document, like the previously submitted Form S-1 registration statement, must be filed with the Securities and Exchange Commission (SEC).

A red herring prospectus is issued to potential investors, but does not have complete particulars on the price of the securities offered and quantum of securities to be issued. The front page of the prospectus displays a bold red disclaimer stating that information in the prospectus is not complete and

may be changed, and that the securities may not be sold until the registration statement, filed with the market regulator, is effective.

**22. Statement in Lieu of Prospectus***Ans :*

If a public company does not raise its capital by the public issue of shares or debentures, then it need not publish a prospectus. In such a company, capital may be collected privately and shares may be allotted by the mutual agreement of a few people. Such public companies having a share capital, and not issuing a prospectus must prepare a statement in lieu of the prospectus and file it with the Registrar of Companies. It is filed at least three days before the first allotment of shares or debentures. The contents of the statement in lieu of prospectus are more or less similar to the prospectus. It should be signed and dated by the directors.

**23. Public Limited Company.***Ans :*

The Indian Companies Acts, **1956**, defines a public company under Section **3(1)** (iv), as 'all companies other than private companies are known as public companies'. In other words, a public company does not limit the number of members to fifty, it does not restrict the right of members to transfer their shares and finally it does not prohibit invitation to public to subscribe to its shares and debentures. The minimum number of members required to form a public company is seven with no upper limit.

**24. Private Limited Company.***Ans :*

A private company is one which, by its Articles:

- Limits the number of its members to fifty, excluding past and present employees;
- Restricts the right of the members to transfer the shares; and
- Prohibits the invitation to public to subscribe to the company's shares and debentures.

A minimum of two members are required to form a private limited company. A private company has to undergo fewer legal formalities.



### *Choose the Correct Answer*

1. A Private Limited Company must have at least [ b ]  
(a) Three persons (b) Two persons  
(c) Seven persons (d) Ten person
2. A Public Limited Company must have at least [ a ]  
(a) Seven persons (b) Ten persons  
(c) Twenty persons (d) Six persons
3. A Joint Stock Company is registered under the [ c ]  
(a) Statutory Act (b) Chartered Act  
(c) Companies Act (d) All of the above
4. A Private Limited Company [ a ]  
(a) Does not allow the transfer of shares (b) Allows the transfer of shares  
(c) Allows the transfer of shares with the consent of other shareholders. (d) None of the above
5. A Holding Company of one which [ a ]  
(a) Controls the policies of another company (b) Absorbs another company  
(c) Amalgamates with another company. (d) All
6. An Indian Company is one [ c ]  
(a) Whose business is situated in India (b) Whose majority shares are held in India  
(c) Which is incorporated in India (d) All
7. The main advantage with a Public Corporation is [ b ]  
(a) Continued political interference (b) Competitive prices  
(c) Misuse of power (d) Burden for the government
8. The main disadvantage with a Public Corporation is [ d ]  
(a) Flexibility (b) Economics of scale  
(c) Public accountability (d) Continued political interference
9. Indian Companies Act was enacted in [ a ]  
(a) 1956 (b) 1936  
(c) 1947 (d) 1950
10. Which of the following is not a feature of the company ? [ b ]  
(a) Transferability of shares (b) Unlimited liability  
(c) Common seal (d) Winding up

## *Fill in the blanks*

1. An artificial person created by law with perpetual succession and common seal is called \_\_\_\_\_
2. The limited liability means that the liability is limited to the \_\_\_\_\_ value of the shares held by the shareholder.
3. A private company should add the words at \_\_\_\_\_ the end of its name.
4. "The minimum number of persons in a \_\_\_\_\_ company is seven.
5. The formation of Joint Stock Company has two stages. They are (a) \_\_\_\_\_ (b) \_\_\_\_\_
6. The competent authority to issue permission to release Prospectus is \_\_\_\_\_
7. The statement inviting general public to subscribe to the share capital of the company is called \_\_\_\_\_
8. The number of clauses describing the contents of Memorandum of Association are \_\_\_\_\_
9. The number of \_\_\_\_\_ in a company is in proportion to the number of shares held by each shareholder.
10. A joint stock company is registered under \_\_\_\_\_
11. "A cooperative society is registered under \_\_\_\_\_
12. The profits are distributed, in case of a cooperative society, based on the business done by \_\_\_\_\_ with the society.

### ANSWERS

1. Joint stock company
2. face
3. private limited (Pvt. Ltd)
4. public
5. (a) obtaining certificate of incorporation  
(b) obtaining certificate of commencement of business
6. Securities Exchange Board of India (SEBI)
7. Prospectus
8. six
9. voting rights
10. Indian Companies Act, 1956
11. Indian Cooperative Societies Act, 1904
12. each member

# UNIT III

## INTRODUCTION TO FUNCTIONS OF MANAGEMENT :

Management - Meaning - Characteristics - Functions of Management - Levels of Management - Skills of Management- Scientific Management - Meaning - Definition - Objectives - Criticism - Fayol's 14 Principles of Management.

### 3.1 MANAGEMENT - MEANING - CHARACTERISTICS

**Q1. Define Management. What are the main characteristics of management?**

*Ans :* (Nov.-19, Dec.-20, Imp.)

#### Meaning

The concept of management is as old as human civilisation. Management in today's context has the most significant influence on modern life, giving a strong essence to the very purpose of management.

The concept of management is useful and applicable to all types of organisations, whether profit-making or service-oriented. Therefore, it is said that management is a universal process. It is useful and essential to business firms, irrespective of their size and scale of operations, government enterprises, educational and health institutions, military organisations, gymkhanas and clubs, trade associations and chambers of commerce, etc. In other words, the concept of management integrates and transforms various resources into ultimate goals and objectives, i.e., maximisation of profits or services.

#### Definitions

**Fredrick Winslow Taylor** emphasised the engineering aspects of management, His definition mainly deals with plant management.

"Management is knowing exactly what you want men to do and then seeing that they do it in the best and cheapest way."

**Henry Fayol** describes management in terms of what a manager does.

"To manage is to forecast, to plan, to organise, to command, to coordinate and to control.

- Henry Fayol

"Management is a distinct process consisting of planning, organising, actuating and controlling, performed to determine and accomplish stated goals by the use of human beings and other resources."

- George Terry

"Management is defined as the creation and maintenance of an internal environment in an enterprise, where individuals, working together in groups, can perform efficiently and effectively towards the attainment of group goals."

- Koontz and O'Donnell )

#### Characteristics of Management

The following are the characteristics of management :

- a) **Management is an integrating process:** Every organisation requires human, physical and financial resources to carry on its activities. The six Ms, viz., Men, Material, Machines, Methods, Money and Markets are its basic resources. These six Ms are routed by the managers through the managerial process of planning organising, actuating and controlling to achieve organisational goals. Management, thus, integrates human elements with non-human elements.
- b) **Management is a universal process:** The principles and techniques of management are all pervasive. The basic concepts, principles and techniques of management are equally applicable to all sorts of group endeavours. However, they are not standard. They require modification and adaptation, depending upon nature of activity, scale of operations, types of technology and human resource and other inputs used in such endeavours.

- c) **Management is a group activity:** Management as a group or class can be considered at two levels:
- At the micro-level, management as a group refers to all managers from the highest authority to the lowest one, who manage the enterprise.
  - At the macro-level, it refers to human activities where people work in groups, viz., economic, social, political, religious or cultural activities.
- d) **Management is goal-oriented:** Management is concerned with the attainment of group objectives or common objectives of the enterprise. In the process of attaining group objectives, management also endeavours to attain the personal objectives of individuals, especially consumers and workers. The success of management is judged by the extent to which these goals are achieved.
- e) **Management is a dynamic process:** Management seeks to maintain a continuous equilibrium of an enterprise with its external environment - economic, social, political, cultural and technological, in order to ensure not only the survival and growth of the enterprise but also to make it fulfil the aspirations of various constituents of the society, in the best possible manner.
- f) **Management is a social process:** Management is practised by the people (managers), through the people (workers) and for the people (consumers and the society at large). Human resource is the only active factor of production and thus its role in management cannot be ignored. Thus, management is not an individual but a social process.
- g) **Management is intangible:** Management is intangible or an invisible force. It is abstract in character. Managerial activities are only descriptive and not quantifiable. Management cannot be seen but its presence can be felt from its results, viz. higher productivity, increased efficiency, healthy employee-management relationship, high employee morale, etc.
- h) **Management is art, science and profession:** Management is an art as it involves

an According to this' knowledge and skills for the solution of managerial problems. It is a implementing and cora systematised body of knowledge, consisting of generally accepted principles. It is now unfolding as a distinct profession due to the separation of management from ownership.

- i) **Management is irreplaceable:** A number of new techniques of problem-solving in management have been evolved recently, viz., computer applications, information systems, quantitative techniques like decision tree, PERT, CPM, etc. These techniques improve managers' decision-making skills and make them more efficient in their jobs, but they cannot substitute the management.
- j) **Management is based on certain principles:** French industrialist, Henry Fayol has suggested fourteen principles of management in his monograph titled *Administration Industrielle-et-Generale* in 1916. These principles are now universally accepted. Some of these principles are division of work, discipline, authority and responsibility, balance, unity of purpose, unity of command, equity and esprit-de-corps.
- k) **Management is multi-disciplinary:** Management deals with human behaviour and thus, it is multi-disciplinary in nature. Many of the ideas, principles, theories and techniques made use of in management have their origin in a number of other disciplines, especially, in social sciences such as psychology, economics, sociology and anthropology.

## Q2. Explain the nature of management ?

*Ans :*

Various contributions to the field of management have changed its nature. The nature of management can be described as follows:

- 1) **Multidisciplinary:** Management is multidisciplinary because it includes knowledge/information from various disciplines-economics, statistics, maths, psychology, sociology, ecology, operations

research, history, etc. Management integrates the ideas and concepts taken from these disciplines and presents newer concepts which can be put into practice for managing the organizations.

- 2) **Management is dynamic:** Management has framed certain principles, which are flexible in nature and change with the changes in the environment in which an organization exists.
- 3) **Relative, Not Absolute Principles:** Management principles are relative, not absolute, and they should be applied according to the need of the organization. A particular management principle has different strengths in different conditions. Therefore, principles should be applied according to the prevailing conditions.
- 4) **Management : Science or Art:** Management like other practices- whether medicine, music composition, or even accountancy- is an art. It is know-how. Yet managers can work better by using the organized knowledge about management. It is this knowledge that constitutes science. Thus, managing as practice is an art; the organized knowledge underlying the practice may be referred to as science.
- 5) **Management as Profession:** Management has been regarded as a profession by many while many have suggested that it has not achieved the status of a profession. Schein concluded that by some criteria management is indeed a profession, but by other criteria it is not. Today we can see many signs that management is working towards increased professionalism.
- 6) **Management is Universal:** Management is a universal phenomenon. However, management principles are not universally applicable but are to be modified according to the needs of the situation
- 7) **Management is a Continuous Process :** Management is a dynamic and an on-going process. The cycle of management continues to operate so long as there is organized action for the achievement of group goals.

- 8) **Management is Situational :** Efficient management is always situational because there is not one best way of doing things. A successful manager must take into account situational differences.

**Q3. Is management an art or science? Discuss briefly.**

*Ans :*

**(a) Management as an Art**

Art represents how of human behaviour or the know-how to do work. Art is a personalized process and every artist has his own style. Art involves the practical application of personal skills and knowledge to achieve concrete results. Management is basically an art because of the following reasons :

- i. Like any other artist, a manager applies his knowledge and skills to coordinate the efforts of his people.
- ii. Management seeks to achieve concrete practical results like profits, growth, social service etc in a given situation.
- iii. Like any other art, management is creative. It brings out new situations and converts resources into output.
- iv. Management is a personalized process. Every manager adopts his own approach towards problems depending upon his perception and the environmental conditions.
- v. Effective management leads to realization of organizational and other goals. The success of a manager is measured by the results he achieves.

**(b) Management as a Science**

Management is a science because it contains all the essentials of science and it can be evident from the following :

- i. There is now a systematized body of knowledge. Principles and theories are now available in every area of management. There are several principles to serve as guidelines for effective delegation of authority.

- ii. Principles of management have been evolved through practical experience and theoretical research over several decades.
- iii. Managerial principles have a wide and repetitive range of application. Application of management theory can be demonstrated through the quasi-laboratory method of case studies.
- iv. Management theory and principles can be taught in classrooms and in industry.

Therefore, it can be understood that management is an art as well as science.

#### Q4. What are the objectives of management ?

*Ans :*

- a. **Proper Utilization of Resources :** Every management aims to utilize enterprise resources properly and economically. The proper use of men, materials and machinery will ensure reasonable cost and adequate profits. It is not only the management which will look towards business profits but other interest groups such as employees, shareholders etc.
- b. **Growth and Development of Business :** Managerial efforts should be to expand and diversify the business. If there is a scope to expand the existing business then efforts should be made to develop it but avenues to enter new avenues should also be explored. It will give stability and strength to the business.
- c. **Minimizing Risk Element :** Every business at present is facing global competition. The management should plan the activities in such a way that business is able to survive under uncertain conditions. There is a need to minimize risk element and also to explore newer and better avenues.
- d. **Promotion of Research :** Management gives hardly any importance to research activities. It restricts their strength and capacity to compete in the market. There is a need to keep ourselves aware of what is going on in the

market and prepare to face it. Management should always try to get benefits of latest technological changes and ready to face the future with confidence and zeal.

- e. **Better Quality Goods :** The consumer has become quality conscious. The objective of the management is to bring out quality products so that they are accepted by the market. It requires bringing out the new quality standards in the business.
- f. **Improving Overall Performance :** The performance of every factor of production should be improved in such a way that they contribute maximum to the business. There should be targets for every factor of production and efforts should be made to achieve them.
- g. **Planning For Future :** Every management thinks and plans about future. The current as well as future planning go together. The activities to be undertaken in future will be planned at present. No concern can survive if it does not plan for future.
- h. **Mobilizing Best Talent :** The management should try to employ proper persons in various fields so that better results are possible. The employment of specialists in various fields will be increasing the efficiency of various factors of production.

### 3.2 FUNCTIONS OF MANAGEMENT

#### Q5. What are the functions of management ?

*Ans :*

(Dec.-20, Imp.)

The various functions of management are stated below :

##### 1. Planning

Planning is a basic managerial function. It is a process which involves, "thinking before doing". It is looking ahead and preparing for the future. It is deciding in advance what to do, how to do when to do it and who is to do it. Planning consists of selecting the various organizational objectives, policies, programmes, procedures and other means of achieving the objectives.

The primary object of planning is to achieve results. Planning is a continuous process that takes place at all levels of management. Other functions of management such as organizing, staffing, directing, coordinating and controlling are also undertaken after planning. The process of planning thus consists of :

- 1) Determination of objectives.
- 2) Forecasting and examining alternative courses of action.
- 3) Formulation of policies, programmes, budgets etc. to achieve the objectives, and
- 4) Laying down of procedures and standards of performance.

## 2. Organizing

Organizing is also a basic function of management. Once plans are formulated, the next step is that of organizing. Organizing is the process of establishing relationships among the members of the enterprise. The relationships are created in terms of authority and responsibility. Each member in the organization is assigned a specific responsibility or duty to perform and is given the corresponding authority to perform his duty. Organizing is an important function of management because it is through organizing that a manager brings together the material and human resources required for the achievement of desired goals. According to Fayol "to organize a business is to provide it with every thing useful to its functioning – raw materials, tools, capital and personnel".

The process of organization consists of the following steps :

- 1) Determination of objectives.
- 2) Division of activities required for the achievement of the objectives.
- 3) Grouping the activities into logical and convenient units.
- 4) Assigning the activities to specific positions and people.
- 5) Delegating authority to people.
- 6) Fixing responsibility for performance, and

- 7) Establishing authority – responsibility relationships throughout the organization.

## 3. Staffing

Staffing is now regarded as one of the important functions of management. It is concerned with human resources of an organization. Staffing is the process of filling all positions in the organization with adequate and qualified personnel. It refers to the recruitment, selection, development, training and compensation of subordinate managers. This function is performed by executives at various levels of authority.

The production manager recruits the supervisor, and the supervisor recruits the foreman. In the same way, the production manager is selected by the general manager. Staffing is not simply a function of recruitment and selecting managers at different levels. It also includes the process of training and developing executives. Staffing is a continuous process.

## 4. Directing

Directing is the executive function of management because it is concerned with the execution of plans and policies. Directing is the process of guiding, supervising, motivating and leading people towards the realization of objects. Directing is not simply issuing order, guiding employees and supervising their work. It also includes leading and motivating employees to higher levels of productivity. Successful direction calls for qualities of leadership. A goods manager should be able to lead the way. He should be able to develop a keen desire in every employee to put in his best effort. He should be able to effectively communicate with his employees through the process of talking, listening and understanding.

## 5. Controlling

Controlling is the process of ensuring that the organization is moving in the desired direction and that progress is being made towards the achievement of goals. Control is a live function. Executives at various levels of management continuously assess the performance of their subordinates. The main purpose of control is to see that the activity is achieving the desired result. The process of controlling involves the following steps :

- 1) Establishing standards of performance,
- 2) Measuring actual performance,
- 3) Comparing the actual performance with the standards,
- 4) Finding variances, if any and
- 5) Taking corrective action or measures.

#### 6. Innovation

Management is now considered to be more a creative than adoptive task. Innovation implies creative thinking. Management should innovate new ideas, new products, and new methods to meet the needs and challenges of the future. In the absence of innovation, organization becomes stale and static.

#### 7. Representative

Every enterprise has some social obligations towards certain identifiable groups in the society such as trade unions, government, consumers etc. The managers, being leaders of their organization, are responsible to represent and protect the interests of their concerns in their dealings with the outside world. In representing before the interested groups, they have to protect their own as well as the image of the organization they represent.

Thus every manager performs the above functions for attaining the objectives of the enterprise. No one function can be performed independently without involving other functions. All the functions are interrelated and interdependent.

### 3.3 LEVELS OF MANAGEMENT

#### Q6. Explain the levels of management.

*Ans :* (Dec.-20, Imp.)

(Generally, managers are divided into three broad categories depending upon the level at which they operate in the management hierarchy.

- a) Top-level Management.
- b) Middle-level Management.
- c) Lower-level Management.

a) **Top-level Management :** Top-level management is the ultimate authority, which is responsible to the shareholders, government and general public. Top-level

management of an organisation consists of one of the following :

- Board of Directors;
- General Manager;
- Chief Executive Officer;
- Managing Director;
- President.

#### Functions of Top-level Managers

- To define mission and fundamental goals.
- To design appropriate organisational set-up.
- To develop master plans for different functional areas.
- To formulate master strategy and policies.
- To achieve overall efficiency and organisational goals.
- To provide outstanding leadership.
- To achieve coordination and exercise overall control.
- To evaluate or compare the organisational performance.
- To act as an agent, trustee and a guardian of the enterprise.

b) **Middle-level Management:** Middle-level managers are the connecting links between the top and the first line managers. The middle level management consists of departmental heads, viz.,

- Production Manager.
- Sales Manager.
- Marketing Manager.
- Finance Manager.
- Public Relation Officer.

#### Functions of Middle-level Managers:

- To explain to the lower management; the objectives, strategies and policies laid down by the top management.
- To communicate to the top management; the problems, suggestions and view points of the lower management.



- To prepare departmental plans on the basis of broad objectives and guidelines set by the top management.
  - To design organisational set-up of various functional departments, i.e., division of work and span of control.
  - To control and coordinate the functioning of various functional departments in the organisation.
  - To submit a report to the top management on the performance of various departments and individuals.
  - To offer suggestions and recommendations to the top management for the improvement of overall functioning.
  - To perform routine functions such as:
  - To select efficient executives and staff.
  - To introduce procedures and operating routines.
  - To raise necessary funds.
  - To control costs.
  - To pay wages, salaries, bonus, etc.
  - To provide better working conditions, etc.
- c) **Lower-level Management:** Lower-level management is also known as the first line management, because the management levels begin with it. It is a vital link between the higher-level management and the rank and file of workers. They are important because they link managers with non-managers. They exercise a direct supervision over the entire workforce in factory, office and sales field, where results are obtained.

#### Functions of Lower-level Managers

- To do day-to-day operational planning, as per the directives of the middle level managers.
- To maintain high level of morale among workers and create conducive environment for them to perform.
- To supervise work of employees and ensure that their performance conform to the pre-determined standards.

- To submit reports on the performance of workers and to recommend reward or punishment for them.
- To communicate to workers about the decisions of the top level management and its policies.
- To report to higher authority, the problems, feelings and expectations of the rank and file of workers.

### 3.4 SKILLS OF MANAGEMENT

#### Q7. Explain the various skills of manager.

*Ans :* (Nov.-19, Imp.)

Several skills are required for a successful manager. The skills of an effective manager may be classified into four categories as :

- (a) **Technical Skills :** They refer to the ability and knowledge in using the equipment, techniques and procedures involved in performing specific tasks. These skills require specialized knowledge and proficiency in the mechanics of a particular job. A manager must know which skills should be employed in his enterprise and be familiar enough with their potentiality to ask discerning questions of his technical advisers. A manager must understand both the role of each skill employed and the interrelationships between the skills.
- (b) **Human Skills :** Human skills consist of the ability to work effectively with other people both as individuals and as members of a group. Human skills are reflected in the way a manager perceives his superiors, subordinates and peers. An awareness of the importance of human skills should be part of a manager's orientation and such skills should be developed throughout the career.
- (c) **Conceptual Skills :** Conceptual skills comprise the ability to services the whole organization and the interrelationships between its parts. These skills help the

manager to conceptualize the environment, to analyze the forces working in a situation and to take a broad and foresighted view of the organization.

- (d) **Diagnostic Skills** : These skills include the ability to determine, by analysis and examination, the nature and circumstances of a particular condition. It is the ability to cut through unimportant aspects and quickly get to the heart of the problem. These are probably the most difficult ones to develop because they require the proper blend of analytic ability with commonsense and intelligence to be effective.

**Q8. Explain the various roles of manager.**

*Ans :*

1. **Figurehead** : A manager has to perform many symbolic functions as a figure head of the organization . He has to sign various paper for the organization , attend social functions of the subordinates, greet people, speak at functions etc.
2. **Leader** : This role defines the manager's relationship with his own subordinates. The manager sets an example, legitimizes the power of subordinates and brings their needs in accord with those of his organization .
3. **Liaison** : It describes a manager's relationship with the outsides. A manager maintains mutually beneficial relations with other organizations, governments, industry groups etc.
4. **Monitor** : It implies seeking and receiving information about his organization and external events. An example is picking up a rumour about his organization.
5. **Disseminator** : It involves transmitting information and judgements to the members of the organization . The information relates to internal operations and the external environment.

6. **Spokesman** : In this role, a manger speaks for his organization. He lobbies and defends his enterprise. A manager addressing the trade union is an example.
7. **Entrepreneur** : It involves initiating change or acting as a change agent.
8. **Disturbance Handler** : This refers to taking charge when the organization faces a problem or crisis. A manager handles conflicts, complaints and competitive actions.
9. **Resource Allocator** : In this role a manager approves budgets and schedules, sets priorities and distributes resources.
10. **Negotiator** : As a negotiator, a manager bargains with suppliers, dealers, trade unions, agents etc.

**Q9. State the main limitations of management.**

(Or)

**Is the management subject to some limitations? If yes, discuss these limitations.**

*Ans :*

Management is not a perfect science. It is a social science and its rules are not as static as the rules of physics and chemistry. The rules of management are related to human beings and are based on certain assumptions which may not be free from limitations. The following are the limitations of management :

1. **Human limitations** : Management is a social science. The subject-matter of management is a human being. Man is a social animal full of sentiments and emotions. He has a mind. He believes in change. The characteristics of a human being render one helpless in predicting his behaviour. This makes every regulation ineffective if the human being is unable to cooperate and submit to the direction and command. This human aspect of the management puts certain limitation on it.
2. **Management is a social science** : Management is a social science. It is deprived

of the exactness and accuracy like a physical science. Discretion is the core of the management. It varies from one particular situation to another. Generalizations and principles in relation to human behaviour cannot hold well in all the circumstances. Thus management is nearer to behavioural science than any other social science.

3. **Generalizations and principles differ :** Different countries have varying degree of economic development, and beliefs and practices in cultures and customs according to their own historical, political and social necessities. Their own conventions and traditions guide their social thinking and individual habits and temperaments. Value of Judgements and motivation practices differ from one culture to another. Hence, management generalizations and principles cannot hold well in all the cultures and at all the stages of economic growth.
4. **Business environment changes :** The business environment is fast changing and complexities are multiplying. Quantitative techniques have added new horizon to the management thinking.
5. **Social needs undergo a change :** Limitations of management lies in the social needs which under go a sea-change. The society has become more extracting and demanding. The society today is watchful and is fully conscious of its rightful due. The management, therefore, is required to shape its principles and policies according to present dictates of the society.
6. **Financial burden on the enterprise :** Some critics argue than the management imposes financial burden upon enterprise. The setup of management is such that it requires more employees which obviously increases the expenses organizations.

### 3.5 SCIENTIFIC MANAGEMENT - MEANING - DEFINITION

**Q10. Define scientific management. What are the features of scientific management ?**

*Ans :* (Nov.-19, Imp.)

#### Meaning

The term scientific management contains two words-scientific and management. The term

management' means getting the things done through others and 'scientific' means systematic, analytical and objective approach. Hence, management based upon careful observation, objective analysis and innovative outlook is called scientific management.

In simple words, scientific management is the art of knowing exactly what is to be done and the best way of doing it. Under this approach, scientific techniques are applied in method of work, requirement, selection and training of workers. Scientific management implies the acceptance and application of the method of scientific investigation for the solution of the problems of industrial management. A few definitions of learned authors on scientific management will make its meaning more clear.

#### Definitions

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

- Frederick Winslow Taylor

In the words of Peter F. Drucker, the core of scientific management, "is the organised study of work, the analysis of work into its simplest elements and the systematic improvement of the worker's performance of each element."

"Scientific management characterises that form of organisation and procedure in purposive collective effort which rests on principles or laws derived by the process of scientific investigation and analysis instead of on tradition or on policies determined empirically and casually by the process of trial and error."

- Harlow Person

#### Features

- i) It is a systematic, analytical and objective approach to solve industrial problems.
- ii) It implies scientific techniques in method of work, recruitment, selection and training of workers.'
- iii) It attempts to discover the best method of doing a work at the cheapest cost.
- iv) It discards the age old methods of the rule of thumb and hit or miss approach.

- v) It involves a complete change in the mental attitude of workers as well as the management.
- vi) It lays emphasis on all factors of production, men, material and technology
- vii) It attempts to develop each man to his greatest efficiency and prosperity.

### 3.5.1 Objectives of Scientific Management

**Q11. Explain the objectives of scientific management.**

*Ans :* (Nov.-19, Imp.)

1. It provides trained minds for attaining a higher degree of excellence in all branches of shop management.
2. It improves and holds to standard such things as equipment, tools and materials, working conditions and methods of working.
3. It more or less completely revolutionises and improves layout, routine, scheduling, nomenclature, purchasing, store-keeping and accounting.
4. A greater correlation between agencies of control makes for dependable operation which protects against delays, mistakes, accident and neglect.
5. Its promptness provides timely instruction, constant guidance, immediate goals and prompt rewards.
6. Its search for fact and principle tends to eliminate arbitrary rule.
7. Its closely interlocking personnel for specialists lessens the area of individual dictation.
8. Immediate and full records provide publicity and constitutes a sort of court of reason.
9. In so far as exact knowledge it displaces custom, guess work, and arbitrary exaction, it defends the worker against soldiering and sloth (shirking work or lazing-away), or over speeding and fatigue.
10. The high task standards characteristic of it automatically sort workers to the levels of their occupations ; while all are educated and energised.

11. By adherence to high standards of performance throughout, for management and men alike, it becomes a possible agency for raising wages, shortening hours, increasing profits and lessening prices to consumers.

**Q12. Explain the principles of scientific management**

*Ans :*

- a) **Science, not the Rule of Thumb:** The basic principle of scientific management is an adoption of a scientific approach to the process of making managerial decisions and solving managerial problems. It completely discards all unscientific approaches and practices, hitherto practised by the management.
- b) **Harmony, not Discord:** Harmony refers to the unity of actions while discord refers to differences in approach. As a principle of scientific management, it refers to absolute harmony in the actions of people in order to facilitate the best attainment of organisational goals.
- c) **Cooperation, not Individualism:** Cooperation refers to the development of mutual understanding between employees and management in order to direct their efforts towards the attainment of group objectives while regarding their individual objectives - as subordinate to the general interest.
- d) **Maximum Output, instead of Restricted Output:** In Taylor's view, the most dangerous evil of the industrial system was a deliberate restriction of output in order to maximise returns. He emphasised maximisation of output as a means of promoting the prosperity of workers, management and society.
- e) **Development of Workers:** Management must develop its workforce to the fullest extent of their capabilities to ensure maximum prosperity for both - employees and employers. There is no doubt that developed human resource promotes maximum human efficiency, productivity and profits.
- f) **Equal Division of Responsibility:** This principle recommends separation of planning

from execution. Taylor strongly opposed the practice of planning of work by subordinates themselves. According to him, management should be concerned with planning of work and workers with its execution.

- g) **Mental Revolution:** According to Taylor, no scheme of scientific management could be successful unless workers and managers learn to cooperate with each other. This requires a mental revolution on their part by giving up the attitude of hostility and enmity towards each other.

### 3.5.2 Criticism of Scientific Management

**Q13. Explain the criticism of scientific management.**

*Ans. :* (Nov.-19, Imp.)

#### A) Worker's Criticism

1. **Speeding up of workers :** Workers feel that scientific management is nothing but a device to force workers to a greater speed, without much regard for their health and safety. It creates a lot of physical and mental strain upon them.
2. **Loss of Worker's skill and Initiative:** Worker's allege that under scientific management they are reduced to the position of machines as the work methods and operations are standardised. The worker has to work according to the instructions of the foreman. This leads to loss of initiative from the workers and they cannot suggest better methods of work. They, further allege that too much of standardisation, a prerequisite for scientific management, leads to higher productivity only in the short run, but in the long run, due to loss of worker's initiative it results into lower productivity.
3. **Monotony :** Under scientific management the function of planning is separated from that of doing. Every worker is expected to perform his small part of a job due to specialisation.

This makes the work monotonous and the worker tends to lose interest in his job. Hence, an attempt must be made to reduce monotony as far as possible.

4. **Unemployment :** Scientific management reduces the number of processes and motions of workers, increases the hourly or daily output per worker, increases their efficiency by standardisation and division of labour, thereby, it creates unemployment by requiring lesser number of workers. But this argument does not hold good in long run. It has been proved beyond doubt that increased production and reduced costs open more avenues of employment for the workers.
5. **Exploitation of Workers :** The workers allege that, under a scheme of scientific management, there is an exploitation of workers. The gains of increased productivity are not shared appropriately with the workers. The major portion of increased profits is taken away by the investors and only an insignificant benefit is given to the workers by way of increase in wages and bonus. It may be pointed out that, while raising this objection, workers appear to have ignored the fact that increase in productivity has been made possible by the management by employing standardised tools, materials, and methods of work under the scheme of scientific management.
6. **Discrimination between Workers :** Under the scheme of scientific management, efficient workers get more wages as compared to the inefficient ones due to the differential wage incentive scheme as suggested by Taylor. This, according to workers, brings discrimination between workers. This argument, however, is not totally convincing. Efficient workers must be paid higher wages to prompt them to maintain efficiency and to encourage other workers who are not upto the mark at present! In addition, minimum wages may be guaranteed to safeguard the interest of the worker.
7. **Undemocratic in Nature :** Workers object that scientific management is undemocratic in nature as it gives absolute control over workers to the functional bosses. The workers have to follow the instructions of the bosses without thinking on the part of the workers. "Scientific management forces the workers to

depend upon the employer's conception of fairness, and gives the worker no voice in hiring and discharge in setting the task, in determining the wage rate or determining the general conditions of employment." But it is wrong to say that under scientific management, workers are not given at all any opportunity to say anything in the matter which vitally affects them..

8. **Weakening of Trade Unions** : Workers allege that the scheme of scientific management kills the very basis of trade union movement. Important matters like fixation of wages, work methods, working conditions, hours of work, etc. are all decided by the management. This weakens the process of collective bargaining and the information of trade unions.

On account of increased productivity, efficiency and incentive wage payment schemes, workers get more and are satisfied. The differential wage plans create division among workers and strikes at the very basis of trade union movement.

#### B) Employer's Criticisms

Employers criticise scientific management, mainly, on the following grounds :

1. **Expensive** : The introduction of scientific management involves too heavy expenditure on account of standardisation of materials, equipment, tools and working conditions, further, expenses are incurred on conducting time, motion and fatigue studies. The extra cost involved in the planning department also adds to the excessive expenditure in the scheme of scientific management)
2. **Re-organisation** : The introduction of scientific management calls for a complete reorganisation of the whole set up of industrial unit. A majority of organisers, top executives, line managers and others are so attached with the old routine that they are not mentally prepared for any major change. Moreover, the work has got to be suspended for a considerable length of time due to reorganisation.

3. **Unsuitable for small-scale units** : Some employers are of the opinion that scientific management is suitable for only large-scale units and the small-scale units cannot afford to introduce the scheme of scientific management, but, even this contention is untenable. There is a scope for improvement in every organisation-big or small.

#### C) Psychologists' Criticisms

1. **Mechanical in Nature** : The most important criticism advanced against scientific management by the industrial psychologists is that it is mechanical in approach. The workers have to work strictly in accordance with the instructions given to them. This results in a loss of worker's skill and initiative. The workers are merely reduced to the position of machines. Industrial psychologists feel that the management should adopt a human approach towards the workers.
2. **Strain upon them** : The psychologists are of the view that the work should be so planned that it takes into consideration, the health and safety of workers.
3. **Monotony** : Specialisation, as envisaged under scientific management, results in monotony. It reduces efficiency as the worker tends to lose interest in his job. The industrial psychologists suggest 'job enlargement' as a possible solution to reduce the monotony of continuous work.
4. **Absence of Non-wage Incentives**: Scientific management provides the use of only monetary financial incentives by way of differential wage plan. But the industrial psychologists are of the view that there are various non-monetary incentives such as job security, independence, recognition, urge for self expression, status, promotion, etc., which inspire and motivate workers for better performance.
5. **'One best way' of doing work** : Scientific management is primarily concerned with finding one best way of doing work. All the workers are expected to do the work in accordance with the 'one best' way. But industrial psychologists are of the view that

workers differ in intelligence, mental aptitude, education and training, and capacity to work and hence all the workers cannot work efficiently in 'one best way

### 3.6 FAYOL'S 14 PRINCIPLES OF MANAGEMENT

**Q14. Explain the Fayol's in principles of management.**

*Ans :* (Dec.-20, Imp.)

Management of business has become very complex these days. Managers are expected to deal with a number of problems in their day-to-day working. Some guidelines are needed which will help managers to run their concerns smoothly and efficiently. Principles of management are such guidelines which come to the help of managers. Henry Fayol suggested 14 principles of management for running the business efficiently.

- 1) **Division of Work** : Division of work implies division of the total task in order to lighten the total burden and promote specialization in such a way that one person does only one thing rather than doing everything himself. This helps to avoid the waste of time and effort caused by changes from one work to another. In the words of Fayol, "The worker always on the same post, the manager always concerned with the same matters will acquire an ability, sureness and accuracy which increases their output".
- 2) **Parity between Authority and Responsibility** : This principle states that authority and responsibility should go side by side. A person can be accountable for certain activities only if he has been given authority for getting the work done. Responsibility and authority should be commensurate with each other. Fayol viewed that people seek authority and fear responsibility, but a good leader must have courage to accept responsibility. Authority without responsibility leads to irresponsible behavior while responsibility without authority makes a person ineffective.

- 3) **Discipline** : Discipline means obedience, respect of authority and observance of the established rules. In the words of Fayol, "Discipline is in essence obedience, application, energy, behavior and outward marks of respect observed in accordance with the standing agreements between the firm and its employees."

Discipline is essential for the smooth running of business and without it no business can prosper. According to Fayol good supervision at all levels, clarity of rules and built in system of reward and punishments help to maintain discipline.

- 4) **Unity of Command** : This principle states that one person should receive orders from only one superior, in other words, one person should be accountable to only one boss. If one person is under more than one boss then there can be contradictory orders and the subordinate fails to understand whose orders to be followed.

Fayol states, "An employee should receive orders from one superior only, .... as soon as two superiors will execute authority over the same personnel, uneasiness makes itself felt, the disorder increases".

If the principle of unity of command is not observed, the authority is undermined, discipline, loyalty divided and confusion and delays are caused.

- 5) **Unity of Direction** : The principle of unity of direction implies that there should be "one head and one plan for a group of activities having the same objective". In other words, each group of activities having the same objectives must have one plan of action and must be under the control of one manager or superior. An organization or group having different plans and more than one head cannot achieve the desired results. Fayol observed, "without unity of direction, unity of action, coordination of strength and focusing of effort cannot be achieved".
- 6) **Subordination of Individual Interest to General Interest** : It is an essential function of management to make people realize the

objectives of the group and direct their efforts towards the achievement of these objectives. The interest of the group must always prevail over individual interest. This principle implies harmony of personal interest and common interest.

Fayol is of the opinion that the interest of the enterprise as a whole. When the individual interest and the common interest differ, it is the duty of the management to reconcile them. In order to achieve this, managers must set a good example and must be firm but reasonable in dealing with subordinates. Fair agreements with subordinates and constant supervision are essential to prevent promotion of individual interest at the cost of general interest.

- 7) **Fair Remuneration to Workers** : Fayol was of the view that the remuneration paid to the workers should always be just and fair and should afford maximum satisfaction to both employees and the employer. The management must ensure fair reward for the work and decide the most equitable method of calculating wages. The rates of wages depend upon a number of factors such as the cost of living, the demand for labour, general economic conditions, the current state of business and the value of the employee. It should provide sufficient incentive to the well directed effort but overpayment beyond reasonable limits is undesirable.
- 8) **Effective Centralization** : Centralization means concentration of authority in the hands of few, i.e. top management. Every thing which goes to increase the importance of subordinate's role is decentralization and everything which goes to reduce it is centralization. Fayol was of the opinion that centralization and decentralization is a simple question of proportion and this proportion of finding the optimum degree should be decided keeping in view the circumstances of the particular case. The degree of centralization may be different in different cases, but a balance must be maintained between centralization and decentralization of authority to attain the best possible results.

- 9) **Scalar Chain** : Scalar chain refers to 'the chain of superiors ranging from the ultimate authority to the lowest ranks'. Fayol felt that a hierarchic channel called the scalar chain is necessary to ensure unity of command and effective communication. Communication should follow through the established chain of command. However, a 'gang plank' may be created by passing the established line of authority, to facilitate quick communication.
- 10) **Order** : The principle of order implies right man in the right job and right material in the right place. Fayol was of the opinion that there must be material and social order in an enterprise. Material order means, "A proper place for everything and everything in its right place". Each employee should occupy that place wherein he or she can render the best possible service. Right man in the right job and right material in the right place would ensure effective utilization of the available resources in an organization.
- 11) **Equity** : Equity means justice and kindliness. Fayol was of the opinion that to encourage workers to fulfill their duties with devotion and loyalty, management should deal with employees with equity based on kindliness and justice. There should neither be nepotism nor favoritism and all should be given just and fair treatment. However, Fayol says that equity does not mean a total absence of force or harshness. He rather suggests that these might become necessary sometimes for the sake of equity itself.
- 12) **Stability in the Tenure of Personnel** : Stability in the tenure of personnel is very essential because it takes time to get used to a job. Fayol was of the view that instability of tenure of personnel is both the cause and effect of bad management. A very high rate of labour turnover or change of personnel increases costs of selection and training and creates a bad name for the organization. It also causes instability and insecurity in the minds of the workers. To secure loyalty of workers, it is very essential to provide security of service to the workmen.



**13) Initiative :** Initiative implies the power of thinking out a plan and ensuring its successful implementation. The manager should encourage or inspire the confidence of his subordinates so that they show initiative. For this, Fayol suggests that the manager should sacrifice his own vanity. Initiative is a powerful motivator of human behavior and a source of strength for the organization.

**14) Esprit-de-corps :** This principle implies that there should be cooperation and teamwork among the members of an organization. Literally speaking, esprit-de-corps means the spirit of loyalty and devotion to the group to which one belongs. The manager must always make a constant effort to ensure harmony, cohesiveness and esprit-de-corps among his subordinates to ensure unity and high morale which is very essential for the success of an enterprise.

Fayol suggested to discard two temptations for this (i) to divide and rule and (ii) abuse of written communication. Divide and rule policy is self-defeating policy and oral directions and instructions given to subordinates make for harmony, speed and clarity.

**Q15. Explain the criticisms of fayol's principles of management.**

*Ans :*

The contributions of Henry Fayol were criticised as hereunder.

- The principles of unity of command and unity of direction are redundant in modern private organisations. Most of the private organisations after the announcement of liberalisation, privatisation and globalisation are dynamic in order to meet the customer's needs before the customers identify or realise them.
- The dynamic organisations are team-based, loosely structured, flat organisations and they change their structures based on strategy (structure follows the strategy principle) etc. Orders and commands flow through different directions in teams and loosely structured organisations. Similarly, direction also flows

through various directions in modern organisations. Thus, these two principles are not applicable in modern organisations.

- The principle of scalar chain is also not applicable in modern organisations as the information requests for carrying out the work flow in different lines.
- Many modern organisations implemented business process reengineering (BPPE) and enterprise resource planning (ERP). These two techniques are based on team work and need the employees with multiple skill sets as the team members are required to carry out multiple activities. As such, the principles of division of labour and specialisation are not applicable to those organisations which implemented BPPE and ERR.
- Fayol's principles indicate that organisations are a closed system. But most of the organisations today are open systems. As such, Fayol's principles are not applicable to the organisations based on open systems.
- Fayol's principles like unity of command, unity of direction, division of labour, specialisation and span of management are applicable to tall and mechanistic organisations. Mechanistic organisations are insensitive to employees' social and psychological needs. Further, they do not use the employees skills and potentialities to the maximum extent.

## Short Question and Answers

### 1. Management

*Ans :*

"To manage is to forecast, to plan, to organise, to command, to coordinate and to control.

- Henry Fayol

"Management is a distinct process consisting of planning, organising, actuating and controlling, performed to determine and accomplish stated goals by the use of human beings and other resources."

- George Terry

"Management is defined as the creation and maintenance of an internal environment in an enterprise, where individuals, working together in groups, can perform efficiently and effectively towards the attainment of group goals."

- Koontz and O'Donnell )

### 2. Characteristics of Management

*Ans :*

**Management is a universal process:** The principles and techniques of management are all pervasive. The basic concepts, principles and techniques of management are equally applicable to all sorts of group endeavours. However, they are not standard. They require modification and adaptation, depending upon nature of activity, scale of operations, types of technology and human resource and other inputs used in such endeavours.

➤ **Management is a group activity:** Management as a group or class can be considered at two levels:

- At the micro-level, management as a group refers to all managers from the highest authority to the lowest one, who manage the enterprise.
- At the macro-level, it refers to human activities where people work in groups, viz., economic, social, political, religious or cultural activities.

➤ **Management is goal-oriented:** Management is concerned with the attainment of group objectives or common objectives of the enterprise. In the process of attaining group objectives, management also endeavours to attain the personal objectives of individuals, especially consumers and workers. The success of management is judged by the extent to which these goals are achieved.

### 3. Objectives of Management

*Ans :*

(a) **Proper Utilization of Resources :** Every management aims to utilize enterprise resources properly and economically. The proper use of men, materials and machinery will ensure reasonable cost and adequate profits. It is not only the management which will look towards business profits but other interest groups such as employees, shareholders etc.

(b) **Growth and Development of Business :** Managerial efforts should be to expand and diversify the business. If there is a scope to expand the existing business then efforts should be made to develop it but avenues to enter new avenues should also be explored. It will give stability and strength to the business.

(c) **Minimizing Risk Element :** Every business at present is facing global competition. The management should plan the activities in such a way that business is able to survive under uncertain conditions. There is a need to minimize risk element and also to explore newer and better avenues.

(d) **Promotion of Research :** Management gives hardly any importance to research activities. It restricts their strength and capacity to compete in the market. There is a need to keep ourselves aware of what is going on in the market and prepare to face it. Management should always try to get benefits of latest technological changes and ready to face the future with confidence and zeal.

**4. Planning***Ans :*

Planning is a basic managerial function. It is a process which involves, "thinking before doing". It is looking ahead and preparing for the future. It is deciding in advance what to do, how to do when to do it and who is to do it. Planning consists of selecting the various organizational objectives, policies, programmes, procedures and other means of achieving the objectives.

The primary object of planning is to achieve results. Planning is a continuous process that takes place at all levels of management. Other functions of management such as organizing, staffing, directing, coordinating and controlling are also undertaken after planning. The process of planning thus consists of :

- 1) Determination of objectives.
- 2) Forecasting and examining alternative courses of action.
- 3) Formulation of policies, programmes, budgets etc. to achieve the objectives, and
- 4) Laying down of procedures and standards of performance.

**5. Staffing***Ans :*

Staffing is now regarded as one of the important functions of management. It is concerned with human resources of an organization. Staffing is the process of filling all positions in the organization with adequate and qualified personnel. It refers to the recruitment, selection, development, training and compensation of subordinate managers. This function is performed by executives at various levels of authority.

The production manager recruits the supervisor, and the supervisor recruits the foreman. In the same way, the production manager is selected by the general manager. Staffing is not simply a function of recruitment and selecting managers at different levels. It also includes the process of training and developing executives. Staffing is a continuous process.

**6. Controlling***Ans :*

Controlling is the process of ensuring that the organization is moving in the desired direction and that progress is being made towards the achievement of goals. Control is a live function. Executives at various levels of management continuously assess the performance of their subordinates. The main purpose of control is to see that the activity is achieving the desired result. The process of controlling involves the following steps :

- 1) Establishing standards of performance,
- 2) Measuring actual performance,
- 3) Comparing the actual performance with the standards,
- 4) Finding variances, if any and
- 5) Taking corrective action or measures.

**7. Functions of Top-level Managers***Ans :*

- To define mission and fundamental goals.
- To design appropriate organisational set-up.
- To develop master plans for different functional areas.
- To formulate master strategy and policies.
- To achieve overall efficiency and organisational goals.
- To provide outstanding leadership.
- To achieve coordination and exercise overall control.
- To evaluate or compare the organisational performance.
- To act as an agent, trustee and a guardian of the enterprise.

**8. Functions of Lower-level Managers***Ans :*

- To do day-to-day operational planning, as per the directives of the middle level managers.
- To maintain high level of morale among workers and create conducive environment for them to perform.

- To supervise work of employees and ensure that their performance conform to the pre-determined standards.
- To submit reports on the performance of workers and to recommend reward or punishment for them.

## 9. Skills of Manager

*Ans :*

- (a) **Technical Skills** : They refer to the ability and knowledge in using the equipment, techniques and procedures involved in performing specific tasks. These skills require specialized knowledge and proficiency in the mechanics of a particular job. A manager must know which skills should be employed in his enterprise and be familiar enough with their potentiality to ask discerning questions of his technical advisers. A manager must understand both the role of each skill employed and the interrelationships between the skills.
- (b) **Human Skills** : Human skills consist of the ability to work effectively with other people both as individuals and as members of a group. Human skills are reflected in the way a manager perceives his superiors, subordinates and peers. An awareness of the importance of human skills should be part of a manager's orientation and such skills should be developed throughout the career.
- (c) **Conceptual Skills** : Conceptual skills comprise the ability to services the whole organization and the interrelationships between its parts. These skills help the manager to conceptualize the environment, to analyze the forces working in a situation and to take a broad and foresighted view of the organization.

## 10. Scientific Management

*Ans :*

The term scientific management contains two words-scientific and management. The term

'management' means getting the things done through others and 'scientific' means systematic, analytical and objective approach. Hence, management based upon careful observation, objective analysis and innovative outlook is called scientific management.

In simple words, scientific management is the art of knowing exactly what is to be done and the best way of doing it. Under this approach, scientific techniques are applied in method of work, requirement, selection and training of workers. Scientific management implies the acceptance and application of the method of scientific investigation for the solution of the problems of industrial management. A few definitions of learned authors on scientific management will make its meaning more clear.

## 11. objectives of scientific management

*Ans :*

1. It provides trained minds for attaining a higher degree of excellence in all branches of shop management.
2. It improves and holds to standard such things as equipment, tools and materials, working conditions and methods of working.
3. It more or less completely revolutionises and improves layout, routine, scheduling, nomenclature, purchasing, store-keeping and accounting.
4. A greater correlation between agencies of control makes for dependable operation which protects against delays, mistakes, accident and neglect.
5. Its promptness provides timely instruction, constant guidance, immediate goals and prompt rewards.

## 12. Division of Work

*Ans :*

Division of work implies division of the total task in order to lighten the total burden and promote specialization in such a way that one person does only one thing rather than doing everything himself.

This helps to avoid the waste of time and effort caused by changes from one work to another. In the words of Fayol, "The worker always on the same post, the manager always concerned with the same matters will acquire an ability, sureness and accuracy which increases their output".

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### **13. Unity of Command**

*Ans :*

This principle states that one person should receive orders from only one superior, in other words, one person should be accountable to only one boss. If one person is under more than one boss then there can be contradictory orders and the subordinate fails to understand whose orders to be followed.

Fayol states, "An employee should receive orders from one superior only, .... as soon as two superiors will execute authority over the same personnel, uneasiness makes itself felt, the disorder increases".

If the principle of unity of command is not observed, the authority is undermined, discipline, loyalty divided and confusion and delays are caused.

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### **14. Effective Centralization**

*Ans :*

Centralization means concentration of authority in the hands of few, i.e. top management. Every thing which goes to increase the importance of subordinate's role is decentralization and everything which goes to reduce it is centralization. Fayol was of the opinion that centralization and decentralization is a simple question of proportion and this proportion of finding the optimum degree should be decided keeping in view the circumstances of the particular case. The degree of centralization may be different in different cases, but a balance must be maintained between centralization and decentralization of authority to attain the best possible results.

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### **15. Equity**

*Ans :*

Equity means justice and kindliness. Fayol was of the opinion that to encourage workers to fulfill their duties with devotion and loyalty, management should deal with employees with equity based on kindliness and justice. There should neither be nepotism nor favoritism and all should be given just and fair treatment. However, Fayol says that equity does not mean a total absence of force or harshness. He rather suggests that these might become necessary sometimes for the sake of equity itself.

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### **16. Esprit-de-corps**

*Ans :*

This principle implies that there should be cooperation and teamwork among the members of an organization. Literally speaking, esprit-de-corps means the spirit of loyalty and devotion to the group to which one belongs. The manager must always make a constant effort to ensure harmony, cohesiveness and esprit-de-corps among his subordinates to ensure unity and high morale which is very essential for the success of an enterprise.

## *Choose the Correct Answer*

1. Management is needed at [ a ]  
(a) All levels (b) First level  
(c) Lower level (d) Top level
2. Management is [ c ]  
(a) An art (b) A science  
(c) An art as well as science (d) None of these
3. Father of scientific management [ b ]  
(a) Henry Fayol (b) F.W. Taylor  
(c) None of these (d) Peter Drucker
4. Selecting of right persons for the right job is [ a ]  
(a) Staffing (b) Directing  
(c) Motivation (d) Communication
5. The chain of superiors ranging from the ultimate authority to lowest ranks is [ d ]  
(a) Order (b) Authority  
(c) Delegation (d) Scalar chain
6. One boss and one subordinate is [ c ]  
(a) Principle of direction (b) Principle of order  
(c) Principle of command (d) None of these
7. The 14 principles of management was given by [ a ]  
(a) Henry Fayol (b) Peter drucker  
(c) Harold Koontz (d) F.W. Taylor
8. Application of science to the management of a business concern replacing traditional techniques is : [ b ]  
(a) Delegation (b) Scientific management  
(c) Authority (d) None of these
9. One head and one plan for a group of activities is [ c ]  
(a) Unity of command (b) Principle of initiative  
(c) Unity of direction (d) All the above
10. The last function of management is [ c ]  
(a) Organising (b) Staffing  
(c) Controlling (d) Planning

### *Fill in the blanks*

1. \_\_\_\_\_ is the art of getting things done through others.
2. \_\_\_\_\_ acts as a link between top management and supervisory level.
3. \_\_\_\_\_ helps in determining the future course of action to be followed for achieving organisational objectives.
4. \_\_\_\_\_ states that one person should receive orders from only one superior.
5. Chain of superiors ranging from ultimate authority to the lowest ranks is \_\_\_\_\_.
6. \_\_\_\_\_ means knowing exactly what you want men to do and seeing that they do it in best and cheapest way.
7. \_\_\_\_\_ is the primary function or basic function of management.
8. The principle of \_\_\_\_\_ means that there should be one head and one plan for a group of activities.
9. \_\_\_\_\_ is known as the father of scientific management.
10. Principle of \_\_\_\_\_ means there should be co-operation and team work among the members of an organisation.

#### **ANSWERS**

1. Management
2. Middle level management
3. Planning
4. Unity of command
5. Scalar chain
6. Scientific management
7. Planning
8. Directors
9. F.W. Taylor
10. Esprit - de corps

# UNIT IV

**Planning and Organising:** Meaning - Definition - Characteristics - Types of Plans - Advantages and Disadvantages – Approaches to Planning - Management by Objectives (MBO) - Steps in MBO - Benefits - Weaknesses -Definition of Organizing-Organization-Process of Organizing - Principles of Organization - Formal and Informal Organizations - Line, Staff Organizations - Line and Staff Conflicts - Functional Organization - Span of Management - Meaning - Determining Span - Factors influencing the Span of Supervision.

## 4.1 PLANNING - MEANING & DEFINITION

**Q1. Define Planning.**

*Ans :* (Dec.-20, Imp.)

### Meaning

Planning involves selecting missions, objectives and the actions to achieve them; it requires decision making that is choosing form among alternative future courses of action. Planning

- (a) Identify goals,
- (b) Exploring different alternatives to achieve them
- (c) Evaluating each alternative
- (d) Selecting the best alternative for implementation.

Planning is a systematic development of action. It involves choice and ends with the selection of the best alternative. Planning is 'deciding in advance what is to be done in future'. What is to be done in future becomes clear when objectives, policies, procedures and programmes are selected from the best course of action.

### Definition

**According Harold Koontz and O'Donnell** planning is deciding in advance what is to be done in future. Plan bridges the gap between where we are and where we want to go.

**Alfred and beatly defined the term planning** as "the thinking process, the organized foresight, the vision based on fact and experience that is required for intelligent action.

**Stoner and Freeman defined planning** as the process of establishing goals and suitable action for achieving these goals.

## 4.1.1 Characteristics of Planning

**Q2. Explain the characteristics of planning.**

*Ans :*

The main purpose of planning is to minimize the uncertainty that comes with future. It is intended to clarify the implications of managerial actions or decisions. Planning does, organizations are bound to succeed in terms of increased sales, customer growth, reduced operating costs, growth and expansion.

### Characteristics

#### 1. Helps to Achieve Targets

Plans are expressed in terms of budgets. Budgets act as targets. Every manager strives hard to achieve a given target. Thus, planning contributes to target achievement.

#### 2. Minimizes uncertainty and, there by, risk

Business environment is uncertain and risky. Planning is the only way to move towards certainty and confidence.

#### 3. Guide for Action

Plans direct people towards achieving goals. As part of planning, organizations keep a list of supporting plans, policies, procedures, programmes, strategies, rules and budgets to guide their people towards the goals.

#### 4. Ensures Order

Organization walk into chaos if they do no plan properly. The only way to ensure order is to think of probable problems in advance and create the necessary infrastructure to sort them out.



**5. Improves Efficiency**

Efficiency means doing things correctly and at minimum cost. Every department has a budget. It means all possible activities have been considered while framing the budget. Clear plans leave only one task for managers - their implementation. Planning is bound to improve efficiency. Despite detailed planning sometimes there can be unexpected shortage of resources. Organizations keep a portion of their resources to cushion such crises.

**6. Facilitates Control**

Plan is a means of control. The actual performance of the organization and also its members can be evaluated based on plans.

**7. Promotes Innovation and Creativity**

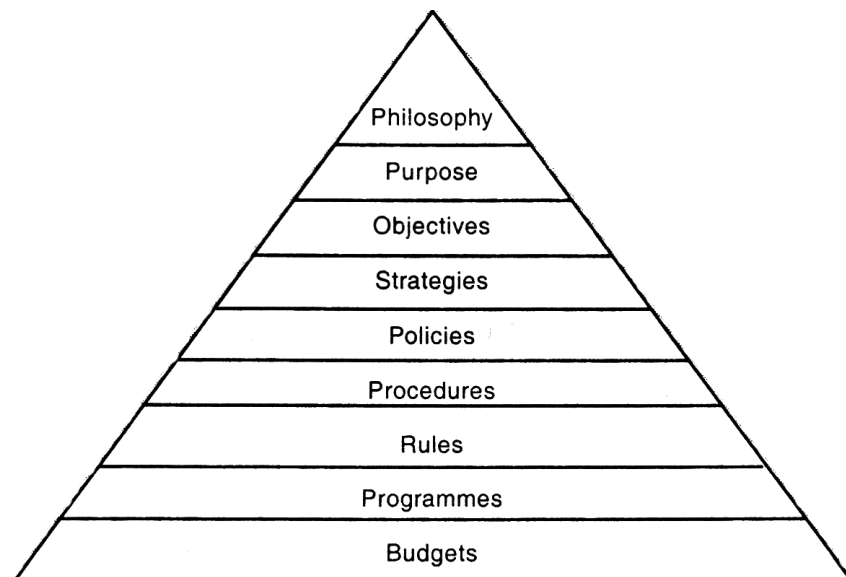
Progressive organizations involve their staff in organizational planning. Planning is considered a means to promote innovation and creativity among the staff.

**8. Coordination Made Easy**

Plans indicate what the employees have to do to attain their goals. Plans make it easier for managers to coordinate the efforts of their staff.

**4.1.2 Types of Plans****Q3. What are the different types of plans ?**

*Ans :*

**Types of Plans/Hierarchy of Plans****(i) Philosophy**

Organisations are part of society. They exist because they perform an important function in the society. Many organisations define the role that they wish to play in society in terms of philosophy. The concern for and interest in philosophy of the top management of an organisation has been steadily increasing since World War II. A philosophy is a system of thought.

**(ii) Purpose**

Every kind of organised group activities or operations has a purpose. For example, the purpose of a bank is to accept deposits and grant loans and advances.

**(iii) Objectives**

Objectives are the ends towards which organisational activity is aimed. Organisational objectives represent not only the end point of planning but also the end towards organising, staffing, directing and controlling point. For example, the objective of the bank may be to contribute to the socio-economic objectives of the country. Every department may have its own objectives which may not be completely the same as of the bank.

**(iv) Strategies**

Strategy is determination of the basic long-term objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to achieve these goals. Thus, a bank has to state its long-term goal, say, maximisation of customer satisfaction, profit maximisation or contribution to the maximum extent for the socio-economic upliftment of the country.

**(v) Policies**

Policies are general statements or understandings which guide or direct thinking and action in decision - making. However, all policies are not statements.

**(vi) Procedures and Rules**

Procedures are plans that establish a desired method of handling future activities. They are guides to action rather than thinking. They detail the exact manner in which a certain activity must be accomplished.

**(vii) Programmes**

These are complexes of goals, policies, procedures, rules task assignment, steps to be taken, resources to be employed and other elements necessary to carry out a given course of action. They are ordinarily supported by necessary budgets of the organisation.

**(viii) Budget**

A budget is a statement of expected results in terms of members. It may be referred to as a numerical programme. Cash budget, sales budget capital expenditure budget are some of the examples of budget.

**4.1.3 Advantages and Disadvantages of Planning****Q4. Explain the advantages and disadvantages of planning.**

*Ans :* (Imp.)

**i) Optimum Utilisation of Resources:**

As indicated earlier, planning enhances efficiency. Efficiency requires optimum utilisation of all inputs. Further, it also requires optimum utilisation of machinery, men and other resources.

**ii) Economy in Operations:** Planning eliminates the unnecessary operations in production, marketing and other functions. In addition, it reduces the purchase price of material and other inputs. These result in economy in operations.**iii) Reduces Uncertainties:** Planning process estimates the future trends of the external environments, initiates the steps to prepare for meeting the future challenges and converting some of the future threats into opportunities. Thus, planning reduces uncertainties.**iv) Strengthens Competitive Ability:**

An organisation's competitive ability depends upon its strengths and matching these strengths with the environmental opportunities. Planning helps the organisation to build the strengths, reduce the weaknesses, foresee the environmental opportunities and match the strengths with the opportunities. Thus, planning helps for improving the organisation's competitive abilities.

**v) Effective Coordination** Coordination is linking various sections and departments through network Planning incorporates

coordination in its process. Infact, the planning process provides the detailed process of programming of activities -a. rich would result in effective coordination.

- vi) **Acts as Change Agent** Planning helps to predict the future trends and also manipulate the environmental factors Planning decides what should be done in terms of innovative product cesigr technology, marketing alliances etc. and bring the change before is .mplemented by other companies. Thus, planning process acts as change agent.

#### Disadvantages

- i) **Unreliability of Forecasts:** Planners forecast future trends based on the past trends by the help of statistical techniques. But a number of environmental factors change between the planning and execution periods Consequently, the forecasts become unreliable and redundant.
- ii) **Time Consuming:** Planning process involves a number of steps, as discussed earlier. In addition, forecast of future events is based on a number of statistical tools. Planning process requires a lot of time to perform all these activities and to make planning effective and systematic.
- iii) **High Cost:** The planning process is not only time consuming but also expensive. The planning process requires vast data and information to be collected and processed. In addition, it requires use of statistical techniques and services of a number of personnel. As such, planning is an expensive activity.
- iv) **Organisational Politics:** Though the planning process is based on a systematic and sequential process, sometimes the influential leaders dominate the planning process. Consequently, planning takes the approach or trend determined by the influential managers. Thus, organisational politics also takes place in the planning process.
- v) **Inflexibility :** Liberalisation and globalisation made the change and adaptability as the order of the day in the business world. Modern business firms have realised that they

should change before change changes them. But planning makes most of the organisational activities inflexible and static, which are unsuitable to the present day business environment.

#### 4.1.4 Approaches to Planning

#### Q5. Explain the various approaches in planning.

*Ans :*

(Imp.)

1. **Top-down approach:** In most family-owned enterprises, authority and responsibility for planning is centralised at the top. The top management defines the mission, lays down strategies, specifies action plans to achieve the stated goals. The blueprint is then passed on to the people working at lower levels, who have very little to contribute to the process of planning. The success of this approach is wholly dependent on the qualifications, experience and capabilities of people working at the top level.
2. **Bottom-up approach:** Thinking and doing aspects in the planning process are two sides of the same coin. So, if lower level managers are drawn into the preparation and implementation of plans, their loyalty and commitment would go up automatically. Participation enables them to give their best to the plan document.
3. **Composite approach:** In this approach, a middle path is chosen to facilitate the smooth implementation of the plans. Here the top management offers guidelines, sets boundaries and encourages the middle and lower level executives to come out with tentative plans. These are put to discussion and debate. Once approved, such plans gain acceptance readily since everyone has been drawn into the exercise.
4. **Team approach:** The team approach is slightly different from the composite approach. In this, the job of planning is assigned to a team of managers having requisite experience in various functional areas.

**Q6. Describe the various steps in the process of planning.**

*Ans :*

Planning involves selecting mission, objectives and the actions to achieve them, it requires decision making, that is choosing from among alternative future courses of action. Planning is both a managerial function and an independent process by itself. As a process, it is concerned with :

1. Identifying goals.
2. Exploring different alternatives to achieve them.
3. Evaluating each alternative.
4. Selecting the best alternative for implementation.

Planning is a systematic development of action. It involves choice and ends with the selection of the best alternative. Planning is 'deciding in advance what is to be done in future'. What is to be done in future becomes clear when objectives, policies, procedures and programmes are selected from the best course of action.

**1 Identifying the Opportunity**

Real planning starts with knowing the availability of different opportunities. For each opportunity, assess carefully the size of markets, type of customers, degree of competition, needs of customers, finances required and the strengths and weaknesses of the firm. Then, identify the right opportunity.

**2. Define Goals**

Once the opportunity is identified, define the goals you want to achieve for the entire organization. Goals, in turn, will throw light on what objectives, strategies, policies, procedures, rules, budgets and programmes you should follow.

**3. Consider the Planning Premises**

Planning premises refers to the assumptions about the environment in which plans have to be carried out. Correct assumption about markets, competition, product technology,

prices, volume of sales, costs, tax rates etc. are essential for business planning. Government policies, annual budgets, economic indicators, survey of specific industries etc. provide valuable insights on the basis of which 'premises' can be worked out.

**4. Identify Alternatives**

There may be more than one alternative to reach a goal or objective. Search for and identify all the available alternatives. Work out the requirement of resources under each alternative. In most cases, finding alternatives may be easier. Shortlisting the promising ones is a relatively complex task.

**5. Evaluate the Alternatives**

Examine each alternative in relation to the other and identify the merits and demerits of each. One alternative may look very profitable but it may involve a large capital investment and also take long time to return the original investment. It may also involve a high degree of risk. There may be some good alternatives which cannot be considered even though they fit into the long term interests of the organization.

**6. Evaluation of given alternatives is a complicated process as the business environment is full of uncertainties**

Government policy may change, technology may change, adequate funds may not be available etc. The alternatives have to be evaluated in the light of many variables and constraints. There are some modern techniques such as operations research and computing which can be gainfully employed in evaluating the given alternatives.

**7. Choose the Best Alternative**

The best alternative is decided on a given situation. Normally it involves optimum utilization of resources. At times, the number of best alternatives could be more than one. To eliminate errors in judgement, the manager may even decide to follow more alternatives than confining himself to one.

### 8. Formulate and Communicate Supporting Plans

Supporting plans are also called derivate plans. These are derived from the best alternative chosen. When a company decides to launch a new product, it also has to formulate several supporting plans for recruiting and training more staff, mobilize more infrastructure and working capital for advertising and insurance. Managers have to communicate these supporting plans to the employees concerned so that they can be involved in their implementation.

### 9. Make Budgets

Budget is "numerical expression" of a plan. Budgets can be formulated for the entire organization and also for each department or programme. When cash, sales, production and other budgets are integrated, it results in an overall budget for the entire organization, popularly known as Mater Budget or Integrated budget. Budgets set standards for measuring and controlling the actual performance of the employees in an organization.

## 4.2 MANAGEMENT BY OBJECTIVES (MBO)

### Q7. Define MBO. Explain the features of MBO.

*Ans :* (Dec.-20, Imp.)

Management by Objectives (MBO) is a successful philosophy of management. It replaces the traditional philosophy of 'management by domination.' It was popularised as an approach to planning by Peter F. Drucker in 1954 in his famous book *The Practice of Management*. Since that time, it has acquired momentum and of late it has become a movement.

There are many MBO type programmes like 'management by results', 'goal management', 'work planning and review', 'goals and control'. These programmes are similar in nature inspite of the difference in names.

**According to Howell**, the concept of MBO has passed through different stages of management development, viz.

- i) MBO for performance appraisal,
- ii) for integrating the individuals with the organisation and
- iii) for long-range planning.

### Features

1. **MBO is a philosophy:** MBO is not only a technique but a philosophy to management as it is applicable in every aspect of management.
2. **Objectives Divided Collectively:** MBO focuses on setting of objectives or goals which is done collectively both by the superiors and subordinates. The goals are verifiable and measurable.
3. **Regular Review:** Periodic review of performance is an important feature of MBO. The review of performance is done regularly, generally once in a year.
4. **Guideline for Setting Up System:** The objectives is MBO provide guidelines for appropriate systems, procedures, delegation of authority, fixing of responsibility etc. The objectives also become a basis of reward and punishment in the organisation.
5. **More Freedom to Subordinates:** MBO is a system where subordinates are involved in deciding the objectives and freedom in implementation.
6. **Matching of Objectives and Resources:** The objectives are set on the basis of availability of resources. The resources are matched with the objectives to achieve the objectives.
7. **Periodic Performance Evaluation:** Periodic evaluation of performance is done to know the results achieved. Mutually agreed objectives form the basis of performance.
8. **Rewards:** The rewards are given to individuals on the basis of achieving the goals.

## 4.2.1 Steps in MBO

## Q8. Outline the process of MBO.

*Ans :*

- i) **Preliminary Setting of Objectives at the Top Level:** The managers at the top level set the overall objectives by taking planning premises into account. These objectives set by the superiors are preliminary as they must be regarded as tentative and subject to modification as the entire chain on verifiable objectives is worked out by subordinates.<sup>7</sup> Verifiable objectives are developed in terms of profits, market share, growth, expansion etc.
- ii) **Clarification of Goals:** The relationship between the results expected and the responsibility for attaining them should be established as every goal and sub-goal should be someone's clear responsibility and accountability.
- iii) **Setting of Subordinates' Objectives:** The organisation's objectives should be accomplished by a number of individuals, if all the individuals are to be jointly made responsible for attaining its overall objectives. Therefore, each individual should be assigned a specific task and he must know in advance what he is expected to achieve. In view of this, the subordinates' objectives should also be set in conformity with the preliminary objectives of the company. In some cases, the preliminary objectives of the organisation may be modified or changed in view of abilities, strengths and weaknesses of the subordinates and their objectives.
- iv) **Recycling of Objectives:** Infact, the final objectives are neither set at the top nor at the bottom. As discussed earlier, they are set after thorough consultations and discussions between the superiors and subordinates. Thus, it is a joint process requiring interaction and recycling among staff. This process creates a feeling of commitment and involvement of all staff at various levels.

- v) **Performance Appraisal:** Each employee should evaluate his accomplishment with the objectives set with the help of his superior. This appraisal provides him scope for correction and further improvement.

## Q9. Explain the objectives of MBO.

*Ans :*

Some of the objectives of MBO are as follows:

1. **Measuring Performance :** The main objective of setting objectives is to measure the performance of persons. The actual performance against the given objectives will help in judging the performance of different persons.
2. **Increasing Growth of Subordinates :** When goals are given to the employees they will try to achieve the goals which will give them confidence and help in their growth.
3. **Encouraging Efficiency :** MBO process encourages efficient persons since their performance comes to the notice of the management. When the output or performance of individual persons is not separately counted or recorded then there will be no record of performance of different persons. In such a situation efficient persons will not try to raise their performance since there is no distinction between efficient and inefficient./In MBO efficient persons will feel encouraged to improve their performance since it is recorded against their names.
4. **Relating Individual Performance to Organisational Goals :** The individual performance of different persons will be related to organisational goals. The performance in achieving individual goals will help in achieving organisational goals also. A feedback about the performance of individuals will help in determining the overall performance of the organisation. A timely action may be taken if the performance is not as per the plans.
5. **Basis for Deciding Salary and Promotion :** The performance of individuals at work will be the best criterion for deciding, about

salaries of individual employees. The annual pay rises, incentives and promotion are given to employees on the basis of their performance.

6. **Improving Communication among Superiors and Subordinates :** Another objective of MBO is to improve communication among superior and subordinates. Both superior and subordinate sit together decide objective and take the decisions after proper discussions. The performance results of subordinates will regularly go to the superiors and evaluated. This process helps in improving communication process among superiors and subordinates.
7. **Device of Organisational Control :** MBO helps in assessing the organisational performance against the given objectives. A regular information about the performance of employees will help the management in assessing the overall results of the organisation. The management will be able to take quick actions if the performance is not as per the goals.

#### 4.2.2 Benefits - Weaknesses of MBO

**Q10. Explain the benefits of weaknesses of MBO.**

*Ans :* (Dec.-20, Imp.)

#### Benefits

##### 1. Clear goals

MBO produces clear and measurable performance goals. Goals are set in an atmosphere of participation, mutual trust and confidence. There is a meeting of minds between the superior and the subordinates, where the latter will be shooting for right goals. Participation increases commitment, additionally it also results in setting better goals. Research experience also indicates that individuals are more likely to be highly committed to objectives when they share a hand in setting. Joint goal-setting sessions enhance team spirit and intergroup communication.

##### 2. Better planning

MBO programmes sharpen the planning process. Specific goals are products of concrete thinking. They tend to force specific planning into setting highly specific, challenging and attainable goals; developing action programmes tied to a definite schedule; providing resources for goal accomplishment; discussing and removing obstacles to performance-all these activities demand careful advance planning. Passivity gives way to activity.

##### 3. Facilitates control

MBO helps in developing controls. A clear set of verifiable goals provides an outstanding guarantee for exercising better control.

##### 4. Objective appraisal

MBO provides a basis for evaluating a person's performance since goals are jointly set by superior and subordinates. By setting specific goals, MBO allows persons to better control their own performance. The individual is given the freedom to police his own activities. A pleasant and stimulating organisational climate prevails where individuals are not subjected to domination and control from 'upstairs', and where they are trained to exercise discipline and self-control. Management by self-control replaces management by domination. Appraisals would be more objective and impartial since employee performance is evaluated against, verifiable objectives.

##### 5. Motivational force

Both appraiser and appraisee are committed to the same objective. It forces managers to think of result oriented planning rather than planning for activities or work. It compels forward planning and living life in an anticipatory mode rather than responding to events. Clarified roles reduce ambiguity and employee anxiety. It allows managers increased opportunities to provide subordinates with a better fix on the job and clarify the path to personal rewards.

**6. Better morale**

MBO encourages commitment rather than rote compliance. It is functional in terms of what top management demands and developmental in terms of people at work. The two techniques, participative decision-making and two-way communication, encourage the subordinates to communicate freely and honestly. It minimises the possible misunderstanding about what is expected of each individual and organisational subunit. Participation, clarified goals, improved communication - all together have a tonic effect on the psychology of subordinates.

**7. Result-oriented philosophy**

MBO is a result-oriented, practical and rational management philosophy. Managers are forced to develop specific individual and group goals, develop appropriate action plans, marshal the resources properly and establish needed control standards, it helps manager to avoid management by crisis and 'fire-fighting'.

**Weakness**

MBO is not a panacea, a cure for all organisational problems. Quite often, many organisations look at MBO as an instant solution to their problems. They fail to recognise that MBO demands careful planning and implementation to be successful. This technique, like all others, can be no better than the people who try to apply it. Some of the problems preventing MBO from achieving its best results may be catalogued thus:

**1. Pressure-oriented**

MBO may prove to be self-defeating in the long run since it is tied with a reward-punishment psychology. It is a clear violation of the integrity of subordinate's personality. MBO programmes sometimes, discriminate against superior performers. It tries to indiscriminately force improvement on all employees and at times, may penalise the very people who are most productive in the organisation.

**2. Time consuming**

MBO demands a great deal of time to carefully set objectives, at all levels of the organisation. Initially to instil confidence in subordinates in the 'new system', superiors may have to hold many meetings. The formal, periodic progress and final review sessions also consume time.

**3. Increases paperwork**

MBO programmes introduce a tidal wave of newsletters, instruction booklets, training manuals, questionnaires, performance data, reports into the organisation. To stay abreast of what is going on in the organisation, managers may demand regular reports and data in writing, resulting in gruelling exercise in filling out forms'. It has created one more 'paper mill'. According to Howell, MBO's effectiveness is inversely related to the number of MBO forms.

**4. Goal-setting problems**

MBO works effectively when important measurable objectives are jointly agreed upon. It works less, when: (i) Verifiable goals are difficult to set. (ii) Goals tend to take precedence over the people who use it. MBO focuses on end results and it may foster an attitude, that any action is acceptable as long as it helps to achieve the goals.

Consequently, unwise decisions are made that would ultimately harm the organisation, (iii) Goals are inflexible and rigid, (iv) There is overemphasis on quantifiable and easily measurable results instead of important results. Many important qualitative goals like job satisfaction, employee attitudes are lost sight of (attempts to set measurable goals force managers to search for a magic figure for each area), (v) Overemphasis on short-term goals at the expense of long-term goals. Attempts to show results force managers to curtail costs, in areas where a long-term perspective would be more fruitful to the organisation.



**Q11. What is meant by management by exception? How is it different from MBO ?**

*Ans :*

Management by exception principle states that top management should interfere only when something goes wrong. If the things are done as per plans then there is no need for the interference of top management. The management should leave routine matters to be supervised by lower management and they should interfere only in exceptional situations.

Only when there is significant deviation of actual results from the budgeted or planned the results are brought to the managements notice. Its objective is to focus management on really important and strategic issues.

**For Example :** The company controller may be required to notify management of those expenses that are greater than rupees 50,000 or 20% higher than expected. Thus, if expenses are lesser than 50,000 then manager need not be informed about it. But if deviation increase above 50,000 then it must be brought to the notice of manager concerned.

#### **Advantages of Management by Exception**

1. MBE is an important principle of organisational control.
2. MBE is a way for managers to effectively save time and concentrate on really important issues.
3. It reduces the frequency of decision making.
4. Managers take fewer important decision due to which employees have more responsibility, which increase their motivation.
5. The management is able to utilize the available talent at the lower levels. It helps to identify the responsible person.
6. It is a technique of separating important information from the unimportant information. The information which is critical and needs action is sent to the manager.

#### **Limitations of Management by Exception**

The limitations of MBE are as follows:

1. MBE suggest that the subordinate managers are incapable of dealing with problems.
2. Staff may feel isolated from the management due to no real interaction.
3. Management may loose touch with everyday matters of business.
4. Important decision will be taken by senior management and participation of employees is less. This can be a demovating factor.

#### **Difference between MBO and MBE**

MBO is a method whereby managers and employees define objectives for every department, and use this objectives to monitor performance. Whereas, MBE is a control technique which helps in deciding what is to be reported to top management. Managers only interfere when work goes out of scope or not meet the required standards.

In MBO, the superiors regularly evaluate the performance of subordinates and take corrective measures when needed. On the other hand in MBE only exceptions are reported to top executives so that they are able to focus on important issues.

### **4.3 DEFINITION OF ORGANIZING- ORGANIZATION**

**Q12. Define :**

- (a) Organizing
- (b) Organization

*Ans :*

**(a) Organizing**

Organizing is the process of establishing relationships among the members of the enterprise. The relationships are created in terms of authority and responsibility. Each member in the organization is assigned a specific responsibility or duty to perform and is given the corresponding authority to perform his duty. Organizing is an important function of management because it is through organizing that a manager brings together the

material and human resources required for the achievement of desired goals. According to Fayol "to organize a business is to provide it with every thing useful to its functioning – raw materials, tools, capital and personnel".

## (b) Organization

Organisation is an essential part of human life. Organization is used in two different ways. They are :

### (i) Organization as a Structure

Organization structure refers to the network of relationships among individuals and positions in an organization. It is the skeleton of an enterprise. Organization is an identifiable group of people contributing their efforts towards the attainment of goals. Organization is a group of interacting and interdependent individuals working towards a common goal. It is a structure manned by group of individuals who are working together towards a common goal. So, an organization is a static mechanical entity.

### (ii) Organization as a Process

As a process, organization refers to one of the important functions of management. It is the process of determining, arranging, grouping and assigning the activities to perform for the attainment of objectives. Organizing is the process of defining and grouping the activities of the enterprise and establishing the authority relationships among them.

In performing the organizing function, the manager defines, departmentalizes and assigns activities so that they can be most effectively executed. Organizing process involves differentiation and integration of activities.

"Organisation is any group of individuals, large or small, that is cooperating under Jjie direction of executive leadership in the accomplishment of certain common objectives."

- Keith Davis

"Organising is the process of combining the work which individuals and groups have to perform

with the faculties necessary for its execution that the duties so formed provide the best channels for efficient, systematic, positive and co-ordinated application of available efforts."

- Keith Davis

"Organising is the establishing of effective behavioural relationships among persons so that they may work together efficiently and gain personal satisfaction- in doing selected tasks, under given environmental conditions for the purpose of achieving some goal or object."

- George Terry

## Q13. Explain the characteristics of Organization.

*Ans :*

### 1. Common Purpose

Every organization exists to accomplish some common goals. The structure must reflect these objectives as enterprise activities are derived from them.

### 2. Division of Labour

The total work of an organization is divided into functions and sub-functions. This is necessary to avoid the waste of time, energy and resources which arises when people have to constantly change from one work to another.

### 3. Authority Structure

There is an arrangement of positions into a graded series. The authority of every position is defined. It is subordinate to the position above it and superior to the one below it.

### 4. People

An organ is basically a group of persons. Activity groupings and authority provisions must take into account the limitations and customers of people. People constitute the dynamic human element of an organisation.

### 5. Communication

Every organization has its own channels of communication. Such channels are necessary for mutual understanding and cooperation among the members of an organization.

**6. Coordination**

There is a mechanism for coordinating different activities and parts of an organisation so that it function as an integrated whole. Cooperative effort is a basic feature of organization.

**7. Environment**

An organ functions in an environment comprising economic, social, political and legal factors. The structure must be designed to work efficiently in a changing environment. It can be static or mechanistic.

**8. Rules and Regulations**

Every organization has some rules and regulations for orderly functioning of people. These rules and regulations may be in writing or implied from customary behaviour.

**Q14. Explain the importance of Organization**

*Ans :*

**1. Organisation Promotes Specialisation and division of Work**

The process of organization clearly defines and divide the work among people. Division of work leads to specialisation.

**2. Avoids Duplication or Overlapping of Work**

As the work is properly divided with clear cut authority and responsibility relationships this avoids duplication or overlapping of work.

**3. Promotes Growth and Diversification**

A good organisation structure with well defined authority and responsibility relationship promotes growth and diversification.

**4. Easy Co-ordination**

A good organisation will divide and subdivide the activities therefore coordination of activities is necessary.

**5. Training and Development of personnel**

A good organisation offers an opportunity for the training and development of personnel. New entrants get sufficient opportunity for the training of new trainees and development of existing staff.

**6. Increase in Managerial Efficiency**

A good organizational structure increases managerial efficiency as there is no delay, confusion and duplication of work. Efficiency of workers is increased as the workers have to perform a limited number of operations as they take the help of specialists.

**7. Better Human Relations**

Well defined work, authority and responsibility helps in the smooth functioning of an organisation. It also promotes good and healthy human relations within the organisation.

**4.3.1 Process of Organizing****Q15. Explain the steps involved in Organizing Process.**

*Ans :*

The process of designing organization structure involves the following steps :

**1. Identification of Activities**

Organization structure is developed to achieve some desired objectives. So, the activities necessary for the accomplishment of objectives are determined. The total work is classified systemically no one handle the total work alone. Identification and classification of work enables managers to concentrate attention on important activities to avoid duplication of work and to avoid overlapping or wastage of effort.

**2. Grouping of Activities**

Similar activities are grouped together to form departments, divisions and sections. Grouping may be done on several bases depending on the requirements of the situation.

**3. Assignment of Duties**

Each group of related activities is assigned a position most suited for it. Every position is occupied by an individual. While assigning duties, the requirements of a job and the competence of the individual should be properly matched together.

**4. Delegation of Authority**

Appropriate amount of authority is delegated to people to enable them to perform the assigned duties with confidence. Authority and responsibility are properly balanced. Delegation of authority creates superior subordinate relationships between various positions in the organization. Such relationships and channels of communication should be clearly defined. Each and every individual should know clearly from who he is to take orders and to whom he is accountable for his performance.

**4.4 PRINCIPLES OF ORGANIZATION****Q16. What are the Principles of Organization?***Ans :***(Imp.)****1. Unity of Objective**

An organization structure is sound when it facilitates the accomplishment of objectives.

**2. Specialisation Or Division Of Work**

The activities of every member of the organization should be confined, as far as possible, to the performance of a single function.

**3. Span of Control**

Every manager should have a limited number of subordinates reporting to him directly. The span should be narrow for complex work and wide for simple and routine work.

**4. Scalar Principle**

There should be a clear chain of command extending from top to the bottom of the organization. Every subordinate should know who his superior is and who is his subordinates are.

**5. Functional Definition**

The duties, authority and responsibility of every position should be clearly defined so as to avoid duplication of work.

**6. Exception Principle**

Only exceptional matters which are beyond the authority of lower-level persons should be referred to higher levels. Routine matters should be dealt with by executives at lower levels.

**7. Unity of Command**

Each subordinate should have only one superior whose command he has to obey. This is necessary to ensure discipline and to fix responsibility for results.

**8. Balance**

A proper balance between centralisation and decentralisation should be kept. Each function in the organization should be developed to the point at which the value received is at least equal to costs.

**9. Efficiency**

The organization structure should facilitate the achievements of objectives at minimum possible cost.

**10. Flexibility**

The organization structure should be adaptable enough to accommodate technical and other changes in the environment. At the same time, the organization structure should be reasonably stable so as to withstand changes.

**11. Continuity**

Proper arrangements should be made for the training and development of executives.

**12. Facilitation of Leadership**

Organization structure should be so devised that there is enough opportunity for the management to give effective leadership to the enterprise.

**13. Parity of Authority and Responsibility**

In every position, the authority and responsibility should correspond. Adequate authority should be delegated to all levels and wherever authority is delegated the person should be held responsible.

**14. Coordination**

The organization structure should facilitate unity of effort and coordination among different individuals and groups.

**4.5 FORMAL AND INFORMAL ORGANIZATIONS**

**Q17. Define Formal Organization. Explain the features of formal organization.**

*Ans :*

**(Imp.)**

Formal organisation refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability. The structure is consciously designed to enable the people of the organisation to work together in accomplishing the common objectives. Committees, project teams, task force, departments, etc., are the examples of formal groups.

**Features of Formal Organization:**

- a) It is the result of deliberate managerial planning.
- b) It is based on the principle of division of labour and specialisation.
- c) It is based on the activities to be performed and not on the individuals who perform such activities.
- d) It is formally proclaimed by the top management and hence, shown on the organisation charts.
- e) It sets up the boundaries and specific part of actions, which must be strictly followed.

**Q18. Explain the advantages and disadvantages of formal organization.**

*Ans :*

**Advantages of Formal Organization:**

- a) It facilitates the determination of objectives and policies.
- b) Coordination becomes easy, as objectives are specific.
- c) It develops managerial skills.
- d) It avoids excessive concentration of power in a single hand.
- e) It leads to consistency and uniformity in the organisation.
- f) Failures can be located effectively.

**Disadvantages of Formal Organization**

- a) Formal organizations restrict Individual freedom. Therefore, there is no creativity or self-initiative on the part of the workers to work hard.

- b) Formal organizations tend to be dominated by individuals at the higher level of the management hierarchy. This generates dissatisfaction and frustration among the lower level managers.
- c) Such organisation emphasises rules and discipline and therefore, leads to delay in decision-making and execution of organi-zational plans.

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**Q19. Define informal Organization. Explain the features of informal organization.**

*Ans :*

Informal organisation refers to the relationships between people within an organisation based on personal attitudes, emotions, prejudices, likes and dislikes, etc. This organisation is governed by needs, emotions and attitudes and not by procedures, policies and regulation. It is also called 'Grapevine'. The grapevine works with a surprising speed and is often faster than official channel. Generally, large formal groups give rise to small informal groups.

**Features of Informal Organization:**

- a) Informal organisations do not appear on the formal chart of the enterprise.
- b) These organisations are based on personal attitudes, likes and dislikes, understanding, customs, traditions, etc.
- c) Informal organisation exists at all levels of organisation from top to bottom.
- d) Although, there is no specific channel of communication, informal channel is much more powerful than formal channel.

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**Q20. Explain the advantages and disadvantages of informal organization.**

*Ans :*

**Advantages of Informal Organization**

- a) Informal channel is faster than formal one. Therefore, it can be used for making quick decisions.
- b) Informal organization provides support to the formal organisation.
- c) If used effectively, informal channels can largely contribute to the organizational goals.
- d) Such organization satisfies the social needs of workers such as friendship, love, care, concern, etc.
- e) Informal organization operates in free environment. Thus, it promotes creativity and better exchange of ideas.

**Disadvantages of Informal Organization**

- a) Informal organization is used by workers as a protective device against the management,
- b) It is generally used to pressurise the management to fulfil their demands.
- c) The grapevine channel often dispenses false information, half-truth and rumours.
- d) In most cases, informal organizations do not operate in the interest of the enterprise.

**Q21. Differences between Formal and Informal Organizations.***Ans :*

Formal Organization	Informal Organization
<b>(a) Formation:</b>	
A formal organisation is the result of conscious and deliberate efforts of the top management. It is formed out of the deliberate managerial planning and organisational efforts.	An informal organisation develops unconsciously among the people working together in the same group. These people associate with each other on the basis of common views, likes and dislikes.
<b>(b) Formal Set-up:</b>	
A formal organisation is represented on the organisation chart. It follows certain pre determined rules, channel of communication and lines of authority-responsibility.	In an informal organisation, there are no such rules or channels of communication. Even a lower level subordinate can communicate with an officer at the higher level.
<b>(c) Delegation of Authority:</b>	
A formal organisation is based on delegation of authority, which is necessary for the effective functioning of the organisation system.	The concept of delegation of authority has no relevance in an informal organisation as all the members of informal groups are at par.
<b>(d) Rationality:</b>	
A formal organisation is set-up on rational and scientific basis rather than emotions and sentiments.	In an informal organisation, it is difficult to find any rationality as it is the result of association of like-minded people.
<b>(e) Identity of Members:</b>	
Its members do not have any separate identity from what they have been accorded in the organisation structure.	Its members have an opportunity to develop their own identity according to their personal, mental or physical abilities.
<b>(f) Nature of Organisation</b>	
Formal organisations are in written form and they are contained in the manual or the handbook of the enterprise.	Informal organisations are not in written form. They develop naturally within the framework of formal organisation.
<b>(g) Existence:</b>	
A formal organisation exists independently of the informal organisation.	An informal organisation develops within the framework of the formal organisation.

#### 4.6 LINE, STAFF ORGANIZATIONS

**Q22. What is meant by line organization? State the advantages and disadvantages of line organization ?**

*Ans :*

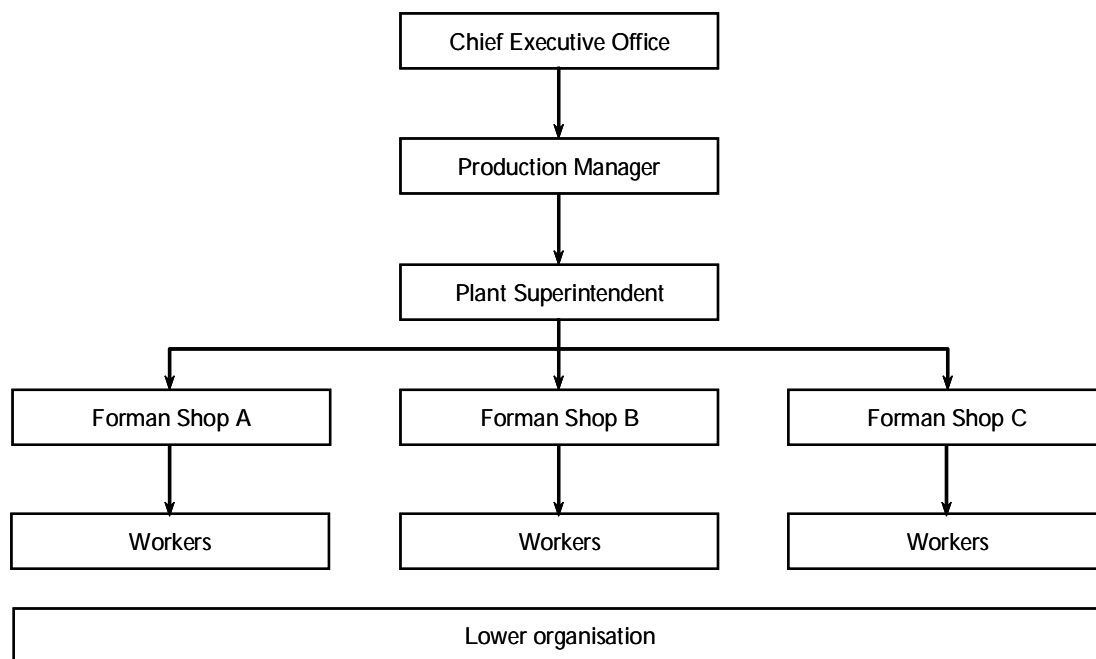
Line organization is the simplest and the oldest type of organisation. It represents a direct vertical relationship through which authority flows.

The authority flows vertically from top to the lower levels, the responsibility flows upwards.

This organisation is a vertical structure where one person delegates authority to his subordinate who in turn delegates to his subordinate and so on.

Every person is responsible for his work and is accountable to his boss. As the authority and responsibility flows in an unbroken straight line it is called line organisation. It is also known as chain of command or scalar principle.

This form of organisation is followed in military establishments.



#### Advantages of Line Organization

The line organisation enjoys the following advantages.

##### 1. Simplicity

This organisation is simple to establish and can be easily understood by the employees. Everybody knows his work and also to whom he is responsible. So it can be operated simply and clearly.

##### 2. Effective Communication

As there is a direct link between the superior and his subordinate, both can communicate properly among themselves. The reactions of subordinates also reach top management in a short time.



**3. Economical Communication**

Line organisation is easy to operate and less expensive as there are no staff personnel appointed to advise line officers. Hence this organisation is economical.

**4. Quick Decisions**

As only one person is in charge of a department or division he takes various decisions by himself. This enables a manager to take quick decisions.

**5. Unity of Command**

In line organisation as every person is under the command of one boss only, Principle of unity of command is possible.

**6. Effective Control and Supervision**

The number of subordinates is limited under line organisation, hence effective control and supervision is possible. There is a direct link between superior and subordinates. This helps in having better control.

**7. Executive development**

Under this system the departmental head is involved in taking decisions. This helps him in learning new things. Line organization also provides opportunities to the executives for training and development.

**8. Flexibility**

This system is flexible as the manager takes all important decisions and he can make changes quickly according to the changing conditions.

**9. Fixed Responsibility**

Under this system the duties and responsibilities are clearly defined. Each employee knows his or her position and the level of his authority. He knows to whom he is responsible.

**10. Coordination**

As the departmental head is in charge of all the departments he can easily coordinate the work of various departments.

**Disadvantages of Line Organisation**

Line organisation suffers from the following disadvantages.

**1. Excess Work**

In line organisation too much is expected from executives. They are expected to take numerous decisions and supervise the work of subordinates. The line officer cannot devote sufficient time to each and every work and are over loaded with responsibilities.

**2. Lack of Specialisation**

The line officers cannot be experts in every line of business. They do not have specialisation in all fields therefore the quality of decisions may suffer due to lack of Specialisation.

**3. Lack of Co-ordination**

There is a lack of co-ordination among various departments. Departmental heads try to run the departments in their own way. There may be a lack of operational uniformity among various departments.

**4. Improper Communication**

The ultimate authority for taking all decisions lies with line officers. They start deciding things without consulting their subordinates.

The subordinates do not convey their reactions to the superiors. This creates many problems for the smooth conduct of business.

**5. Lack of Initiative**

In line organisation final decision-making is done by the top management. Hence the lower level officials do not take initiative in suggesting new things.

**6. Favouritism**

There is a scope for favouritism in line organisation. The officers judge the performance of persons according to their own likings. There is a likelihood that some persons may be given favours and deserving persons on the other hand, may be ignored.

## 7. Instability

The business is dependent upon some key persons and the sudden disappearance of such persons from the scene may create instability in the business.

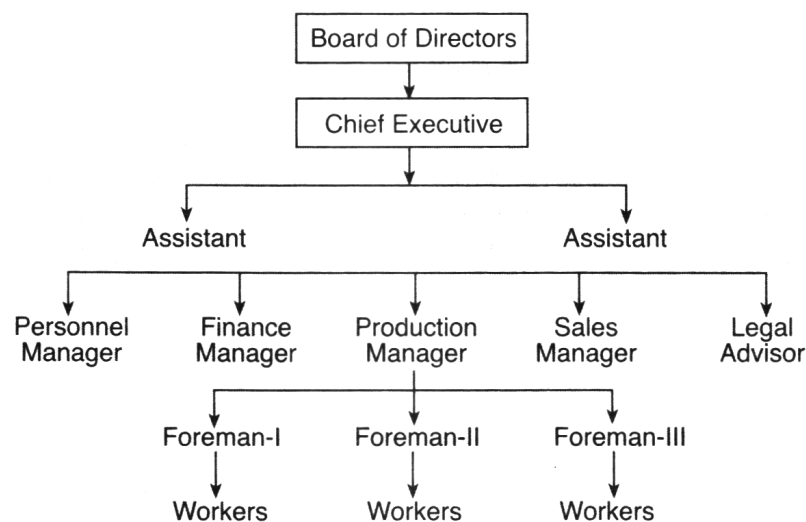
The managerial growth also suffers because lower level persons are not involved in decision-making process.

**Q23. What is meant by line and staff organisation? Explain the advantages and disadvantages of line and staff organization.**

*Ans :*

(Dec.-20, Imp.)

Line and staff organisation is a happy blending of line organisation and staff organisation. It removes the drawbacks of both line and staff organisation. In this organisation line authority flows in a vertical line and staff specialists are attached to line positions to advise them on important matters.



**Line and Staff Organisation**

### Advantages of Line and Staff Organisation

The important advantages of line and staff organisation as follows.

#### 1. Specialisation

Line and staff organisation is based on specialisation. Person with specialised knowledge are appointed to help line officers. The specialist give advise to line managers and prepare plans for the organisation.

#### 2. Discipline

The unity of command is maintained in this type of organisation. The staff personnel do not interfere with the executive work of line officers. This creates better understanding and discipline among employees.

#### 3. Better Decisions

Staff specialists help the line manager is taking better decisions by providing information of right type at right time. This helps the line officers to take balanced and quick decision.

**4. Growth and Expansion**

In this organisation specialists are appointed who help the line managers in decision making. The line people are not overburdened with work and devote time for future planning. This helps in growth and expansion of the organisation.

**5. Less Burden on line Officers**

With the appointment of staff specialist the burden of work on line staff is reduced. The specialist help the line officers in decision making. The line officers find time in supervising and preparing various plans and policies.

**6. Training**

The staff officers are a good source of training to line officers.

**Disadvantages of Line and Staff Organisation**

The line and staff organisation suffers from following disadvantages.

**1. Conflict Between Line and Staff Personal**

There is a possibility of conflict between line and staff personnel. The staff officers feel ignored by the line officers when their advice is not followed. The line officers complain of interference by staff person in day to day work. They complain that they do not give correct advice.

**2. Lack of Responsibility**

As the staff specialist are not accountable for the results they may not perform their work well.

**3. Expensive**

This type of organisation is very expensive as experts are appointed. They demand high salaries which increases the expenditure of the organisation.

**4. Lack of co-ordination**

There is a lack of co-ordination between line and staff. The line officers do not listen to staff advice. The staff may also try to dominate the line with their advice. This creates confusion and disorder among employees.

**5. More Dependence on Staff**

The line officers start depending on staff specialist for advice. This over dependence on staff makes the line officers less creative.

**4.6.1 Line and Staff Conflicts****Q24. What are the causes of conflict between line and staff ?**

*Ans :*

(Dec.-20)

**Line and Staff Conflict**

There is frequent conflict and friction between the line executives and staff officers. The causes of such conflict can be divided into three categories :

- I. Complaints by line managers,
- II. Complaints by staff officers,
- III. Weaknesses in the organisation structure.

**I. Complaints by Line Managers**

Line managers make the following complaints against the staff officers :

**1. Staff Oversteps its Authority**

Staff officers encroach upon line authority. They interfere in the work of line managers and attempt to tell them how to do their work. They do not confine themselves to their advisory role. They trespass their field of activity and enter the area meant for line executives.

**2. Staff does not give Sound Advice**

Staff officers fail to give fully considered, well-balanced and sound advice. They are academicians and give new ideas, that have little practical application. They are not well-

acquainted with the real problems of the enterprise. They often push untried and untested ideas.

### 3. Staff Steals Credit

Staff executives are not directly accountable for results. They are generally over-jealous. They are credit grabbers. They tend to assume credit for success but lay the blame for failure on line managers.

### 4. Staff has a Complex

Staff officers tend to impose their superiority on line managers. Staff officers are generally more educated and specialists in their areas. Therefore, they consider themselves superior to line executives. They have superiority complex.

## II. Complaints by Staff Personnel

Staff personnel usually make the following complaints against line managers :

### 1. Resistance of New Ideas

Line managers often resist new ideas and are not prepared to listen to the arguments of staff experts. They resist new things and insist on following the tradition.

### 2. Sufficient Authority not Provided

Line executives do not provide sufficient authority. Staff specialists lack authority to get their useful ideas implemented. As a result; they get frustrated.

### 3. Proper use of Services

Line managers do not make a proper use of the services of staff experts. They consult them only as a last resort. They consider that asking for advice is admitting defeat. Therefore, staff cannot anticipate problems and recommend precautionary measures.

## III. Weaknesses in Organisation Structure

The following weaknesses in the organisation structure also lead to line and staff conflict :

### 1. Lack of Well-defined Authority

Very often authority, relationships between line and staff are not clearly defined. This results in overlapping and gaps in authority leading to conflicts.

### 2. Temperamental Differences

There are fundamental differences in the orientation, view points and perceptions of line and staff. Staff feel their advice will produce miracles, while line feels impracticable. Staff seeks change and experimentation, whereas line often desire status quo and caution.

## 4.7 FUNCTIONAL ORGANIZATION

**Q25. Define functional organization. What are the advantages and disadvantages of functional organization?**

*Ans :*

Functional organisation structure is most widely used structure. Each functional department consists of those jobs in which employees perform similar jobs at different levels. The commonly used functions are: marketing, finance and accounting, human resources, manufacturing, research and development and engineering.

### Advantages of Functional Organization

#### 1. Specialization

This type of organization has the benefit of having specialists in each area. The work is performed by those who have the specialist knowledge of that work. The workers have the advantage of getting instructions from specialists. This makes possible the fullest use of energy in the organization.

#### 2. Increase in Efficiency

There is a division of labour upto manager level. Planning and execution are also separated. This helps to increase the overall efficiency in the organization. The workers get guidance from expert supervisors and this enhances their performance at work.

**3. Scope of Growth**

The functional origination provides wide scope for growth and mass production. The employment of specialists at various levels of work enable the organization to grow as per the needs of the situation.

**4. Flexibility**

Functional organisation allows changes in organisation without disturbing the whole work. The span of supervision can also be adjusted according to the requirements.

**5. Relief to Top Executive**

Top executives are not unnecessarily burdened as happens in line organisation. The line officer is supposed to be a jack of all trades and is burdened with all types of works. On the contrary a specialist is a master of his line and he has the expertise and capability of taking his own decisions.

**6. Economy of Operations**

The use of specialists helps in controlling the waste of materials, money and time. The consolidation of activities leads to optimum use of facilities like office accommodation, plant and machinery, etc.

**7. Better Supervision**

Every superior is an expert in his own area and he will be successful in making proper planning and execution. The superiors being well acquainted with the work, they will be able to improve the level of supervision.

**8. Democratic Control**

This type of organisation eliminates one man control. There will be a joint control and supervision in the organisation. This boosts the morale of employees and also enthuses a sense of cooperation among them. The democratic approach motivates workers to go deep into their work and make suggestions for work improvement.

**Disadvantages of Functional Organization**

Following are the disadvantages of functional organisation :

**1. Conflict in Authority**

The principle of 'unity of command' is violated in functional organisation. A subordinate is answerable to many bosses. Every superior considers his work important and wants the workers to give top priority to his assignment. The workers feel confused and are unable to decide about the priorities of their work.

**2. Lack of Coordination**

The appointment of several specialists creates problems of coordination, especially when the advice of more than one is needed for taking decisions. Specialists try to give more importance to their work as compared to other areas. This creates conflicts among specialists and coordination becomes a problem.

**3. Difficulty in Fixing Responsibility**

Since there is no unity of command, it becomes difficult to fix responsibility for slackness in work. So many persons are involved in completing a work and everybody tries to blame other for low performance.

**4. Delay in Taking Decisions**

The involvement of more than one person in decision-making process slows down it. The speed of action tends to be hampered by the division of authority. Much time is taken in consulting different specialists prior to decision-making.

**5. Poor Discipline**

The division of authority creates problem of discipline. The workers have to obey many bosses, their loyalty becomes divided. Discipline tends to break down not only among workers but also among lower level supervisors.

**6. Expensive**

Multiplicity of experts increases overhead expenses of the organisation. A number of specialists are appointed for manning various lines of work. These persons being specialists, they demand much higher emoluments. Small units cannot afford to have functional organisation.

**7. Group Rivalries**

The emergence of many persons of equal status encourages group rivalries among executives. Persons connected with different fields try to create their groups and then rivalry starts among these groups. Every group tries to dominate the other. The growth of the unit is adversely affected in a vicious atmosphere.

**4.8 SPAN OF MANAGEMENT - MEANING**

**Q26. Define span of management.**

*Ans :* (Dec.-20)

The span of management refers to the number of subordinate who report directly to the superior. It is also known as the number of subordinates who are efficiently managed by a single superior manager. If the subordinates who report to a superior are more in number, it is called the 'wide span' and the vice versa is called the 'narrow span.'

The wide span results in a less number of levels in organisation hierarchy (flat organisation) and thereby expedites the communication process. But this span is challenging to a manager as the manager has to supervise direct, control a number of subordinates performing different types of activities. On the other hand, narrow span results in close and personalized relationships between the manager and his subordinates and it leads to tall organisations.

**4.8.1 Factors influencing the Span of Supervision**

**Q27. Explain the factors influencing the span of management.**

*Ans :* (Dec.-20, Imp.)

The span of management can be determined on the basis of a number of relationships that a manager can manage. These are:

**1. Capacity of Superior**

The capacity means the ability of a superior to comprehend the problems quickly and get up with the staff such that he gets respect from all. Also, the communication skills, decision-making ability, controlling power, leadership skills are important determinants of supervisory capacity. Thus, a superior possessing such capacity can manage more subordinates as compared to an individual who lack these abilities.

**2. Capacity of Subordinate**

If the subordinate is trained and efficient in discharging his functions without much help from the superior, the organization can have a wide span. This means a superior can manage a large number of subordinates as he will be required just to give the broad guidelines and devote less time on each.

**3. Nature of Work**

If the subordinates are required to do a routine job, with which they are well versed,

then the manager can have a wider span. But, if the work is complex and the manager is required to give directions, then the span has to be narrower. Also, the change in the policies affects the span of management. If the policies change frequently, then the manager needs to devote more time and hence the span would be narrow whereas if the policies remain stable, then a manager can focus on a large number of subordinates. Likewise, policies technology also plays a crucial role in determining the span.

#### 4. Degree of Decentralization

If the manager delegates authority to the subordinates then he is required to give less attention to them. Thus, higher the degree of decentralization, the wider is the span of management. But in case, subordinates do not have enough authority, then the manager is frequently consulted for the clarifications, and as a result superior spends a lot of time in this.

#### 5. Planning

If the subordinates are well informed about their job roles, then they will do their work without consulting the manager again and again. This is possible only because of the standing plans that they follow in their repetitive decisions. Through a proper plan, the burden of a manager reduces manifold and can have a wider span of management.

#### 6. Staff Assistance

The use of staff assistance can help the manager in reducing his workload by performing certain managerial tasks such as collecting information, processing communications and issuing orders, on his behalf. By doing so, the managers can save their time and the degree of span can be increased

#### 7. Supervision from Others

The classical approach to the span of management, i.e., each person should have a single supervisor is changing these days.

Now the subordinates are being supervised by other managers in the organization such as staff personnel. This has helped the manager to have a large number of subordinates under him.

#### 8. Communication Techniques

The mode of communication also determines the span of management. If in the manager is required to do a face to face communication with each subordinate, then more time will be consumed. As a result, the manager cannot have a wider span. But in case, the communication is in writing and is collected through a staff personnel; the manager can save a lot of time and can have many subordinates under him.

#### Q28. Explain the criticisms of span of management.

*Ans :*

##### 1. A contradictory proverb

Herbert Simon has questioned the validity of the span of control in terms of theoretical soundness. He stated that span is a contradictory proverb of administration; produces excessive red tape 'for each contact between organisation members must be carried upward until a common supervisor is found'.

##### 2. Concern for democracy

Some scholars have objected to the idea of a limited span of authority on the ground that it prohibits democratic participation. The gain in production achieved by over-specialisation and over-centralisation of authority may be lost in the debilitating and enervating effects on employee morale ultimately.

##### 3. Unnecessary

Another argument states that a given organisation is efficient despite apparent infraction of the span of control and hence the principle is unnecessary and incorrect.

##### 4. Fable, not a fact

Many consider the span as a fable, not a fact.

## Short Question and Answers

### 1. Planning.

*Ans :*

Planning involves selecting missions, objectives and the actions to achieve them; it requires decision making that is choosing form among alternative future courses of action. Planning

- (a) Identify goals,
- (b) Exploring different alternatives to achieve them
- (c) Evaluating each alternative
- (d) Selecting the best alternative for implementation.

### 2. Characteristics of planning.

*Ans :*

#### 1. Helps to Achieve Targets

Plans are expressed in terms of budgets. Budgets act as targets. Every manager strives hard to achieve a given target. Thus, planning contributes to target achievement.

#### 2. Minimizes uncertainty and, there by, risk

Business environment is uncertain and risky. Planning is the only way to move towards certainty and confidence.

#### 3. Guide for Action

Plans direct people towards achieving goals. As part of planning, organizations keep a list of supporting plans, policies, procedures, programmes, strategies, rules and budgets to guide their people towards the goals.

### 3. Advantages of planning.

*Ans :*

#### i) Optimum Utilisation of Resources:

As indicated earlier, planning enhances efficiency. Efficiency requires optimum utilisation of all inputs. Further, it also requires optimum utilisation of machinery, men and other resources.

ii) **Economy in Operations:** Planning eliminates the unnecessary operations in production, marketing and other functions. In addition, it reduces the purchase price of material and other inputs. These result in economy in operations.

iii) **Reduces Uncertainties:** Planning process estimates the future trends of the external environments, initiates the steps to prepare for meeting the future challenges and converting some of the future threats into opportunities. Thus, planning reduces uncertainties.

### 4. Management by Objectives.

*Ans :*

Management by Objectives (MBO) is a successful philosophy of management. It replaces the traditional philosophy of 'management by domination.' It was popularised as an approach to planning by Peter F. Drucker in 1954 in his famous book *The Practice of Management*. Since that time, it has acquired momentum and of late it has become a movement.

There are many MBO type programmes like 'management by results', 'goal management', 'work planning and review', 'goals and control'. These programmes are similar in nature inspite of the difference in names.

**According to Howell**, the concept of MBO has passed through different stages of management development, viz.

- i) MBO for performance appraisal,
- ii) for integrating the individuals with the organisation and
- iii) for long-range planning.

### 5. Objectives of MBO

*Ans :*

Some of the objectives of MBO are as follows:

1. **Measuring Performance :** The main objective of setting objectives is to measure



the performance of persons. The actual performance against the given objectives will help in judging the performance of different persons.

2. **Increasing Growth of Subordinates :** When goals are given to the employees they will try to achieve the goals which will give them confidence and help in their growth.
3. **Encouraging Efficiency :** MBO process encourages efficient persons since their performance comes to the notice of the management. When the output or performance of individual persons is not separately counted or recorded then there will be no record of performance of different persons. In such a situation efficient persons will not try to raise their performance since there is no distinction between efficient and inefficient. In MBO efficient persons will feel encouraged to improve their performance since it is recorded against their names.

#### 6. **Advantages of Management by Exception.**

*Ans :*

1. MBE is an important principle of organisational control.
2. MBE is a way for managers to effectively save time and concentrate on really important issues.
3. It reduces the frequency of decision making.
4. Managers take fewer important decisions due to which employees have more responsibility, which increases their motivation.
5. The management is able to utilize the available talent at the lower levels. It helps to identify the responsible person.
6. It is a technique of separating important information from the unimportant information. The information which is critical and needs action is sent to the manager.

#### 7. **Characteristics of Organisation.**

*Ans :*

##### 1. **Common Purpose**

Every organization exists to accomplish some common goals. The structure must reflect these objectives as enterprise activities are derived from them.

##### 2. **Division of Labour**

The total work of an organization is divided into functions and sub-functions. This is necessary to avoid the waste of time, energy and resources which arises when people have to constantly change from one work to another.

##### 3. **Authority Structure**

There is an arrangement of positions into a graded series. The authority of every position is defined. It is subordinate to the position above it and superior to the one below it.

##### 4. **People**

An organ is basically a group of persons. Activity groupings and authority provisions must take into account the limitations and customs of people. People constitute the dynamic human element of an organisation.

#### 8. **Principles of Organization.**

*Ans :*

##### 1. **Unity of Objective**

An organization structure is sound when it facilitates the accomplishment of objectives.

##### 2. **Specialisation Or Division Of Work**

The activities of every member of the organization should be confined, as far as possible, to the performance of a single function.

##### 3. **Span of Control**

Every manager should have a limited number of subordinates reporting to him directly. The span should be narrow for complex work and wide for simple and routine work.

**4. Scalar Principle**

There should be a clear chain of command extending from top to the bottom of the organization. Every subordinate should know who his superior is and who is his subordinates are.

**5. Functional Definition**

The duties, authority and responsibility of every position should be clearly defined so as to avoid duplication of work.

**6. Exception Principle**

Only exceptional matters which are beyond the authority of lower-level persons should be referred to higher levels. Routine matters should be dealt with by executives at lower levels.

**9. Formal Organization.**

*Ans :*

Formal organisation refers to the structure of well-defined jobs, each bearing a definite measure of authority, responsibility and accountability. The structure is consciously designed to enable the people of the organisation to work together in accomplishing the common objectives. Committees, project teams, task force, departments, etc., are the examples of formal groups.

**10. Disadvantages of Formal Organization.**

*Ans :*

- Formal organisations restrict Individual freedom. Therefore, there is no creativity or self-initiative on the part of the workers to work hard.
- Formal organisations tend to be dominated by individuals at the higher level of the management hierarchy. This generates dissatisfaction and frustration among the lower level managers.
- Such organisation emphasises rules and discipline and therefore, leads to delay in decision-making and execution of organisational plans.

**11. Features of Informal Organization.**

*Ans :*

- Informal organisations do not appear on the formal chart of the enterprise.
- These organisations are based on personal attitudes, likes and dislikes, understanding, customs, traditions, etc.
- Informal organisation exists at all levels of organisation from top to bottom.
- Although, there is no specific channel of communication, informal channel is much more powerful than formal channel.

**12. Line organization**

*Ans :*

Line organization is the simplest and the oldest type of organisation. It represents a direct vertical relationship through which authority flows.

The authority flows vertically from top to the lower levels, the responsibility flows upwards.

This organisation is a vertical structure where one person delegates authority to his subordinate who in turn delegates to his subordinate and so on.

Every person is responsible for his work and is accountable to his boss. As the authority and responsibility flows in an unbroken straight line it is called line organisation. It is also known as chain of command or scalar principle.

**13. Functional organization.**

*Ans :*

Functional organisation structure is most widely used structure. Each functional department consists of those jobs in which employees perform similar jobs at different levels. The commonly used functions are: marketing, finance and accounting, human resources, manufacturing, research and development and engineering.

**14. Advantages of Functional Organization.**

*Ans :*

**1. Specialization**

This type of organization has the benefit of having specialists in each area. The work is performed by those who have the specialist knowledge of that work. The workers have the advantage of getting instructions from specialists. This makes possible the fullest use of energy in the organization.

**2. Increase in Efficiency**

There is a division of labour upto manager level. Planning and execution are also separated. This helps to increase the overall efficiency in the organization. The workers get guidance from expert supervisors and this enhances their performance at work.

**3. Scope of Growth**

The functional origination provides wide scope for growth and mass production. The employment of specialists at various levels of work enable the organization to grow as per the needs of the situation.

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**15. Span of management.**

*Ans :*

The span of management refers to the number of subordinate who report directly to the superior. It is also known as the number of subordinates who are efficiently managed by a single superior manager. If the subordinates who report to a superior are more in number, it is called the 'wide span' and the vice versa is called the 'narrow span.'

The wide span results in a less number of levels in organisation hierarchy (flat organisation) and thereby expedites the communication process. But this span is challenging to a manager as the manager has to supervise direct, control a number of subordinates performing different types of activities On the other hand, narrow span results in close and personalized relationships between the manager and his subordinates and it leads to tall organisations.

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**16. Define informal Organization.**

*Ans :*

Informal organisation refers to the relationships between people within an organisation based on personal attitudes, emotions, prejudices, likes and dislikes, etc. This organisation is governed by needs, emotions and attitudes and not by procedures, policies and regulation. It is also called 'Grapevine'. The grapevine works with a surprising speed and is often faster than official channel. Generally, large formal groups give rise to small informal groups.

## *Choose the Correct Answers*

1. \_\_\_\_\_ is considered as a basic management function. [a]  
(a) Planning (b) Organizing  
(c) Staffing (d) Directing
2. There are \_\_\_\_\_ steps in process of MBO. [b]  
(a) 4 (b) 6  
(c) 8 (d) 10
3. \_\_\_\_\_ is planning in advance what to do, when to do, how to do, and will do a particular task. [c]  
(a) Controlling (b) Directing  
(c) Planning (d) Leadership
4. One of the following is not a limitation of planning [c]  
(a) Lack of reliable data  
(b) Expensive  
(c) Better control and coordination  
(d) Time consuming
5. MBO means [b]  
(a) Management by order (b) Management by objectives  
(c) None (d) Management by occurrence
6. Example of multipurpose plan [a]  
(a) Objective (b) Programmes  
(c) Budgets (d) Methods
7. Example of single use plan [c]  
(a) Programmes (b) Schedules  
(c) Rules (d) Methods
8. It is a plan that lays down required course of action. It is what is to be done and what is not to be done in a particular situation. [a]  
(a) Rule (b) Policy  
(c) Programmes (d) Objective
9. MBE means [a]  
(a) Management by exception (b) Management by experts  
(c) Management by experience (d) Management by Evaluation
10. \_\_\_\_\_ is a comprehensive overall managerial framework [d]  
(a) MOB (b) MBA  
(c) MMB (d) MBO

11. In line organisation authority flows \_\_\_\_\_. [a]  
(a) From top to the bottom (b) From bottom to top  
(c) At horizontal level (d) None of these
12. In functional organisation work is divided [c]  
(a) According to importance (b) According to the nature  
(c) According to different functions (d) According to time
13. In departmental line organisation overall control lies with. [b]  
(a) Chief executives (b) Departmental manager  
(c) Personnel manager (d) Subordinates
14. Consciously created relationships between people in an organisation is [a]  
(a) Formal (b) Informal  
(c) Social (d) None of these
15. Temporary network of companies that come together quickly to exploit fast changing opportunities is. [b]  
(a) Network design (b) Virtual  
(c) Free form (d) Horizontal
16. Number of persons who come together to take a decision, decide a course of action is. [a]  
(a) Committee form of organisation  
(b) Matrix Organisation  
(c) Horizontal organisation  
(d) Line and staff
17. The relationship created by management with clearly defined authority - responsibility relationship. [c]  
(a) Informal (b) Social  
(c) Formal (d) None
18. Blending of line and staff organisation is [d]  
(a) Line organisation (b) Staff organisation  
(c) Horizontal organisation (d) Line and staff organisation
19. Combination of two forms of departmentalizations functional and product is [b]  
(a) Committee (b) Matrix  
(c) Line (d) Staff
20. Wider span of supervision implies [a]  
(a) Flat organisation (b) Tall or vertical organisation  
(c) Horizontal organisation (d) None

## *Fill in the blanks*

1. \_\_\_\_\_ establishes authority - responsibility relationship among people in the enterprise and coordinates their activities for achieving organisational goals.
2. \_\_\_\_\_ organisation is not planned, based on personal attitudes, likes and so on.
3. Principle of \_\_\_\_\_ states that top management should interfere only when something goes wrong.
4. Direct vertical relationship through which authority flows is \_\_\_\_\_ organisation.
5. \_\_\_\_\_ refers to number of subordinates a manager or supervisor can supervise, manage or control effectively and efficiently.
6. Two types of span of supervision are \_\_\_\_\_ and \_\_\_\_\_ supervision.
7. The formula to ascertain the number of subordinate superior relationship is \_\_\_\_\_ .
8. Under \_\_\_\_\_ organisation each department is managed by functional expert in that area.
9. The simplest and oldest type of origination where authority flows from top to bottom is \_\_\_\_\_.
10. \_\_\_\_\_ organisation eliminates the drawbacks of both line and staff and has the good points of them.
11. \_\_\_\_\_ is a process which involves thinking before doing.
12. \_\_\_\_\_ are made to be used time and again.
13. \_\_\_\_\_ plans are made for handling non-recurring problems.
14. \_\_\_\_\_ are the ends at which every activity is aimed.
15. MBO stands for \_\_\_\_\_.
16. \_\_\_\_\_ is the second step of planning which involves setting up the goals and developing a direction for achieving them.
17. MBE stands for \_\_\_\_\_.
18. A \_\_\_\_\_ is the monetary expression of business plan and policies.
19. A \_\_\_\_\_ is detail of action or guidelines for achievement of business objective.
20. \_\_\_\_\_ is the primary function of management.

### ANSWERS

1. Organisation
2. Informal
3. Exception
4. Line
5. Span of management

6. Wide and Narrow

7.  $\left(\frac{2^n}{2} + n - 1\right)$

8. Functional

9. Line

10. Line and staff organisation

11. Planning

12. Multiple plans

13. Single use plans

14. Objectives

15. Management by objectives

16. Setting goals

17. Management by exception

18. Budget

19. Procedure

20. Planning

# UNIT V

## Authority, Coordination and Control:

Meaning of Authority Power, responsibility and accountability - Delegation of Authority - Decentralization of Authority - Definition, importance, process, and principles of Coordination- techniques of Effective Coordination - Control - Meaning - Definition – Relationship between planning and control-Steps in Control – Types (post, current and pre-control) - Requirements for effective control.

### 5.1 AUTHORITY - MEANING

**Q1. Define authority ? Explain sources of authority.**

*Ans :*

**(Imp.)**

Authority is the degree of discretion conferred on people to make it possible for them to use their judgement. When an enterprise is small then decision-taking power is centralised in few hands. As the enterprise grows there is a need to delegate authority to more and more people to cope with the work. The main purpose of delegation is to make organisation possible. "Just as no one person in enterprise do all the tasks necessary for accomplishment of group purpose, so it is impossible, as an enterprise grows, for one person to exercise all the authority for making decisions."

Authority is the legitimate right to give orders and get orders obeyed. It has the following elements:

1. There exists a right in authority. The right is given by a superior to the subordinate. It puts the persons in a position to regulate the behaviour of his subordinates.
2. The right of giving of order is legitimate.
3. The right of decision-making also goes with authority. This will enable in deciding what is to be done, when it is to be done and who is to do it.
4. Authority is given to influence the behaviour of subordinates so that right things are done at right times.
5. The exercise of authority is always subjective. It is influenced by the personality traits of the person on whom it is used.

### Sources of Authority

A number of theories exist about the sources of authority. Some persons are of the view that it flows from upward to downward subordinates, others feel that it goes from bottom to upward because of its acceptance by those on whom it is to be used, the theories of authority are discussed as follows:

#### 1. Legal/Formal Authority

According to this theory authority is based upon the rank or position of the person and this authority may be given by law or by social rules and regulations protected by law. A law may grant authority to a policeman to arrest a person committing a crime. The president of a company may take an action against an employee for not complying with rules because company rules has bestowed this authority in him. This authority is called formal authority.

This type of authority is embedded in the bureaucracy where authority is bestowed upon contractually hired and appointed officials. In a company form of organisation shareholders appoint Board of Directors to exercise all authority. The Board to Directors delegates its powers to the Chief Executive who delegates it to the managers and so on.

While bureaucracy is the purest form of legal authority, other forms may comprise of elected office bearers or office bearers appointed by the members. These persons follow authority since their roles are defined by the rules and regulations framed by such bodies.



## 2. Traditional Authority

Traditional authority has evolved from a social order and communal relationship in the form of ruling lord and obedient subjects. The obedience results in traditional authority of the lord. The traditional chief rules as per his own pleasure and makes his own decisions. Generally, these decisions are based on considerations like ethnic equity and justice. The authority passes from the father to the son.

In a family system, father exercises traditional authority over members of the family. The traditional authority is generally followed in Indian family system. It is the father who guides the activities of the family and others obey out of respect and traditions.

In traditional form of authority there is no formal law or structured discipline and relationships are governed by personal loyalty and faithfulness rather than compulsions of rules and regulations or duties of the office.

## 3. Acceptance Theory

The authority of the superior has no meaning unless it is accepted by the subordinates. Chester Bernard was of the view that it is the acceptance of authority which is more important. If the subordinates do not accept the orders of a superior there will be no use of exercising authority. Bernard maintains that a subordinate will accept an order if:

- (i) he understands it well.
- (ii) he believes it to be consistent with the organisational goals.
- (iii) he believes it to be compatible with his personal interests as a whole.
- (iv) he is able mentally and physically to comply with it

The subordinates may accept an order if they gain out of its acceptance or may lose out of its non acceptance. According to Robert Tennebaum, "An individual will accept an exercise of authority if the advantages occurring to him from accepting plus disadvantages occurring to him from not accepting exceed the advantages accruing to

him from not accepting plus the disadvantages occurring to him from accepting and vice versa." It can be said that acceptance of an order is the function of advantages from it.

The acceptance theory, though supporting the behavioural approach to management, presents many problems in an organisation. It undermines the role of a manager in the organisation. He may not be sure whether his orders will be accepted or not. He will know it only when his orders are actually executed. It means that orders flow from bottom to up.

## 4. Competence Theory

There is also a feeling that authority is generated by personal competence of a person. A person may get his orders accepted not due to formal authority but because of his personal qualities. These qualities may be personal or technical. The advice of some persons may be accepted even if they do not have a formal authority. They enjoy this authority by virtue of their intelligence, knowledge, skill and experience. When a doctor advises rest to a patient he accepts this advice because of Doctor's knowledge and not because of his formal authority or legal right. The patient will get relief only if he obeys the doctor. Similarly, we accept the diagnosis of a car mechanic without questioning it because of his competency for this work. So the knowledge or competency of a person gives him a status where his authority is accepted by others.

## 5. Charismatic Authority

The charismatic authority rests on the personal charisma of a leader who commands respect of his followers. The personal traits such as good looks, intelligence, integrity influence others and people follow the dictates of their leaders because of such traits. The followers become attached to the leader because they feel that he will help them in achieving their goals. The charismatic leaders are generally good orators and have hypnotic effect on their followers. The religious and political leaders come under this.

**Q2. Explain the different types of authority***Ans :***1. Traditional Authority**

Traditional authority is based on the sacredness of the social order. The father in a patriarchal society and the mother in a matriarchal society obtain their legitimacy through customs.

**2. Charismatic Authority**

This authority rests on the magical, mystical quality of individual leaders. Subordinates may obey superiors out of respect for their character, reputation, personal qualities, and the like.

**3. Technical Authority**

This is based on the technical competence and expertise of an individual. It is personal in nature and, hence, cannot be delegated to others.

**4. Legal Authority**

This authority originates in the formal structure of a organisation. The authority of the shareholders is pushed down to lower levels through the Board of Directors, the Chief Executive, Departmental Managers, Foreman and Workers, in that order. Superiors issue orders and subordinates obey them because this is the way the organisation is established.

**5. External Authority**

This authority comes from sources outside the organisation. An organisation operates legitimately because it is part of the government, operating in accordance with the laws passed by the Parliament, which, in turn, is elected by people, who are the ultimate source of all authority.

**6. Informal Authority**

Formal authority is granted to people in the organisation deliberately to meet certain goals. It is institutional in nature. Informal authority is acquired by an individual by virtue of holding an important gate-keeping position, by having access to critical information, etc.

Informal authority may also come because of special personal qualities of a person or when subordinates accept the unofficial authority of a person, owing to informal understanding.

**7. Line Authority**

In line authority, a superior exercises direct command over a subordinate. Line authority is represented by the chain of command that starts with the shareholders and extends down through the various levels to the points where the actual work is processed.

**8. Staff Authority**

Staff authority is advisory in nature. A staff officer has authority of ideas only. His basic function is to make the line people 'look good'.

**9. Functional Authority**

Functional authority is a limited form of line authority given to functional experts over certain specialised activities under the normal supervision of managers belonging to other departments. Managers who enjoy functional authority have the right to issue directives on matters over which they do not have direct line authority otherwise.

**10. Official Authority**

As against personal authority which is derived from personal qualities such as intelligence, experience, expertise, etc., official authority is derived from the manager's position. A manager might use both official authority and personal authority while getting things done.

**5.2 POWER****Q3. Define power.***Ans :*

Power is the potential ability to influence the behaviour of others. It is, in other words, "the capacity that A has, to influence the behaviour of B, so B does something he would not otherwise do" (Robbing). It is the ability to make things happen or get things done the way you want. This definition implies three things:

➤ **Potential**

A potential that need not be actualised to be effective. One can have power without actually using it. For example, a football coach has the power to bench a player who is not performing upto par. The coach seldom has to use this power because players recognise that the power exists and work hard to keep their starting positions.

➤ **Dependency**

A dependency relationship. The greater B's dependence on A, the greater is A's power in the relationship. A person can have power over you only if he controls something you desire. Where an employee is not dependent on the supervisor for receiving rewards then, truly speaking, the supervisor has no power over such employee.

➤ **Discretion**

The assumption that B has some discretion over his own behaviour. Usually job descriptions, group norms, organisational rules and regulations constrain the choices of employees. As a worker, you may be dependent on your supervisor for continued employment. But, in spite of this, dependence, you may not join hands with the supervisor in stealing store items or petty cash.

**Q4. What are the differences between power and authority?**

*Ans :*

Power	Authority
<ul style="list-style-type: none"> <li>➤ Power is the ability of an individual to affect and influence others.</li> <li>➤ Power is generally associated with leadership.</li> <li>➤ Power is a broader concept and includes authority also, in some sense. Authority is nothing but institutionalised power.</li> <li>➤ Power has two faces. Negative and positive. Personal domination at the expense of others is negative; socialised power is a praiseworthy positive face.</li> <li>➤ Power is a personal quality.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Authority is the right to command and extract work from employees.</li> <li>➤ Authority is vested with manager,</li> <li>➤ Authority is a narrow concept. A manager may have considerable authority but still may be powerless.</li> <li>➤ We cannot make such markedly distinct faces of authority. Such distinction becomes ridiculous with regard to authority.</li> <li>➤ Authority is mostly vested in the position. Legitimate power is similar to authority.</li> </ul>

**Q5. Explain the sources of power.**

*Ans :*

The important sources of power may be listed thus:

**1. Expert Power**

Power resulting from a leader's special knowledge or skill regarding the tasks carried out by followers is referred to as expert power. When the leader is a true expert, subordinates go along with

recommendations because of his or her superior knowledge. Three conditions are essential to maintain expert power. First, since expert power is based on knowledge and skill, the experts must continue to be perceived as competent; those who become obsolete lose their expert power. The second requirement is to make certain that the organisation continues to need the expert's knowledge and skill. The expert power of many accountants and lawyers is created by complex laws and tax regulations. If these laws were repealed, the expertise of accountants and lawyers would suddenly become unnecessary.

## 2. Reward Power

Top managers can get others to implement the organisation's strategies "by making changes in formal reward systems. Those who carry out the strategy will receive pay raises, bonuses, promotions etc. Those who support the strategic initiatives and remain loyal to the leader will assume responsible positions and get away with plum posting. If the leader has a number of rewards under his control.

## 3. Information Power

A manager's access to important information and control over its distribution, often, help him influence the behaviour of subordinates. According to *Mintzberg*, the CEO is generally the best informed member of an organisation. He is able to oversee everything from the top and he has excellent external contacts to secure as much information as possible. He may not, of course, know everything, he usually knows more than anyone else. If the CEO's information is reliable and complete, no one will be able to question his decisions-based on lot of information and knowledge.

## 4. Exchange

The use of exchange as a power base is quite common in corporate circles. The Leader helps others when they are at the receiving

end. Others, in turn, will feel obliged to carry out things the leader would request later. Such reciprocal relationships flourish when the leaders step down from their ivory tower, join the mainstream and get along with others- shedding a portion of their superego, status and power. Sometimes, connections or links with people inside or outside the work environment by the manager also bring some power to him. A manager who has valuable, respectable and useful links possesses this type of power; a subordinate who has good public relations and rapport with officials outside the organisation, or elsewhere can also have connection power.

## 5.3 RESPONSIBILITY

**Q6. Define responsibility. Explain the features of responsibility.**

*Ans :*

(Imp.)

Responsibility is the obligation to do something. It is the duty that one has to perform in organisational tasks, functions or assignments. Authority and responsibility go side by side. When authority is delegated then some responsibility for getting the assigned task is also fixed. One can delegate authority but not responsibility. In the works of Koontz and O'Donnel, "Responsibilities may be defined as the obligation of a subordinate to whom a duty has been assigned to perform the duty". George Terry defines it as, "Responsibility is the obligation to carry out assigned activities to the best of his abilities."

### Features of Responsibility

- (i) Responsibility arises from superior-subordinate relationship.
- (ii) It always flows upward from juniors to seniors.
- (iii) It arises from the duty assigned.
- (iv) It cannot be delegated.
- (v) It is the obligation to complete the job as per instructions.

**Q7. Distinguish between authority and responsibility.***Ans :*

Differences between authority and responsibility

Points of Difference		Authority	Responsibility
1.	Meaning	It is the right of a superior to command the subordinates	It is the obligation of a subordinate to perform an assigned task.
2.	Basis	It normally arises either from legal provisions & formal contract	It arises from superior subordinate relationship
3.	Delegation	Can be delegated from a superior to a subordinate	It cannot be delegated
4.	Duration	It may continue for a long period	It is over when the assigned task is completed

**5.3.1 Accountability****Q8. Define Accountability. Explain the nature of accountability.***Ans :***(Imp.)**

Accountability is the obligation of an individual to formally report to his superior about the work he has done to discharge his responsibility. When a subordinate reports about his performance, success or failure, to his superior he discharges his accountability. So accountability is related to assigned work and reporting of its performance. Louis Allen defined accountability, "as the obligation to carry out responsibility and exercise authority in terms of performance standards established". In the words of Me Farland, "Accountability refers to the fact that each performer who is given authority and responsibility must recognise that the executive above him will judge the quality of his performance." Responsibility and accountability go hand in hand, the later arises out of the former.

**Nature of Accountability****1. Cannot be Delegated**

Accountability cannot be delegated to anybody else even though the work may be done by a subordinate. A person remains accountable to his superior for the work given to him.

**2. Always Upward**

Authority always goes downwards and accountability goes upwards. A subordinate remains accountable to the boss above him.

**3. Unitary**

Accountability is always unitary. A subordinate should be accountable to only one boss. In case he is made accountable to more than one boss there will be a confusion and friction. Different bosses may give their own orders and expect different performances. So it is essential that a subordinate is accountable to only one boss.

**4. Accountability Standards**

The responsibility and accountability should be precisely fixed so as to see whether the assigned task is completed or not. There should be specific standards for judging the accountability.

**Q9. What are the differences between responsibility and accountability?**

*Ans :*

BASIS FOR COMPARISON	RESPONSIBILITY	ACCOUNTABILITY
<b>Meaning</b>	Responsibility is the state of having duty, to do whatever it takes to complete the task.	Accountability is the condition, wherein a person is expected to take ownership of one's actions or decisions.
<b>What is it?</b>	Obligation to perform the delegated task.	Answerability for the consequence of the delegated task.
<b>Nature</b>	Assigned	Accepted
<b>Arises from</b>	Authority	Responsibility
<b>Delegation</b>	Done but not entirely.	Not possible.
<b>Performance</b>	Not measured	Measured

#### 5.4 DELEGATION OF AUTHORITY

**Q10. Define delegation. Explain the characteristics of delegation.**

*Ans :*

**(Imp.)**

Delegation is an administrative process of getting things done by others by giving them responsibility. All important decisions are taken at top level by Board of Directors. The execution is entrusted to Chief Executive. The Chief Executive assigns the work to departmental managers who in turn delegate the authority to their subordinates. Every superior delegates the authority to subordinates for getting a particular work done. The process goes to the level where actual work is executed. The person who is made responsible for a particular work is given the requisite authority for getting it done.

#### Definitions

**Allen.** "The entrustment of a part of the work, or responsibility and authority to another, and the creation of accountability for performance."

**O.S. Hiner.** "Delegation takes place when one person gives another the right to perform work on his behalf and in his name, and the second person accepts a corresponding duty or obligation to do what is required of him."

#### Characteristics

Delegation is the assignment of authority to subordinates in a defined area and making them responsible for the results. Delegation has the following characteristics :

1. Delegation takes place when a manager grants some of his powers to subordinates.

2. Delegation occurs only when the person delegating the authority himself has that authority i.e. a manager must possess what he wants to delegate.
3. Only a part of authority is delegated to subordinates.
4. A manager delegating authority can reduce, enhance or take it back. He exercises full control over the activities of the subordinates even after delegation.
5. It is only the authority which is delegated and not the responsibility. A manager cannot abdicate responsibility by delegating authority to subordinates.

**Q11. State the elements of Delegation of Authority.**

*Ans :*

The process of delegation comprises the following three elements or component:

**1. Assignment of Duties or Responsibilities**

The first step in delegation is the assignment of work or duties to each subordinate. The manager must clearly define the functions of each subordinate. While assigning duties and responsibilities, he must ensure that the subordinates understand and accept their duties. Duties should be assigned according to the qualifications, experience and aptitude of the subordinates.

**2. Granting of Authority**

The granting of authority is the second element of delegation. Assignment of duties is meaningless unless adequate authority is given or granted to subordinates. They cannot discharge their duties or responsibilities without adequate authority. Enough authority must be granted so that subordinates can perform their duties. By granting authority, subordinates are permitted to use resources, to take decisions and to exercise discretion.

**3. Creating Accountability for Performance**

The subordinates to whom authority is delegated must be made answerable for the

proper performance of assigned duties and for the exercise of the delegated authority. The extent of accountability depends upon the extent of delegation of authority and responsibility.

A person cannot be held liable for the acts not assigned to him by his superior. The subordinate should be made answerable or accountable to only one superior. Single accountability improves work and discipline.

**Q12. Explain the nature and importance of delegation of authority.**

*Ans :*

**Nature of Delegation of Authority**

The tasks or duties involved in the management of an enterprise are too big for one individual. No individual can perform all the activities himself. It is also impossible for any individual in a growing enterprise to exercise the decision-making authority all by himself. There is a limit to what an individual can perform single-handed. A single individual cannot manage and control everything due to physical and mental limitations. Therefore, the total work of an enterprise must be divided among different persons.

Every individual is given some authority so that he can accomplish or perform his task. Every manager shares his authority with his subordinates because he also cannot exercise all the authority himself. The process goes to be level where actual work is executed. After assigning duty and granting authority, a manager holds them accountable for proper discharge of duty. This part of the organizing process is known as "delegation of authority".

**Importance of Delegation of Authority**

**1. Relieving top Executives**

Top executives of the management cannot perform and supervise each and every work. Moreover, they are required to undertake important tasks of planning and controlling. Delegation helps in rationalizing the functioning of an organisation. Work is divided among various persons in such a way that it is done in an efficient way. No body is unduly burdened and no work is left unattended.

**2. Improved Functioning**

In the absence of delegation some persons may be burdened with more tasks while others may not have sufficient work to do. Delegation helps in rationalizing the functioning of an organisation. Work is divided among various persons in such a way that it is done in an efficient way. No body is unduly burdened and no work is left unattended.

**3. Use of Specialists**

Delegation enables the use of specialists for taking up different functions. A production manager will be assigned the task of production, a sales manager will look after sales department, and a lawyer will look after legal matters and so on. The use of specialists for different functions will improve the quality of work.

**4. Motivation of Subordinates**

Granting of authority to subordinates motivates them to perform duties well. Delegation helps to improve the job satisfaction, motivation and morale of subordinates. It helps to satisfy their needs for recognition, responsibility and freedom.

**5. Healthy Relationships**

By clearly defining the authority and responsibility of subordinates, a manager can maintain healthy relationships with them. Delegation increases interaction and understanding among managers and subordinates.

**6. Executive Development**

Delegation helps to ensure continuity in business because managers at lower levels are enabled to acquire valuable experience in decision-making. They get an opportunity to develop their abilities and can fill higher positions in case of need. Thus delegation is an aid to executive development. Executive development ensures continuity in business.

**7. Quick Decisions**

Delegation facilitates quick decisions because the authority to make decisions lies near the point of action. Subordinates need not approach the boss every time the need for a decision arises.

**8. Helps in Expansion and Diversification**

Delegation also facilitates the expansion and diversification of business because the organisation will already have a competent team of contended workers to take up new responsibilities. But for delegation firms would remain small.

**Q13. What are the difficulties involved in Delegation of Authority ?**

*Ans :* (Nov.-19, Imp.)

**Difficulties involved in Delegation of Authority**

There may arise certain difficulties in the process of delegation. The difficulties may be due to the attitude of either superiors or subordinates or both. There may be certain defects in organisational structure which hamper proper delegation of authority. Some of the difficulties involved in delegation are as such :

**1. Over Confidence of Superior**

The feeling in a superior that only he can do certain work effectively than others is the main difficulty in delegation. When a manager is of the opinion that his subordinates will not be able to make proper decisions then he will concentrate all powers with him and will not like to delegate his authority. This may not be due to the incompetence of subordinates but due to the overconfidence of a superior.

**2. Lack of Confidence in Subordinates**

The superior may be of the view that subordinates are not competent to carry out certain things of their own. He may lack confidence in his subordinates. Under these circumstances superior will hesitate to delegate authority.



**3. Lack of Ability in Superior**

A superior may lack the ability to delegate authority to subordinates. The manager may not be able to identify the areas where delegation is required. He may not even be able to chalk out the proper process of delegation. The lack of competence on the part of superior restricts the delegation of authority.

**4. Lack of Proper Controls**

There may not be proper controls in the organisation which help the manager to keep in touch with performance of subordinates. When certain controls like budgets, standard costs etc., are there then manager can exercise adequate of such techniques he will not be able to judge the performance of his subordinates. Since he will not be able to exercise control he will not like to delegate authority.

**5. Lack of Proper Temperament of Superior**

The chief executive may be overcautious or conservative by nature. He will not like to take the risk of delegating authority. His fear will always be that something may not go wrong. The executive with this type of temperament will hesitate to delegate authority. An element of risk cannot altogether be ruled out but certain risk will have to be taken. The subordinates will learn only when given a chance to take independent decisions. A lack of proper temperament of superior may also act as a barrier in delegation.

**6. Inability of Subordinates**

There may also be shyness on the part of subordinates in assuming additional responsibility. They may avoid botheration accruing from delegation of authority. The fear of committing mistakes or lack of confidence on the part of subordinates may also act as a barrier in delegation of authority.

**Q14. Explain the principles of delegation.**

*Ans :*

**1. Principle of Functional Definition**

The related or similar activities should be grouped together according to enterprise function. When the definition of a position is clear then delegation of authority becomes simple. In the words of Koontz and O'Donnell "the more a position or a department has clear definitions or results expected, activities to be undertaken, organisation authority delegated and authority and informational relationships with other positions understood, the more adequately the individuals responsible can contribute toward accomplishing enterprise objectives."

It is very difficult to define a job and the authority required to accomplish it. If the superior is not clear about the results expected then it becomes all the more difficult. It should be clear who should do what so that right amount of authority is delegated. Dual subordination results in conflicts, division of loyalty and lack of personal responsibility for results.

**2. Principle of Unity of Command**

The basic management principle is that of unity of command. This principle states that a subordinate should report only to single superior. This will give a sense of personal responsibility. Although it is possible for a subordinate to receive orders from more superiors and report to them but it creates more problems and difficulties. An obligation is essentially personal and authority delegation by more than one person to an individual is likely to result in conflicts in both authority and responsibility. This principle is also useful in the classification of authority-responsibility relationships.

**3. Principle of Delegation by Results Expected**

The delegation of authority should be based on the basis of results expected. The authority

should be sufficient to achieve the desired results. If the authority is insufficient then results will not be achieved. So there should be a balance between the results expected and the authority required.

#### 4. Principle of Absoluteness of Responsibility

The responsibility of a subordinate, once he has accepted the work, is absolute to his superior. The responsibility of the superior does not decrease once he has delegated authority. A person can delegate authority and not responsibility. He will remain accountable for the work even if it is delegated to the subordinate. So the responsibility of superior and subordinate remains absolute.

#### 5. Principle of Parity of Authority and Responsibility

Since authority is the right to carry out assignments and responsibility is the obligation to accomplish it, there should be a balance between the both. The responsibility should bear logical relationship with authority delegated. The subordinate should not be burdened with high performance responsibility with delegating enough authority. Sometimes the authority is delegated but the concerned person is not made accountable for its proper use. This will be a case of poor management. The parity between authority and responsibility will be essential for achieving efficiency.

#### 6. Authority Level Principle

The principle that decision-making should remain at the level at which, authority is delegated. The managers delegate authority to subordinates but have the temptation to make decisions for them. They should allow the subordinates to take their own decisions as per the authority delegated to them. The delegation of authority will be effective only when it is clear and understandable to subordinates. The subordinates should know the area of their decision-making and should avoid the temptation of referring things to

higher ups. In the words of Koontz and O'Donnell, the authority level principle would be "maintenance of intended delegation requires that decisions within the authority competence of individuals be made by them and not be referred upward in the organisation structure."

### 5.5 DECENTRALIZATION OF AUTHORITY

**Q15. Define Decentralization. Explain the types of decentralization.**

*Ans :* (Nov.-19, Imp.)

Decentralisation implies the dispersal of decision-making power at lower levels of management. When the power to take decisions and formulate policies does not lie with one person at the top but is passed on to different persons at various levels, it will be a case of decentralisation. The decisions taken at lower level should not only be more in number but they should be important also. If insignificant decisions are allowed to be taken at lower levels then it will not be a case of decentralisation.

#### Definitions

**McFarland.** "Decentralisation is a situation in which ultimate authority to command and ultimate responsibility for results is localised as far down in the organisation as efficient management of the organisation permits." The delegation of authority and responsibility is allowed downward upto a level it is necessary. In McFarland's views the degree and extent of delegation should be determined as per the needs of the situation.

**Allen.** Decentralisation refers to the systematic effort to delegate to the lowest levels all authority except that which can only be exercised at the central points.

#### Types

##### 1. Profit centres (called as a responsibility centre)

Under profit centre decentralisation, the organisation is first divisionalized on a product basis; each division is given the management and physical tools, facilities it needs to operate

as an integrated and self-contained unit called as a responsibility centre. Each division operates on a competitive basis; orders its own materials, schedules its operations and negotiates the sale of its finished products. It is accountable for the profit it earns or the loss it sustains. To use 'profit centres', authorities suggest that each one possess.

## 2. Cost / Expense Centres

Where it is difficult to find out revenue with a unit but is relatively easy to determine the costs of operation, cost centres are established. In the case of corporate legal staff or accounting staff, it may be quite difficult to determine how much revenue is generated but it can be a cost centre since we can determine the costs necessary to run it. In a cost centre, a manager would be responsible for using resources within the overall cost or budgetary limitations. By keeping the costs under specified limitations, he incurs an additional responsibility to provide required support to the rest of the organisation.

## 3. Investment Centres

Investment centres are quite common in the case of multiproduct enterprises like General Motors, General Electric, Hindustan Lever Ltd. etc. In order to measure product performance, decentralisation by investment centres is usually advocated and the managerial response-obligations would include responsibilities for the 'acquisition, use, and disposition of fixed-use resources'. Here, budgetary performance is judged on the basis of return on investment.

### 5.5.1 Importance of Decentralization

**Q16. Explain the importance of Decentralization.**

*Ans.:* (Nov.-19, Imp.)

## 1. Develops Initiative among Subordinates:

Decentralisation helps the managers at the lower levels to take all those decisions, which are for the betterment of organisation, on

their own and to develop solutions for solving the various problems they face. This helps in enhancing confidence and self-reliance among the employees.

## 2. Develops Managerial Talent for the Future:

Decentralisation provides a chance to the employees to prove their abilities by handling various assignments independently. Such opportunities to take decisions increase their knowledge & experience at all levels. It also provides qualified manpower for fulfilling the top positions through promotions.

## 3. Quick Decision Making:

Decentralization promotes independent and quick decision making by subordinates as they are close to the operations and are in constant touch with all activities of their departments. Approval from various levels being not required, decisions can be taken much faster on their own.

## 4. Relief for Top Management:

It relieves the top executives of excessive workload as the common and day to day routines are assigned to the subordinates. The saved time can be utilized by them in making strategic plans and providing direction to the organisation for further growth.

## 5. Facilitates Growth:

Decentralisation enables the managers at the lower level as well as the departmental heads to perform to their full potential and also develops a sense of competition among the departments. Such competitive spirit obviously contributes a lot towards growth of the enterprise too.

## 6. Better Control:

Decentralisation helps in ascertaining the contribution of each department in meeting the objectives of the organisation by using various control techniques like balance score card, management information system etc. Thus, in case of shortfalls, corrective decisions can be taken promptly at the right time.

**Q17. What are the advantages and Dis-advantages of decentralization?**

*Ans :*

**Advantages****1. Reduces Burden of Top Executives**

They are left with no time for planning, etc. In decentralisation decision-making power is delegated to the lower levels relieving top executives of some of their burden. Under this system top executives will retain only that work which requires their personal attention otherwise everything is assigned to persons at appropriate levels. This will reduce the burden of top executives and they will be able to devote more time for planning, etc.

**2. Quick Decisions**

Under decentralised system decision-making powers are delegated to the level of actual execution. Whenever there is a need for taking a decision, the concerned executive will decide the things immediately. There is no need to make reference to the top level for most of the work. It quickens the process of decision-making.

**3. Facilitates Diversification**

With the expansion and diversification of activities there will be a need to delegate authority at departmental level. Decentralisation gives enough authority to persons at various levels for carrying out the required task. The centralised system of authority will not allow diversification beyond a certain level because decision-making is reserved by one man only. The organisation will become more and more complex with the addition of new products and setting up of more units. Decentralised system will be more suitable for expanding enterprises.

**4. Motivation of Subordinates**

Under decentralisation subordinates get opportunity for taking decisions independently. This fulfils the human need

for power, independence and status. Subordinates will realise their importance in the organisation. They will try to put their maximum efforts so that their performance improves. They get a chance to take initiative and to try new ideas. The subordinates feel motivated under decentralised set-up.

**5. Sense of Competition**

Under decentralised system different departments or units are made separate profit centres. The employees of different departments will compete with each other to show better results. The sense of competition will improve the performance of all departments or segments.

**6. Provides Product or Market Emphasis**

Since decision-taking is scattered and goes to lower levels of management there will be more product or market emphasis. The changing tastes and fashions require prompt decisions. The decentralised system will respond immediately to the changing situations. The persons concerned with marketing will take quick decisions as are necessary under the situation.

**7. Division of Risk**

The enterprise is divided into a number of departments under decentralisation. Management can experiment new ideas at one department without disturbing others. This will reduce the risk if things go adverse. Once the experiment is successful it can be used in other segments also. So risk element can be limited under decentralised system.

**8. Effective Control and Supervision**

With the delegation of authority, span of control will be effective. Since executives at lower levels will have the full authority to take important decisions, they will recommend awards or punishments as per their performance. This will improve supervision and control.

**Disadvantages**

Decentralisation suffers from a number of drawbacks and some of these are discussed as follows :

**1. Lack of Co-ordination**

Under decentralisation each department, unit or section enjoys substantial powers. They have the powers to formulate their own policies and programmes. It becomes difficult to co-ordinate the activities of various segments. Moreover, every segment emphasises its own work only without bothering about others. This creates more difficulties in co-ordinating activities.

**2. Difficulty in Control**

Since different units work independently it becomes difficult to control their activities. Top management will not be able to exercise effective control because it does not remain in touch with day-to-day activities of various segments.

**3. Costly**

Decentralised system involves heavy overhead expenses. Every decentralised division has to be self-sufficient for its activities like production, marketing, accounting, personnel, etc. A number of persons will be employed to man various activities. These persons are paid higher salaries involving huge costs. Decentralised system is suitable for large scale enterprises only. Small-scale business units cannot afford to spend higher overhead expenses.

**4. Lack of Able Managers**

Decentralised system will succeed only if competent persons are employed to manage various jobs in different segments. Competent persons are not sometimes available as per the requirements. The system will fail if competent personnel are not available.

**5.6 CO-ORDINATION - DEFINITION**

**Q18. Define Co-ordination. Explain the need of co-ordination.**

*Ans :* (Dec.-20, Imp.)

Business operations are performed by a number of departments and individual employees based on plans, objectives and goals. The total business operations include procuring of raw material, producing the products, mobilizing and managing financial resources, acquiring the required human resources, providing them to various departments, marketing the product etc. Each department performs only one kind of operation based on its specialization. Similarly, each employee also performs one kind of operations based on his/her specialization. These activities need to be coordinated as each individual employee and department perform the business activities from their perspective rather than from the perspective of organizational objectives.

**Definitions**

**According to Alan C. Reiley and James D. Mooney**, coordination is the, "orderly arrangement of group effort, to provide unity of action in the pursuit of common purpose." George R. Terry defines coordination as the task of "blending efforts in order to ensure the successful attainment of an objective. It is accomplished by means of planning, organizing, actuating and controlling.

**Need for Coordination**

Coordination is essential for the effective performance of organizational activities due to the following reasons.

**1. Team Work**

Most of the modern organisations designed the organisations based on the team structure. Teams consist of employees from various functional areas, with various skills and background. This nature of teams makes the coordination essential for integration of skills, knowledge etc.

**2. Functional Differentiation**

Business activities are divided into jobs, units, sections and departments. Each employee performs his/her job and group of employees perform the functions of a department. Departments cannot achieve organizational objectives unless they are interlinked and coordinated. Therefore, coordination is needed to ensure the achievement of organizational goals and objectives.

**3. Unity in Diversity**

There would be a number of employees with different backgrounds, culture, capabilities, skills, values etc. These diversities inhibit the organisation in achieving its objectives, unless these diversities are coordinated, unified and directed towards organizational goals.

**4. Division of Work and Specialization**

Most of the organisations are structured based on the principles of division of work and specialization. These aspects develop the islands of activities and hinder the companies from achieving their goals. Therefore, coordination is needed to interlink these islands and allow the managers to think comprehensively.

**5.6.1 Process of Co-ordination****Q19. Explain the process of co-ordination**

*Ans :*

**1. Clearly defined and understood objectives**

Every individual and each department must "understand what is expected of them by the organisation. Top management must clearly state the objectives for the enterprise, as a whole. As pointed out by Terry, "there must be commonness of purpose, in order to unify efforts". The various plans formulated in the enterprise must be interrelated and designed to fit together.

**2. Proper Division of Work**

The total work must be divided and assigned to individuals in a proper way. Here, it is worth noting the principle, 'a place for everything and everything in its place'.

**3. Good Organisation Structure**

The various departments in the organisation must be grouped in such a way that work moves smoothly from one phase to another. Too much specialisation may complicate the coordination work.

**4. Clear lines of Authority**

Authority must be delegated in a clear way. The individual must know, what is expected of him by his superior(s). Once authority is accepted, the subordinate must be made accountable for results, in his work area. There should be no room for overlapping of authority and wastage of effort(s).

**5. Regular and Timely Communication**

Personal contact is generally considered to be the most effective means of communication for achieving coordination. Other means of communication such as records, reports, may also be used in order to supply timely and accurate information to various groups in an organisation. As far as possible, common nomenclature may be used so that individuals communicate in the 'same language'.

**6. Sound Leadership**

According to McFarland, real coordination can be achieved only through effective leadership. Top management, to this end, must be able to provide:

- (i) A conducive work environment
- (ii) Proper allocation of work
- (iii) Incentives for good work etc.

It must persuade subordinates, to have identity of interests and to adopt a common outlook.

**5.6.2 Principles of Co-ordination****Q20. Explain the principles of co-ordination.***Ans. :***(i) Principle of Direct Contact**

In the first principle, Mary Parker Follet states that coordination can be achieved by direct contact among the responsible people concerned. She believes, that coordination can be easily obtained by direct interpersonal relationships and direct personal communications. Such personal contacts bring about agreement on methods, actions, and ultimate achievement of objectives. Direct contacts also help wither away the controversies and misunderstandings. It is based on the principle, that coordination is better achieved through understanding, not by force, order and coercion.

**(ii) Early Stage**

Coordination should start from the very beginning of planning process. At the time of policy formulation and objective setting, coordination can be sought from organisational participants. Obviously, when members are involved in goal-setting, coordination problem is ninety percent solved. It is because participative goal-setting enables agreement and commitment to organisational goals and there is no question of conflict and incongruence of goals of individuals and organisations. Coordination, if not initiated in the early stages of planning and policy formulation, becomes difficult to exercise in the later stages of execution of plans.

**(iii) Reciprocal Relationship**

As the third principle, Mary Follet states, that all factors in a situation are reciprocally related. In other words, all the parts influence and are influenced by other parts. For example, when A works with B and he in turn, works with C and D, each of the four, find themselves influenced by others that is

influenced by all the people in the total situation. Follet contends that this sort of reciprocal relation and this sort of interpenetration of every part by every other part, and again by every other part, as it has been permeated by all, should be the goal of all attempts at coordination.

**(iv) Principle of Continuity**

The fourth principle, advocated by Follet, is that coordination is a continuous and never-ending process. It is something which must go on all the times in the organisation. Further, coordination is involved in every managerial function.

**(v) Principle of Self-coordination**

In addition to the four principles listed by Follet above, Brown has emphasised the principle of self-coordination. According to this principle, when a particular department affects other function or department, it is in turn, affected by the other department or function. This particular department may not be having control over the other departments.

However, if other departments are modified in such a fashion, that it affects the particular department favourably, then self-coordination is said to be achieved. For instance, as we know, there must be coordination between the level of production and sales.

**5.6.3 Techniques of Effective Co-ordination****Q21. Discuss the techniques of Effective Co-ordination.***Ans. :***(Dec.-20, Imp.)****(i) Chain of Command**

The organizational hierarchy specifies the line of command. The line of command indicates the authority and responsibility relationships between superior and subordinate. Superior coordinates the activities of his subordinates through the line of command.

**(ii) Team Work**

Organisations through the team structures coordinate the activities. People interact closely, share their ideas, share the work etc.; through which they coordinate their activities effectively.

**(iii) Clear Objectives**

Clear objectives specify the areas of activities of each department and each employee. They also specify the process of achievement of objectives. This process indicates the networking and coordinating process.

**(iv) Procedures and Programmes**

Procedures and programmes clearly specify the way the activities to be performed, the order and the sequence the issues are linked to each other. Thus the detailed procedures and programmes make the coordination effective.

**(v) Liaison Departments**

Business firms establish liaison departments or offices or managers to coordinate the activities of the departments, branches and offices. Regional offices coordinate the activities of the branch offices, zonal offices, regional offices and the central office coordinates the operations of zonal offices.

**(vi) Intranet**

The revolution in the information technology brought significant strides in coordination. Coordination based on predetermined plans, programmes, budgets would be fast and easy when the activities of the company are placed in the intranet of the company.

Now, we shall discuss the different types of coordination.

**5.7 CONTROL - MEANING, DEFINITION****Q22. Define Control ? Explain the importance of controlling ?**

*Ans :* (Dec.-20, Imp.)

**Definition of Control**

Control of an undertaking consists of seeing that everything is being carried out in accordance with the plan which has been adopted, the orders which have been given, and the principles which have been laid down. Its object is to point out mistakes in order that they may be rectified and prevented from recurring.

- Henri Fayol

Control is checking current performance against pre-determined standards contained in the plans, with a view to ensure adequate progress and satisfactory performance.

- EFL Brech

Management is the profession of control.

- Stafford Beer

Controlling is the measurement and correction of performance in order to make sure that enterprise objectives and the plans devised to attain them are accomplished.

- Harold Koontz

**Importance of Controlling**

The significance of the controlling function in an organization is as follows:

**1. Accomplishing Organizational Goals**

Controlling helps in comparing the actual performance with the predetermined standards, finding out deviation and taking corrective measures to ensure that the activities are performed according to plans. Thus, it helps in achieving organizational goals.

**2. Judging Accuracy of Standards**

An efficient control system helps in judging the accuracy of standards. It further helps in



reviewing & revising the standards according to the changes in the organization and the environment.

### 3. Making Efficient Use of Resources

Controlling checks the working of employees at each and every stage of operations. Hence, it ensures effective and efficient use of all resources in an organization with minimum wastage or spoilage.

### 4. Improving Employee Motivation

Employees know the standards against which their performance will be judged.

### 5. Ensuring Order and Discipline

Controlling ensures a close check on the activities of the employees. Hence, it helps in reducing the dishonest behavior of the employees and in creating order and discipline in an organization.

### 6. Facilitating Coordination in Action

Controlling helps in providing a common direction to the all the activities of different departments and efforts of individuals for attaining the organizational objectives.

#### Q23. Explain the limitations of controlling.

*Ans :*

#### 1. Difficulty in Setting Quantitative Standards

It becomes very difficult to compare the actual performance with the predetermined standards.

#### 2. No Control on External Factors

An organization fails to have control on external factors like technological changes, competition, government policies, and changes in taste of consumers etc.

#### 3. Resistance from Employees

Often employees resist the control systems since they consider them as curbs on their freedom. For example, surveillance through Closed Circuit Television (CCTV).

#### 4. Costly Affair: Controlling involves a lot of expenditure, time and effort, thus it is a costly affair.

### 5.7.1 Relationship between Planning and Control

#### Q24. Planning and control are inter related. Explain.

*Ans :*

Planning and controlling are two separate functions of management, yet they are closely related or inter related and called as "inseparable twins of management". Planning set the goals for the organisation and controlling helps in achieving. Without the basis of planning controlling activities becomes baseless and without controlling, planning becomes meaningless.

The relationship between planning and controlling is explained as follows :

#### 1. Planning Originates Controlling

In planning objectives or targets are set and controlling ensures that planned goals are achieved efficiently and effectively. So planning precedes control.

#### 2. Controlling Sustains Planning

The causes of deviations are identified by controlling . Controlling shows or spots the areas where planning is required.

#### 3. Controlling Provides Information for Planning

In controlling process the actual performance is compared to the standards and deviations are identified if any. This information is the basis for future planning.

#### 4. Planning and Controlling are inter-related

Planning is the first function of management. It involves setting of objectives and controlling assures that objectives are achieved according to laid plans.

In the absence of plans, it is not possible to evaluate performance. Hence planning without control is fruitless and control without planning is meaningless. Thus, planning and controlling are mutually inter-related and inter dependent.

**5. Planning and Controlling and Forward Looking**

Planning and control are concerned with future. Planning is forecasting the future and controlling is also forward looking as it evaluates the past and suggest corrective action for future.

**6. Planning and Controlling Backward Looking**

Planning is backward looking because planning is guided by past experiences and feedback controlling is backward looking as it is postmortem of past activities and finding out deviations.

Thus, planning and controlling are considered as “inseparable twins of management” essential to achieve the organisational goals.

**Q25. Distinguish between Planning and Controlling.**

*Ans :*

Basis	Planning	Controlling
<b>Meaning</b>	It is the first step on deciding what to do, how, where and when a specific work has to be done	Controlling is the main goal and responsibilities of all management in any enterprises.
<b>Function</b>	Planning is about looking ahead	Controlling is looking back
<b>Process</b>	It is the first process in building a business	It is the last structure any business
<b>Features</b>	Planning, arranging, employee, direction	Controls all the planning features

**5.7.2 Steps in Control****Q26. Discuss briefly about controlling process.**

*Ans :*

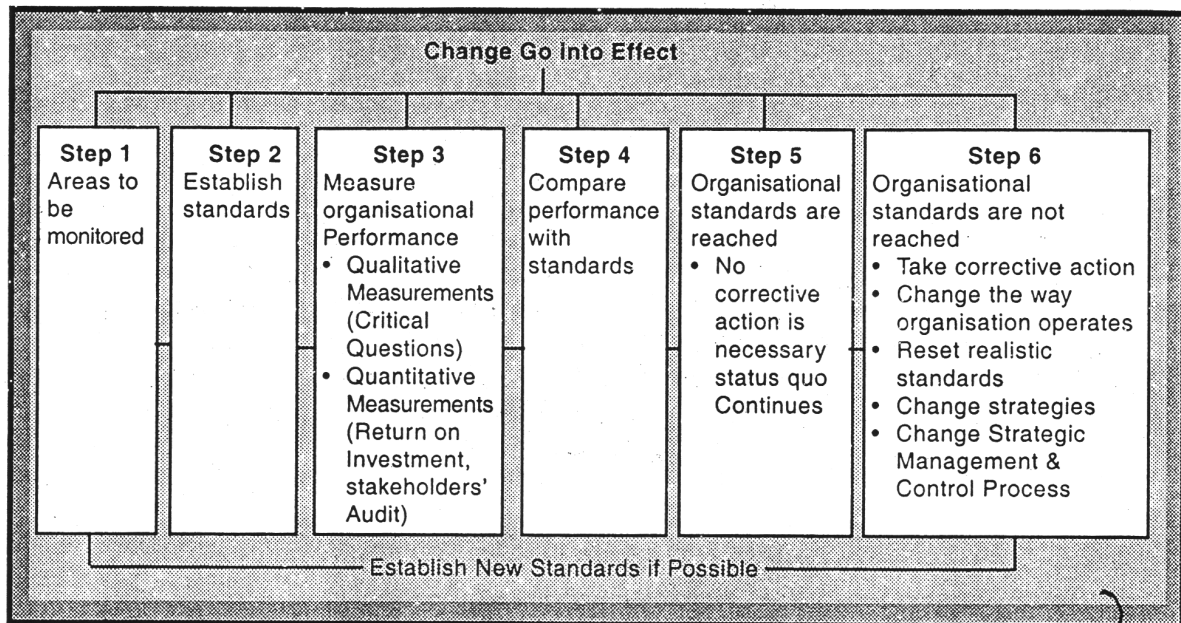
(Imp.)

The managerial control process consists of six steps. To top management initially must decide what elements of the environment and the organisation need to be monitored, evaluated and controlled. The four key areas to be monitored and controlled are: the macro environment, mission and objectives, the industry environment and internal operations.

**Step 1: Key Areas to be Monitored**

**Macro-environment:** As stated earlier, one of the key areas to be monitored is the macro-environment of the company. This area should be focused first. Normally individual companies cannot influence the environment significantly. But the external environmental forces must be continuously monitored as the changes in the environment influence the implementation of the plans of the company.

**Mission and Objectives:** This includes modifying any one or more of the areas like company's mission, objectives, plans, goals, strategy formulation and implementation. The modification depends upon the nature and degree of changes and shifts in the environment.



**Fig. : Managerial Control Process**

**Industry Environment:** The manager also monitors and controls the industry related environment. The environmental forces may not be as they were planned.. The changes in the environment may provide new opportunities or pose new threats. The plan, therefore, should be modified accordingly. The industry environment of the future should be considered by the top management for the purpose of evaluation and control.

**Internal Operations:** The manager has to evaluate the internal operations continuously in view of the changes in the macro-environment and industry environment. The manager has to introduce changes in internal operations when changes in the environment affect the plans.

### Step 2 : Establishing Standards

Evaluating an organisational performance is normally based on certain standards. These standards may be the previous year's achievements or the competitor's records or the fresh standards established by the management. Qualitative judgements like the qualitative features of the product or service in the last year may be used. Quantitative measures like Return on Investment (RoI), Return on sales may also be used for judging the performance. Companies should establish the standards for evaluating the performance of the strategies taking several factors into consideration.

The standards may include:

- Quality of Products/Services.
- Quantity of Products to be Produced.
- Quality of Management.
- Inventiveness/Creativity.
- Long-term investment value.
- Volume of sales and/or market share.

- Financial soundness in terms of return on investment, return on equity capital, market price of the share, earning per share etc.
- Community and environmental responsibility in terms of amount spent on community development, variety of facilities provided to the community, programmes undertaken for environmental protection and ecological balance etc.
- Soundness of human resources management in terms of percentage of employee grievances redressed, employee satisfaction rate, employee turnover rate, industrial relations situation etc.
- Ability to attract, develop and retain competent and skilled people.
- Use of company's assets.

### Step 3 : Measuring Performance

The manager has to measure the performance of various areas of the organisation before taking an action. Performance may be measured through quantitative terms or qualitative terms. Reports and statements help to measure the actual performance through quantitative terms and managerial observations help to measure performance through qualitative terms. Production, sales, profitability, staff cost etc. can be measured through quantitative terms and quality of the product, employee's performance, attitude etc. can be measured through qualitative terms.

### Step 4 : Compare Performances with Standards

Once the performance of different aspects of the organisation is measured, it should be compared with the predetermined standards. Standards are set to achieve the already formulated organisational goals and plans. Organisational standards are yardsticks and benchmarks that place organisational performance in perspective. The manager should set standards for all performance areas of the organisation based on organisational goals and

strategies. Normally, the standards vary from one company to the other company. Further, they also vary from time to time in the same company.

#### ➤ Profitability Standards

They include how much gross profit, net profit, return on investment, earning per share, percentage of profit to sales, the company should earn in a given time period.

#### ➤ Market Position Standards

These standards include total sales, sales region-wise and product-wise, market share, marketing costs, customer service, customer satisfaction, price, customer loyalty shifts from or to other organisation's products etc.

#### ➤ Productivity Standards

These standards indicate the performance of the organisation in terms of conversion of inputs into output. These standards include capital productivity, labour productivity, material productivity etc.

#### ➤ Product Leadership Standards

They include the innovations and modifications in products to increase the new uses of the existing product, developing new products with new uses etc.

### Step 5 : Take No Action, if Performance is in Harmony with Standards

If the performance of various organisational areas match with the standards, the manager need not take any action. He should just allow the process to continue. However, he can try to improve the performance above the standards, if it would be possible, without having any negative impact on the existing process.

### Step 6 : Take Corrective Action, if necessary

Managers should take necessary corrective action, if performance is not in harmony with standards. If the deviation is positive i.e. performance is above the standards continuously, revises the standards. On the contrary, if performance is below standard, take steps to improve the performance.

The managers compare the performance with standards. If they find any deviation between the standards and performance, they should take corrective action to bridge the gap between the standards and performance.

### Corrective Action

Corrective action may be defined as change in a company's operations to ensure that it can more effectively and efficiently reach its goals and perform its established standards.

Plans that do not achieve standards produce three possible responses viz. (i) to revise plans, (ii) to change standards and (iii) to take corrective action in the existing process without changing standards and plans. Change in plans may require a 'fine tuning' of the existing strategy or complete changes in plans. If it is realised that the existing standards are unrealistic under the present conditions, the manager should reset the standards taking the existing conditions into consideration.

### 5.7.3 Types of Control

#### 5.7.3.1 Post, Current and Pre-control

**Q27. Explain the classification of control.**

*Ans :*

Depending on the time at which control is applied, controls are of three types: (i) feedback control, (ii) concurrent control and (iii) feedforward control.

#### 1. Feedback control (Historical or Post-control)

It is the process of gathering information about a completed activity, evaluating that information and taking steps to improve similar activities in the future. Feedback control enables managers to use information on past performance to bring future performance into line with planned objectives. Critics of feedback control argue that it is like closing the gate after the horse is gone. Because corrective action is taken after the fact, costs tend to pile up quickly while problems and deviations persist.

#### 2. Concurrent Control

It is also called 'real time' control. Concurrent control techniques immediately consider any problem and analyse it to take necessary and corrective steps before any major damage is done. Control chart is an example of this control.

Concurrent controls are also known by another name 'steering controls' and occur while an activity is taking place.

#### 3. Predictive or Feedforward Control

Here, the control system anticipates problems that the management encounters in future. Cash budget is an example of this type where the finance manager is in a position to estimate the next year's flow of cash. If there is a shortage of funds in a particular month, he can arrange for bank loan or some other alternative. Predictive control is also frequently termed as 'feedforward control'. Predictive control attempts to anticipate problems or deviations from the standard, in advance of their occurrence.

### 5.7.4 Requirements for Effective Control

**Q28. Explain the essential conditions for effective control.**

*Ans :*

(Dec.-20, Imp.)

#### (i) Design Controls to Plans and Strategies

Plans and strategies are the basis for control. In fact, the purpose of control is to ensure the effective implementation of plans and strategies. Therefore, the control techniques should reflect the plans and strategies that they are designed to follow.

#### (ii) Design Controls to Individual Managers

Individual managers have to implement the plans and strategies. Thus, they are the monitoring points for the execution. As such, control techniques and systems should be designed to individual managers.

**(iii) Controls Pointing up Exceptions at Critical Points**

There would be critical points in the implementation process of plans. For example, rating of the company is a critical point in the plan of raising the equity capital. The control techniques should concentrate on such critical areas.

**(iv) Objectivity of Controls**

There should be objectivity in measuring the performance of the employers in terms of implementation of plans and strategies. Therefore, management should objectively determine the standards of performance. Subsequently, the operations can be controlled/ based on these objective standards.

**(v) Flexibility of Controls**

Environment under which the plans are implemented is dynamic and ever changing. The unforeseen circumstances make the plans and strategies vulnerable to the environmental changes. Therefore, the control standards should be flexible and adaptable to these changes.

**(vi) Compatibility of the Control System and Organisational Culture**

Organisational culture is developed over the period and relatively stable in the short run. It gets modified mostly in the long run and slowly. As such the control system should be designed based on the organisational culture.

**(vii) Economy of Controls**

As discussed earlier, controls are necessary to ensure the proper implementation of the plans. But the cost of the control system and techniques should not be more than the savings derived from them. Thus controls should result in economies to the organisation.

## Short Questions and Answers

### Q1. Authority

*Ans :*

Authority is the degree of discretion conferred on people to make it possible for them to use their judgement. When an enterprise is small then decision-taking power is centralised in few hands. As the enterprise grows there is a need to delegate authority to more and more people to cope with the work. The main purpose of delegation is to make organisation possible. "Just as no one person in enterprise do all the tasks necessary for accomplishment of group purpose, so it is impossible, as an enterprise grows, for one person to exercise all the authority for making decisions."

### Q2. Different types of authority

*Ans :*

#### 1. Traditional Authority

Traditional authority is based on the sacredness of the social order. The father in a patriarchal society and the mother in a matriarchal society obtain their legitimacy through customs.

#### 2. Charismatic Authority

This authority rests on the magical, mystical quality of individual leaders. Subordinates may obey superiors out of respect for their character, reputation, personal qualities, and the like.

#### 3. Technical Authority

This is based on the technical competence and expertise of an individual. It is personal in nature and, hence, cannot be delegated to others.

#### 4. Legal Authority

This authority originates in the formal structure of a organisation. The authority of the shareholders is pushed down to lower levels through the Board of Directors, the Chief Executive, Departmental Managers,

Foreman and Workers, in that order. Superiors issue orders and subordinates obey them because this is the way the organisation is established.

### Q3. Power

*Ans :*

Power is the potential ability to influence the behaviour of others. It is, in other words, "the capacity that A has, to influence the behaviour of B, so B does something he would not otherwise do" (Robbing). It is the ability to make things happen or get things done the way you want. This definition implies three things:

- **Potential:** A potential that need not be actualised to be effective. One can have power without actually using it. For example, a football coach has the power to bench a player who is not performing upto par. The coach seldom has to use this power because players recognize that the power exists and work hard to keep their starting positions.
- **Dependency:** A dependency relationship. The greater B's dependence on A, the greater is A's power in the relationship. A person can have power over you only if he controls something you desire. Where an employee is not dependent on the supervisor for receiving rewards then, truly speaking, the supervisor has no power over such employee.
- **Discretion:** The assumption that B has some discretion over his own behaviour. Usually job descriptions, group norms, organisational rules and regulations constrain the choices of employees. As a worker, you may be dependent on your supervisor for continued employment. But, in spite of this, dependence, you may not join hands with the supervisor in stealing store items or petty cash.

**Q4. Responsibility.**

*Ans :*

Responsibility is the obligation to do something. It is the duty that one has to perform in organisational tasks, functions or assignments. Authority and responsibility go side by side. When authority is delegated then some responsibility for getting the assigned task is also fixed. One can delegate authority but not responsibility. In the words of Koontz and O'Donnel, "Responsibilities may be defined as the obligation of a subordinate to whom a duty has been assigned to perform the duty". George Terry defines it as, "Responsibility is the obligation to carry out assigned activities to the best of his abilities."

**Q5. Accountability**

*Ans :*

Accountability is the obligation of an individual to formally report to his superior about the work he has done to discharge his responsibility. When a subordinate reports about his performance, success or failure, to his superior he discharges his accountability. So accountability is related to assigned work and reporting of its performance. Louis Allen defined accountability, "as the obligation to carry out responsibility and exercise authority in terms of performance standards established". In the words of McFarland, "Accountability refers to the fact that each performer who is given authority and responsibility must recognise that the executive above him will judge the quality of his performance." Responsibility and accountability go hand in hand, the latter arises out of the former.

**Q6. Delegation of authority**

*Ans :*

Delegation is an administrative process of getting things done by others by giving them responsibility. All important decisions are taken at top level by Board of Directors. The execution is entrusted to Chief Executive. The Chief Executive assigns the work to departmental managers who in turn delegate the authority to their subordinates. Every superior delegates the authority to

subordinates for getting a particular work done. The process goes to the level where actual work is executed. The person who is made responsible for a particular work is given the requisite authority for getting it done.

**Definitions**

**Allen.** "The entrustment of a part of the work, or responsibility and authority to another, and the creation of accountability for performance."

**Q7. Elements of Delegation of Authority**

*Ans :*

The process of delegation comprises the following three elements or components:

**1. Assignment of Duties or Responsibilities**

The first step in delegation is the assignment of work or duties to each subordinate. The manager must clearly define the functions of each subordinate. While assigning duties and responsibilities, he must ensure that the subordinates understand and accept their duties. Duties should be assigned according to the qualifications, experience and aptitude of the subordinates.

**2. Granting of Authority**

The granting of authority is the second element of delegation. Assignment of duties is meaningless unless adequate authority is given or granted to subordinates. They cannot discharge their duties or responsibilities without adequate authority. Enough authority must be granted so that subordinates can perform their duties. By granting authority, subordinates are permitted to use resources, to take decisions and to exercise discretion.

**3. Creating Accountability for Performance**

The subordinates to whom authority is delegated must be made answerable for the proper performance of assigned duties and for the exercise of the delegated authority. The extent of accountability depends upon the extent of delegation of authority and responsibility.



**Q8. Principle of Functional Definition***Ans :*

The related or similar activities should be grouped together according to enterprise function. When the definition of a position is clear then delegation of authority becomes simple. In the words of Koontz and O'Donnell "the more a position or a department has clear definitions or results expected, activities to be undertaken, organisation authority delegated and authority and informational relationships with other positions understood, the more adequately the individuals responsible can contribute toward accomplishing enterprise objectives."

**Q9. Principle of Unity of Command***Ans :*

The basic management principle is that of unity of command. This principle states that a subordinate should report only to single superior. This will give a sense of personal responsibility. Although it is possible for a subordinate to receive orders from more superiors and report to them but it creates more problems and difficulties. An obligation is essentially personal and authority delegation by more than one person to an individual is likely to result in conflicts in both authority and responsibility. This principle is also useful in the classification of authority-responsibility relationships.

**Q10. Decentralisation***Ans :*

Decentralisation implies the dispersal of decision-making power at lower levels of management. When the power to take decisions and formulate policies does not lie with one person at the top but is passed on to different persons at various levels, it will be a case of decentralisation. The decisions taken at lower level should not only be more in number but they should be important also. If insignificant decisions are allowed to be taken at lower levels then it will not be a case of decentralisation.

**Definitions**

**McFarland.** "Decentralisation is a situation in which ultimate authority to command and ultimate responsibility for results is localised as far down in the organisation as efficient management of the organisation permits." The delegation of authority and responsibility is allowed downward upto a level it is necessary. In McFarland's views the degree and extent of delegation should be determined as per the needs of the situation.

**Q11. Co-ordination***Ans :*

Business operations are performed by a number of departments and individual employees based on plans, objectives and goals. The total business operations include procuring of raw material, producing the products, mobilizing and managing financial resources, acquiring the required human resources, providing them to various departments, marketing the product etc. Each department performs only one kind of operation based on its specialization. Similarly, each employee also performs one kind of operations based on his/her specialization. These activities need to be coordinated as each individual employee and department perform the business activities from their perspective rather than from the perspective of organizational objectives.

**Definitions**

**According to Alan C.Reiley and James D.Mooney,** coordination is the, "orderly arrangement of group effort, to provide unity of action in the pursuit of common purpose." George R.Terry defines coordination as the task of "blending efforts in order to ensure the successful attainment of an objective. It is accomplished by means of planning, organizing, actuating and controlling.

**Q12. Reciprocal Relationship***Ans :*

As the third principle, Mary Follet states, that all factors in a situation are reciprocally related. In

other words, all the parts influence and are influenced by other parts. For example, when A works with B and he in turn, works with C and D, each of the four, find themselves influenced by others that is influenced by all the people in the total situation. Follet contends that this sort of reciprocal relation and this sort of interpenetration of every part by every other part, and again by every other part, as it has been permeated by all, should be the goal of all attempts at coordination.

**Q13. Control**

*Ans :*

Control consists of making something happen the way it was planned to happen. According to Henri Fayol, control consists in verifying whether everything occurs in conformity with the plan adopted, the instructions issued and principles established. It's objective is to point out weaknesses and errors in order to rectify them and prevent recurrence. It operates on everything, things, people and actions. The control function includes three procedures viz.

- (i) Measuring actual performance
- (ii) Comparing actual performance to standards and
- (iii) Taking corrective action to ensure that planning events actually occur.

**Q14. Feedback control (Historical or Post-control)**

*Ans :*

It is the process of gathering information about a completed activity, evaluating that information and taking steps to improve similar activities in the future. Feedback control enables managers to use information on past performance to bring future performance into line with planned objectives. Critics of feedback control argue that it is like closing the gate after the horse is gone. Because corrective action is taken after the fact, costs tend to pile up quickly while problems and deviations persist.

**Q15. Predictive or Feedforward Control**

*Ans :*

Here, the control system anticipates problems that the management encounters in future. Cash budget is an example of this type where the finance manager is in a position to estimate the next year's flow of cash. If there is a shortage of funds in a particular month, he can arrange for bank loan or some other alternative. Predictive control is also frequently termed as 'feedforward control'. Predictive control attempts to anticipate problems or deviations from the standard, in advance of their occurrence.

## *Choose the Correct Answer*

1. Delegation is \_\_\_\_\_. [ a ]  
(a) Getting things done by others (b) Fixing of responsibility  
(c) Assigning the task (d) None
2. Legitimate right to give order and get orders obeyed is [ b ]  
(a) Delegation (b) Authority  
(c) Centralisation (d) Decentralisation
3. Responsibility flows [ c ]  
(a) Downwards (b) Sideways  
(c) Upwards (d) Horizontal
4. Decentralisation gives decision making powers at [ b ]  
(a) Higher level (b) Lower level  
(c) Middle level (d) None
5. Everything which goes to increase the importance of the subordinates role is [ d ]  
(a) Centralisation (b) Delegation  
(c) Authority (d) Decentralisation
6. What cannot be delegated. [ a ]  
(a) Responsibility (b) Authority  
(c) Power (d) None
7. Centralisation is generally successful in [ c ]  
(a) Huge enterprise (b) Big enterprise  
(c) Small enterprise (d) None
8. One of the following is not an advantage of decentralisation [ d ]  
(a) Reduces burden of top executives (b) Quick decisions  
(c) Motivation to employees (d) Difficulty in control
9. One of the following is not an advantage of centralization. [ d ]  
(a) Standardization of procedures (b) Economies of large scale  
(c) Coordination of activities (d) No scope for specialization
10. Obligation of an individual to formally report to his superior about what he has done [ a ]  
(a) Accountability (b) Authority  
(c) Responsibility (d) Delegation

11. Planning and controlling are [ b ]  
(a) Interrelated (b) Related  
(c) Similar (d) None
12. Evaluating performance, ascertaining deviations and taking corrective measures is [ c ]  
(a) Planning (b) Organising  
(c) Controlling (d) Deciding
13. PERT, Budgeting, cost control, CPM are [ b ]  
(a) Planning devices (b) Control techniques  
(c) Supervisory devices (d) None
14. Synchronizing action of various activities in order to ensure successful achievement of objective is [ d ]  
(a) Planning (b) Co-operation  
(c) Direction (d) Co-ordination
15. Management functions start with planning and ends at [ a ]  
(a) Controlling (b) Directing  
(c) Communicating (d) Supervising
16. The second step is controlling process is [ b ]  
(a) Setting of control standards  
(b) Measurement of performance  
(c) Comparing actual and standard performance  
(d) Taking corrective action
17. Willingness of individuals to help each other [ d ]  
(a) Co-ordination (b) Planning  
(c) Directing (d) Co-operating
18. Process of adjusting future actions on the basis of information about the past performance [ a ]  
(a) Feedback (b) Planning  
(c) Co-operation (d) Controlling
19. The last and most important step is controlling process is [ c ]  
(a) Measurement of performance (b) Setting of standards  
(c) Taking corrective action (d) Comparing actual with standards
20. Comparing actual performance with the standard set is [ c ]  
(a) First step of controlling (b) Second step of controlling  
(c) Third step of controlling (d) Fourth step of controlling

## *Fill in the blanks*

1. Synchronizing activities of various person in the organisation to achieve goals is called \_\_\_\_\_
2. \_\_\_\_\_ is willingness of individuals to help each other.
3. \_\_\_\_\_ is the process of checking whether the plans are being adhered or not, keeping a record of progress and taking corrective measures \_\_\_\_\_.
4. Planning and controlling are both \_\_\_\_\_ on each other.
5. \_\_\_\_\_ brings unity of action and integrates different activities.
6. \_\_\_\_\_ are yardsticks against which actual or expected performance is measured.
7. A \_\_\_\_\_ provides an accurate and timely feedback.
8. \_\_\_\_\_ arises out of informal relations.
9. The last step in controlling process is taking \_\_\_\_\_.
10. Planning is the first function of management while \_\_\_\_\_ is last.
11. The right to give orders and the power to extract obedience is \_\_\_\_\_.
12. \_\_\_\_\_ is the obligation to carry out assigned activities to the best of his abilities.
13. \_\_\_\_\_ is the obligation of an individual to formally report to his superior about the work he has done.
14. The process of getting things done by other by giving them responsibility is \_\_\_\_\_.
15. In \_\_\_\_\_ the dynamic manager single handedly commands the running of organisation.
16. The decision making power at lower levels of management is \_\_\_\_\_.
17. Decentralisation reduces burden of \_\_\_\_\_ management.
18. Responsibility always flows \_\_\_\_\_.
19. Accountability is the obligation of \_\_\_\_\_.
20. Delegation grants \_\_\_\_\_ to subordinates.

### ANSWERS

- |                      |                             |
|----------------------|-----------------------------|
| 1. Co-ordination     | 11. Authority               |
| 2. Co-operation      | 12. Responsibility          |
| 3. Control           | 13. Accountability          |
| 4. Dependent         | 14. Delegation of authority |
| 5. Co-ordination     | 15. Centralisation          |
| 6. Standards         | 16. Decentralisation        |
| 7. Control system    | 17. Top                     |
| 8. Co-operation      | 18. Upwards                 |
| 9. Corrective action | 19. Superior                |
| 10. Control          | 20. Authority               |

## FACULTIES OF COMMERCE

B.Com. I – Semester (CBCS) (New) Examination

November / December - 2020

(Common Paper for General / Computers / Computer Applications /  
Advertising / Foreign Trade / Tax Procedure and Honours Courses)

### BUSINESS ORGANIZATION AND MANAGEMENT

Time : 2 Hours]

[Max. Marks : 80

#### PART - A (4 × 5 = 20 Marks)

Note : Answer any four of the following questions

- |   | <u>ANSWERS</u>    |
|---|-------------------|
| 1. Hindu Undivided Family                   | (Unit-I, SQA-17)  |
| 2. Concept of Limited Liability Partnership | (Unit-I, Q.No.30) |
| 3. Private Limited Company                  | (Unit-II, SQA-24) |
| 4. Articles of Association                  | (Unit-II, SQA-16) |
| 5. Red herring Prospectus                   | (Unit-II, SQA-21) |
| 6. Levels of Management                     | (Unit-III, SQA-6) |
| 7. Informal Organization                    | (Unit-IV, SQA-16) |
| 8. Responsibility and Accountability        | (Unit-V, SQA-4,5) |

#### PART - B (4 × 5 = 60 Marks)

##### Long Answer Type Questions

Note : Answer any four of the following questions

- |   |                        |
|---|------------------------|
| 9. Define Business and discuss its functions.   | (Unit-I, Q.No. 1,11)   |
| 10. Define Partnership. Explain in brief various types of partners.                                   | (Unit-I, Q.No. 21,23)  |
| 11. What is a 'Joint Stock Company'? Describe the advantages of Joint Stock Company Form of Business. | (Unit-II, Q.No. 1,2)   |
| 12. What is a 'Memorandum of Association'? Explain its contents.                                      | (Unit-II, Q.No. 11,12) |
| 13. Define Management. Explain the characteristics of Management.                                     | (Unit-III, Q.No. 1)    |
| 14. Explain Henry Fayol's Principles of Management.   | (Unit-III, Q.No. 14)   |
| 15. What do you mean by Management by Objectives? Explain its benefits and weaknesses.                | (Unit-IV, Q.No. 7,10)  |
| 16. What is Span of Management? Explain the factors influencing the span of supervision.              | (Unit-IV, Q.No. 26,27) |
| 17. What is Coordination? Explain the techniques of Effective Coordination.                           | (Unit-V, Q.No. 18,20)  |
| 18. What is Control? Explain the requirements for Effective Control.                                  | (Unit-V, Q.No. 22,28)  |

**FACULTY OF COMMERCE**  
**B.Com. I Semester (CBCS) Examination**  
**November / December - 2019**  
**(Common Paper for General / Computer Applications / Foreign Trade / Tax**  
**Procedure Advertising and Honours Courses)**  
**BUSINESS ORGANIZATION AND MANAGEMENT**

**Time : 3 Hours]**

**[Max. Marks : 80**

**PART - A (5 × 4 = 20 Marks)**

**[Short Answer Type]**

**Note:** Answer any five of the following questions

**ANSWERS**

- |  |                   |
|--|-------------------|
| 1. Social Responsibility of a Business | (Unit-I, SQA-11)  |
| 2. Active Partner                      | (Unit-I, SQA-21)  |
| 3. Public limited company              | (Unit-II, SQA-23) |
| 4. Statement in Lieu of Prospectus     | (Unit-II, SQA-22) |
| 5. Promoter                            | (Unit-II, SQA-6)  |
| 6. Skills of Management                | (Unit-III, SQA-9) |
| 7. Formal Organization                 | (Unit-IV, SQA-9)  |
| 8. Authority                           | (Unit-V, SQA-1)   |

**PART - B (5 × 12 = 60 Marks)**

**[Essay Answer Type]**

**Note:** Answer all the questions

9. (a) What do you mean by business? Describe its objectives. (Unit-I, Q.No. 1,10)

**(OR)**

- (b) Explain the differences between Sole Trading Concern and Partnership Firm. (Unit-I, Q.No. 29)

10. (a) What do you understand by Promotion of a Company? Describe the various stages in Promotion of a joint stock company. (Unit-II, Q.No. 5)

**(OR)**

- (b) Define Joint Stock Company. Explain the characteristics of Joint Stock Company. (Unit-II, Q.No. 1)

11. (a) Define Management. Explain the functions of Management. (Unit-III, Q.No. 1,5)

**(OR)**

- (b) What is Scientific Management? Explain its objectives and criticism. (Unit-III, Q.No. 10,11,13)

12. (a) Describe the Nature and Significance of Planning.

(Unit-IV, Q.No. 1)

*Ans :*

### **Nature of Planning**

- **Planning is goal oriented** : Plans arise from objectives. Objectives provide guidelines for planning.
- **It is a primary function** : Planning provides the basis foundation from which all future management functions arise.
- **It is persuasive** : It is required at all levels of management. It is not an exclusive function of any management level or department. Managers have to plan for every change that occurs in an organization. However, the scope of planning differs at all levels and among different department.
- **It is mental activity** : Planning is a mental process involving - imagination, foresightedness and sound judgment. Plans are based on careful analysis of internal and external factors influencing business activities. It is carried out in a logical and systematic manner.
- **It is a continuous process** : It is an ongoing process of adapting the organization with the changes in business environment. Since a business exist in a dynamic environment it is necessary to continuously plan based on changing business needs and situations.

### **Importance**

- It provides direction.
- It focuses on organizational objectives and goals
- It helps in optimum utilization of resources
- It reduces risks of uncertainty
- It facilitates decision making
- It encourages innovation and creativity
- It facilitates control
- Establishes a sound organization
- Improves standard of living of people
- Reduces costs

(OR)

(b) What is Line and Staff Organization? What are the causes of conflict between Line and staff.

(Unit-IV, Q.No. 23,24)

13. (a) Explain the various barriers to effective delegation. Discuss the guidelines for making delegation effective.

(Unit-V, Q.No. 13)

*Ans :*

**A number of steps are required to make it effective:**

### **1. Defining of Assignments**

The work of every persons should be properly defined. The results expected from them should be made clear. They should be given sufficient authority to accomplish the given results.



**2. Proper Selection of Persons**

The persons should be selected in the light of the job to be done, The delegation will be influenced by the qualifications of persons. With the assignment of a work, the authority required for completing it will have to be delegated. If the concerned person is not capable of exercising such authority then the purpose will not be solved. The personnel manager should keep these in mind while selecting persons for various positions.

**3. Proper Communication**

There should be an open line of communication. By delegating authority superior does not abdicate his right to interfere or he is not absolved of responsibility. There may be changed circumstances which require new plans and delegation may have to see in the new situation. There should be free flow of information between superior and subordinate. The subordinates should be furnished information with which to make decisions and to interpret them correctly. Communication is essential for making delegation effective.

**4. Establishing Proper Controls**

The manager cannot relinquish responsibility, delegation should be accompanied by adequate controls. The performance of subordinates should be regularly assessed to see that things are going as per plans. If interference of controls is to be avoided then steps should be taken to get information about deviations.

**5. Rewards for Proper Implementation**

There should be rewards for effective delegation and successful assumption of authority. The manager should keep a watch over the performance of various persons. Those who are successful in delegating properly and those showing good results with delegated authority should be given pecuniary or other rewards. This will encourage more and more persons to improve performance.

(OR)

(b) What is Decentralization of Authority? Explain its importance.

(Unit-V, Q.No. 15,16)

**FACULTIES OF COMMERCE**  
**B.Com. I Year (CBCS) I Semester Examination**  
**MODEL PAPER - I**  
**BUSINESS ORGANIZATION AND MANAGEMENT**

**Time : 3 Hours]**

**[Max. Marks : 80**

**SECTION - A (5 × 4 = 20 M)**  
**Short Answer Type Questions. Answer any 5 Questions**

**ANSWERS**

- |    |  |                    |
|----|--|--------------------|
| 1. | Industry   | (Unit-I, SQA: 5)   |
| 2. | Characteristics of Business Organization         | (Unit-I, SQA: 12)  |
| 3. | Characteristics of Joint Stock Company           | (Unit-II, SQA: 2)  |
| 4. | Explain briefly the different types of promoters | (Unit-II, SQA: 8)  |
| 5. | Characteristics of Management                    | (Unit-III, SQA: 2) |
| 6. | Advantages of planning                           | (Unit-IV, SQA: 3)  |
| 7. | Span of management                               | (Unit-IV, SQA: 15) |
| 8. | Decentralisation                                 | (Unit-V, SQA: 10)  |

**SECTION - B (5 × 12 = 60 M)**  
**Long Answer Type Questions**

- |     |   |                       |
|-----|---|-----------------------|
| 9.  | (a) What do you understand by business? Explain the main characteristics of business in the modern world. | (Unit-I, Q.No. 1)     |
|     | OR  |                       |
|     | (b) Distinguish between Partnership and Sole Trade.   | (Unit-I, Q.No. 29)    |
| 10. | (a) Define a joint stock company and explain the characteristics of Joint stock company?                  | (Unit-II, Q.No. 1)    |
|     | OR  |                       |
|     | (b) Give various clauses of memorandum of Association.  | (Unit-II, Q.No. 12)   |
| 11. | (a) What are the functions of management ?  | (Unit-III, Q.No. 5)   |
|     | OR  |                       |
|     | (b) Explain the levels of management.   | (Unit-III, Q.No. 6)   |
| 12. | (a) Define Planning. Explain the characteristics of planning.   | (Unit-IV, Q.No. 1, 2) |
|     | OR  |                       |
|     | (b) Explain the factors influencing the span of management.   | (Unit-IV, Q.No. 27)   |
| 13. | (a) Define Accountability. Explain the nature of accountability.  | (Unit-V, Q.No. 8)     |
|     | OR  |                       |
|     | (b) Explain the nature and importance of delegation of authority.   | (Unit-V, Q.No. 12)    |

**FACULTIES OF COMMERCE****B.Com. I Year (CBCS) I Semester Examination****MODEL PAPER - II****BUSINESS ORGANIZATION AND MANAGEMENT****Time : 3 Hours]****[Max. Marks : 80****SECTION - A (5 × 4 = 20 M)****Short Answer Type Questions. Answer any 5 Questions****ANSWERS**

- |    |                                     |                     |
|----|-------------------------------------|---------------------|
| 1. | Contents of Partnership Deed        | (Unit-I, SQA: 16)   |
| 2. | Functions of Business               | (Unit-I, SQA: 19)   |
| 3. | Memorandum of Association           | (Unit-II, SQA: 10)  |
| 4. | Contents of Prospectus              | (Unit-II, SQA: 20)  |
| 5. | Scientific Management               | (Unit-III, SQA: 10) |
| 6. | Principles of Organization          | (Unit-IV, SQA: 8)   |
| 7. | Line organization                   | (Unit-IV, SQA: 12)  |
| 8. | Elements of Delegation of Authority | (Unit-V, SQA: 7)    |

**SECTION - B (5 × 12 = 60 M)****Long Answer Type Questions :**

- |     |  |                      |
|-----|--|----------------------|
| 9.  | (a) Explain the objectives of business.  | (Unit-I, Q.No. 10)   |
|     | OR   |                      |
|     | (b) What do you understand by partnership? Discuss the advantages and limitations of partnership business. | (Unit-I, Q.No. 21)   |
| 10. | (a) Explain the classification of companies.   | (Unit-II, Q.No. 3)   |
|     | OR   |                      |
|     | (b) Define Promoters. State the characteristics of a promoter.   | (Unit-II, Q.No. 6)   |
| 11. | (a) Define scientific management. What are the features of scientific management ?                         | (Unit-III, Q.No. 10) |
|     | OR   |                      |
|     | (b) Explain the various skills of manager.   | (Unit-III, Q.No. 7)  |
| 12. | (a) What are the different types of plans ?  | (Unit-IV, Q.No. 3)   |
|     | OR   |                      |
|     | (b) What is meant by line organization? State the advantages and disadvantages of line organization ?      | (Unit-IV, Q.No. 22)  |
| 13. | (a) Define power. Explain the sources of power.  | (Unit-V, Q.No. 3, 5) |
|     | OR   |                      |
|     | (b) Explain the essential conditions for effective control.  | (Unit-V, Q.No. 28)   |

**FACULTIES OF COMMERCE**  
**B.Com. I Year (CBCS) I Semester Examination**  
**MODEL PAPER - III**  
**BUSINESS ORGANIZATION AND MANAGEMENT**

Time : 3 Hours]

[Max. Marks : 80

**SECTION - A (5 × 4 = 20 M)****Short Answer Type Questions. Answer any 5 Questions****ANSWERS**

- |                                      |                    |
|--------------------------------------|--------------------|
| 1. Hindu Undivided Family Firm       | (Unit-I, SQA: 17)  |
| 2. Social Responsibility of Business | (Unit-I, SQA: 11)  |
| 3. Articles of Association           | (Unit-II, SQA: 16) |
| 4. Statement in Lieu of Prospectus   | (Unit-II, SQA: 22) |
| 5. Skills of Manager                 | (Unit-III, SQA: 9) |
| 6. Management by Objectives          | (Unit-IV, SQA: 4)  |
| 7. Characteristics of planning       | (Unit-IV, SQA: 2)  |
| 8. Different types of authority      | (Unit-V, SQA: 2)   |

**SECTION - B (5 × 12 = 60 M)****Long Answer Type Questions :**

- |   |                      |
|---|----------------------|
| 9. (a) What are the functions of business ?                                     | (Unit-I, Q.No. 11)   |
| OR  |                      |
| (b) Distinguish between Partnership firm and Joint Hindu Family.                | (Unit-I, Q.No. 31)   |
| 10. (a) Differences between Public Limited Company and Private Limited Company. | (Unit-II, Q.No. 4)   |
| OR  |                      |
| (b) What are the legal formalities involved in starting a new company?          | (Unit-II, Q.No. 9)   |
| 11. (a) Define Management. What are the main characteristics of management?     | (Unit-III, Q.No. 1)  |
| OR  |                      |
| (b) Explain the Fayol's in principles of management.                            | (Unit-III, Q.No. 14) |
| 12. (a) Explain the various approaches in planning.                             | (Unit-IV, Q.No. 5)   |
| OR  |                      |
| (b) What are the Principles of Organization?                                    | (Unit-IV, Q.No. 16)  |
| 13. (a) Define authority ? Explain sources of authority.                        | (Unit-V, Q.No. 1)    |
| OR  |                      |
| (b) Discuss briefly about controlling process.                                  | (Unit-V, Q.No. 26)   |