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INTRODUCTION TO BUSINESS (MGT211)

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Lecture 1

INTRODUCTION

CONCEPT OF BUSINESS

Literally, the word "business" means the state of being busy. Generally, the term business includes all human activities concerned with earning money. In other words, business is an activity in which various persons regularly produce or exchange goods and services for mutual gain or profit. The goods and services produced or purchased for personal use are not included in "business".

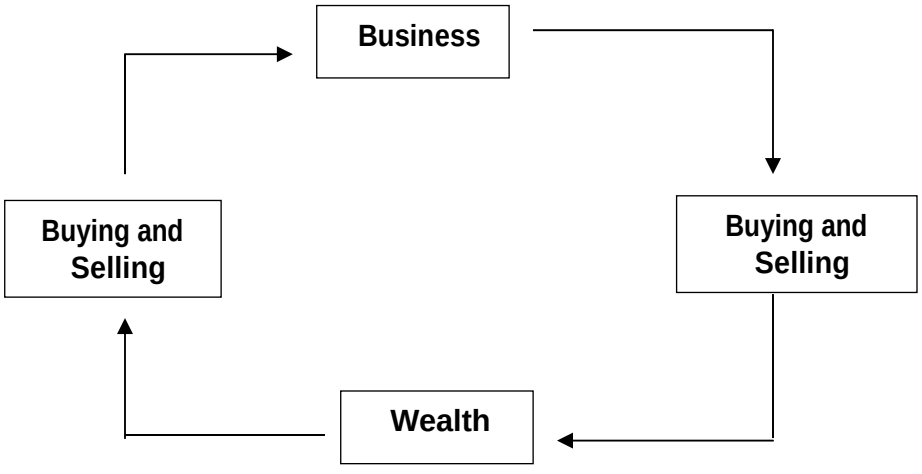
DEFINITION

1. **According to L. H. Haney**
   "Business may be defined as human activities directed toward providing or acquiring wealth through buying and selling of goods."

2. **James Stephenson** says that:
   "Every human activity which is engaged in for the sake of earning profit may be called business."

3. **In the words of B. W. Wheeler**
   "An institution organized and operated to provide goods and services to the society, under the incentive of private gain" is business.

Structural Diagram



CHARACTERISTICS

Following are the essential characteristics of a good business:

1. Capital

Capital is the lifeblood of every business. It is the most essential and important element of business. In case of deficiency, loans can be taken from various financial institutions.

2. Creation of Utility

Utility is an economic term referring to that characteristic of a certain commodity, which can satisfy any human need. Business creates utility, which gives benefit to the entire society as well as the businessmen.

3. Dealing in Goods and Services

Every business deals with sale, purchase, production and exchange of goods and services for some consideration.

4. Employment

Business is a good source of employment for its owners as well as for other people, for example, employees, agents, transporters etc.

5. Islamic Process

Business is an Islamic way of earning living. Income from business is known as profit, which is Rizq-e-Halal. The Holy Prophet Muhammad himself did prosperous business.

6. Motive

The motive of business is to earn profit. Otherwise it will not be termed as business.

7. Organization

Every business needs an organization for its successful working. A proper organization is helpful in the smooth running of business and achieving the objectives.

8. Productions or Purchase of Goods

A businessman deals in production or purchase of goods. These goods are supplied to the people. So, it is necessary that more goods should be produced so that demand of people may be fulfilled.

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9. Regular Transaction

Business has a nature of regular dealings and series of transactions. So, in business, only those transactions included which have regularity and continuity.

10. Risks and Uncertainty

Business involves a large volume of risk and uncertainty. The risk element in business keeps a person vigilant and he tries to ward off his risk by executing his policies properly.

11. Sale or Transfer for value

Another characteristic of business is the sale or transfer of goods for value.

12. Social Welfare

Business does not only satisfy the producer, but also the consumer when products are offered for sale at low prices in markets.

NATURE OF BUSINESS

The following points state the nature of business in brief:

1. Economic Activity

Business is an economic activity as it is concerned with creation of wealth through the satisfaction of human wants.

2. Human Activity

Business is an economic activity and every economic activity is done by human beings. Thus, business is one of the most important human activities.

3. Social Process

Business is run by owners and employees with the help of professionals and customers. Thus, business is a social process.

4. System

Business is a systematic arrangement of various elements, which leads to the attainment of particular objective, according to a well-established plan.

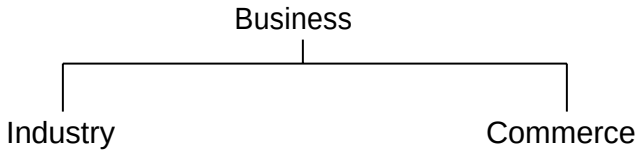
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BUSINESS

The word "Business" includes all human activities concerned with earning money. In other words, business is an activity in which various persons regularly produce or exchange goods and services for mutual gain or profit.

Business bears the following components:

- Industry

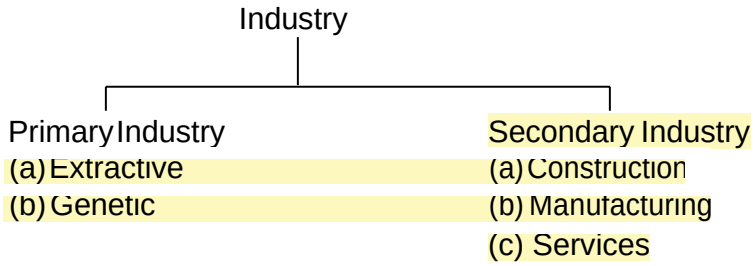


INDUSTRY

Industry is connected with the production and preparation of goods and services. It is a place where raw material is converted into finished or semi-finished goods, which have the ability to satisfy human needs or can be used in another industry as a base material. In other words, industry means that part of business activity, which is concerned with the extraction, production and fabrication of products.

KINDS OF INDUSTRY

1. Primary Industry
2. Secondary Industry



1. PRIMARY INDUSTRY

Primary industry is engaged in the production or extraction of raw materials, which are used in the secondary industry. Primary industry can be divided into two parts:

(a) Extractive Industry
(b) Genetic Industry

(a) Extractive Industry

Extractive industries are those industries, which extract, raise or produce raw material from below or above or above the surface of the earth. For example, fishery, extraction of oil, gas and coal etc.

(b) Genetic Industry

Genetic industries are those, which are engaged in reproducing and multiplying certain species of animals and plants. For example, poultry farm, fishing farm, diary farm, plant nurseries etc.

2. SECONDARY INDUSTRY

These industries use raw materials and make useful goods. Raw material of these industries is obtained from primary industry. Secondary industry can be divided into three parts:

(a) Constructive Industry
(b) Manufacturing Industry
(c) Services Industry

a) Constructive Industry

All kinds of constructions are included in this industry. For example, buildings, canals, roads, bridges etc.

b) Manufacturing Industry

In this industry, material is converted into some finished goods or semi-finished goods. For example, textile mills, sugar mills etc.

c) Services Industry

These industries include those industries, which are engaged in providing services of professionals such as lawyers, doctors, teacher etc.

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COMMERCE

Commerce is the second component of business. The term "commerce" includes all activities, functions and institutions, which are involved in transferring goods, produced in various industries, from their place of production to ultimate consumers.

In the words of Evelyn Thomas:

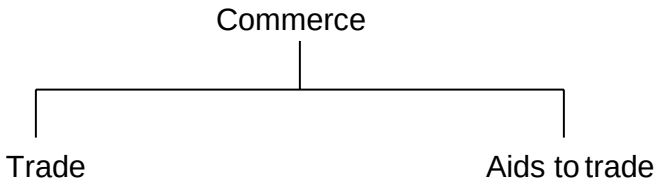
"Commercial occupations deal with the buying and selling of goods, the exchange of commodities and distribution of the finished goods."

In simple words, "trade and aids to trade" is called commerce.

SCOPE OF COMMERCE

The scope of commerce can be explained as:

1. Trade
2. Aids to Trade



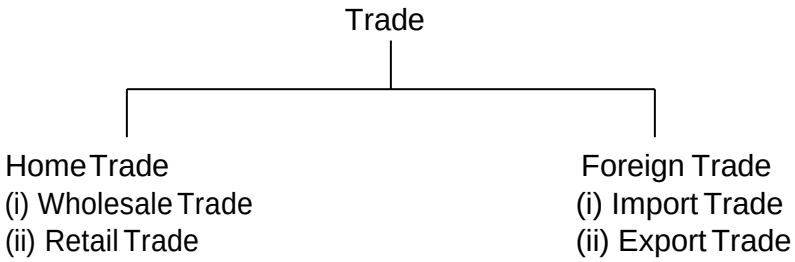
1. TRADE

Trade is the whole procedure of transferring or distributing the goods produced by different persons or industries to their ultimate consumers. In other words, the system or channel, which helps the exchange of goods, is called trade.

TYPES OF TRADE

There are two types of trade:

(a) Home trade
(b) Foreign Trade



(a) Home Trade

The purchase and sale of goods inside the country is called home trade. It is also known as 'domestic', 'local' or 'internal trade'. Home trade has two types:

(i) Wholesale Trade
(ii) Retail Trade

(i) Wholesale Trade

It involves selling of goods in large quantities to shopkeepers, in order to resale them to the consumers. A wholesaler is like a bridge between the producers and retailers.

(ii) Retail Trade

Retailing means selling the goods in small quantities to the ultimate consumers. Retailer is a middleman, who purchase goods from manufacturers or wholesalers and provide these goods to the consumers near their houses.

(b) Foreign Trade

Trade or exchange of goods and services between two or more independent countries for their mutual advantages is called foreign trade. It is also called international trade. Foreign trade has two types:

(i) Import Trade
(ii) Export Trade

(i) Import Trade

When goods or services are purchased from other country it is called import trade.

(ii) Export Trade

When goods or services are sold to any other country it is called export trade.

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2. AIDS TO TRADE

Trade mans biting and selling of goods, whereas, aids to trade mean all those things which are helpful in trade.

a) Banking
b) Transportation
c) Insurance
d) Warehousing
e) Agents
f) Finance
g) Advertising
h) Communication

(a) Banking

In daily business routine, commercial banks and other financial institutions help the seller and the buyer in receiving and the buyer in receiving and making payments.

(b) Transportation

The goods which are manufactured in mills and factories, reach the consumers by different means of transportation like air, roads, rails, seas etc.

(c) Insurance

The transfer of goods from one place to another is not free from risk of loss. There is a risk of loss due to accident, fire, theft etc. The insurance companies help out the traders with this problem through insurance policy.

(d) Warehousing

The manufacturers today, produce goods in large quantity. Therefore, a need for warehouses arises in order to store the manufactured goods.

(e) Agents

They are the persons who act as the agents of either buyer or seller. They perform these activities for commission.

(f) Finance

A large amount is needed to set up an industry. Financial institutions provide long-term finance to the producers. The producers alone are unable to manufacture goods without financial help.

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(g) Advertising

The consumer may sometimes, not know about the availability of goods in the market. The producer must sell his goods in order to remain in business. Advertisement is an easy way to inform the large number of customers about the goods. This can be done through TV, newspapers, radio etc.

(h) Communication

The producers, wholesalers, retailers, transporters, banks, warehouse-keepers, advertisers and consumers live at different place. This post office, telephone and other similar media is very useful for promotion of trade and industry.

FACTORS OF PRODUCTION:

Factors of production are the resources or inputs that are required for the production of goods or services. The components of factors of production are:

i. Labor
ii. Capital
iii. Entrepreneurship
iv. Physical resources

i. Labor

Labor is the most important factor of production. Labor are the people who work in an organization and provide physical and mental efforts in production process.

ii. Capital

Capital is the amount or property which is invested by investor(s) in the business to produce goods and services.

iii. Entrepreneurship

Entrepreneurship is the management ability of the people to run the business.
It involves:-
(a) Identification of opportunity
(b) Allocation of resources,
(c) and creation of wealth by assuming the necessary risk.

iv. Physical resources

Physical resources include land, natural resources, building, vehicles and machinery that are used in the production process.

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ECONOMIC SYSTEM

Economic system is defined a system for allocation of resources. Commonly, it has following two types as below:

a) Planned economy
b) Free market economy

a) Planned economy

In planned economy the government decides that how many resources are to be generated and how these resources will be allocated. In this system government determines the key economic functions. How the factor of production will be utilized and how much will be the economy's output is decided by the government.

b) Free market economy

In free market economy demand and supply in the market determines the allocation for resources with little or no government intervention. In this economy market mechanism decides the key economic functions (what, for whom and how to produce). Free market economy increases the efficiency and productivity, firms and organizations with better quality products and low costs (produced efficiently) will survive in the market.

ENVIRONMENTAL FORCES

Forces that influence the performance of organizations can be divided into two categories as under:

1) External Factors (External Environment)
2) Internal Factors (Internal Environment)

External Factors:

External factors are the factors which are found outside the organization. These factors are not controllable by the organization. External factors bring the opportunity or threat for the organization. External factors include technological factors, economy of the country, political and legal factors, socio-cultural factors and demographic factors.

Internal Factors:

Internal factors are the factors within the organization that affect the performance of business. Strengths or weaknesses of the organization are the internal factors. Strengths may include experienced and trained workers, strong financial resources, strong brand name, good reputation and organizational culture and weaknesses of an organization may

include lack of sufficient capital, weak brand name, poor reputation, inexperienced and untrained workers.

SWOT Analysis:

SWOT analysis is an analysis of an organization's strengths, weaknesses, opportunities, and threats. Strengths and weaknesses are the part of internal environment and opportunities and threats are the part of external environment. SWOT analysis helps an organization to focus on strengths, to reduce weaknesses, to exploit the opportunities and to neutralize threats.

Strengths:

Strengths are the capabilities of an organization that enable it to perform efficiently. Strengths may include skilled manpower, strong financial resources, strong brand name, good reputation and organizational culture, well established distribution network etc.

Weaknesses:

Weaknesses are the internal characteristics of an organization that prohibit it to perform well. Organization's weakness may include lack of sufficient capital, weak brand name, poor reputation, unskilled manpower, inefficient management, poor distribution channels etc.

Opportunities:

Opportunities are the external environmental factors that may bring the prospects for growth and higher performance. For example: technological advancement, market developments, changes in lifestyle, changes in government regulation related to your business.

Threats:

Threats are the external environmental factors that may undermine the organization's performance. For example, new regulation that may affect the business, changes in consumer tastes, if an organization does not adopt new developed and modern technology it will be become a threat for the organization.

QUALITIES OF A GOOD BUSINESSMAN

The modern business is very complex. Due to scientific and technological development, changes are taking place very fast in every business field. Following are the basic personal skills or qualities which a good businessman must possess:

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1. Ability to Plan

A businessman, if he wants to shine in business, must have the ability to plan and organize it.

2. Activator

He had to activate his workers. If he activates his workers then this is good for business.

3. Bold or Courage

Courage is a great asset of a businessman. A good businessman should be a courageous and bold person. May be his some angry decisions gave him loss in future, so he has to be courageous and be bold.

4. Cooperation

A good businessman should have to cooperate with his workers. With the help of cooperation with his workers he can run his business well.

5. Courtesy

Courtesy is to business what oil is to machinery. It costs nothing but wins a reputation. So businessman has to win the heart of everyone with his polite manners.

6. Decision Making

A good businessman should be a good and quick decision maker. Quick decision of a businessman is an important asset of businessman. And businessman has to know that his quick decision will give him benefit or not.

7. Discipline

A good businessman should have to care about the discipline of the business. If he doesn't care about the discipline then nobody (who concern to his business) obeys the discipline and business can't go well.

8. Evaluator

A businessman has to check himself that how he is working. This thing can make the business good in progress.

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9. Foresight

A good businessman must have the quality of foresight. He must keep in touch with the business world. He should move about and see what is going on for he has to estimate new wants and new inventions for creating fresh demands.

10. Honesty

A businessman should be honest in dealing with others. Honesty of a businessman helps him in his business.

11. Hardworking

A businessman must be hard working. Without have working no business can be successful. If the owner is not hard working then other workers of the business can't be hardworking.

12. Initiation

The business world is moving at a very fast speed. A businessman should have the ability to take initiative by producing new things and new methods of marketing the products and services.

13. Knowledge

A good businessman should have knowledge of his business. It should be supplemented by the knowledge of trade, finance, marketing, income tax, etc.

14. Leadership

Leaders are not made, they are born; but the businessman has to get some qualities of a leader. With the help of leadership a businessman can control his business and workers.

15. Negotiator

If a businessman is a good negotiator, then he can run his business well, because without good communication he can't impress his consumer.

16. Personality

A businessman should have a graceful personality because it can impress his customers. If his personality is not good or not graceful then his business can't go well.

17. Quick Decisions

A businessman has decision-making power. He decides on all matters in the best interest of the business. A businessman must have technical knowledge, judgment power and intelligence to take sound and quick decisions.

18. Responsibility

A successful businessman should have to realize his responsibilities. If he doesn't do his duty then his business can't go well.

19. Reviewer

A good businessman has to review his mistakes, which he committed in the past, and try his best never to do it again in his life.

20. Sound Financial Management

Sound financial management is an important factor for successful business. Without it no business can go well. So a business must possess good financial position.

21. Self-Confidence

A good businessman should have self-confidence. Without self-confidence he can't make quick decisions and business suffers a lot.

22. Tact

A good businessman should be a tactful person. He has to handle persons or his customers very tactfully. It helps to earn profit in future.

23. Technical Skills

A good businessman must have the knowledge about technical skills. He should have complete command of specialized knowledge in his field, which he has to perform.

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Lecture 2

ORGANIZATIONAL BOUNDARIES AND ENVIRONMENTS

All businesses, regardless of their size, location, or mission, operate within a larger external environment.

External environment:

Everything outside an organization's boundaries that might affect it.

a. **Organizational Boundaries**: that which separates the organization from its environment. Today boundaries are becoming increasingly complicated and hard to pin down.

b. **Multiple Environments**: include economic conditions, technology, political-legal considerations, social issues, the global environment, issues of ethical and social responsibility, the business environment itself, and numerous other emerging challenges and opportunities.

THE ECONOMIC ENVIRONMENT

Economic environment—Conditions of the economic system in which an organization operates.

c.

i. Aggregate Output and Standard of Living

1. **Business cycle**—Pattern of short-term ups and downs (expansions and contractions) in an economy

2. **Aggregate output**—Total quantity of goods and services produced by an economic system during a given period

3. **Standard of living**—Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system

ii. Gross Domestic Product

Gross domestic product (GDP)—Total value of all goods and services produced within a given period by a national economy through domestic factors of production

Gross national product (GNP)—Total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located

1. **Real Growth Rate**—the growth rate of GDP adjusted for inflation and changes in the value of the country's currency.

2. **GDP per Capita**—GDP per person and reflects the standard of living.

3. **Real GDP**—GDP calculated to account for changes in currency values and price changes **versus Nominal GDP**, GDP measured in current dollars or with all components valued at current prices.

4. **Purchasing Power Parity**—Principle that exchange rates are set so that the prices of similar products in different countries are about the same.

iii. **Productivity**—Measure of economic growth that compares how much a system produces with the resources needed to produce it.

There are a number of factors which can inhibit the growth of an economic system including:

1. **Balance of Trade**—the economic value of all the products that a country exports minus the economic value of imported products.

   a. **Trade Surplus** —A positive balance of trade results when a country exports (sells to other countries) more than it imports (buys from other countries).

   b. **Trade Deficit**—A negative balance of trade results when a country imports more than it exports.

   c. **National Debt**—Amount of money that a government owes its creditors.

d. Economic Stability

Condition in an economic system in which the amount of money available and the quantity of goods and services produced are growing at about the same rate.

Factors which threaten stability include:

i. **Inflation**—Occurrence of widespread price increases throughout an economic system

Measuring Inflation: **The CPI**—Measure of the prices of typical products purchased by consumers living in urban areas

ii. **Unemployment**—Level of joblessness among people actively seeking work in an economic system. Unemployment may be a symptom of economic downturns.

1. Recessions and Depressions
   Recession—Period during which aggregate output, as measured by real GDP, declines

2. **Depression**—Particularly severe and long-lasting recession

e. Managing the Economy

i. **Fiscal policies**—Government economic policies that determine how the government collects and spends its revenues

ii. **Monetary policies**—Government economic policies that determine the size of a nation's monetary supply

iii. **Stabilization policy**—Government policy, embracing both fiscal and monetary policies, whose goal is to smooth out fluctuations in output and unemployment and to stabilize prices

iv. Three Major Forces

1. The information revolution will continue to enhance productivity across all sectors of the economy, most notably in such information-dependent industries as finance, media, and wholesale and retail trade.

2. New technological breakthroughs in areas such as biotechnology will create entirely new industries.

3. Increasing globalization will create much larger markets while also fostering tougher competition among global businesses; as a result, companies will need to focus even more on innovation and cost cutting.

v. **Projected Trends and Patterns**—there are a number of projections for the near future. Sudden changes in environmental factors, such as war, can alter these projections.

DEMOGRAPHIC ENVIRONMENT

Demographic environment is the study of characteristics of population such as size of population, population growth rate and population distribution on the basis of gender, age, income level, level of education, geographic location, family structure, etc. these factors influence the size of demand, buying pattern, liking and attitude of customers. Demographic factors are important to managers as the changes in these demographic factors affect the businessmen' planning.

Total population determines the size of market, huge population size and growth rate brings a large number of customers, more consumption and more opportunities for business, cheap and abundant labor supply will also be available. It affects the business positively. Another demographic factor that affects the business is education level. If education level of public is high then the supply of skilled labor will increase and supply of unskilled labor will decrease. In case of low education level supply of skilled labor will decrease. Education level also affects the buying pattern of customers; if they are highly educated then the business enterprise must be careful about the quality of its products and services. In the same way, gender and age composition, income level, geographical location etc are also important demographic factors.

POLITICAL AND LEGAL ENVIRONMENT

Legal and political factors include legal and governmental system organizations operate. Political and legal environment strongly affect the business decisions. Aspects which are considered in political and legal environment are the preferences and priorities of the government, political stability in the country, laws/rules and regulations, taxation policy and attitude of the government towards business.
Government decides that what sort of economic activities the country should have, in which areas the private sector should be encouraged, also defines the areas where foreign companies may enter. Laws and regulations influence the decision making and limit the businesses for the country's wellbeing.

THE TECHNOLOGICAL ENVIRONMENT

Technology has a variety of meanings, but as applied to the environment of business, it generally includes all the ways by which firms create value for their constituents.

f. **Product and Service Technologies**—the technologies employed for creating products (both physical goods and services) for customers. Although many people associate technology with manufacturing, it is also a significant force in the service sector.

g. **Business Process Technologies**—are used not so much to create products as to improve a firm's performance of internal operations (such as accounting, managing information flows, creating activity reports, and so forth). They also help create better relationships with external constituents, such as suppliers and customers.

    i. **Enterprise Resource Planning**—Large-scale information system for organizing and managing a firm's processes across product lines, departments, and geographic locations

SOCIO-CULTURAL ENVIRONMENT

Social and cultural factors affect the working of business enterprises significantly. Socio-cultural factors include the societal values, attitude, customs, religion; beliefs, habits and preferences etc. socio-cultural trends have considerable effect on the demand for products e.g., dominant religion of any society has influence over the buying behavior of that society.

NATURAL ENVIRONMENT

Geographical and ecological factors such as changes in weather and climate, earthquake, floods, storms and natural resources are considered in natural environment. Natural factors are not in control of any business unit however while considering natural factors managers will develop their product, production planning, marketing planning etc. For example, weather conditions influence the buying pattern, demand for heaters; sweater and woolen cloths will be more in winter while in summer there will be more demand for air conditioners, fans and cold drinks etc.

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Lecture 3

BUSINESS ORGANIZATION & SOLE PROPRIETORSHIP

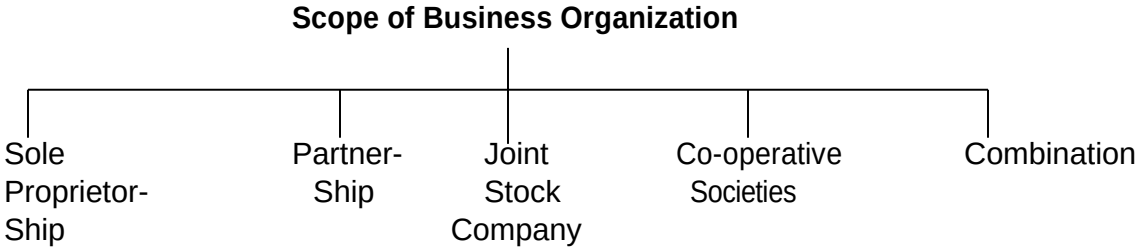
Business organization is an act of grouping activities into effective cooperation to obtain the objective of the business.

In the words of L. H. Haney

> *"It is more or less independent complex of land, labour and capital, organized and directed for productive purposes but entrepreneurial ability."*

SCOPE OF BUSINESS ORGANIZATION

The scope of business organization can be defined as under:



1. SOLE PROPRIETORSHIP

According to D.W.T. Stafford

> *"It is the simplest form of business organization, which is owned and controlled by one man"*

Sole proprietorship is the oldest form of business organization which is owned and controlled by one person. In this business, one man invests his capital himself. He is all in all in doing his business. He enjoys the whole of the profit. The features of sole proprietorship are:

- Easy Formation
- Unlimited Liability
- Ownership
- Profit
- Management
- Easy Dissolution

2. PARTNERSHIP

According to Partnership Act, 1932

"Partnership is 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."

Partnership means a lawful business owned by two or more persons. The profit of the business shared by the partners in agreed ratio. The liability of each partner is unlimited. Small and medium size business activities are performed under this organization. It has the following features:

- Legal Entity
- Profit and Loss Distribution
- Unlimited Liability
- Transfer of Rights
- Management
- Number of Partners

3. JOINT STOCK COMPANY

According to S. E. Thomas

"A company is an incorporated association of persons formed usually for the pursuit of some commercial purposes"

A joint stock company is a voluntary association of persons created by law. It has a separate legal entity apart from its members. It can sue and be sued in its name. In the joint stock company, the work of organization begins before its incorporation by promoters and it continues after incorporation. The joint stock company has the following feature:

- Creation of Law
- Separate Legal Entity
- Limited Liability
- Transferability of shares
- Number of Members
- Common Seal

4. COOPERATIVE SOCIETIES

According to Herrik

"Cooperation is an action of persons voluntarily united for utilizing reciprocally their own forces, resources or both under mutual management for their common profit or loss."

Cooperative Societies are formed for the help of poor people. It is formed by economically weak persons of the society. In this form of organization, all members enjoy equal rights of ownership. The features of cooperative society are as under:-

- Easy Formation
- Protection of Mutual Interest
- Limited Liability
- Equal Distribution of Wealth
- Equal Rights

5. COMBINATION

According to J. L. Hanson

"Combination is the association, temporary or permanent, of two or more firms."

Business combinations are formed when several business concern undertaking units are combined to carry on business together for achieving the economic benefits. The combination among the firms may be temporary or permanent. The salient features of business combination are:

- Economy in Production
- Effective Management
- Division of Labour
- Destructive Competition

IMPORTANCE OF BUSINESS ORGANIZATION

The following points elaborate the role of business organizations:

1. Distribution

Another benefit of business organization is that it solves the problems of marketing and distribution like buying, selling, transporting, storage and grading, etc.

2. Feedback

An organization makes possible to take decisions about production after getting the feedback from markets.

3. Finance Management

It also guides the businessman that how he should meet his financial needs which is very beneficial for making progress in business.

4. Fixing of Responsibilities

It also fixes the responsibilities of each individual. It introduces the scheme of internal check. In this way chances of errors and frauds are reduced.

5. Minimum Cost

It helps in attaining the goals and objectives of minimum cost in the business.

6. Minimum Wastage

It reduces the wastage of raw material and other expenditures. In this way the rate of profit is increased.

7. Product Growth

Business organization is very useful for the product growth. It increases the efficiency of labor.

8. Quick Decision

Business organization makes it easy to take quick decisions.

9. Recognition Problems

Business organization makes it easy to recognize the problems in business and their solutions.

10. Reduces the Cost

Business organization is useful in reducing the cost of production as it helps in the efficient use of factors of production.

11. Secretariat Functions

It also guides the businessman about the best way of performing the secretarial functions.

12. Skilled Salesmen

It is also a benefit of the business organization that it provides the skilled salesmen for satisfying various needs of the customers.

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13. Transportation

It is another benefit is that it guides the businessman that what type of transport he should utilize to increase the sales volume of the product.

PRE-REQUISITES OF BUSINESS

Following are the main pre-requisites of a successful business:

1. Selection

The first and most important decision before starting a new business is its selection. If once a business is established, it becomes difficult to change it. One should make a detailed investigation in the selection of business.

2. Feasibility Report

A person should prepare the feasibility report about the business to be started. This report will provide the facts and figures whether business is profitable or not.

3. Nature of Business

There are various types of business like manufacturing, trading and services. The businessman should decide that what type of business he would like to start.

4. Demand of Product

The businessman also keeps in view the demand of the product which he wants to sell. If the demand is inelastic, the chances of success are bright. If the demand of a product is irregular, seasonal and uncertain, such business should not be started.

5. Size of Business

The Size of business means the scale of business. The size of business depends upon the demand of commodity in the market and organizational ability of entrepreneur. The determination of size of business is an important decision of a person.

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6. Availability of Capital

Availability of capital is an important factor in the business. Capital is required for the purchase of land, machines, wages and raw materials. A businessman must decide that how much capital he can arrange.

7. Business Location

A businessman has to select the place where he wants to start his business. He should select that place where raw material, cheap labour and transportation facilities are available. He should also check the location of business competitors.

8. Government Policy

The businessman should also carefully consider the policies of government before starting a new business. Some areas are declared as 'tax free zones' and for some particular businesses the loan is provided without any interest.

9. Availability of Raw Material

Availability of Raw material is essential to produce the goods at low cost. Sometimes the raw material is to be imported which may create problem for him. So a businessman must keep this factor in mind.

10. Availability of Machines

Availability of new machines is also an important factor for a business. A businessman must see whether these machines are easily available inside the country or not. If these are to be imported then it may create the problems for him.

11. Availability of Labor

Skilled and efficient labor is essential to run the business in profit. But if efficient and skilled labor is not available where business is going to be started then it will not be profitable.

12. Means of Transportation

Quick and cheap means of transportation are essential for low cost of production and high profit rate. A businessman must keep in view this factor.

13. Power Resources

There must be availability of power resources like water, oil, coal and electricity. So businessman must keep in view this factor.

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14. Hiring Employees

A businessman must hire the efficient and competent employees in the business. The proper training must be given to employees.

15. Product Pricing

A businessman must decide the price of his product. In the beginning the price must be low. He must keep in view that whether he will cover cost of his product and other expenses with such price.

FUNCTIONS OF BUSINESS

Following are the main functions of a business:

1. Production

Production of goods and services is the first main function of the business. The production must be regular. The goods and services must be produced in such a way which can satisfy human needs.

2. Sales

The sale is another important function of the business. Sales are of two types:

- Cash sales
- Credit sales

The sale must be regular and at reasonable price. It is very difficult job because there is hard competition in each market.

3. Finance

It is also an important function of the business to secure finance. Finance is required for establishment and expansion of business. There are two sources of raising funds:

(a) Owner's Capital
(b) Borrowed Funds

4. Management Function

"To do things efficiently and effectively" is known as management. The functions of management are:

- Planning
- Organizing
- Leading
- Controlling
- Staffing

The management also provides direction for all subordinates.

5. Innovation

In this era of competition, for the survival of business, innovation is essential. The businessman must try to find new techniques of production because the business may not sell present output in future.

6. Accounting

Another function of the business is to maintain its records properly. To record the business activities is called accounting. With proper accounts, the owner can know the actual performance of business and chances of fraud are reduced.

7. Marketing

According to Harry Henser

> *"Marketing involves the design of the products acceptable by the consumers and the conduct of those activities which facilitate the transfer of ownership between seller and buyer."*

Through marketing, goods are moved from producers to consumers. It is an important function of the business. This function includes buying, selling, transportation, product designing and storage, etc. The concept of marketing mix is very important in marketing. It includes four Ps:

- Product
- Price
- Place
- Promotion

8. Quality Improvement

Quality of product must be improved to increase the sale. If quality of product is poor then business may suffer a loss.

9. Motivation

Motivation is very essential for increasing the efficiency of employees. Motivation encourages the employees to give their best performance.

10. Research

Research is also an important function of any business. Research is a search for new knowledge. By research, business becomes able to produce improved and new goods. The research is of two types:

- Basic Research
- Applied Research

11. Public Relation

It is very important function to make friendly relations with public, in this way sales volume is increased.

SOLE PROPRIETORSHIP

Sole Proprietorship and its Characteristics

Sole proprietorship is a simple and oldest form of business organization. Its formation does not require any complicated legal provision like registration etc. It is a small-scale work, as it is owned and controlled by one person, and operated for his profit. It is also known as "sole ownership", "individual partnership" and "single proprietorship".

DEFINITION

Following are some important definition of sole proprietorship:

1. According to D.W.T. Staffod

"It is the simplest form of business organization, which is owned and controlled by one man."

2. According to G. Baker

"Sole proprietorship is a business operated by one person to earn profit."

CHARACTERISTICS

Following are the main characteristics of sole proprietorship:

1. Capital

In sole proprietorship, the capital is normally provided by the owner himself. However, if additional capital is required, such capital can be increased by borrowing.

2. Easy Dissolution

The sole proprietorship can be easily dissolved, as there are no legal formalities involved in it.

3. Easily Transferable

Such type of business can easily be transferred to another person without any restriction.

4. Freedom of Action

In sole proprietorship, single owner is the sole master of the business; therefore, he has full freedom to take action or decision.

5. Formation

Formation of sole proprietorship business is easy as compared to other business, because it dos not require any kind of legal formality like registration etc.

6. Legal Entity

In sole proprietorship, the business has no separate legal entity apart from the sole traders.

7. Legal Restriction

There are no legal restrictions for sole traders to set up the business. But there may be legal restrictions for setting up a particular type of business.

8. Limited Life

The continuity of sole proprietorship is based on good health, or life or death of the sole owner.

9. Management

In sole proprietorship, the control of management of the business lies with the sole owner.

10. Ownership

The ownership of business in sole proprietorship is owned by one person.

11. Profit

The single owner bears full risk of business, therefore, he gets total benefit of the business as well as total loss.

12. Size

The size of business is usually small. The limited ability and capital do not allow the expansion of business.

13. Success of Business

The success and goodwill of the sole proprietorship is totally dependent upon the ability of the sole owner.

14. Secrecy

A sole proprietorship can easily maintain the secrecy of his business.

15. Unlimited Liability

A sole proprietor has unlimited liability. In case of insolvency of business, even the personal assets are used by the owner to pay off the debts and other liabilities.

ADVANTAGES OF SOLE PROPRIETORSHIP

Following are the advantages of sole proprietorship:

1. Contacted with the Customers

In sole proprietorship a businessman has direct contact with the customer and keeps in mind the like and dislikes of the public while producing his products.

2. Direct Relationship with Workers

In sole proprietorship a businessman has direct relationship with workers. He can better understand their problems and then tries to solve them.

3. Easy Formation

Its formation is very easy because there are not legal restrictions required like registration etc.

4. Easy Dissolution

Its dissolution is very simple because there are no legal restrictions required for its dissolution and it can be dissolved at any time.

5. Easy Transfer of Ownership

A sole proprietorship can easily be transferred to other persons because of no legal restriction involved.

6. Entire Profit

Sole proprietorship is the only form of business organization where the owner enjoys 100% profit.

7. Entire Control

In sole proprietorship the entire control of the business is in the hands of one person. He can do whatever he likes.

8. Flexibility

There is great flexibility in sole proprietorship. Business policies can easily be changed according to the market conditions and demand of people.

9. Honesty

The sole master of the business performs his functions honesty and effitively to make the business successful.

10. Independence

It is an independent form of business organization and there is no interference of any other person.

11. Personal Satisfaction

As all the Business activities are accomplished under the supervision of sole owner, so he feels personal satisfaction that the business is running smoothly.

12. Prime Credit Standing

A sole proprietor can borrow money more easily because of unlimited liability.

13. Quick Decisions

Sole proprietor can make quick decisions for the development and welfare of his business and in this way can save his time.

14. Personal Interest

A sole proprietor5 takes keen intere4st in the affairs of business because he alone is responsible for profit and loss.

15. Saving in Interest on Borrowed Capital

Sometimes, a sole proprietor borrows money to increase his capital, from his relatives, without interest.

16. Saving in Legal Expenses

As there are no legal restrictions for the formation of sole proprietorship so it helps in increasing savings as legal expenses are reduced.

17. Saving in Management Expenses

The owner of the business himself performs most of the functions so it reduces the management expenses.

18. Saving in Taxes

The tax rates are very low on sole proprietorship because it is imposed on the income of single person.

19. Secrecy

It is an important factor for the development of business. A sole trader can easily maintain the secrecy about the techniques of production and profit.

20. Social Benefits

It is helpful in solving many social problems like unemployment etc.

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DISADVANTAGES OF SOLE PROPRIETORSHIP

The disadvantages of sole proprietorship can be narrated as under:

1. Continuity

The continuity of sole proprietorship depends upon the health and life of the owner. In case of death of the owner the business no longer continues.

2. Chances of Fraud

In sole proprietorship, proper records are not maintained. This increases the chances of errors and frauds for dishonest workers.

3. Expansion Difficulty

In sole proprietorship, it is very difficult to expand the business because of the limited life of proprietor and limited capital.

4. Lack of Advertisement

As the sources of single person are limited so he cannot bear the expense of advertisement, which is also a major disadvantage.

5. Lack of Capital

Generally, one-man resources are limited, so due to financial problems he cannot expand his business.

6. Lack of Inspection and Audit

In sole proprietorship there is lack of inspection and audit, which increases the chances of fraud and illegal operations.

7. Lack of Innovation

Due to fear of suffering from loss, a sole proprietor does not use new methods of production. So, there is no invention or innovation.

8. Lack of Public Confidence

The public shows less confidence in this type of business organization because there is no legal registration to control and wind up the business.

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9. Lack of Skilled Persons

One person cannot hire the ser4vices of qualified and skilled persons because he has limited resources. It is also a great disadvantage.

10. Management Difficulty

One person cannot perform all types of duties effectively. If he is a good accountant, he may not be a good administrator. Due to this, business suffers a loss.

11. Much Strain on Health

In this type of business organization there is much strain on the health of the businessman because he alone handles all sorts of activities.

12. Not Durable

This type of business organization is not durable because its existence depends upon the life of sole proprietor.

13. Permanent Existence

In this type of business there is a need of permanent existence of a businessman. In case of absence from business for few days may become the cause of loss.

14. Risk of Careless Drawings

In sole proprietorship, owner himself is a boss. There is no question to his decisions or actions. So, there is a risk of careless drawings by him.

15. Risk of Loss

In case of sole proprietorship a single person bears all the losses, whereas in the case of partnership or Joint Stock Company all the partners or members bear the loss.

16. Unlimited Liability

In sole proprietorship there is unlimited liability. It means, in case of loss personal property of the owner can be sold to satisfy the claimants. It is a great disadvantage.

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CONCLUSION

From the above-mentioned detail, we come to the point that despite the above disadvantages, sole proprietorship is an important form of business organization. This is due to the fact that its formation is very easy and due to unlimited liability the owner takes great care and interest in the business, because in case of loss, he is personally responsible. As he enjoys entire profit, this factor also encourages him to work with great efficiency which promotes his business.

Lecture 4

PARTNERSHIP

Partnership and its Characteristics

Partnership is the second stage in the evolution of forms of business organization. It means the association of two or more persons to carry on as co-owners, i.e. a business for profit. The persons who constitute this organization are individually termed as partners and collectively known as firm; and the name under which their business is conducted is called "The Firm Name".

In ordinary business the number of partners should not exceed 20, but in case of banking business it must nor exceed 10. This type of business organization is very popular in Pakistan.

DEFINITION

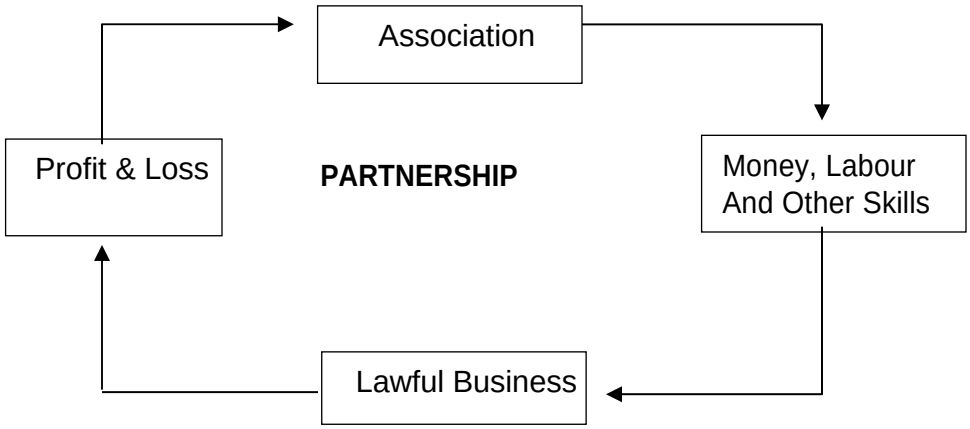
1. According to Section 4 of Partnership Act, 1932

"Partnership is 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."

2. According to Mr. Kent

"A contract of two or more competent persons to place their money, efforts, labour and skills, some or all of them, in a lawful commerce or business and to divide the profits and bear the losses in certain proportion."

Structural Diagram:



CHARACTERISTICS

The main characteristics of partnership may be narrated as under:

1. Agreement

Agreement is necessary for partnership. Partnership agreement may be written or oral. It is better that the agreement is in written form to settle the disputes.

2. Audit

If partnership is not registered, it has no legal entity. So there is no restriction for the audit of accounts.

3. Agent

In partnership every partner acts as an agent of another partner.

4. Business

Partnership is a business unit and a business is always for profit. It must not include club or charitable trusts, set up for welfare.

5. Cooperation

In partnership mutual cooperation and mutual confidence is an important factor. Partnership cannot take place with cooperation.

6. Dissolution

Partnership is a temporary form of business. It is dissolved if a partner leaves, dies or declared bankrupt.

7. Legal Entity

If partnership is not registered, it has no legal entity. Moreover, partnership has no separate legal entity from its members and vice versa.

8. Management

In partnership all the partners can take part or participate in the activities of business management. Sometimes, only a few persons are allowed to manage the business affairs.

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9. Number of Partners

In partnership there should be at least two partners. But in ordinary business the partners must not exceed 20 and in case of banking business it should not exceed 10.

10. Object

Only that business is considered as partnership, which is established to earn profit.

11. Partnership Act

In Pakistan, all partnership businesses are running under Partnership Act, 1932.

12. Payment of Tax

In partnership, every partner pays the tax on his share of profit, personally or individually.

13. Profit and Loss Distribution

The distribution of profit and loss among the partners is done according to their agreement.

14. Registration

Many problems are created in case of unregistered firm. So, to avoid these problems partnership firm must be registered.

15. Relationship

Partnership business can be carried on by all partners or any of them can do the business for all.

16. Share in Capital

According to the agreement, every partner contributes his share of capital. Some partners provide only skills and ability to become a partner of business and earn profit.

17. Transfer of Rights

In partnership no partner can transfer his shares or rights to another person, without the consent of all partners.

18. Unlimited Liability

In partnership the liability of each partner is unlimited. In case of loss, the private property of the partners is also used up to pay the business debts.

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ADVANTAGES OF PARTNERSHIP

Following are the advantages of partnership:

1. Simplicity in Formation

This type of business of organization can be formed easily without any complex legal formalities. Two or more persons can start the business at any time. Its registration is also very easy.

2. Simplicity in Dissolution

Partnership Business can be dissolved at any time because of no legal restrictions. Its dissolution is easy as compared to Joint Stock Company.

3. Sufficient Capital

Partnership can collect more capital in the business by the joint efforts of the partners as compared to sole proprietorship.

4. Skilled Workers

As there is sufficient capital so a firm is in a better position to hire the services of qualified and skilled workers.

5. Sense of Responsibility

As there is unlimited liability in case of partnership, so every partner performs his duty honestly.

6. Satisfaction of Partners

In this type of business organization each partner is satisfied with the business because he can take part in the management of the business.

7. Secrecy

In partnership it is not compulsory to publish the accounts. So, the business secrecy remains within partners. This factor is very helpful for successful operation of the business.

8. Social Benefit

Two or more partners with their resources can build a strong business. This factor is very helpful in solving social problems like unemployment.

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9. Expansion of Business

In this type of business organization, it is very easy to expand business volume by admitting new partners and can borrow money easily.

10. Flexibility

It is flexible business and partners can change their business policies with the mutual consultation at any time.

11. Tax Facility

Every partner pays tax individually. So, a firm is in a better position as compared to Joint Stock Company.

12. Public Factor

Public shows more confidence in partnership as compared to sole proprietorship. If a firm is registered, people feel no risk in creating relations with such business.

13. Prime Credit Standing

The liabilities of partners are unlimited, so the banks and other financial institutions provide them credit easily.

14. Minority Protection

In partnership all policy matters are decided with consent of each partner. This gives protection to minority partners.

15. Moral Promotion

Partnership is the best business for small investors. It promotes moral courage of partners.

16. Distribution of Work

There is distribution of work among the partners according to their ability and experience. This increases the efficiency of a firm.

17. Combined Abilities

Every partner possesses different ability, which helps in running the business effectively, when combined together.

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18. Absence of Fraud

In partnership each partner can look after the business activities. He can check the accounts. So, there is no risk of fraud.

DISADVANTAGES OF PARTNERSHIP

The disadvantages of partnership are enumerated one by one as under:

1. Unlimited Liability

It is the main disadvantage of partnership. It means in case of loss, personal property of the partners can be sold to pay off the firm's debts.

2. Limited Life of Firm

The life of this type of business organization is very limited. It may come to an end if any partner dies or new partner enters into business.

3. Limited Capital

No doubt, in partnership, capital, is greater as compared to sole proprietorship, but it is small as compared to Joint Stock Company. So, a business cannot be expanded on a large scale.

4. Limited Abilities

As financial resources of partnership are limited as compared to Joint Stock Company, so it is not possible to engage the services of higher technical and qualified persons. This causes the failure of business, sooner or later.

5. Limited number of Partners

In partnership, the number of partners is limited, so the resources are also limited. That why business can not expand on large scale.

6. Legal Defects

There are no effective rules and regulations to control the partnership activities. So, it cannot handle large-scale production.

7. Lack of Interest

Partners do not take interest in the business activities due to limited share in profit and limited chances of growth of business.

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8. Lack of Public Confidence

As there is no need by law to publish accounts in partnership, so people lose confidence and avoid dealing and entering into contract with such firm.

9. Lack of Prompt Decision

In partnership all decisions are made by mutual consultation. Sometimes, delay in decisions becomes the cause of loss.

10. Lack of Secrecy

In case of misunderstandings and disputes among the partners, business secrets can be revealed.

11. Chances of Dispute among Partners

In partnership there are much chances of dispute among the partners because all the partners are not of equal mind.

12. Expansion Problem

Partnership business may not be expanded due to limited number of partners, limited capital and unlimited liability.

13. Frozen Investment

It is easy to invest money in partnership but very difficult to withdraw it.

14. Risk of Loss

There is a risk of loss due to less qualified and less experienced people.

15. Transfer of Rights

In partnership no partner can transfer his share without the consent of all other partners.

CONCLUSION

From the above-mentioned findings, we come to this point that despite the above disadvantages, partnership is an important from of business organization. This is because its formation is very easy and due to unlimited liabilities, partners take great interest in business, because in case of loss they are personally responsible.

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PARTNERS

"The individuals who comprise a partnership are known as partners."

KINDS OF PARTNERS

Partners can be classified into different kinds, depending upon their extent of liability, participation in management, share of profits and other facts.

1. Active Partner

A partner who takes active part in the affairs of business and its management is called active partner. He contributes his share in the capital and is liable to pay the obligations of the firm.

2. Secret Partner

A partner who takes active part in the affairs of the business but is unknown to the public as a partner is called secret partner. He is liable to the creditors of the firm.

3. Sleeping Partner

A partner who only contributes is the capital but does not take part in the management of the business is known as sleeping partner. He is liable to pay the obligations of the firm.

4. Silent Partner

A partner who does not take part in the management of business but is known to the public as partner is called silent partner. He is liable to the creditors of the firm.

5. Senior Partner

A partner who invests a large portion of capital in the business is called senior partner. He has a prominent position in the firm due to his experience, skill, energy, age and other facts.

6. Sub-Partner

A partner in a firm can make an agreement with a stranger to share the profits earned by him from the partnership business. A sub-partner is not liable for any debt and can not interfere in the business matters.

7. Junior Partner

A person who has a small investment in the firm and has a limited experience of business is called junior partner.

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8. Major Partner

A major partner is a person who is over 18 years of age. A person is allowed to make contract when he has attained the age of majority.

9. Minor Partner

A person who is minor cannot enter into a valid contract. However, he can become a partner with the consent of all other partners. A minor can share profits of a business but not the losses.

10. Nominal Partner

A partner who neither contributes in capital nor does he take part in the management of the business but allows he name to be used in the business is known as nominal partner. He is individually and jointly liable for the debts of the firm along with other partners.

11. Deceased Partner

A partner whose life has expired is known as deceased partner. The share of capital and profit of such partner is paid to his legal heirs in lump sum or in installment.

12. Limited Partner

A partner whose liabilities are limited to his share in business is called limited partner. He cannot take active part in the management of the firm.

13. Unlimited Partner

A partner whose liabilities are unlimited is known as unlimited partner. He and his personal property both are liable to clear the debts of the firm.

14. Incoming Partner

A person who is newly admitted in the firm with the consent of all the partners is called incoming partner. He is not liable for any act of the firm performed before he became the partner unless he agrees.

15. Retired Partner

A partner who leaves the firm due to certain reasons is known as retired partner or outgoing partner. He is liable to pay all the obligations and debts of the firm incurred before his retirement.

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16. Partner in Profits only

If a partner is entitled to receive certain share of profits and is not held liable for losses is known as partner in profits only. He is not allowed to take part in the management of the business.

17. Quasi Partner

A person, who was the par4tner of a firm but has now retired from active participation in business and has left his capital in the business as a loan, receiving interest on it, is known as quasi partner.

18. Partner by Estoppel

A person who holds himself out as a partner of a firm, before a third party or allows other to do so, though he is not a partner of that firm, is called partner by estoppel or holding out partner. He is not entitled to any right like other partners of the firm. He is not entitled to any right like other partners of the firm. He is personally liable to the third party for the credit given to the firm, on the faith of his representation.

KINDS OF PARTNERSHIP

There are three kinds of partnership which are described as under:

1. Partnership at will
2. Particular partnership
3. Limited partnership

PARTNERSHIP AT WILL

If the partnership is formed for an undefined time, it is called partnership at will. Any partner can dissolve it at any time by giving the notice.

According to Partnership Act, 1932:

"If no provision is made in the agreement regarding the partnership, it is called partnership at will."

Partnership at will may be created under the following circumstances:

1. Indefinite Period

If partnership has been formed for an indefinite period, it is called partnership at will.

2. Existence after Completion of Venture

If partnership has been formed for a particular venture and after completion such venture it remains continue, it becomes a partnership at will.

3. Existence after Expiry of Period

If partnership has been formed for a definite time period, so after the expiry of this period, it becomes partnership at will.

PARTICULAR PARTNERSHIP

If the partnership is formed for a particular object of temporary nature, it is called particular partnership. On completion of a particular venture, it comes to an end. Under this no regular business is done. For example: Partnership for the construction of a building and partnership for producing a film.

LIMITED PARTBNERSHIP

Limited partnership is that in which liabilities of some partners are limited up to the amount of their capitals. In this partnership, there is at least one partner who has unlimited liability.

In Pakistan, this type of partnership is not formed. There is a separate partnership act for it.

MAIN FEATUTRES

Main features of partnership are:

1. Limited Partner

There is at least one partner who has limited liability.

2. Unlimited Partner

There is at least one partner who has unlimited liability.

3. Number of Partners

There are at least two partners or maximum 20 in an ordinary business and not more than 10 in banking business.

4. Admission of New Partner

New partners may be admitted in this partnership without the consent of limited partners but with the consent of unlimited partners.

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5. Registration

The registration of this partnership is compulsory by law.

6. Transferability of Shares

Limited partner can transfer his shares to any other person with the consent of all other partners.

7. Inspection of Books

Limited partner has a right to inspect the books of accounts.

8. Rights of Suggestions

Limited partner has a right to give suggestions to others who manage the business.

9. Participation in Management

A limited partner cannot take part in the management of the business.

10. Withdrawal of Capital

A limited partner cannot withdraw his capital until he remains in partnership business.

11. Separate Legislation

It is enrolled under the Limited Partnership Act, 1907, instead of Partnership Act, 1932.

TERMINATION OF PARTNERSHIP

All forms of partnership under Islamic law may be terminated as:

1. Notice

In all the above forms of partnership each partner has a right to terminate the partnership by giving notice to other partners.

2. Death

Partnership is also terminated on the death of a partner.

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PARTNERSHIP DEED

Partnership deed is a document that contains the terms and conditions of the business.

CONTENTS OF PARTNERSHIP DEED

- Date on which the agreement was made.
- Name of the business
- Nature of the business
    - This clause will cover the scope of the business.
- Names, addresses, telephone Numbers and emails of the partners.
- Capital of the business
- If duration is attached with any business that should clearly be mentioned in the partnership deed.
- Duties of the partners
- Whether any partner is entitled to salary. If yes, how much amount should be given to him as salary
- Profit distribution ratio
- Whether partners are entitled to withdraw money from the business. If yes, procedure of withdrawals should also be written in the partnership deed.
- Arbitration
    - In case of a conflict, how that conflict would be resolved before going to the court.

The partner should read the partnership deed carefully, add as much clauses as possible and never take anything for granted.

RIGHTS OF THE PARTNERS

- Every partner has the right to:

    - Participate in all the affairs of the business.
    - Get his/her share of profit from the business.
    - Leave the partnership according to the terms and conditions of the partnership deed.
    - Claim the salary against his/her services.
    - Participate in the management of the business.

DUTIES OF THE PARTNERS

- Partners have to maintain accounts which describe the true picture of the business.
- Partners should use their powers within limits specified in the partnership deed.
- Partners are responsible to provide accurate information to Government bodies.
- Partners are responsible to pay their share in case of loss to the business.
- It is duty of every partner to obey the decision that has been made in the partnership.
- Partners should not disclose any secret information about the business to any other person.
- It is a moral obligation and legal responsibility of the partners not to use firm's forum to take any advantage without intimating to other partners.

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Lecture 5

JOINT STOCK COMPANY

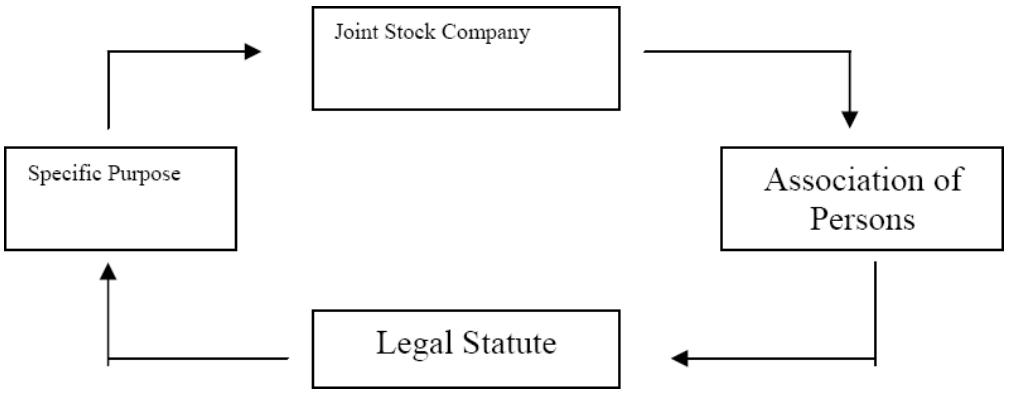
JOINT STOCK COMPANY

Joint Stock Company is the third major form of business organization. It has entirely different organizational structure from sole proprietorship and partnership. There are two advantages of Joint Stock Company. First of all, it enjoys the advantage of increased capital. Secondly, the company offers the protection of limited liability to the investors.
The law relating to Joint Stock Company has been laid in Companies Ordinance, 1984, which came into force on January 1, 1985 in Pakistan.

DEFINITIONS

Following are some important definition of Joint Stock Company:
1. Simple Definition
"A company may be defined as an association of persons for the purpose of making profit."
2. According to Kimball,
"A corporation by nature is an artificial person, created or authorized by a legal statue for some specific purpose."
3. According o S.E. Thomas,
"A company is an incorporated association of persons formed usually for the pursuit of some commercial purpose."

Structural Diagram



FEATURES OF JOINT STOCK COMPANY

Following are the main features of a Joint Stock Company.

1. Creation of Law

A joint stock company is the creation of law or special 'Act' of the state. It is formed and governed by the Companies Ordinance or by a special Act of the legislature. Pakistani companies are incorporated under the Companies Ordinance, 1984.

2. Capital Borrowing

The company can borrow capital in its own name to expand the business.

3. Separate Legal Entity

A Joint Stock Company has separate legal entity, apart from its members. It can sue in a court of law in its own name.

4. Legal Person

A Joint Stock Company, as a legal person, has the usual rights of any person to carry on the business in its own name, to own property, to borrow or lend money and to enter into contract.

5. Long Life

A joint stock company has long life as compared to other forms of business organizations.

6. Limited Liability

The liability of the shareholder is limited to the extent of the face value of the shar4es they hold.

7. Large Scale Business

Because of more members, a company has larger capital as compared to sole trade ship and partnership, which helps in doing business on large scale.

8. Management of Company

The shareholders elect the Board of Directors in the Annual General Meeting and all the management is selected by the Board of Directors.

9. Number of members

In case of private limited company, minimum number of members is [1][two] and maximum is '50'; but in case of public limited company, minimum number is [2][seven] and there is no limit for maximum number.

[1] Now in case of private limited company, minimum number of members is 'one'. (amended by Companies (Amendment) Ordinance, 2002)

[2] Now in case of public limited company, minimum number of members is 'three' (amended by Companies (Amendment) Ordinance, 2002)

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10. Transferability of Shares
A shareholder of a company can easily transfer his shares to other persons. There is no restriction on the purchase and sale of shares.

11. Trade Agreement
A joint stock company enjoys separate existence, so it can join the trade agreements with other firms in its own name.

12. Purchases and Sale of Property
A joint stock company can purchase and sale the property in its own name.

13. Payment of Taxes
A joint stock company pays double taxes to the government.

14. Object
The basic object of a joint stock company is to earn profit. Whole profit is not distributed among the shareholders. Some portion is transferred to General Reserve for emergencies.

15. Government Control
A joint stock company has to comply with the rules of the government. It has to audit its accounts.

16. Easy Mode of Investment
The capital of a joint stock company is divided into the shares of small value. So, every person can purchase these shares according to his income and saving.

17. Common Seal
Since a company is an artificial person created by law, therefore, it cannot sign documents for itself. The common seal, with the name of the company is used as a substitute for its signature.

ADVANTAGES AND DISADVANTAGES OF JOINT STOCK COMPANY

ADVATNAGES OF JOINT STOCK COMPANY

Following are the advantages of Joint Stock Company:

1. Expansion of Business
A joint stock company sells the shares, debentures and bond s on large scale. So, a joint stock company can collect a large amount of capital and can expand its business.

2. Easy Access to Credit
A joint stock company can get a huge amount of capital from banks and other institutions.

3. Easy to Exit
It is easy to separate oneself from a joint stock company by selling his shares.

4. Experts' Services
Because a joint stock company has a strong financial position, so it may hire the service of qualified and technical experts.

5. Employment
Joint stock companies are also playing very important role to provide employment to unemployed persons of the country.

6. Flexibility
There is flexibility in such business organizations.

7. Limited Liability
The liability of the owner is limited. In case of loss, the shareholders are not required to pay anything more than the face value of the shares.

8. Large Scale Production
Availability of huge amounts of capital makes possible for a joint stock company to produce goods on very large scale, at a lower cost.

9. Larger Capital
There is no problem of capital in a joint stock company because there is not limit for maximum number of members. So, a joint stock company collects capital from many people.

10. Long Life
A joint stock company has a permanent life. If one or more than one shareholder die, or sell their shares, it makes no difference to the company. New shareholders take their place.

11. Long-term Projects
A joint stock company has a permanent and long life and huge capital. Such organizations can undertake the projects, which may give profit after many years.

12. Spread of Risk
In joint stock company, the risk of business is spread over a large number of people. Such organizations can undertake risky projects, which other types or organization do not take.

13. Transfer of Shares
In joint stock company, the shares of public limited company can be easily transferred or disposed off. There is no restriction on the transfer of shares in a joint stock company.

14. Increase in Saving and Investment
The shares are in large number but their value is small. The shares of a company may have a value of Rs. 10, Rs. 100 etc. So, rich as well as poor can purchase the shares of a company. This leads to increase in savings and investment.

15. Better Management
Such organization is administered by the elected directors. These directors are generally experienced and qualified in business field. This increases the efficiency of the company.

16. Beneficial Advices
A joint stock company can take beneficial advices from the government at the time of need which reduces the chances of its failure.

17. Public Confidence
A joint stock company is created by law and is supervised by legal authority. So, a joint stock company can easily win the public confidence.

18. Higher Profits
With the help of larger capital and technical skill, the cost of production is reduced, which increases the rate of profit.

DISADVANTAGES OF JOINT STOCK COMPANY
Some of the disadvantages of the joint stock company are given below:

1. Initial Difficulties
It is more difficult to establish a joint stock company as compared to other business organizations.

2. Lack of Interest
Most shareholders become relaxed and leave all the functions to be carried out by the directors. This usually encourages the directors to promote their own interest at the cost of the company.

3. Labor Disputes
In such organization there is no close contact of the workers with the owners or the shareholders. This leads to formation of labor unions to fight against the company's management.

4. Lack of Responsibility
There is lack of personal interest and responsibility in the business of a joint stock company. If any mistake occurs, everybody tries to shift or transfer his responsibilities to other persons and he remains safe.

5. Lack of Secrecy
A joint stock company cannot maintain its secrecy due to the reason that a company has to submit various reports to the registrar.

6. Lack of Freedom
A joint stock company cannot perform its functions freely because it has to submit various reports to the registrar form time to time.

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7. Monopoly
Due to larger size and resources, a joint stock company is in a position to create monopoly. Sometimes a few customers make agreement and exploit the consumers.

8. Speculation
Due to free transfer of shares and limited liability, speculation in the stock market takes place, which may affect the economy of the country.

9. Corruption
The directors of the company do not show the picture of the company to the public and encourage corruption by changing the policies for their personal interest.

10. Complicated Process
The formation of a joint stock company is a complicated process due to many legal formalities.

11. Centralization of Power
In joint stock Company, all the powers have in a few hands and due to this; an ordinary shareholder cannot participate in the affairs of a company.

12. Double Taxes
A joint stock company has to pay double taxes to the government. Firstly, company pays tax on the whole profit of the company. Secondly, every shareholder pays tax on his individual income.

13. Exploitation
Ordinary shareholders do not have full information about the affairs of their company. So, they are exploited.

14. Problem of Large-Scale Production
Since joint stock company produces on large-scale, so many problems arise in the economy.

15. Nepotism
In a joint stock company, the directors of company employ their inefficient and incapable relatives and friends and give key jobs to them. As a result, the company suffers a loss.

16. Late Decision
In joint stock company, the decision making process in time consuming because a meeting is necessary to solve the business problems and matters.

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DIFFERENCE BETWEEN PUBLIC LIMITED COMPANY AND PRIVATE LIMITED COMPANY

1. Number of members
   - For a public limited company, minimum number of members is three.
   - For a private limited company, minimum number of members is one.
2. Issue of shares
   - Public limited company is bound to promote issue of shares to general public through media.
   - There is no such provision for private limited company.
3. Name of the company
   - Public limited companies add the word “Ltd.” with their name.
   - Private limited companies add the word “(Pvt) Ltd.” with their name.
4. Annual report
   - Public limited companies have to present their data to general public.
   - There is no such provision for private limited company.
5. Transfer of shares
   - It is easy to transfer shares in public limited companies.
   - In private limited company, shareholder cannot transfer the shares without the consent of other members.
6. Statutory meeting
   - It is obligatory for the public limited company to hold statutory meeting.
   - There is no such obligation for privet limited company
7. Submission of annual report
   - It is obligatory for the public limited companies to submit their annual report to registrar Corporate Law Authority.
   - It is not necessary for private limited company.

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Lecture 6

JOINT STOCK COMPANY

JOINT STOCK COMPANY

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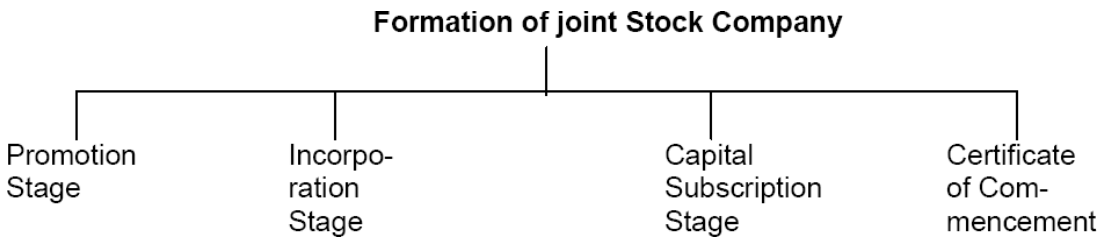
PROCEDURE OF FORMATION OF A JOINT STOCK COMPANY IN PAKISTAN

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Following are the important stages or steps for the formation of a joint stock company:

Formation of joint Stock Company



PROMOTION STAGE

The promoters do the basic work for the start of a commercial or an industrial business on corporate basis. Promotion is the discovery of ideas and organization of funds, property and skill, to run the business for the purpose of earning income. Following steps are involved in the stage of promotion.

1. Idea about Business

Before starting the business, promoters have to think about the nature and production of company's business.

2. Investigation

After deciding the nature of business, promoters go in preliminary investigation and make out plans as regard to the availability of capital, means of transportation, labour, electricity, gas, water etc.

3. Assembling various Factors

After making initial investigation, the promoter starts accumulating various factors in order to assemble them. They arrange license, copyrights, employment of necessary employees etc.

4. Financial Sources

The promoters also decide the capital sources of the company and they work out the ways through which capital can be generated.

5. Preparation of Essential Documents

In addition to above discussed matters, the promoters also prepare following essential documents for the formation of company:

- Memorandum of company
- Articles of company
- Prospectus of company

The promoters carrying out these various activities give the company its physical form in the shape of:

- Giving a name to the company
- Sanctioning of Capital Issue

INCORPORATION STAGE

The second stage for establishment of a company is to get it incorporated.

1. Filling of Document

Following documents are to be submitted by the promoters in the Registrar's office.

(a) Memorandum of Association

A document indicating name, address, objects, authorized capital etc. of a company.

(b) Articles of Association

A document containing laws and rules for internal control and management of a company

(c) List of Directors

A list of the names, occupations, addresses, along with the declaration of directors.

(d) Written Consent of Directors

A written consent showing their willingness to act at directors, to be sent to the Registrar

(e) Declaration of Qualifying Shares

A declaration certificate showing that the directors have taken up qualifying shares and have paid up the money or pay it in near future to the registrar.

(f) Prospectus

Promoters have to file a prospectus with the registrar.

(g) Statutory Declaration

A statutory declaration is to be sent to the Registrar that all legal formalities have been completed.

2. Payment of Registration Fee

For the registration of company, the registration fee is also paid to the Registrar. For example

- Application and documents filing fee
- Registration fee
- Stamp fee on Memorandum and Articles

3. Certificate of Incorporation

If the registrar finds all the documents right and thinks that all formalities have been fulfilled then he issues the certificate of incorporation to promoters.

CAPITAL SUBSCRIPTION STAGE

After getting certificate of incorporation, the next stage is to make arrangement for raising capital. For any kind of business, the company raises its capital through following sources:

- By Issuing Shares
- By Issuing Debentures
- By Savings

CERTIFICATE OF COMMENCEMENT

For the commencement of business, every public company has to obtain the certificate of commencement, which requires the fulfillment of following conditions:

1. Issue of Prospectus

A company has to issue prospectus for selling shares and debentures to public.

2. Allotment of Shares

The shares and debentures are allotted according to the pro visions of memorandum, when applications are received from the public.

3. Minimum Subscription

It is also certified that the shares have been allotted up to an amount, not less than the minimum subscription. After verifying the foregoing documents, the registrar issues a certificate of commencement of business to public company.

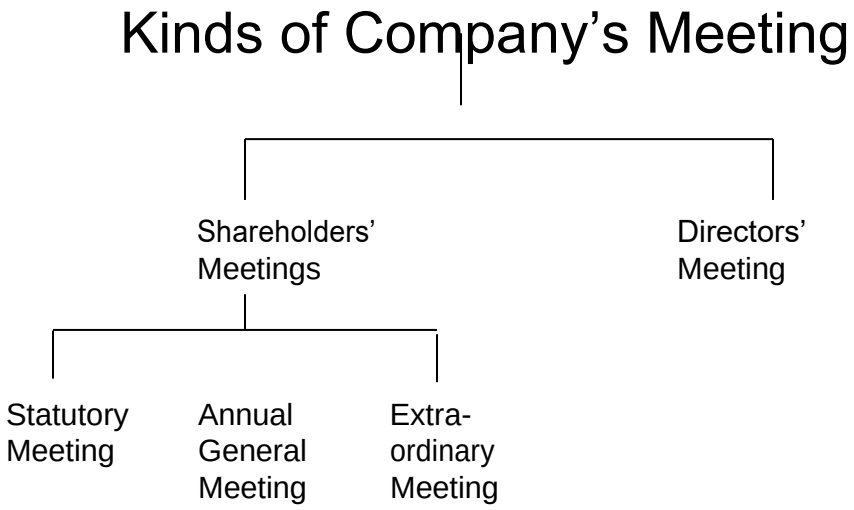
Lecture 7

WHAT IS A "MEETING"

"A gathering of two or more persons by previous notice or by mutual arrangement for the discussion and transaction of some business is called meeting."

SHAREHOLDERS' MEETINGS AND COMPANY'S MEETING

"When the members of a company gather at a certain time and place to discuss the business and managing affairs it is called meeting of the company."



SHAREHOLDERS' MEETINGS

The meetings, which are called to discus the affairs of the company with shareholders, are called shareholders' meetings. These meetings have following three kinds:

STATUTORY MEETING

According to section 157, this meting is held only once in the life of a public company. It is the first meeting of the members of a public limited company. Its main objective is to provide the shareholders with first hand information about the exact position of company's affairs.

1. By whom and when held

Section 77 of the Companies Ordinance, 1984, makes it compulsory for:

- every public company limited by shares,
- every public company limited by guarantee, and
- every private company converted into public company

that statutory meeting must be held within a period of not less than 3 months and not more than 6 months from the date at which the company is entitled to commence business.

2. Objects

Its main object is:

- To provide exact and latest information about the affairs of the company,
- To win the confidence of shareholders of the company, and
- To discuss the statutory report.

3. Notice

At least 21 days before the meeting, a notice must be sent to each shareholder along with the statutory report, by the secretary.

4. How the meeting is called

Under section 157(2) of Companies Ordinance, the directors should send a notice of statutory meeting, to all the shareholders, at least 21 days before the meeting. Directors also send statutory report, duly certified by at least 3 directors – one of them should be the chief executive of the company.

5. Privileges to the members

The members of the company in meeting have the liberty to discuss any matter relating to company's affairs.

STATUTORY REPORT

The report prepared by the secretary, certified by at least 3 directors – one of them being the chief executive of the company is called statutory report. The statutory report contains the following information:

1. Share Allotment

Total number of shares allotted and their consideration for allotment

2. Summary of Cash received

Summary of cash received in respect of shares allotted.

3. Expenses

List of basic expenses of the company

4. Commission

Detail of commission for the sale of shares, if any.

5. Particulars of Contract

The particulars of contract and their modifications, if any,

6. Particulars of Directors

The names, addresses and occupations of the directors and other officers of the company

7. Underwriting Contract

The particulars of underwriting contract, if any.

8. List of Arrears

The arrears, if any, due on calls from director or managing agents

ANNUAL GENERAL MEETING

According to section 158 of Companies Ordinance, every company must hold an annual general meeting of its shareholders, once in a year. The meeting provides an opportunity to evaluate and measure the efficiency of the directors and other officers in carrying out the company's affairs.

1. Notice

A notice of annual general meeting should be sent to the shareholders, at least 21 days before the date of the meeting.

2. Place of Meeting

In case of listed company, annual general meeting should be held in town where the registered office of the company is situated.

3. Role of shareholders

The shareholders can criticize the policies of the directors and other officers and can offer suggestions for their improvement.

4. Occasion

The first meting of this nature must be held within 18 months from the date of incorporation. The gap between two annual general meetings must not be more than 15 months.

5. Objects

The main objective of this meeting is to check that ordinary business is being done according to the rules laid down in articles of association of the company. The directors submit their report about the affairs of the company during the proceeding year. This report is known as director's report. Other objectives are:

- Election of Directors
- Appointment of auditors
- Declaration of dividend
- Fixation of director's, auditor's and managing agent's remuneration
- Auditor's report and balance sheet are presented in the meeting

6. Winding up

According to section 305(b), a company may be wound up by the court if it does not hold the two consecutive annual general meetings.

EXTRAORDINARY GENERAL MEETING

All the general meetings other than annual general meeting and statutory meeting shall be called extraordinary general meetings. There is no time limit for it. It may be held from time to time

1. Right to Call Meeting

(a) The directors of the company may call extraordinary general meeting for doing some urgent business.

(b) This meeting can also be called by the directors, on the request of shareholders, having not less than one tenth of the voting power.

(c) In case the directors fail to call the extraordinary general meeting within 21 days, the shareholders themselves may call the meeting. In such, case, meeting must be held within 3 months.

2. Notice

To call the extraordinary meeting, 21 days notice is served.

3. Procedure

The shareholders have to submit their demand to the secretary of the company. With the consultation of directors, he will arrange to call the meeting. The company bares the expenses of the meeting.

4. Objects

- To issue the debentures
- To alter the memorandum and articles
- To alter the share capital of the company

DIRECTOR'S MEETINGS

The members of the company elect their representatives to run the business and management of the company. These representatives are called the directors of the company and they are different in numbers in different companies. All the business affairs are settled with mutual consultation of all directors. So, the meeting called for directors to discuss the policies or to take the decisions is called directors' meeting.

1. When is it held?

This meeting must be held at least once in three months and at least four times in a year.

2. Notice

Notice of every meeting must be sent to each director, otherwise the proceedings of the meeting may be declared void.

3. Objects

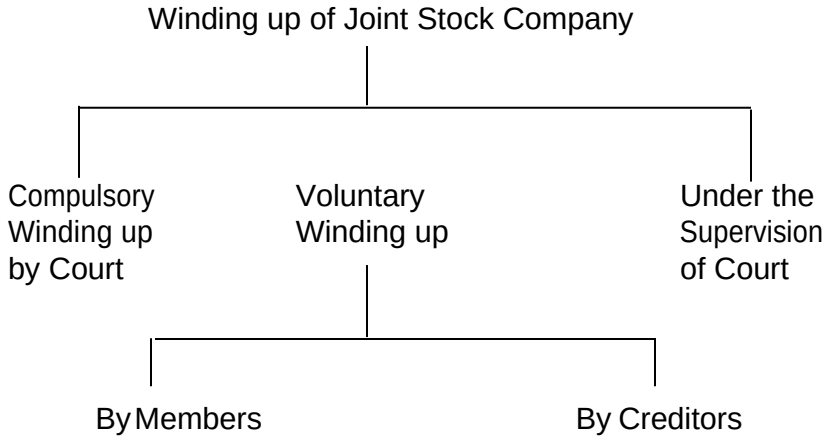
- To allot shares
- To invest company's fund
- To recommend dividend
- To keep reserve out of profit
- To make loans
- To appoint officers or committee
- To discuss the contracts of the company
- To determine the date of next meeting

WINDING UP OF COMPANY

A company is created by law and when the legal existence of company abolishes or comes to an end it is called winding up of a company or liquidation of company.

MODES OF WINDING UP

A company can be wound up in the following three ways:



COMPULSORY WINDING UP BY COURT

According to Section 305 of Companies Ordinance, a company may be wound up by court under the following circumstances:

1. Special Resolution

If a special resolution has been passed by the company for winding up

2. Statutory Meeting

If the company fails to submit statutory report to the Registrar for failure to hold statutory meeting within specified time

3. Commencement of Business

If a company fails to start its business within one year from the date of incorporation or postpones its business for one year

4. Reduction in Members

If the number of members fall below seven in case of public company and below two in case of private company.

5. Satisfaction of Court

If the court is not satisfied with the working, management and business affairs of the company

6. Payment of Loans

If a company is unable to pay its debts

7. Unlisted

If a company declares itself unlisted due to any reason

VOLUNTARY WIDNIGN UP

A joint stock company may be wound up voluntarily in following two ways:

1. By Members

According to section 362 of Companies Ordinance, 1984, the members can wind up a company voluntarily under following circumstances:

(i) Expiry of Period

A company may be wound up voluntarily by the members, after the expiry of period, by passing resolution in the general meeting.

(ii) Statutory Declaration

If majority of directors makes a statutory declaration to registrar that the company will be able to pay its debts in full within one year.

(iii) Special or Ordinary Resolution

After submitting the statutory declaration to the registrar, the company, in general meeting passes an ordinary or special resolution to wind up the company.

(iv) Appointment of Liquidators

In general meeting, the company appoints liquidators to wind up the company's affairs. Within ten days after the appointment must be sent to registrar.

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(v) Final Meeting

After winding up the affairs of company, the liquidators call the general meeting of the shareholders. In this meeting, the liquidators must submit the final accounts of company's affairs to the members.

(vi) Dissolution

Within one week of general meeting, liquidators must file a copy of full accounts to the registrar. At the end of 3 months from the date of registration of return, the company shall be dissolved and its name will be struck off by the Registrar of Joint Stock Company.

2. By Creditors

The Members can wind up a company voluntarily under following circumstances:

(i) Statutory Declaration

In case of creditors voluntary winding up, it is not necessary for the company to make a statutory declaration regarding its solvency.

(ii) Special Resolution

A general meeting of the company's shareholders is called to pass an extra ordinary resolution for the dissolution of the company because it cannot continue its business due to heavy liabilities.

(iii) Creditors' Meeting

On the same or next day, a meeting of creditors must be called by the company. A notice of meeting must be sent to each creditor.

(iv) Statement of Affairs

In the creditors' meeting, the directors must submit a statement of affairs of the company, together with a list of creditors of the company and estimated amount of their claims.

(v) Intimation to Registrar

The information regarding the notice of passed resolution must be sent to the registrar within ten days after the date of creditors' meeting.

(vi) Appointment of Liquidator

The creditors and shareholders nominate the persons to act as liquidators in their respective meetings and the opinion of the creditors is preferred.

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(vii) Inspection Committee

The creditors and shareholders, in their respective meetings can appoint eh inspection committee consisting of five persons in each case.

(viii) Liquidators' Remuneration, Rights and Duties

The inspection committee fixes the remuneration, rights and duties of the liquidators.

(ix) Final Meeting

In the final meeting, the liquidators place before them the full accounts of the company's affairs and a copy of these accounts is also sent to registrar within 7 days.

(x) Dissolution

The registrar registers the documents, sent by the company, after 3 months from the date of registration, the company will be dissolved.

VOLUNTARY WINDING UP UNDER THE SUPERVISION OF COURT

According to section 396 of Companies Ordinance, a voluntary winding up of a company can also be carried under the strict registration of the court.

1. Resolution

At first, company has to pass special resolution for the voluntary winding up of the company.

2. Supervision Order

Following are the common grounds on which the court issues the supervision order:

1. The liquidator performs his duty in partial manner.
2. The winding up resolution is obtained by fraud.
3. The liquidator does not strictly observe the rules of winding up the company

3. Power of the Court

The court has the power to appoint an additional liquidator, or to remove any liquidator.

4. Dissolution

After the supervision order is made, the liquidator may exercise his powers in winding up of a company. On completion of winding up, the court will make an order that the company is dissolved.

SHARE CAPITAL

In simple words, the term "capital" means the particular amount of money with which a business is started.

In company, share capital means the amount contributed by the shareholders.

DEFINITION

1. According to Alan Issacs

"Share capital is that part of the capital of a company that arises from the issue of shares"

2. L. B. Curzon says

"Share capital is the total amount which a company's shareholders have contributed or are liable to contribute as payment for their shares."

KINDS OF SHARE CAPITAL

According to Companies Ordinance, 1984, the following are the kinds of share capital:

1. Authorized Capital

This is maximum amount of capital with which a company is registered or authorized to issue. It is divided into shares of small value.

For example, the authorized capital of the company Rs. 10, 00,000 divided into 1, 00,000 shares of Rs. 10 each

2. Issued Capital

It is a part of authorized capital which is offered to the general public for sale.

For example, a company has an authorized capital of Rs. 10, 00,000 dividend into 1, 00,000 shares of Rs. 10 each. It offers 20,000 shares of Rs. 10 each to general public. So it means issued capital is Rs. 2, 00,000.

3. Un-Issued Capital

It is a part of authorized capital which is not offered to the general public for sale.

For example, a company has an authorized capital of Rs. 10, 00,000 divided into 1, 00,000 shares of Rs. 10 each. It offers 20,000 shares of Rs. 10 each to general public. So it means un-issued capital is Rs. 8, 00,000 consisting of 80,000 shares of Rs. 10 each.

4. Subscribed Capital

That part of issued capital for which applications are sent by the public and which are accepted is called subscribed capital.

For example, out of 20,000 shares offered by the company, the general public takes up only 10,000 shares. So subscribed capital, is Rs. 1, 00,000.

5. Called up Capital

A company may require payment of the par value either in installments or in lump sum. So amount of shares demanded by company is known as "called up capital".

For example, out of 10,000 shares taken by public, company requires a payment of 6 per share. So "called up" capital of the company is Rs. 60,000 (10,000 share @ Rs. 6).

6. Un-Called up Capital

A company may require payment of the par value either in installments or in lump sum. So amount of shares not demanded by company is known as "un-called up capital".

For example, out of 10,000 shares taken by public, the company requires a payment of 6 per share. So "un-called up" capital of the company is Rs. 40,000 (10,000 shares @ Rs. 4).

7. Paid up Capital

It is that part of called up capital which is actually received by the company. If some shareholders could not pay all the money of called up capital, such money is called as "calls in arrears" or "calls unpaid".

8. Reserve Capital

The capital which is reserved for unexpected events or for future needs is called reserve capital. Company decides not to call up some part of uncalled up capital until winding up. It is normally kept for the payment of debts at the time of winding up.

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9. Redeemable Capital

A company can obtain redeemable capital by issue of:

(a) Participation Term Certificates
(b) Musharika Certificate
(c) Term Finance Certificate

Lecture 8

COOPERATIVE SOCIETY

Cooperative Society its advantages and disadvantages

COOPERATIVE SOCIETY

A cooperative society is formed by the people of limited means for self help through mutual help. It is set up to protect economically the poor sections of the society. It is set up for cooperation, not for competition. The motto of a society is self help, without dependence on other business units.

DEFINITION

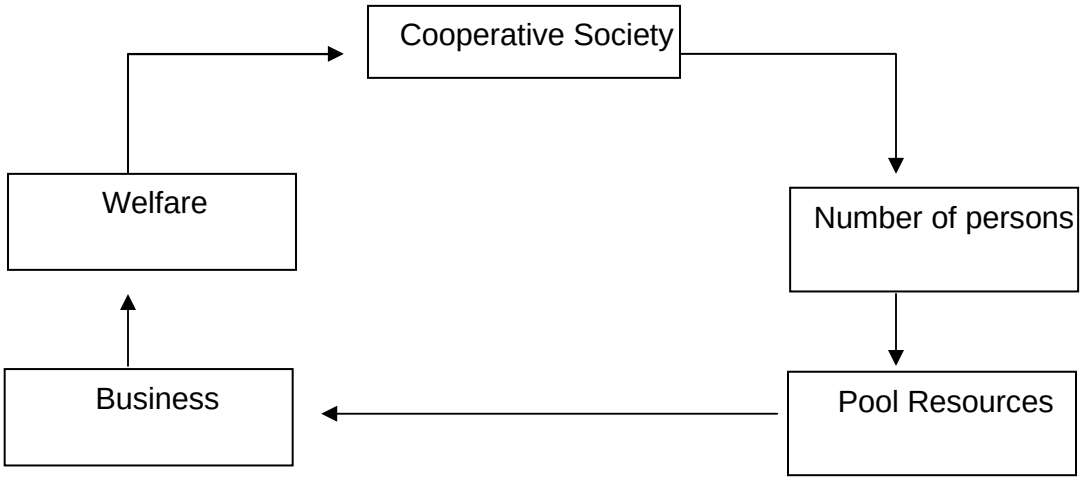
1. According to Herrik

"Cooperation is an action of persons voluntarily united for utilizing reciprocally their own forces, resources or both under mutual management for their common profit or loss."

2. According to Mr. Plunket

"The cooperation is self help made effective by organization."

Diagram



ADVANTAGES OF COOPERATIVE SOCIETY

Following are the important advantages or merits of cooperative society:

1. Advantage for Farmers

Farmers can get fertilizers and seeds at low prices from such cooperative societies. Farmers can also self their production at high rate or prices through cooperative societies.

2. Easy Formation

The formation of cooperative society is very easy. the formalities for registration are simple and formation expenses are also normal. The registration of a society is not compulsory but it is desirable to have its registration.

3. Equal Rights

All members of cooperative society enjoy equal right of vote and ownership. Each shareholder has only one vote in the management of cooperative societies.

4. Equal Distribution of Wealth

The profit of middlemen is also distributed among the workers. These societies remove the unequal distribution of wealth.

5. Economic Democracy

Cooperative society is a domestic form of organization. Every member is allowed to participate in the management of the business. Each member has the right to cast vote. The decision of majority is honored.

6. Elimination of Middlemen

Cooperative society eliminates the profit of middlemen. These societies purchases goods directly from the producers for members and provide them on wholesale rate to society members.

7. Financial Assistance

These societies also provide financial assistance to its members. In case of house building cooperatives housing society provides loan for the purchase of inputs.

8. Friendly Relations

A cooperative society is a mean of developing friendly relations among the members. A society provides a platform for the introduction of members with each other.

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9. Improve the Standard of Living

Such societies provide the goods and services to the members of the society at low prices. Due to this, the purchasing power of the people increases and their standard of living improves.

10. Increase in Employment

The cooperative societies also increase the employment opportunities for people. Thousands of people are engaged in different types of cooperative societies.

11. Limited Liability

The liability of each member in cooperative society is limited to the share capital, which he invested. His remain safe.

12. Mutual Cooperation

It is worthwhile to mention here that cooperative society is very useful for creating the spirit of friendship and brotherhood among the members. Cooperative society is the basic need of human being in modern era.

13. No Monopoly

A start of the society is the end of monopoly. The monopoly eliminates the competition and controls the market and prices. The society tries to restore competition and to eliminate control over market and prices.

14. Open Membership

the membership of a cooperative society is open for all people living in the same area. It is a voluntary association of persons of any caste, color and creed.

15. Protection of Mutual Interest

In cooperative societies its members take an advantage of mutual interest and cooperate with each other achieve the common interest.

16. Responsibility

A society is a training centre for the members to feel their responsibility. A cooperative society is an ideal place for building up the moral character and development of personal qualities of the members.

17. Supply according to Demand

Such societies purchase the goods according to the demand of members. The question of surplus does not arise.

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18. Stable Life

The cooperative societies, as compared to other business organization like sole-proprietorship or partnership, exists for a longer period. It has a fairly stable life.

19. Saving in Expenditure

In cooperative societies, most of offices bearers work voluntarily. So, there are no heavy expenditures on management. It also reduces the cost of production.

20. Tax Concession

Government provides certain concessions to cooperative societies, i.e. exemption from stamp duty, super tax, income tax and registration fee etc.

DISADVANTAGES OF COOPERATIVE SOCIETY

Following are the disadvantages of cooperative societies:

1. Lack of Capital

Generally the members of cooperative societies are related to poor group and they cannot provide the capital on large scale. External financial resources are also limited. So, cooperative society faces the shortage of capital, which is a handicap to their development.

2. Untrained Supervision

The government has sufficient control over the movement of these societies. These societies cannot prosper because the staff appointed for supervision is mostly untrained.

3. Defective Organization

The organizations of cooperative societies are defective and these cannot operate efficiently to fulfill their objectives.

4. Illiterate and Ignorant

In our country, the villagers are generally illiterate and ignorant. So, they are not familiar with the basic concept of the cooperative societies.

5. Lack of Experience

The members of societies have less experience of business. Due to lack of capital, they cannot hire the services of experts.

6. Lack of Discipline

Every member of the cooperative society considers himself as the owner of the business. Due to lack of discipline, business suffers a loss.

7. Lack of Sincere Management

It is our common observation that the management of society remains in the hands of selfish and dishonest persons or members who obtain undue advantage form their powers. So, business suffers a loss.

8. Lack of Profit Incentive

It is not a profit earning institution. Due to absence of profit incentive, the progress of cooperative society is very poor.

9. Lack of Secrecy

There is no secrecy in the business of cooperative societies.

10. Lack of Knowledge

The members of cooperative society do not know the principles and rules of society. So, they create great problem for society.

11. Lack of Unity

In the absence of proper education and training, it is useless to think about unity. The lack of unity leads towards the destruction of the business.

12. No use of New Technology

The cooperative societies cannot use the latest technology in production. As a result of this, demand and profit remains low.

13. No Public Confidence

A cooperative society is not bound to publish annual financial statements for the information of general public. Due to this public shows less confidence in them.

14. Delay in Decision

The main cause of failure of cooperative societies is delayed in decisions.

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15. Government Control

The cooperative department of the provincial government supervises the work of all cooperative societies. The business of a society is not free like other forms of business, so it cannot earn maximum profit.

Lecture 9

CONCEPT OF ENTREPRENEURSHIP

Entrepreneurship is that ability in which an individual tries to find the opportunity, take risk and avail these opportunities.

Who are Entrepreneurs?

People have more entrepreneurial abilities who:

- Have aspiration
- Have more practical strategies to be implement
- Have the vision
- Understanding the environment
- Being visionary and flexible
- Creating management options
- Encourage teamwork while employing a multi-disciplined approach
- Encouraging open discussion
- 6. Building a coalition of supporters.

Characteristics of Entrepreneurs

- **Personal Interest**

This personal interest can be of two common types:

- Interest for their own personality development
- Interest of their financial growth at market place

- **Customer Relationship building**

There can be two types of customer relation ship building as under:

- **Transactional Marketing**
  This type of marketing is based on only one transaction, just to get the financials & provide products in return to customers. (Its some how a traditional approach of customer relationship management)

- **Relationship Marketing**
  This type of marketing based on long term service provision for the customer, to get order once from your customer, fulfill that order in best possible manners, provide after sales services in order to retain that

customer for longer period of time (it is based on modern customer relationship management techniques)

Entrepreneurs strongly follow the second type of relationship building with this customer to get long run benefit in order to enhance their business. Simple E.g. can of of Doctors in a specific community, Mechanics, Hair dresser etc.

- **Desire to establish own business**

Some persons have strong & dominant personality traits & they want to establish their own business instead of working under supervision of any one else so this leads them towards entrepreneurship establishment. They have strong decision making power & risk taking ability which helps them a lot to be an entrepreneur.

- **Need of control**

Some people want them to be involved in every decision making of their business prospects so this aspect leads them be an entrepreneur.

- **Ability to deal with uncertainties**

Some persons are daring enough in their professional attitude; they feel they can easily deal with uncertainties while designing best strategies for crunch situations so they move for entrepreneurship.

BUSINESS PLAN FOR ENTREPRENEURS

Business plan is a written document which contains the objectives of the business and the ways to achieve these objectives.

A good business plan must be developed in order to exploit the opportunity defined. A good business plan is important in developing the opportunity and in determining the resources required, obtaining those resources and successfully managing the venture.

The term business plan is made of two words **"business"** and **"plan".** By understanding each we will try to arrive at some usable definition of business plan

- Business: "Any economic activity undertaken on regular basis to earn profit by combining resources and delivering value to society/market in response of whose unmet need it is started and run".
- Plan: "Simply it is the product or result of planning or it can be defined as it is a document or piece of thought which answers the basic questions of planning".
- If plan is so then what is planning?

Situations for Entrepreneurial business

- There are two situations:
    - Buying a business
    - Starting from the scratch

Most of the entrepreneurs always like to start their business right from scratch & develop their own strategies to run the business so our discussion will move around those entrepreneurs who start their businesses from scratch.

COMPONENTS OF BUSINESS PLAN

Since every business organization either small medium or large always have business plan so same is true for entrepreneurial business as well. Basic theme of *business plans is always **"ways to go & how to go"***. All areas of SWOT analysis are also covered in the business plan.

- **Objectives of the business**

The basic purpose of any business plan is to answer following questions:

- Name of the business
- Name should indicate the type of business
- Name should be simple
- Uniqueness of name
- Location of the business
- Legal considerations

Avoid the names not encouraged by the law. e.g. National Heroes, religious personalities etc.

Marketing Component of the business

This part of business plan covers following aspects:

- Who will be the target customers for those products
- Where are they located?
- What would customers like to pay for the product or service?
- What are the benefits, the customers are expecting from the product or service?
- What type of products & services we are going to offer
- What will be the basis for targeting the customers (age, gender, educational status, social classes & behavioral aspects)
- **Analysis of competitors:**

One important consideration here is competitors' analysis, while clarifying following in the business plan.

- What is the nature of competition in the market?
- Who are the competitors of the business?
- How product of the business is different from product of the competitors?

Analysis of Promotional Activities

- How will the message of the business be promoted in the general public?
- How will the business be launched?

Financial Analysis

- What will be the investment of the business and how much should be borrowed?
- What are going to be expected revenues in a given period of time?
- What would be the expected expenses of the business in a given period of time?
- What would be net income or net profit in a given period of time?
- Is the business feasible or not?

Administrative Rights & provisions

- What would be the structure to handle the business?

Lecture 10

FRANCHISING

It is defined as:

"An agreement between two parties in which one party passes on the rights to the other party"

Or

"A contractual license granted by one person (the franchisor) to another (the franchisee)."

Rights of franchisee includes

3. Right to use the trade mark.
4. Right to use the name.
5. Right to use systems, methods and researches.
6. Right to use packing material.

Parties to Franchise agreement

There are two parties involved in a franchise agreement

d) Franchiser

Party or person, who grants the right to sell/offer its products & services under its own trade name,

e) Franchisee

Franchisee is being granted from franchiser to provide representational rights to sell or manufacture goods or to provide service or to undertake any process identified with franchiser against an agreed fee or consideration including royalty, whether or not a trade mark, service mark, trade name or logo or any such symbol, as the case may be is involved.

Advantages of Franchising

- Franchiser gets a large amount of money from franchisee as fee while using its name.
- Franchisee gets access to big business.
- Failure rate of franchise business is lower than any other business.
- Franchisee uses world wide tested brand and tested procedures that is why failure rate is lower in this type of business.
- Franchiser provides guidance to franchisee in all affairs of the business.

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- Choice of location
- Franchiser is always there to support the franchisee in all kinds of matters.

Disadvantages of Franchising

- High cost.
- Proportionate profit is given to franchiser by franchisee every year.
- There are too many restrictions from franchiser on the franchisee.

NEW TRENDS IN THE BUSINESS

- E-Commerce or E-Business

E-commerce, (electronic commerce), is online commerce verses real-world commerce. E-commerce includes retail shopping, banking, stocks and bonds trading, auctions, real estate transactions, airline booking, movie rentals, nearly anything you can imagine in the real world. Even personal services such as hair and nail salons can benefit from e-commerce by providing a website for the sale of related health and beauty products, normally available to local customers exclusively.

- Women in business

So many women have come in so many areas of business.

Business will be better displayed, well mannered staff, more knowledge of the needs of customers and more market oriented.

GLOBAL OPPORTUNITIES

People have the awareness of global market. Internet has played major role in accessing global markets.

In Pakistan, people got huge success globally but could not make a brand name in global market.

- Government's preferences and priorities.
- Government is convinced to support corporate sector.
- Businesses are now being set up on more professional grounds.
- Support from financial institutions.
- General economy of the country.
- People are acquiring professional knowledge about business.
- Government has developed many training centre to train people related to business.

Skills development.

Institutions to develop man power.

Lecture 11

SUCCESS AND FAILURE OF BUSINESS

Causes of Failure in Business

Normally, following are the common causes of failure of any business:

- Lack of market knowledge
- Start of any business without having proper experience in the field
- Lack of control over procedures
- Lack of understanding customer's demand
- Poorly designed Production Processes
- Cost
- Wastage
- Complaint handling
- Quality
- Insufficient capital
- Bad Luck
- Natural Disaster

Reasons for Success in Business (controllable factors)

- Response of Market
- Competence – The ability to work
- Knowledge of Market
- Knowledge of Product
- Knowledge of Systems

Reasons for Success in Business (uncontrollable factors)

- Luck and Act of God
- Law of Government
- State Laws

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- Climate change
- Using disaster (if any) as an opportunity)

Joint Venture

Two or more people or organizations join hands and decide to do a combine business. In a joint venture, there is equal sharing or capital resources by each firm. Instead of expanding the business at broader level or to start a new business with very high cost, joint venture shares the financial burden in order to gain new opportunities at diversified level.

Advantages of Joint Venture

- Provide opportunities to acquire new expertise
- Allow to enter in new geographic markets
- gain new technological knowledge
- Sharing of specialized staff and technology
- sharing of risks

Strategic Alliance

In strategies alliances, two or more than two organizations collaborate for mutual profits. In strategic alliances, Pool of resources occurs such as products of both firms, distribution channels used by every firm, manufacturing capabilities of firms, future projects funding, capital equipment sharing, knowledge, expertise and intellectual property sharing among both firm are the basic out comes of strategic alliances.

One good e.g. of strategic alliances is commonly seen in Air Lines industry around the world

Merger and Acquisition

Merger is a new trend in market in which two or more organizations combine together and form a new organization.

Acquisition

Slightly differ from Merger; here one business acquires the other business instead of combining. Ownership moves more towards the acquiring partner.

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Common Advantages of Merger & Acquisition

- Expansion of size
- Minimize the operational cost
- To reduce competition

ACTIVITY

After studying the all the concepts mentioned above, you as a student of Introduction to business studies is required to acquire knowledge about practical organizations who are performing their activities under any business form mentioned above and if they are successful, what are the core strengths of their success & if they are failure, (at any part) where were the weaknesses?

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Lecture 12

FOREIGN TRADE & FOREIGN BUSINESS

Imports

International trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP).

It is also defined as:

Goods produced somewhere else and sold domestically. Such as Chemicals Technology (Machinery, Software & Hardware, Expertise)

Import - commodities (goods or services) bought from a foreign country

Factors to be considered while importing

- Identification of products to be imported
- Procedures
- Methodologies
- Technical processes
- Documents for imports

Exports

In economics, an export is any good or commodity, transported from one country to another country in a legitimate fashion, typically for use in trade. Export goods or services are provided to foreign consumers by domestic producers.

It is also defined as:

Goods produced domestically and sold in some other country.

Export - sell or transfer abroad; "In Pakistan we export less than we import and have a negative trade balance"

Advantages of Exports

- Support of Government.
- High Profits.
- Pride for the country.
- Utilization of production capacity.

GATT (General Agreement on Tariff & Trade)

A multilateral treaty intended to help reduce trade barriers between signatory countries and to promote trade through tariff concessions.

WTO – World Trade Organization and its scope

The WTO is an international organization and a forum of multilateral negotiations of its Members on global trade liberalization rules, their administration and application. Mainly, the WTO system is understood as the set of external trade rules or "traffic rules" in external trade, which all Members must follow. The WTO was established in 1995, as the result of the Uruguay round negotiations. With the establishment of the organization, a set of WTO agreements was also concluded – with regard to goods, services, intellectual property, dispute settlement, multilateral agreements. Until the establishment of the WTO multilateral trade relations were governed by General Agreement on Tariffs and Trade (GATT), concluded on 1947 and which opened the trade liberalization and reduction of tariff barriers. The main goal of the WTO is a free and facilitated trade, governed by equal rules, while similarly taking into account also the potential of developing countries. In the WTO are represented almost all countries of the world – currently the WTO has 147 Members

Per Capita Income

Per capita income means how much each individual receives, in monetary terms. It is the measure of the amount of money that each person earns in the country, of the yearly income generated in the country.

$$\text{Per Capita} = \frac{\text{Total income of the country}}{\text{Total population}}$$

Tools for measuring economies of the world

World can be divided in to three major categories on the basis of per capita income.

- High income countries

  Those countries where people are earning US $9000 or more

- Middle income countries

  Those countries where people are earning between US $765 and $9000

- Lower income countries

  Those countries where people are earning below US $765

Pakistan has a little below than US $765 income line and is moving towards middle income class countries. Pakistan is exporting Sports items Agricultural products (rice), Textile products (Bed Sheets, T-Shirts, Towels etc.)

Import and Export Balance

Gap between imports and exports is called surplus and deficit and it varies from country to

Balance of Payment

Balance of payment = Total receipts - Total payments

If receipts are greater, balance of payment is favorable.

If payments are greater, balance of payment is unfavorable.

Level of involvement in international business

Imports or Exports

We can be importer and exporter.

We try to see opportunity in international market to consume surplus products.

This is called exports.

International Firms

International firms have operations world wide. These firms are also called multinationals. Multinationals design products separately for each country

Global Organizations

Those organizations which consider the whole country as single market are called global organizations.

These organizations have standardized products all over the world.

International Organizational Structure

- Independent Agent

  A person or an organization that works for an exporter or importer
- Appointment of representative abroad
- Licensing agreement
- Independent Branch Office
- Strategic Alliance
- Direct Foreign Investment

Study Links:

- *www.offshoredealers.com*
- www.mfa.gov.lv/en/policy/economic/WTO/WhatIsWTO

Lecture 13

BARRIERS TO INTERNATIONAL TRADE

Trade barriers are a general term that describes any government policy or regulation that restricts international trade. The barriers can take many forms, including the following terms that include many restrictions in international trade within multiple countries that import and export any items of trade

- Social and Cultural Changes

Different countries have different life styles.

- Religion

Every religion has its own set of rules for its followers. Religion asks for spending on certain things and stops from spending on certain things.

- Climate
- Laws

  There are different laws in different parts of the world.

  These include laws related to:

  Health

  Safety

  Customer Relationship

  Pricing

  Packing

  Environment

- Economic Differences

  Per Capita Income is different in different countries.

  Different people have different economic systems.

  People preference for a particular product

- Political System

- Tariff

  Tax levied on goods entering into a country.

  It is also used as a measure to reduce imports in a country.

- Quota

  Limit imposed by one country on importing commodities from another country.

- Subsidies

  Concessions provided by a country to its producers in order to protect economy.

Business Ethics

Ethics are basic beliefs, a company decides to pursue and implement during a course of

Ethical Behavior

- A system that confirms the beliefs of the society
- Business is being run within that system.
- Corporate Citizenship is a practice of the company confirmed by the society.

Ethical Behavior in Managerial Practices includes:

- Responsibility towards employees.
- Relationship with other organizations.
- Interaction with Government.
- Plans to initiate ethical behavior towards people.
- To initiate ethical programs.

Corporate Social Responsibilities

To think about benefiting the society and avoid harmful activities for the society is called Corporate Social Responsibilities.

These include:

- Ethical attitude towards customers.
- Dealing with employees.
- Ethical communication with Government and local bodies.

- Ethical behavior towards stake holders.

Study Link:

www.absoluteastronomy.com/topics/Free_trade

Lecture 14

STAKE HOLDERS

Definition

People who are interested in the affairs of the business in one way or the other are called stakeholders.

Stake holders include:

- Customers
- Employees
- Suppliers
- Bankers
- Government
- Society at large

- Protecting the rights of customers
- To get a product that is up to the expectations of the customers
- Customer Safety

Right to get information about:

- Product
- Supplier
- System
- Procedures
- Standards
- Ingredients of the product

- Origin of the company
- Method of manufacturing
- Quality standards
- Right to be heard
- Right to choose
- Quality Service

Responsibilities of the Organization towards Environment

- Reprocessing of waste water.
- Recycling of waste material.
- Processing of smoke.
- Reprocessing of heat.

Ethics for Advertising

- Truthful or Truth less Communication
- Objectionable Products
- Objectionable Appeals
- Fear Factor
- Sexual Connotations
- Objectionable Timings
- Smoking
- Selling product to underage customers
- Legal Commitments
- Discriminations
- Health and Safety of Employees

Whistle Blowers

Whistle Blowers are the people who see irregularities and bring them in the knowledge of the management. Although these people bring in to account positive actions required to be taken in to account by the management but even then most of the times, organizations never liked these persons.

Management

Getting things done through others.

Manager

A person who practices the functions to achieve management's objectives

Functions of Managers

- Planning

  Thinking for the future

- Organizing

  Decision about activities performed by the workers

  1.Grouping the activities

  2.Delegation of authorities

- Staffing

  Filling out the vacant positions

- Coordination
- Communication
- Receiving information from various sources
- Processing of information
- Dissemination of information
- Distribution of information
- Conflict handling
- Negotiation
- Resource Allocation
- Controlling
- To make sure that organization is moving towards the right direction.

Lecture 15

SETTING GOALS AND FORMULATING STRATEGY

Setting goals is the starting point of effective management. Every business needs goals, and the program for guiding decisions to achieve those goals is called a strategy. **Goals** are objectives that a business hopes and plans to achieve.

TYPES OF STRATEGY

I. **Corporate strategy**—Strategy for determining the firm's overall attitude toward growth and the way it will manage its businesses or product lines.

II. **Business (or competitive) strategy**—Strategy, at the business-unit or product-line level, focusing on a firm's competitive position.

III. **Functional strategy**—Strategy by which managers in specific areas decide how best to achieve corporate goals through productivity

SETTING BUSINESS GOALS

Goals are performance targets–the means by which organizations and their managers measure success or failure at every level.

Purposes of Goal Setting

1. to provide direction and guidance for managers at all levels
2. to help firms allocate resources
3. to help define corporate culture
4. to help managers assess performance

Kinds of Goals

Goals differ from company to company depending on the firm's purpose and mission. A firm's basic mission is usually easy to identify. Businesses often have to rethink their missions as the competitive environment changes.

Three kinds of goals for every firm are:

I. **long-term goals**—goals set for an extended time, typically 5 years or more into the future
II. **intermediate goals**—goals set for a period of 1 to 5 years into the future

III. **short-term goals**—goals set for the very near future, typically less than 1 year

Mission Statement

Organization's statement of how it will achieve its purpose in the environment in which it conducts its business.

THE MANAGEMENT PROCESSES

The management process is the process of planning, organizing, directing, and controlling an organization's resources to achieve its goals. The four functions of management are not discrete. They overlap and influence one another. To transform a vision into a successful business, managers must perform the functions of planning, organizing, leading, and controlling.

a. **Planning**—management process of determining what an organization needs to do and how best to get it done. Yahoo's creation of partnership agreements with firms like Reuters, Standard & Poor's, and the Associated Press for the new coverage it provides it users represent a form of operational planning.
b. **Organizing**—management process of determining how best to arrange an organization's resources and activities into a coherent structure. Hewlett-Packard's recent realignment into an integrated, centralized firm, rather than a corporate confederation of individual businesses, has served its comeback strategy well.
c. **Directing**—management process of guiding and motivating employees to meet an organization's objectives. Gordon Bethune, CEO of Continental Airlines, has turned around morale and performance through his leadership skill, listening to and rewarding employees to guide the company back on track.

d. **Controlling**—management process of monitoring an organization's performance to ensure that it is meeting its goals. Bethune of Continental instituted a variety of performance indicators including on-time arrivals, baggage-handling errors, number of empty seats per plane, and surveys of customer and employee satisfaction.

TYPES OF MANAGERS

Not all managers have the same degree of responsibility for planning, organizing, directing, and controlling.

Levels of Management

i. **Top Managers**—managers responsible to the board of directors and stockholders for a firm's overall performance and effectiveness.

They set strategic goals, make long-range plans, establish major policies, and represent the company to the outside world.

ii. **Middle Managers**—managers responsible for implementing the strategies, policies, and decisions made by top managers. In more innovative management structures, they may function as team leaders, acting as consultants who must understand every department's function and are granted more decision-making authority, previously reserved for high-ranking executives.

iii. **First-line Managers**—managers responsible for supervising the work of employees

Areas of Management

iv. **Human Resources Managers**—managers responsible for hiring and training employees, evaluating performance, and determining compensation.

v. **Operations Managers**—managers responsible for the production system, inventory and inventory control, and quality control.

vi. **Marketing Managers**—managers responsible for the development, pricing, promotion, and distribution of goods and services.

vii. **Information Managers**—managers responsible for designing and implementing systems to gather, organize, and distribute information.

viii. **Financial Managers**—managers responsible for the firm's accounting functions and financial resources.

ix. **Other Managers**—some firms also employ other specialized managers, such as public relations managers, research & development managers, etc.

BASIC MANAGEMENT SKILLS

Whatever the type or size of the organization, managers employ basic kinds of skills. As they rise through the hierarchy, they may need to strengthen one or more of these skills.

- **Technical Skills**—skills needed to perform specialized tasks such as writing computer code, drawing animated characters, or auditing a company's records.
- **Human Relations Skills**—skills in understanding and getting along with people, such as communicating and motivating.

- **Conceptual Skills**—abilities to think in the abstract, diagnose and analyze different situations, and see beyond the present situation to recognize future market opportunities and threats.

THE FOUNDATIONS OF HUMAN RESOURCE MANAGEMENT

The ability to attract and retain talented and motivated employees often marks the difference between success and failure in today's competitive business environment.

Human Resource Management—set of organizational activities directed at attracting, developing, and maintaining an effective workforce.

The Strategic Importance of HRM

i. Human resources are critical for effective organizational functioning.
ii. The effectiveness of the HR function has a substantial impact on a firm's bottom-line performance.
iii. The chief human resource executive of most large businesses is a vice president directly accountable to the CEO, and many firms develop strategic HR plans that are integrated with other strategic planning activities.

Scope of HRM

I. To locate, type of people required
II. When required
III. How many required
IV. Job Analysis
V. Selection
VI. Training
VII. Appraisal
VIII. Compensation
IX. Health & Safety
X. Labor Union Area

Job Analysis

Job analysis is the process to collect all information related with one specific job.
It has two further portions:

a. **Job Description-**covers job title, job location, job duties, working environment & Supervision

b. **Job Specification-** Covers areas like, human skills required to perform a specific job, Qualification, Gender, Age, Experience, Special Skills & attitude.

Lecture 16

HUMAN RESOURCE PLANNING

JOB ANALYSIS

Systematic analysis of jobs in an organization:

a. **Job Description—**systematic evaluation of the duties, working conditions, tools, materials, and equipment related to the performance of a job.

b. **Job Specification—**description of the skills, abilities, and other credentials required by a job.

Forecasting HR Demand and Supply

Forecasting the supply of labor is two tasks:

c. **Forecasting internal supply**—the number and type of employees who will be in the firm at some future date.

d. **Forecasting external supply**—the number and type of people who will be available for hiring from the labor market at large. Large organizations use extremely sophisticated models to forecast staffing levels.

Replacement Chart

Listing of each managerial position, who occupies it, how long that person will likely stay in the job, and who is qualified as a replacement. Replacement charts are used at higher levels of the organization to plan developmental experiences for people identified as potential successors to critical managerial jobs.

Skills Inventories (or Employee Information System)

Computerized system containing information on each employee's education, skills, work experiences, and career aspirations

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Matching HR Supply and Demand

After comparing future demand and internal supply, managers can make plans to manage predicted shortfalls or overstaffing. If the organization needs to hire, the external labor-supply forecast helps managers plan how to recruit.

Recruiting Human Resources

Process of attracting qualified persons to apply for open jobs.

Internal Recruiting

Practice of considering present employees as candidates for job openings.

External Recruiting

Practice of attracting people outside an organization to apply for jobs. By early 1998, unemployment had dropped to a 23-year low of 4.6 percent, making recruiting a more difficult task.

Advantages of external Recruiting

- Variety of Talent
- Variety of Abilities
- Variety of Qualifications

Equal Employment Opportunity

The basic goal of all equal employment opportunity regulation is to protect people from unfair or inappropriate discrimination in the workplace. Legally mandated nondiscrimination in employment on the basis of race, creed, sex, or national origin

SOURCES TO FIND PEOPLE

Organizations used various sources in order to find suitable people for their organization following sources are mostly used in this regard

Informal search

On the basis of references organizations finds peoples suitable for the post or for the nature of the work.

Job posting

By putting notices for job on various places in the organization such as Cafeteria, Fair

Price shop, Sports field, Reception desk, Notice Board, Union office etc

Educational institutions

To consult with educational institutions for suitable candidates for the job is also helpful for the organization to find suitable persons. Usually organizations consult with educational institutions when fresh graduates are required.

Professional Associations

This source is used when an organization wants to appoint people on senior posts.

Recruitment Agencies

Recruitment agencies have expertise in selecting people.
These agencies are used when

- Time span for selection is short.
- Jobs are highly technical in nature.
- Employer and employee are at a distant place.

Advertisement

Sources are find by giving advertisement in media, this sources is used when large number of jobs are available. Most common media is the print media worldwide.

SELECTING HUMAN RESOURCES

Application Blank

Application form provided by the organization for fill in as per requirement order of the firm. It's a form of CV but prepared as per organizational point of view.

Tests

Organizations conduct various tests to judge the overall capabilities of the professionals including:

a. Achievement tests
b. skill Tests

c. knowledge tests

Interviews

Interviews are sometimes a poor predictor of job success although they remain a popular means of screening candidates. Validity can be improved by training employees to be aware of potential biases created in the interview situation and by using structured interviews, in which questions are written in advance and all interviews follow the same list of questions for each candidate.

Other Techniques

Polygraph tests are declining in popularity, although some organizations require physical exams. More organizations are using drug tests, particularly in which drug-related performance problems could create serious safety hazards for customers or employees.

Validation

Validation is the process of checking appropriateness of any method or tool up to what extent it can satisfy the actual requirement or it fits in practical realities other than statements.
There are three forms or validity in general:

a. Content Validity
b. Context Validity
c. Face Validity

Lecture 17

INFRASTRUCTURE FOR TEST

INFRASTRUCTURE FOR TEST

Space: The place where the test in to be conducted should have enough space with a proper sitting arrangement.

Proper Temperature: Proper adjustment of temperature is required along with proper light so that candidate may be able to draw a clear picture of their mind to answer the interviewer's questions.

Enough quantity of stationary: Stationary includes papers, pencils, calculators, graphs, diagrams and answer sheets, the stationary should be in enough quantity for the ease of the candidates.

Evaluation of Test: At the end candidate's answers are compared with the benchmark answers in order to evaluate the test.

After evaluating the tests, interviews are conducted of those candidates who have qualified the test.

Interview: Any verbal interaction is called interview.

JOB INTERVIEW

A method of selection in which we interact with the candidate verbally

Types of Job Interview

1. Telephonic Interviews
2. Preliminary Interviews
3. Selection Interviews

Telephonic interview

Telephonic interview means to make a call to the candidate on the telephone to know the answers of the candidates; normally telephonic interview is not conducted for final selection. It helps to know about candidate's preliminary information like qualification, communication skill or competency, and a little exposure of the candidate before calling him for a face-to-face interview.

Preliminary Interview

Organizations which don't conduct telephonic interview adopt the method of preliminary interview. For preliminary interview organizations call the candidate for a short and basic interview for a little judgment about the appearance, manners and personality of the candidate.

Selection Interview

These are the final interviews and longer in duration to know about the candidate in detail. There may be one or two more interviews before these final interviews. Final interview are conducted in the most professional manner so that there may not be any wrong selection.

TECHNIQUES FOR FINAL INTERVIEWS

1. **Pattern Interview**

In pattern interview pre-decided questions are asked in a pre-defined sequence.

2. **Non Pattern Interview**

In non pattern interview questions are asked according to the situation.

Shortcoming of Pattern Interview
Interviewer can not ask any question other than pre-defined questions.

Shortcoming of Non Pattern Interview
In non pattern interview there is more possibility of non-professional and irrelevant questions.

Mix Interview: It is an interview in which some questions are pre-defined and some are situational.

WAYS TO CONDUCT INTERVIEW

1. **One person interview**

- **Panel Interview:** Panel interview consists on a group of people related to the job conduct interview. In panel interview specialists from different fields are called who have some relevancy to the job in order to judge the competency of the candidate's competency.

Arrangements for conducting Interview
Proper place: The place where the interview is to be conducted should be peaceful and quiet so that interviewer and interviewee may listen each other easily.

Preparation for questions: To ask the required or relevant questions from the candidate, the questions should be properly planned and prepared.

Read out the resumes of candidates. It is necessary to read the resumes of the candidates before conducting the interview in order to know the education and experience of the candidates.

At the end the whole and required information about the candidate is noted down on the paper in order to recall the memory while taking the final decision about the selection.

HUMAN RESOURCE DEVELOPMENT

After the selection the next step is to develop the employees. Human Resource Development is done through training.
Before the employees start the work they are provided training to learn and know the nature of the work. Training may be of six months or of a year

METHODS FOR TRAINING

On job Training: It refers to learn while working in the organization.

Off job Training: A commonly used way in off the job training is lecture method

1. **Lecture method**: It is a method in which one person speaks and others listen this is also called class room training .It is an efficient way to train the people. It is a cheaper method of training and for some jobs it is an appropriate method of training.

2. **Vestibule Training**: In this method artificial situation is created for training people.

3. **Role Playing**: In this method people play and act on different roles, by this way people make a fake bank or any department and performing different roles people may learn a lot.

4. **Business Games**: Some computerized games also help people to learn.

5. **Case Studies**: In this hypothetical situation is created and put the specific person in that situation the person learns to take decisions while keeping him in that particular scenario.

Performance Appraisal: Performance appraisal is the evaluation of the performance that people are working according to the expectations or not.

Reasons for performance appraisals:

- Validation of Human Resource Program
- Pay for performance

Compensation

Compensation can be:

1. Monetary reward
2. Non Monetary reward

Incentives include the plans for encouragement of employees in the organization.

Types of Incentives

1. **Organizational Level Incentives**: Organizational Level Incentives includes paid to everyone in the organization.

2. **Individual Incentives:** Individual Incentives includes paid to individual employees who have done good job.

Lecture 18

COMPENSATION AND BENEFITS

Set of rewards that organizations provide to individuals in return for their willingness to perform various jobs and tasks within the organization. Compensation includes base salary, incentives, bonuses, benefits, and other rewards.

Wages and Salaries

Wages—compensation in the form of money paid for time worked.

Salary—compensation in the form of money paid for discharging the responsibilities of a job.

Incentive Programs

Special compensation program designed to motivate high performance.

1. **Individual Incentives**—incentive-based pay plan that rewards individual performance.

2. **Bonus**—Individual performance incentive in the form of a special payment made over and above the employee's salary

Merit Salary Systems—Individual incentive linking compensation to performance in non-sales jobs

Pay-for-performance (or variable pay)—Individual incentive that rewards a manager for especially productive output

Company-wide Incentives

Profit-sharing plan—Incentive plan for distributing bonuses to employees when company profits rise above a certain level

Gain-sharing plan—Incentive plan that rewards groups for productivity improvements

Pay-for-knowledge plan—Incentive plan to encourage employees to learn new skills or become proficient at different jobs

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Benefit Programs—compensation other than wages and salaries. Some may be required by law, such as, **workers' compensation insurance** (insurance for compensating workers injured on the job)

Retirement Plans—prearranged company pensions provided to retired employees.

Containing the Costs of Benefits

Cafeteria Benefit Plan—benefit plan that sets limits on benefits per employee, each of whom may choose from a variety of alternative benefits. It allows employees to choose those benefits they really want.

Equal Employment Opportunity

The basic goal of all equal employment opportunity regulation is to protect people from unfair or inappropriate discrimination in the workplace. Legally mandated nondiscrimination in employment on the basis of race, creed, sex, or national origin

iv. Protected Classes in the Workplace

1. **Protected Class**—set of individuals who by nature of one or more common characteristics are protected by law from discrimination on the basis of any of those characteristics.

v. Enforcing Equal Employment Opportunity

1. **Equal Employment Opportunity Commission (EEOC)**—Dept. of Justice agency created by Title VII to enforce discrimination-related laws.

2. **Affirmative Action Plan**–practice of recruiting qualified employees belonging to racial, gender, or ethnic groups who are underrepresented in an organization.

COLLECTIVE AFFAIRS OF EMPLOYEES

Labor Union—Group of individuals working together to achieve shared job-related goals, such as higher pay, shorter working hours, more job security, greater benefits, or better working conditions

Labor Relations—Process of dealing with employees who are represented by a union

Collective Bargaining—Process by which labor and management negotiate conditions of employment for union-represented workers.

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Collective Bargaining agent (CBA) is a person who has been elected by all the workers in the organization through legal procedures.

Collective bargaining is an ongoing process involving both the drafting and the administering of the terms of the labor contract. It begins as soon as the union is recognized as the exclusive negotiator for its members.

Reaching Agreement on Contract Terms—Law requires that union leaders and management representatives must sit down at the bargaining table and negotiate in good faith. Sessions focus on identifying the bargaining zone.

CONTRACT ISSUES

- **Compensation**—Unions generally want their members to earn higher wages; compensation is the most common contract issue.

  1: Cost-of-living adjustment (COLA)–labor contract clause tying future raises to changes in consumer purchasing power.
  2: Wage reopener clause–clause allowing wage rates to be renegotiated during the life of the labor contract.

- **Benefits** (e.g., health insurance, retirement benefits, paid holidays, working conditions)—Unions typically want employers to pay all or most of the costs of benefits.

- **Job Security**—In some cases, demands for job security entail the company's promise not to move to another location, or a stipulation that if workforce reductions must occur, seniority will be used to determine which employees lose their jobs.

- **Other Union Issues** (e.g., working hours, overtime policies, rest period arrangements, differential pay plans for shift employees, the use of temporary workers, grievance procedures, and allowable union activities)

- **Management Rights**—Management wants as much control as possible over hiring policies and work assignments. Unions try to limit management rights by specifying hiring, assignment, and other policies.

MOTIVATION IN THE WORKPLACE

Motivation is a force that forces people towards a task. Employee motivation is even more critical to a firm's success than job satisfaction and morale.

Classical Theory

Theory holding that workers are motivated solely by money.

1. **Scientific Management**–an approach to employee motivation incorporating the classical theory of motivation.

2. **Frederick Taylor (Principles of Scientific Management, 1911)** reasoned that if workers were motivated by money, paying the more should prompt them to produce more. At the same time, firms that analyzed jobs and found better ways to perform them would be able to produce goods more cheaply, make more profits, and be able to pay and motivate workers better than its competitors.

3. **Time-and-motion studies**–industrial-engineering techniques applied to each facet of a job in order to determine how to perform it most efficiently

Objections on Fredrick Taylor's Theory of Scientific Management

- This theory considers human beings as machines.

Behavior Theory

The Hawthorne Studies—a set of experiments aimed at examining the relationship between changes in the physical environment and worker output.

1. In 1925 Harvard researchers studied Hawthorne Works of Western Electric, outside Chicago. Their experiment with increasing lighting levels to examine the relationship between changes in the physical environment and worker output showed the surprising result that both higher and lower levels increased productivity, while increased pay failed to do so.

2. The answer proved to be that workers were reacting to the attention they were receiving, leading to the conclusion that productivity rose in response to almost any management action that workers interpreted as special attention.

3. **Hawthorne Effect**—tendency for productivity to increase when workers believe they are receiving special attention from management.

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Lecture 19

CONTEMPORARY MOTIVATIONAL THEORIES

Following the Hawthorne studies, managers and researchers focused more attention on the importance of good human relations in motivating employee performance. Most motivation theorists are concerned with the ways in which management thinks about and treats employees.

Human Resources Model: Theories X and Y—Douglas McGregor's theory of motivation suggesting that managers have radically different beliefs about how best to use the human resources employed by a firm.

Theory X—theory of motivation holding that people are naturally irresponsible and uncooperative.

Theory Y—theory of motivation holding that people are naturally responsible, growth oriented, self-motivated, and interested in being productive.

McGregor Theory- X & Y

X-Type managers might:

Use punishment and threat to make people work. And will control activities of the work very closely.

Y-Type managers will identify the barriers which are causing problems for workers and try to eliminate those barriers.

In some situations, managers have to adopt X-type behavior and in some situations, they have to adopt Y-type behavior. Culturally, in societies, managers are moving towards Y-type behavior from X-type behavior.

Maslow's Hierarchy of Needs Model—Psychologist Abraham Maslow's theory of motivation proposing that people have several different needs that they attempt to satisfy in their work.

These needs are hierarchical in importance; lower-level needs must be met before a person will try to satisfy higher-level needs. Once a set of needs has been satisfied, it ceases to motivate behavior.

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Maslow's Hierarchy of Needs

Biological Needs

Biological needs are related to human body's survival. e.g. food, drink, air, sleep etc.

Safety Needs

Safety from: Cold, Heat, Sand, Storm, Earthquake, Animals, Enemies

Use of Hierarchy in Motivation

Biological needs can be fulfilled by:

- Giving salaries.
- Providing free or cheaper food to employees.
- Providing routine items at concessional prices.

Safety Needs

Organization can provide safety devices to employees. For instance:

- Helmet
- Glasses
- Gloves
- Special purpose shoes
- Medical Facilities
- Houses
- House rent
- Pick & drop service
- Insurance
- Pension plans
- Preventing people from accidents

Social Needs

Organizations encourage informal organizational activities.

These include:

Combined lunch or dinner

Sports

Fun fair

Musical Programs

Self Esteem

It means worth of human beings.

These include:

Designation of Individuals

Status in the organization

Recognition of employees in the organization

Self esteem has direct relationship with productivity. Various techniques can be used to make self esteem of employees high.

These can be:

Finding titles for employees

Recognition

Awards

Cash rewards

Increment in the salary

Promotion

Raising status of employees

Self Actualization

Self actualization is the fullest utilization of one's potential.

These include:

High Challenges

High position in the organization

Criticism on Maslow's hierarchy theory

- It is possible that human needs may deviate from the order given by Maslow.
- There is a question mark whether needs finish after self actualization or not.

Lecture 20

TWO-FACTOR THEORY OR HYGIENE THEORY

Frederick Herzberg's theory of motivation holding that job satisfaction depends on two types of factors, hygiene and motivation.

- Factors required to keep employees in the organization are called hygiene factors.
- Factors used to get high productivity from workers are called motivators.

Hygiene factors fall with the biological needs, safety needs and partially with social needs of Maslow's hierarchy theory. Motivators are almost similar to social needs, Self esteem needs and self actualization needs of Maslow's hierarchy theory. Both factors should be present in the organization at the same time to get productivity from workers.

This theory suggests that managers should follow a two-step approach to enhancing motivation—first, ensure that hygiene factors (working conditions, policies) are acceptable, and then offer motivation factors such as recognition and added responsibility. Biological needs are related to human body's survival. E.g. food, drink, air, sleeps etc.

Expectancy Theory—theory of motivation holding that people are motivated to work toward rewards that they want and that they believe they have a reasonable chance of obtaining.
In this theory, a reward that is out of reach is likely to be undesirable even if it is intrinsically positive.

People in the organization are motivated with:

- Expectations about reward.
- Assurance of getting reward by doing a particular task.

Equity Theory—theory of motivation holding that people evaluate their treatment by employers relative to the treatment of others.
People derive a ratio of contribution to return from analyzing what they contribute to their jobs (inputs) and what they receive in return (outputs); they then compare their own ratios with those of other employees. The ratios do not have to be the same, only fair.

Equivalence in inputs and outcomes

Inputs of employees in an organization are:

- Level of education
- Skills
- Experience

- Reputation
- Hard work
- Connections

Outcomes of employees in an organization are:

- Salaries
- Designations
- Promotions
- Benefits
- Social Status
- Respect in the organization
- Opportunities

Individual will also compare his input/outcome with other individual's input/outcome.

How can Equity Theory be implemented?

Managers have to explain reasons for the difference of outcomes of employees in order to keep them motivated. People compare their rewards with the market as well.

Lecture 21

STRATEGIES FOR ENHANCING JOB SATISFACTION AND MORALE

These strategies are ways to apply manager's knowledge of what provides job satisfaction and motivates workers.

Reinforcement/Behavior Modification Theory—theory that behavior can be encouraged or discouraged by means of rewards or punishments.
Most managers prefer giving rewards and placing positive value on performance to doling out punishment.

- To strengthen desired behavior at work place.
- To force the workers to adopt that behavior.
- There are two ways for reinforcement:
- Positive reinforcement
- Negative reinforcement
- Positive reinforcement means to encourage a particular behavior.
- Negative reinforcement means to discourage a particular behavior.

Human Relations—Interactions between employers and employees and their attitudes toward one another

Human Relations can be:

- Employee to employee
- Employee to employer

Purpose of human relations is to give a feeling of a family.

Management by Objectives—set of procedures involving both managers and subordinates in setting goals and evaluating progress.
Experts agree that motivation is the biggest advantage of MBO if it is used properly.

Participative Management and Empowerment—method of increasing job satisfaction by giving employees a voice in the management of their jobs and the company.
As an example, workers who no longer report product defects to supervisor but have the freedom to correct problems themselves, or even return defective products to the workers who are responsible for them, have been empowered to take greater responsibility for their own performance.

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Teamwork is not for every situation. Levi Strauss dismantled production teams in which faster workers became resentful of slower workers who reduced the group's total output, when teach member's pay was determined by the team's level of productivity.

Team Management—employees are given decision-making responsibility for certain narrow or broad activities.

JOB ENRICHMENT AND JOB REDESIGN

Job Enrichment Programs—method of increasing job satisfaction by adding one or more motivating factors to job activities.

Job rotation plans, for example, expand growth opportunities and the chance to learn new skills.

Job Redesign Programs—method of increasing job satisfaction by designing a more satisfactory fit between workers and their jobs.

Job redesign is usually implemented in one of three ways: through combining task, forming natural work groups, or establishing client relationships.

PSYCHOLOGICAL CONTRACTS IN ORGANIZATIONS

Set of expectations held by an employee concerning what he or she will contribute to an organization (referred to as contributions) and what the organization will in return provide the employee (referred to as inducements).
All organizations face the basic challenge of managing psychological contracts. The massive wave of downsizing and cutbacks that swept the U.S. economy in the 1980s and early 1990s has complicated that challenge. Because job permanence is less likely now, alternative inducements such as lavish benefits packages may be needed instead.

Managerial Styles and Leadership:

There are many valid styles of leadership. Most managers do not conform to anyone style, but under different circumstances, any given style or combination of styles may prove appropriate.

Leadership: A process of motivating others to work to meet specific objectives.

a. Managerial Styles: Pattern of behavior that a manager exhibits in dealing with subordinates.

i. **Autocratic Style:** Managerial style in which managers generally issue orders and expect them to be obeyed without question.

ii. **Democratic Style:** Managerial style in which managers generally ask for input from subordinates but retain final decision-making power.

iii. **Free-Rein Style**: Managerial style in which managers typically serve as advisers to subordinates who are allowed to make decisions.

iv. **The Contingency Approach to Leadership**: The contingency approach acknowledges that people in different cultures behave different and expect different things from their managers. Managers will be more effective when they adapt their styles to the contingencies of the situations they face.

v. **Contingency Approach**: Approach to managerial style holding that the appropriate behavior in any situation is dependent (contingent) on the unique elements of that situation.

MOTIVATION AND LEADERSHIP IN THE TWENTY-FIRST CENTURY

Changing Patterns of Motivation:

Today's employees want rewards that are often quite different from those valued by earlier generations.

- Money is no longer the prime motivator for most people, and because businesses cannot offer the same degree of job security that many workers want, motivation requires skillful attention from managers.

- One recent survey found that workers wanted flexible working hours (67 percent), casual dress (56 percent), unlimited Internet access (51 percent), opportunities to telecommute (43 percent), nap time (28 percent), massages and other perks. In another study of fathers, many men said they wanted more flexible working hours in order to spend more time with their families. Today's workers have a complex set of needs and their motivations are increasingly complex.

- The diversity inherent in today's workforce makes motivating behavior more complex.

Changing Patterns of Leadership:

1. Today's leaders are finding it necessary to change their own behavior as organizations become flatter and workers more empowered.
   The autocratic style is less acceptable and many managers are functions more as coaches than bosses.

2. Diversity is affecting leadership processes.
   Women, African Americans, and Hispanics are entering the managerial ranks in

increasing numbers, and they are more and more likely to be younger than some of the people they are leading.

3. Leaders must adopt more of a “network” mentality rather than a “hierarchical” one.

   New forms of organizational design may call for one person to be the leader on one project and a team member on another.

Modified Work Schedules

Work-Share Programs—method of increasing job satisfaction by allowing two or more people to share a single full-time job

Job sharing usually benefits both employees and employers, although job-sharing employees generally receive fewer benefits than full-time counterparts.

Flextime Programs and Alternative Workplace Strategies—method of increasing job satisfaction by allowing workers to adjust work schedules on a daily or weekly basis. **Flextime** can include starting later and leaving later in the day, starting and leaving earlier, or choosing which 4, 5, or 6 days to work during the week while still completing 40 hours.

Telecommuting and Virtual Offices
Telecommuting—form of flextime that allows people to perform some or all of a job away from standard office settings.

Among salaried employees, the telecommuter workforce grew by 21/5 percent in 1994, to 7.6 million; the number of telecommuters now exceeds 25 million employees.
The key to telecommuting is technology—networked computers, fax machines, cellular phones, and overnight delivery services make it possible to work from home or while traveling.

Virtual office—redesigned conventional office space to accommodate jobs and schedules that are far less dependent on assigned spaces and personal apparatus.
Informal work carrels or nooks and open areas can be made available to every employee.

Advantages and Disadvantages of Modified Schedules and Alternative Workplaces

1. Employees benefit from more freedom in their professional and personal lives.

2. Employers benefit from higher levels of commitment and job satisfaction.

3. Flextime sometimes complicates coordination because people who need to work together are working different schedules.

4. Telecommuting and virtual offices may not be for everyone. Those who can work best in these new environments tend to be disciplined self-starters who require little direct supervision during the day and are not uncomfortable working away from their managers and colleagues.

One other disadvantage is that it can be difficult for telecommuters to convince management that if they are not being supervised, they are still working, a perception based on the often erroneous assumption that "if you can see them, they are working."

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Lecture 22

WHAT IS MARKETING?

Although you may be just beginning your classroom study of marketing, organizations like Microsoft and Coca-Cola have been trying to sell you things for many years. You have probably become accustomed to many marketing techniques—contests, advertisements, fascinating displays placed in strategic locations, price markdowns and giveaways. What you are about to learn is that marketing requires a lot of planning and implementation to develop a new product, set its price, get it to consumers, and convince them to buy it.

Marketing

As defined by the American Marketing Association:

"It is planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives."

However, in laymen's terms:

"Marketing is quite simply finding a need and filling it."

a. **Marketing: Providing Value and Satisfaction:**
Marketing plays an important role in society by helping people satisfy their needs and wants and by helping organizations decide what to produce.
   i. **Value** compares a product's **benefits** with its costs.
   ii. **Utility** is the value to the customer that is added by the marketer. In other words, utility is the ability of a product to satisfy a human want or need. There are four types of utility:

      1) **Time utility** is making the product available when the customer wants it.
      2) **Place utility** is making the product available where consumers want it.
      3) **Ownership utility** is the customer value created when someone takes ownership of a product. Marketers create possession utility by facilitating the transaction.
      4) **Form utility** refers to the characteristics of the product such as its shape, size, color, function, and style.

b. Marketing of Goods, Services, and Ideas:
The influence of marketing permeates everyday life, applying to **goods**, **services**, and **ideas**. Marketing applies to tangible and intangible goods and include:

1) **Consumer Goods**—products purchased by consumers for personal use.
2) **Industrial Goods**—products purchased by companies to produce other products.
3) **Services**—intangible products, such as time, expertise, or an activity, that can be purchased.
4) **Ideas**—intangibles such as, MADD, Mothers against Drunk Driving.

i. **Relationship Marketing** emphasizes lasting relationships with customers and suppliers. Purchase incentives and customer loyalty programs are just some of the ways in which firms try to promote these relationships.

Lecture 23

THE MARKETING ENVIRONMENT

Difference between Marketing and Selling

Marketing	Selling
Marketing starts before decision of production	Selling starts after decision of production
Marketing is a total system and selling is one of its part	Selling is the transfer of owner ship
Marketing is a long term process	Selling is a short term process

CLASSIFICATION OF PRODUCTS

There are two types of products

1: Consumer products

2: Industrial products

- Consumer products are consumed after certain uses. e.g. Tea, soap, tooth paste, shaving cream, cooking oil etc.
- Industrial products are used in industry. e.g. Raw material, machinery, chemicals, computer hardware and software.

Relationship Marketing

Developing a long term relationship with the customers, by making phone calls to the customers, sending gifts to customers etc

Transactional Marketing

Transaction with the customer, it is a business strategy that focuses on single, "point of sale" transactions. The emphasis is on maximizing the efficiency and volume of individual sales rather than developing a relationship with the buyer.

FACTORS INFLUENCING THE MARKETING SYSTEM

- External Marketing Environmental Factors
- Internal Marketing Environmental Factors

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THE MARKETING ENVIRONMENT

The powerful forces of the external marketing environment heavily influence

Marketing programs by posing opportunities and threats

a. **Political and legal environment**: From taxes to regulations to laws, the political and legal environment has a profound impact on marketing. This is especially true for certain industries, such as telecommunications, automobiles, and tobacco.
b. **Social and cultural environment**: Trends in this arena, present enormous opportunities for companies those are both farsighted and flexible. Issues and changes include increasing diversity, more single-parent families, a rapidly growing senior population, etc.
c. **Technological environment**: New technologies create new goods and services, but also make some existing products obsolete (witness the growing dominance of DVDs at Blockbuster). In recent years, the emergence of the Internet has had the greatest impact on marketing.
d. **Economic environment**: Inflation, interest rates, recession, and recovery-both in home country and (to an increasing extent) abroad-have a dramatic influence on every element of the marketing mix.
e. **Competitive environment**: Creating a competitive advantage is a fundamental goal of marketing that can only be accomplished by carefully and continually monitoring every element of the competitive environment. **The competitive environment** drives many marketing decisions. By studying the competition, marketers determine how best to position their own products. Knowing the alternatives available to your customers, who your competitors are and what they offer is as vital to success as watching for the next big food or fashion craze or technological innovation. There are three specific types of competition:
    1. **Substitute product competition**: Products that are dissimilar from those of competitors, but can fulfill the same need (e.g. television and computer games are very different from one another, but both fulfill the need for entertainment).
    2. **Brand competition**: Occurs between similar products (e.g. Zest bar soap and Irish Spring bar soap).
    3. **International competition**: matches the products of domestic marketers against those of foreign competitors (e.g. Neutrogena skin care products vs. L'Oreal skin care products, or Heineken vs. Budweiser).

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MARKETING MANAGER

A person who plans and executes all marketing activities

Role of Marketing Manager

- To identify the unsatisfied needs of the customers.
- To design the product.
- Product Development.
- Pricing Decisions.
- Product Distribution.
- Communication with the customers.
- Marketing Research.
- Appointment of staff in marketing department.

MARKETING PLAN

A plan for marketing programs

Components of marketing plan are:

- Executive Summary.
- Current market situation.
- Opportunity Analysis.
- Marketing objectives.
- Marketing Strategies.
- Projected income statement.
- Control.

Lecture 24

THE MARKETING MIX

A firm's **marketing mix** (often called the four Ps) consists of **product**, **place** (or distribution), **price**, and **promotion**.

a. **Product:** The good, service, or idea that is marketed to fill consumer wants and needs. Improving existing products and developing new products are among the marketer's most important tasks.

    i. **Product differentiation**: Creation of a product or product image that differs enough from existing products to attract consumers. Differentiation is a source of competitive advantage. Combinations of physical goods and services can also be sources of differentiation.

b. **Pricing**: Selecting the most appropriate price at which to sell a product. Lower prices generally lead to higher sales volume, while higher prices generally lead to higher profits per unit. Prices must support a variety of costs, such as the organization's operating, administrative, and research costs, and marketing cost like advertising and sales salaries

c. **Place** (distribution): Determining the most effective and efficient way to get products from producers to consumers. Distribution also involves choosing which channels of distribution are most appropriate.

d. **Promotion**: All of the activities a firm undertakes to communicate and promote its products to the target market. This is clearly the most visible element of the marketing mix.

TARGET MARKETING AND MARKET SEGMENTATION

A market contains all the customers or businesses that might be interested in a product and can pay for it.

Identifying Market Segments: Companies subdivide the market into **market segments**, homogeneous groups of customers within a market that are significantly different from one another. The goal of the **market segmentation** process is to group customers with similar characteristics, behavior and needs. These **target markets** can then be offered products that are priced, distributed, and promoted differently. Four factors marketers frequently use to identify market segments are:

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Geographic segmentation divides markets into certain areas such as regions, cities, counties, or neighborhoods to customize and sell products that meet the needs of specific markets**.**

i. **Demographics** use statistical analysis to subdivide the population according to characteristics such as age, gender, income, race, occupation, and ethnic group.

ii. **Psychographics** is the analysis of people by psychological makeup, including activities, interests, opinions, and lifestyles (e.g. fashion-consciousness, thrill-seeking).

iii. **Behavioral** segmentation divides markets according to customers' knowledge of, attitude toward, use of, or response to products or their characteristics.

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Lecture 25

MARKETING RESEARCH

Market research is the process of systematic gathering, recording and analyzing of data about customers, competitors and the market. Market research can help create a business plan, launch a new product or service, fine tune existing products and services, expand into new markets etc. It can be used to determine which portion of the population will purchase the product/service, based on variables like age, gender, location and income level. It can be found out what market characteristics your target market has.

The purpose of market research is to help companies make better business decisions about the development and marketing of new products. Market research represents the voice of the consumers in the company

A list of questions that can be answered through market research:

- What is happening in the market? What are the trends? Who are the competitors?
- How do consumers talk about the products in the market?
- Which needs are important? Are the needs being met by current products?

A simple example of what market research can do for a business is the following.
At the Company Chevrolet they brought several disciplines together in a cross-functional team to develop a concept for a completely new Chevrolet. This team enabled the marketers to come up with an alternative concept, one that balanced 4 attributes: comfort and convenience, quality, styling, and performance. This was considered radical because comfort and convenience were not traditional Chevrolet values. However, market research demonstrated that consumers supported the alternative concept. As a result the new Chevrolet was a huge success in the market. [Burns 2001]

With market research you can get some kind of confirmation that there is a market for your idea, and that a successful launch and growth are possible.

Market research for business planning

Market research is discovering what people want, need, or believe. It can also involve discovering how they act. Once that research is complete it can be used to determine how to market your specific product. Whenever possible, try to reduce risks at the earliest possible stage. For example you could carry out market research early on and not wait until you are almost ready to enter the market. If early market research reveals that your business idea has real potential, you can use this information in planning the build-up of your business. [Ilar 1998]

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For starting up a business there are a few things should be found out through market research order to know if your business is feasible. These are things like:

Market information

Market information is making known the prices of the different commodities in the market, the supply and the demand. Information about the markets can be obtained in several different varieties and formats. The most basic form of market information is the best quotation and last sale data, including the number of shares, with respect to a particular security at a given time. [Market research 2006]

Examples of market information questions are:

_ Who are the customers?
_ Where are they located and how can they be contacted?
_ What quantity and quality do they want?
_ What is the best time to sell?
_ What is the long-term or historical price data over a number of years?
_ What is the expected production in the country?
_ Is there more demand for one product or another? Etc.

Market Segmentation

Market segmentation is the division of the market or population into subgroups with similar motivations. Widely used bases for segmenting include geographic differences, personality differences, demographic differences, use of product differences, and psychographic differences.

Market Trends

The upward or downward movements of a market, during a period of time, the market size is more difficult to estimate if you are starting with something completely new. In this case, you will have to derive the figures from the number of potential customers or customer segments. [Ilar 1998]

But besides information about the target market you also need information about your competitor, your customers, products etc. A few techniques are:

Customer Analysis

_ Competitor analysis
_ Risk analysis
_ Product research

MARKET RESEARCH PROCESS

This chapter introduces the steps involved in the market research process. It also provides you with a brief preview of each of the steps necessary to conduct a market research effort. The market research process has 4 basic steps. These steps include:

Defining the research problem
Establishing the research design
Collecting and analyzing data
Formulate findings

Meta-process model for Market research

Before these four steps are discussed it is important to make a few comments about these steps. First although the list does strongly imply an orderly step-by-step process, it is rare that a research project follows these steps in the exact order that they are presented in the figure.

Market research is more of an interactive process whereby a researcher, by discovering something in a given step, may move backward in the process and begin again at another step [Market research 2006] Finding some new information while collecting data, may cause the researcher to establish different research objectives

In the following the different market research steps are described.

Defining the research problem

The step defining the research problem exists of 2 main steps: (1) formulating the problem and
(2) Establishing research objectives.

Defining the problem is the single most important step in the market research process. A clear statement of the problem is a key to a good research. A firm may spend hundreds or thousands of dollars doing market research, but if it has not correctly identified the problem, those dollars are wasted. In our case it is obvious that the problem here is setting up a business. But even if this is clear, you still need to know what exactly you need to know to make the new business a success and what specific related to the product is difficult to find out. Problems that may be encountered are: it is unknown what potential markets there are, what customer groups are interested in your products, who the competitors are? After formulating your problem, you need to formulate your research questions. What questions need to be answered and which possible sub-questions do you have.

With the problem or opportunity defined, the next step is to set objectives for your market research operations. Research objectives, related to and determined by the problem

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formulation, are set so that when achieved they provide the necessary information to solve the problem. A good way of setting research objectives is to ask,

“What information is needed in order to solve the problem?" Your objective might be to explore the nature of a problem so you may further define it, or perhaps it is to determine how many people will buy your product packaged in a certain way and offered at a certain price. Your objective might even be to test possible cause and effect relationships. For example, if you lower your price, how much will it increase your sales volume? And what impact will it have on your profit?

Clear objectives can lead to clear results. An example of this is a situation at Camaro/Firebird. Auto manufacturers are sometimes criticized for creating expensive vehicles with unwanted features and technologies that do not meet the needs of the target market. To avoid this trap engineering team of this company turned to market research to evaluate how changes in performance and fuel economy would affect sales volume and customer satisfaction. It turned out that customers were willing to pay more for greater performance if the car also offered simultaneous increases in fuel economy. [Burns 2001]

The problem description, the research question, sub questions and the research objectives are part of an overall document problem description.

After describing and formulating the problem and the objectives, the next step is to prepare a detailed and realistic time frame to complete all steps of the market research process. If your business operates in cycles, establish target dates that will allow the best accessibility to your market. For example, a holiday greeting card business may want to conduct research before or around the holiday season buying period, when their customers are most likely to be thinking about their purchases. [Market research 2006]

Selecting and establishing research design

The step selecting and establishing research design consists of 3 main steps:
(1) Select the research design, (2) identify information types and sources and (3) determine and design research instrument.

.

Collecting and analyzing data

Data collection is usually done by trained interviewers who are employed by field data collection companies to collect primary data. A choice has to be made between collecting the data yourself or hiring an external office who are specialized in interviews. Data analysis is needed to give the raw data any meaning. The first step in analyzing the data is cleaning the data. This is the process of checking the raw data to verify that the data has been correctly entered into the files from the data collection form. After that the data have to be coded. This is the process of assigning all response categories a numerical value.

For example males = 1, females = 2. After that the data can be tabulated, which refers to the actual counting of the number of observations that fall in to each possible response category.

Formulate findings

After analyzing the data you can make your findings based on this data. Once the findings about the target market, competition and environment are finished, present it in an organized manner to the decision makers of the business. In this case report the findings in the market analysis section of your business plan. In summary, the resulting data was created to help guide your business decisions, so it needs to be readily accessible to the decision makers.

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Lecture 26

CONSUMER BEHAVIOR & MARKETING RESEARCH

Marketing Research is the process of gathering data about marketing issues and transforming that raw data into meaningful information that can improve decisions and reduce risks. Market research can help with nearly every phase of marketing from setting goals for market share to developing new products to monitoring the program's effectiveness. It is also important to monitor the competition, track industry trends, and measure customer satisfaction. Marketing

Research can occur at any point in the product's existence.

The Research Process

- Study the current situation
- Select a research method
- Collect data
- Secondary data are already available from previous research.
- Primary data is newly performed research.
- Analyze the data
- Prepare a report

Research Methods

Observation: Market Research technique that involves simply watching and recording consumer behavior. Probably the oldest form of market research, it has been brought up to date with such tools as electronic supermarket scanners that allow managers to see what is selling without having to check shelves or inventory.

Survey-Market Research: technique using a questionnaire that is either mailed to individuals or used as the basis of interviews. Surveys can be expensive and may vary widely in accuracy; it is also difficult to find representative groups of respondents.

Focus Group-Market Research: technique in which a small group of people is gathered, presented with an issue, and asked to discuss it in depth. At its best it allows exploration of complex issues and can produce creative solutions. Its small size (6 to 15 people is best) means it may not represent the larger market well. Focus groups are often used as a first step, leading to some other form of research.

Experimentation: market research technique that attempts to compare the responses of the same or similar people under different circumstances. This method is very expensive but

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can supply answers to questions that surveys cannot address, by allowing customers to sample new products, for instance.

UNDERSTANDING CONSUMER BEHAVIOR

Marketers study consumer buying behavior to learn what makes individuals buy one product instead of another. Consumer markets consist of individuals or households that purchase goods and services for personal use. Issues to be considered are the differences between organizational and consumer markets, the buyer's decision process, and the factors that affect that decision process.

Influences on Consumer Behavior

Consumer behavior is essentially the study of why consumers purchase and consume products. Four key factors influence consumer behavior:

I. **Psychological**: Motivations, perceptions, ability to learn, attitudes
II. **Personal**: Lifestyle, personality, economic status
III. **Social**: Family, opinion leaders, reference groups (e.g. friends, associates)
IV. **Cultural**: Culture, subculture, social class

The Consumer Buying Process

One way to look at the psychology of buying is to understand the decision-making process people go through when making a purchase. Deciding what to buy is a problem-solving process. Sometimes consumers become

I. **Problem/Need recognition**: The consumer buying process begins with recognizing a problem or need. Needs often arise when our personal circumstances change, creating windows of opportunity for marketers (e.g. getting married, entering the workforce, etc.).

II. **Information seeking**: Sources of information can range from personal sources, to marketing sources, to public sources, to experience. Depending on the product, information seeking ranges from superficial (e.g. "Where is the soft drink machine?") to extensive (e.g. library research).

III. **Evaluation of alternatives**: This step is essentially a matching process: How do the attributes of the products you are considering match with your needs and wants? Here, too, the evaluation process can range from brief to protract.

IV. **Purchase decision**: Purchase decisions are typically based on a combination of rational and emotional motives. **Rational motives** are based on logical evaluation of product attributes (e.g. cost, quality, usefulness). **Emotional motives** are based on non-objective factors (e.g. "All my friends have 4-inch high heel shoes!").

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V. **Post-purchase evaluation**: This includes everything that happens after the sale. Satisfied customers are likely to repurchase products they have used and enjoyed, while unhappy customers are not only unlikely to repurchase, but also are prone to broadcast their negative experience to other potential consumers.

Lecture 27

PRODUCT, TYPES OF PRODUCTS & STEPS FOR PRODUCT DEVELOPMENT

Product

Product is anything that can be offered for sale by an organization and in return it can earn profit for the firm. Every product has some associated benefits based on the features of that specified product. Every product has a set of identified features.

Forms of Products

General forms of products can be:

- **Tangible**

All the products that can be touch physically or smelled or felt with fingertips are called tangible ones.

- **Intangible**

All the products that can not be touched physically are called intangible ones.

E.g., if you observe a bill board of any juice product, product presented in the bill board is untouchable as you can't feel is with your finger or smell it but original product will be tangible as you can taste it, feel it or smell it.

CLASSIFICATION OF PRODUCTS

Products are classified as under:

Consumer Products

Products that are used by consumers as are available in finished & consumable forms.

Industrial Products

Products that are used to prepare other products are called as industrial products.

CATEGORIES OF CONSUMER GOODS

Consumer goods can be further divided as under:

- **Convenience goods**
  - Goods which are convenient to buy for the customer.
  - Customer has complete awareness of the product.
  - Customer buys these products frequently.
  - Goods available at near places from the customers
- **Shopping Goods**
  - Customers move farther to acquire these goods
  - Customers do have search for getting these goods
  - Usually quality is not standardized for these goods
  - Prices are also not standardized for these goods
- **Specialty goods**
  - For these products, customers have strong brand loyalty.
  - Customers are very quality, status & standard conscious for these products.

CATEGORIES OF INDUSTRIAL GOODS

Industrial goods have following categories

- **Capital Items**
  - These are capital goods.
  - These are long lived and expensive goods.
  - Sometimes copyrights are purchased.
- **Expense Items**
  - These can be:
    - Raw Material
    - Some utility items
      - Oil
      - Grease
    - Some tools used in operations

PRODUCT MIX

Product mix is defined as the combination of all those products offered by an organization for sale. It's **width wise** expansion of the products of any companies.
Production of cars, trucks motor cycle etc & other vehicles produced by same company is the examples of product mix.

PRODUCT LINE

- Depth wise expansion of any company is called product line
- Products which are similar to each other .e.g. if a company is producing TV sets, like black & white, medium sized, large size & small size TV, then it will be called as product lines of the company.

STEPS FOR PRODUCT DEVELOPMENT

Following are the important steps any product development process:

- Recognition of unsatisfied needs.
- Idea Generation.
- Idea Screening.
- Prototype
  - Physical shape of the product.
- Product Testing
  - Tests are of two types:
    - Laboratory Test.
    - Market Test or Test Marketing.
      - Product is sold on trial basis.
- Commercialization
- Product is sold on commercial basis. This concept is also called **Mass marketing.**

Lecture 28

PRODUCT LIFE CYCLE, BRANDING, PACKAGING & LABELING

Product is the core concern of any firm. All the efforts from raw material to finished form are related with product. Business firm spend their every resources to develop, present & maintain product through out their business operation. Normally products have following four stages:

Introduction stage

A stage when a new product is introduced in the market after continuous R & D, & all developmental processes. At this stage, there are only one or few manufacturers in the market. Since less producers are there, so almost no competitions. Since sales are less so profits are also less.

At this stage product appears as "Question Mark" which shows product may be successful in the market & may not be.

Growth Stage

At this stage, customers' awareness develops & people start knowing more & more about new product in the market so sale of the product will increase due to:

- Repeated orders of the old customers.
- New customers will also enter the market.

At this stage, product is called as "Star" as it generates good profits for the firm

Maturity Stage

Since at this stage, people become more and more aware with the new product in the market so here comes the time when not only product become stable but people also start recognizing company with the reference of that particular product. Here product gets "share of Mind" among the targeted markets. At this stage product have:

- Highest level of sales in the market because of awareness about the product.
- More sellers will also enter in the market.
- Completion become very high

At this stage, product called as "Cash Cow" as now profit margins may be less than growth stage but product gain relatively more market share

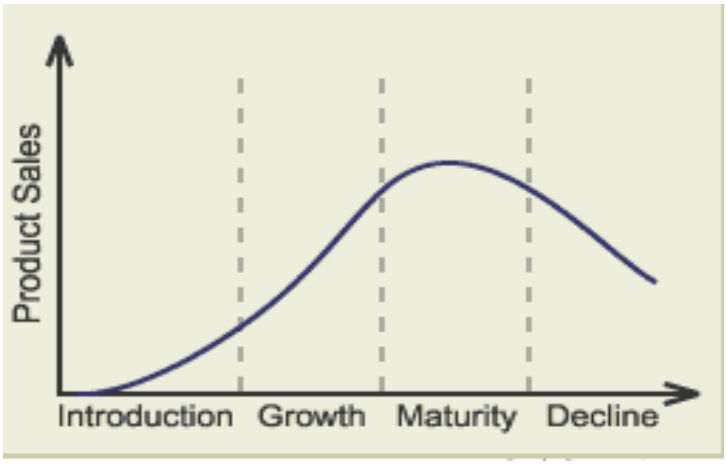
Decline Stage

This the last stage of any product. Product loss market share as well as profits for the firm. At this stage, product will disappear from the market.

Following important steps become very necessary for the firm to be taken in order to bring product back in market:

- More & more D & R & Innovation in order to add more feature in the product
- Searching of new target markets for the product
- Evolution of new co-product

At this stage product called as "Dog" as production & development costs are more & more but no profits at all.



USE OF PRODUCT LIFE CYCLE IN DECISION MAKING PROCESS

Introduction Stage

- Marketers can dictate more of their policies.
- At this stage, customers of the product are venturesome (Who like to try new ideas).
- Marketers can keep the prices high because, Customer can afford to spend more money on a new product.
- There will not be much profit at this stage.

- **Growth Stage**
  - Marketers will earn more profit due to:
    - Small number of manufacturers
    - Less Competition
    - High Sales
- **Maturity stage**
  - Marketers will:
    - Reduce the price due to more competition.
    - Spend money on research and development.
    - Spend money to promote the brand name of the product.
  - Marketers will also revise their marketing strategies. i.e. They will find new segments of the market for their product.
  - Per unit profit might reduce at this stage.
- **Decline Stage**
  - Marketers should sell the products to selective customers.
  - At this stage, marketers will introduce innovations in the product to keep their sales high.

BRANDS

Brand is a symbol, a sign, a type of writing, a color, a design or a combination of all these things to identify a product.

BRANDING PROCESS

Branding is a process in which any identification is suggested for the product.

BRAND EQUITY

Brand Equity is the loyalty of the customers attached to the product.

BRAND AWARENESS

Brand awareness is the extent to which a customer knows or recalls the brand of the product.

TYPES OF BRAND NAMES

National Brands

If a same brand is sold throughout the country then its called as National Brand.

License Brands

Seller buys the right to sell that brand in the market.

Private Brands

Manufacturers use the brand of some retailer while manufacturing the product.

PACKAGING AND LABELING

- **Packaging**
  - Dress of the product.
  - Designing and making of the wrapper of the product.
- **Labeling**

Part of package containing name, contents and name of manufacturer of the product is called a label.

Lecture 29

PRICING & DISTRIBUTION MIX

Pricing

Price is the value which a seller receives in exchange of a good or a service.

It is a process of determining what a company will receive in exchange for its products.

Objectives of Pricing

- Maximization of profit.
- Increasing market share.
- Psychological advantage.
- Get rid of stock.

Cost Based Pricing

In cost based pricing cost of product is considered and amount of profit is added to it.

Breakeven Analysis

Breakeven analysis tells us that at what point the organization will be at no profit no loss point.

In order to calculate breakeven point, we need to consider:

- Fixed cost
- Variable cost

Fixed cost will remain fixed regardless of number of units produced.

Variable cost varies with the number of units produced.

Total Cost = Fixed cost + Variable cost

Concept of breakeven analysis is used in cost based pricing.

Pricing of a new Product

There are various forms of pricing to determine the price of the product

- Price Skimming
- Penetrating Pricing

- Fixed Price
- Dynamic Price

Price Skimming

It is a strategy through which a product is introduced in the market with higher price than the market expectations.

Advantages of price skimming

- If there is any mistake in calculation of cost, price skimming strategy will absorb that mistake due to initial higher price.
- Sometimes, customers value the quality of the product with its price.

Penetrating Pricing

Penetrating price is the initial lower price than the market expectations.

Advantages of Penetrating Pricing

- A larger market share can be captured through this pricing strategy.
- Pricing depends upon the objectives of the organization.

Fixed Price Vs. Dynamic Price

Fixed price held constant for a specified period of time.

In fixed pricing method, we do not consider:

- Type of customer
- Type of community
- Location of the sale point

In dynamic pricing, price will vary from:

- [illegible]er
- [illegible]t

Factors to be considered while setting International Pricing

- Currency
- Exchange rate
- Taxes by the Government
- Tariff
- Freight

- Insurance

THE DISTRIBUTION MIX

Getting products from producer to consumer is the next element of the marketing mix, known as **distribution**, or **place**. An organized network of firms used to move goods and services from producers to customers is called a **distribution channel**, or marketing channel. A company's decisions about which channels should be used, the **distribution mix**, plays a major role in the firm's success.

▪ Intermediaries and Distribution Channels

For most of your purchases, you rely on **market intermediaries,** also known as middlemen, who channel goods and services from producer to end-users.

- **Wholesaler-intermediary** those who sells products to other businesses for resale to final consumers.
- **Retailer-intermediary those** who sells products directly to consumers.

A firm's choice between using an independent intermediary and employing its own distribution network and sales force depends on three factors:

1) The company's target markets
2) The nature of its products
3) The costs of maintaining distribution and sales networks

The number and type of market intermediaries involved in the channel of distribution depend on the kind of product and the marketing practices of a particular industry. There are important differences among the channels of distribution for **consumer products** and **business products**.

Distribution of Consumer Products

Channels for **consumer goods** are usually the most complex, although they can be categorized. Typical channels include:

1. **Channel 1: Direct Distribution of Consumer Products**, ex. Avon, Fuller Brush, Tupperware
2. **Channel 2: Retail Distribution of Consumer Products**, ex. Levi's, Goodyear, PeaPod.com
3. **Channel 3: Wholesale Distribution of Consumer Products**, ex. combination convenience store/gas station
4. **Channel 4: Distribution through Sales Agents or Brokers**, ex. food brokers, travel agents, realtors

ii. The Pros and Cons of Non-direct Distribution

Non-direct distribution becomes higher priced for end users because each distribution link charges a markup or commission.

1. Intermediaries can save consumers both time and money by providing added value.

iii. **Channel 5: Distribution by Agents to Consumers and Businesses**, ex. some travel agencies. Channel 5 differs from the other channels in two ways: (1) it includes an agent as the sole intermediary (2) it distributes to both consumers and business customers

Distribution of Business Products

Industrial Distribution-network of channel members involved in the flow of manufactured goods to industrial customers.

i. **Channel 6: Direct Distribution of Business Products**, ex. Dell Computers
ii. **Channel 7: Wholesale Distribution of Industrial Products**, ex. distribution of office equipment and accessories
iii. **Channel 8: Wholesale Distribution to Business Retailers**, ex. Staples, Office Depot, Office Max

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Lecture 30

WHOLESALING, RETAILING & PHYSICAL DISTRIBUTION

Agents and Broker

Independent intermediary who usually represents many manufacturers and sells to wholesalers or retailers. Provides a wide range of services including shelf and display merchandising and advertising layout. Agents and brokers never actually own the merchandise they sell.

WHOLESALING

Wholesalers sell primarily to retailers, other wholesalers, and industrial or institutional users. Wholesalers provide a variety of services to customers who are buying products for resale or business use. The types of wholesale intermediaries are:

- **Merchant wholesalers**

—independent wholesaler who takes legal possession of goods produced by a variety of manufacturers and then resells them to other businesses. Merchant wholesalers also provide storage and deliver; the merchant wholesaling industry employs 6 million people in the United States.

i. **Full-Service Merchant Wholesaler-**-merchant wholesaler who provides credit, marketing, and merchandising services in addition to traditional buying and selling services. Approximately 80 percent of all merchant wholesalers are full-service merchant wholesalers.
ii. **Limited-Service Merchant Wholesaler**—merchant wholesaler who provides a limited range of services, sometimes only storage.
iii. **Drop Shipper**—limited-function merchant wholesaler who receives customer orders, negotiates with producers, takes title to goods, and arranges for shipment to customers.
iv. **Rack jobbers**—limited-function merchant wholesaler who sets up displays in retail outlets, stock inventory, and mark prices on merchandise displayed in a certain area of a store.

DISTRIBUTION STRATEGIES

A distribution strategy is a company's overall plan for moving products to buyers and it plays a major role in the company's success. One part of that strategy, choosing the appropriate market coverage, depends primarily on the type of product, as convenience goods require different strategies from organizational supplies.

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i. **Intensive distribution**, where the market is saturated with a product, almost certainly needs a long distribution chain. Normally used for low-cost consumer goods with widespread appeal such as candy and magazines.
ii. **Exclusive distribution** severely limits the number of outlets for the item in a particular geographic area and is most often used for expensive specialty or technical products, such as Jaguar automobiles and Rolex watches.
iii. **Selective distribution** uses a limited number of outlets and might work better for shipping goods that a buyer is likely to want to compare for features and prices. Examples are fashions and appliances.

- **Channel conflict** can occur when one channel member places its own success above the success of the entire channel, or when the members of a distribution channel disagree over the roles they should play or the rewards they should receive.
- **Channel Leadership** can occur when a channel member who is most powerful in determining the roles and rewards of other members. That member is called the Channel Captain. Power may come from the desirability of a producer's product, or from the large sales volume generated by a wholesaler or retailer.

RETAILING

Retailers sell to individuals who buy products for ultimate consumption and are a visible element in the distribution chain. Retailers represent the end of the distribution channel, making the sale of goods or services to final consumers. Today's retail stores include department stores, discount stores, warehouse clubs, hypermarkets, factory outlets, category killers, supermarkets, convenience stores, and catalog stores. Retailers save consumers time and money.

Types of Retailer Outlets

i. **Product Line Retailer**-retailer featuring broad product lines.
   1. **Department Store**—large product line retailer characterized by organization into specialized departments.
   2. **Supermarket**—large product line retailer offering a variety of food and food-related items in specialized departments. Ex., Safeway, Kroger, etc.
   3. **Hypermarket**—very large product line retailer carrying a wide variety of unrelated products.
   4. **Specialty Stores**—carry only a particular type of good, but an extensive selection of brands, styles, sizes, models, and

prices within each line stocked such as children's clothing, books, or sporting goods.

5. **Category killers** are superstores such as Toys R Us or Office Depot that dominate a market by stocking every conceivable variety of a particular line of merchandise.
6. **Scrambled merchandising**—retail practice of carrying any product that is expected to sell well regardless of a store's original product offering

ii. **Bargain Retailer**—retailer carrying a wide range of products at bargain prices.

1. **Discount House**—bargain retailer that generates large sales volume by offering goods at substantial price reductions. K-Mart, Wal-mart
2. **Off-Price Store**—bargain retailer that buys excess inventories from high-quality manufacturers and sells them at discounted prices. Marshall's is one of the most successful.
3. **Catalog Showroom**—bargain retailer in which customers place orders for catalog items to be picked up at on-premises warehouses.
4. **Factory Outlet**—bargain retailer owned by the manufacturer whose products it sells.
5. **Warehouse Club** (or Wholesale Club) —bargain retailer offering large discounts on brand-name merchandise to customers who have paid annual membership fees. Ex., Price Club, which merged with rival Costco.
6. **Convenience Store**—retail store offering easy accessibility, extended hours, and fast service. Ex. 7-Eleven and Circle K.

PHYSICAL DISTRIBUTION

Physical distribution encompasses all activities required to move finished products from a producer to the consumer. It is a complex strategic activity with many trade-offs that affect the organization and profits.

Technology used in physical distribution systems today includes satellite navigation and communication, robots, machine vision; voice input computers, on-board computer logbooks, and planning software that uses artificial intelligence.

The overriding objective of all physical distribution systems should be to achieve a competitive level of customer service standards at the lowest total cost. Producers must be able to analyze whether it is worth it to deliver a product in three days instead of five, if doing so reduces the cost of an item. The goal is to optimize the total cost of achieving the

desired level of service by analyzing each step in the process and its relation to the other steps.

Transportation Operations

i. Major transportation modes are:

1. **Trucks** are most frequently used and offer door-to-door delivery and use of public highways, but are unable to carry all types of cargo.
2. **Railroads** are able to carry heavier and more diversified cargo, but are unable to deliver directly to the customer.
3. **Water carriers**—Boats are the cheapest form of transport, especially for bulk items, but service is slow and infrequent, and delivery is restricted.
4. **Air transport** is the fastest means of moving goods, but it doesn't go everywhere, it can carry only certain types of cargo, and is unreliable and expensive.
5. **Pipelines**, although expensive to build, are extremely economical to operate and maintain.

ii. Changes in Transportation Operations

1. **Inter-modal Transportation**: combined use of several different modes of transportation.
2. **Containerization**: uses of standardized heavy-duty containers in which many items are sealed at points of shipment and opened only at final destination.
3. **Physical Distribution and E-Customer Satisfaction**: New e-commerce companies need to focus not only on sales but also on after-sale distribution in order to avoid customer dissatisfaction that discourages repeat sales. **Order Fulfillment and E-Customer Satisfaction**: Order fulfillment begins when the sale is made: It ends with getting the product, in good condition and on time, to the customer for each sales transaction.

PROMOTION

The ultimate goal of a promotion is to increase sales. Other goals include communicating information, positioning a product, adding value, and controlling sales volume. In deciding on the appropriate promotional mix, marketers must consider the good or service being offered, characteristics of the target audience and the buyer's decision process, and the promotional mix budget.

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Promotional Objectives

Promotions experts recognize that not all objectives are sales objectives. Some communications objectives use an indirect approach to make an audience aware of a new product or change a company's negative image. In addition to increasing sales, promotion can have four other objectives.

Communicating Information
Information can advise customers about a product's existence or about its features.

Creating Awareness
Through provided information, customers become aware with the product available in the market.

Comparison
After awareness, customers, make comparisons among the available products in the market.

Buying decision
Last step is the buying decision after which customers finally acquire the products while paying due costs.

Lecture 31

PROMOTION & ADVERTISEMENT

- **Promotional Strategies**

i. **A push strategy** is a promotional approach designed to motivate wholesalers and retailers to push a producer's products to end users.
ii. **A pull strategy** is a promotional approach that stimulates consumer demand, which then exerts pressure on wholesalers and retailers to carry a product.

Many firms use combinations of these two very different strategies.

- **Promotional Mix**

Marketers use four types of promotional tools: advertising, personal selling, sales promotions, and publicity and public relations. Market-related factors influence the promotion mix.

The best combination of promotional tools will depend on many factors, such as:

i. The nature of the product
ii. The Target Audience
iii. Promotion and the Buyer Decision Process. This is the five-step process outlined in Chapter 10. Marketers match promotion efforts with different stages of the buying decision process.
iv. The Promotional Mix Budget. The combined costs of personal selling, advertising, sales promotion, and public relations must fall within the budgeted amount and be balanced to have the desired effects on attitudes and purchasing decisions.

Promotional tool consisting of paid, non-personal communication used by an identified sponsor to inform an audience about a product. The average U.S. resident is exposed to roughly 250 ads every day through a variety of media—including floor ads. All forms of advertising have three objectives: to create product awareness, to create and maintain the image of a product, and to stimulate consumer demand. It not only determines what we buy, but it shapes our view of the world.

Advertising

1) The best form of promotion for reaching mass audiences quickly at a low per-person cost.
2) Gives the organization the greatest control over the message.
3) Promotes goods, services, or ideas, using a full range of creative approaches and media to convey your message.
4) Must conform to the law, as well as the ethical and moral standards of the medium and trade associations.

The advertising strategies used for a product most often depend on which stage of the product life cycle the product is in. During a product's growth and maturity stages, marketers may choose one of three common approaches:

i. **Persuasive Advertising**—advertising strategy that tries to influence consumers to buy one company's products instead of those of its rivals.
ii. **Comparative Advertising**—advertising strategy that directly compares two or more products.
iii. **Reminder Advertising**—advertising strategy that tries to keep a product's name in the consumer's mind.

ADVERTISING MEDIA

Variety of communication devices for carrying a seller's message to potential customers:

i. **Television** sometimes leads viewers to confuse commercials because of their brevity and their great number.
ii. **Newspapers**—the most widely used medium, accounting for about 20 percent of all advertising expenditures.
iii. **Direct Mail**—about 18 percent of all ad spending. Direct mail has the largest advance costs of any technique but the highest cost-effectiveness.
iv. **Radio**-8 percent of all advertising outlays. Radio ads are quite inexpensive but easy for consumers to ignore.
v. **Magazines**—roughly 5 percent of all advertising. Huge variety of magazines makes for a high level of ready market segmentation.
vi. **Outdoor Advertising**—about 1 percent of all advertising. Billboards, signs, ads on buses, taxis, stadiums, etc. are inexpensive and have high repeat exposure. It's growing

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faster than newspapers, magazines, and television and offers animation and changing images.

vii. **The Internet**—Still in its infancy but offers high potential, particularly for targeted advertising.

The Media Mix

Combination of advertising media chosen to advertise a company's products, Determinants of the Media Mix include:

- The characteristics of the target audience and the types of media that will reach it are determined.
- The choice of media is also determined by what it is expected to do.

ADVERTISING AGENCY

Independent company that provides some or all of a client firm's advertising needs.

Preparing the Campaign with an Advertising Agency

Advertising Campaign — arrangement of ads in selected media to reach targeted audiences. It:

i. Identify the target audience
ii. Establish the advertising budget
iii. Define the objectives of the advertising messages
iv. Create the advertising messages
v. Select the appropriate media
vi. Evaluate advertising effectiveness

Lecture 32

PERSONAL SELLING

Preparing the Campaign with an Advertising Agency

It includes:

i. Identify the target audience

a. Education Class
b. Income Class
c. Area (Rural or urban)
d. Age
e. Social Class

ii. Establish the advertising budget

a. Percentage of expected sales
b. Considering our marketing objectives
c. Considering the competitors

iii. Define the objectives of the advertising messages

a. Are we going to introduce new product
b. Are we going to advertise price change impact?
c. Are we going to launch new campaigns in response to our competitor's campaigns?

iv. Create the advertising messages

a. Include all color selections, images, Cartons & illustrations
b. Selection of language
c. Selection of appropriate words

v. Select the appropriate media

Media selection is very important for every advertising message. E.g.

a. Radio for agricultural products
b. TV for consumer products
c. If company's introduction & contents required then can be print media as good selection

vi. Evaluate advertising effectiveness

a. Our message has changed customer's buying decision or not?
b. We have found desired image or not?
c. Our meaning well communicated or not?

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Advertising Researchers

It is always done in response to all advertising campaigns in order to know the overall impact of the advising activities. Advertising researches bring answer for all the above mentioned aspects & through these companies can know where the change is required either in your message, your budget, your media selection or etc.

"A promotional tool in which a salesperson communicates one-on-one with potential customers"

- It is the most expensive form of promotion per contact. Most companies spend twice as much on personal selling as on all other marketing activities combined. Expenses include salespeople's compensation and overhead, usually travel, food, lodging. The cost of a single sales call has been estimated at about $300.

- Sales force automation and new technologies are relieving salespeople of nonproductive tasks, making the time they spend with customers more efficient and profitable.

Personal Selling Situations:

i. **Retail Selling**: Personal selling situation in which products are sold for buyers' personal or household use.

ii. **Industrial Selling**: Personal selling situation in which products are sold to businesses, either for manufacturing other products or for resale.

iii. **Pharmaceutical products:** Sales persons communicate with doctors & products are presented to the doctors & in return doctors recommend these products to the patients as most of the specialized medicines are not allowed to be advertised directly.

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Lecture 33

PERSONAL SELLING

- **Tasks of Sales Manager**

  He has to define the sales objectives to
  - To increase the sales
  - To control the sales

- **Organization of team**

- The team performs the tasks of implementing of all the decisions relevant to sales. Sales manager chooses the persons for this team. He conducts the tests or interview of the people and selects the right persons for the team.

- **Implementation of those plans**

- In this stage sales team implements all the plans made by the sales manger, defines quotas and regions of the sales persons individually.

- **Territory Management**

Sales Manger defines the rout plan of sales persons in this stage

a. Booking of orders

Consulting the customers & get their orders booked for specified time period.

b. Processing of orders

Personal selling task in which salespeople receive orders and see to their handling and delivery

c. Creative Selling

Personal selling task, in which salespeople try to persuade buyers to buyers to purchase products by providing information about their benefits, salesperson delivers creative messages, adopts creative ways of pursuing the customers and invents creative ideas by his experience of going to the market.

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d. Missionary Selling

To sell products by helping the buyer. Salesman provides voluntary service to the buyer and tries to put the order.

Prospecting and Qualifying

Prospecting is the process of identifying potential customers; qualifying identifies those who have the authority to buy and the ability to pay.
It includes

a. Location of the industry
b. To know about the decision maker of the organization
c. Size of the order
d. Mode of Payment
e. Past practices of the organization
f. Current Problems

Techniques for prospecting

a. Snowball Technique

To ask a satisfied customer, about more customers to sell the product

b. Cold Conversing Technique

Knocking every body's door

Features of the prospective buyer

a. Age of the person
b. Interest of the buyer
c. Preferences of the buyer

APPROACHING THE CUSTOMERS

Getting appointment from the customer

Advantages of the appointment

- Proper hearing
- Customer will get the feeling that his time is being respected

Disadvantages of the appointment

- Customer might say no
- Salesperson might not be able to reach in time

Without getting appointment from the customer

Advantages of not getting the appointment

- Time is in control of salesperson
- Salesperson does not have fear of getting no
-

Disadvantages of not getting the appointment

- Customer might feel that person is not an organized person

Sales person might face some barriers in approaching the customer

These barriers can be:

- Security guard
- Junior Officer

Techniques to handle barrier

- The salesperson can handle the barriers by:
- Requesting to the security guard or receptionist
- Using the name of the organization
- Giving small gifts from the company in order to go in

.

Presenting and Demonstrating

A full explanation of the product, its features, and its uses, linking its benefits to the prospect's needs. Salesperson might have all the necessary things before starting the presentation like brochures, calculators, pen and charts etc.

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Lecture 34

SALES PROMOTION

How to start Sales Presentation

Presentation Stage

After approaching the buyer sales person reviews the situation.
It includes:

- Type of Furniture
- Wall hanging
- Type of curtains
- Personal Taste

All these things help the sales person to start and process the conversation and he can develop the image of the taste and likings of the buyer by the environment and surroundings.

How to start the conversation

- Ask a question n order to seek the undivided attention of the buyer.
- In case of appointment direct conversation may be started.
- Avoid unpleasant event to start the discussion.

a. Interest Stage:
Sales person will try to create interest of the customer in the product.

e:

- Price
- After Sales Services
- Guarantee and Warrantee

b. Objection Stage:
In this stage sales person will try to create desire in the customer to buy the product. Customer will start raising the objections or the questions. If the buyer starts to take the interest in asking the questions about the product, it means salesperson has convinced him in buying. Sales person will handle the questions raised by the buyer.

c. Closing stage:
In this stage the order is booked and agreement is signed by the seller and buyer.

d. Follow up stage:
In this stage order is fulfilled and goods are being distributed according to the agreement.

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All the stages of Attention, Interest, Desire and Act (AIDA) have been covered in this way.

Skeptic Customers

It refers to the doubtful behavior of the customer because of deception from any seller in the past. Salesperson should try to understand the problems of the customers sympathetically.

Innovations in Sales

Tele Marketing-Tele Marketing helps to receive quicker response and avoid long distances. Extensive used method all over the world now, including Pakistan as well.

SALES PROMOTION

Short-term promotional activity designed to stimulate consumer buying or cooperation from distributors and sales agents.

Techniques for Sales promotion

- **Arrangement for a contest**
  Customers, distributors, and sales reps may all be persuaded to increase sales by means of contests.
- **Tradeshows**
  Trade show exhibits to distributing free samples and publishing promotional booklets.
- **Point-of-purchase also called Point-of-Sales**
  Point of purchase (POP) or Point of sales (POS) displays is devices used to show a product in a way that stimulates immediate sales. It may be an end-of-aisle display in a supermarket or the computerized kitchen design systems for cabinets in building-supply stores.

PUBLICITY

It is an unpaid form of promotion through mass media like TV and news paper.
Publicity is free but you have little or no control of the content and delivery. Be aware, there may be both good and bad publicity.

Company-influenced publicity directed at building goodwill between an organization and potential customers. Smart companies know they need to maintain positive relations with their communities, investors, industry analysts, government agencies, and the news media.

Companies seek favorable publicity to create interest in their products. Companies with a good public image are more attractive to investors. Press relations refer to the process of communicating with reporters and editors from newspapers, magazines, and radio and television networks and stations.

News releases are brief statements or video programs released to the press announcing new products, management changes, sales performance, and other potential news items; also called a press release. News conferences are gatherings of media representatives at which companies announce new information; also called a press briefing.

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Lecture 35

THE PRODUCTIVITY

PRODUCTION

Conversion of raw material into finished goods. adding value to raw material, processing it and making it a new useful product. It includes input, processes and output.

UTILITY

Ability of a product to satisfy a need

Forms of Utility

a. **Time Utility:** Getting a product when required.

b. **Place Utility:** Product is manufactured at one place and is sold at another place. Utility of the product is increases due to its mobility. For example if a product is made in one city and it is transported to other city for sale and then use, then it is said that its utility has been increased.

c. **Form Utility**: Changing the form of the product and then converting it into some useful product.

Operation planning

Operations Managers decides about the production capacity of the organization. And appropriate location for the organization.

Capacity Planning

Optimum level of production needed by the organization

FACTORS FOR LOCATION OF INDUSTRY

i. Availability of skilled workers
ii. Availability of infrastructure
    a. Includes electricity, gas, water and telephone.
    b. Access to road transport and railway
iii. Availability of raw material
iv. Climatic Condition

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FACILITIES TO BE ORGANIZED FOR PRODUCTION PROCESS

i. **Productive facilities**

It includes units and plants which contain assembly lines and machines in order to convert the raw material into finished products.

ii. **Non productive facilities**

Process that is not directly involved in the production process but are related to the production, for example storing the raw material

iii. **Support facilities**

It includes departments like management, purchasing, finance, human resource and others which support to run the factory.

Internal arrangement in the organization

i. Placement of machinery
ii. Movement of people
iii. Water storage
iv. Entry end exit point

Layout Designing Options

i. Considering the product
ii. Processes involved in the production
iii. Cellular Layout
iv. Product layout
v. Placement Layout
vi. Flexible Layout
vii. Other Layouts (U-shaped layout)
viii. Straight line layout

Reasons for designing a layout

i. To increase efficiency
ii. To reduce cost
iii. To avoid accidents
iv. Avoid delays

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Lecture 36

TOOLS FOR PRODUCTION PLANNING

GANTT CHART

Gantt charts are visual aids that are useful in loading and scheduling. The name is derived form Henry Gantt, who developed them in the late 1800s. The chart shows the use of resources, such as work centers and labor.

When used in loading, Gantt charts show the loading and idle times of several departments, machines or facilities. They display the relative workloads in the system so that the manager knows what adjustments are appropriate. For example when one work center becomes overloaded employees from a low-load center can be transferred temporarily to increase the workforce.

In short this chart is for following purposes

- This chart is for scheduling purposes.
- Bar charts are drawn in this schedule. Each bar describes an activity.
- This chart will help to know, which activity should start at what time.
- Comparison of planning with actual output.

PERT NETWORK

PERT stands for Program Evaluation Review Technique, this was a methodology that was developed by U.S. Navy in 1950 to manage the Polaris submarine missile program.
It is commonly used in construction. Pert network is a flow chart which shows the sequence of activities that are required to complete a project along with time or cost associated with each.

Major difference in Gantt Chart & Pert is, in Gantt chart we have bars, here we don't have bars here we have diagrams.

Components of PERT Chart

Pert chart provide the details of

Events
Show end points where we have to reach

Activities
Include all the resources used to complete any project

Slack time
Represent the delay in each activity

Critical path
Pert chart is used to determine critical path of each activity & to determine maximum time consumed for each project.

CHALLENGES FOR MATERIAL MANAGEMENT

i. **Flow of material**

Flow of material is an important factor for success and competitiveness. It involves production planning, purchasing, Just-In-Time and inventory management.

ii. **Standardization**

A standard is a document that establishes uniform engineering or technical specifications, criteria, methods, processes, or practices. Thus Standardization is the process of developing and agreeing upon technical standards.

Areas for Material Management

i. **Transportation**
How & through which medium materials will be received in the form

ii. **Storage**
In which manners & sequence materials will be stored

iii. **Record Keeping**
How the record will be maintained for all the materials available in the stored form.

iv. **Inventory control**
It further covers two parts
1. Quantity Control
2. Cost Control
3. In hand stock details

Costing of Material

i. **LIFO – Last in First out**
In this method the most recently purchased units are sold first and that the older units remain in inventory.

ii. **FIFO – First in First out**
In this method the oldest purchase costs are transferred to the cost of goods sold, while the most recent costs remain in inventory.

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iii. Average cost

Average cost is equal to total cost divided by the number of goods produced

PURCHASING PROCESS

Purchasing is the process through which materials are selected from the market and bring in the firm to perform all production operations.

Steps in purchasing process

i. Select the right suppliers
ii. Evaluate the suppliers
iii. Evaluate the capacity of each supplier
iv. Short list the appropriate supplier
v. Negotiation of the prices
vi. Start the supply transactions
vii. Maintain the long term relationship

JUST-IN-TIME (JIT)

It means to get the materials exactly at the time of demand. This mechanism can be well maintained only when our supplier have our full inventory details.

JIT concepts always work on the view; we much have reliable suppliers in sufficient No. in order to serve us timely & in best manners. When we have minimum No. of orders in our hand, required materials should be provided us immediately.

This process can work very well, when deep confidence is there between production unit & suppliers. As a result, production unit can provide the access to suppliers to view the inventory of their raw materials & supplier can supply the required materials when inventory is just at minimum level.

Benefits of JIT

i. It avoids production delays
ii. Mange cash flows in best manners
iii. It avoid uncertainties

Application of JIT

- **In production**-it manage continuous supply of raw material which bring continuity in operations
- **In Marketing-**if this system is well managed, sales persons are able to finalize sales deals with minimum lead times which can serve as competitive edge.

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JUST-IN-CASE

It is conventional concept works in contrasts to JIT. While working through this concept, firms may not get good suppliers as & when required, may not get quality raw materials as & when required, so firms keep stocks of their raw materials which have a big disadvantage as huge finances of the firm can be blocked in the form of stocks as well as handling of stocks may be another issue.

So in today's organizations, JIT concept is developing day by day & almost every firm is trying to get some good suppliers in order to work on JIT concept.

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Lecture 37

TOTAL QUALITY MANAGEMENT

The advice of U.S. business consultant W. Edwards Deming on quality was heeded more widely in Japan than at home until recently. Now U.S. companies are increasingly customer driven, quality initiatives exist at all levels of the corporation, and more measurements are used to document progress objective and identify areas for improvement. Rather than occasional, quality efforts are now continuous.

MANAGING QUALITY

Total Quality Management (TQM) (or Quality Assurance)

The sum of all activities involved in getting high-quality products into the marketplace. Customer focus is the starting point and includes methods of determining what customers want, then causing all the company's activities and people to be directed toward fulfilling those needs and creating customer satisfaction.

Productivity

Productivity is the measure of the effective use of the organization's resources.

PLANNING FOR QUALITY

To achieve high quality, managers must plan for production processes (including equipment, methods, worker skills, and materials).

1) **Performance Quality:** the performance features offered by a product.

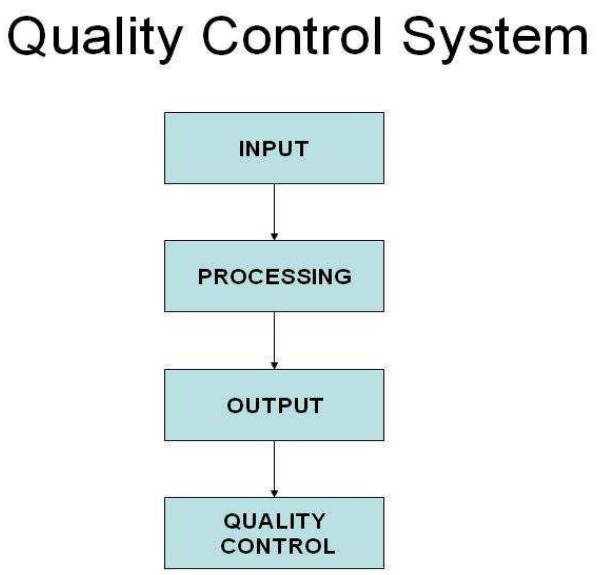
2) **Quality Reliability**: consistency of a product's quality from unit to unit.

Organizing for Quality

Although everyone in a company contributes to product quality, responsibility for specific aspects of total quality management is often assigned to specific departments and jobs.

Quality

Directing for quality means that managers must motivate employees throughout the company to achieve quality goals.



Inspection

Inspection is an important strategy, in its simplest form, is any method or device or tactics used to minimize defects in products or services being offered to the customers.

QUALITY CONTROL VS QUALITY ASSURANCE

Quality Control

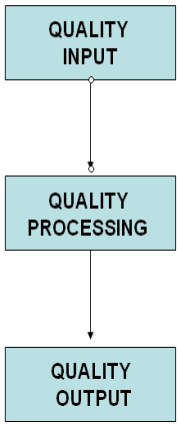
Quality control is concerned with quality of conformance of a process. The prime purpose of quality control is to assure that processes are performing in an acceptable manner.

Quality Assurance

All actions taken to ensure that standards and procedures are adhered to and that delivered products or services meet performance requirements.

Quality assurance defines the standards to be followed in order to meet the customer requirements whereas quality control ensures that these defined standards are followed at

Quality Assurance System



PROMINENT FEATURES OF DR. DEMMING'S 14 POINTS

Globally organizations are adopting the concept of quality assurance and avoid the process of inspection and quality control, in this way organization focus on quality input, quality process and quality output. The best companies emphasize designing quality into the process, thereby greatly reducing the need for inspection or control efforts. As you might expect, different business organizations are in different stages of this evolutionary process. The least progressive rely heavily on inspection. Many occupy middle ground that involves some inspection and a large deal of process control. The most progressive have achieved an inherent level of quality that is sufficiently high that they avoid wholesale inspection activities and process control activities.

Prior to the increased level of Japanese competition in the U.S. marketplace in 1970s and 1980s customers often got less than they paid for with U.S-made products; quality was not uppermost in the minds of U.S. business organizations. Perhaps Japanese captured a significant share of the U.S. market.

Deming was the senior guru. A statistics professor at New York University in the 1940s, he went to Japan after World War II to assist the Japanese in improving quality and productivity. Deming compiled a famous list of 14 points he believed were the prescription needed to achieve quality in an organization.
Some of them are discussed here:

- Organizations should adopt the philosophy of quality rather than quantity
- Training of the employees should be a continuous system
- Training is the key to achieve Total Quality Management
- Modern techniques should be used to train the staff in the organization
- Workers should bring creative ideas to improve quality of the product
- It is very important to assure the workers that new ideas will be encouraged
- Statistical methods should be used to measure the quality
- Barriers between different departments should be removed

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HUMAN RESOURCE MANAGEMENT FOR TOTAL QUALITY MANAGEMENT

i. Selection stage: Organization manager must make sure that quality people are selected in the organization. Quality people are those who focus on quality rather than quantity

ii. HR manager should see whether that particular person has attitude required in the organization or not. Attitudes include:

iii. Being flexible
- Being acceptable
- Quality Conscious
- A person who can work in the team

iv. Training Stage: HR manager should train the people in the filed of:
- Quality Awareness
- Quality Achievement
- Statistical Techniques

v. Personality Development
- Team leading
- Mind adjustment
- Changing paradigm
- Avoiding box thinking
- Developing creative ideas

vi. Compensation: HR manager should develop special systems for compensation. These include:
- Compensation would be given to the whole group

vii. Performance Appraisal:
- Collective performance appraisal

viii. Statistical Process Control:
Using statistical techniques in:
- Planning
- Execution
- Problem analysis
- Control

Lecture 38

TOTAL QUALITY MANAGEMENT

Cost of quality: Cost paid in the market for not having quality products.

Types of cost

External Failure Costs: Cost incurred for managing the problems faced in selling the products in the market.

External failure costs include

- Cost incurred on sales return
- Repair cost of faulty goods
- Customer service cost
- Repair cist of returned goods
- Investigation of defects
- Product recalls
- Product liability suits

Internal Failure Costs: Internal failure costs are paid within the organization.

Internal failure costs include

- Cost of scrap
- Cost of re-work on product
- Cost of inspection of re-work
- Cost for downgrading
  Product is graded below standard due to some fault

Appraisal costs

Appraisal costs include costs of:

- Inspection
- Laboratory Testing
- Laboratory Equipment maintenance Cost
- Calibration of Testing Equipment

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Prevention Cost

- Cost for making a preventive network.
- Managerial Work for quality
  It includes:
  a. Quality Planning
  b. Training-it's an expensive area & requires continuous spending on it.
- Cost for quality improvement Process
- Costs for using statistical Methods
- Cost for maintenance of machinery and equipment etc
- Cost for hiring experts

ISO 2000: 9000 Certification programs

It is a standardized system which provides a set of systems to the organization**.** ISO is a certification which shows that organization is following some system and that system might lead to some quality product.

ISO 14000

It is a system that certifies the organization for protecting the environment is called ISO 14000

- A system for environment.
- Organizations are responsible for environment

Value Chain Management

All activities performed are working in a chain to produce a valued product.

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Lecture 39

BENCHMARKING

Process by which a company implements the best practices from its own past performance and those of other companies to improve its own products

Internal benchmarking: Uses the firm's own performance to evaluate progress and set goals;

External benchmarking: begins with a critical review of competitors or even companies in other businesses to determine which have "best practices."

We will comparison the best practices of other organizations with our organization.

Compare the products, processes, instruments and culture of one organization to other one.

Zero Defect Level: A stage where there is no defect in the product, process and organization.

CONSIDERATIONS IN BENCHMARKING

1. Identification of processes to be benchmarked

- **Sale forecasting:** We can bench mark the order booking process, e.g. what is the order taking to order delivery time of organization. We should minimize this time for more sale to customer.
- **Pricing:** Which pricing system is used by other organizations? What should be the pricing mechanism?
- **Distributions:** Organization should match the distribution channel with other organization. How can organization reduce the delivery time of products?
- **To maintain financial record.** Record should be properly maintained in soft data as well as hard copy. There should be back up of that data at various places.
- **Technology:** what technology is most efficient and result oriented? Is it local or imported technology?

2. KEY VARIABLES IN A PROCESS

Product:

- What should be the shape of product?
- Color of product
- Size of product
- Weight of product

Selling and Marketing:

- **Cost:** Promotion cost with competitors, How to save the cost?
- **Identification of unsatisfied need** of customers
- **Productivity:** How an organization can increase its productivity.
- **Mixture of ingredients:** What ingredients should be so that customer can satisfy?
- **Timeliness:** Reduce the time For example In a fast food restaurant, what is the duration of order taking to order delivery time and bench mark those restaurant whose delivery time is less than others.
- **Differentiation of products:** There should be uniqueness in product.
- **Performance of product:** Performance of product should be according to customer's satisfaction. It should be good word of mouth for your product.

3. IDENTIFICATION OF THE BEST PLAN

For bench marking organization should identify the best plan or practices from different organizations. For example In mobile phones, one companies phone have better battery timing, Second has good design, third one has good display screen, fourth one has light weighted and good result of camera.

Another example of food restaurant, which one is best restaurant in following things

Services

Parking

Variety of dishes

Interior

Cutlery

Organizations should choose the best one from any one and implement for your organization.

4. MEASUREMENT OF OWN PERFORMANCE

Organization should measure the own performance and keep in mind one important thing that not find the only one organization for bench marking. Choose the different variables from different organization.

For example Air line company should measure:-

Handling of luggage

Comfort wise with other air lines

Safety record

Time lines: less time from one place to other

5. ACTION TO BRIDGE THE GAP

Identify the gap where we are lacking, where our performance is low and how we can improve our performance.

Organization should go for benchmarking when there is more competition in the market.

Benchmarking can be done for two entirely different products or organizations. For example Bicycle manufacturing organization compare with paper manufacturing company. What is the method of complaint handling and how one organization best satisfy his/her customers. What is the payment method?

Organization should benchmark its processes or products with the best organization in that class. Never benchmarking to those organizations that are not good in any process

Benchmarking can be used for personality development. For example who is the best in attitude? Who is the best in study? Who is the most obedient with elders? We can make key variables and make the list and identify the lacking in our personality.

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Lecture 40

COMMUNICATION

Transmission of information from one place, person or organization to another place, person or organization

"Communication is the blood of the organization".

Communication is a process whereby information is enclosed in a package and is channeled and imparted by a sender to a receiver via some medium. The receiver then decodes the message and gives the sender a feedback.

Flow of Communication within the organization

- **Upward Communication:** Flow of communication from bottom to top. For example when labor or supervisors communicate with his/ her manager or top level management in any organization.
- **Downward Communication:** Flow of communication from top to bottom. When CEO or top level management communicate with their employees.

Hierarchy of Management

- **Top Management**
  - Chief Executive, Managing Director, Board of Directors.
- **Middle Management**
  - Directors and Senior Managers.
- **Lower Management**
  - Officers and Executives.

External vs. Internal Communication

- **Internal Communication: -** Communication within the organization.
- **External Communication: -** Communication with the outside bodies.

Process of Communication

Two parties for communication are:

Sender

Receiver

- Sender is a person or organization that communicates.
- Receiver is a person or organization who receives the message.

Encoding Vs. Decoding

- **Encoding**
  - Conversion of message into understandable form.
  - Sender is called encoder.
- **Decoding**
  - Giving meanings to the message.
  - Receiver is called decoder.
- Effective communication will take place when climate of encoder and decoder is similar.
- Jargons are the words of a particular profession.

VERBAL VS NON VERBAL COMMUNICATION

Verbal Communication:

Written or oral communication, the basis of communication is the interaction between people. Verbal communication is one way for people to communicate face-to-face. Some of the key components of verbal communication are sound, words and language.

Non verbal Communication

Sources for non verbal communication can be:

Appearance: Appearance of people and surrounding. E.g. if we receive any letter, appearance of letter can show from where it come. For example if letter come from any organization, we will judge from its letter head. We can judge many things from appearance of individuals as well including age, profession, education, nationality, face of the individual, mood of individual etc.

Colors: Colors also indicate the non verbal communication. For example red light at signal means to stop the vehicles. Colors of dresses also indicate many things about.

Sounds: Sound is also non verbal communication. For example voice of machine in organization show that machine is running and work is in progress. Drop of key ring from our pocket create voice and intimate us that keys have been fallen from our pocket.

Smell: Smell is also a source of non verbal communication. In industry if there is fire any where than we can judge by smell that some thing is burning and can take the appropriate action. We can also judge the acids and chemicals by smelling.

Touch: - Touch is also source of non verbal communication. We can judge different object by touching them. Blind people judge different things by touching.

Silence: - Silence is also source of non verbal communication. For example Organization hires the employee and gives specific date for joining but employee does not join till given date. This silence creates two meaning in the mind of that organization that either he/she is not interested in this job or not received our letter.

Body language: - Body language is also non verbal communication. For example gesture, posture etc. Biting the nail, sitting at the edge of chair shows discomfort

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Lecture 41

NON-VERBAL COMMUNICATION

"Nonverbal communication involves those non-verbal stimuli in any communication that are generated by both the source [speaker] and his or her environment and that have potential message value for the source or receiver [listener]"

Basically sending and receiving messages occurs in a variety of ways without the use of verbal codes (words). It is both intentional and unintentional. Most speakers / listeners are not conscious of this.

Sources of Non-verbal communication can be

Body Language: Body language is used during face to face communication. Simple body language convey some times very deep messages, common examples of body language is seen by players. They show almost every sort of gestures just through their body language.

COMMUNICATION CHANNELS

Channel is a **Carrier** which carries the message from sender to receiver. Selection of channel always depends upon the situation, what channel will be appropriate for what situation is always decided by sender or discretion of both sender & receiver.

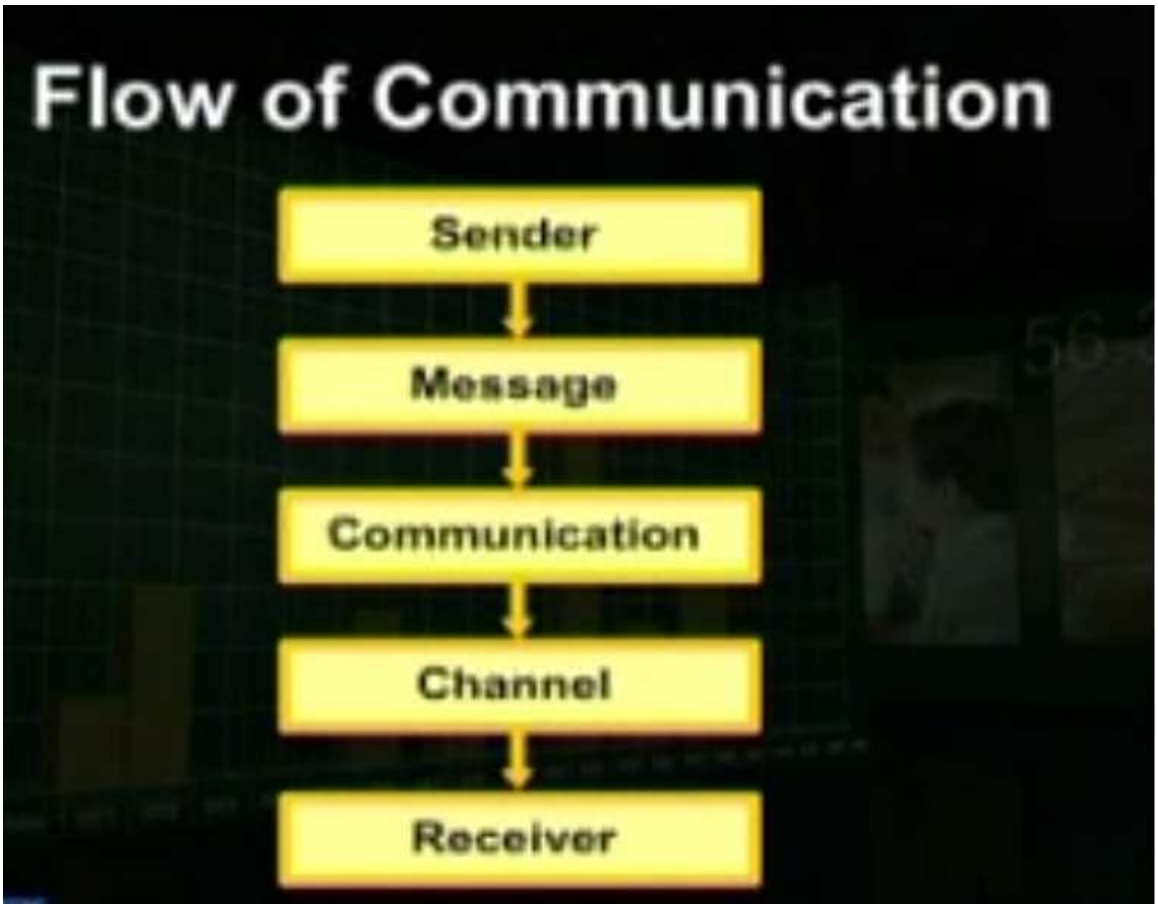
Channel can be:

- Letter
- Telephone
- Fax
- A person who carries the message to other person.

Flow of Communication

Sender sends the message through channel and receiver receives this message. There is communication between two parties.

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Noise also occurs during communication. All those factors which affect the communication process are called noise. Noise can be at any stage & can affect the whole communication process.

LETTER VS MEMORANDUM

- Letter is written for communication outside the organization
- Memorandum is written for communication inside the organization. Informal language is used in memorandum.

Types of Letters

Inquiry letter: In this type, organization collects the information. For example, purchasing of furniture, about raw material, transportation cost from goods transporter.

Reply to the inquiry letter: In this type, organization gives the information. For example, give the information to customer about product cost, Method of delivery etc.

Order letter: In this type, organization places the order for purchasing something.

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Complaint latter: In this type, organization complaint about the already purchased products or acquired services. For example quality problem of product etc

Adjustment letter: In this type, organization sends the letter for adjustment of accounts. For example organization has purchased the furniture from ABC Company and payment has done. But quality of some furniture is not good than organization sends the letter to ABC Company for adjustment of dues/payment.

INFORMATION SYSTEM (IS)

Gather the information & arrangement of information into a form that can be used for decision making purposes

Information Management

Arrangement of information into a form which is useful for management

Duties of Information Manager

- Information gathering
- Information organizing
- Information distribution

Users of Information: There are following users of information in an organization.

1. Head of manufacturing department
2. Marketing people
3. Planning people

Data vs. Information

- Data is raw figures and facts.
- Meaningful shape of data is called information

Why Information System is important in the Organization?

a. Frequent use of information.
b. New technology.
c. New innovations, processes and methods.
d. New communication devices:

    - Telephone
    - Intercom
    - Video conferencing

e. Digital business system
f. Data communication network:

    - Global network for receiving and sending the information globally, quickly and economically.

Lecture 42

APPLICATION OF INFORMATION SYSTEM IN THE ORGANIZATION

New Options for Organizational Design: The Networked Enterprise

i. **Leaner Organizations**—Networked firms can accomplish more work with fewer resources.
ii. **More Flexible Operations**—Electronic networks allow businesses to offer customers greater variety and faster delivery cycles.
    1. **Mass-customization**—Flexible production process that generates customized products in high volumes at low cost
iii. **Increased Collaboration**: Networked systems make it cheaper and easier to work together.
    1. **Networking and the Virtual Company**: Networked systems can also improve collaboration between organizations through the so-called virtual company
iv. **Greater Independence of Company and Workplace**: Employees no longer need to work only at the office or the factory, nor are all the company's operations performed at one location. Geographically separate processes can be tightly coordinated via networking.
v. **Improved Management Processes**: Because instantaneous information is accessible in a convenient usable format, more upper managers use it routinely for planning, leading, directing, and controlling operations.

Enterprise Resource Planning (ERP)

A system that helps the organization in planning its resources using computerized system.

Resources can be:

- Financial resources
- Administrative resources

Types of Information Systems

Organizations depend on quality information to make good decisions and help them accomplish their goals. To design and develop good information systems, companies hire a

top-level manager known as a CIO. A Chief Information Officer (CIO) is a strategic-level manager who oversees the company's information systems.

Types & levels of Information Systems in any organization can be:

- Information system for top management.
- Information system for middle management.
- Information system for lower management.

Information system for Departments

Separate information system is designed for every department while keeping in view demands & requirements of each department.

Knowledge Workers

An increasingly important group of employees who use information and knowledge as the raw materials of their work, and who rely on technology to design new products or business systems (e.g. engineers, scientists, computer programmers, etc.).

Considerations of Users for Information System

Managers at Different Levels: First-line managers need information on the day-to-day details of their departments or projects. Middle managers need summaries and analyses for setting intermediate and long-range goals for their departments or projects. And top managers need information on broader economic and business trends, and overall company performance.

Functional Areas and Business Processes: Each business area (e.g. marketing, finance) has its own information requirements, and each business process (e.g. strategic planning, product development) also has specific information needs.

Management Information System (MIS)

A system which helps management in decision making

MIS provides information regarding decision making of management.

Decision Support System (DSS)

A system which supports the decision of the management is called Decision support system. Pool of information is gathered after various internal & external researchers and this system provides a proper form to make this information functional for decision making.

Executive Support System (ESS) OR Executive Decision System (EDS)

A system which provides information to executives for decision making is called Executive Support System. Since executives have to take decision at broader levels so this special system is designed for them to provide very valid, accurate & timely information for top level decisions.

Computer Network

Computers linked together for the purpose of information sharing are called computer network.

COMPONENTS OF INFORMATION SYSTEM

a. Hardware
b. Software
c. Controls
d. Database
e. People
f. Tele-communication

a. Hardware:

Physical components of a computer system

i. **Inputting**
   1. **Input Device**: Part of the computer system that enters data into it.
   2. **Central Processing Unit** (CPU): Part of the computer system where data processing takes place.

ii. **Main Memory**: Part of the computer CPU housing memory of programs it needs to operate.

iii. **Programs**
   1. **Program**: Set of instructions used by a computer to perform specified activities.
   2. **Output Device**: Part of the computer system that presents results, either visually or in printed form.

b. Software:

Programs that instruct a computer in what to do

i. **System program**: Software that tells the computer what resources to use and how to use them.
ii. **Application program**: Software (such as Word for Windows) that processes data according to a user's special needs
iii. **Graphical User Interface**: Software that provides a visual display to help users select applications.

c. Control:

Ensures that the system is operating according to specific procedures and within specific guidelines

i. **Problems of Privacy and Security**
   1. **Privacy** invasion occurs when intruders (hackers) gain unauthorized access, either to steal information, money, or property or to tamper with data.
   2. **Security** measures for protection against intrusion are a constant challenge.

ACCOUNTING

- A system of recording, classifying, analyzing, summarizing and reporting the economic information in terms of money.
- Economic Information: Every information is economic information where monetary exchange takes place

General Journal

A book in which all economic information of general nature is recorded.

Ledger

It is a book in which all economic information is recorded category wise or heading wise.

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Lecture 43

ACCOUNTING

Accounting Period: Time span in which accounts are terminated.

Summarizing: Summary of all revenues and expenses

Income Statement: A statement which shows the position of revenues and expenses or profit and loss

Profit: Excess of revenues over expenditures.

Loss: Excess of expenditures over revenues.

Bookkeeping: Recording of accounting transactions. It is just one phase of accounting.

Accounting Vs Book Keeping

- Recording the information in the books is called book keeping.
- To draw a picture from the information is called accounting.

ACCOUNTING INFORMATION SYSTEM (AIS)

Organized means by which financial information is identified, measured, recorded, and retained for use in accounting statements and management reports

Types of Accounting

- **Financial Accounting:** Financial accounting is used by external users.

- **Managerial Accounting:** Managerial accounting is used by internal users.

AUDITING

Auditing is an examination of the records and reports of an enterprise by accounting specialists other than those responsible for their preparation. Public auditing by independent accountants is common in large firms. The auditor performs tests to determine whether the firm's statements were prepared in accordance with acceptable accounting principles and that they fairly present its financial position and operating results.

Accounting versus Auditing

- Accounting is concerned with recording of accounting information.
- Auditing is concerned with examination of accounting information.

TYPES OF AUDITORS

There are two types of auditors:

a. Internal Auditors

Internal auditors are employees of a company hired to assess and evaluate its system of internal control. To maintain independence, they present their reports directly to the Board of Directors or to Top Management. They provide functional operation to the concern. Internal Auditors are employees of the company so that they can easily find out the frauds and any mis-happening.

b. External Auditors

External auditors are independent staff assigned by an auditing firm to assess and evaluate financial statements of their clients or to perform other agreed upon evaluations. Most external auditors are employed by accounting firms for annual engagements. They are called upon from the out side of the company.

USERS OF ACCOUNTING INFORMATION

- **Business Managers & Management**
  Set goals, develop plans, set budgets, and evaluate future prospects
- **Employees and Unions**
  Get paid, plan for and receive benefits
- **Investors and Creditors (Owners)**
  Estimate returns to stockholders, determine company's growth prospects, and determine creditworthiness before investing or lending
- **Banks**
  They would be interested in company's financial conditions as they would like to know when their loans will be paid
- **Tax Authorities (Banks)**
  Plan for tax inflows, determine tax liabilities, and ensure proper payment
- **Government Regulatory Agencies**
  Fulfill their duties to citizens

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Generally Accepted Accounting Principles (GAAP)

These are accepted rules and procedures governing the content and form of financial reports around the world. Need for these systems were raised when shuffling of financial staff was happening in the teams & new people were joining the existing teams so it was becoming difficult to make new people aware with every aspect of previous working so these systems were evolved.

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Lecture 44

TOOLS OF THE ACCOUNTING TRADE

For thousands of years, businesses and governments have kept records of their transactions. Accountants are guided by three fundamental principles: the accounting equation, double-entry accounting, and the matching principle.

The Accounting Equation

Accountants use the following equation to balance the data in journals and ledgers:

Assets = Liabilities + Owners' Equity

ASSETS AND LIABILITIES

Asset—any economic resource expected to benefit a firm or an individual who owns it.

a. **Tangible Assist:** It includes Cash, Building, Automobiles, Machinery & raw Materials.
b. **Intangible Assist:** It includes copy rights & good will etc.

Assists are always equal to liabilities of the firm.

Liability—debt owned by a firm to an outside organization or individual. These are all payables, claims or obligation of the firm. These can be payable to bank, to suppliers or to other institutions.

Liabilities are of two types:

- Liability towards owner
- Liability towards other parties

Owners' Equity—amount of money that owners would receive if they sold all of a firm's assets and paid all of its liabilities. It consists of two sources of capital: the amount the owners originally invested, and profits earned by and reinvested in the company.

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Double-Entry Accounting

To keep the accounting equation in balance, companies use a system developed by Fra Luca Pacioli, an Italian monk, in 1494. Double-entry accounting is a way of recording financial transactions that requires two entries for every transaction, so that the accounting equation is always kept in balance.

a. Every transaction has two effects:

    1. Debit
    2. Credit

b. For every debit, there is always a credit.
c. For every credit, there is always a debit.
d. Debit and credit are always equal.

FINANCIAL STATEMENTS

Any of several types of reports summarizing a company's financial status to aid in managerial decision making

1) Balance Sheet

Also known as a statement of financial position is a kind of "snapshot "of where a company is, financially speaking, at one moment in time.

The balance sheet includes all the elements in the accounting equation, showing the balance between assets on one side and liabilities and owners' equity on the other. Every company prepares a balance sheet at least once a year, most often at the end of the calendar year, January 1 to December 31. The fiscal year, any 12 consecutive months, is used by many business and government bodies.

a. A sheet which shows balances of assets and liabilities.

b. Balance sheet includes:

a. Title
    i. Name of company
    ii. Name of statement
    iii. Period
b. Asset side
c. Liabilities and owner's equity

Perfect Posters, INC.
555 RIVERVIEW, CHICAGO, IL 60606

Perfect Posters, Inc.
Balance Sheet
As of December 31, 2004

Assets

Current Assets:		
Cash		$7,050
Marketable securities		2,300
Accounts receivable	$26,210	
Less: Allowance for doubtful accounts	(650)	25,560
Merchandise inventory		21,250
Prepaid expenses		1,050
Total current assets		**$ 57,210**
Fixed assets:		
Land		18,000
Building	65,000	
Less: Accumulated depreciation	(22,500)	42,500
Equipment	72,195	
Less: Accumulated depreciation	(24,815)	47,380
Total fixed assets		**$ 107,880**
Intangible assets:		
Patents	7,100	
Trademarks	900	
Total intangible assets		**8,000**
Total assets		**$173,090**

Liabilities and Owners' Equity

Current liabilities:		
Accounts payable	$16,315	
Wages payable	3,700	
Taxes payable	1,920	
Total current liabilities		**$ 21,935**
Long-term liabilities:		
Notes payable, 8% due 2006	10,000	
Bonds payable, 9% due 2008	30,000	
Total long-term liabilities		**40,000**
Total liabilities		**$ 61,935**
Owners' Equity:		
Common stock, $5 par	40,000	
Additional paid-in capital	15,000	
Retained earnings	56,155	
Total owners' equity		**$ 111,155**
Total liabilities and owners' equity		**$173,090**

2) Trial Balance

A trial balance is a list and total of all the debit and credit accounts for an entity for a given period – usually a month. The format of the trial balance is a two-column schedule with all the debit balances listed in one column and all the credit balances listed in the other. The trial balance is prepared after all the transactions for the period have been journalized and posted to the General Ledger.

Key to preparing a trial balance is making sure that all the account balances are listed under the correct column. The appropriate columns are as follows:
Assets = Debit balance
Liabilities = Credit balance
Expenses = Debit Balance
Equity = Credit balance
Revenue = Credit balance

Trial Balance Errors

- Those errors which will affect debit and credit side.
- If both sides of trial balance are equal, it does not mean that books of accounts are error free.

Lecture 45

FINANCIAL MANAGEMENT

3) INCOME STATEMENT

It is a financial statement listing a firm's annual revenues and expenses so that a bottom line shows annual profit or loss. If the balance sheet is a "snapshot," the income statement is a movie."

a) **Revenues**: Funds that flow into a business from the sale of goods or services.
b) **Cost of Goods Sold**: Total cost of obtaining materials for making the products sold by a firm during the year.
c) **Gross Profit (or Gross Margin)**: Revenues obtained from goods sold minus cost of goods sold.
d) **Operating Expenses**: Costs, other than the cost of goods sold, incurred in producing a good or service.
e) **Operating Income**: Gross profit minus operating expenses.
f) **Net income (or net profit or net earnings)**—gross profit minus operating expenses and income taxes.

Perfect Posters, INC.
555 RIVERVIEW, CHICAGO, IL 60606

Perfect Posters, Inc.
Income Statement
Year Ended December 31, 2004

Revenues (gross sales)			**$256,425**
Cost of goods sold:			
Merchandise inventory, January 1, 2004.	$22,380		
Merchandise purchases during year	103,635		
Goods available for sale		$126,015	
Less: Merchandise inventory December 31, 2004	21, 250		
Cost of goods sold			**104,765**
Gross profit			**151,660**
Operating expenses:			
Selling and repackaging expenses:			
Salaries and wages	49,750		
Advertising	6,380		
Depreciation—warehouse and repackaging equipment	3,350		
Total selling and repackaging expenses		59,480	
Administrative expenses:			
Salaries and wages	55,100		
Supplies	4,150		
Utilities	3,800		
Depreciation—office equipment	3,420		
Interest expense	2,900		
Miscellaneous expenses	1,835		
Total administrative expenses		71,205	
Total operating expenses			**130,685**
Operating income (income before taxes)			20,975
Income taxes			8,390
Net income			**$12,585**

Revenue Vs Profit

- Revenue is income.
- Profit is obtained after deducting expenses from revenue.

Trading Concern

An organization which buys goods for reselling is called trading concern. The difference between buying price & selling price is called revenue.

FINANCE IN AN ORGANIZATION

Thinking and considering for long term investments of the firm, Generating revenues to pay back these investments and to perform day to day activities of an organization is called finance.

The Role of the financial people in organization management

Corporate finance typically entails four responsibilities: determining a firm's long-term investments, obtaining funds to pay for those investments, conducting the firm's everyday financial activities, and helping to manage the risks the firm takes.

Responsibilities of the **Financial Manager** include planning and controlling the acquisition and dispersal of a firm's financial resources.

i. **Cash-Flow Management**: Management of cash inflows and outflows to ensure adequate funds for purchases and the productive use of excess funds.

ii. **Financial Control**: Process of checking actual performance against plans to ensure that desired financial results occur.

iii. **Financial Planning**: A **financial plan** shows the funds a firm will need for a period of time, as well as the sources and uses of those funds. A strategy for reaching some future financial position.

iv. **Dealing with Banks**: Deal with almost every bank for debiting & crediting the funds, Manage foreign trade & short term loans.

Ratio Analysis

a. Ratios tell us relationship among financial figures.
b. These can be: Relationship between current assets and current liabilities.

THE BUDGET: AN INTERNAL FINANCIAL STATEMENT

Budget is a detailed statement of estimated receipts and expenditures for a period of time in the future. The budget is probably the most crucial internal financial report. Most companies use their budgets for internal planning, controlling, and decision-making. Although the accounting staff coordinates the budget process, many different employees contribute to creating and updating the budget.

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