DIPLOMA
IN
BUSINESS MANAGEMENT
AND
ENTREPRENEURSHIP

QMS/04510/0417

SIMTA is a skill learning initiative of *Zayn Educational Trust* that runs ***Synetic Business School*** - a full time professional and technical degree college - operational in Ludhiana since 2004.
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SYNERGY INSTITUTE OF MANAGEMENT TECHNOLOGY AND ARTS

DIPLOMA IN BUSINESS MANAGEMENT AND ENTREPRENEURSHIP

LEVEL: BASIC / ADVANCED

COURSE DURATION: 6 MONTHS / 9 MONTHS

COURSE OUTCOME

The **Business Management and Entrepreneurship** course aims to equip students with course aims to provide students with knowledge, skills, and mindset required to succeed in business management and entrepreneurship, preparing them for various roles in the business world or to start their own ventures. It provides students with:

1. Essential management principles, fostering an entrepreneurial mindset to identify and evaluate business opportunities.
2. To encourage creativity and innovation in business practices.
3. To enhance strategic thinking and decision-making skills.
4. To equip students with tools and techniques for strategic analysis and business planning.
5. To impart knowledge of financial management, including budgeting, financial analysis, and funding strategies for new ventures.
6. To develop effective marketing strategies and sales techniques and to understand consumer behavior and market research methodologies.
7. Students will have a global perspective on business and be prepared to manage international business challenges.

DIPLOMA IN BUSINESS MANAGEMENT &ENTREPRENEURSHIP			
S.NO.	**SUBJECT CODE**	**SUBJECTS**	**CREDIT HOURS**
1	SMBME2401	Principles and practices of Business Management	**15**
2	SMBME2402	Accounts and Financial Management	**15**
3	SMBME2403	Economics and International Business	**10**
4	SMBME2404	Strategic and Transactional HRM	**10**
5	SMBME2405	Marketing Management	**15**
6	SMBME2406	Essential Management Skills	**5**
7	SMBME2407	Entrepreneurship Development and Start up Management.	**10**
TOTAL CREDIT HOURS ALLOTED			**80**

SMBME2401 PRINCIPLES AND PRACTICES OF BUSINESS MANAGEMENT

CREDIT HOURS ALLOTED:15 HRS

OBJECTIVE:

The **Principles and Practices of Business Management** course aims to provide students with a thorough understanding of core management concepts and skills.

- ✓ Key objectives include introducing essential management theories, enhancing planning, organizing, leading, and controlling skills, and developing strategic planning and implementation abilities.
- ✓ The course also focuses on improving communication, understanding organizational behavior and leadership, and instilling ethical and social responsibility.

S.NO	CONTENT	CREDIT HOURS
	UNIT-I	
1.	**Introduction to Management**	**2**
1.1	Meaning, Definition, Importance of Management	
1.2	Functions of Management,	
1.3	Management Levels and Skills	
2.	**Evolution of management thoughts/ management theories**	**3**
2.1	**Classical approach**:	
2.2	Scientific management: Meaning, features, objectives, principles, advantages anddisadvantages.	
2.3	Administrative management theory: meaning, 14 principles of management, Bureaucratic theory: Meaning, features, advantages and disadvantages.	

2.5	**Neo classical approach:** Human relations movement: Meaning, Hawthorne Experiment ,Its pros and cons, Behavioral science movement: The contributors of Abraham Maslow, Douglas McGregor	
2.8	**Modern management theory:** i) Quantitative or Mathematical Approach (ii) Systems Approach. (iii) ContingencyApproach	
	UNIT-II	
3	**Delegation** Concept, Types , importance , factors affecting delegation	1
4	**Decentralization and centralization**	1
4.1	Decentralization and centralization : Meaning and Difference between Decentralization and centralization	
5	**Ethics and Social Responsibility**	1
5.1	Business Ethics and Ethical Decision Making	
5.2	Corporate Social Responsibility (CSR)	
5.3	Ethical Issues in Management	
5.4	Sustainability in Business	
	UNIT-III	
6	**Leadership**	**2**
6.1	Meaning, nature, styles, theories and Importance	
7	**Motivation**	**2**
7.1	Meaning, process, features, importance	
7.2	Types of motivation	
7.3	Theories of motivation given by Maslow, Herzberg, McGregor X and Y Theory , Vroom , Porter and Lawler , ERG Theory	
	UNIT-IV	
8	**Contemporary issues in management**	**4**
8.1	Impact of Technology on Management	
8.2	Managing Remote and Virtual Teams	
8.3	Globalization and diversity in workplace	
8.4	Emerging trends in management	
8.5	Case studies	

REFERENCE BOOKS

- "Management" by Stephen P. Robbins and Mary Coulter
- "Essentials of Management" by Harold Koontz and Heinz Weihrich
- "Principles of Management" by Charles W. L. Hill and Steven McShane
- "Management: Tasks, Responsibilities, Practices" by Peter F. Drucker
- "Organizational Behavior" by Stephen P. Robbins and Timothy A. Judge
- "Principles of Management" by Richard L. Daft
- "Modern Management: Concepts and Skills" by Samuel C. Certo and S. Trevis Certo
- "Management: Leading & Collaborating in a Competitive World" by Thomas S. Bateman and Scott Snell
- "Management and Organizational Behavior" by Laurie J. Mullins

SMBME2401 PRINCIPLES AND PRACTICES OF BUSINESS MANAGEMENT

INTRODUCTION TO MANAGEMENT

The term **'management'** has been used in different senses. Sometimes it refers **to the process of planning, organizing, staffing, directing, coordinating and controlling**; at other times it is used to describe it as a function of managing people. It is also referred to as a body of knowledge, a practice and discipline. There are some who describe management as a technique of leadership and decision-making while some others have analyzed management as an economic resource, a factor of production or a system of authority.

- **MEANING AND DEFINITION:**

In general terms **Management** means planning, organizing, staffing, directing and controlling of various business activities.

DEFINITIONS:

- **"Management** is the art of getting things done through others." **Follett** describes management as an art of directing the activities of other persons for reaching enterprise goals. It also suggests that a manager carries only a directing function.

- **Rose Moore**:

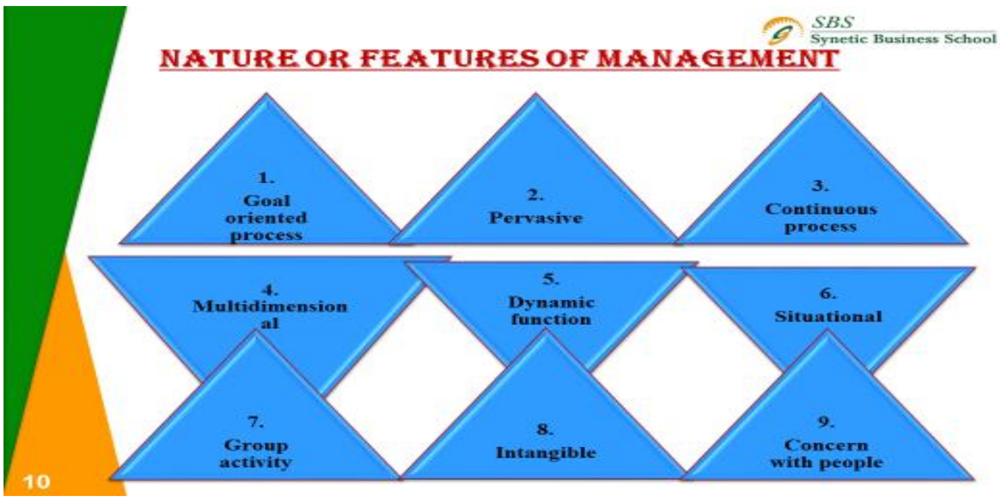
"Management means decision-making." Decision-making cannot be the only function of management even though it is very important.

- **Henry Fayol:**

"To manage is to forecast and plan, to organize, to command, to co-ordinate, and to control." Fayol described management as a process of five functions such as planning, organizing, commanding, coordinating and controlling. Modern authors, however, do not view co-ordination as a separate function of management

In general terms **Management** means planning, organizing, staffing, directing and controlling of various business activities.

- **NATURE OR FEATURES OF MANAGEMENT**



1. Management is goal oriented process:

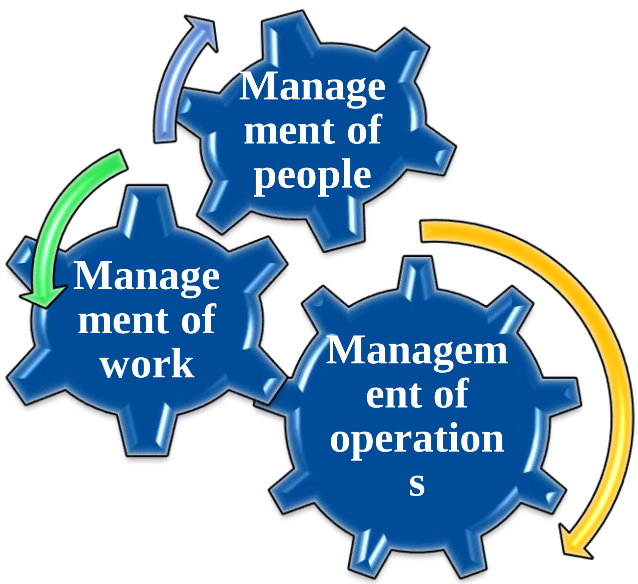
Management always aims at achieving the organizational objectives. The functions and activities of manager lead to the achievement of organizational objectives; **for example**, if the objective ofa company is to sell 1000 computers then manager will plan the course of action, motivate all the employees and organize all the resources keeping in mind the main target of selling 1000 computers.

2. Management is Pervasive:

Management is a universal phenomenon. The use of management is not restricted to business firms only it is applicable in profit-making, non-profit-making, business or non-business organizations; even a hospital, school, club and house has to be managed properly. Concept of management is used in the whole world whether it is USA, UK or India.

3. Management is Multidimensional:

Management does not mean one single activity but it includes three main activities:



(a) Management of work:

All organization are set up to perform some task or goal. Management activities aim at achieving goals or tasks to be accomplished. The task or work depends upon the nature of Business for example, work to be accomplished in a school is providing education, in hospital is to treat patient, in industry to manufacture some product. Management makes sure that work is accomplished effectively and efficiently.

(b) Management of people:

People refer to Human resources and Human resources are the most important assets of an organization. An organization can win over competitor with efficient employees only because two organizations can have same physical, technological and financial resources but not human resources. Management has to get task accomplished through people only.

(c) Management of operations:

Operations refer to activities of production cycle such as buying inputs, converting them into semi-finished goods, finished goods. Management of operations concentrates on mixing management of work with management of people, i.e., deciding what work has to be done, how it has to be done and who will do it.

4. Management is a continuous process:

Management is a continuous or never ending function. All the functions of management are performed continuously, **for example** planning, organizing, staffing, directing and controlling are performed by all the managers all the time. Sometimes, they are doing planning, then staffing or organizing etc. Managers perform ongoing series of functions continuously in the organization.

5. Management is a group activity:

Management always refers to a group of people involved in managerial activities. The management functions cannot be performed in isolation. Each individual performs his/her role at his/her status and department, and then only management function can be executed.

Even the result of management affects every individual and every department of the organisation so it always refers to a group effort and not the individual effort of one person.

6. Management is a dynamic function:

Management has to make changes in goal, objectives and other activities according to changes taking place in the environment. The external environment such as social, economical, technical and political environment has great influence over the management. As changes take place in these environments, same are implemented in organisation to survive in the competitive world.

7. Intangible:

Management function cannot be physically seen but its presence can be felt. The presence of management can be felt by seeing the orderliness and coordination in the working environment. It is easier to feel the presence of mismanagement as it leads to chaos and confusion in the organisation.

For example, if the inventory of finished products is increasing day by day it clearly indicates mismanagement of marketing and sales.

8. Balancing effectiveness and efficiency:

Effectiveness means achieving targets and objectives on time. Efficiency refers to optimum or best utilisation of resources. Managements always try to balance both and get the work done successfully. Only effectiveness and only efficiency is not enough for an organisation: a balance must be created in both.

9. Management is an activity and not a person or group of person:-

Management is not people or not a certain class but it is the activity, it is the process of planning, organizing, directing and controlling to achieve the objectives of the organization.

10. Management is situational: -

Management does not advice best way of doing things. Effective management is always situational. A manager has to apply principles, approaches and techniques of management after taking into consideration the existing situations

11. Management is concern with people: -

Since management involves getting things done through others only human being performed this activity with the help of planning and control. The element man cannot be separated from the management.

12. Management is the combination of art, science and profession: -

Management makes use of science as well as art. It is science because it collects knowledge with the methods and data, analyzes and measures it and decision is taken with the help of experiment.
It is a systematic body of knowledge. Art means application of knowledge for solving various problems. In modern times there is separation of ownership and management, so professional experts are appointed.

➢ IMPORTANCE OF MANAGEMENT

1. **Increases Efficiency:**

The management process of an organization increases its efficiency by reducing cost and increasing productivity by utilization of the available resources in the best possible and optimum way.

2. **Helps in Achieving Group Goals:**

Effective management process creates teamwork and builds coordination among the members of an organization. The managers provide a common path or direction to their employees for the accomplishment of the overall objectives of the organization.

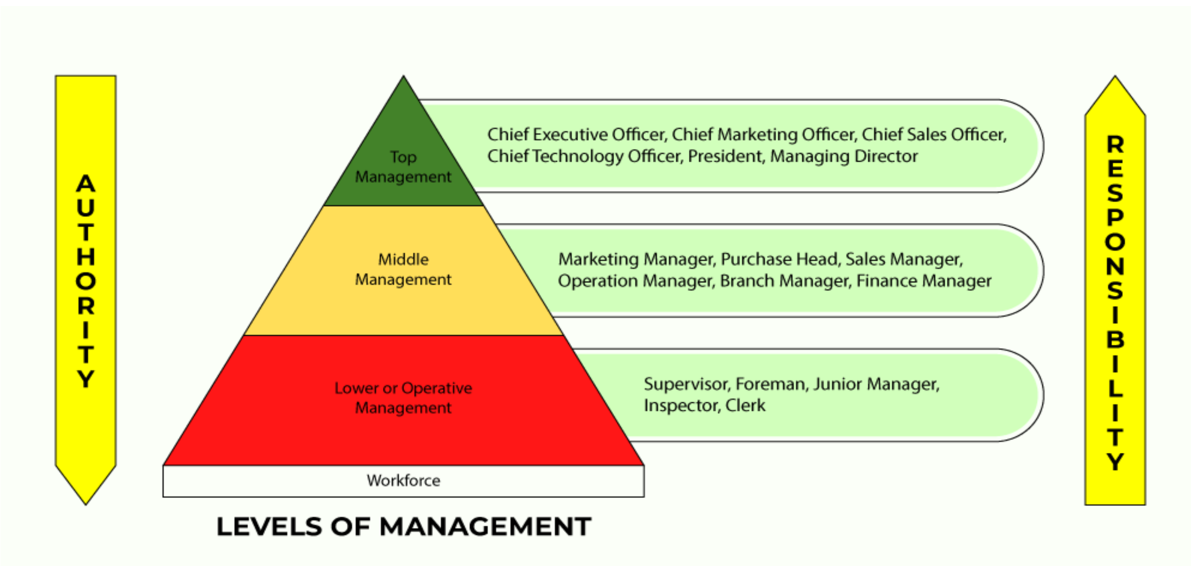
3. Creates a Dynamic Organisation: Every organisation works in a changing environment. The managers of an organisation have to help their members adapt to the changing environment, which ultimately helps them ensure the survival and growth of the organisation. Besides, the management convinces the employees that the changes brought in the organisation will benefit their future prospects.

4. Development of Society: Every organisation has various objectives toward different groups of society. Along with the development of the organisation, its management has to develop the society too. To do so, the management helps the organisation produce good quality products, adopt new technologies, and provide employment opportunities to the weaker sections of society.

5. Helps in Achieving Personal Objectives: Every individual or employee of an organisation has different objectives or goals they wish to accomplish while doing their jobs. Management helps these employees in fulfilling their personal objectives along with the organisational objectives.

➢ LEVELS OF MANAGEMENT

The term "**Levels of Management**' refers to a line of demarcation between various managerial positions in an organization. The number of levels in management increases when the size of the business and work force increases and vice versa. The level of management determines a chain of command, the amount of authority & status enjoyed by any managerial position. The levels of management can be classified in three broad categories:



Managers at all these levels perform different functions. The role of managers at all the three levels is discussed below:

1. **Top Level of Management**

It consists of board of directors, chief executive or managing director. The top management is the ultimate source of authority and it manages goals and policies for an enterprise. It devotes more time on planning and coordinating functions.

The role of the top management can be summarized as follows –

1. Top management lays down the objectives and broad policies of the enterprise.

2. It issues necessary instructions for preparation of department budgets, procedures, schedules etc.

3. It prepares strategic plans & policies for the enterprise.

4. It appoints the executive for middle level i.e. departmental managers.

5. It controls & coordinates the activities of all the departments.

6. It is also responsible for maintaining a contact with the outside world.

2. **Middle Level Management**

The next level of management is the Middle Level, which serves as a link between the Top Level Management and the Lower Level Management. The **middle level management** is superior to the lower or operational level management and subordinate to the top level management. The middle level of an organization's management consists of different functional department heads, such as Departmental Managers including Production, Purchase, Finance, Personnel, Marketing Managers

- **a.** They execute the plans of the organization in accordance with the policies and directives of the top management.
- **b.** They make plans for the sub-units of the organization.
- **c.** They participate in employment & training of lower level management.
- **d.** They interpret and explain policies from top level management to lower level.
- **e.** They are responsible for coordinating the activities within the division or department.
- **f.** It also sends important reports and other important data to top level management.
- **g.** They evaluate performance of junior managers.

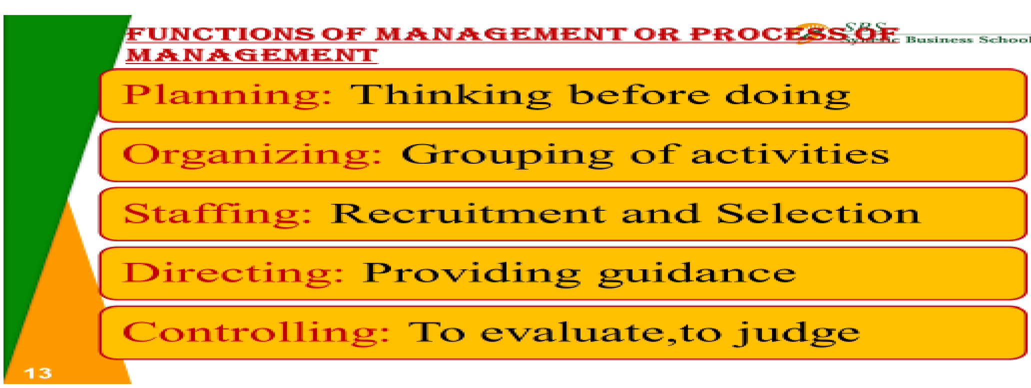
3. Lower Level Management

The last level of management is the lower level management and is also known as the **Supervisory or Operational Level Management.** The managers at the lower level of management play a crucial role in the proper management of an organization, as they directly interact with the actual work force and interpret the instructions of the middle level managers to them. The responsibility and authority of the lower level managers depend upon the plans and policies formed by the top level management.

- **h.** Assigning of jobs and tasks to various workers.
- **i.** They guide and instruct workers for day to day activities.
- **j.** They are responsible for the quality as well as quantity of production.
- **k.** They are also entrusted with the responsibility of maintaining good relation in the organization.
- **l.** They communicate worker's problems, suggestions, and recommendatory appeals etc to the higher level and higher level goals and objectives to the workers.

➢ FUNCTIONS OF MANAGEMENT OR PROCESS OF MANAGEMENT:

According to Henry Fayol, "To manage is to forecast and plan, to organize, to command, & to control". Whereas Luther Gullick has given a keyword '**POSDCORB**' where P stands for Planning, O for Organizing, S for Staffing, D for Directing, Co for Co-ordination, R for reporting & B for Budgeting. But the most widely accepted are functions of management given by KOONTZ and O'DONNEL i.e. **Planning**, **Organizing**, **Staffing**, **Directing** and **Controlling**.



➢ MANAGERIAL SKILLS:

Managers at every level in the management hierarchy must exercise three basic types of skills: technical, human, and conceptual. All managers must acquire these skills in varying proportions, although the importance of each category of skill changes at different management levels.

1. Conceptual skills:

Conceptual skills involve the ability to see the whole organization and the interrelationships between its parts. These skills refer to the ability to visualize the entire picture or to consider a situation in its totality. These skills help the managers to analyze the environment and to identify the opportunities. Conceptual skills are **especially important for top-level managers**, who must develop long-range plans for the future direction of their organization.

2. **Analytical Skills**: - [Decision making]

Analytical skills mean ability to work out a complex problem or situation into component. Analytical skills are required for **solving problems and decision making**. This is also helpful for evaluation of performance and arriving at judgment.

3. Human skills:

Human skills refer to the ability of a manager to work effectively with other people both as individual and as members of a group. Human skills are **concerned with understanding of people.** These are required to win cooperation of others and to build effective work teams.

4. **Administrative Skills**: -

It involves the implementation of plan and use of available resources to get the desired output that is profit and to regularize a performance in orderly manner. It is also helpful in co-ordination of activities.

5. **Technical skills**: -

Technical skills refer to the ability and knowledge in using the equipment, techniques and procedure involved in performing specific tasks. These skills require specialized knowledge and proficiency in the mechanics of a particular.

- Technical skills lose relative importance at higher levels of the management hierarchy, but most top executives started out as technical experts.

2. Computer Skills: -

Computer knowledge is essential for today's manager i.e. knowledge of hardware & software. Hardware is technical term & software is ability to adopt the system in an organization to attempt goals. In modern days' computer is widely used in organization. Hence today's' manager should possess the knowledge of computer. This is helpful in decision making. It also helps to increase the productivity in the organization.

3. Communication Skills: -

Communication is systematic process of telling, listing and understanding. This skill requires the ability of listening and speaking in an effective manner. The manager is responsible for getting the things done by others. He should be expert in oral and written communication. Communication skill is essential for getting success. It depends upon the manager who achieves the results with efforts of others. Co-ordination can be attained with the help of proper communication. Success depends upon proper communication

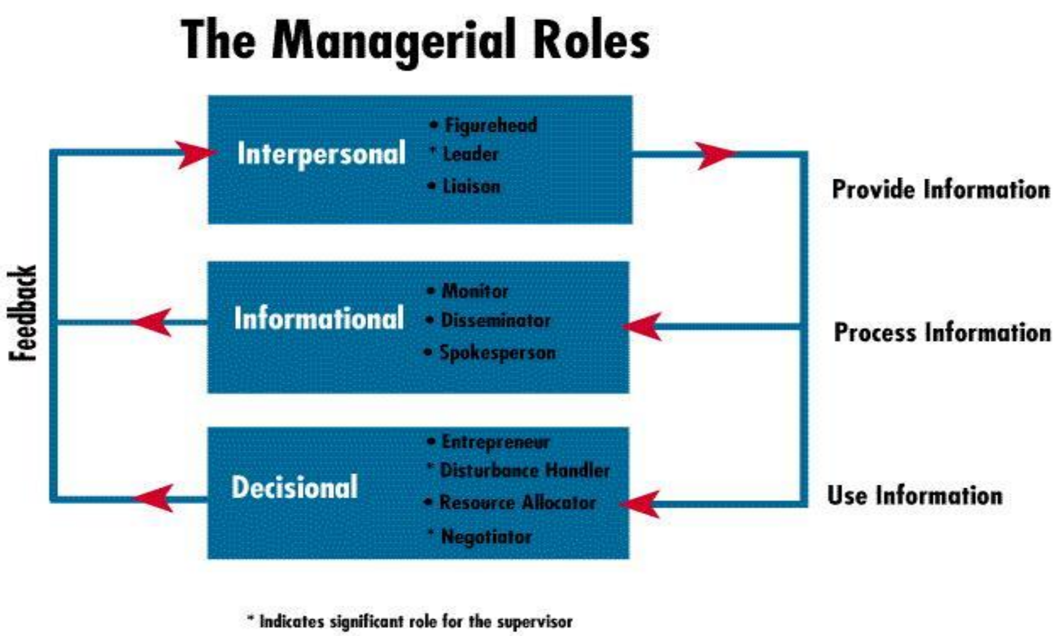
➢ MANAGERIAL ROLES

To meet the many demands of performing their functions, managers assume multiple roles. A role is an organized set of behaviors. Henry Mintzberg has identified ten roles common to the work of all managers.

THE TEN ROLES ARE DIVIDED INTO THREE GROUPS:

- Interpersonal
- Informational
- Decisional

The performance of managerial roles and the requirements of these roles can be played at different times by the same manager and to different degrees depending on the level and function of management. The ten roles are described individually, but they form an integrated whole.



1. INTERPERSONAL ROLES

The **interpersonal roles** link all managerial work together. The three interpersonal roles are primarily concerned with interpersonal relationships.

- **Figurehead Role:** The manager represents the organization in all matters of formality. He is the head in the organization. Under this role he performs the following activities:

1. To represent the organization in the social festivities.

2. To welcome the visitors

3. To have meal with some important customers.

- **Liaison Role: The manager interacts with peers and people outside the organization**. The top level manager uses the liaison role to gain favors and information, while the supervisor uses it to maintain the routine flow of work.

- **The leader Role:** It defines the relationships between the **manger and employees**. Manager guides his subordinates. He tells them how work can be performed in the minimum possible time. and what should be the method of doing the work.

2. INFORMATIONAL ROLES

The **informational roles** ensure that information is provided. The three informational roles are primarily concerned with the information aspects of managerial work.

- **Monitor Role:** The manager keeps an eye on the internal as well as the external environment of the organization. Manager gathers information about these factors and analyse it.

- **Disseminator Role:** The manager transmits **special information** into the organization. The top level manager receives and transmits more information from people outside the organization than the supervisor.

- **Spokesperson Role:** in this role manager acts as a representative of the organization in his relation with the outside the organization**. Eg: giving information about the financial condition of the company to the shareholders.**

3. DECISIONAL ROLES

The **decisional roles** make significant use of the information and there are four decisional roles.

- **Entrepreneur Role:** The manager initiates change, new projects; identify new ideas, delegate idea responsibility to others.

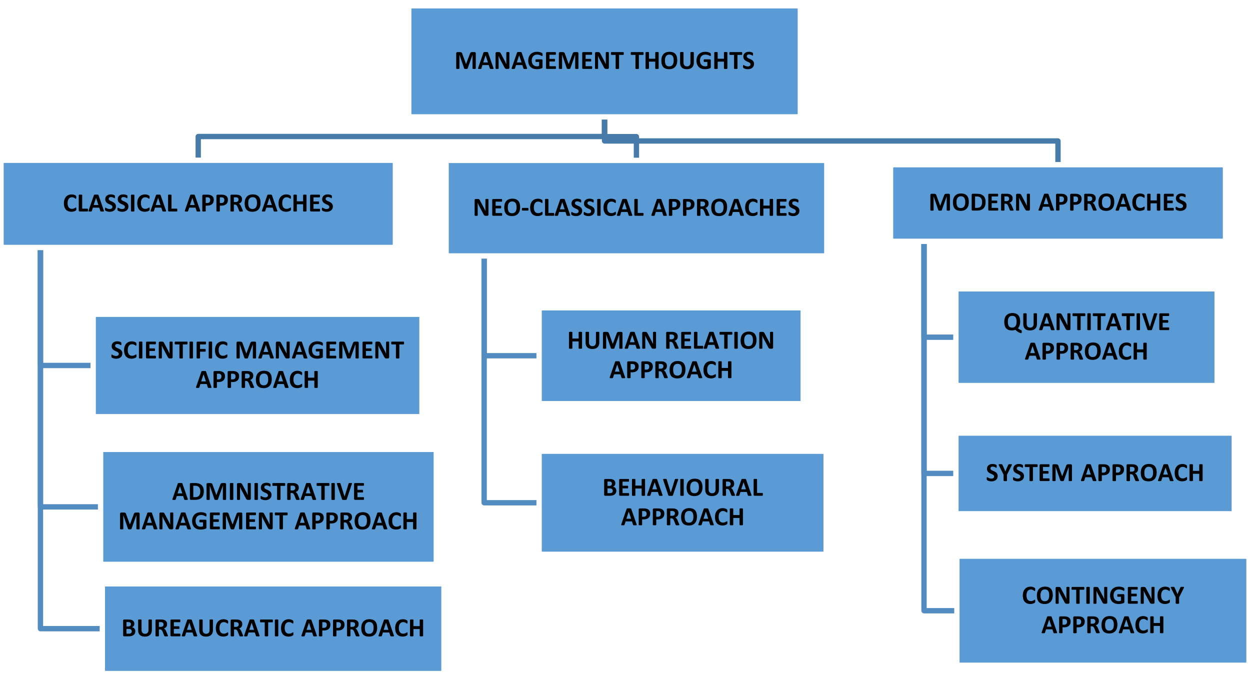
- **Disturbance Handler Role:** The manager deals with threats to the organization. The manager takes corrective action during disputes or crises; **resolve conflicts** among subordinates; adapt to environmental crisis. Manager tries to remove the obstacles in the organization as soon as possible.

- **Resource Allocator Role:** The manager decides who gets resources; schedule, budget set priorities and chooses where the organization will apply its efforts.

- **Negotiator Role:** The manager negotiates on behalf of the organization. The top level manager makes the decisions about the organization as a whole, while the supervisor makes decisions about his or her particular work unit.

CHAPTER-2

➢ EVOLUTION OF MANAGEMENT THOUGHTS



➢ WHAT IS MANAGEMENT THOUGHTS?

- Management is defined as the art of getting things done by making the best use of available resources. Over the passing centuries, organizational structure has undergone radical changes, and simultaneously the process of management as well.

- Hence, several theories were propounded over centuries which were considered crucial for understanding business operations. These, when clubbed together, are called management thought.

A. CLASSICAL APPROACH:

- The classical school of thought generally concerned with the **management of work** and organizations efficiency and effectiveness
- **Human resource is ignored** and much importance is given to work and physical resources
- Hence, this management thought practiced d**ivision and specialization of labour, organizational hierarchy and centralized decision making process and focused on profit maximization.**

3 PILLARS OF CLASSICAL APPROACH

Scientific Management Theory (F.W. Taylor)

Administrative Theory (Henry Fayol)

Bureaucratic Management (Max Weber)

1. SCIENTIFIC MANAGEMENT

FW TAYLOR

F.W Taylor is the father of scientific management. Taylor was a person who within a very short duration rose from the rank of an **ordinary labour** to the position of **Chief Engineer (Midvale steel company in USA)**

Scientific management

F.W Taylor is the father of scientific management. Scientific management is performing the work of management in a scientific manner. In other words discarding the traditional approaches to management and adopting newer and more scientific approach.

- ✓ Its main objective is improving economic efficiency, especially labor productivity. It was one of the earliest attempts to apply science to the engineering of processes and to management.
- ✓ It is an important stream of the earlier schools of thought of management referred to as the classical school.
- ✓ It is developed by **Frederick Taylor (1856-1915)**, leading proponent of scientific management.
- ✓ **According to Taylor** , " Scientific management means knowing exactly what you want men to do and seeing that they do it in the best and cheapest way."

- ➢ **THE OBJECTIVES OR AIMS OF SCIENTIFIC MANAGEMENT MAY BE SUMMARIZED AS UNDER:**

(a) Higher Productivity:

Increase in the rate of production by use of standardized tools, equipment's, methods and training of the workers.

(b) Cost Reduction:

Reduction in the cost of production by rational planning and regulation, and cost control techniques.

(c) Elimination of Wastes:

Elimination of wastes in the use of resources and methods of manufacturing.

(d) Quality Control:

Improvement in the quality of output by research, quality control inspection devices.

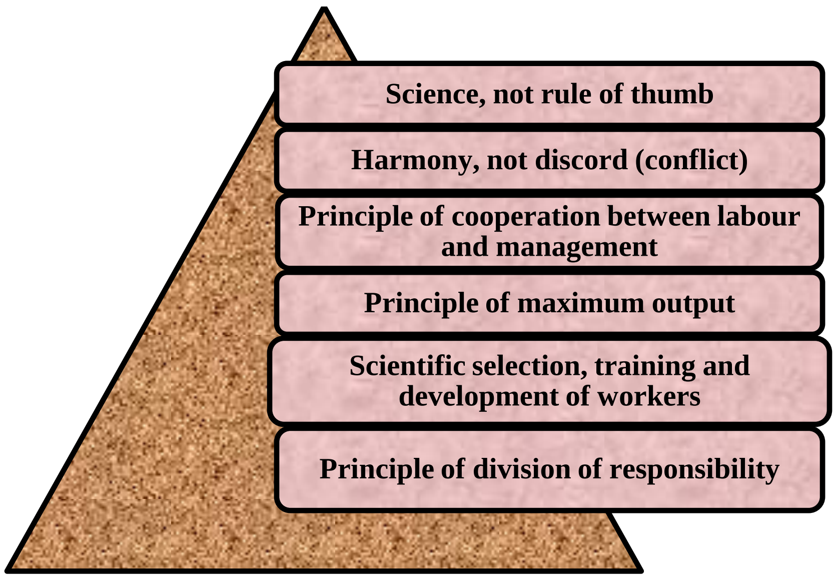
(e) Right Men for Right Work:

Placement of right persons on the right jobs through scientific selection and training of workers.

(f) Incentive Wages:

Relating wage payments to the efficiency of the workers, i.e., giving wages at the higher rates to the efficient workers.

➢ **PRINCIPLES OF SCIENTIFIC MANAGEMENT**



(1) Science, Not Rule of Thumb:

This principle says that we should not get stuck in a set routine with the old techniques of doing work, rather we should be constantly experimenting to develop new techniques which make the work much simpler, easier and quicker.

(2) Harmony, Not Discord (conflict) :

As per this principle, such an atmosphere should be created in the organization that labor (the major factor of production) and management consider each other indispensable.

Taylor has referred to such a situation as a **'Mental Revolution'**. Taylor firmly believed that the occurrence of a mental revolution would end all conflicts between the two parties and would be beneficial to both of them.

(3) Cooperation, Not Individualism:

According to this principle, all the activities done by different people must be carried on with a spirit of mutual cooperation. Taylor has suggested that the manager and the workers should jointly determine standards. This increases involvement and thus, in turn, increases responsibility. In this way we can expect miraculous results.

(4) Development of Each and Every Person to His / Her Greatest Efficiency and Prosperity:

According to this principle, the efficiency of each and every person should be taken care of right from his selection. A proper arrangement of everybody's training should be made. It should also be taken care that each individual should be allotted work according to his ability and interest. Such a caring attitude would create a sense of enthusiasm among the employees and a feeling of belongingness too.

(5) Principle of Maximum Output:

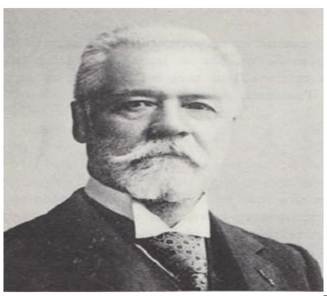
Both the management and workers should try to achieve maximum output in place of restricted output. This will be beneficial to both the parties. Maximum output will result in higher wages for the workers and greater profit for the management. Increased productivity is also in the interest of the consumers and the society at large.

(6) Scientific Selection, Training and Development of Workers:

The procedure for selection of workers should be designed scientifically. The errors committed at the time of selection may prove o be very costly later on. If we do not have right workers on the right job, the efficiency of the organization will be reduced.

Therefore, every organization should follow a scientific system of selection. The selected workers should be trained to avoid wrong methods of work.

2. ADMINISTRATIVE MANAGEMENT THEORY



_Henry Fayol

- The **Administrative Theory** is based on the concept of departmentalization, which means the different activities to be performed for achieving the common purpose of the organization should be identified and be classified into different groups or departments, such that the task can be accomplished effectively.

- **Administrative management theory** attempts to find a rational way to design an organization as a whole. The theory generally calls for a formalized administrative structure, a clear division of labor, and delegation of power and authority to administrators relevant to their areas of responsibilities.

- The administrative theory was given by **Henry Fayol**, who believed that more emphasis should be laid on organizational management and the human and behavioral factors in the management. Thus, unlike the scientific management theory of Taylor where more emphasis was on improving the worker's efficiency and minimizing the task time, here the main focus is on how the management of the organization is structured and how well the individuals therein are organized to accomplish the tasks given to them.

- **Henri Fayol (1841-1925):** Fayol was born in France, where he worked for a coal-mining business. **He developed 14 administrative principles for organizational structure and management.**

➢ **<u>FAYOL'S ANALYSIS OF THE WORK DONE BY MANAGERS</u>**

✓ **Management is an activity which is different from other activities.**
✓ **Management has the quality of being universal.**

<u>MANAGEMENT IS AN ACTIVITY WHICH IS DIFFERENT FROM OTHER ACTIVITIES</u>

Technical
Commercial
Financial
Accounting
Managerial
Security

✓ **<u>MANAGEMENT HAS THE QUALITY OF BEING UNIVERSAL</u>**

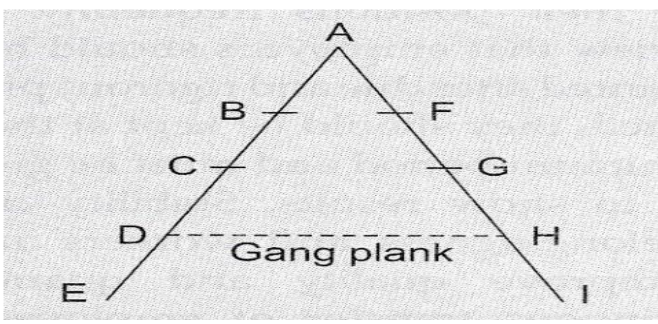
There are five basic functions that a manager performs that seem very obvious but in reality form the cornerstone of administrative management theory.

1. **Planning 2. Organizing 3. Co-ordinating 4. Directing 5. Controlling**

➢ **HENRY FAYOL'S 14 PRINCIPLES OF MANAGEMENT**

1. **Division of Work:** The work should be divided among the individuals on the basis of their specializations, so as to ensure their full focus on the effective completion of the task assigned to them.
2. **Authority and Responsibility:** The authority and responsibility are related to each other. Authority means the right to give orders while the responsibility means being accountable. Thus, to whomsoever the authority is given to exact obedience must be held accountable for anything that goes wrong.
3. **Discipline:** The individuals working in the organization must be well-disciplined. The discipline refers to the obedience, behavior, respect shown by the employees towards others.
4. **Unity of Command:** According to this principle, an individual in the organization must receive orders from only one supervisor. In case an individual has the reporting relationship with more than one supervisor then there may be more conflicts with respect to whose instructions to be followed.

5. **Unity of Direction:** Unity of direction means, all the individual or groups performing different kinds of a task must be directed towards the common objective of the organization.
6. **Subordination of Individual to General Interest:** According to this principle, the individual and organizational interest must coincide to get the task accomplished. The individual must not place his personal interest over the common interest, as this will result in conflict.
7. **Remuneration of Personnel:** The payment methods should be fair enough such that both the employees and the employers are satisfied.
8. **Centralization:** Fayol defines centralization as the means of reducing the importance of subordinate's role in the organization, and the extent to which the authority is centralized or decentralized depends on the organization type in which the manager is working.
9. **Scalar Chain:** This means there should be a proper hierarchy in the organization **that facilitates the proper flow of authority and communication**. It suggests that each individual must know from whom he shall get instructions and to whom he is accountable to. Also, the communication either going up or down must pass through each level of authority. In certain circumstances where the quick flow of communication is required, the rigidity of a scalar chain can pose problems. Thus, Henry Fayol has suggested **"gang plank"** which means anybody in the hierarchy can interact with each other irrespective of their authority levels.



10. **Order:** This principle is related to the systematic arrangement of things and people in the organization. This means every material should be in its place, and there should be a place for every material. Likewise, in the case of people, a right man should be in the right job.
11. **Equity:** All the employees in the organization must be treated equally with respect to the justice and kindliness.

12. **Stability of Tenure:** The employees should be retained in the organization, as new appointments may incur huge selection and training cost.
13. **Initiative:** The manager must motivate his subordinates to think and take actions to execute the plan. They must be encouraged to take initiatives as this increases the zeal and energy among the individuals.
14. **Esprit de Corps:** This means "unity is strength". Thus, every individual must work together to gain synergy and establish cordial relations with each other.

Thus, Henry Fayol emphasized on the managerial activities and classified these further into five sub-activities Viz. Planning, Organizing, Directing, coordinating and controlling and for the better understanding of these he had proposed 14 principles of management.

3. BUREAUCRATIC THEORY

- The **Bureaucratic Theory** is related to the structure and administrative process of the organization and is **given by Max Weber**, who is regarded as the father of bureaucracy. **What is Bureaucracy**? The term bureaucracy means the rules and regulations, processes, procedures, patterns, etc. that are formulated to reduce the complexity of organization's functioning.

- According to Max Weber, the bureaucratic organization is the most rational means to exercise a vital control over the individual workers. A bureaucratic organization is one that has **a hierarchy of authority**, **specialized work force**, **standardized principles, rules and regulations, trained administrative personnel, etc.** Also, there is a hierarchy in the organization, which represents the clear lines of authority that enable an individual to know his immediate supervisor to whom he is directly accountable. This shows that bureaucracy has many implications in varied fields of organization theory.

- Thus, Weber's bureaucratic theory contributes significantly to the classical organizational theory which explains that precise organization structure along with the definite lines of authority is required in an organization to have an effective workplace.

➢ **The main features of this approach are as follows:**

1. Division of Work: There is division of work on basis of specialization of jobs in bureaucratic organizations. Each employee performs his specialized work in a predictable manner.

2. Rules and Regulations: Detailed rules and regulations regarding work behavior, rights and duties of employee are laid down. Rules are designed to ensure the consistency in work performance.

3. Hierarchy of Authority: Hierarchy in organizations is characterized by downward delegation of authority. Each superior exercises control over his subordinates.

4. Technical Competence: Selection and promotion of employees are based on the technical competence of employees. Training is also provided to familiarize the employees with the rules and administrative procedures of the organization.

5. Record Keeping: Every decision and action is recorded in its original as well as draft form.

6. lmpersonal Relations: Superiors are formal in dealings with their subordinates

II. ***NEO CLASSICAL APPROACH***

The **Neoclassical Theory** is the extended version of the classical theory wherein the behavioral sciences gets included into the management.

Neoclassical theory which primarily focused on the human beings in the organization. This approach is often referred to as "**behavioral theory of organization"** or "**human relations"** approach in organizations.

✓ **THIS APPROACH INCLUDES TWO PILLARS:**

1. **HUMAN RELATIONS MOVEMENT:**

George Elton Mayo

- Human relations movement deals with the factors which encourage higher performance on the part of workers. The improvement of working conditions, lowering of hours of work, improvement of social relations of workers, besides monetary gains help in increasing productivity.

- According to Human Relations Approach, management is the Study of behaviour of people at work. **Elton Mayo** is rightly called as **father of Human Relations Movement.**

- This approach had its origin in a series of experiments conducted by Professor Elton Mayo and his associates at the Harvard School of Business at the Western Electric Company's Hawthorne Works in USA during 1927 to 1932. **During his experiments Elton Mayo and his colleagues studied the following factors:**

1. Relationship between light and production
2. Relationship between the condition of work and production.(condition of work includes light, air, working hours, period of rest etc.)
3. Informal group and relationship with production.

4. Relationship between economic incentives and production.

The outcome of these experiments was that production was not so much related with the condition of work as it was associated with emotional factors. Mayo and his associates reached the conclusion that during the time of work the informal relationship among the employees plays a important role. **They said that the workers are not merely the means of production but they are social being having their own desires, feelings and tendencies.**

- **PROS AND CONS OF HAWTHORNE EXPERIMENTS:**

Pros:

i. Man is not motivated by money alone; to motivate people, a healthy social climate is necessary.
ii. If treated well, human beings can expand their energies and show good results.
iii. Groups have more influence on workers than organisation rules.
iv. Friendly supervision ensures good results, better morale and healthy interpersonal relations.

Cons:

i. Mayo overstressed experimentation and drew conclusions on the strength of observations about a small sample of employees.
ii. The experiments lacked a scientific basis. The choice of work, the employees, the work environment, etc. was not scientific.
iii. The conclusions of Hawthorne experiments were open to doubt as the sample was not sufficiently representative.
iv. Mayo exhibited pro-management bias by thinking that management knows what is best for workers (who are mostly driven by emotions, sentiments, etc.).
v. Mayo wanted to humanize the workplace by keeping workers in good humor always. However, there is no guarantee that happy workers will be productive.

2. BEHAVIORAL SCIENCES MOVEMENT:

Behavioral science movement is regarded as a further refinement of human relations movement. It covered wider aspects in inter-personal roles and responsibilities. It laid emphasis on the application of the methods and findings of general and social psychology and sociology for understanding the organizational behaviour.

The important aspects of behavioural approach were:

(i) Motivation of employees for improving productivity,

(ii) Organisation as a social system,

(iii) Leadership-study of managerial behavior,

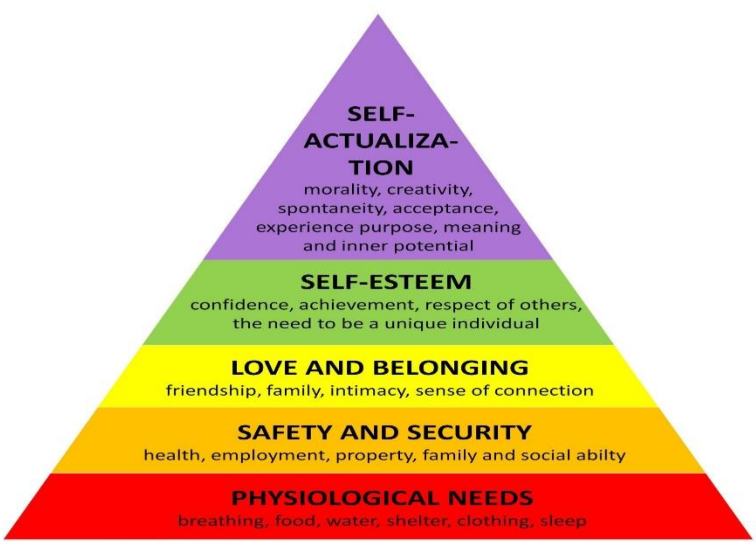
(iv) Communication for better understanding in the organisation,

(v) Employee development- upgrading of employee and managerial skills

The contributors to this thinking of management included Abraham Maslow, Douglas McGregor, Rensi Linkert, Chester Bernard.

- ✓ **Abraham Maslow:**

Abraham Maslow, an eminent U.S. psychologist, gave a general theory of motivation known as Need Hierarchy Theory in his paper published in 1943.



He classified the needs as follows:

Physiological needs----Safety needs----- Social needs------Ego or esteem needs-----Self-fulfillment or self-actuation needs

- ✓ **Douglas-McGregor (1906-1964)**: *McGregor is known for the development of a theory on Motivation. He named it as Theory X and Theory Y.*

Theory X is based on the following assumptions:

1. People are by nature indolent. That is, they like to work as little as possible.

2. People lack ambition, dislike responsibility, and prefer to be directed by others.

3. People are inherently self-centered and indifferent to organizational needs and goals.

4. People are generally gullible and not very sharp and bright.

On the contrary, Theory Y assumes that:

1. People are not by nature passive or resistant to organizational goals.

2. They want to assume responsibility.

3. They want their organisation to succeed.

4. People are capable of directing their own behavior.

5. They have need for achievement

III. <u>MODERN MANAGEMENT THEORY:</u>

The Modern Period (1950 to present). After, 1950 management thought has been turning somewhat away from the extreme human relations ideas particularly regarding the direct relation between morale and productivity. Present management thinking wishes equal emphasis on man and machine.

Under modern management thought three streams of thinking have been noticed:

(i) Quantitative or Mathematical Approach (ii) Systems Approach. (iii) Contingency Approach.

(i) QUANTITATIVE OR MATHEMATICAL APPROACH:

The quantitative approach was propounded by **C.W. Churchman** and his colleagues around the year 1950. This approach is also known by the name operational research or operational analysis. This approach involves the use of quantitative techniques, such as **break even analysis, cost benefit analysis network analysis** etc to improve decision making.

(ii) SYSTEMS MANAGEMENT THEORY

The **systems management theory** has had a significant effect on management science. A system is an **interrelated set of elements functioning** as a whole. An organization as a system is composed of four elements:

- **Inputs** — material or human resources
- **Transformation processes** — technological and managerial processes
- **Outputs** — products or services
- **Feedback** — reactions from the environment

In relationship to an organization, *inputs* include resources such as raw materials, money, technologies, and people. These inputs go through a **transformation process** where they're planned, organized, motivated, and controlled to ultimately meet the organization's goals. The *outputs* are the products or services designed to enhance the quality of life or productivity for customers/clients. Feedback includes comments from customers or clients using the products. This overall systems framework applies to any department or program in the overall organization.

(iii) CONTINGENCY APPROACH

- Contingency approach, also known as **situational approach**, is a concept in management stating that **there is no one universally applicable set of management principles** to organizations.

Organizations are individually different, face different situations, and require different ways of managing.

- Contingency theory is beneficial to organizations because of the potential for learning from specific situations and using these lessons to influence future management of the same or similar situations. The ability to adapt to external pressures and changes is also an advantage.
- Contingency theory may also produce more well-rounded leaders who are able to develop their skills in multiple areas.

UNIT-II

DELEGATION

MEANING:

Delegation is the process by which a manager or a leader entrusts a member of their staff with the responsibility and authority to complete a task. It involves assigning tasks to subordinates and empowering them to take ownership of their work.

Effective delegation requires that leaders show they care about their team members by giving them the opportunity to develop their skills and take on new challenges. It's not about avoiding responsibilities or passing off work to others. Instead, delegation is an important leadership competency that can help build a more productive and cohesive team.

EXAMPLE: A store manager delegates the task of handling customer complaints to a senior employee while focusing on inventory management.

➢ HOW TO DELEGATE EFFECTIVELY

Effective delegation requires a clear understanding of both the tasks and the team members‚Äô abilities. Here are some key steps to follow for successful delegation:

- **Identify Tasks:** Determine which tasks can be delegated and which require your personal attention.
- **Assess Team Member Skills:** Understand the strengths and weaknesses of team members to match tasks appropriately.
- **Define Clear Objectives:** Communicate the expectations and outcomes for the delegated tasks.
- **Provide Resources and Support:** Ensure team members have the necessary tools and support to execute the tasks.

In the context of a group project, for example, a teacher might delegate different sections of a presentation to various students. By assessing the students‚Äô skills, such as who is good at research and who excels in design, the teacher can assign tasks that best fit each student's strengths.

Examples

In a school science project, if one student excels at speaking and explaining concepts while another is skilled at designing posters, the teacher might delegate: – Student A to present the project. – Student B to create the visual aids.

➢ TYPES OF DELEGATION

There are various types of delegation based on the nature of the task and the process of giving authority. Here, let's take a look at a few:

1. General or Specific Delegation

General delegation involves assigning a broad area of responsibility, such as a department or a project, to an individual or a group. Specific delegation, on the other hand, involves assigning a specific task or responsibility to an individual or a group.

2. Formal or Informal Delegation

Formal delegation involves a structured process of assigning tasks and responsibilities within an organisation. This could involve a formal document outlining the responsibilities, authority, and expectations of the person being delegated to. Informal delegation, on the other hand, is less structured and may happen through verbal communication or informal arrangements.

3. Top to Bottom or Bottom to Top Delegation

Top to bottom delegation involves the delegation of tasks and responsibilities from senior management to lower levels of the organisation. Bottom to top delegation, on the other hand, involves the delegation of tasks and responsibilities from lower levels of the organisation to senior management.

4. Lateral Delegation

Lateral delegation involves the delegation of tasks and responsibilities between peers or colleagues in the same level of the organisation. This type of delegation requires a group or team to work in parallel, each with their own tasks and responsibilities.

Overall, the type of delegation used in an organisation will depend on the nature of the task, the level of authority needed, and their respective organisational structure. Effective delegation can improve productivity and efficiency within an organisation, as it allows for tasks to be completed by those with the appropriate skills and expertise.

IMPORTANCE OF DELEGATION

Delegation is crucial for effective management and achieving organizational goals. Here are the key points highlighting its importance:

1. Efficient Use of Time and Resources

Allows managers to focus on higher-priority tasks like strategic planning and decision-making.Ensures routine tasks are handled effectively by subordinates.

2. Enhances Productivity

Distributes workload among team members, leading to faster and more efficient task completion. Encourages better time management across the organization.

3. Skill Development

Provides employees with opportunities to take on new responsibilities and learn new skills. Builds confidence and prepares them for future leadership roles.

4. Boosts Employee Morale

Increases trust and recognition by giving employees responsibility and autonomy. Motivates employees as they feel valued and integral to the organization's success.

5. Fosters Better Decision-Making

Engages subordinates who may have specialized knowledge or insights about a task. Encourages decentralized decision-making, leading to quicker responses.

6. Encourages Teamwork

Promotes collaboration and interdependence among team members. Strengthens relationships within the team, enhancing overall performance.

7. Reduces Managerial Stress

Relieves managers of overburdening tasks, enabling them to maintain focus and reduce burnout. Provides a balanced workflow across all levels.

8. Supports Organizational Growth

Ensures continuity and smooth operations even in the absence of top management. Prepares the organization for scaling by empowering employees at various levels.

➢ COMMON PITFALLS OF DELEGATION

Delegating tasks can often lead to challenges if not done correctly. Many leaders fall into common pitfalls that can affect team morale and productivity. Some of these include:

- **Micromanagement:** Closely overseeing every detail can frustrate team members and undermine their confidence.
- **Lack of Clarity:** Not defining roles and expectations can lead to confusion about who is responsible for what.
- **Inadequate Follow-up:** Failing to check progress can result in missed deadlines and substandard work.

To avoid these pitfalls, leaders should practice trust and open communication with their team members. This builds a supportive environment conducive to successful delegation.

➢ FACTORS AFFECTING DELEGATION

1. Organizational Factors

- **Clarity of Authority and Responsibility**: Clear roles and responsibilities make delegation easier and more effective. Ambiguity can create confusion and hinder delegation.
- **Level of Centralization or Decentralization**: In centralized organizations, delegation is limited, while decentralized organizations encourage it.
- **Size of the Organization**: Larger organizations require more delegation due to the complexity and volume of tasks.
- **Workload and Complexity**: The nature and amount of work in the organization influence the extent of delegation needed.

2. Managerial Factors

- **Trust in Subordinates**: Managers who trust their team are more likely to delegate tasks effectively.
- **Ability to Communicate**: Clear instructions, guidance, and feedback from managers are crucial for successful delegation.
- **Manager's Competence**: A skilled manager knows what tasks to delegate and how to monitor progress without micromanaging.
- **Willingness to Delegate**: Managers who are reluctant to share authority due to fear of losing control or insecurity hinder delegation.
- **Time Constraints**: Managers under tight deadlines may hesitate to delegate due to the time required for explanations and follow-ups.

3. Subordinate-Related Factors

- **Competence and Skills of Subordinates**: Delegation is more effective when subordinates have the required skills and expertise.

- **Willingness to Accept Responsibility**: Subordinates must be willing to take on delegated tasks and see them through.
- **Workload of Subordinates**: Overburdened employees may struggle to handle additional responsibilities.
- **Trust and Relationship with Manager**: A positive relationship fosters better collaboration and enhances the delegation process.

4. Task-Related Factors

- **Complexity of the Task**: Simple, routine tasks are easier to delegate, while complex or critical tasks may require direct management.
- **Confidentiality of the Task**: Highly sensitive or confidential tasks are less likely to be delegated.
- **Importance and Urgency**: Tasks that are critical or time-sensitive may be handled by the manager directly.

DECENTRALIZATION AND CENTRALIZATION

What is Centralization?

Centralization refers to the concentration of authority at the top level of the organisation. It is the systematic and consistent reservation of authority at the central points within an organisation. In a centralized organisation, managers at the lower level have a limited role in decision-making. They just have to execute the orders and decisions of the top level.

What is Decentralization?

Decentralization means the dispersal of authority throughout the organisation. It refers to a systematic effort to delegate to the lowest levels all authority except which can be exercised at central points. It is the distribution of authority throughout the organisation. In a decentralized organisation, the authority of major decisions is vested with the top management and balance authority is delegated to the middle and lower levels.

Difference between Centralization and Decentralization:

Basis	Centralization	Decentralization
Meaning	The concentration of authority at the top level is known as Centralization.	The evenly and systematic distribution of authority at all levels is known as Decentralization.
Delegation of authority	There is no delegation of authority as all the authority for taking decisions is vested in the hands of top-level management.	There is a systematic delegation of authority at all levels.
Suitability	It is suitable for small organisations.	It is suitable for large organisations.
Freedom of decision making	There is no freedom of decision-making at the middle and lower level.	There is freedom of decision-making at all levels of management.
Flow of Information	There is a vertical flow of information.	There is an open and free flow of information.

Basis	Centralization	Decentralization
Employee Motivation	Employees are demotivated as compared to decentralization.	Employees are motivated as compared to centralization.
Conflict in Decision	There are least chances of any conflict in decision as only top-level management is involved.	There are chances of conflict in decision as many people are involved.
Burden	The burden of work is not shared and only one group carries the burden.	The burden of work is shared amongst all levels.

- **WHAT IS SOCIAL RESPONSIBILITY?**

Social responsibility is an ethical framework in which individuals or corporations are accountable for fulfilling their civic duty and taking actions that benefit society. If a company or person considers taking actions that could harm the environment or society, those actions are considered socially irresponsible. According to this concept, managers must make decisions that maximize profits and protect the interests of the community and society as a whole.

- **SOCIAL RESPONSIBILITY AND ETHICS**

Ethics refers to a set of moral principles that govern a company's or person's behavior. Companies should incorporate ethics into their daily actions, particularly those decisions that affect other people or the environment. A code of social responsibility and ethical conduct should be applied within an organization and during interactions with others outside the company. As long as a company upholds strong ethical standards and maintains social responsibility, the environment and employees are held as equals to the focus on profitability

EXAMPLES OF SOCIAL RESPONSIBILITY IN CORPORATIONS

Here are a few examples of corporate social responsibility initiatives that companies have taken:

Charitable giving and volunteer efforts: Companies give employees time off for volunteering every year and donate portions of revenue to a charitable organization.

Changes to company policies to improve or benefit the environment: Companies are holding tree-planting events, minimizing paper waste, switching to energy-saving bulbs, setting up recycling bins and allowing remote work to reduce the negative impact of commuter traffic.

- **What is Business Ethics?**

Business ethics refers to the moral principles and standards that guide behavior in the world of business. It involves distinguishing between right and wrong, fair and unfair, and acting in a way that benefits stakeholders, society, and the business itself.

- **Key Elements of Business Ethics:**

- **Integrity:** Being honest and having strong moral principles.
- **Fairness:** Ensuring justice in all business dealings.
- **Accountability:** Taking responsibility for decisions and actions.
- **Respect for Stakeholders:** Acknowledging the interests of employees, customers, suppliers, communities, and shareholders.

2. Ethical Decision-Making

Ethical decision-making is the process of evaluating and choosing among alternatives in a manner consistent with ethical principles. It often involves a balance between business goals and ethical considerations.

Steps in Ethical Decision-Making:

1. **Identify the Problem:** Clearly define the ethical issue or dilemma.
2. **Gather Information:** Collect relevant facts, including stakeholder perspectives.
3. **Evaluate Alternatives:** Analyze the options through ethical frameworks (e.g., utilitarianism, rights-based, justice-based).
4. **Make a Decision:** Choose the best ethical course of action.
5. **Implement the Decision:** Act on the decision responsibly.
6. **Reflect on the Outcome:** Assess the impact of the decision.

3. Importance of Business Ethics

- Builds trust with stakeholders.
- Enhances corporate reputation.
- Promotes long-term sustainability.
- Reduces risks of legal issues and fines.
- Fosters employee satisfaction and loyalty.

4. Ethical Theories in Business

- **Utilitarianism:** Focuses on the greatest good for the greatest number.
- **Deontological Ethics:** Emphasizes duties and rules.
- **Virtue Ethics:** Considers character and moral virtues.
- **Social Contract Theory:** Stresses the importance of social agreements.

5. **Challenges in Business Ethics**

- **Conflicts of Interest:** Balancing personal and professional responsibilities.

- **Resource Misuse:** Handling company assets ethically.
- **Globalization Issues:** Navigating differing cultural norms and ethical standards.
- **Transparency:** Ensuring honest communication with stakeholders.

6**. Case Study Example**

Scenario: A company discovers that its supplier uses child labor.

- **Ethical Issue:** Should the company continue working with this supplier?
- **Action:** Evaluate the company's code of ethics, stakeholder impact, and alternative sourcing options.
- **Decision:** Terminate the contract and support fair labor practices.

➢ **CSR (CORPORATE SOCIAL RESPONSIBILITY):**

It refers to a company's commitment to operating in an ethical, sustainable, and socially responsible manner. It involves businesses taking responsibility for their impact on society, the environment, and stakeholders beyond profit-making.

Example of CSR

A well-known example is **Tata Group's CSR initiatives** in India. The company invests heavily in community development, education, healthcare, and environmental sustainability. For instance, **Tata Steel** runs programs to promote rural education, skill development, and afforestation.

➢ **ADVANTAGES OF CSR (CORPORATE SOCIAL RESPONSIBILITY)**

1. **Enhanced Brand Reputation** – CSR initiatives improve a company's image and build trust with customers and stakeholders.
2. **Customer Loyalty** – Consumers are more likely to support brands that engage in ethical and socially responsible practices.
3. **Employee Satisfaction & Retention** – Companies with strong CSR programs attract and retain employees by creating a positive work environment.

4. **Competitive Advantage** – CSR differentiates a company from competitors and enhances its market position.
5. **Better Investor Relations** – Ethical business practices attract socially responsible investors, increasing investment opportunities.
6. **Cost Savings** – Sustainable practices, such as energy efficiency and waste reduction, can lower operational costs.
7. **Regulatory Compliance** – CSR ensures companies follow legal and environmental regulations, reducing legal risks.
8. **Stronger Community Relations** – Supporting local communities through CSR fosters goodwill and social development.
9. **Long-Term Sustainability** – Ethical and sustainable business practices contribute to long-term profitability and business continuity.
10. **Risk Management** – CSR helps companies mitigate risks related to environmental damage, unethical labor practices, and social issues.

➢ **Ethical Issues in Management**

Ethical issues in management refer to challenges that managers and organizations face in ensuring that their decisions and actions align with ethical standards and values. Some common ethical issues include:

1. **Integrity and Honesty** – Ensuring that leaders and employees act truthfully and uphold integrity, both in internal operations and external communications.
   - **Example:** A manager covering up poor product quality to maintain sales figures.
2. **Fairness and Equity** – Ensuring that all employees are treated fairly and equitably, including equal opportunities for advancement, fair wages, and non-discriminatory practices.
   - **Example:** Discriminating against employees based on gender, race, or age during recruitment or promotions.
3. **Conflict of Interest** – When personal interests or relationships interfere with professional duties or decisions.
   - **Example:** A manager awarding contracts to a company owned by a family member, despite better alternatives.

4. **Corporate Transparency** – Maintaining open and honest communication with stakeholders about the company's actions, policies, and performance.
   - **Example:** Concealing financial difficulties from investors to avoid damaging stock prices.
5. **Corporate Social Responsibility (CSR)** – Balancing profit-making with the responsibility to society, employees, and the environment.
   - **Example:** A company prioritizing profits over environmental safety or ignoring workers' rights in developing countries.
6. **Privacy and Confidentiality** – Safeguarding sensitive information about employees, customers, or business operations.
   - **Example:** Leaking private employee data to the media for competitive advantage.
7. **Whistleblowing** – Ethical dilemmas related to reporting unethical practices within an organization.
   - **Example:** Employees reporting unethical behavior, such as fraud, within their company.

➢ SUSTAINABILITY IN BUSINESS

Sustainability in business refers to practices that ensure companies meet their present needs without compromising the ability of future generations to meet their own needs. Sustainable business practices are focused on balancing environmental, social, and economic factors.

1. **Environmental Sustainability** – Reducing the environmental impact of business operations by conserving resources, minimizing waste, and adopting green technologies.
   - **Example:** A company reducing its carbon footprint by switching to renewable energy sources and adopting eco-friendly packaging.
2. **Social Sustainability** – Ensuring that a business's practices contribute positively to the well-being of society and its stakeholders, such as employees, customers, and communities.
   - **Example:** Providing fair wages and promoting a diverse, inclusive workplace.
3. **Economic Sustainability** – Ensuring that a business remains financially viable over the long term while also considering the social and environmental impacts of its operations.
   - **Example:** A business focusing on long-term growth, ethical investments, and cost-saving strategies like resource efficiency.

4. **Sustainable Supply Chain** – Partnering with suppliers and vendors who follow sustainable practices, reducing the negative environmental and social impact across the entire supply chain.
   - **Example:** A retailer choosing to source products from companies that follow ethical labor practices and use sustainable materials.
5. **Innovation and Circular Economy** – Fostering innovation by adopting circular economy principles, where waste is minimized, and products are designed for reuse, repair, and recycling.
   - **Example:** A company designing products that can be easily recycled at the end of their lifecycle.
6. **Sustainable Marketing** – Promoting products and services that are environmentally friendly, ethically produced, and socially responsible.
   - **Example:** Marketing a product made from organic materials, with no harmful chemicals, and promoting its benefits to the environment.

By integrating both ethical decision-making and sustainability, companies can create value not only for their shareholders but also for the broader community and environment.

UNIT-III

LEADERSHIP AND MOTIVATION

Leadership can be defined as the ability of the management to make sound decisions and inspire others to perform well. It is the process of directing the **behavior** of others towards achieving a common goal. In short, **leadership** is getting things done through others.

Meaning:

Leadership is an important **element of the directing function of management**. Wherever, there is an organized group of people working towards a common goal, some type of leadership becomes essential.

According to Koontz and Donnell, the act of leadership is the process of influencing people so that they will strive willingly and enthusiastically toward the achievement of the group goal.

➢ NATURE OR FEATURES OR CHARACTERISTICS OF LEADERSHIP

1. There must be Followers:

A leadership cannot exist without followers. If a leader does not have followers, he cannot exercise his authority. Leadership exists both in **formal and informal organisations.**

2. Working Relationship between Leader and Followers:

There must be a **working relationship** between the leader and his followers. It means that the leader should present himself in a place where the work is actually going on. Besides, the leader should be a **dynamic person** of the concerned group. If he is not so, he cannot get things done.

3. Leadership is essential for managing.

The ability to lead effectively is one of the keys to being an effective manager because she/he has to combine resources and lead a group to achieve objectives

4. Personal Quality:

The character and behaviour of a man influence the works of others.

5. Leadership and motivation are closely interconnected.

By understanding motivation, one can appreciate better what people want and why they act as they do. A leader can encourage or dampen workers motivation by creating a favorable or unfavorable working environment in the organization.

6. Leadership involves an unequal distribution of power between leaders and group members.

Group members are not powerless; they can shape group activities in some ways. Still, the leader will usually have more power than the group members.

7. Leaders can influence the followers' behavior in some ways. In fact, leaders can influence workers either to do ill or well for the company. The leader must be able to empower and motivate the followers to the cause.

➢ IMPORTANCE OF LEADERSHIP

1. It Improves Motivation and Morale:

Through dynamic leadership managers can improve motivation and morale of their subordinates. A good leader influences the behaviour of an individual in such a manner that he voluntarily works towards the achievement of enterprise goals.

2. It Acts as a Motive Power to Group Efforts:

Leadership serves as a motive power to group efforts. It leads the group to a higher level of performance through its persistent efforts and impact on human relations.

3. It Acts as an Aid to Authority:

The use of authority alone cannot always bring the desired results. Leadership acts as an aid to authority by influencing, inspiring and initiating action.

4. It is Needed at All Levels of Management:

Leadership plays a pivotal role at all levels of management because in the absence of effective leadership no management can achieve the desired results.

5. It Rectifies the Imperfectness of the Formal Organizational Relationships:

No organizational structure can provide all types of relationships and people with common interest may work beyond the confines of formal relationships. Such informal relationships are more effective in controlling and regulating the behaviour of the subordinates. Effective leadership uses their informal relationships to accomplish the enterprise goals.

6. It Provides the Basis for Co-operation:

Effective leadership increases the understanding between the subordinates and the management and promotes co-operation among them.

- **THEORIES OF LEADERSHIP**:

1. The Trait Theory:

Ralph M. Stogdill proposed the trait theory of leadership in the late 1940s; he explained that an individual must possess the key personality traits and characteristics to be an effective leader and these traits are **inherent by birth**. Some of the core leadership traits based on this theory can be categorized as follows:

- **Physiological traits**: Height, weight, structure, colour, appearance and so forth.
- **Socioeconomic characteristics**: Gender, religion, marital status, age, occupation, literacy and earnings.
- **Personality traits**: Extraversion, self-confidence, patience, agreeable, reliable, honesty and leadership motivation.
- **Intellectual traits**: Decisiveness, intelligence, judgemental ability, knowledge and emotional attribute.

2. BEHAVIOURAL THEORY:

The behavioural theory of leadership evolved in the **1950s**. After understanding that the personal traits of a leader are essential for effective leadership, the researchers were now keen to know that what leaders do to become effective leaders.

Thus, they now **focused on the leader's behaviour rather than traits**. To study the behaviour of leaders, two major research programs were started by two different universities namely, the Ohio State Leadership Studies and the University of Michigan Studies.

✓ **The Ohio State University Studies**: A group of researchers at Ohio State University **prepared a questionnaire to be surveyed in military and industrial setups**, to determine the perception of the subordinates for the actual behaviour of their leaders. From their findings, the researchers identified two major categories of leader behaviour:

A) Consideration: The leaders are attentive towards their subordinates and build up an excellent inter-personnel relationship with them. **They are very supportive and friendly**. This was termed as **'people-oriented behaviour'**.

B) Initiating structure: The leaders are majorly concerned about the achievement of goals and schedule and structure work accordingly. For such leaders, **subordinates are just resources**, and they have to make the optimal utilization of them. This was termed as **'task-oriented behavior'.**

- ✓ **The University of Michigan Studies**: This study is based on how the leader's behavior is related to group performance. Researchers made a comparison of **effective managers** with **the ineffective** ones and found that the two can be discriminated on the basis of their behavior, i.e**. job-centric behavior and organizational-member centric behavior.**

3. Likert's Four Systems of Management:

Professor **Rensis Likert and his associates** at the University of Michigan studied the patterns and styles of leaders and managers over three decades and developed certain ideas and approaches for understanding leadership behavior. Likert considers an effective manager as one who is strongly oriented to subordinates and relies on communication to a great extent in order to keep all the departments or individuals working in unison. He suggested four systems of management.

- **System 1 Management:**

This is also described as an **"exploitive-authoritative"** style. This represents dictatorial leadership behavior, with all decisions made by the managers, and little employee participation. These managers are highly autocratic, hardly trust subordinates, use **negative motivation** tactics like **fear and punishment**, and keep the decision-making powers with them.

- **System 2 Management:**

This management style is called the **"benevolent-authoritative"** style. Here, managers are patronizing but have confidence and trust in subordinates. They permit upward communication to a certain degree and ask for participation from subordinates. Managers in this system use both **rewards** and punishment to motivate employees.

They allow subordinates to participate to some extent in decision-making but retain close policy control.

- **System 3 Management:**

System 3 management is referred to as the **“consultative”** style. Managers in this system do not have complete confidence and trust in subordinates. However, they solicit advice from subordinates while retaining the right to make the final decision.

- **System 4 Management:**

This style of management is called the ‘**participative leadership’** style. Managers in this system trust their subordinates completely and have confidence in their abilities. They always ask the opinions of the subordinates and use them constructively. **They encourage participation of employees at all levels in decision-making and use both upward and downward communication.**

➢ MOTIVATION MEANING:

It is an important factor which encourages persons to give their best performance and help in reaching enterprise goals. A strong positive motivation will enable the increased output of employee but a negative motivation will reduce their performance.

➢ DEFINITION:

✓ **Berelson and Steiner**: “A motive is an inner state that energizes, activates, or moves and directs or channels behaviour goals.’

✓ **Lillis:** “It is the stimulation of any emotion or desire operating upon one’s will and promoting or driving it to action

➢ NATURES/FEATURES/CHARACTERISTICS OF MOTIVATION

The nature of motivation can be defined in following manner:

1. Psychological concept:

Motivation is related to mental state of a person. So, motivation is a psychological aspect. Psychology is a mental condition which arises in the mind of a person and directs to act in a particular way. Motivation is related with the needs and motives which generate within an individual.

2.Never ending process:

Motivation is important till the existence of the management. It is an unending process. It is dynamic in nature. The needs of a person arise continuously one after another. For instance- a man satisfies one want or one set of wants and after getting satisfaction again he feels another want and tries to satisfy the same. As desires, wants, needs, and motives are dynamic and changes occur frequently, the motivation too should be considered as dynamic.

3. Related to human resources: Motivation is related to human resources and needs. It is concerned with the feelings, desires, motives and needs of a man. Ofcourse, a man may be motivated but we cannot motivate other factors of production or resources like capital, land and machine.

4. Cause and effect of human satisfaction:

A man works to fulfill his own motive. Wants, desires, environment, condition, attitude, thought or experiences are the several causes which may encourage a man to work to get satisfaction. Thus, motivation is the cause and effect of human satisfaction.

5. Total individual motivation:

Generally, an individual is found being motivated and satisfied as a whole. An individual is a whole. He cannot be separated. If a person gets wound in his hand or leg, after medicine, he cannot say that the hand/leg is satisfied and cures, not me, rather he feels the satisfaction as a whole.

6. Inspiration and encouragement: To motivate the people is a very difficult task and responsibility of a manager because he is responsible to inspire and encourage the subordinates in work in such a way that they could perform their job in efficient way.

7. Complex and unpredictable:

Motivation is not that simple, it is very complex. No one can determine, explain and predict the behaviour of person as the desire, drives and attitudes are changed frequently in a varying in situation and circumstances.

8. Positive and negative motivation:

Motivation may be positive or negative on the part of employer. Positive motivation is concerned with the use of incentives like increase in salary, allowances, grant of reward, promotion etc. Whereas, negative motivation includes forcing people to work by holding out threats or punishment such as loss of job, demotion, deduction of salary etc.

➢ IMPORTANCE OF MOTIVATION:

Management tries to utilize all the sources of production in a best possible manner. This can be achieved only when employees co-operate in this task. Efforts should be made to motivate employees for contributing their maximum. The efforts of management will not bear fruit if the employees are not encouraged to work more. The motivated employees become an asset to the organisation. The following is the importance of motivation.

1. High Performance:

Motivated employees will put maximum efforts for achieving organisational goals. The untapped reservoirs, physical and mental abilities are tapped to the maximum. Better performance will also result in higher productivity. The cost of production can also be brought down if productivity is raised. The employees should be offered more incentives for increasing their performance. Motivation will act as a stimulant for improving the performance of employees.

2. Low Employee Turnover and Absenteeism:

When the employees are not satisfied with their job then they will leave it whenever they get an alternative offer. The dissatisfaction among employees also increases absenteeism. The employment training of new employees costs dearly to the organisation. When the employees are satisfied with their jobs and they are well motivated by offering them financial and non-financial incentives then they will not leave the job. The rate of absenteeism will also be low because they will try to increase their output.

3. Better Organisational Image:

Those enterprises which offer better monetary and non-monetary facilities to their employees have a better image among them. Such concerns are successful in attracting better qualified and experienced persons. Since there is a better man-power to development programme, the employees will like to join such organisations. Motivational efforts will simplify personnel function also.

4. Better Industrial Relations:

A good motivational system will create job satisfaction among employees. The employment will offer those better service conditions and various other incentives. There will be an atmosphere of confidence among employers and employees. There will be no reason for conflict and cordial relations among both sides will create a health atmosphere. So motivation among employees will lead to better industrial relations.

5. Acceptability to Change:

The changing social and industrial situations will require changes and improvements in the working of enterprises. There will be a need to introduce new and better methods of work from time to time. Generally, employees resist changes for fear of an adverse effect on their employment. When the employees are given various opportunities of development then they can easily adapt to new situations.

6. Higher morale of personnel: Motivation increases the working efficiency of the workers. The workers having higher morale are asserted as the assets or the organization. By lowering turnover rate and keeping the absenteeism low, a motivated employee can contribute the organization.

➢ TYPES OF MOTIVATION

When a manager wants to get more work from his subordinates then he will have to motivate them for improving their performance. They will either be offered incentive for more work, or may be in the space of rewards, better reports, recognition etc., or he may instill fear in them or use force for getting desired work.

1. Positive Motivation:

Positive motivation or incentive motivation is based on reward. The workers are offered incentives for achieving the desired goals. The incentives may be in the shape of more pay, promotion, recognition of work, etc. The employees are offered the incentives and try to improve their performance willingly.

2. Negative Motivation:

Negative or fear motivation is based on force or fear. Fear causes employees to act in a certain way. In case, they do not act accordingly then they may be punished with demotions or lay-offs. The fear acts as a push mechanism. The employees do not willingly co-operate, rather they want to avoid the punishment.

3. Financial motivation:

It refers to monetary rewards. Incentives are nothing but the inducements provided to employees in order to motivate them. There should be direct relationship between efforts and rewards, financial reward should be substantial in value and must be in parity with others. It includes: bonus,Incentive

4. Non-financial motivation:

Non-financial incentives do not involve money payments. These are also important in motivating employees as they bring in psychological and emotional satisfaction to them. These include so many techniques. People do work for money-but they work even more for meaning in their lives. In fact, they work to have fun. For example: Job security, Challenging work, recognition of work done by the employees, increase in responsibilities etc

➢ <u>THEORIES OF MOTIVATION:</u>

1. MASLOW'S NEED HIERARCHY THEORY:

Maslow's theory is based on the following **assumption** and are described below:

1.Unlimited wants:

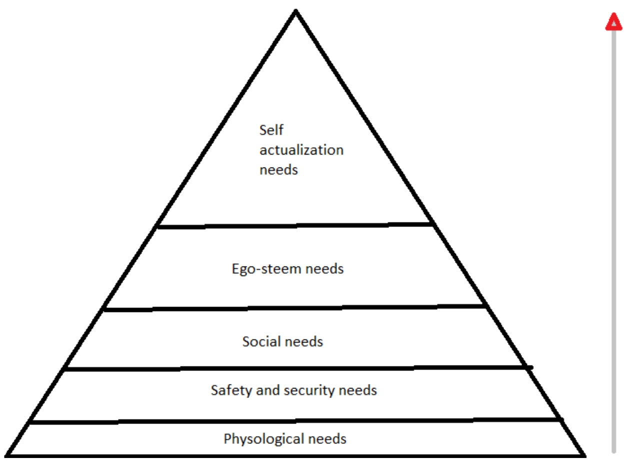
Human wants are unlimited and never ending. After one of his wants satisfied, another appears in its place. Again, to satisfy another wants, a man engages himself in work.

2. Unsatisfied needs is a motivator:

Man will lose his willingness to work and his capacity too, if needs are satisfied. So, it is only unsatisfied needs which may encourage or motivate the staff to perform the job.

3. Hierarchy of importance:

It is easy to determine the most important to less important needs. It says that needs can be classified according to priority and they can be arranged in priority according to a hierarchy of importance. The basic human needs placed by Maslow in an ascending order of importance can be illustrated as under:



1.**Physiological needs**:

These needs are the primary and the basic needs for food, water, air, clothing and shelter that are must be satisfied before the individual can consider higher order needs. For instance, a hungry person possessed by the need to obtain food, ignores other needs. After the satisfaction of physiological needs, other needs enter. Thus, these needs are generally satisfied by providing adequate salary, wages etc.

2. Safety and security needs:

It is the second level needs in Maslow hierarchy theory which include security, protection from physical harm and avoidance of the unexpected risk of loss. Virtually, these needs are concerned with physical safety and economic security. For eg. saving accounts, life insurance, membership of health club etc.

3. Social needs:

Human beings are social animals and they are social in nature. A man lives in society, loves society, believe in society, learns from society and gets from society. Being social, he gains experiences from the society and thus feels some needs. These needs include belongingness, friendship, love and affection etc. A manager should know these needs and manage well to motivate the employees.

4. Esteem or ego needs:

These needs are of two types: (a) self esteem and (b) public esteem. Self esteem means esteem to the eye of self which in the eye of public as praise, power, prestige, appreciation, recognition etc. These all needs are concerned with one's prestige and respect of an individual.

5. Self-actualization needs:

It is the top level of needs in Maslow's need hierarchy theory. It is concerned with the need for fulfillment, for realizing one's own potential, for using one's talents and capabilities totally. These needs are also known as self prestige, self achievement and self confidence. This self actualization needs are most difficult to the manager to identify and focus.

2. HERZBERG'S MOTIVATION HYGIENE THEORY:

The psychologist Frederick Herzberg extended the work of Maslow and propsed a new motivation theory popularly known as Herzberg's Motivation Hygiene (Two-Factor) Theory.

According to Herzberg, two kinds of factors affect motivation, and they do it in different ways:

1. Hygiene factors or maintenance factors. These are factors whose absence motivates, but whose presence has no perceived effect. They are things that when you take them away, people become dissatisfied and act to get them back. **For examples** decent working conditions, security, pay, benefits (like health insurance), company policies, interpersonal relationships.

2. Motivators. These are factors whose presence motivates. Their absence does not cause any particular dissatisfaction, it just fails to motivate. Examples are all the things at the top of the Maslow hierarchy, and the intrinsic motivators.

So hygiene factors determine dissatisfaction, and motivators determine satisfaction. The two scales are independent, and you can be high on both.

3. MCGREGOR'S X AND Y THEORY:

Douglas McGregor formulated two distinct views of human being based on participation of workers. The first basically negative, labeled Theory X, and the other basically positive, labled Theory Y.

Theory X is based on the following assumptions:

1. People are by nature indolent. That is, they like to work as little as possible.

2. People lack ambition, dislike responsibility, and prefer to be directed by others.

3. People are inherently self-centered and indifferent to organisational needs and goals.

4. People are generally gullible and not very sharp and bright.

On the contrary, Theory Y assumes that:

1. People are not by nature passive or resistant to organisational goals.

2. They want to assume responsibility.

3. They want their organisation to succeed.

4. People are capable of directing their own behaviour.

5. They have need for achievement

4. VROOM'S EXPECTANCY THEORY:

One of the most widely accepted explanations of motivation is offered by Victor Vroom in his Expectancy Theory" It is a cognitive process theory of motivation. The theory is founded on the basic notions that people will be motivated to exert a high level of effort when they believe there are relationships between the effort they put forth, the performance they achieve, and the outcomes/ rewards they receive.

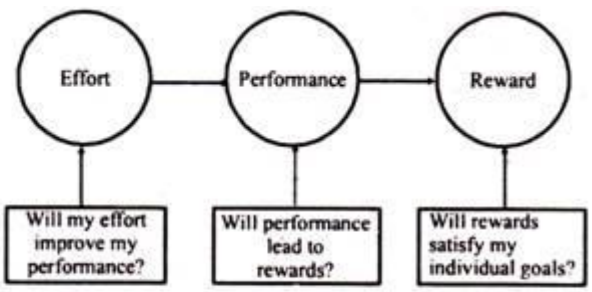


Fig 17.3: Vroom's Expectancy Model of Motivation

Thus, the key constructs in the expectancy theory of motivation are:

1. Valence:

Valence, according to Vroom, means the value or strength one places on a particular outcome or reward.

2. Expectancy:

It relates efforts to performance.

3. Instrumentality:

By instrumentality, Vroom means, the belief that performance is related to rewards.

Thus, Vroom's motivation can also be expressed in the form of an equation as follows: **Motivation = Valence x Expectancy x Instrumentality**

Being the model multiplicative in nature, all the three variables must have high positive values to imply motivated performance choice. If any one of the variables approaches to zero level, the possibility of the so motivated performance also touches zero level.

UNIT-IV

CONTEMPORARY ISSUES IN MANAGEMENT

Contemporary management faces several evolving challenges, requiring managers to adapt and embrace new strategies. Key contemporary issues include:

1. **Leadership and Management Styles** – The shift from traditional hierarchical leadership to more flexible, collaborative, and transformational leadership styles to adapt to dynamic business environments.
2. **Talent Management and Retention** – Finding, developing, and retaining skilled employees, particularly in highly competitive industries, while maintaining work-life balance and job satisfaction.
3. **Ethical Leadership and Corporate Governance** – Ensuring that managers lead ethically and responsibly, with transparency and accountability, amid increasing scrutiny from stakeholders.
4. **Workplace Wellness and Mental Health** – Addressing employee well-being and mental health as essential parts of overall business success.
5. **Crisis Management** – Handling unexpected disruptions like the COVID-19 pandemic, economic downturns, or natural disasters, while ensuring business continuity and stakeholder safety.
6. **Innovation and Change Management** – Managing organizational change and fostering innovation to stay competitive in rapidly changing industries.

➢ IMPACT OF TECHNOLOGY ON MANAGEMENT

Technology has drastically transformed management practices, improving efficiency, productivity, and decision-making. Key impacts include:

1. **Automation and AI** – Replacing routine tasks with automation and using AI for data analysis, predictive analytics, and decision-making.
2. **Digital Transformation** – Encouraging businesses to adapt to new digital tools and technologies such as cloud computing, enterprise software, and mobile applications to streamline operations and enhance customer experience.
3. **Data-Driven Decision Making** – Leveraging big data, business analytics, and machine learning to make informed decisions, optimize resources, and predict trends.
4. **Communication Tools** – Advancing collaboration through tools like Slack, Microsoft Teams, Zoom, and Trello, improving communication and project management.
5. **Cybersecurity and Data Protection** – As businesses become more digital, protecting sensitive data from breaches and ensuring security is critical.

➢ MANAGING REMOTE AND VIRTUAL TEAMS

With the rise of remote and hybrid work models, managers face challenges in leading distributed teams. Key considerations include:

1. **Communication and Collaboration** – Ensuring clear communication, using digital tools for collaboration, and avoiding misunderstandings due to physical distance.
2. **Performance Management** – Setting clear expectations, maintaining accountability, and tracking performance through metrics while promoting autonomy and trust.
3. **Team Culture and Engagement** – Maintaining a positive work culture remotely, fostering relationships, and keeping employees motivated through virtual team-building activities.
4. **Technology and Infrastructure** – Ensuring that remote workers have access to the right tools, resources, and technical support to perform effectively.

5. **Work-Life Balance** – Supporting employees in managing work-life boundaries and preventing burnout in remote settings.

➢ GLOBALIZATION AND DIVERSITY IN THE WORKPLACE

Globalization and workforce diversity have introduced both opportunities and challenges in management. Key aspects include:

1. **Cultural Sensitivity and Inclusion** – Emphasizing the importance of understanding and respecting cultural differences, promoting an inclusive work environment where everyone feels valued.
2. **Global Talent Pool** – Accessing a diverse range of skilled employees from around the world, leading to increased innovation and different perspectives.
3. **Global Supply Chains** – Managing global supply chains effectively, addressing ethical sourcing, sustainability concerns, and geopolitical challenges.
4. **Cross-Cultural Communication** – Ensuring effective communication across different cultural contexts to avoid misunderstandings and conflicts.
5. **Legal and Ethical Considerations** – Navigating international laws, regulations, and standards, especially around labor rights, human resources, and environmental policies.

Emerging Trends in Management

Some of the emerging trends in management that are reshaping the business landscape include:

1. **Agile Management** – Adopting agile methodologies, such as Scrum or Kanban, for flexible project management, allowing organizations to adapt quickly to changes.
2. **Sustainability and CSR** – Integrating sustainability into business strategy, with a focus on social and environmental responsibility, including reducing carbon footprints and promoting ethical sourcing.
3. **Employee Experience** – Focusing on creating a positive employee experience that integrates personal development, well-being, work flexibility, and organizational culture.
4. **Artificial Intelligence and Automation** – Increasing use of AI and automation for streamlining operations, improving decision-making, and enhancing customer experience.

5. **Hybrid Work Models** – Embracing hybrid work structures that combine in-office and remote work to provide flexibility while maintaining productivity and engagement.
6. **Diversity, Equity, and Inclusion (DEI)** – Prioritizing DEI initiatives in hiring practices, leadership, and decision-making to ensure fair representation and equal opportunities.

Case Studies

1. Google's Leadership and Innovation

Google's approach to leadership is an example of contemporary management in action. The company fosters innovation by empowering employees to spend 20% of their time on passion projects, creating an environment where creativity and autonomy thrive. Google's emphasis on employee well-being, diversity, and inclusion, and its use of cutting-edge technology to support collaboration, have made it a leading example in managing innovation and talent.

2. Starbucks' Globalization and Diversity Efforts

Starbucks has successfully expanded globally while maintaining its commitment to diversity and inclusion. The company offers training programs that focus on cultural sensitivity and inclusion, while also working to create a welcoming environment for all employees and customers. Its commitment to CSR, including ethically sourced coffee, has helped it build a loyal customer base worldwide.

3. Zappos' Customer-Centric Management

Zappos, an online shoe and clothing retailer, has built its business around customer satisfaction. The company's management emphasizes empowerment and customer service, encouraging employees to go above and beyond for customers. Zappos has embraced technology to streamline its operations, but its human-centric approach to management has led to a strong corporate culture and loyal customer base.

4. IBM's Adoption of Agile Management

IBM has shifted towards agile management to improve its responsiveness to market changes. By adopting agile practices in its software development, the company has been able to deliver products more quickly and efficiently, fostering innovation and collaboration across its global teams.

SMBME2402 ACCOUNTS AND FINANCIAL MANAGEMENT

CREDIT HOURS ALLOTED:15 HRS

OBJECTIVE:

This course structure ensures a comprehensive understanding of both foundational accounting principles and advanced financial management techniques, preparing students for successful careers in finance and business management. Student will learn:

- **Foundational Accounting Knowledge:** Introduce key accounting concepts, principles, and the role of accounting in business operations.
- **Financial Transaction Recording:** Teach students how to record financial transactions using double-entry accounting, general ledgers, and journal entries.
- **Financial Statement Preparation:** Equip students with the skills to prepare and interpret essential financial statements, including the income statement, balance sheet, and cash flow statement.
- **Financial Analysis and Ratios:** Develop students' ability to analyze financial health using liquidity, solvency, and profitability ratios.
- **Managerial Accounting and Financial Planning:** Cover capital structure, capital budgeting decisions, financial forecasting, and working capital management to enable informed financial decision-making and strategic planning.

S.NO.	CONTENT	CREDIT HRS
	UNIT-I	
1.	**Introduction to Accounting**	**1**
1.1	Definitions and concepts	
1.2	Accounting principles and standards (GAAP)	
1.3	Role of accounting in business	
2	**Recording Financial Transactions**	**2**
2.1	Double-entry accounting	
2.2	General ledger and journal entries	
2.3	Trial balance	
3	**Financial Statements**	**2**
3.1	Income statement (Profit and Loss)	
3.2	Balance sheet (Statement of Financial Position)	
3.3	Cash flow statement	
3.4	Statement of changes in equity	
	UNIT-II	
4	**Financial Ratios and Analysis**	**2**
4.1	Liquidity, solvency, and profitability ratios	
4.2	Interpretation and analysis of financial statements	
	Unit-III	
	Managerial Accounting and Financial Management	**3**
5	**Capital Structure**	
5.1	Meaning of Capital Structure	
5.2	Factor affecting Capital Structure	
5.3	EBIT – EBTEPS –analysis	
6	**Capital Budgeting Decision**	**1**
6.1	Time value of money	
6.2	Net present value (NPV)	
6.3	Internal rate of return (IRR) and Payback period	

	UNIT IV	
7	**Financial Analysis and Planning**	**2**
7.1	Financial forecasting	
7.2	Pro forma financial statements	
7.3	Financial modeling and scenario analysis	
8	**Working Capital Management**	**2**
8.1	Cash management	
8.2	Receivables and inventory management	
8.3	Short-term financing	

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- "Essentials of Corporate Finance" by Stephen A. Ross, Randolph W. Westerfield, and Bradford D. Jordan

INTRODUCTION TO ACCOUNTING

Accounting is the process of recording financial transactions pertaining to a business. The accounting process includes summarizing, analyzing, and reporting these transactions to oversight agencies, regulators, and tax collection entities.

British English: accounting NOUN /əˈkaʊntɪŋ/ Accounting is the activity of keeping detailed records of the amounts of money a business or person receives and spends.

***ACCOUNTING PRINCIPLES**

1.Accrual Principle

It is one of the important accounting concepts and principles that mandate the recording of transactions in the time period in which they occur. It is regardless of the time when actual cash flows for the transactions are received.

2.Consistency principle

According to this principle, when an organization adopts a specific accounting method of reporting or documentation, then it should stay consistent with the method. The aim of this basic accounting principle is to make financial statements comparable across industries and companies

3. Cost Principle (historical Cost)

The Historical Cost principle is another name for the cost principle. Whenever a business acquires an asset, its initial value is recorded in its financial reports of the business.

4. Economic Entity Principle

This principle is a basic of accounting that requires businesses to be treated as a separate financial and legal entity. This means that the recorded activities of the business entity must be kept separate from the recorded activities of the owner and other entities.

5.Matching Principle

The matching principle is a concept in accounting that states that companies must report their expenses and revenues simultaneously. The revenues and expenses are matched on income statement for a specific time period

6.Materiality Principle

As per the materiality principle, any item that may impact the decision-making process of an investor must be recorded. These details must be recorded in length in the financial statements using Generally Accepted Accounting Principles (GAAP).

7.Full Disclosure Principle

In the Full Disclosure principle, each piece of information should be included in the financial statement of an entity. This is necessary since it might affect the reader's perspective of understanding the statement

8. Conservatism Principle

The Conservatism principle gives you a realistic perspective of unexpected situations. According to this principle, one should recognize expenses and liabilities at the early stages even if there is uncertainty about the outcome.

9.Going Concern Principle

According to this accounting principle, a company will complete its recent plans, meet its financial obligations and use its existing assets. This process of continuing operations indefinitely must go on until the company has any evidence on the contrary.

10. Monetary Unit Principle

According to this principle, business transactions should be recorded only when they can be expressed as currency. Accountants should avoid recording non-quantifiable entities in the financial accounts.

11. Reliability Principle

This principle ensures that every transaction, business activity, event, etc. is reliable when presented in the financial statement. Information should be associated with objective evidence and it can be checked, reviewed, and verified.

12.Time Period Principle

There are two main regulatory bodies that develop the principles based on accounting concepts. GAAP and IFRS develop these principles.

13.Revenue Recognition Principle

Revenue recognition is a part of GAAP that identifies certain conditions in which the revenue is recognized. The revenue is recognized when a critical event has occurred.

14. Objectivity Principle

It refers to the concept of considering financial statements as solid evidence. These statements should not be biased or opinionated. While constructing financial statements, these statements should be helpful in evaluating the financial results, financial position and cash flow of an entity.

ROLE OF ACCOUNTING IN BUSINESS

At its core, accounting serves as the foundation of financial management within an organization. By systematically recording, summarizing, and analyzing financial transactions, accounting provides a comprehensive view of a company's financial health. It enables businesses to assess their profitability, liquidity, and solvency, thereby guiding strategic decision-making.

FINANCIAL TRANSACTIONS

Personal Accounts

- Personal accounts can be considered general ledgers related to people, associations, and companies.
- If the person/ group of persons/ legal body is receiving something from the business, then – Debit the receiver.
- If the person/ group of persons/ legal body is paying something to the business – Credit the payer or giver

Example – Payment made to Mr. a

Mr. A account- debit (as Mr. A received payment in cash because debit the receiver)

Cash account – credit (As cash goes out because credit what goes out)

***Real Account**

-Real Accounts are a **set of tangible aspects of business like furniture, cash, etc.** The asset category can be further subdivided **into tangible and intangible assets. Real accounts deal with material assets of the business**.

On Purchasing of any Item

Purchase account - debit (as item or goods comes in)

cash account - credit (as cash goes out)

Nominal Accounts- Nominal Accounts represent all the transactions of business like Expenses, Losses, Income, and gains incurred while doing business. Some common, e.g., are

- Electricity Expenses,
- Telephone expense etc

If it's an expense or loss for the business – Debit
If it's an income or gain for the business – credit

The accounting rule of the nominal account goes like

"Debit all expenses and losses, credit all incomes and gains"

Example Rent paid –

Rent account debit (as Rent Is expense)

Cash account credit(As cash goes out)

TRIAL BALANCE

A trial balance is a bookkeeping worksheet in which the **balances of all ledgers** are compiled into debit and credit account column totals that are equal. A company prepares a trial balance periodically, usually at the end of every reporting period. The general purpose of producing a trial balance is to ensure that the entries in a company's bookkeeping system are mathematically correct.

Name of Business
Trial Balance
as on date _______

Particulars	L.F.	Dr. Balance(₹)	Cr. Balance (₹)
Cash A/c		xxxx	
Capital A/c			xxxx
Drawings A/c		xxxx	
Purchases A/c		xxxx	
Sales A/c			xxxx
Machinery A/c		xxxx	
Rent A/c		xxxx	
Salaries A/c		xxxx	
Purchase Return and so on			xxxx
Total		**XXXX**	**XXXX**

*FINANCIAL STATEMENTS

Financial statements are written records that convey the financial activities of a company. Financial statements are often audited by government agencies and accountants to ensure accuracy and for tax, financing, or investing purposes. For-profit primary financial statements include the balance sheet, income statement, statement of cash flow, and statement of changes in equity. Nonprofit entities use a similar but different set of financial statements.

- Financial statements provide interested parties with a company's overall financial condition and profitability.
- Statements required by Generally Accepted Accounting Principles are the balance sheet, the income statement, and the statement of cash flows, but you'll likely see more in reports.
- The balance sheet provides an overview of assets, liabilities, and shareholders' equity as a snapshot in time.
- The income statement primarily focuses on a company's revenues and expenses during a particular period. Once expenses are subtracted from revenues, the statement produces a company's profit figure called net income.
- The cash flow statement (CFS) tracks how a company uses its cash to pay its debt obligations and fund its operating expenses and investments.

TYPES OF FINANCIAL STATEMENTS -

- **BALANCE SHEET**
- **INCOME STATEMENT**
- **RATIO ANALYSIS**
- **CASH FLOW STATEMENT**

BALANCESHEET

The balance sheet provides an overview of a company's assets, liabilities, and shareholders' equity at a specific time and date. The date at the top of the balance sheet tells you when this snapshot was taken; this is generally the end of its annual reporting period. Below is a breakdown of the items in a balance sheet.

Format Of Vertical Balance Sheet			
Particulars	**Note No.**	**Figures as of the end of the current reporting period**	**Figures as of the end of the previous reporting period**
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
a.Share Capital		XXXX	XXXX
b.Reserves and Surplus		XXXX	XXXX
c. Money Received Against Share Warrants		XXXX	XXXX
2. Share Application Money Pending Allotment			
3. Non-current Liabilities			
a.Long-term Borrowings		XXXX	XXXX
b. Deferred Tax Liabilities (Net)		XXXX	XXXX
c. Other Long-term Liabilities		XXXX	XXXX
d.Long-term Provisions		XXXX	XXXX
4. Current Liabilities			
a.Short-term Borrowings		XXXX	XXXX
b.Trade Payables		XXXX	XXXXX
c.Other Current Liabilities		XXXX	XXXX
d.Short-term Provisions		XXXX	XXXX
Total			
II. ASSETS			
1. Non-current Assets			

a. Fixed Assets			
1. Tangible Assets		XXXX	XXXX
2. Intangible Assets		XXXX	XXXX
3.Capital Work-in-progress		XXXX	XXXX
4. Intangible Assets under Development		XXXX	XXXX
b. Non-current Investments		XXXX	XXXX
c.* Deferred Tax Assets (Net)		XXXX	XXXX
d. Long-term Loans and Advances		XXXX	XXXX
e.* Other Non-current Assets		XXXX	XXXX
2. Current Assets			
a.Current Investments		XXXX	XXXX
b.Inventories		XXXX	XXXX
c. Trade Receivables		XXXX	XXXX
d. Cash and Cash Equivalents		XXXX	XXXX
e. Short-term Loans and Advances		XXXX	XXXX
f. Other Current Assets		XXXX	XXXX
Total			

Income Statement

Unlike the balance sheet, the income statement covers a range of time, which is a year for annual financial statements and a quarter for quarterly financial statements. The income statement provides an overview of revenues, expenses, net income, and earnings per share.

*Cash Flow Statement-

The cash flow statement (CFS) shows how cash flows throughout a company. The cash flow statement complements the balance sheet and income statement.

The CFS allows investors to understand how a company's operations are running, where its money is coming from, and how money is being spent. The CFS also provides insight as to whether a company is on a solid financial footing.

The cash flow statement contains three sections that report on the various activities for which a company uses its cash. Those three components of the CFS are listed below.

*Operating Activities

The operating activities on the CFS include any sources and uses of cash from running the business and selling its products or services. Cash from operations includes any changes made in cash accounts receivable, depreciation, inventory, and accounts payable. These transactions also include wages, income tax payments, interest payments, rent, and cash receipts from the sale of a product or service.

*Investing Activities

Investing activities include any sources and uses of cash from a company's investments in its long-term future. A purchase or sale of an asset, loans made to vendors or received from customers, or any payments related to a merger or acquisition are included in this category.

Also, purchases of fixed assets such as property, plant, and equipment (PPE) are included in this section. In short, changes in equipment, assets, or investments relate to cash from investing.

***Financing Activities**

Cash from financing activities includes the cash from investors or banks and the cash paid to shareholders. Financing activities include debt issuance, equity issuance, stock repurchases, loans, dividends paid, and debt repayments.

Below is the example of Cash flow statement as a example –

Cash Flow Statement for the year ended xxxx

	Particulars	Details	Amount
I.	**Cash Flow from Operating Activities**		
	(A) Net Profit before Taxation and Extraordinary Items		–
	Adjustment for Non-cash and Non-operating Items		
	(B) *Add*: **Items to be Added**		
	(C) *Less*: **Items to be Deducted**		
	(D) Operating Profit before Working Capital changes (A + B – C)		…
	(E) *Add*: **↓ in CA and ↑ in CL**		
	(F) *Less*: **↑ in CA and ↓ in CL**		
	(G) Cash generated from Operations (D + E – F)		…
	Less: Income Tax Paid (Net of Tax Refund received)		(…)
	Cash Flow before Extraordinary Items		
	Extraordinary Items (+/–)		…
	(H) Net Cash from (or used in) Operating Activities		…
II.	**Cash Flow from Investing Activities**		
	Proceeds from Sale of Fixed Assets		…
	Purchase of Fixed/Intangible Assets		(…)
	Extraordinary Items (+/–)		…
	(I) Net Cash from (or used in) Investing Activities		
III.	**Cash Flow from Financing Activities**		
	Proceeds from Issue of Shares or Debentures		…
	Proceeds from Other Long-term Borrowings		…
	Repayment of Loan		(…)
	Redemption of Shares or Debentures		(…)
	Bank Overdraft		…
	Extraordinary Items (+/ –)		…
	(J) **Net Cash from (or used in) Financing Activities**		…
IV.	Net ↑/↓ in Cash & Cash Equivalents (I + II + III)		…
	Add: Cash & Cash Equivalents in the beginning of the year		…
V.	**Cash & Cash Equivalents at the end of the year**		…

Statement of Changes in Equity

is the reconciliation between the opening balance and closing balance of shareholder’s equity. It is a financial statement which summarizes the transactions related to the shareholder’s equity over an accounting period. Movement in retained earnings, other reserves and changes in share capital such as the issue of new shares and payment of dividends are recorded in this report.

- **Why is the Statement of Changes in Equity Needed?**

The difference between the assets and liabilities from one accounting period to the next will give you the movement in equity. This information can be obtained from the balance sheet of the entity. However, this will not provide the details of the changes that have happened in the equity and for this purpose, this statement of changes in equity is required. Under Indian GAAP, there is no requirement for this statement; however, Schedule III of the Companies Act 2013 requires such movement in shareholder’s equity to be presented as part of notes to accounts.

UNIT-II

*RATIOS -

Ratio analysis is a method of examining a company's balance sheet and income statement to learn about its liquidity, operational efficiency, and profitability. It doesn't involve one single metric; instead, it is a way of analyzing a variety of financial data about a company. Ratio analysis is a cornerstone of fundamental equity analysis.

There are many different ratios that investors and other business experts can analyze to make predictions about a company's financial stability and potential future growth. These can be used to evaluate either how a company's performance has changed over time or how it compares to other businesses in its industry.

*Ratio Analysis

Ratio Analysis is one of the methods to analyse financial statements. The relationship between various financial factors of a business is defined through ratio analysis. In this article, we have covered various ratio analysis formulas and others in detail.

Main heads of Ratios

- Liquidity Ratios
- Solvency Ratios
- Activity Ratios
- Profitability Ratios

Types of Ratios Are as follow-

*Liquid ratios -

Current asset ratio

Current Ratio = Current Liabilities Current Assets

***Quick Ratio Acid Test Ratio or Liquid Ratio**

Quick Ratio also called Acid Test Ratio and Liquid Ratio is given by the formula:

Liquid Asset Ratio -; Liquid **assets/Current liability**

Liquid asset- Current asset-inventory

SOLVENCY RATIOS -

Proprietary Ratio= Shareholder fund /Total asset

Debt equity ratio = total liability to outsiders/shareholder fund

Activity Ratios -

Inventory turnover ratio= cost of revenue or cost of goods sold or sales/Average inventory.

Debtors receivable ratio = credit sale/average receivable

Payable turnover ratio = credit purchase/average payables

Working capital turnover ratio - net revenue from operation/net working capital

PROFITABILITY RATIOS –

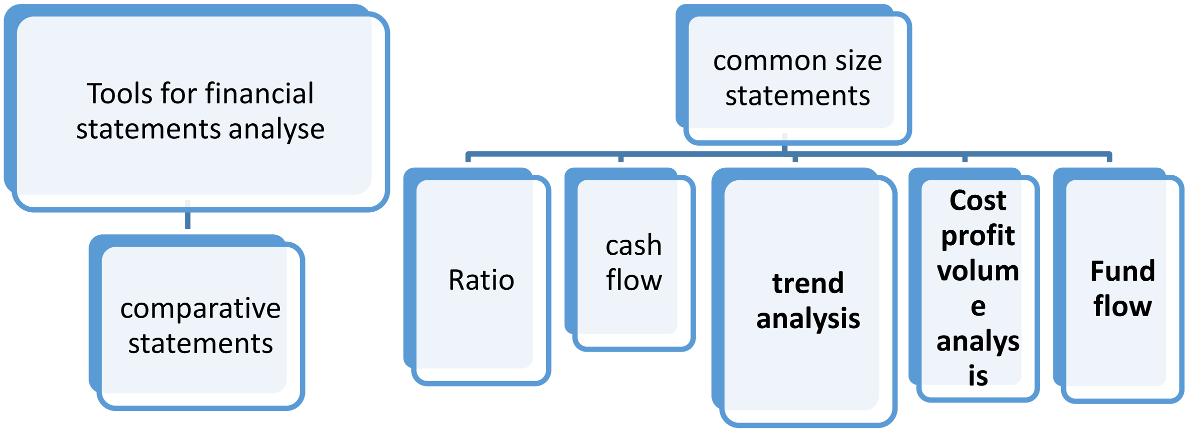
Gross Profit Ratio= Gross profit/Net sales/revenue*100

Operating Ratio =cost of revenue from operations+operating expenses/net sale*100

Operating profit ratio = operating profit/net sale*100

INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENT)

***MEANING-**Financial statement analysis is the process of analyzing a company's financial statements for decision-making purposes. External stakeholders use it to understand the overall health of an organization and to evaluate financial performance and business value. Internal constituents use it as a monitoring tool for managing the finances.



<u>*Objectives of financial statement analysis</u>

- **Assess financial health**: Through analysis, you gain a clear picture of a company's financial stability, helping you understand its ability to meet short-term obligations and navigate economic fluctuations.
- **Evaluate profitability**: The analysis allows you to determine the company's profitability and gauge its capacity to generate earnings from operations.
- **Predict future performance**: By identifying trends and patterns, you can forecast potential financial performance, aiding in proactive decision-making.
- **Allocate resources efficiently**: Financial statement analysis aids in allocating resources optimally, ensuring that budgets align with the company's financial objectives.
- **Identify operational efficiency**: The analysis unveils insights into operational effectiveness, helping you identify cost reduction and process improvement area

***Comparative statement (HORIZONTAL ANALYSIS)** is a document used to compare a particular financial statement with prior period statements. Previous financials are presented alongside the latest figures in side-by-side columns, enabling investors to identify trends, track a company's progress and compare it with industry rivals

A comparative statement is a financial statement that helps compare components of a business's income statement and balance sheet over a duration of at least two periods, in percentage and absolute form. It presents previous figures with the latest financials, enabling one to compare a company's performance against its competitors.

1.Comparative statement of balancesheet

2.Comparative statement of p and l account

Comparative Statement of Profit & Loss for the year ended ......

Particulars (1)	Note No. (2)	Figures for the Previous Year ₹ (3)	Figures for the Current Year ₹ (4)	Absolute Change (Increase/Decrease) ₹ (5)	Percentage Change (Increase/Decrease) % (6)
		(A)	(B)	(C = B - A)	(D = C/A x 100)
I. Revenue from Operations		XXXX	XXXX	XXXX	XX
II. Other Income		XXXX	XXXX	XXXX	XX
III. Total Revenue (I + II)		**XXXX**	**XXXX**	**XXXX**	**XX**
IV. **Expenses:**					
a) Cost of Materials Consumed		XXXX	XXXX	XXXX	XX
b) Purchases of Stock-in-Trade		XXXX	XXXX	XXXX	XX
c) Changes in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade		XXXX	XXXX	XXXX	XX
d) Employees Benefit Expenses		XXXX	XXXX	XXXX	XX
e) Finance Costs		XXXX	XXXX	XXXX	XX
f) Depreciation and Amortisation Expenses		XXXX	XXXX	XXXX	XX
g) Other Expenses		XXXX	XXXX	XXXX	XX
Total Expenses		**XXXX**	**XXXX**	**XXXX**	**XX**
V. **Profit before Tax (III-IV)**		XXXX	XXXX	XXXX	XX
VI. **Less:** Income Tax		XXXX	XXXX	XXXX	XX
VII. **Profit after Tax (V - VI)**		**XXXX**	**XXXX**	**XXXX**	**XX**

Illustration 1. Following are the Balance Sheets of Rachna Ltd. as at 31st March, 2016 and 2015 :

Particulars	*31st March, 2016* (₹)	*31st Dec., 2015* (₹)
I. Equity and Liabilities		
Shareholder's Funds		
Share Capital	1,50,000	1,00,000
Reserve and Surplus	1,00,000	1,00,000
Non-Current Liabilities		
Long-term Borrowings (Loans)	80,000	20,000
Current Liabilities (Trade Payables)	50,000	30,000
	3,80,000	2,50,000
II. Assets		
Non-current Assets		
Fixed Assets (Tangible)	3,00,000	2,00,000
Current Assets (Trade Receivables)	80,000	50,000
	3,80,000	2,50,000

Prepare a Comparative Balance Sheet.

Solution:

**Comparative Balance Sheet of Rachna Ltd.
as at 31st March, 2015 and 2016**

Particulars (1)	*Note No.* (2)	*31-3-2015* (3)	*31-3-2016* (4)	*Absolute Change (Increase or Decrease)* (5)	*Percentage Change (Increase or Decrease)* (6)
		A ₹	B ₹	C = B – A ₹	D= C/A×100 %
I. Equity And Liabilities					
(1) Shareholder's Funds					
(a) Share Capital		1,00,000	1,50,000	50,000	50
(b) Reserve and Surplus		1,00,000	1,00,000	–	
(2) Non Current Liabilities :					
Long term Borrowings		20,000	80,000	60,000	300
(3) Current Liabilities :					
Trade Payables		30,000	50,000	20,000	66.67
TOTAL		2,50,000	3,80,000	1,30,000	52
II. Assets :					
(1) Non-Current Assets					
Fixed Assets (Tangible)		2,00,000	3,00,000	1,00,000	50
(2) Current Assets :					
Trade Receivables		50,000	80,000	30,000	60
TOTAL		2,50,000	3,80,000	1,30,000	52

<u>*Common Size statement(VERTICAL ANALYSIS)</u> A common size financial statement displays entries as a percentage of a common base figure rather than as absolute numerical figures. Common size statements let analysts compare companies of different sizes, in different industries, or across time in an apples-to-apples way.

Illustration 12. Following are the two Balance Sheets of A Ltd and B Ltd as at 31.3.2016

Particulars	*A Ltd. (₹in lakhs)*	*B. Ltd (₹in lakhs)*
I. Equity and Liabilities :		
1. Shareholders Funds :		
Share capital	658	493
2. Non-current Liabilities	225	318
3. Current Liabilities :		
(a) Trade Payables (Sundry Creditors)	42	154
(b) Other Current Liabilities	78	62
Total	1003	1027
II. Assets		
1. Non-Current Assets		
Fixed Assets	635	513
2. Current Assets :		
(a) Inventory (Stock)	100	174
(b) Trade Receivables (S. Debtors)	220	226
(c) Cash and Cash Equivalents	27	72
(d) Other Current Assets	21	42
	1003	1027

Analysis and Interpretation of Financial Statements • **2.29**

Solution :

Common Size Balance of A Ltd. and B Ltd.

Particulars	*A Ltd*		*B. Ltd.*	
	Amount (₹in lakhs)	*Percentage of Total (%)*	*Amount (₹in lakhs)*	*Percentage of Total (%)*
I. Equity and Liabilities :				
1. Shareholder's Funds :				
Share Capital	658	65.60	493	48.00
2. Non-current Liabilities :	225	22.43	318	30.97
3. Current Liabilities :				
(a) Trade Payables (Creditors)	42	4.19	154	14.99
(b) Other Current Liabilities	78	7.78	62	6.04
Total	1003	100.00	1027	100.00
II. Assets :				
1. Non-current Assets :				
Fixed Assets (Net tangible)	635	63.32	513	49.95
2. Current Assets :				
(a) Inventory (Stock)	100	9.97	174	16.95
(b) Trade Receivables	220	21.93	226	22.01
(c) Cash and Cash Equivalents	27	2.69	72	7.01
(d) Other Current Assets	21	2.09	42	4.08
Total	1003	100.00	1027	100.00

Comments

<u>*Trend analysis-</u> Trend analysis is an analysis of the trend of the company by comparing its financial statements to analyze the trend of the market or analysis of the future based on past performance results, and it's an attempt to make the best decisions based on the results of the analysis done

Trend analysis evaluates an organization's financial information over a period of time. Periods may be measured in months, quarters, or years, depending on the circumstances. The goal is to calculate and analyze the amount change and percent change from one period to the next.

Illustration 10. Calculate the trend percentages from the following figures of X Ltd. taking 2009 a the base and interpret them:

(₹ in lakh

Year	*Sales*	*Stock*	*Profit before tax*
2009	1,881	709	321
2010	2,340	781	435
2011	2,655	816	458
2012	3,021	944	527
2013	3,768	1,154	672

Solution :

Trend Percentages

(Base Year 2009 =100)

Year	*Sales*		*Stock*		*Profit before tax*	
	Amount (₹Lakhs)	*Trend Percentage*	*Amount ₹Lakhs*	*Trend Percentage*	*Amount ₹*	*Trend Percentage*
2009	1,881	100	709	100	321	100
2010	2,340	124	781	110	435	136
2011	2,655	141	816	115	458	143
2012	3,021	161	944	133	527	164
2013	3,768	200	1,154	162	672	209

UNIT-III

***Managerial accounting** is the practice of identifying, measuring, analyzing, interpreting, and communicating financial information to managers for the pursuit of an organization's goals.

Managerial accounting differs from financial accounting because the intended purpose of managerial accounting is to assist users internal to the company in making well-informed business decisions.

***Financial management** meaning entails applying general management ideas to the company's financial resources. They concentrate on finding the funds, whether they come from the entrepreneur's initial investment, loan financing, venture capital, a public offering, or any other source.

***CAPITAL STRUCTURE -** Capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth.some important aspects of capital structure are as follows

Optimal Capital Structure

Companies that use more debt than equity to finance their assets and fund operating activities have a high leverage ratio and an aggressive capital structure. A company that pays for assets with more equity than debt has a low leverage ratio and a conservative capital structure. That said, a high leverage ratio and an aggressive capital structure can also lead to higher growth rates, whereas a conservative capital structure can lead to lower growth rates.

***Factors affecting the capital structure**

Various factors might affect the evaluation of the structure; these factors are categorised into two groups, internal factors and external factors.

1. **Internal factors:** The capital structure of a business or a startup depends upon its size, theme, and nature. The firm's age and the plan also play an active role in determining the same. However, in official terms, the trading on equity and the period or purpose of financing are significant factors affecting any business's capital structure.
2. **External factors:** The external factors consist of those policies and documentation, that the owner cannot control. The external factors include the taxation policy, economic fluctuation in the market, and the level of competition. Several other factors include the nature of the investor, capital markets condition

***THEORIES OF CAPITAL STRUCTURE**

A business requires the most beneficial capital structure. So, many capital structure theories are available to take as a reference; amongst them, we will discuss the four most essential ones:

- **Net income theory:**

  This theory was postulated by David Durand, who put forward the idea of increasing the proportion of debt in the overall capital structure. According to him, debt is a fund source because it has a lower interest rate, eliminating the risk factor and playing a significant role in deducting expenses for income tax. This theory is also called the "Fixed 'Ke' theory."

- **Net operating income theory:**

  Also known as the irrelevant theory, it was also postulated by David Durand. It depicts that the company's market value is not affected by changes in the capital structure. The overall cost of equity can remain fixed no matter the proportion of debt.

- **Modigliani-Miller theory:**

  This theory came into existence by correlating the ideas of two co-members, Franco Modigliani and Merton Miller. This theory had two further assumptions.

1. **Absence of Corporate taxes**: According to Modigliani-Miller's theory, in the absence of the corporate tax, the value of the creditworthy firm will be equal to that of the amount of equity compromised.
2. **Presence of corporate taxes**: In the case where taxes are applied, the value of the creditworthy firm is equal to the value of the indebted firm summed up with the product of the tax rate and the value of debt.

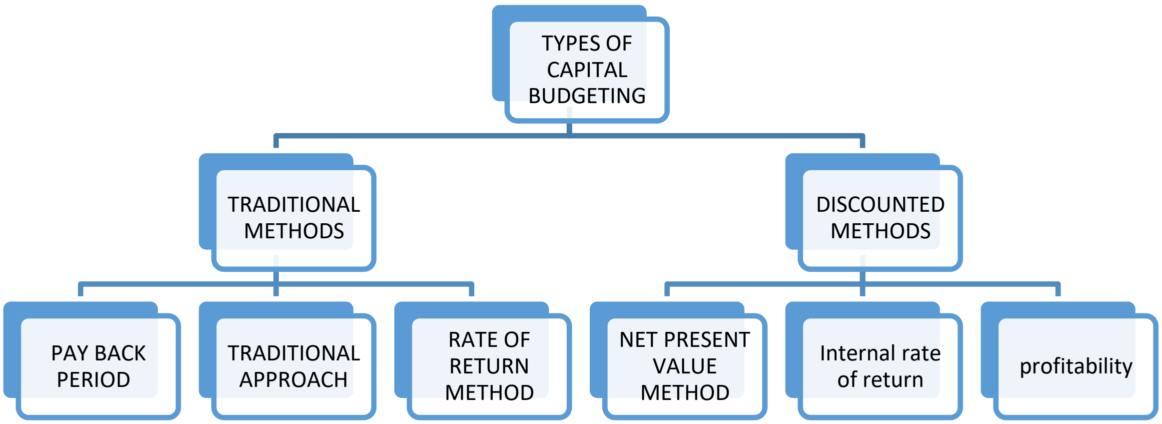
***The EBIT-EBT analysis**

is the method that studies the leverage, i.e. comparing alternative methods of financing at different levels of EBIT. Simply put, EBIT-EPS analysis examines the effect of financial leverage on the EPS with varying levels of EBIT or under alternative financial plans.

***Capital budgeting**

It is a process that businesses use to evaluate potential major projects or investments. Building a new plant or taking a large stake in an outside venture are examples of initiatives that typically require capital budgeting before they are approved or rejected by management.

As part of capital budgeting, a company might assess a prospective project's lifetime cash inflows and outflows to determine whether the potential returns it would generate meet a sufficient target benchmark. The capital budgeting process is also known as investment appraisal.



*TIME VALUE OF MONEY

The time value of money (TVM) is the concept that a sum of money is worth more now than the same sum will be at a future date due to its earning potential in the interim. Because money can grow when it is invested, a delayed payment is a lost opportunity for growth. The time value of money is a core principle of finance. It is also referred to as the present discounted value.

Time Value of Money Formula

The basic time value of money formula doesn't calculate "TVM" itself. Instead, it shows the change in the value of money over a period of time. It calculates the future value of a sum of money based on:

- Its present value
- Interest rate
- Number of compounding periods per year
- Number of years
-

METHODS OR TECHNIQUES OF TIME VALUE OF MONEY

1. COMPUND TECHNIQUE
2. DISCOUNTING TECHNIQUE

COMPUND TECCHNIQUE

The time preference for money encourages a person to receive the money at present instead of waiting for future. But he may like to wait if he is duly compensated for the waiting time by way of ensuring more money in future. For example a person being offered Rs.100 today may wait for a year if he is ensured of Rs. 110 at the end of the one year by interest of 10%, p.a.The cash flow of rs.100 at present will be 110rs after one year

***V1=V0(1+i)**

***V1=future value**
***V0= Value of money at time 0 i.e original sum of money**
***i-interest**

Taking example-
V1=100(1+10%)
=110 Rs answer

*DISCOUNTED OR PRESENT VALUE TECHNIQUE

Present value is exact opposite of compound or future value. While future value shows how much a sum of money becomes at some future period, present value shows what the value is today of some future sum of money.

Example- Mr.X is to receive Rs,5000 after 5 years from now.His time preference for money is 10% per annum, calculate its present value by using discount factor tables

Present value(Vn)=Future Value(Vn) * DF

=5000*0.621=Rs.3,105/-

**** Internal Rate of Return (IRR) (discounted method of capital budgeting)**

The IRR rule is a guideline for deciding whether to proceed with a project or investment, on a financial basis. Mathematically, IRR is the rate that would result in the net present value of future cash flows equaling exactly zero.

The higher the projected IRR on an investment—and the greater the amount by which it exceeds the cost of capital—the more net cash it is likely to generate and the more it may be worth pursuing. On the other hand, if the IRR is lower than the cost of capital, the rule suggests that the best course of action is to forgo the project or investment.

***Two Types-**

1.When annual net cash flow are equal

Present Value factor=Initial outlay/Annual cash flow

Example-Initial outlay-50,000/-

Life of the asset -5years

Estimated annual cash flow - 12,500/-

As per formula=50,000/12,500=4 answer

2.when annual net cash flow are unequal

IRR=L+ (N lower rate/N lower rate-N higher rate)*(Higher rate –lower rate)

Calculate Internal rate of return of an investment of an investment of 1,36,000/-

years	**Cash inflows**
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

solution

Year	**Cash inflow**	**Discount factors(10 %)**	**Pv**	**Discount factor 12%**	**Pv**
0	**(1,36,000)**	**1**	**(136,000)**	**1**	**(1,36,000)**
1	30,000	**0.909**	**27,270**	**0.893**	**26,790**
2	40,000	**0.826**	**33,040**	**0.826**	**31,880**
3	60,000	**0.751**	**45,060**	**0.751**	**42,720**
4	30,000	**0.683**	**20,490**	**0.683**	**19,080**
5	20,000	**0.621**	**12,420**	**0.621**	**11,340**
		NPV	**2,280**	**NPV**	**-4190**

As per formula mentioned above-

10+(2280/2280-(-4190)*(12-10)=10.7* answer

UNIT-IV

* FINANCIAL PLANNING AND ANALYSES*

Corporate financial planning and financial analyst professionals utilize both quantitative and qualitative analysis of all operational aspects of a company in order to evaluate the company's progress toward achieving its goals and to map out future goals and plans. FP&A Analysts consider economic and business trends, review past company performance, and attempt to anticipate obstacles and potential problems, all with an eye toward forecasting a company's future financial results.

FP&A professionals oversee a broad array of financial affairs, including income, expenses, taxes, capital expenditures, investments, and financial statements. Unlike accountants who are in charge of record-keeping, financial analysts are charged with *examining*, *analyzing, and evaluating* the entirety of a corporation's financial activities, and mapping out the company's financial future.

***Objectives of Financial Planning and financial analyses**

Financial planning focuses on achieving the following two objectives:

- **To ensure availability of funds whenever required:** The main objective of financial planning is that sufficient funds should be available in the company for different purposes such as the purchase of long-term assets, to meet day-to-day expenses, etc. It ensures the timely availability of finance.

- **To see that firm does not raise resources unnecessarily:** Excess funding is as bad as inadequate or shortage of funds. If there is surplus money, financial planning must invest it in the best possible manner. As keeping financer resources ideal is a great loss for an organization.

Financial planning includes both short-term as well as long-term planning. Long-term planning focuses on a capital expenditure plan. It is normally done for 3 to 5 years. Whereas short-term financial plans are called budgets, and they are for one year or less.
Financial Planning Vs Financial Management

These are the differences between financial planning and financial management:

Points of differences	Financial Planning	Financial Management
1.	Financial planning is only related	Financial management includes

Points of differences	Financial Planning	Financial Management
Meaning	to finance related planning	investment, use, and distribution of funds.
2. Objectives	The main motive is to create wealth and meet the different financial requirements.	Financial management keeps and grows the existing wealth. This is the main motive of financial management.
3. Orientation	Financial planning is goal oriented.	Financial management is opp

Importance of Financial Planning and analyis

Sound financial planning is essential for the success of any business enterprise. Its need is felt because of the following reasons:

- **Prepares for future challenges:** It helps in forecasting what may happen in the future under different business situations. It also facilitates smooth functioning and running of the business by preparing them to face future challenges.

- **Helps in avoiding business shocks and surprises:** By preparing a blueprint to face different types of situations, financial planning helps businesses in avoiding business shocks and surprises.

- **Coordinate various functions:** It helps in coordinating various functions, production, sales, etc by providing clear policies and procedures.

- **Proper utilization of finance:** Detailed plans of action prepared under financial planning reduce waste, duplication of efforts, and gaps in planning.

- **Acts as a link:** It tries to link the present with the future by anticipating sales, growth, etc. It also links the investment and financing decisions continuously

- **Evaluates actual performance:** By spelling out the detailed objective for various business segments. It makes the evaluation of actual performance easier.

FINANCIAL FORECASTING

Financial forecasting is a crucial aspect of business planning, enabling companies to anticipate future financial performance and make informed decisions. It involves analyzing historical data, current trends, and economic factors to project future revenue, expenses, and cash flows.

*How does Financial Forecasting help?

Effective financial forecasting empowers businesses to:

- **Assess Financial Performance:** By projecting future financial outcomes, businesses clearly understand their financial health and identify potential areas of concern or opportunities for growth.

- **Optimize Resource Allocation:** Financial forecasts provide insights into future cash flow needs, allowing businesses to allocate resources effectively, ensuring sufficient funds for operations, investments, and debt obligations.

- **Support Strategic Planning:** Financial forecasts serve as a foundation for strategic decision-making, enabling businesses to evaluate the financial implications of different growth strategies, product launches, or capital expenditures.

- **Manage Risk and Uncertainty:** Financial forecasts help identify potential risks and uncertainties that may impact company's financial performance, allowing businesses to develop proactive risk mitigation strategies.

- **Enhance Financial Discipline:** The process of financial forecasting encourages financial discipline within an organization, promoting a focus on financial performance and accountability.

- **Improve Investor Confidence:** Financial forecasts, when presented transparently and accurately, can enhance investor confidence in the company's financial stability and future prospects.

- **Facilitate Budgeting and Goal Setting:** Financial forecasts provide a basis for budgeting and setting realistic financial goals, ensuring alignment between financial objectives and operational plans.

- **Measure Performance and Identify Trends:** By comparing actual financial results to forecasted figures, businesses can identify trends, assess performance against targets, and make adjustments to strategies as needed.

- **Support Decision-Making under Uncertainty:** Financial forecasts, while not without limitations, provide valuable guidance in making informed decisions under uncertain economic conditions.

- **Enhance Business Agility and Adaptability:** Financial forecasting enables businesses to quickly adapt to changing market conditions and adjust their strategies accordingly to maintain financial stability and pursue growth opportunities.

PERFORMA OF FINANCIAL STATEMENTS

There are three major pro forma statements:

- Pro forma income statements
- Pro forma balance sheets

- Pro forma cash flow statements

➢ WHY CREATE PRO FORMA STATEMENTS?

Creating pro forma statements for future scenarios can help you:

- Get financed, by showing lenders or investors how you would use their money to sustainably grow your business.
- Plan for the future, by considering best, worst, and most likely case scenarios in detail.
- Anticipate changes that may affect your business as it grows, such as entering a new tax bracket.

For these purposes, pro forma statements are typically created as a part of a financial forecast in financial accounting. Big corporations who have in-house accountants use pro forma statements for financial modeling and forecasting different scenarios.

** TYPES OF PRO FORMA STATEMENT

There are four main types of pro forma statements. While they all fall into the same categories—**income statement, balance sheet, and cash flow statement**—they differ based on the purpose of the financial forecast.

1. Full-year pro forma projection

This type of pro forma projection takes into account all of your financials for the fiscal year up until the present time, then adds projected outcomes for the remainder of the year. That can help you show investors or partners what business finances could look like by the end of the fiscal year.

2. Financing or investment pro forma projection

You may be courting investors or trying to convince your business partners of the value of a capital investment or additional financing. In that case, you can use a financing pro forma projection to make your case. It takes into account an injection of cash from an outside source—plus any interest payments you may need to make—and shows how it will affect your business's financial position.

3. ***Historical with acquisition pro forma projection***

This type of pro forma projection looks at the past financial statements of your business, plus the past financial statements of a business you want to buy. Then it merges them to show what your financials would have looked like if you made a business combination (or merger) earlier. You can use this scenario as a model of what may happen in the future if you buy the other business and restructure now.

4. ***Risk analysis pro forma projection***

Looking at both best case and worst case scenarios helps you make financial decisions based on challenges you may face in the future. For instance, what happens if your main vendor raises their prices like they did last year? Or how will that proposed transaction of buying new equipment impact you long term? Risk analysis lets you take the future for a test ride, and try out different outcomes.

Pro forma templates

To create a pro forma statement, you can use the same template you'd use for a normal financial statement. You may want to use Bench's free templates:

- **Income statement**
- **Balance sheet**
- **Cash flow statement**

How to create pro forma statements

The sample pro forma statements below may look different from the statements you create, depending on what your template looks like. But generally, these are the steps you need to take to create them—and the info your pro forma statements should include.

Example pro forma income statement:

	2021 (current) $	2022 $	2023 $
Sales Revenue	20,000	38,000	48,000
Cost of Sales	(10,000)	(19,000)	(24,000)
Gross Profit	10,000	19,000	24,000
Operating Expenses			
Rent	1,000	1,000	1,000
Web hosting	600	600	600
Advertising	3,000	4,000	5,000
Total Operating Expenses	(4,600)	(5,600)	(6,600)
Operating Income	5,400	13,400	17,400
Net Income	5,400	13,400	17,400

Creating a pro forma cash flow statement

You create a pro forma cash flow statement much the same way you'd create a normal cash flow statement. That means taking info from the income statement, then using the cash flow statement format to plot out where your money is going, and what you'll have on hand at any one time. This pro forma statement can be part of a larger cash flow forecast used for decision making.

Your projected cash flow can give you a few different insights. If it's negative, it means you won't have enough cash on-hand to run your business, according to your current trajectory. You'll have to make plans to borrow money and pay it off.

On the other hand, if net cash flow is positive, you can plan on having enough extra cash on hand to pay off loans, or save for a big investment.

Example pro forma cash flow statement

	2021 (current) $	**2022 $**	**2023 $**
OPENING BALANCE	16,000	17,000	19,000
CASH RECEIVED FROM			
Donors	85,000	87,000	92,000
Souvenir Shop	1,000	900	800
Total Cash Received	86,000	87,900	92,800
CASH PAID FOR			
Supplies	34,000	36,000	37,000
Rent	24,000	24,000	24,000
Income Tax	8,000	8,600	8,800
Total Cash Paid	66,000	68,600	69,800
Net Cash Flow Operations	20,000	19,300	23,000

Creating a pro forma balance sheet

By drawing on info from the income statement and the cash flow statement, you can create pro forma balance sheets. However, you'll also need previous balance sheets to make this useful—so you can see how your business got from "Balance A" to "Balance B."

Balance sheet for XYZ business on the 31st of December 2010		
	$	$
ASSETS		
Non-current assets		2,150,000
Land and buildings	2,000,000	
Furniture	12,000	
Machinery	18,000	
Investments	120,000	
Current assets		10,000
Inventory	1,000	
Debtors / receivables	3,200	
Bank and cash	5,800	
TOTAL ASSETS		2,160,000
EQUITY AND LIABILITIES		
Owner's equity		1,700,000
Capital	1,700,000	
Non-current liabilities		440,000
10% Loan	440,000	
Current liabilities		20,000
Creditors / payables	20,000	
TOTAL EQUITY AND LIABILITIES		2,160,000

Financial modelling - iis forecasting a company's or any project's economic performance by analysing financial metrics like income and expenses, growth and risk factors. In the corporate world, **financial modelling** is one of the most important tools as the analysis can give a fair idea regarding the prospects of a project or investment in the coming years. It will help determine the return on investment and cash flows the project will generate in the next 5-10 years

<u>Role of Financial Modelling in Corporate Decision-Making</u>**

Financial modelling plays a crucial role in the decision-making process related to any investment and the business' financial analysis. The results given by **financial modelling** help corporations conduct a fair and objective evaluation of their organisation. Notably, **financial modelling** plays an essential role in the following decision-making process:

- Mergers and acquisitions
- Raising capital
- Whether to enter any market
- Open a new office or store
- Divesting business assets
- Management accounting
- Finding out the company's valuation
- Analysis of financial statements
- Budgeting process

<u>Strategic Planning and Forecasting</u>**

In this section, we will discuss strategic planning and forecasting and how the **financial modelling** process accelerates a business' planning and forecasting functions. There are three ways in which **financial modelling** helps the company in the process of strategic planning, and these are discussed below:

- **Scenario Analysis: Financial modelling** allows companies to make nuanced decisions through scenario simulation and assess the efficacy of different strategies in different scenarios. A proper scenario analysis will help the company make informed choices that align with the organisation's objectives.

- **Resource Allocation:** Resource allocation is linked to forecasting, that is, how well companies can see future trends and adopt suitable strategies accordingly. **Financial modelling** is critical in efficient resource allocation and identifying inefficient, unproductive, and wasteful expenditures. Furthermore, with the help of **financial modelling**, companies can locate high-growth future opportunities and allocate resources in such a manner that they add maximum value**.**

- **Setting Realistic Targets:** Another solid usage of **financial modelling** in planning is setting realistic goals. **Financial modelling** is a data-driven process and allows companies to establish ambitious yet realistic goals. Organisations compare their competitors' positions in the market and set goals accordingly.

What is Scenario Analysis?

Scenario analysis, or what-if-analysis, is the process of building, testing, and analyzing different scenarios for your business. You'll do this using your financial model.

Generally speaking, companies have at least three scenarios in their model:

- **Base scenario:** What happens to your business if you stay on your current growth trajectory, and there are no major changes.

- **Upside scenario (a.k.a. "best case scenario"):** What happens to your business if things go better than planned.

- **Downside scenario (a.k.a. "worst case scenario"):** What happens to your business if things go worse than planned.

During your analysis, you'll ask and answer questions like:

- What does our base scenario look like?
- What do we need to do to make our upside scenario happen, and how will it impact our business?
- If our downside scenario happens, how will our business sustain?

******Understanding Working Capital Management**

Working capital is a key metric used to measure a company's short-term financial health and well-being. It is the difference between a company's current assets and current liabilities. As such, it is the capital that is left after accounting for its current liabilities. Working capital management is a strategy that companies use to manage their leftover cash.

Current assets include anything that can be easily converted into cash within 12 months. These are the company's highly liquid assets. Some current assets include cash, accounts receivable (AR), inventory, and short-term investments. Current liabilities are any obligations due within the following 12 months. These include accruals for operating expenses and current portions of long-term debt payments.1

The primary purpose of working capital management is to enable the company to maintain sufficient cash flow to meet its short-term operating costs and short-term debt obligations. A company's working capital is made up of its current assets minus its current liabilities.1

******Working Capital Management Components -**

Certain balance sheet accounts are more important when considering working capital management. Though working capital often entails comparing all current assets to current liabilities, there are a few accounts that are more critical to track.

-Cash-The core of working capital management is tracking cash and cash needs. This involves managing the company's cash flow by forecasting needs, monitoring cash balances, and optimizing cash flows (inflows and outflows) to ensure that the company has enough cash to meet its obligations.

Because cash is always considered a current asset, all accounts should be considered. However, companies should be mindful of restricted or time-bound deposits.

-Receivables-To manage capital, companies must be mindful of their receivables. This is especially important in the short term as they wait for credit sales to be completed. This involves:

- Managing the company's credit policies
- Monitoring customer payments
- Improving collection practices

At the end of the day, having completed a sale does not matter if the company is unable to collect payment on the sale.

-Accounts Payable-Accounts payable refers to one aspect of working capital management that companies can take advantage of that they often have greater control over. While other aspects of working capital management may be uncontrollable, such as selling goods or collecting receivables, companies often have a say in how they pay suppliers, what the credit terms are, and when cash outlays are made.

-Inventory

Companies primarily consider inventory during working capital management as it may be the most risky aspect of managing capital. When inventory is sold, a company must go to the market and rely on consumer preferences to convert inventory to cash.

If this cannot be completed quickly, the company may be forced to have its short-term resources stuck in an illiquid position. Alternatively, the company may be able to quickly sell the inventory but only with a steep price discount.

Types of Working Capital

In its simplest form, working capital is the difference between current assets and current liabilities. However, different types of working capital may be important to a company to best understand its short-term needs.

1.Permanent working capital: Permanent working capital is the amount of resources the company will always need to operate its business without interruption. This is the minimum amount of short-term resources vital to a company's operations.

2.Regular working capital: Regular working capital is a component of permanent working capital. It is the part of the permanent working capital that is required for day-to-day operations and makes up the most important part of permanent working capital.

3.Reserve working capital: Reserve working capital is the other component of permanent working capital. Companies may require an additional amount of working capital on hand for emergencies, seasonality, or unpredictable events.

4.Fluctuating working capital: Companies may be interested in only knowing what their variable working capital is. For example, companies may opt to pay for inventory as it is a variable cost. However, the company may have a monthly liability relating to insurance it does not have the option to decline. Fluctuating working capital only considers the variable liabilities the company has complete control over.

- **Gross working capital:** Gross working capital is simply the total amount of current assets of a business before considering any short-term liabilities.
- **Net working capital:** Net working capital is the difference between current assets and current liabilities.

****Why Manage Working Capital?**

Working capital management can improve a company's cash flow management and earnings quality through the efficient use of its resources. Management of working capital includes inventory management as well as management of accounts receivable and accounts payable.

Working capital management also involves the timing of accounts payable like paying suppliers. A company can conserve cash by choosing to stretch the payment to suppliers and make the most of available credit.

****Working Capital Cycle**

In addition to the ratios discussed above, companies may rely on the working capital cycle when managing working capital. Working capital management helps maintain the smooth operation of the net operating cycle, also known as the cash conversion cycle (CCC).

➢ RECEIVABLES AND INVENTORY MANAGEMENT

Understanding the Basics

As we delve into the nuanced world of Accounts Receivable and Inventory Management, it's crucial to lay down the foundation of these financial principles. Both aspects play a pivotal role in managing the cash flow, liquidity, and overall efficiency of the organization. Understanding each facet will allow businesses to devise effective strategies that maximize operations and financial health.

The key lies in grasping the definitions, importance, and interconnection between Accounts Receivable and Inventory Management. Enhancing knowledge in these areas will reveal actionable strategies to streamline business operations, increase accountability, and make the most of the available resources.

Start with the fundamentals: What do Accounts Receivable and Inventory Management mean and how are they interconnected? Once you understand these elements, you'll be better prepared to maneuver through the economic ebbs and flows that every business must face.

Definition of Accounts Receivable

Accounts Receivable (AR) refers to the outstanding invoices a company has, or the money clients or customers owe the company. The phrase refers to the line of credit a business owner extends to the customers and becomes an essential element of the income generation process. Proper management of AR is crucial to maintaining a steady stream of revenue and can significantly impact cash flow.

Poor handling of accounts receivables can lead to a string of potential complications, from lost revenue and waste of time to accounting errors and harmful cash flow. Conversely, efficient management ensures timely payments, maintains positive client relationships, and sustains high liquidity. To master this, businesses often look at practices to increase cash flows, streamline customer payments, and automate workflows.

A few crucial metrics to track under accounts receivable management include Days Sales Outstanding (DSO), the percentage of late-paying customers, and collection rates on potentially uncollectable accounts. Regular analysis of these metrics can maintain healthy A/R operations and reveal hidden inefficiencies for improvement.

***Definition of Inventory Management**

Inventory Management constitutes a systematic approach to sourcing, storing, and selling inventory - both raw materials and finished goods. Effective inventory management strikes a balance between reducing costs and meeting customer demand. The ultimate aim is to avoid stockouts and overstock situations, which can respectively lead to lost sales and tied-up capital.

The understanding of production timelines and cash conversion cycles plays a part in achieving a balanced inventory. With these insights, businesses can optimize their inventory levels according to their operational and financial capabilities.

Proper inventory management should not only focus on the present but prepare for the future. This involves predicting which products are likely to sell at what quantities, considering seasonal factors, market trends, and historical sales data.

. Lead time

Also known in logistics as cycle time, lead time is an indicator that measures the **time elapsed from the moment the warehouse issues a purchase order to a supplier until the goods are received**.

Lead time formula:

Lead time = delivery date - order date

If a company issues an order for raw materials on the 15th of each month and receives stock regularly on the 23rd, the lead time would be:

23 - 15 = 8-day lead time

This logistics KPI, measured in days, gives the logistics manager insight into the **efficiency of the company's supply chain**.

2. Safety stock

Safety stock is the amount of reserve inventory stored in the facility. These extra goods allow the organization to deal with unforeseen events such as spikes in demand for a product, unexpected changes in SKU turnover, and supplier delays.

Safety stock formula:

Safety stock = (maximum lead time - average lead time) × average product demand

For example, a production center requires **200 units** of a product to fulfill existing production orders. If the average lead time is **5 days** and the maximum time the supplier takes to deliver the goods is 8 days, the safety stock would be:

(8 - 5) × 200 = 600 units of **safety stock**

This safety KPI aims to guarantee a certain amount of stock in the warehouse to **avoid stock outs**, which is what happens when orders are accepted but can't be filled due to a lack of stock.

3.Stock out

Stock outs occur when the warehouse receives a customer order **but doesn't have enough product** to be able to meet that request.

Stock out formula:

Stock out = quantity of stock not supplied × unit cost of storage

Stock out rate = (quantity of stock not supplied) / (total order quantity requested) × 100

***Reorder point**

The **reorder point** is a formula applied in warehouses to identify the **ideal time for a company to place an order** with suppliers to ensure smooth work or production flows and optimize storage space.

Reorder point formula:

Reorder point = safety stock + (average consumption x lead time)

<u>*Maximum stock level</u>

Maximum stock level is the exact number of goods a warehouse can store **without running up storage costs**.

<u>Maximum stock level formula</u>:

Maximum stock level = (Reorder point + replenishment quantity) - (minimum demand × lead time)

<u>*The Interconnection between Accounts Receivable and Inventory Management</u>

The symbiosis between accounts receivable and inventory management cannot be understated in any business setting. Both these aspects hold immense influence over the cash flow of an organization. Striking the right balance between them optimizes the inflow and outflow of cash.

Briefly put, the cash collected from accounts receivable is used to replenish the inventory, which in return generates revenue by finding its way to the customers. Any imbalance in this cycle could lead to a cash crunch or surplus, hindering the business's growth potential.

Understanding the interconnection between these two facets also allows the business to identify potential risks in advance. The ultimate aim is to maintain a smooth operational cycle by ensuring the seamless conversion of inventory into receivables and receivables back into cash.

Content in this section has touched upon the essence of accounts receivable and inventory management. A good understanding of the basics can pave the way to effective strategy development and a more in-depth understanding of other complex elements that influence the business's financial standing. The sections to follow will further elaborate on optimal strategies and techniques in managing accounts receivable and inventory, followed by how to enhance overall business efficiency through implemented techniques and future trends to look for.

*Effective Strategies to Manage Accounts Receivable and Inventory

In the high-stakes arena of business finance, the efficient management of Accounts Receivable (AR) and Inventory is more than a necessity - it's a competitive advantage. Drawing a line between optimal billing, payments, and collections, proper AR management not only impacts revenue but essentially enhances cash flow. Conversely, a lax approach might result in accounting errors, lost revenue, and a lingering cash-flow crunch.

Similarly, Inventory Management, particularly forecasting, plays a crucial role in maintaining customer satisfaction, reducing inventory holding costs, and ensuring optimal inventory turnover. By understanding and accurately predicting customer demand, businesses can steer clear of overstocking or understocking products, allowing for the judicious use of capital.

It's in this context that we delve into various infallible strategies designed to manage Accounts Receivable and Inventory efficiently. With best practices and leverage technology, businesses can expedite the AR process, optimize inventory turnover, and strike a balance between AR and inventory levels.

**The Importance of Forecasting in Inventory Management

Forecasting, the act of predicting the amount of inventory you will need to meet customer demand, is a vital component of Inventory Management. Businesses can significantly reduce holding costs by accurately forecasting demand and ensuring that they have the right level of stocks.

Having an efficient forecasting system can prevent the risk of overstocking, where capital is unnecessary tied up, or understocking, where potential sales are lost due to shortages. This ability to balance inventory requirements allows organizations to maintain high levels of customer satisfaction while avoiding surplus inventory costs.

To effectively forecast, businesses need to analyze historical data, consider market trends, and use statistical techniques. A comprehensive approach goes a long way in ensuring optimal inventory turnover and maintaining healthy cash flow.

**Techniques to Expedite the Accounts Receivable Process

The lifeblood of a company, cash flow, is significantly influenced by how quickly a company collects payments for the goods or services rendered. To expedite the AR process, a few strategies can be deployed.

Offering incentives such as discounts for early payments is an effective way to encourage customers to pay within stipulated credit terms. Having stringent credit checks helps in identifying high-risk customers who are likely to delay or default on payments. Furnishing clear and concise bills ensures customers are aware of pending payments and promotes transparency.

Alongside, adopting proactive collection efforts like diligent reminders, follow-ups, or enlisting the services of a collection agency can improve payment speed and regularity, fostering better cash flow management.

➢ SHORT TERM FINANCING

A short term loan is a type of loan that is obtained to support a temporary personal or business capital need. As it is a type of credit, it involves repaying the principle amount with interest by a given due date, which is usually within a year from getting the loan

Short term loans are called such because of how quickly the loan needs to be paid off. In most cases, it must be paid off within six months to a year – at most, 18 months. Any longer loan term than that is considered a medium term or long term loan.

Long term loans can last from just over a year to 25 years. Some short term loans don't specify a payment schedule or a specific due date. They simply allow the borrower to pay back the loan at their own pace.

***Types of Short Term Loans**

Short term loans come in various forms, as listed below:

1. **Merchant cash advances**-This type of short term loan is actually a cash advance but one that still operates like a loan. The lender loans the amount needed by the borrower. The borrower makes the loan payments by allowing the lender to access the borrower's credit facility. Each time a purchase by a customer of the borrower is made, a certain percentage of the proceeds is taken by the lender until the loan is repaid.

2. **Lines of credit**-A line of credit is much like using a business credit card. A credit limit is set and the business is able to tap into the line of credit as needed. It makes monthly installment payments against whatever amount has been borrowed.

Therefore, monthly payments due vary in accordance with how much of the line of credit has been accessed. One advantage of lines of credit over business credit cards is that the former typically charge a lower Annual Percentage Rate (APR).

3. **Payday Loans**-Payday loans are emergency short term loans that are relatively easy to obtain. Even high street lenders offer them. The drawback is that the entire loan amount, plus interest, must be paid in one lump sum when the borrower's payday arrives.

Repayments are typically done by the lender taking out the amount from the borrower's bank account, using the continuous payment authority. Payday loans typically carry very high interest rates.

4**. Online or Installment Loans**-It is also relatively easy to get a short term loan where everything is done online – from application to approval. Within minutes from getting the loan approval, the money is wired to the borrower's bank account.

*5**. Invoice financing**-This type of loan is done by using a business' accounts receivables – invoices that are, as yet, unpaid by customers. The lender loans the money and charges interest based on the number of weeks that invoices remain outstanding. When an invoice gets paid, the lender will interrupt the payment of the invoice and take the interest charged on the loan before returning to the borrower what is due to the business.*

- **Advantages of Short Term Loans-**

There are many advantages for the borrower in taking out a loan for only a brief period of time, including the following:

1. **Shorter time for incurring Interest**-As short term loans need to be paid off within about a year, there are lower total interest payments. Compared to long term loans, the amount of interest paid is significantly less.

2. **Quick funding time**-These loans are considered less risky compared to long term loans because of a shorter maturity date. The borrower's ability to repay a loan is less likely to change significantly over a short frame of time. Thus, the time it takes for a lender underwriting to process the loan is shorter. Thus, the borrower can obtain the needed funds more quickly.

3. **Easier to acquire**-Short term loans are the lifesavers of smaller businesses or individuals who suffer from less than stellar credit scores. The requirements for such loans are generally easier to meet, in part because such loans are usually for relatively small amounts, as compared to the amount of money usually borrowed on a long term basis.

Disadvantage-

The main disadvantage of short term loans is that they provide only smaller loan amounts. As the loans are returned or paid off sooner, they usually involve small amounts, so that the borrower won't be burdened with large monthly payments.

1.Key Takeaways-Short term loans are very useful for both businesses and individuals. For businesses, they may offer a good way to resolve sudden cash flow issues. For individuals, such loans are an effective source of emergency funds**.**

CASH MANAGEMENT –

Cash management is the monitoring, analysing, and controlling the inflow and outflow of funds within an organisation to ensure that it has enough funds to meet its financial obligations and make necessary investments. In short, it involves managing the cash flow of a business.

Cash management for businesses includes managing account payables and receivables from various investing, financing and operating sources. It is multidimensional and complex, involving multiple stakeholders, timelines and large amounts of money.

Advantages of Cash Management Services

Cash management services offer a range of advantages for both businesses and individuals. Here are some key benefits to consider:

- **Data-driven forecasting and planning:** With robust cash management, businesses can make highly accurate predictions on future expenses and profits and make plans accordingly

- **Enhanced Control and Visibility:** Cash management tools give visibility into where money is coming from and going, identify areas for improvement, and make informed decisions about spending and saving.

- **Increased Efficiency and Reduced Risk:** Automating tasks like bill payments and collections frees up valuable time and minimizes human error.

- **Improved Liquidity:** Cash management helps ensure you have enough readily available cash to cover expenses and seize opportunities.

- **Lowered Risk:** By streamlining processes and potentially reducing reliance on physical cash handling, cash management services can lead to cost savings.

- **Simplified Compliance:** Cash management services can offer tools and reports that simplify the process of adhering to financial regulations. This can be a significant benefit for businesses that operate in complex regulatory environments.

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SMBME2403 ECONOMICS AND INTERNATIONAL BUSINESS

CREDIT HOURS ALLOTED:10 HRS

OBJECTIVE:

This course aims to provide a comprehensive understanding of the fundamental concepts of economics and international business. By the end of this course, students will be able to:

1. **Understand Economics**: Differentiate between economics and the economy, identify various sectors and types of economies, and use GDP as a measure of economic growth.
2. **Explore International Business**: Distinguish between international and domestic business, understand the scope and modes of entry into international business, and assess the impact of globalization.
3. **Analyze Trade Policies**: Identify and explain the instruments of trade policy, including tariffs, import quotas, and export subsidies.
4. **Navigate International Finance**: Understand the foreign exchange markets, different types of exchange rates, and the role of Foreign Direct Investment (FDI).
5. **Examine Global Business Operations**: Study the structure and strategies of multinational corporations (MNCs), and explore cultural and ethical issues in international business.

S.NO.	CONTENT	CREDIT HRS
	UNIT I	

1	**Introduction to Economics and International business**	**3**
1.1	Introduction to Economics, difference between Economics and economy, sectors of an economy, types of economy, GDP as measure of growth	
1.2	Basics of International Business, International business vs Domestic business, scope of international business, modes of entry into international business.	
1.3	Globalization and its Impact both positive and negative	
1.4	International Economic Organizations (e.g., WTO, IMF)	
	UNIT II	
2	**International Trade and Comparative Advantage**	**2**
2.1	Trade Policy, its instruments -Tariff, import quota, Export subsidy	
	UNIT III	
3	**International Finance and Investment**	**2**
3.1	Foreign Exchange Markets, its types, advantages and disadvantages.	
3.2	Exchange Rates	
3.3	Foreign Direct Investment (FDI)	
	UNIT IV	
4	**Global Business Operation and Strategies**	**3**
4.1	Multinational Corporations (MNCs)	
4.2	Cultural and Ethical Issues in International Business	
4.3	International Business Strategy	

<u>REFERENCE BOOKS:</u>

- "Economics" by Paul Samuelson and William Nordhaus
- "Principles of Economics" by N. Gregory Mankiw
- "International Business: Competing in the Global Marketplace" by Charles W.L. Hill and G. Tomas M. Hult

- "International Economics" by Paul Krugman and Maurice Obstfeld
- "Global Trade Policy: Questions and Answers" by Pamela J. Smith
- "International Financial Management" by Jeff Madura
- "Multinational Business Finance" by David K. Eiteman, Arthur I. Stonehill, and Michael H. Moffett
- "Global Business Today" by Charles W.L. Hill and G. Tomas M. Hult

UNIT – I

INTRODUCTION TO ECONOMICS

Economics is the social science that studies the production, distribution, and consumption of goods and services. It aims to explain how economies work and how economic agents interact. Economics can be broadly divided into two main branches: microeconomics and macroeconomics.

Microeconomics

Microeconomics focuses on individual agents and markets. It examines how consumers and firms make decisions and how they interact in specific markets. Key concepts include:

- **Demand and Supply**: The relationship between the quantity of a good that consumers are willing and able to purchase and the quantity that producers are willing and able to sell.
- **Elasticity**: Measures the responsiveness of the quantity demanded or supplied to changes in price.
- **Market Equilibrium**: The state in which market supply and demand balance each other, resulting in stable prices.
- **Consumer Behavior**: How consumers make choices based on their preferences and budget constraints.
- **Production and Costs**: How firms decide on the optimal level of output and the costs involved in production.

Macroeconomics

Macroeconomics looks at the economy as a whole. It deals with aggregate indicators and the overall functioning of an economy. Key topics include:

- **Gross Domestic Product (GDP)**: The total value of all goods and services produced within a country.
- **Inflation**: The rate at which the general level of prices for goods and services is rising.
- **Unemployment**: The state of being jobless and actively seeking work.
- **Fiscal Policy**: Government policies regarding taxation and spending.
- **Monetary Policy**: Central bank policies that control the money supply and interest rates.

Key Economic Questions

Economics seeks to answer several fundamental questions:

1. **What to produce?**: Determining which goods and services should be produced and in what quantities.
2. **How to produce?**: Deciding the methods and resources used in the production process.
3. **For whom to produce?**: Determining who will consume the goods and services produced.

Economic Systems

Different economic systems address these key questions in various ways:

- **Market Economy**: Decisions are made by individuals and businesses based on supply and demand.
- **Command Economy**: The government makes all economic decisions.
- **Mixed Economy**: Combines elements of both market and command economies.

Importance of Economics

Understanding economics is crucial for making informed decisions in business, government, and personal life. It helps individuals and societies allocate resources efficiently, promote economic growth, and improve overall well-being.

What is an Economy?

Unlike the field of economics, which pertains to academic exploration, the term "economy" denotes the tangible arrangement governing the organization, creation, allocation, and utilization of resources within a community. The broader framework and structure responsible for overseeing the exchange, distribution, and consumption of goods and services is known as the economy. It encompasses the institutions, regulations, and processes facilitating economic transactions and connections.

Key Points:

- Economy refers to the actual system of resource organization.
- It encompasses the production, distribution and consumption of goods and services.
- Economy includes institutions, regulations and transactional mechanisms.

❖ Key Differences between Economics and Economy

Understanding the difference between economics and economy is very important. Here are the 10 key differences between economics and economy.

1. Focus and Scope

Economics: Economics is a social science that focuses on the principles and theories of resource allocation and decision-making processes.

Economy: Economy refers to the entire system of production, distribution and consumption within a society.

2. Nature

Economics: Economics is an academic discipline that involves theoretical and empirical analysis.

Economy: Economy represents the real-world implementation of economic principles and systems.

3. Scale

Economics: Economics can be studied at microeconomic (individuals and firms) and macroeconomic (aggregate economy) levels.

Economy: Economy encompasses the entire economic system of a country or region.

4. Academic Discipline vs. Real-world System

Economics: Economics is a field of study pursued by researchers, scholars, and students.

Economy: Economy is the practical manifestation of economic principles in the real world.

5. Theory vs. Practice

Economics: Economics involves developing theories, models, and frameworks to explain economic phenomena.

Economy: Economy involves the actual implementation of economic systems and policies.

6. Policy Implications

Economics: Economics helps in formulating economic policies and strategies based on theoretical insights.

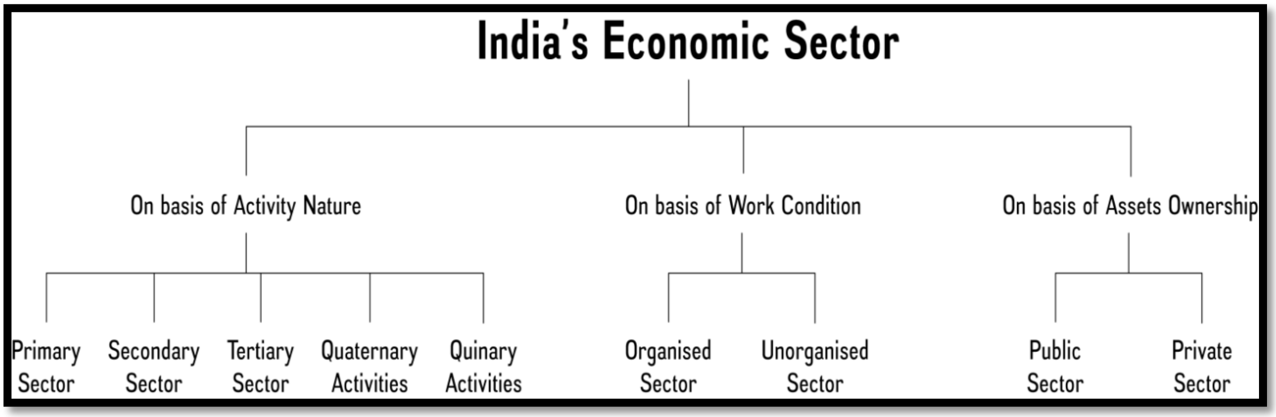
Economy: Economy is influenced by economic policies and regulations set by governments and institutions.

7. Decision-Making vs. Resource Organization

Economics: Economics focuses on decision-making processes and choices related to resource allocation.

Economy: Economy focuses on the overall organization, production, and distribution of resources.

❖ **India's Economic Sectors**



Primary Sector

- In Primary sector of economy, activities are undertaken by **directly using natural resources**. Agriculture, Mining, Fishing, Forestry, Dairy etc. are some examples of this sector.
  - People engaged in primary activities are called **red-collar workers** due to the outdoor nature of their work.

Secondary Sector

- It includes the industries where finished products are made from natural materials produced in the primary sector. Industrial production, cotton fabric, sugar cane production etc. activities comes under this sector.
  - People engaged in secondary activities are called **blue collar workers**.

Tertiary Sector/Service Sector

- This sector's activities help in the development of the primary and secondary sectors. By itself, economic activities in tertiary sector do not produce a goods but they are an aid or a support for the production.
- Goods transported by trucks or trains, banking, insurance, finance etc. come under the sector. It provides the value addition to a product same as secondary sector.
- This sector jobs are called **white collar jobs**.

❖ Types of Economy

Economies can be classified based on how they manage the production, distribution, and consumption of goods and services. The main types of economic systems are:

1. Traditional Economy

In a traditional economy, customs, traditions, and beliefs shape the goods and the services the economy produces, as well as the rules and manner of their distribution. This type of economy relies on subsistence farming, hunting, fishing, and gathering, and often utilizes barter instead of money.

Characteristics:

- Based on agriculture, hunting, and fishing.
- Use of barter system.
- Decisions are made based on customs and traditions.
- Often found in rural, non-industrialized areas.

2. Command Economy

A command economy, also known as a planned economy, is characterized by a central authority that makes all economic decisions. The government controls all major aspects of the economy, including the production and distribution of goods and services.

Characteristics:

- Government ownership of resources.
- Central planning of economic activities.
- Allocation of resources by the government.
- Lack of consumer choice.

3. Market Economy

A market economy, or capitalist economy, relies on the forces of supply and demand to allocate resources and determine prices. Economic decisions are made by individuals and businesses, with minimal government intervention.

Characteristics:

- Private ownership of resources.
- Decisions driven by self-interest.
- Competition and consumer choice.
- Prices determined by supply and demand.

4. Mixed Economy

A mixed economy combines elements of both market and command economies. While the market drives most economic activities, the government intervenes in certain sectors to correct market failures and promote social welfare.

Characteristics:

- Coexistence of private and public sectors.
- Government intervention in economic activities.
- Regulation to ensure fair competition and consumer protection.
- Social welfare programs.

5. Socialist Economy

In a socialist economy, the government owns and controls major industries and resources, while some private enterprise exists. The aim is to reduce inequality by distributing wealth more evenly across society.

Characteristics:

- Government ownership of key industries.
- Redistribution of income through welfare programs.
- Central planning with some market elements.
- Focus on social equality.

6. Mixed Socialist Economy

A mixed socialist economy features a significant level of government intervention and ownership but also includes private enterprise. This type of economy seeks to balance the efficiency of markets with the social objectives of socialism.

Characteristics:

- Government and private ownership coexist.
- Strong welfare state.
- Regulation of private businesses.
- Focus on reducing inequality.

❖ **Gross Domestic Product (GDP) as a Measure of Economic Growth**

Gross Domestic Product (GDP) is one of the most widely used indicators to gauge the health of a country's economy. It represents the total value of all goods and services produced over a specific time period within a nation's borders. Here's how GDP measures economic growth:

Components of GDP

GDP can be calculated using three main approaches: the production (or output) approach, the income approach, and the expenditure approach.

1. **Production Approach**: This measures GDP by adding up the value added at each stage of production for all goods and services within the economy.
2. **Income Approach**: This calculates GDP by adding up total national income, including wages, rents, interests, and profits.
3. **Expenditure Approach**: This sums up all expenditures made in the economy, typically represented by the formula: GDP=C+I+G+(X−M)GDP = C + I + G + (X - M)GDP=C+I+G+(X−M) where:
    - CCC = Consumption
    - III = Investment
    - GGG = Government Spending
    - XXX = Exports
    - MMM = Imports

Measuring Economic Growth with GDP

1. **Real vs. Nominal GDP**:
    - **Nominal GDP**: Measures a country's total economic output as valued at current market prices, without adjusting for inflation.
    - **Real GDP**: Adjusts for inflation, providing a more accurate reflection of an economy's size and how it's growing over time. Real GDP is the preferred measure for assessing long-term economic growth.
2. **GDP Growth Rate**:
    - The GDP growth rate is the percentage increase in GDP from one period to the next. It shows how quickly an economy is expanding.
    - Positive growth rates indicate economic expansion, while negative rates signal a contraction.
3. **Per Capita GDP**:
    - Per capita GDP divides the GDP by the population, giving an average economic output per person. This is useful for comparing economic well-being across different countries or regions.

Importance of GDP in Measuring Economic Growth

1. **Indicator of Economic Performance**:
    - GDP provides a comprehensive snapshot of a country's economic activity and performance. An increasing GDP suggests a growing economy with more production and consumption, while a decreasing GDP indicates economic troubles.
2. **Policy Making**:
    - Governments and central banks use GDP data to formulate fiscal and monetary policies. For example, if GDP growth is slow, a government might implement stimulus measures to boost the economy.
3. **Investment Decisions**:
    - Investors look at GDP trends to make informed decisions. A growing GDP can signal a healthy economy, making it an attractive environment for investment.
4. **International Comparisons**:
    - GDP allows for comparisons between different countries' economic performances. Adjustments for purchasing power parity (PPP) can further refine these comparisons by accounting for differences in cost of living.

Limitations of GDP

1. **Does Not Measure Well-being**:
    - GDP does not account for income distribution, environmental sustainability, or overall quality of life. A country may have a high GDP, but this wealth might be unevenly distributed among its population.
2. **Excludes Informal Economy**:
    - GDP calculations often exclude informal economic activities, which can be significant in some countries.
3. **Ignores Non-market Transactions**:
    - Non-market activities, such as household labor and volunteer work, are not included in GDP, despite their contributions to economic welfare.
4. **Short-term Focus**:

- GDP is typically measured on a quarterly or annual basis, focusing on short-term economic performance rather than long-term sustainability.

Conclusion

While GDP is a crucial measure of economic growth and provides valuable insights into the health and performance of an economy, it is essential to consider its limitations and complement it with other indicators for a more comprehensive understanding of economic and social well-being.

- **World Trade Organisation (WTO)**
  The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.

The WTO has 164 members (including European Union) and 23 observer governments (like Iran, Iraq, Bhutan, Libya etc).

What are the Goals of WTO?

- The WTO's global system lowers trade barriers through negotiation and operates under the principle of non-discrimination.
  - The result is reduced costs of production (because imports used in production are cheaper), reduced prices of finished goods and services, more choice and ultimately a lower cost of living.
- The WTO's system deals with these in two ways.
  - One is by talking: countries negotiate rules that are acceptable to all.
  - The other is by settling disputes about whether countries are playing by those agreed rules.
- The WTO can stimulate economic growth and employment.
- The WTO can cut the cost of doing business internationally.

- The WTO can encourage good governance. Transparency — shared information and knowledge — levels the playing field.
    - Rules reduce arbitrariness and opportunities for corruption.
- **The WTO can help countries develop:** Underlying the WTO's trading system is the fact that more open trade can boost economic growth and help countries develop.
    - In that sense, commerce and development are good for each other.
    - In addition, the WTO agreements are full of provisions that take into account the interests of developing countries.
- **The WTO can give the weak a stronger voice:** Small countries would be weaker without the WTO. Differences in bargaining power are narrowed by agreed rules, consensus decision-making and coalition building.
    - Coalitions give developing countries a stronger voice in negotiations.
    - The resulting agreements mean that all countries, including the most powerful, have to play by the rules. The rule of law replaces might-makes-right.
- **The WTO can support the environment and health:** The trade is nothing more than a means to an end. The WTO agreements try to make trade support the things we really want, including a clean and safe environment, and to prevent governments using these objectives as an excuse for introducing protectionist measures.
- **The WTO can contribute to peace and stability:** When the world economy is in turmoil, the multilateral trading system can contribute to stability.
    - **Trade rules stabilize the world economy** by discouraging sharp backward steps in policy and by making policy more predictable. They deter protectionism and increase certainty. They are confidence-builders.

How did WTO came into Being?

From the early days of the Silk Road to the creation of the General Agreement on Tariffs and Trade (GATT) and the birth of the WTO, trade has played an important role in supporting economic development and promoting peaceful relations among nations.

- The General Agreement on Tariffs and Trade (GATT) traces its origins to the **1944 Bretton Woods Conference,** which laid the foundations for the post-World War II financial system and established two key institutions, the **International Monetary Fund (IMF)** and the **World Bank**.
  - The conference delegates **also recommended the establishment of a complementary institution** to be known as **the International Trade Organization (ITO),** which they envisioned as the third leg of the system.
  - In Havana in 1948, the **UN Conference on Trade and Employment** concluded a **draft charter for the ITO,** known as the **Havana Charter**, which would have created extensive rules governing trade, investment, services, and business and employment practices.
    - The Havana Charter never entered into force, primarily because the U.S. Senate failed to ratify it. As a result, the ITO was stillborn.
  - Meanwhile, an agreement as the **GATT signed by 23 countries** in Geneva in 1947 came into force on Jan 1, 1948 with the following purposes:
    - to phase out the use of import quotas
    - and to reduce tariffs on merchandise trade,
- The **GATT became the only multilateral instrument** (not an institution) governing international trade from 1948 until the WTO was established in 1995.
- Despite its institutional deficiencies, the **GATT managed to function** as a de facto international organization, **sponsoring eight rounds** (A round is a series of multilateral negotiations) **of multilateral trade negotiations.**
- So, the GATT became the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995.

- **The Uruguay Round,** conducted from **1987 to 1994,** culminated in **the Marrakesh Agreement,** which established the World Trade Organization (WTO).
    - The WTO **incorporates the principles of the GATT** and provides a **more enduring institutional framework** for implementing and extending them.
    - The GATT was concluded in 1947 and is now referred to as the GATT 1947. **The GATT 1947** was **terminated in 1996** and WTO integrated its provisions into **GATT 1994**.
        - **The GATT 1994** is an international treaty binding upon all WTO Members. It is only concerned with trade in goods.

Why WTO Replaced the GATT?

- The GATT was only a set of rules and multilateral agreements and **lacked institutional structure**.
    - The GATT 1947 was terminated and WTO preserved its provisions in form of GATT 1994 and continues to govern trade in goods.
- The trade in services and intellectual property rights were **not covered by regular GATT rules.**
- The GATT provided for consultations and dispute resolution, allowing a GATT Party to invoke **GATT dispute settlement articles** if it believes that another Party's measure caused it trade injury.
    - The GATT did not set out a dispute procedure with great specificity resulting in lack of deadlines, laxity in the establishment of a dispute panel and the adoption of a panel report by the GATT Parties.
    - It made the GATT as a weak Dispute Settlement mechanism.

❖ International Monetary Fund (IMF)

The International Monetary Fund (IMF) is an **organization of 190 member countries**, each of which has representation on the IMF's executive board in proportion to its financial importance, so that the most powerful countries in the global economy have the most voting power.

What are the Objectives of IMF?

- Foster global monetary cooperation
- Secure financial stability
- Facilitate international trade
- Promote high employment and sustainable economic growth
- And reduce poverty around the world
- Macro-economic growth
- Policy advise & financing for developing countries,
- Promotion of exchange rate stability, and an international payment system

What Does the IMF Do?

- **It has three critical missions:**
  - Furthering international monetary cooperation, encouraging the expansion of trade and economic growth,
  - Discouraging policies that would harm prosperity.
  - To fulfill these missions, IMF member countries work collaboratively with each other and with other international bodies.

What are the Functions of IMF?

- **Provides Financial Assistance:** To provide **financial assistance to member countries** with balance of payments problems, the IMF lends money to replenish international reserves, stabilize currencies and strengthen conditions for economic growth. Countries must embark on structural adjustment policies monitored by the IMF.
- **IMF Surveillance:** It oversees the international monetary system and monitors the economic and financial policies of its 190 member countries.

- As part of this process, which takes place both at the global level and in individual countries, the IMF **highlights possible risks to stability** and advises on needed policy adjustments.

- **Capacity Development:** It provides technical assistance and training to central banks, finance ministries, tax authorities, and other economic institutions.
  - This helps countries raise public revenues, modernize banking systems, develop strong legal frameworks, improve governance, and enhance the reporting of macroeconomic and financial data. It also helps countries to make progress towards the **Sustainable Development Goals (SDGs)**.

International business involves commercial transactions that occur across national borders. These transactions can include trade, investment, logistics, and various economic activities that are essential for businesses operating globally. Here are some basics of international business:

1. Global Trade

- **Exporting**: Selling goods or services to a foreign country.
- **Importing**: Buying goods or services from a foreign country.
- **Trade Barriers**: Tariffs, quotas, and regulations that affect international trade.

2. International Market Entry Strategies

- **Exporting**: Direct or indirect.
- **Licensing**: Allowing a foreign company to produce your product.
- **Franchising**: Allowing a foreign company to operate using your brand and business model.
- **Joint Ventures**: Partnering with a foreign company.
- **Wholly Owned Subsidiaries**: Establishing a foreign branch or subsidiary.

3. Globalization

- **Economic Globalization**: Integration of national economies into the international economy.
- **Cultural Globalization**: Spread of ideas, values, and cultural norms across borders.

4. International Finance

- **Exchange Rates**: The value of one currency for the purpose of conversion to another.
- **Foreign Direct Investment (FDI)**: Investing directly in facilities to produce or market a product in a foreign country.
- **Balance of Payments**: A country's international financial transactions.

5. Cultural Differences

- Understanding cultural nuances is crucial for successful international business.
- **Hofstede's Cultural Dimensions**: Framework for understanding cultural differences across countries.

6. International Trade Organizations

- **World Trade Organization (WTO)**: Deals with global rules of trade between nations.
- **International Monetary Fund (IMF)**: Provides financial assistance and advice to member countries.
- **World Bank**: Provides financial and technical assistance to developing countries.

7. Legal and Regulatory Environment

- **International Laws**: Laws governing international trade and investment.
- **Trade Agreements**: Bilateral or multilateral agreements to promote trade between countries.

8. Supply Chain Management

- Managing the flow of goods and services across international borders.
- Logistics, distribution, and transportation challenges in global trade.

9. Risk Management

- **Political Risk**: Risk of political instability affecting business.
- **Economic Risk**: Risk of economic changes impacting business.

- **Currency Risk**: Risk of currency fluctuations affecting business profitability.

10. Sustainability and Ethics

- Ensuring business practices meet ethical standards and contribute to sustainable development.

Understanding these basics helps businesses navigate the complexities of operating in multiple countries, adapt to different market conditions, and capitalize on international opportunities.

❖ **International business and domestic business**

International business and domestic business differ in several key aspects, including their scope, challenges, and operational requirements. Here are some of the primary differences:

Scope

- **International Business**: Involves transactions that cross national borders. This includes exporting, importing, foreign direct investment, licensing, franchising, and operating subsidiaries in multiple countries.
- **Domestic Business**: Involves transactions within a single country. The business operations, customer base, suppliers, and regulations are all within the same national boundaries.

Market Dynamics

- **International Business**: Must understand and adapt to diverse market conditions, consumer preferences, and cultural differences in each country they operate in.
- **Domestic Business**: Focuses on a single market, making it easier to understand and cater to local consumer preferences and market dynamics.

Regulatory Environment

- **International Business**: Must comply with the laws and regulations of multiple countries, which can include different tax codes, labor laws, trade policies, and environmental regulations.

- **Domestic Business**: Needs to comply with the laws and regulations of only one country, which simplifies legal compliance.

Cultural Differences

- **International Business**: Faces challenges related to cultural diversity, including language barriers, business etiquette, and management practices that vary from country to country.
- **Domestic Business**: Operates within a more homogeneous cultural context, making it easier to manage communication and business practices.

Currency and Financial Risks

- **International Business**: Exposed to currency exchange rate fluctuations, which can impact profitability. It also has to manage international financial transactions and associated risks.
- **Domestic Business**: Transactions are conducted in a single currency, reducing the complexity and risk associated with currency exchange.

Supply Chain and Logistics

- **International Business**: Must manage complex global supply chains, including international shipping, customs, tariffs, and logistics challenges.
- **Domestic Business**: Manages a more straightforward supply chain within national borders, simplifying logistics and reducing potential disruptions.

Competition

- **International Business**: Faces competition from both local companies in foreign markets and other international firms. This requires a more strategic approach to competitive positioning.
- **Domestic Business**: Competes primarily with other local businesses, which can be more predictable and easier to analyze.

Economic and Political Risks

- **International Business**: Exposed to a wider range of economic and political risks, including political instability, economic sanctions, and changes in trade policies.
- **Domestic Business**: Primarily affected by the economic and political conditions of its home country, which are generally more stable and predictable.

Scale and Resources

- **International Business**: Often requires significant resources, including capital, human resources, and expertise to manage operations across multiple countries.
- **Domestic Business**: Requires fewer resources to operate within a single country, allowing for a more focused allocation of capital and human resources.

Communication and Coordination

- **International Business**: Involves more complex communication and coordination across different time zones, languages, and cultural contexts.
- **Domestic Business**: Simpler communication and coordination, as all operations are within the same country and time zone.

Understanding these differences is crucial for businesses looking to expand internationally, as they must be prepared to navigate the additional complexities and challenges that come with operating in a global market.

❖ Scope of international business

The scope of international business is broad and encompasses various activities, processes, and strategies that companies engage in to operate and compete in the global market. Here are the key components of the scope of international business:

1. International Trade

- **Exporting**: Selling domestic goods and services to foreign markets.
- **Importing**: Purchasing foreign goods and services for domestic use.
- **Trade Intermediaries**: Agents, brokers, and trading companies that facilitate international trade.

2. International Investment

- **Foreign Direct Investment (FDI)**: Investing in assets and facilities in foreign countries for production or business operations.
- **Portfolio Investment**: Investing in foreign stocks, bonds, or other financial instruments without direct control over the businesses.

3. Global Sourcing and Supply Chain Management

- **Global Sourcing**: Procuring goods, services, and raw materials from different parts of the world to reduce costs and improve quality.
- **Supply Chain Management**: Coordinating logistics, inventory, and distribution across international borders to optimize efficiency and minimize costs.

4. International Marketing

- **Market Research**: Analyzing foreign markets to understand consumer behavior, preferences, and demand.
- **Product Adaptation**: Modifying products to meet the specific needs and regulations of different markets.
- **Global Branding**: Developing a consistent brand image and strategy that resonates with international customers.

5. International Business Strategies

- **Global Strategy**: Standardizing products and marketing strategies across different countries to achieve economies of scale.
- **Multinational Strategy**: Adapting products and strategies to fit the unique conditions of each market.
- **Transnational Strategy**: Combining global efficiency with local responsiveness to create a balanced approach.

6. Cross-Cultural Management

- **Cultural Awareness**: Understanding and respecting cultural differences in business practices, communication, and negotiation.
- **Global Teams**: Managing and leading diverse teams from different cultural backgrounds.
- **Expatriate Management**: Assigning employees to work in foreign subsidiaries and managing their adaptation and performance.

7. International Business Operations

- **Setting Up Foreign Subsidiaries**: Establishing branches or wholly-owned subsidiaries in foreign countries.
- **Joint Ventures and Strategic Alliances**: Partnering with foreign companies to share resources, knowledge, and risks.
- **Franchising and Licensing**: Allowing foreign partners to use the company's brand, products, or business model in exchange for fees or royalties.

8. International Financial Management

- **Foreign Exchange Management**: Handling currency exchange risks and fluctuations.
- **International Taxation**: Navigating different tax regimes and optimizing tax liabilities.
- **Capital Raising**: Securing funding from international markets through debt, equity, or other financial instruments.

9. Legal and Regulatory Compliance

- **International Law**: Complying with international trade laws, agreements, and standards.
- **Local Regulations**: Adhering to the legal requirements of each country, including labor laws, environmental regulations, and consumer protection laws.
- **Intellectual Property Rights**: Protecting patents, trademarks, and copyrights across different jurisdictions.

10. Risk Management

- **Political Risk**: Assessing and mitigating risks associated with political instability, government changes, and expropriation.
- **Economic Risk**: Managing risks related to economic fluctuations, inflation, and recessions in different markets.
- **Operational Risk**: Addressing risks related to supply chain disruptions, labor issues, and operational inefficiencies.

11. Sustainability and Corporate Social Responsibility (CSR)

- **Sustainable Practices**: Implementing environmentally friendly and sustainable business practices.
- **Ethical Standards**: Ensuring ethical conduct and social responsibility in international operations.
- **Community Engagement**: Building positive relationships with local communities and contributing to their development.

12. Technology and Innovation

- **Global R&D**: Conducting research and development activities in different countries to leverage local expertise and innovation.
- **Digital Transformation**: Utilizing digital technologies to enhance international business operations and customer engagement.
- **E-commerce**: Expanding market reach through online platforms and digital marketing.

Understanding the scope of international business helps companies navigate the complexities of operating in multiple countries and leverage global opportunities for growth and competitiveness.

❖ **Modes of entry into International Business:**

Entering international markets requires businesses to choose the most appropriate mode of entry, considering factors like investment risk, control, market potential, and operational complexity. Here are the primary modes of entry into international business:

1. Exporting

- **Direct Exporting**: The company sells its products directly to customers in foreign markets, often through its sales force or foreign distributors.
- **Indirect Exporting**: The company uses intermediaries like export agents or trading companies to sell its products abroad. This reduces the company's involvement and risk.

2. Licensing

- A company (licensor) grants a foreign company (licensee) the rights to produce and sell its products in exchange for royalties or fees. This mode requires less investment and allows for rapid market entry but offers less control over operations.

3. Franchising

- Similar to licensing, franchising allows a foreign partner (franchisee) to use the company's brand, products, and business model. The franchisor provides support and maintains control over certain aspects of the business to ensure brand consistency.

4. Joint Ventures

- A partnership between a domestic company and a foreign company to create a new business entity. Both partners share resources, risks, and profits. Joint ventures provide local market knowledge and shared investment but may involve complex management structures and potential conflicts.

5. Strategic Alliances

- Collaborative agreements between companies to achieve specific objectives while remaining independent. These alliances can involve sharing technology, distribution networks, or market knowledge. They offer flexibility and shared risk but may have less long-term stability.

6. Wholly Owned Subsidiaries

- The company fully owns and controls a subsidiary in the foreign market. This can be achieved by setting up a new operation (greenfield investment) or acquiring an existing company (acquisition).

This mode offers maximum control and potential for high returns but involves significant investment and risk.

7. Turnkey Projects

- A company designs, constructs, and equips a facility for a foreign client and then hands over the operation. This mode is common in industries like construction and engineering. It involves less long-term involvement but ensures the completion of a complex project.

8. Management Contracts

- A company provides managerial expertise to a foreign firm in exchange for a fee. This allows the company to enter a market with minimal investment while leveraging its management skills. However, it offers limited market control and profit potential.

9. Contract Manufacturing

- A company contracts a foreign manufacturer to produce its goods. This reduces production costs and allows the company to focus on marketing and distribution. However, it may involve quality control and intellectual property risks.

10. Piggybacking

- A company uses the distribution channels of another company (often in a related industry) to enter a foreign market. This leverages existing networks and reduces entry costs but may offer less control over marketing and sales.

11. Countertrade

- Engaging in international trade by exchanging goods or services directly instead of using cash. This can include barter, counter-purchase, and buyback arrangements. Countertrade helps companies enter markets with limited currency convertibility but can be complex and difficult to manage.

Considerations for Choosing a Mode of Entry

- **Market Size and Growth**: Larger and rapidly growing markets may justify higher investment modes like wholly owned subsidiaries or joint ventures.
- **Risk Tolerance**: Companies with higher risk tolerance may prefer modes with greater control and investment, while risk-averse companies may opt for licensing or franchising.
- **Control Needs**: High control requirements may lead to wholly owned subsidiaries or joint ventures, while low control needs may suit licensing or franchising.
- **Resource Availability**: Availability of financial and managerial resources can determine the feasibility of investment-intensive modes like acquisitions or greenfield investments.
- **Legal and Regulatory Environment**: Host country regulations may favor or restrict certain entry modes, influencing the company's choice.

Selecting the appropriate mode of entry is crucial for a company's success in international markets, balancing the need for market presence with investment risk and operational control.

UNIT – II

❖ Trade Policy

Definition: Trade policy refers to the regulations and strategies adopted by a government to manage international trade. It encompasses various measures that a country uses to control imports and exports to achieve specific economic goals such as protecting domestic industries, promoting exports, maintaining a favorable balance of trade, and ensuring national security.

Goals:

- **Protecting Domestic Industries:** Safeguard local businesses from foreign competition.
- **Promoting Exports:** Enhance the global competitiveness of domestic industries.
- **Balancing Trade:** Achieve a favorable trade balance by managing imports and exports.
- **Revenue Generation:** Collect taxes and duties on international trade activities.
- **National Security:** Ensure a reliable supply of essential goods and protect critical industries.

Instruments of Trade Policy: The primary instruments of trade policy include tariffs, import quotas, and export subsidies. These tools help governments control the flow of goods across their borders and influence the economy.

1. Tariffs

Definition: A tariff is a tax imposed by a government on imported goods. It is one of the most common instruments of trade policy used to regulate imports and generate revenue.

Types of Tariffs:

- **Ad Valorem Tariff:** A tariff based on a percentage of the value of the imported good. For example, a 10% ad valorem tariff on an imported car valued at $20,000 would result in a $2,000 tax.
- **Specific Tariff:** A fixed amount of money charged per unit of the imported good, regardless of its value. For example, a specific tariff of $500 on each imported car.
- **Compound Tariff:** A combination of an ad valorem tariff and a specific tariff. For example, a tariff that includes both a percentage of the value and a fixed amount per unit.

Purpose and Effects:

- **Revenue Generation:** Tariffs provide a source of income for the government.
- **Protection of Domestic Industries:** By making imported goods more expensive, tariffs help local industries compete against foreign products.
- **Control of Trade Deficit:** By reducing imports, tariffs can help manage a country's trade deficit and improve the balance of payments.
- **Retaliation and Negotiation:** Tariffs can be used as a tool in trade negotiations or to retaliate against unfair trade practices by other countries.

Example: Suppose a country imposes a 20% ad valorem tariff on imported shoes. If the cost of the shoes is $100, the tariff would add $20, making the total cost to consumers $120. This makes the imported shoes less competitive compared to locally produced shoes.

2. Import Quotas

Definition: An import quota is a limit set by a government on the quantity or value of a specific good that can be imported into the country over a certain period. Quotas restrict the supply of foreign goods and protect domestic industries.

Types of Quotas:

- **Absolute Quota:** A strict limit on the quantity of a good that can be imported during a specified period. Once the limit is reached, no further imports are allowed.
- **Tariff-Rate Quota (TRQ):** Allows a specific quantity of a good to be imported at a lower tariff rate, with higher tariffs applied to quantities exceeding the quota.

Purpose and Effects:

- **Protecting Domestic Industries:** Quotas limit the amount of foreign competition, allowing local industries to thrive.
- **Maintaining Price Stability:** By controlling the supply of goods, quotas help stabilize prices within the domestic market.
- **Ensuring Quality and Safety:** Quotas can be used to ensure that imports meet certain quality and safety standards.
- **Managing Trade Relations:** Quotas can be negotiated between countries as part of trade agreements or used to retaliate against unfair trade practices.

Example: If a country sets an annual import quota of 50,000 tons of sugar, only that amount can be imported during the year. Once the quota is reached, no additional sugar can be imported, or imports beyond the quota are subject to high tariffs.

3. Export Subsidies

Definition: An export subsidy is a government policy that provides financial assistance to domestic producers to encourage the export of goods and services. Subsidies lower the cost of production and make domestic goods more competitive in international markets.

Types of Export Subsidies:

- **Direct Subsidies:** Cash payments to exporters to reduce the cost of goods sold abroad.
- **Tax Concessions:** Reductions or exemptions from taxes for export-oriented companies.
- **Low-Interest Loans:** Loans provided at below-market interest rates to exporters.
- **Marketing Assistance:** Government support for international marketing efforts, such as trade shows and advertising campaigns.

Purpose and Effects:

- **Enhancing Competitiveness:** Subsidies lower production costs, allowing domestic goods to compete effectively in global markets.
- **Increasing Export Volume:** Encouraging exports helps improve a country's trade balance and increases foreign exchange earnings.
- **Supporting Strategic Industries:** Subsidies can be targeted at industries that are considered vital for national interests or economic development.
- **Economic Growth:** By boosting exports, subsidies contribute to economic growth and job creation in export-oriented industries.

Example: A government might provide a 10% subsidy on the value of all electronics exported. If a company exports $1,000,000 worth of electronics, it would receive a $100,000 subsidy from the government. This reduces the effective cost for the exporter and makes their products more competitive internationally.

Conclusion

Trade policy and its instruments—tariffs, import quotas, and export subsidies—are essential tools for governments to manage their economies and achieve specific economic goals. Tariffs protect domestic industries and generate revenue, import quotas control the supply of foreign goods and stabilize domestic markets, and export subsidies promote domestic products in international markets. Understanding these instruments is crucial for analyzing international trade dynamics and their impact on the global economy.

UNIT – III

❖ Exchange Rate of Currencies in Foreign Exchange Market

Every country has their respective currencies which they use in their trade and businesses, but what about in the foreign market? With the lack of versatility of the currencies, they become a hurdle in world trade. To solve this problem, the Foreign Exchange Market was introduced. This is a type of marketplace that will fix the exchange rate for the currencies.

Without the foreign exchange market, the world economy would suffer terribly. Thus, it becomes important for us to consider this topic as a prior study. In this context, we will define the foreign exchange market, discuss the types, features, and participants in the same market.

Define Foreign Exchange Market

The foreign exchange market is over a counter (OTC) global marketplace that determines the exchange rate for currencies around the world. This foreign exchange market is also known as Forex, FX, or even the currency market. The participants engaged in this market are able to buy, sell, exchange, and speculate on the currencies.

These foreign exchange markets are consisting of banks, forex dealers, commercial companies, central banks, investment management firms, hedge funds, retail forex dealers, and investors. In our prevailing section, we will widen our discussion on the 'Foreign Exchange Market'.

❖ Types of Foreign Exchange Market

The Foreign Exchange Market has its own varieties. We will know about the types of these markets in the section below:

The Major Foreign Exchange Markets −

- Spot Markets
- Forward Markets
- Future Markets
- Option Markets
- Swaps Markets

Let us discuss these markets briefly:

- **Spot Market**

  In this market, the quickest transaction of currency occurs. This foreign exchange market provides immediate payment to the buyers and the sellers as per the current exchange rate. The spot market accounts for almost one-third of all the currency exchange, and trades which usually take one or two days to settle the transactions.

- **Forward Market**

  In the forward market, there are two parties which can be either two companies, two individuals, or government nodal agencies. In this type of market, there is an agreement to do a trade at some future date, at a defined price and quantity.

- **Future Markets**

  The future markets come with solutions to a number of problems that are being encountered in the forward markets. Future markets work on similar lines and basic philosophy as the forward markets.

- **Option Market**

An option is a contract that allows (but is not as such required) an investor to buy or sell an instrument that is underlying like a security, ETF, or even index at a determined price over a definite period of time. Buying and selling 'options' are done in this type of market.

- **Swap Market**

A swap is a type of derivative contract through which two parties exchange the cash flows or the liabilities from two different financial instruments. Most swaps involve these cash flows based on a principal amount.

Functions of Foreign Exchange Market

The various functions of the Foreign Exchange Market are as follows:

- **Transfer Function:** The basic and the most obvious function of the foreign exchange market is to transfer the funds or the foreign currencies from one country to another for settling their payments. The market basically converts one's currency to another.
- **Credit Function:** The FOREX provides short-term credit to the importers in order to facilitate the smooth flow of goods and services from various countries. The importer can use his own credit to finance foreign purchases.
- **Hedging Function:** The third function of a foreign exchange market is to hedge the foreign exchange risks. The parties in the foreign exchange are often afraid of the fluctuations in the exchange rates, which means the price of one currency in terms of another currency. This might result in a gain or loss to the party concerned.

❖ **Features of Foreign Exchange Market**

This kind of exchange market does have characteristics of its own, which are required to be identified. The features of the Foreign Exchange Market are as follows:

1. **High Liquidity**

The foreign exchange market is the most easily liquefiable financial market in the whole world. This involves the trading of various currencies worldwide. The traders in this market are free to buy or sell the currencies anytime as per their own choice.

2. **Market Transparency**

There is much clarity in this market. The traders in the foreign exchange market have full access to all market data and information. This will help to monitor different countries' currency price fluctuations through the real-time portfolio.

3. **Dynamic Market**

The foreign exchange market is a dynamic market structure. In these markets, the currency values change every second and hour.

4. **Operates 24 Hours**

The Foreign exchange markets function 24 hours a day. This provides the traders the possibility to trade at any time.

- **Who are the Participants in a Foreign Exchange Market?**

- The participants in a foreign exchange market are as follows:
- **Central Bank:** The central bank takes care of the exchange rate of the currency of their respective country to ensure that the fluctuations happen within the desired limit and this participant keeps control over the money supply in the market.
- **Commercial Banks:** Commercial banks are the channel of forex transactions, which facilitates international trade and exchange to its customers. Commercial banks also provide foreign investments.
- **Traditional Users:** The traditional users consist of foreign tourists, the companies who carry out business operations across the globe.

- **Traders and Speculators:** The traders and the speculators are the opportunity seekers who look forward to making a profit through trading on short-term market trends.
- **Brokers:** Brokers are considered to be the financial experts who act as a sure intermediary between the dealers and the investors by providing the best quotations.
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➢ **Advantages of Foreign Exchange Market**

The whole world economy is relying upon this foreign exchange market for obvious advantageous reasons. Let us check what are the advantages gained in the foreign exchange market-

- There are very few restrictive rules, this allows the investors to invest in this market freely.
- There are no central bodies or clearinghouses that head the Foreign Exchange Market. Hence, the intervention of the third party is less.
- Many investors are not required to pay any commissions while entering the Foreign Exchange Market.
- As the market is open 24 hours, the investors can trade here without any time-bound.
- The market allows easy entry and exit to the investors if they feel unstable.

❖ Exchange rates

Exchange rates are the rates at which one currency can be exchanged for another. They indicate the value of one currency in terms of another currency. For example, if the exchange rate between the US dollar (USD) and the euro (EUR) is 1.20, it means that 1 USD can be exchanged for 1.20 EUR.

Exchange rates can be classified into two main types: Fixed Exchange Rate: Also known as a pegged exchange rate, this is where a currency's value is tied to the value of another currency, a basket of currencies, or another measure of value, such as gold. Governments and central banks maintain fixed exchange rates by buying and selling their own currency to stabilize the rate.

- **Floating Exchange Rate**: In this system, the value of the currency is determined by the foreign exchange market through supply and demand. The rates fluctuate constantly due to market forces without direct government or central bank intervention.

➢ **Factors that influence exchange rates include:**

Interest Rates: Higher interest rates offer lenders in an economy a higher return relative to other countries. Therefore, higher interest rates attract foreign capital and cause the exchange rate to rise.

1. Inflation Rates: A lower inflation rate in a country compared to other countries will increase its currency's value as its purchasing power increases relative to other currencies.

Political Stability and Economic Performance: Countries with less risk for political turmoil are more attractive to foreign investors. Stable economies tend to attract more foreign investment, leading to an appreciation of their currencies.

2. Speculation: If investors believe that a currency will strengthen in the future, they will buy more of that currency now, which increases its value.

Balance of Payments/Currency Reserves: Countries with large foreign currency reserves or a favorable balance of payments tend to see their currencies strengthen.

Exchange rates are crucial for international trade, investment, travel, and financial markets, impacting the cost of goods and services, the profitability of businesses, and the economic well-being of countries.

❖ **What is Foreign Direct Investment (FDI)**

Foreign Direct Investment (FDI) refers to an investment made by a firm or individual in one country into business interests located in another country. This typically involves acquiring a lasting interest or a significant degree of influence in the management of a business. FDI can take various forms, including establishing new business operations, acquiring existing businesses, or participating in joint ventures.

Key Features of FDI

1. **Ownership:** FDI often involves acquiring at least 10% ownership in a foreign company, giving the investor significant control and influence over the company's operations.
2. **Long-Term Investment:** Unlike portfolio investments, which can be easily sold off, FDI represents a long-term commitment to the foreign market.

3. **Control and Influence:** Investors typically seek to influence the management and operations of the foreign business to maximize returns and align strategies.

Types of FDI

1. **Greenfield Investment:** This involves establishing new operations in a foreign country, such as building new facilities or setting up new subsidiaries. This type of investment is often preferred because it can create new jobs and stimulate economic growth in the host country.
2. **Brownfield Investment:** This involves acquiring or merging with an existing foreign company. This can be a faster way to enter a foreign market and leverage existing infrastructure and market presence.
3. **Joint Ventures and Strategic Alliances:** These involve partnering with foreign firms to share resources, risks, and profits. Such partnerships can provide local expertise and reduce the investment risk.

Benefits of FDI

1. **Economic Growth:** FDI can stimulate economic growth in the host country by creating jobs, increasing productivity, and fostering technological advancements.
2. **Capital Inflow:** It brings capital into the host country, which can be used for development projects and improving infrastructure.
3. **Transfer of Technology and Skills:** FDI can lead to the transfer of technology, knowledge, and skills from foreign companies to local firms and workers.
4. **Market Access:** For the investing company, FDI provides access to new markets, which can enhance its growth and profitability.
5. **Improved Balance of Payments:** FDI can help improve the host country's balance of payments by increasing export capacity and reducing import dependency.

Risks and Challenges of FDI

1. **Political Risk:** Changes in government policies, political instability, or unfavorable regulatory environments can affect the success of FDI projects.

2. **Economic Risk:** Fluctuations in exchange rates, inflation, and economic recessions can impact the profitability of FDI.
3. **Cultural Differences:** Differences in business practices, cultural norms, and consumer preferences can pose challenges to foreign investors.
4. **Legal and Regulatory Barriers:** Navigating the legal and regulatory landscape in the host country can be complex and costly.
5. **Repatriation of Profits:** Restrictions on repatriating profits back to the home country can affect the attractiveness of FDI.

FDI plays a significant role in global economic integration and development, providing opportunities for businesses and countries alike to grow and prosper.

UNIT – IV

GLOBAL BUSINESS OPERATIONS AND STRATEGY

❖ What is a Multinational Corporation (MNC)

A multinational corporation (MNC) is a company that operates in its home country, as well as in other countries around the world. It maintains a central office located in one country, which coordinates the management of all of its other offices, such as administrative branches or factories.

It isn’t enough to call a company that exports its products to more than one country a multinational company. The multinational needs to maintain actual business operations in other countries and must make a foreign direct investment there.

➢ Reasons for Being a Multinational Corporation

There are various reasons why companies want to become multinational corporations. Here are some of the most common motivations:

1. Access to lower production costs

Setting up production in other countries, especially in developing economies, usually translates to spending significantly less on production costs. Though outsourcing is a way of achieving the objective, setting up manufacturing plants in other countries may be even more cost-efficient.

Due to their large size, MNCs can take advantage of economies of scale and grow their global brand. The growth is done through strategic manufacturing/service placement, which allows the corporation to take advantage of undervalued services across the globe, more efficient and inexpensive supply chains, and advanced technological/R&D capacity.

2. Proximity to target international markets

It is beneficial to set up business in countries where the target consumer market of a company is located. Doing so helps reduce transport costs and gives multinational corporations easier access to consumer feedback and information, as well as to consumer intelligence.

International brand recognition makes the transition from different countries and their respective markets easier and decreases per capita marketing costs as the same brand vision can be applied worldwide.

3. Access to a larger talent pool

Multinational corporations are also known to hire the best talent from around the world, which allows management to provide the best technical knowledge and innovative thinking to its product or service.

4. Avoidance of tariffs

When a company produces or manufactures its products in another country where they also sell their products, they are exempt from quotas and tariffs.

Advantages of Being a Multinational Corporation

There are many benefits of being a multinational corporation including:

1. Efficiency

In terms of efficiency, multinational companies are able to reach their target markets more easily because they manufacture in the countries where the target markets are. Also, they can easily access raw materials and cheaper labor costs.

2. Development

In terms of development, multinational corporations generally pay better than domestic companies, making them more attractive to the local labor force. They are usually favored by the local government because of the substantial amount of local taxes they pay, which helps boost the country's economy.

3. Employment

In terms of employment, multinational corporations hire local workers who know the local culture and are thus able to give helpful insider feedback on what the locals want.

4. Innovation

As multinational corporations employ both locals and foreign workers, they are able to come up with products that are more creative and innovative.

Disadvantages of Being a Multinational Corporation

Despite the benefits of being a multinational corporation, there are also several disadvantages as well:

1. Increased legal burden

A multinational corporation will face increased legal complexity due to operating in multiple jurisdictions. Different countries have different laws around corporate structure, torts, contracts, the environment and employment, to name a few. The MNC requires a local legal presence to help navigate these complexities.

2. Increased tax compliance

An MNC will also encounter different taxation regimes by operating in many different countries. There may be different rules around sales or value-added tax, tax deductions (e.g., depreciation), the ability to use net operating losses to offset future taxable income, not to mention different tax rates.

3. Public relations

A multinational corporation may be accused of sending or creating jobs outside of the corporation's home country, thereby resulting in negative public relations and political rhetoric in the home country. Conversely, the MNC may be accused of exploiting local workers, resources and regulations in the foreign country as well.

4. Political instability

A multinational corporation may experience political instability depending on where the MNC has offices and resources. Most MNCs have politically stable and economically developed home countries but operate in less developed countries. Sometimes the less developed country will experience political turmoil, including local corruption, which can impact the MNC's operations.

❖ Cultural and Ethical Issues in International Business

International business involves navigating a complex web of cultural and ethical issues. Here are some of the key challenges and considerations:

Cultural Issues

1. **Communication Styles:**

Language Barriers: Misunderstandings due to differences in language can hinder effective communication.

Non-verbal Communication: Gestures, body language, and eye contact vary widely between cultures.

Business Etiquette: Meeting Protocols: Customs regarding greetings, punctuality, and the structure of meetings differ across cultures.

Gift Giving: The appropriateness of giving gifts and the types of acceptable gifts vary.

2. **Decision-Making Styles:**

Individualism vs. Collectivism: Some cultures emphasize individual decision-making, while others prioritize group consensus.

Hierarchy and Authority: In hierarchical cultures, decisions are made by top leaders, whereas in egalitarian cultures, decision-making may be more collaborative.

3. **Workplace Norms:**

Work-Life Balance: Expectations around work hours and vacation time can differ significantly.

Attitudes Towards Gender and Diversity: Cultural norms influence views on gender roles and diversity in the workplace.

<u>Ethical Issues</u>

1. **Corruption and Bribery:**

Legal and Moral Standards: What is considered corrupt in one country might be seen as normal business practice in another.

International Regulations: Companies must navigate international laws such as the Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act.

Labor Practices: Child Labor and Sweatshops: Ethical concerns about working conditions, especially in developing countries.

Fair Wages: Ensuring that workers are paid fair wages in accordance with local laws and standards.

2. **Environmental Responsibility:**

Sustainable Practices: Balancing business growth with environmental sustainability.

Regulatory Compliance: Adhering to international environmental regulations and standards.

3. **Human Rights:**

Respect for Local Laws: Navigating situations where local laws may conflict with international human rights standards.

Corporate Social Responsibility (CSR): Implementing practices that promote human rights and community development.

Strategies for Managing Cultural and Ethical Issues

1. **Cultural Sensitivity Training:**

Educating employees about cultural differences and appropriate behaviors in international settings.

2. **Ethical Codes of Conduct:**

Establishing and enforcing a clear code of ethics that aligns with both local and international standards.

3. **Local Partnerships:**

Collaborating with local businesses and organizations to better understand and respect cultural and ethical norms.

4. **Transparent Policies:**

Developing transparent business policies and practices to build trust and accountability.

5. **Regular Audits and Assessments:**

Conducting regular audits to ensure compliance with ethical standards and cultural practices.

Navigating cultural and ethical issues in international business requires a nuanced understanding of the local context and a commitment to ethical principles. By prioritizing cultural sensitivity and ethical integrity, businesses can build strong, sustainable international partnerships.

❖ **International Business Strategy:**

1. **Introduction to Global Business Operations:**

Global business operations refer to the practices and processes involved in managing a company's international activities. These operations encompass a wide range of functions, including production, marketing, finance, and human resources, which must be coordinated across various geographic locations. The primary goal is to leverage global opportunities to enhance competitive advantage and achieve organizational objectives.

2. Strategic Objectives:

The strategic objectives of global business operations often include market expansion, resource acquisition, diversification of risk, and gaining economies of scale. Companies aim to maximize their global presence and profitability by efficiently managing resources and aligning their strategies with international market demands.

3. Market Entry Strategies:

Businesses can enter foreign markets through several strategies, each with its benefits and risks. Common market entry strategies include:

- **Exporting:** Selling products directly to foreign markets.
- **Licensing and Franchising:** Allowing foreign companies to produce and sell products under the original company's brand.
- **Joint Ventures:** Partnering with foreign firms to share resources and expertise.
- **Wholly Owned Subsidiaries:** Establishing fully owned operations in foreign countries.
- **Strategic Alliances:** Collaborating with foreign companies to achieve common goals without forming a new entity.

4. Global Supply Chain Management:

Effective global supply chain management is crucial for ensuring the smooth operation of international business activities. This involves:

- **Sourcing and Procurement:** Identifying and collaborating with suppliers across different countries.
- **Production and Distribution:** Coordinating manufacturing processes and logistics to ensure timely delivery of products.

- **Inventory Management:** Balancing stock levels to meet demand while minimizing costs.
- **Quality Control:** Maintaining consistent product quality across all locations.

5. Cross-Cultural Management:

Managing cultural differences is essential for the success of global business operations. This includes:

- **Cultural Awareness:** Understanding and respecting the cultural norms and practices of different markets.
- **Communication:** Adapting communication styles to suit diverse cultural contexts.
- **Leadership:** Developing leadership strategies that resonate with employees from various cultural backgrounds.
- **Negotiation:** Employing culturally sensitive negotiation techniques to build strong international partnerships.

6. Global Marketing Strategies:

Developing effective global marketing strategies involves tailoring marketing efforts to meet the preferences and needs of different international markets. Key aspects include:

- **Market Research:** Conducting thorough research to understand local consumer behavior and market trends.
- **Brand Positioning:** Adapting brand messaging to align with local cultural values and preferences.
- **Product Adaptation:** Modifying products to meet the regulatory and cultural requirements of different markets.
- **Pricing Strategies:** Setting competitive prices that reflect local market conditions and purchasing power.
- **Promotion and Distribution:** Choosing appropriate promotional channels and distribution networks to reach target audiences effectively.

7. Financial Management in Global Operations:

Managing finances in a global context involves dealing with multiple currencies, diverse tax regulations, and varying economic conditions. Key considerations include:

- **Currency Exchange Risk:** Implementing strategies to mitigate the impact of currency fluctuations.
- **Tax Compliance:** Ensuring compliance with tax laws in all operating regions.
- **Capital Allocation:** Efficiently allocating financial resources to maximize returns on investment.
- **Financial Reporting:** Adhering to international accounting standards and regulations.

8. Legal and Ethical Considerations:

Operating globally requires adherence to international laws and ethical standards. Businesses must navigate:

- **Regulatory Compliance:** Complying with the legal requirements of each country of operation.
- **Intellectual Property Protection:** Safeguarding intellectual property rights across borders.
- **Ethical Practices:** Upholding ethical standards in all business activities, including labor practices, environmental sustainability, and anti-corruption measures.

9. Technological Integration:

Leveraging technology is vital for optimizing global business operations. This includes:

- **Information Systems:** Implementing robust IT systems to manage data and streamline operations.
- **Automation:** Utilizing automation technologies to enhance efficiency and reduce costs.
- **Digital Marketing:** Using digital platforms to reach global audiences and engage with customers.
- **Data Analytics:** Employing data analytics to make informed decisions and predict market trends.

10. Strategic Planning and Implementation:

Developing and executing a global business strategy requires meticulous planning and effective implementation. Steps involved include:

- **Environmental Scanning**: Analyzing global market conditions, competitive landscape, and internal capabilities.

- **Strategy Formulation:** Crafting a strategy that aligns with the company's vision and objectives.
- **Resource Allocation:** Allocating resources to support strategic initiatives.
- **Performance Measurement:** Monitoring and evaluating the performance of global operations to ensure alignment with strategic goals.
- **Continuous Improvement:** Adapting and refining strategies based on feedback and changing market conditions.

By integrating these elements into their global business operations and strategy, companies can effectively navigate the complexities of international markets, achieve sustainable growth, and maintain a competitive edge on the global stage.

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SMBME2404 STRATEGIC AND TRANSACTIONAL HRM

CREDIT HOURS ALLOTED:10 HRS

OBJECTIVE:

1. **Understand the Fundamentals**: Gain a comprehensive understanding of the meaning, scope, objectives, functions, roles, and importance of Human Resource Management (HRM).
2. **Explore HRM Evolution**: Learn about the historical development and stages of HRM evolution.
3. **Strategic HRM Insight**: Understand the definition, importance, and alignment of HR strategy with business strategy, including models and the role of HR in strategic planning.
4. **Master HR Metrics and Analytics**: Develop skills in HR metrics and analytics for effective talent management, succession planning, leadership development, and change management.

5. **Transactional HRM Knowledge**: Learn the definition, scope, and administrative role of HR, including HR information systems (HRIS) and employee onboarding.
6. **Prepare for HR Challenges**: Equip students with the knowledge and skills necessary to address contemporary challenges and trends in the HRM field effectively.

S.NO.	CONTENTS	CREDIT HRS
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1.1	Meaning, Scope, Objective, Functions, Roles and Importance. Interaction with other Functional Areas	
1.2	HRM & HRD –A Comparative Analysis	
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8.	**Case Studies and Practical Applications**	**1**
8.1	Real-world Examples of Strategic HRM	
8.2	Analysis of HRM Practices in Different Organizations	

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HUMAN RESOURCE MANAGEMENT

UNIT-I

- **MEANING:**

Human Resource Management is a process of bringing people and organizations together so that the goals of each are met.

Human resource management deals with the best quality and required quantity of workforce

Thus we can say that Human resource management is the combination of three words

1. Human: It refers to the skilled workers working in the organization

2. Resource: It refers to something that one uses to achieve an objective of the organization eg: raw material, personnel, the availability of which is limited and scarce.

3. Management: It means planning, organizing, staffing, directing and controlling of various business activities.

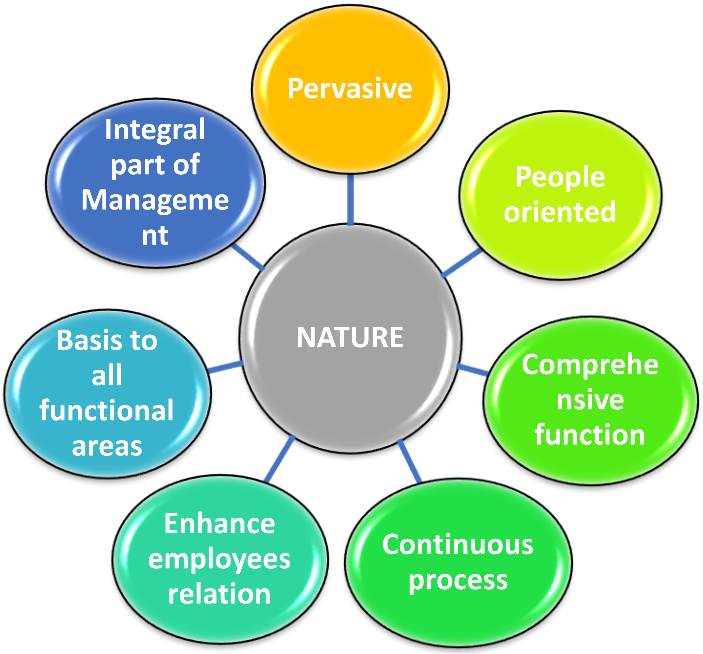
- **DEFINITION:**

1. M. J. Jucious: "The field of HRM involves planning, organization, directing and controlling functions of procuring, developing, maintaining and utilizing a labor force."

2. Dale Yoder: "HRM is the provision of leadership and direction of people in their working or employment relationship."

3.Mathis and Jackson: "HRM is the effective use of Human resources and organization through the management of people related activities."

- **NATURE OF HUMAN RESOURCE MANAGEMENT (HRM):**



1. Integral Part of Management:

Human resource management is inherent in managing. It is an integral part of the job of a manager. Every manager is concerned with the performance of personnel functions such as training, communication, appraisal and guidance. If a manager is weak in dealing with people, he cannot achieve the goals of the organisation. Thus, every manager must possess human relations skill to get maximum cooperation of the workers.

2. Pervasive Function:

Development of HRM covers all levels and all categories of people, and management and operational staff. No discrimination is made between any levels or categories. All those who are managers have to perform HRM. It is pervasive also because it is required in every department of the organization. All kinds of organizations, profit or non-profit making, have to follow HRM

3. People oriented: –

It is concerned with all kind of personnel from top to bottom of the organization.

4. Personnel functions: – It involves various functions concerned with managing people from manpower planning, recruitment, selection, placement, training, appraisal to compensation of employees.

5. Continuous Process:

Human resource management is a continuous process in the sense that it is in operation from the day an entity comes into existence till the day it winds up. It basically takes into account managing human capital of the firm which is not one day or one weak deal rather, it is an on-going process.

6. Comprehensive Function:

Managing human resources can never be an exclusive process as it involves all people at work. No individual irrespective of his designation, salary, nature of work is excluded from the periphery of human resource management.

7. Human relations philosophy:

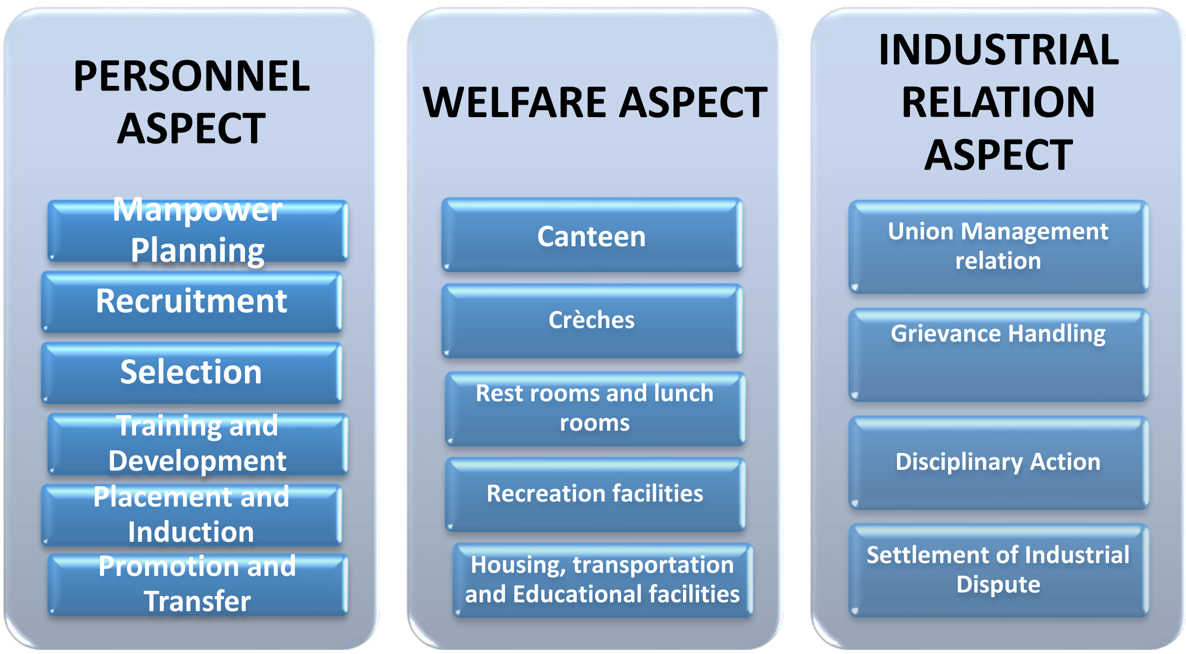
HRM is a philosophy and the basic assumption is that employees are human beings and not a factor of production like land, labor or capital. HRM recognizes individuality and individual differences. Every manager to be successful must possess social skills to manage people with differing needs.

➢ OBJECTIVES OF HUMAN RESOURCE MANAGEMENT:

1. To procure right type of persons at right time and at right job.
2. To ensure effective utilization of human resources.
3. To ensure development of human resources.
4. To provide them right kind of training to increase their productivity.
5. To ensure their welfare needs.
6. To satisfy them by providing monetary and non monetary benefits.
7. To maintain high morale among the employees.
8. To ensure proper safety measures

- **SCOPE:**

The scope of HRM is, indeed, very vast and wide. It includes all activities starting from manpower planning till employee leaves the organisation.



1. The Labour or Personnel Aspect:

This is concerned with manpower planning, recruitment, selection, placement, transfer, promotion, training and development, lay-off and retrenchment, remuneration, incentives, productivity, etc.

2. Welfare Aspect:

It deals with working conditions, and amenities such as canteen, creches, rest and lunch rooms, housing, transport, medical assistance, education, health and safety, recreation facilities, etc.

3. Industrial Relations Aspects:

This covers union-management relations, joint consultation, collective bargaining, grievance and disciplinary actions, settlement of disputes, etc.

➢ IMPORTANCE OF HRM

1. Recruitment and Training

This is one of the major responsibilities of the human resource team. The HR managers come up with plans and strategies for hiring the right kind of people. They design the criteria which is best suited for a specific job description. Their other tasks related to recruitment include formulating the obligations of an employee and the scope of tasks assigned to him or her. Based on these two factors, the contract of an employee with the company is prepared. When needed, they also provide training to the employees according to the requirements of the organisation. Thus, the staff members get the opportunity to sharpen their existing skills or develop specialised skills which in turn, will help them to take up some new roles.

2. Performance Appraisals

HRM encourages the people working in an organisation, to work according to their potential and gives them suggestions that can help them to bring about improvement in it. The team communicates with the staff individually from time to time and provides all the necessary information regarding their performances and also defines their respective roles. This is beneficial as it enables them to form an outline of their anticipated goals in much clearer terms and thereby, helps them execute the goals with best possible efforts. Performance appraisals, when taken on a regular basis, motivate the employees.

3. Maintaining Work Atmosphere

This is a vital aspect of HRM because the performance of an individual in an organisation is largely driven by the work atmosphere or work culture that prevails at the workplace. A good working condition is one of the benefits that the employees can expect from an efficient human resource team. A safe, clean and healthy environment can bring out the best in an employee. A friendly atmosphere gives the staff members job satisfaction as well.

4. Managing Disputes

In an organisation, there are several issues on which disputes may arise between the employees and the employers. It can be said that conflicts are almost inevitable. In such a scenario, it is the human resource department which acts as a consultant and mediator to sort out those issues in an effective manner. They first hear the grievances of the employees. Then they come up with suitable solutions to sort them out. In other words, they take timely action and prevent things from going out of hands.

5. Developing Public Relations

The responsibility of establishing good public relations lies with the HRM to a great extent. They organize business meetings, seminars and various official gatherings on behalf of the company in order to build up relationships with other business sectors. Sometimes, the HR department plays an active role in preparing the business and marketing plans for the organisation too.

Any organisation, without a proper setup for HRM is bound to suffer from serious problems while managing its regular activities. For this reason, today, companies must put a lot of effort and energy into setting up a strong and effective HRM.

- **THE ROLE OF HRM**

1. Advisory Role:

HRM advises management on the solutions to any problems affecting people, personnel policies and procedures.

(a) Personnel Policies: Organization Structure, Social Responsibility, Employment Terms & Conditions, Compensation, Career & Promotion, Training & Development and Industrial Relations.

(b) Personnel Procedures: Relating to manpower planning procedures, recruitment and selection procedures, and employment procedures, training procedures, management development procedures, performance appraisal procedures, compensation procedures, industrial relations procedures and health and safety procedures.

2. Functional Role:

The personnel function formulates personnel policies in accordance with the company's doctrine and management guidelines. It provides guidance to managers to help them ensure that agreed policies are implemented.

3. Service Role:

Personnel function provides personnel services. These services constitute the main activities carried out by personnel department, like payroll, disciplinary actions, etc, and involve the implementation of the policies and procedures described above.

4. Motivating the workforce

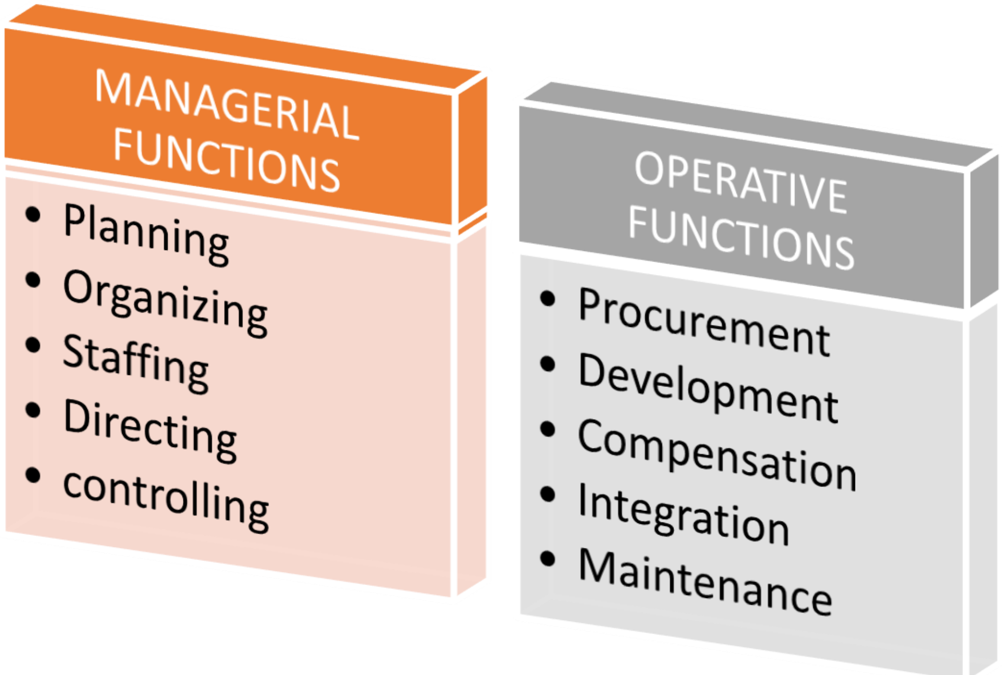
Due to the growth of the global market, a technological edge supported by a talent pool has become a vital factor for survival in the market. Due to the reason organization gives main priority to technology advancement programs. HR managers are now performing the role of motivators for their knowledge workers to adopt new changes.

- **FUNCTIONS:**

We have already defined HRM. The definition of HRM is based on what managers do. The functions performed by managers are common to all organizations. For the convenience of study, the function performed by the Human resource management can broadly be classified into two categories, viz.

(1) Managerial functions, and

(2) Operative functions



(1) MANAGERIAL FUNCTIONS:

I. Planning:

Planning is a predetermined course of actions. It is a process of determining the organizational goals and formulation of policies and programmes for achieving them. Thus planning is future oriented concerned with clearly charting out the desired direction of business activities in future. Forecasting is one of the important elements in the planning process. Other functions of managers depend on planning function.

II. Organizing:

Organizing is a process by which the structure and allocation of jobs are determined. Thus organizing involves giving each subordinate a specific task establishing departments, delegating authority to subordinates, establishing channels of authority and communication, coordinating the work of subordinates, and so on.

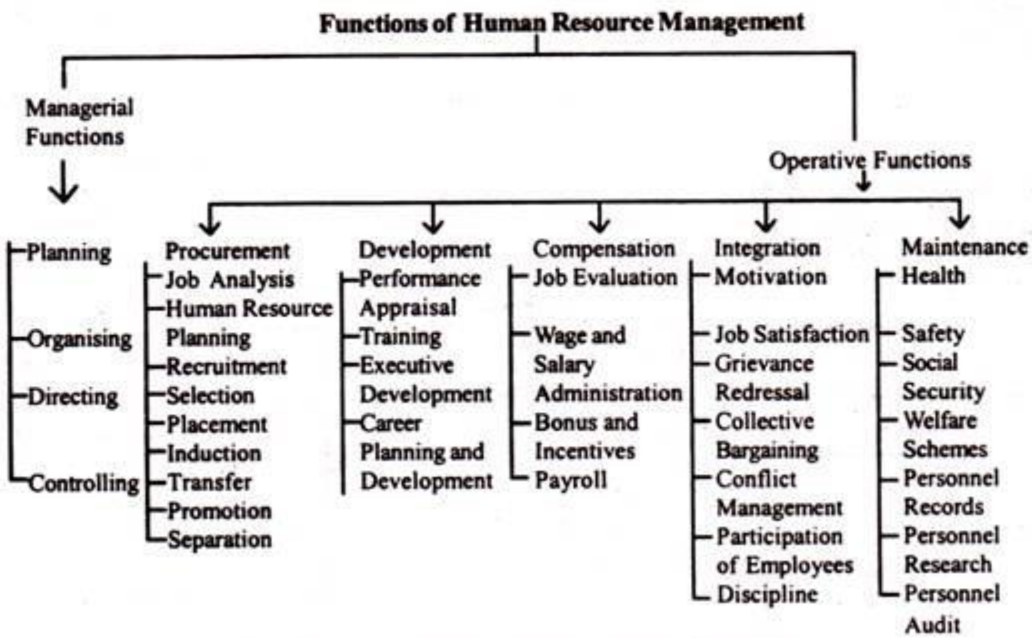


Fig. 1.2 : Functions of Human Resource Management

III. Staffing:

TOs is a process by which managers select, train, promote and retire their subordinates This involves deciding what type of people should be hired, recruiting prospective employees, selecting employees, setting performance standard, compensating employees, evaluating performance, counseling employees, training and developing employees.

IV. Directing/Leading:

Directing is the process of activating group efforts to achieve the desired goals. It includes activities like getting subordinates to get the job done, maintaining morale motivating subordinates etc. for achieving the goals of the organization.

V. Controlling:

It is the process of setting standards for performance, checking to see how actual performance compares with these set standards, and taking corrective actions as needed.

(2) OPERATIVE FUNCTIONS:

The operative, also called, service functions are those which are relevant to specific department. These functions vary from department to department depending on the nature of the department Viewed from this standpoint, the operative functions of HRM relate to ensuring right people for right jobs at right times. These functions include procurement, development, compensation, and maintenance functions of HRM.

A brief description of these follows:

I. Procurement:

It involves procuring the right kind of people in appropriate number to be placed in the organisation. It consists of activities such as manpower planning, recruitment, selection placement and induction or orientation of new employees.

II. Development:

This function involves activities meant to improve the knowledge, skills aptitudes and values of employees so as to enable them to perform their jobs in a better manner in future. These functions may comprise training to employees, executive training to develop managers, organisation development to strike a better fit between organisational climate/culture and employees.

III. Compensation:

Compensation function involves determination of wages and salaries matching with contribution made by employees to organizational goals. In other words, this function ensures equitable and fair remuneration for employees in the organization. It consists of activities such as job evaluation, wage and salary administration, bonus, incentives, etc.

IV. Maintenance:

It is concerned with protecting and promoting employees while at work. For this purpose virus benefits such as housing, medical, educational, transport facilities, etc. are provided to the employees. Several social security measures such as provident fund, pension, gratuity, group insurance, etc. are also arranged.

➢ THE KEY INTERACTIONS OF HRM WITH OTHER FUNCTIONAL AREAS

1. HRM and Finance

- HRM collaborates with the finance department to manage employee compensation, benefits, payroll, and budgeting for workforce planning.

- It ensures compliance with labor laws and financial regulations related to employee remuneration and tax deductions.

2. HRM and Marketing

- HRM supports marketing by recruiting and training employees with the necessary skills to execute marketing strategies effectively.
- It helps in employer branding to attract top talent and align the organization’s reputation with marketing goals.

3. HRM and Operations Management

- HRM ensures that operations run efficiently by hiring and training employees with the right technical skills.
- It helps in workforce planning, shift management, and maintaining labor productivity in operational processes.

4. HRM and Production Management

- HRM assists in recruiting skilled workers for the production process and ensures workplace safety and compliance with labor laws.
- It contributes to Total Quality Management (TQM) by fostering a culture of continuous improvement and employee involvement.

5. HRM and IT (Information Technology)

- HRM collaborates with IT to implement HR technology solutions like HRMS (Human Resource Management Systems) and payroll software.
- It ensures IT employees are trained on cybersecurity, data protection, and new technology advancements.

6. HRM and Research & Development (R&D)

- HRM helps in hiring and retaining innovative talent for R&D activities.
- It fosters a work environment that encourages creativity, learning, and knowledge sharing.

7. HRM and Customer Service

- HRM trains employees in customer service skills to enhance customer satisfaction and brand loyalty.
- It ensures employee motivation through rewards, recognition, and training programs.

8. HRM and Supply Chain Management

- HRM supports supply chain management by recruiting and training logistics and procurement professionals.
- It ensures compliance with labor laws in supply chain operations and manages workforce diversity.

Conclusion

HRM plays a crucial role in integrating human capital with other functional areas, ensuring that employees are well-trained, motivated, and aligned with organizational objectives. The synergy between HRM and other departments enhances efficiency, productivity, and overall business success.

➢ HRM & HRD – A Comparative Analysis

Human Resource Management (HRM) and Human Resource Development (HRD) are closely related but distinct concepts in workforce management. The following table highlights the key differences between HRM and HRD:

Aspect	HRM	HRD
Nature	HRM falls under the management function	HRD is a subsidiary of HRM

Focus	Overseeing the organization's human resources and handling administrative tasks, policies, and procedures.	Improving employees' skills, knowledge, and capabilities to foster growth and organizational success.
Scope	Recruitment, compensation, employee relations, and compliance with laws.	Training, talent management, and fostering a learning culture within the organization.
Purpose	To align employees with business objectives, ensuring they are in suitable roles, and manage their daily tasks efficiently.	Enhancing individual and organizational performance by investing in employee learning, fostering growth, and a proficient workforce.
Time Horizon	Short-term goals immediate staffing needs and short-term employee issues	Long-term goals and strategic planning, preparing employees for future challenges.
Orientation	Organizational efficiency and resource management	Employee growth, engagement, and career advancement within the organization.
Dependency	Operates as a distinct entity, consisting of various sections like recruitment, retention, HRD, compensation, and performance appraisal management.	A component within HRM; incorporates functions, attributes, and processes from the broader HRM framework.
Formality	Functions are typically formal and implemented through classroom or laboratory training methods.	Functions can be informal, involving activities like mentorships and coaching from superiors, often managers.
Process	Standard procedures that need to be executed whenever the need arises.	Processes are continuous and not occasional.
Priority	The overall growth of the organization	Exclusively on the people of the organization

PRACTICE QUESTIONS WITH ANSWERS

1. What is the difference between HRM and HRD?

HRM (Human Resource Management) focuses on managing people within an organization and dealing with administrative tasks, policies, and procedures. HRD (Human Resource Development) emphasizes enhancing employees' skills, knowledge, and capabilities to foster growth and organizational success through learning and development initiatives.

2. Which approach has a short-term focus: HRM or HRD?

HRM has a more short-term focus than HRD. It addresses immediate HR requirements and resolves current operational issues that might lack long-term planning and forecasting.

3. Can HRM and HRD work together harmoniously?

Yes, HRM and HRD can work together harmoniously. HRM handles administrative tasks and immediate operational needs, while HRD focuses on employee development and long-term growth. When these functions collaborate, organizations can achieve a balanced approach, ensuring both immediate requirements and long-term goals are met effectively.

4. What are the benefits of integrating HRM and HRD practices?

The main benefits of integrating HRM and HRD practices are:

- **Holistic Employee Development**: Integrating HRM and HRD ensures a comprehensive approach to immediate support and long-term skill enhancement.
- **Strategic Alignment**: HR practices align directly with organizational goals, enhancing the company's strategic objectives.
- **Improved Productivity:** Well-rounded development boosts employee skills and engagement, leading to increased efficiency.
- **Enhanced Talent Retention**: Investing in employee development fosters loyalty and reduces turnover rates.

5. How can organizations strike a balance between HRM and HRD?

Organizations can strike a balance between HRM and HRD by fostering communication and collaboration between the two functions. This can be achieved by aligning HRM's immediate operational needs with HRD's focus on long-term employee development. Establishing clear goals, integrating training programs, and promoting a culture of continuous learning can harmonize HRM and HRD efforts. This ensures a balanced approach to managing employees' immediate needs and long-term growth.

➢ TRENDS AND CHALLENGES IN HRM

1. Integrating AI into work

In 2025, HR departments face the transformative challenge of integrating AI into daily workflows. AI technologies offer vast opportunities to improve efficiency, enhance performance management, equip managers to be more effective, and personalize the employee experience. Nearly half (42%) of business leaders surveyed by IBM at the beginning of the year had already actively deployed AI, and another 40% were in the process of doing so.

this rapid advancement raises concerns and requires thoughtful implementation by business leaders. "The rapid rise of AI technologies is reshaping the workforce, presenting both significant opportunities and complex challenges for HR leaders,"

2. Transforming HR into a strategic business force

The role of human resource management has evolved dramatically. In 2025, HR leaders are expected to step up as strategic business partners. This shift is driven by the demand for measurable impact on business outcomes, whether through talent strategies, employee engagement, or workforce agility. The ability to shape the long-term success of an organization now rests on your ability to align human resource management initiatives with broader goals.

"HR is no longer about pushing paper or managing policies — it's about stepping into the arena of strategic impact," John says. "CEOs demand impact, not process, and HR has the unique opportunity to shape the workforce for what's next, not just what's now."

3. Effectively identifying and deploying internal talent

Matching the right talent to the right roles remains a critical HR management issue, especially in large organizations. Traditional methods often lack the agility needed to address dynamic business needs, slowing progress and affecting morale.

"Matching talent to roles or projects is increasingly complex, especially in large organizations. Traditional talent management lacks the agility to meet dynamic business needs,"

4. Work Place diversity and inclusion:

Diverse and inclusive work environments are one of the top since there is a changing workplace culture in today's companies. Most companies prefer a heterogeneous workforce. It helps the business prosper with better creativity, innovation, and decision-making.

Today, human resource management recruits employees of different genders, ages, languages, social classes, ethnicities, religions, lifestyles, and backgrounds. It empowers employees to bring their life experiences to the workplace and enables businesses to be more competitive in the market.

5. Remote and Hybrid Work Model

Even after the pandemic subsides, most companies even now offer work-from-home and hybrid jobs for employees. Many young talented employees prefer flexible working hours and choose a work-from-home setting to have a social life outside of work. It has become one of the most significant trends in HRM. As a result, many business industries have started to revise their working arrangement policy.

6. Upskilling Workforce

Companies continuously require skills for job roles. Therefore, the HR department has to address this trend in human resource management for efficient business performance. They can start training and developmental programs for employees to develop relevant, sharp skills for professional growth.

Upskilling is also one of the global trend in HRM since most companies plan budgets on improvement and developmental programs. It helps employees prepare for a change. Upskilling employees can make them understand the job design process and increase employee retention.

7. Augmented recruitment

One of the most recent is the augmented recruitment of the workforce. In the work-from-home trend, most companies and HR constantly look for top talents through augmented recruitment applications. It allows the recruiter to examine the candidate's CV within seconds. It is easy to use, saves time, and avoids selection errors to notice potential candidates.

8. Gig Economy & Workforce Flexibility

The gig economy is expanding, with more professionals opting for freelancing, contract-based jobs, and remote work. HRM is adapting to this trend by creating flexible employment policies that accommodate part-time and project-based workers. Companies are revising their compensation and benefits strategies to attract and retain gig workers.

9. Sustainability & Corporate Social Responsibility (CSR)

Green HRM is gaining momentum, with companies implementing eco-friendly HR policies such as remote work, paperless processes, and sustainable workplace initiatives. CSR programs focusing on employee well-being, ethical business practices, and environmental responsibility are becoming key components of HR strategies.

10. Managing a Multigenerational Workforce

Today's workforce consists of employees from different generations, including Baby Boomers, Gen X, Millennials, and Gen Z. Each group has different work expectations, communication styles, and career aspirations. HRM needs to implement policies that cater to the diverse needs of employees while ensuring a cohesive work environment.

11. Compliance & Legal Issues

HR professionals must stay updated with changing labor laws and employment regulations. Issues such as workplace harassment, discrimination, and employee rights require HRM to ensure compliance with local and international labor laws. Failure to comply can result in legal consequences and damage to the company's reputation.

12. Workplace Culture & Employee Engagement

Maintaining a strong workplace culture in remote and hybrid work settings is a growing challenge. HR must find innovative ways to keep employees engaged, motivated, and connected with company values. Team-building activities, regular feedback, and leadership support play a crucial role in shaping a positive work culture.

13. Upskilling & Reskilling Employees

With automation and artificial intelligence changing job roles, employees must continuously update their skills. Organizations are investing in training and development programs to upskill and reskill employees. HRM plays a key role in identifying skill gaps and creating learning opportunities that align with industry demands.

14. Managing Employee Well-being

Workplace stress, burnout, and mental health concerns are increasing among employees. HR departments are focusing on mental health awareness programs, flexible work policies, and stress management initiatives. A healthy work environment leads to higher productivity and job satisfaction.

15. Handling Workforce Diversity & Inclusion

Ensuring workplace diversity and inclusion is still a challenge in many organizations. Unconscious biases in hiring, promotions, and leadership opportunities can create inequalities. HRM must implement unbiased recruitment practices and diversity training programs to foster a more inclusive workplace.

- **PRACTICE QUESTIONS WITH ANSWER:**

1. What is an example of a trend in human resource management?

Ans; A surge in remote and hybrid work is one of the **trends in human resource management**. Ever since the pandemic, there has been a change in the work model With a suitable approach for its employees. Most companies opted for a remote and hybrid approach in place of a workplace environment, even post covid.

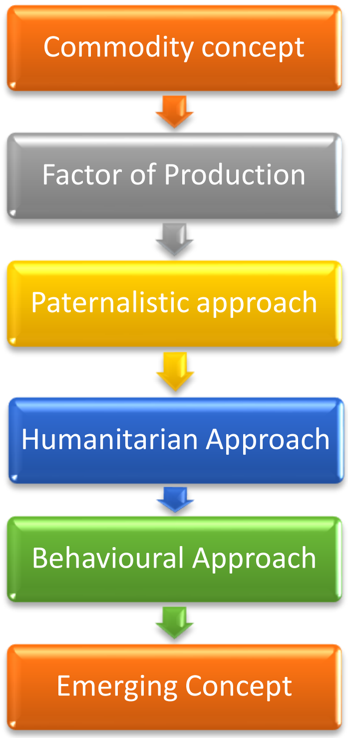
2. What should HR focus on in 2025?

Ans; HR must avoid losing female managers and leaders by giving deserved recognition, training, and developmental opportunities. Furthermore, they must consider giving hybrid and flexible working hours for women rather than for men. It is significant to avoid constant change in management to prevent stress and less productivity.

3. **How to use Pitch hire as a recruiter?**

Ans: Pitchnhire is an **applicant tracking software** that hires the top candidates. It helps you to filter and scan resumes automatically, according to the job description and keywords. As a recruiter, Pitchnhire provides the solution to streamline your recruiting process with an AI recruitment engine. Using Pitchnhire, you can track, automate and analyze all your applicants.

- **EVOLUTION OF HRM**



(1) The Commodity Concept:

Before industrial revolution, the guild system was the beginning of personnel management. Guild was concerned with selecting, training, rewarding and maintaining the workers. Labour began to be considered a commodity to be bought and sold.

(2) The Factor of Production Concept:

Employees were considered a factor of production just like land, materials, machinery. Taylor's scientific management stressed proper selection and training of employees so as to maximize productivity.

(3) The Paternalistic (Trade Unions) Concept:

Employees organized together on the basis of their common interest and formed trade unions to improve. Also employers began to provide schemes to workers. Employers assured a fatherly and protective attitude towards their employees.

(4) The Humanitarian Concept:

It is based on the belief that employees had certain absolute rights as human beings and it is the duty of the employer to protect. It generated considerable interest in human problems of work place. This is also known as human relations concept.

(5) The Behavioral Human Resource Concept:

It aimed at analyzing and understanding human behavior in organization. Motivation, group dynamics, organizational climate, organizational conflict etc. became popular under this concept. Employees began to be considered as valuable assets of an organization. Efforts were made to integrate employee with the organization so that organizational goals and employee's aspirations could be achieved simultaneously

(6) The Emerging Concept:

Now employers are considered as partners in industry. They are given share in company's stock membership. Slowly and steadily, HRM is emerging as a discipline

UNIT-II

STRATEGIC HRM

1. What is strategic HRM?

Strategic Human Resource Management (HRM) is an approach that aligns HR practices with an organization's overall business strategy. It involves HR professionals actively participating in the development and execution of business strategies to achieve organizational goals. Strategic HRM focuses on attracting, developing, and retaining talent, as well as creating a positive workplace culture that supports the strategic objectives of the company. It's about using HR practices strategically to enhance an organization's competitiveness and long-term success.

2. Why strategic HR management?

Strategic HR management is crucial because it helps organizations align their human capital with their overall business objectives. By strategically managing HR, companies can:

- **Boost Performance:** Aligning HR practices with business goals enhances employee performance and productivity.
- **Attract and Retain Talent:** Strategic HRM helps in recruiting, developing, and retaining top talent, giving companies a competitive edge.
- **Adapt to Change:** It enables organizations to adapt to changes in the business environment, technology, and industry trends more effectively.
- **Reduce Costs:** Proper HR strategy can optimize workforce utilization and reduce unnecessary expenses.
- **Enhance Employee Engagement:** A strategic approach fosters a positive work culture, increasing employee engagement and satisfaction.

In summary, strategic HR management is essential for achieving business success and staying competitive in a dynamic market.

3. What is a good HR strategy?

A good HR strategy is one that aligns with an organization's overall business objectives and supports its long-term success. It typically includes:

- **Talent Acquisition:** Attracting and hiring top talent that fits the organization's culture and contributes to its goals.
- **Employee Development:** Providing training and development opportunities to enhance skills and career growth.
- **Performance Management:** Setting clear performance expectations, providing regular feedback, and recognizing and rewarding achievements.
- **Succession Planning:** Identifying and grooming future leaders within the company.
- **Workforce Diversity and Inclusion:** Fostering a diverse and inclusive workplace that values differences and promotes innovation.
- **Employee Engagement:** Creating a positive work environment that motivates and engages employees.
- **Compliance:** Ensuring adherence to labor laws and regulations to mitigate risks.
- **Adaptability:** Being flexible and responsive to changes in the business environment.

A good HR strategy should be dynamic, evolving with the organization's needs, and measurable to track progress and make necessary adjustments.

➢ LINKING HR PRACTICES TO BUSINESS STRATEGY AND ONE ANOTHER

This issue of fitting HR practices to business strategy is becoming increasingly important and relevant HR issues for HR staff and line managers. HR fit involves making sure HR activities make sense and help the organization achieve its goals and objectives. **The three aspects of HR fit are:**

1. Vertical fit This aspect of vertical fit concerns the coincidence between HR practices and overall business strategy.

2. Horizontal fit This relates to the extent to which HR activities are mutually consistent. Consistency ensures that HR practices reinforce one another.

3. External fit The third aspect concerns how well HR activities match the demands of the external environment. Ensuring these aspects of fit requires HR practice choices. The challenge is to develop internally consistent configurations of HR practice choices that help to implement the firm's strategy and enhance its competitiveness. There is a need for strategic flexibility along with a strategic fit for the long-term competitive advantage of the firm

The fit is defined as a temporary state in an organization, whereas flexibility is defined as the firm's ability to meet the demands of the dynamic environment.

The two types of flexibility identified are:

1. Resource Flexibility

Resource flexibility is the extent to which a firm can apply its resources to a variety of purposes. It also involves the cost, difficulty, and time needed to switch resources from one use to another.

2. Coordination flexibility

Coordination flexibility concerns the extent to which an organization has decision making and other systems that allow it to move resources quickly from one use to another. This task is accomplished by having an effective partnership between HR managers and line manager

➢ STRATEGIC HUMAN RESOURCE MANAGEMENT (SHRM) MODELS

Strategic Human Resource Management (SHRM) involves aligning HR practices with an organization's long-term goals to gain a competitive advantage. Various models help organizations implement SHRM effectively. Below are some key models:

1. The Best Fit Model

This model suggests that HR strategies should align with the business strategy of the organization. It emphasizes that HRM practices must be tailored to the organization's goals, industry, and external environment. The model highlights the importance of understanding market conditions, company objectives, and workforce needs to create an effective HR strategy.

2. The Best Practice Model

The Best Practice model assumes that certain HRM practices lead to better organizational performance, regardless of industry or business strategy. These practices include selective hiring, training and development, employee empowerment, performance-based rewards, and work-life balance initiatives. The idea is that implementing these universal HR practices will enhance productivity and employee satisfaction.

3. The Harvard Model

Developed by Harvard University scholars, this model focuses on the human aspect of HRM. It identifies four key HR policy areas: employee influence, human resource flow (recruitment, promotion, and termination), reward systems, and work systems. The model highlights that HR policies should balance stakeholder interests, including employees, management, shareholders, and society, to ensure long-term success.

4. The Resource-Based View (RBV) Model

This model focuses on the internal resources of an organization as a source of competitive advantage. It suggests that employees are a valuable asset and should be developed through training, motivation, and skill enhancement. Organizations that effectively manage their human capital can achieve sustainable competitive advantages over their rivals.

5. The High-Performance Work System (HPWS) Model

HPWS integrates various HRM practices to improve employee performance and organizational effectiveness. It focuses on job design, team-based work structures, extensive training, performance management, and a strong organizational culture. The model suggests that when HR practices work together, they enhance employee motivation, commitment, and productivity.

6. The Matching Model (Michigan Model)

The Matching Model suggests that HRM should match the structure and needs of the organization. It focuses on four key HR functions: selection, appraisal, rewards, and development. The model argues that HR policies should align with business strategy to maximize efficiency and performance.

- **Role of HR in Strategic Planning**

1. Aligning HR strategy with business goals
2. Workforce planning & talent management
3. Leadership development & succession planning
4. Employee engagement & organizational culture
5. Performance management & goal setting
6. Change management & organizational transformation
7. Training & development programs
8. Diversity, equity, and inclusion (DEI) initiatives
9. HR analytics & data-driven decision-making
10. Legal compliance & risk management

TRANSACTIONAL HRM

It is an effective approach to conducting the day-to-day activities and administrative processes an organization needs to complete to support its employees. It is primarily concerned with the efficiency and consistency of HR processes rather than long-term strategic planning or organizational development. Transactional HRM ensures smooth functioning of HR operations but typically does not play a significant role in shaping the strategic direction of the organization.

Key Features of Transactional HRM:

- Focuses on administrative HR functions.
- Includes payroll processing, employee records management, and compliance.
- Involves recruitment, onboarding, and exit formalities.
- Ensures adherence to labor laws and company policies.
- Primarily operational rather than strategic.

SCOPE OF TRANSACTIONAL HRM / ADMINISTRATIVE ROLE OF HR

1. **Recruitment and Staffing:** Managing job postings, interviews, and ensuring compliance in the hiring process.
2. **Employee Onboarding:** Facilitating new hire orientation, completing necessary documentation, and integrating employees into the organization.
3. **Payroll Management**: Processing employee salaries, benefits, taxes, and ensuring timely and accurate payment.
4. **Employee Records Management**: Maintaining and securely storing employee data, including performance, attendance, and personal details.
5. **Compliance and Legal Administration**: Employee contracts, and maintaining legal documentation.
6. **Performance Appraisal and Feedback**: Administering performance reviews, tracking progress, and documenting employee performance.
7. **Employee Benefits Administration**: Managing benefits programs, including health insurance, retirement plans, and paid time off.
8. **Conflict Resolution and Grievance Handling**: Addressing employee complaints and conflicts through established grievance procedures.
9. **Training and Development Logistics**: Organizing training sessions, tracking participation, and ensuring compliance with mandatory programs.
10. **Exit and Off boarding Procedures**: Managing the exit process, including exit interviews, returning company property, and final settlements.

HUMAN RESOURCES INFORMATION SYSTEM, OR HRIS

A Human Resources Information System, or HRIS, is a software solution that is used to collect, manage, store, and process an organization's employee information. Essentially, HR teams use an HRIS to work more efficiently and make more data-driven decisions. In most cases, an HR information system includes the basic features needed for end-to-end HR management. This system helps companies manage and automate core HR processes, such as:

- Employee data management
- Benefits administration
- Payroll processing
- Time and attendance management
- Reporting and analytics
- Employee self-service

➢ COMPONENTS OF HRIS(HUMAN RESOURCE INFORMATION SYSTEMS)

1. Database

Human Resource Information System core offering includes a database to store employee information. HR professionals can input all personnel data into the system which can be accessed from anywhere, round the clock. Types of data that HR professionals collect in the database include compensation history, emergency contact information, and performance review. The core database can also be viewed as an online backup for paper files.

2. Time and Labor Management

Activities like time and labor management can be highly time-consuming. HRIS package allows employees to input their own hours worked and allows managers to immediately verify vacation requests, and the data is directly fed to the payroll. Time and labor management also improves the HR department's ability to track punctuality and attendance.

3. Payroll Function

The payroll function is yet another major component of an HRIS model. HR can easily download or unload employee hours, and issue cheques or payroll deposits to employees. Salaried employees can also be paid with a substantially reduced risk of errors. The HRIS payroll software usually improves tax compliance for locations with multiple tax levels.

4. Benefits

Some HRIS employers allow employers to establish and maintain medical benefits and retirement investments through their software. Such applications allow employers to have a one-stop shopping experience for all their human resources data management needs. Other HRIS packages facilitate medical benefits and retirement investment deductions for payroll but not the establishment of those benefits.

5. Employee Interface

Most HRIS packages allow for an employee to have limited user access. Employee users access a part of the database where they can update their personal information, review pay scales, change retirement benefit programs, update direct deposit information or download benefit election documents.

6. Recruitment and Retention

Finally, it can be said that recruitment and retention are the most important components of HRIS. It goes without saying that it is the anchor of all HR policies and systems. Finding new talent, acquiring them, keeping them engaged and finally being able to retain them is the major task of an HR person. HRs also have to ensure that employees are not only able to do their work, but they are also provided with the required training; receive proper compensation and benefits from the organization.

➢ EMPLOYEE ONBOARDING

It is the process in which new hires get familiar with the organization, the people, and the culture of the company they've just joined. It's a key stage of the employee life cycle.

New hires are introduced to an organization and integrated into their new role and responsibilities. They are shown their workspace, given the equipment and resources they need, meet colleagues and managers, get to know work processes, and familiarize themselves with the company's mission and values. By the end of the onboarding process, they're able to do their job independently and effectively.

The purpose of an onboarding period is two-fold. On the one hand, the traditional goal of employee onboarding is to get new hires operational as quickly as possible. On the other hand, the more recent role of onboarding has been to shape the critical first impressions new employees have of the company.

UNIT-III

INTEGRATION OF STRATEGIC AND TRANSACTIONAL HRM

The integration of **Strategic HRM (SHRM)** and **Transactional HRM** allows organizations to align daily HR activities with long-term business goals, resulting in a more efficient and effective workforce. While **transactional HRM** focuses on day-to-day operations, such as payroll, recruitment, and compliance, **strategic HRM** focuses on aligning HR strategies with organizational objectives. By integrating both, organizations can:

- **Ensure Consistency**: Align routine HR tasks with strategic initiatives to ensure that operational decisions support long-term goals.
- **Improved Decision-Making**: Transactional HR functions can provide valuable data and insights that inform strategic decisions, such as talent management or workforce planning.
- **Efficient Resource Allocation**: By integrating both approaches, HR can ensure that resources are used optimally in both administrative tasks and strategic initiatives.

➢ BALANCING STRATEGIC AND TRANSACTIONAL HRM

Balancing **Strategic HRM** and **Transactional HRM** is crucial for maximizing organizational performance. The key to this balance is:

- **Delegation of Responsibilities**: Transactional HR tasks should be handled by HR personnel with administrative expertise, while strategic HR functions should be led by HR professionals with a broader understanding of the organization's long-term objectives.
- **Automation of Routine Tasks**: By automating transactional functions, HR can free up time and resources to focus on strategic initiatives. This reduces the workload on HR staff and allows for more attention to be given to high-impact areas.
- **Ongoing Communication**: Ensure that there is continuous communication between strategic HR and transactional HR functions to maintain alignment and share information that can inform both operational and strategic decisions.

- **Employee Experience Focus**: While transactional HR ensures smooth day-to-day operations, strategic HR focuses on aligning employee development and engagement with business goals, leading to improved performance and retention.

➢ LEVERAGING TECHNOLOGY FOR HR EFFICIENCY

Technology plays a pivotal role in enhancing the efficiency of both **transactional** and **strategic** HRM. Key ways technology helps include:

- **Automation of Routine Tasks**: Technologies such as HRMS (Human Resource Management Systems) and Payroll Software can automate administrative tasks, reducing the manual effort required in areas like payroll processing, attendance tracking, and benefits administration.
- **Data Analytics**: HR analytics tools can provide insights into workforce trends, performance metrics, and recruitment effectiveness, supporting strategic HR decisions.
- **Cloud-Based Solutions**: Cloud HR platforms allow for better accessibility, scalability, and integration of HR functions, making it easier to manage both transactional and strategic HR activities from a single platform.
- **Employee Self-Service Portals**: Self-service tools enable employees to manage their personal data, track performance, and access benefits, thereby reducing the administrative burden on HR staff and improving employee satisfaction.
- **AI and Machine Learning**: These technologies can assist in recruitment by screening resumes, predicting employee performance, and enhancing learning and development programs, thereby supporting both strategic planning and operational tasks.

By effectively leveraging technology, HR departments can increase operational efficiency, reduce errors, and support strategic initiatives, leading to an overall improvement in organizational performance.

EMERGING TRENDS IN HRM

1. Digital Transformation in HR

Digital Transformation in HR refers to the integration of digital technologies in HR practices to streamline processes, improve efficiency, and enhance decision-making. Key aspects include:

1. **HR Technology Integration**

HR departments are increasingly adopting HR management systems (HRMS), cloud-based platforms, and AI tools to manage administrative tasks, track employee performance, and streamline recruitment.

2. **Data-Driven HR Decisions**

HR professionals are utilizing big data and advanced analytics to make informed decisions about talent management, performance, and employee engagement. Data-driven insights help HR leaders optimize their strategies.

3. **Employee Self-Service Platforms**

Digital platforms allow employees to manage their personal data, request leaves, check benefits, and access training resources, reducing HR's administrative workload and enhancing employee autonomy.

4. **Virtual Onboarding**

With the digitalization of HR, remote onboarding has become more common. Organizations are utilizing video conferencing, digital documents, and virtual training programs to integrate new hires efficiently.

2. AI and Automation in HR

AI and Automation in HR refer to the use of artificial intelligence and automation technologies to enhance HR functions, reducing human intervention in routine tasks and improving accuracy and efficiency. Key examples include:

1. **AI for Recruitment**

AI-powered tools are now used to streamline recruitment processes by screening resumes, evaluating candidate fit, and even conducting initial interviews through chatbots, thus speeding up hiring and improving decision accuracy.

2. **Employee Engagement Analysis**

AI can analyze employee feedback through sentiment analysis, tracking employee engagement levels and helping HR teams identify issues before they become problems.

3. **Performance Management Automation**

AI-driven tools automate the process of tracking employee performance, providing real-time feedback, and generating performance reports, making it easier to manage and assess employee development.

4. **Chatbots for HR Queries**

AI-based chatbots help HR teams handle common employee inquiries related to benefits, company policies, payroll, and more, providing instant responses and freeing up HR staff for more complex tasks.

3. Remote Work and HRM

The rise of **remote work** has significantly impacted HRM, with HR teams having to adjust practices to accommodate a distributed workforce. Key impacts include:

1. **Remote Onboarding and Training**

HR departments are now responsible for creating digital onboarding processes, virtual training sessions, and establishing clear communication channels for remote employees to ensure they feel integrated and supported from day one.

2. **Performance Management for Remote Employees**

HR must adapt performance management strategies to suit remote workers. This includes setting clear expectations, utilizing productivity tools, and focusing on outcomes rather than monitoring physical presence.

3. **Work-Life Balance and Flexibility**

HR is increasingly focused on helping remote employees maintain a healthy work-life balance by promoting flexible work hours, offering wellness programs, and ensuring that employees are not overworked in a remote setting.

4. **Communication and Collaboration Tools**

HR is responsible for providing the right tools for remote work, such as video conferencing, project management software, and collaborative platforms that facilitate communication and teamwork in a virtual environment.

5. **Remote Employee Engagement**

Maintaining employee engagement in a remote setting has become a priority for HR. Virtual team-building activities, regular check-ins, and recognition programs help keep remote employees motivated and connected to the organization’s culture.

UNIT-IV

ETHICAL AND LEGAL ISSUES IN HRM

➢ ETHICAL DECISION MAKING IN HRM

Ethical decision-making in HRM involves making choices that align with moral principles, company values, and legal requirements. It requires HR professionals to consider the impact of their decisions on employees, the organization, and other stakeholders. Below are the key aspects involved in ethical decision-making within HRM:

1. Identifying Ethical Issues

The first step in ethical decision-making is identifying ethical issues that may arise in HR practices, such as recruitment, performance evaluations, promotions, and employee benefits. HR professionals need to assess situations from an ethical perspective and recognize potential dilemmas.

2. Gathering Relevant Information

HR professionals must gather all relevant information before making a decision. This includes considering company policies, laws, cultural norms, and the perspectives of all stakeholders involved. Thorough research ensures that decisions are well-informed and justifiable.

3. Considering Stakeholder Impact

Ethical decision-making requires evaluating how decisions will impact different stakeholders, including employees, management, customers, and the community. HR professionals must weigh the pros and cons of a decision from a broader perspective to ensure fairness and equity.

4. Applying Ethical Principles

HR professionals should apply established ethical principles, such as honesty, fairness, transparency, and respect for employee rights, when making decisions. These principles serve as a guide to making ethical choices that align with organizational values.

5. Ensuring Legal Compliance

Ethical decisions in HRM must also comply with relevant laws and regulations. HR professionals must stay informed about employment laws, labor rights, discrimination policies, and health and safety standards to ensure that decisions meet legal standards.

6. Making Transparent Decisions

HR professionals should communicate decisions transparently to employees, providing clear reasoning and explanations for the choices made. Transparency helps to build trust, reduce misunderstandings, and promote fairness in the organization.

7. Addressing Conflicts of Interest

HR professionals must avoid conflicts of interest when making decisions, such as promoting a family member or giving preferential treatment to certain employees. Ethical decision-making involves objectivity and impartiality to prevent bias from influencing the outcome.

8. Encouraging Accountability and Responsibility

HR professionals should hold themselves and others accountable for their decisions. This includes taking responsibility for the outcomes of decisions and being open to feedback from employees and stakeholders.

9. Continuous Evaluation and Improvement

Ethical decision-making is an ongoing process. HR professionals should regularly evaluate the outcomes of their decisions, reflect on their ethical implications, and adjust practices as needed to improve ethical standards in the organization.

10. Promoting Ethical Culture

HR plays a key role in promoting and maintaining an ethical culture within the organization. This includes providing ethics training, establishing clear codes of conduct, and creating a safe environment for employees to report unethical behavior without fear of retaliation.

Effective ethical decision-making in HRM helps create a positive workplace culture, improves employee satisfaction, and ensures the organization remains compliant with legal and moral standards.

CONTEMPORARY ISSUES IN HUMAN RESOURCE MANAGEMENT

1. Finding talents for the company:

Finding talented candidates is an all-time challenge for human resource management. Talent acquisition is one of the priorities of the human resource management department. So, it can be a challenge. To find a young competitive talented employee, the human resource professional must dig deep and look for experienced candidates. The employer has to set goals and find the appropriate candidate who suits the company culture and fills the skill gap.

To understand the significance of **executive search meaning in HR**, it is crucial to delve into its meaning and how it shapes the recruitment process for top-level positions.

2. Ensure diversity in the company:

Diverse and inclusive work culture is one of the emerging **trends in human resource management**. The advantage of having a diverse workforce is that it can build stronger teams, offer better ideas and increase productivity.

However, diversity remains problematic if there is no harmony in the organization. The human resource management department must ensure that the company has the rules and protocols to deal with complaints regarding diversity. They must understand diversity laws and focus on harmonizing the environment.

3. Employee retention:

With technological advancements, there is a constant need to upskill employees. Therefore, the human resource department must identify **future trends in management** and provide relevant skills to the employees. It can help to retain employees in the company.

4. Ensure the well-being of employees

Ensuring the workplace is safe is a challenging duty of human resource management. It is the moral responsibility of the human resource department to ensure the health and well-being of the people at work.

They can offer the employees more flexible hours, fewer workloads, and better management schedules. Streamline your recruitment process with **Interview Management Software**.

Conclusion

In the wake of the pandemic and since then, human resource management has evolved with new trends. They have transformed the traditional workforce with high-quality work experience for the employees. From hiring to administering work from home, there is an expansion in the field of human resources with the shifting trends. As a result, HR professionals work towards understanding the **trends in human resource management** and plan and make policies to avoid the challenges.

Real-world Examples of Strategic HRM

1. **Google's Talent Acquisition Strategy**

Google’s HR strategy focuses on attracting the best talent through innovative hiring practices. The company uses data analytics to identify candidates who fit well with its organizational culture and values. Google’s recruitment strategy is integrated into its long-term goals of innovation and creativity. By aligning HR practices with business objectives, Google has been able to maintain its competitive edge in the tech industry.

2. **Apple's Employee Engagement and Development**

Apple’s HR strategy is centered around employee engagement, skill development, and creating a culture of innovation. Apple invests heavily in training programs, leadership development, and offers extensive opportunities for career growth. The company also provides a work environment that encourages creativity and collaboration, aligning HR practices with its strategic goal of being a market leader in technology.

3. **Zappos' Organizational Culture and Customer Service**

Zappos has strategically aligned its HRM practices to foster a unique corporate culture focused on customer service. The company’s hiring process is centered around cultural fit rather than just technical skills. Zappos also invests in employee development and well-being, ensuring that its workforce is highly motivated to provide exceptional customer service. This HR strategy contributes directly to the company's strategic goals of customer satisfaction and brand loyalty.

4. **Southwest Airlines' Employee-Centric Culture**

Southwest Airlines has long been recognized for its strategic HR practices that prioritize employee satisfaction. The airline focuses on creating a positive work environment where employees are treated with respect and given the autonomy to make decisions. HR practices at Southwest are aligned with the company's strategy of delivering outstanding customer service and maintaining a low-cost, efficient operation.

5. **Toyota's HRM and Lean Manufacturing**

Toyota's HR strategy is closely linked to its commitment to lean manufacturing. Toyota focuses on training employees in continuous improvement practices, empowering them to contribute to process improvements. The company also places a strong emphasis on long-term employee development, fostering a culture of innovation and teamwork, which aligns with Toyota's overall strategy of operational excellence and quality manufacturing.

6. **Amazon's Use of HR Technology and Performance Management**

Amazon strategically uses HR technology and data analytics to optimize performance management. The company leverages employee data to monitor performance, predict trends, and design personalized development plans. Amazon's HR strategy is closely integrated with its business goals of operational efficiency, scalability, and customer satisfaction. The company has also implemented programs like leadership development to ensure it has a pipeline of future leaders aligned with its growth strategy.

1. GOOGLE

HRM Practices:

- **Talent Acquisition**: Google places a strong emphasis on hiring the best talent using a data-driven approach. The company utilizes algorithms and data analytics to assess the cultural fit and potential for innovation in candidates.
- **Employee Engagement**: Google is known for creating an engaging workplace where employees feel valued. It offers perks such as on-site healthcare, meals, and flexible work arrangements.
- **Training and Development**: Google emphasizes continuous learning and development through programs like "Career Development at Google," which allows employees to learn new skills and grow within the company.
- **Performance Management**: Google's performance management system is focused on frequent feedback, with annual performance reviews. Managers set ambitious goals and engage in ongoing discussions about growth.

Analysis: Google’s HRM practices are heavily aligned with its focus on innovation and creativity. The company invests in attracting, developing, and retaining top talent while fostering a work culture that encourages employee autonomy and idea-sharing.

2. AMAZON

HRM Practices:

- **Talent Acquisition**: Amazon uses data-driven recruitment processes, with emphasis on hiring individuals who are capable of thriving in a fast-paced and demanding work environment. The company uses psychometric testing and performance data in the hiring process.
- **Employee Engagement**: Amazon focuses on a performance-oriented culture, where employees are expected to meet high standards. This is sometimes controversial, as employees are subject to intense scrutiny and high expectations.
- **Training and Development**: Amazon has a comprehensive training program for employees at all levels, including leadership programs and technical skills development. They also offer upskilling opportunities through the "Amazon Upskilling" initiative.

- **Performance Management**: The company follows a rigorous performance management system, using metrics and productivity data to assess employee performance. There is a strong focus on achieving goals and rewarding high performers.

Analysis: Amazon's HRM practices are aligned with its business strategy of operational efficiency, scalability, and customer-centricity. While the company fosters a high-performance culture, it also faces criticism regarding employee well-being and work-life balance.

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SMBME2405 MARKETING MANAGEMENT

CREDIT HOURS ALLOTED:15 HRS

OBJECTIVE:

- To provide a comprehensive understanding of the fundamental concepts of marketing management.
- To develop skills in analyzing consumer behavior and market trends.
- To enable students to formulate and implement effective marketing strategies.
- To understand the role of digital marketing in contemporary business.
- To explore ethical and legal considerations in marketing practices.

- To apply marketing theories and concepts to real-world business scenarios through case studies and practical applications.

S.NO.	CONTENT	CREDIT HRS
	UNIT-I	
1	**Understanding Marketing and Consumers**	**1**
1.1	Introduction to Marketing Management. Definition, Importance, Scope, Basic Marketing Concepts	
1.2	Marketing Mix, Marketing vs Selling, Customer Value, techniques and relevance	
2	**Marketing Environment and Competition**	**1**
2.1	Analyzing Marketing Environment-Micro, Macro, Impact of environment on marketing.	
3	**Consumer Behaviour**	**2**
3.1	Consumer buying process, Factors Influencing Consumer Buying Behavior	
	UNIT-II	
4	**Market Segmentation,Targeting, Positioning (STP)**	**2**
4.1	Bases for Segmenting Consumer and Business Markets	
4.2	Target Market Selection, Positioning Strategies, Competitive Advantage	
5	**Product and Brand Management**	**2**
5.1	Product Life Cycle	
5.2	New Product Development	
5.3	Branding Strategies	
5.4	Packaging and Labeling	
6	**Pricing Strategies**	**2**
6.1	Factors Influencing Pricing Decisions	
6.2	Pricing Methods and Approaches	

6.3	Pricing Strategies for New Product, Competitive Pricing	
	UNIT-III	
7	**Integrated Marketing Communication (IMC):**	**1**
7.1	Definition and Importance of IMC	
7.2	Role of IMC in Marketing	
7.3	Benefits and Challenges of IMC	
8	**Introduction to Digital Marketing:**	**1**
8.1	Social Media Marketing,	
8.2	Search Engine Optimization (SEO) ,	
8.3	Content Marketing Email Marketing	
	UNIT-IV	
9	**Emerging Trends and Ethical Issues in Marketing**	**2**
9.1	Green Marketing	
9.2	Sustainable Marketing	
9.3	Experiential Marketing	
9.4	Customer Relationship Management (CRM)	
9.5	Legal Aspects of Marketing, Social Responsibility in Marketing	
9.6	Ethical Decision Making in Marketing	
10	**Case Studies and Real-World Applications**	**1**
10.1	Analysis of Successful Marketing Campaigns	
10.2	Case Studies on Marketing Failures	
10.3	Application of Marketing Theories in Real-World Scenarios	

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MARKETING MANAGEMENT

UNDERSTANDING MARKETING AND CONSUMER

➢ MARKETING

Marketing refers to activities undertaken by a company to promote the buying or selling of a product or service. Marketing includes advertising, selling, and delivering products to consumers or other businesses. It involves understanding customer needs, creating value, and building strong relationships with them.

Philip Kotler, often referred to as the "father of modern marketing," defines marketing as:

"Marketing is the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures, and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services."

EXAMPLE:

Imagine a company that makes eco-friendly water bottles. To market these bottles, the company might:

1. **Identify the Target Audience:** Eco-conscious consumers.

2. **Create a Marketing Campaign:** Highlight the environmental benefits of using their bottles compared to single-use plastic ones.
3. **Use Social Media and Ads:** Share engaging content and run ads on platforms like Instagram and Facebook.
4. **Offer Discounts:** Provide a limited-time discount to attract new customers.
5. **Collect Feedback:** Gather customer reviews and use them to improve the product and marketing strategy.

This entire process, from understanding the customer to delivering the product, is part of marketing.

➢ SELLING

This Concept proposes that customers, be individual or organizations will not buy enough of the organization's products unless they are persuaded to do so through selling effort. So organizations should undertake selling and promotion of their products for marketing success. The consumers typically are inert and they need to be goaded for buying by converting their inert need in to a buying motive through persuasion and selling action

➢ DISTINCTION BETWEEN SELLING AND MARKETING

S.NO	SELLING	MARKETING

1	Emphasis is on the **product.**	Emphasis is on the **customer wants**
2	Company first makes the product and then figures out how to sell it.	Company first determines customer wants and then figures out to make it
3.	Management is sales volume oriented	Management is **profit oriented**
4	Profit through Sales Volume	Profits through **Customer Satisfaction**
5	Planning is short-run-oriented, regarding today products and markets	Planning is long-run oriented regarding new products, tomorrow's market and future growth
6	Let the buyer be aware	Let the seller be aware
7	Product first then customer	Customer first then the product

➢ MARKETING CONCEPTS

1. Production Concept

The idea of production concept – "Consumers will favor products that are available and highly affordable". This concept is one of the **oldest Marketing management orientations** that guide sellers. **Management focuses on improving production** and distribution efficiency. Although; in some situations; the production concept is still a useful philosophy

2. Product Concept

The product concept holds that the consumers will favor products that **offer the most in quality**, performance and **innovative features.**

Here; under this concept, Marketing strategies are focused on making continuous **product improvements**. Product quality and improvement are important parts of marketing strategies, sometimes the only part.

For example;

Suppose a company makes the best quality Floppy disk. But a customer does really need a floppy disk?

She or he needs something that can be used to store the data. It can be achieved by a USB Flash drive, SD memory cards, portable hard disks, and etc.

So that company should not look to make the best floppy disk. They should focus to meet the customer's data storage needs.

3. Selling Concept

The aim is to sell what the company makes rather than making what the market wants. Such aggressive selling program carries very high risks.

In selling concept the marketer assumes that customers will be coaxed into buying the product will like it, if they don't like it, they will possibly forget their disappointment and buy it again later. This is usually very poor and costly assumption.

4. Marketing Concept

The marketing concept holds- "**achieving organizational goals depends on knowing the needs and wants** of target markets and delivering the desired **satisfactions** better than competitors do". Under the marketing concept, customer focus and value are the routes to achieve sales and profits.

5. Societal marketing

Societal marketing concept holds that a company should make good marketing decisions by considering consumer's wants, the company's requirements, and society's long-term interests.

- **<u>MARKETING MANAGEMENT</u>**

Marketing management is the marketing concept in action. It includes all activities which are necessary to determine and satisfy the needs of consumers. To be very simple, marketing management sets marketing objectives, develops marketing plans, organizes marketing functions, puts marketing plans and strategies in action and monitors the marketing programmes in the final analysis. Effective marketing management requires the ability and skill of the highest order.

- **<u>DEFINITION:</u>**

According to Philip Kotler, *"Marketing management is the analysis, planning, implementation and control of programmes designed to bring about desired exchanges with target markets for the purpose of achieving organizational objectives. It relies heavily on designing the organizations offering in terms of the target markets needs and desires and using effective pricing, communication, and distribution to inform, motivate and service the market."*

➢ OBJECTIVES OF MARKETING MANAGEMENT:

- **Creation of Demand:** The marketing management's first objective is to create demand through various means. A conscious attempt is made to find out the preferences and tastes of the consumers. Goods and services are produced to satisfy the needs of the customers. Demand is also created by informing the customers about the utility of various goods and services.
- **Customer Satisfaction:** The marketing manager must study the demands of customers before offering them any goods or services. Selling the goods or services is not that important as the satisfaction of the customers' needs. Modern marketing is customer- oriented. It begins and ends with the customer.

- **Market Share:** Every business aims at increasing its market share, i.e., the ratio of its sales to the total sales in the economy. For instance, both Pepsi and Coke compete with each other to increase their market share. For this, they have adopted innovative advertising, innovative packaging, sales promotion activities, etc.
- **Generation of Profits:** The marketing department is the only department which generates revenue for the business. Sufficient profits must be earned as a result of the sale of want-satisfying products. If the firm is not earning profits, it will not be able to survive in the market. Moreover, profits are also needed for the growth and diversification of the firm.
- **Creation of Goodwill and Public Image:** To build up the public image of a firm over a period is another objective of marketing. The marketing department provides quality products to customers at reasonable prices and thus creates its impact on the customers
- **Creating Customers:** A business firm is established to sell a product or service to customers. Therefore, the customer is the foundation of a business. It is the customer who provides revenue to business and determines what an enterprise will sell. Creating customers means exploring and

identifying the needs and requirements of customers. If a firm is to go and stay in business, it must create new customers. It should analyze and understand their wants.

- **Satisfying Customers Needs:** Creating customer is not enough. Business should develop and distribute products and services which meet the requirements of customers to their satisfaction. If customers are not satisfied, the business will not be able to generate revenues to meet its costs and to earn a reasonable return on its capital. Satisfying customers does not simply mean matching products with customers' needs. It also requires the regular supply of goods and services of reasonable quality at fair prices.

➢ IMPORTANCE OF MARKETING MANAGEMENT

1. Analysing Market Opportunities:

Marketing management collects and analyses information related to consumer's needs, wants and demands, competitor's marketing strategies, changing market trends and preferences. This helps to identify market opportunities.

2. Determination of Target Market:

Marketing management helps to identify the target market that the organization wishes to offer its product.

3. Planning and Decision Making:

Marketing management helps to prepare future course of action. Planning relates to product introduction, diversification. Decision making regarding pricing, selection of promotional mix, selection of distribution channel is taken by the marketing management.

4. Creation of Customer:

Consumers determine the future of the market .Therefore providing the best product to the consumer according to their preference is the important task of marketing. Marketing management helps in creation of new customers and retention of current customers.

5. Helps in Increasing Profit:

Marketing caters to the varied and unlimited needs of consumers. Marketing management helps to increase profit and sales volume. This is achieved by expansion of market and increasing customers.

6. Improvement in Quality of Life:

Marketing management aims at providing innovative product and services to the customers. Marketers continuously strive to incorporate new technology and mechanism in their product to provide more satisfaction to customers than before. This improves quality of life and makes life of consumers easier than before.

7. Employment Opportunities:

Marketing process is a combination of different activities like research work to assess the marketing environment, product planning and development, promotion, distribution of product to customers and after sales service. Marketing process requires researcher, production engineer, different distribution intermediaries, sales personnel also creates employment opportunities in advertisement section. Thus marketing management opened up different employment avenues thus creating employment opportunities.

- **SCOPE OF MARKETING MANAGEMENT**

Marketing management, like all other areas of management comprises of the function of planning, organizing, directing coordinating and controlling.

1. Marketing research:

Marketing research involves identification of needs, wants taste and preferences of the targeted customer. Marketing management conducts a continuous analysis of consumer's behavior towards firm's marketing mix strategies, business environment; competitor's marketing strategies in order to plan effectively the marketing activities of future.

2. Determination of Objectives:

Marketing management performs the task of setting marketing objectives. The marketing objectives are set in accordance with the overall organizational objectives of profit maximization. Marketing objectives relates to attracting new customers, retention of current customer, expansion of customer base, introduction of new product, improvement of old product and so on. Marketing management aims at maximizing the customer's value by providing high satisfaction to the customers.

3. Planning Marketing Activities:

Planning involves determining the future course of action. Planning helps in accomplishment of objectives in a systematic manner. Planning of marketing activities relates to determining product line strategies, planning for product diversification, advertisement and promotional activities, planning related to selling and distribution process.

Planning may be conducted on short term, medium term and long term basis depending upon the requirements. Plans should be flexible so as to adjust with the changing business environment.

4. Product Planning and Development:

Product is the basic element of marketing. Products are goods or services that are offered to the customer for satisfying their needs and wants. Products are customer oriented and offered to the customer's as per their requirement and preferences. Product planning involves new product development, product innovation, product diversification plan.

5. Pricing of Product:

Pricing is a complex function of marketing management. In most of the cases prices form the decision making criterion for purchase decision. Pricing decisions are based on cost of the manufacturing and distribution of product, competitor's pricing strategies, customer's willingness to pay for the product, customer's perception about the product.

6. Promotion:

Promotion and advertisement are essential in order to maximize sales. Promotion and advertisement is essential to provide information to the customers about the product, to attract new customers, to provide reminder to customers about the product and to continue purchase, to provide information about product improvement or introduction of new brand. Marketing management develops new techniques and tools for promotion of their product.

7. Distribution:

Distribution process facilitates easy availability of goods and services to the customers at right time and at right and convenient location. Selection of distribution channel depends upon the nature of the product, price of the product, availability of intermediaries for distribution and cost involved in the distribution process.

8. Evaluation and Controlling of Marketing Activities:

Marketing management performs the task of evaluation and controlling of the marketing activities. Evaluation enables identification of effectiveness of marketing plans and actions.

➢ MARKETING MIX

It refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market. The 4Ps make up a typical marketing mix - Price, Product, Promotion and Place. However, nowadays, the marketing mix increasingly includes several other Ps like Packaging, Positioning, People and even Politics as vital mix elements.The marketing mix is predominately associated with th**e 4P's of marketing, the 7P's of service marketing, and the 4 Cs theories** developed in the 1990s.

1. Marketing Mix – Product:

A product is an item that is built or produced to satisfy the needs of a certain group of people. The product can be intangible or tangible as it can be in the form of services or goods. You must ensure to have the right type of product that is in demand for your market. So during the product development phase, the marketer must do an extensive research on the life cycle of the product that they are creating.

2 Marketing Mix – Price:

The price of the product is basically the amount that a customer pays for to enjoy it. Price is a very important component of the **marketing mix definition**.It is also a very important component of a marketing plan as it determines your firm's profit and survival. Adjusting the price of the product has a big impact on the entire marketing strategy as well as greatly affecting the sales and demand of the product.

<u>3 Marketing Mix – Place:</u>

Placement or distribution is a very important part of the product mix definition. You have to position and distribute the product in a place that is accessible to potential buyers.

<u>4 Marketing Mix – Promotion</u>

Promotion is a very important component of marketing as it can boost brand recognition and sales. Promotion is comprised of various elements like:

- Sales Organization
- Public Relations
- Advertising
- Sales Promotion

<u>5 Marketing Mix – People</u>

The company's employees are important in marketing because they are the ones who deliver the service. It is important to hire and train the right people to deliver superior service to the clients, whether they run a support desk, customer service, copywriters, programmers…etc.

When a business finds people who genuinely believe in the products or services that the particular business creates, it's is highly likely that the employees will perform the best they can.

6 Marketing Mix – Process

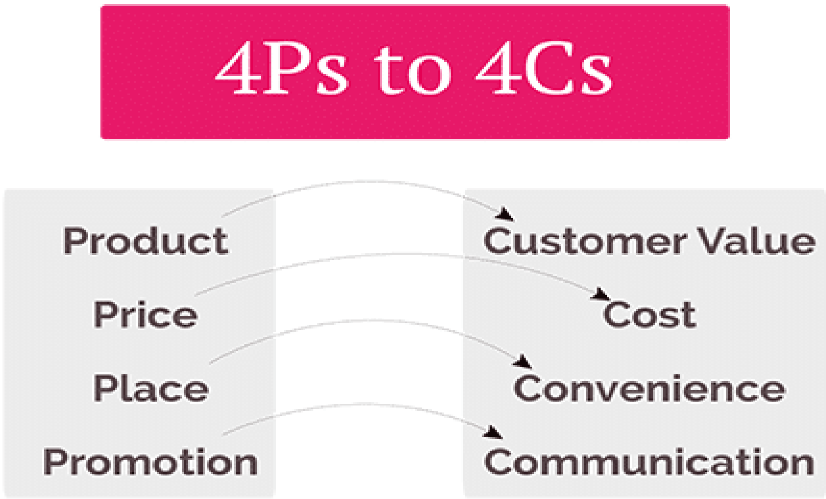
The systems and processes of the organization affect the execution of the service. So, you have to make sure that you have a well-tailored process in place to minimize costs.

7 Marketing Mix – Physical Evidence

In the service industries, there should be physical evidence that the service was delivered. Additionally, physical evidence pertains also to how a business and it's products are perceived in the marketplace.

It is the physical evidence of a business' presence and establishment. A concept of this is branding. For example, when you think of "fast food", you think of McDonalds.

- MARKETING MIX 4C'S



The 4Cs marketing model was developed by Robert F. Lauterborn in 1990. It is a modification of the 4Ps model. It is not a basic part of the **marketing mix definition**, but rather an extension. Here are the components of this marketing model:

1. Cost

According to Lauterborn, price is not the only cost incurred when purchasing a product. Cost of conscience or opportunity cost is also part of the cost of product ownership.

2. Consumer Wants and Needs

A company should only sell a product that addresses consumer demand. So, marketers and business researchers should carefully study the consumer wants and needs.

3. Communication

According to Lauterborn, "promotion" is manipulative while communication is "cooperative". Marketers should aim to create an open dialogue with potential clients based on their needs and wants.

4. Convenience

The product should be readily available to the consumers. Marketers should strategically place the products in several visible distribution points.

Whether you are using the 4Ps, the 7Ps, or the 4Cs, your marketing mix plan plays a vital role. It is important to devise a plan that balances profit, client satisfaction, brand recognition, and product availability. It is also extremely important to consider the overall "how" aspect that will ultimately determine your success or failure.

- ***CUSTOMER VALUE***

It is the perception of what a product or service is worth to a Customer versus the possible alternatives. Worth means whether the Customer feels s/he or he got benefits and services over what s/he paid.

Customer value is the satisfaction the customer experiences (or expects to experience) by taking a given action relative to the cost of that action.

- **EXAMPLES ON HOW TO CREATE CUSTOMER VALUE:**

1. Giving a price that makes the Customer believe he is getting more than he pays for the benefits he gets versus competitive offers

2. Reducing the price, or keeping the same price and giving something extra over competition (this could be service, better attention, an add on to the product)

3. Making it convenient for the Customer to buy, and how he wants to buy and pay.

4. For B2B getting a proper price justification, not just a price.

5. Making the Customer feel valued. **For example**:

- Smiling at and being attentive to a Customer creates value for him. Ignoring him/her destroys value for the Customer
- Making it easy for the Customer to contact the company, and an assurance that an answer will be given when and how promised (how many times do you have to wait to talk to someone and how often does s/he promises to call back and how often do you get a call)
- Not making you repeat questions or answers, and keep relating the problem
- Receiving a call from a service person confirming his/her visit (the Customer is not kept wondering whether the service visit will take place)

➢ IMPORTANT PRINCIPLES THAT NEED TO BE KEPT IN MIND IN CUSTOMER VALUE CREATION

1. Know the Value Driving Factor for Customers

Knowing about **what the customers want and working on the same may help you** attract more customers. This can be done via surveys, polls etc. It is important as you will be providing the customers exactly what they want.

2. Customer Value Creation is Applicable in all Fields

Customer value creation is applicable in all the fields like business, service, education, education etc. So, one should always focus on customer value creation as much as possible.

3. Identification and Segmentation of the Customers

Identification of the customers as per various demographic and geographical aspects is very important to clearly understand what a customer will benefit from your product or service.

4. Know the Value Proposition

Understanding the need of customers and what you brand is offering to them is very important. A customer's benefit is calculated excluding the purchasing cost.

Calculating this for your brand will help you develop something which is good for them. This in turn will create good customer value for the company.

5. Make the Right Decision

Customer value directly affects the reputation and profit of every company. So, planning and implementing the right strategy for achieving the same is very important.

The team should be clear in mind what they are going to focus in order to get connected with more and more customers and to get the best feedback from them.

6. Investment on the Most Valuable Customers

Allocating some part of the profit to be invested on the valuable is a good way of creating customer value. This makes them happy and helps to retain them as well. Investing in this sector may help you attract more customers for a long term.

7. The best way for customer value creation is **the values you hold within your organization**. The values like integrity, honesty, loyalty etc.

if followed within the customers are definitely reflected during the dealings with customers as well. These are best things to create a good customer value.

- **MARKETING ENVIRONMENT**

Marketing Environment is the combination of external and internal factors and forces which affect the company's ability to establish a relationship and serve its customers.

The marketing environment of a business consists of an internal and an external environment. The internal environment is company-specific and includes owners, workers, machines, materials etc. The external environment is further divided into two components: micro & macro. The micro or the task environment is also specific to the business but external. It consists of factors engaged in producing, distributing, and promoting the offering. The macro or the broad environment includes larger societal forces which affect society as a whole. The broad environment is made up of six components: demographic, economic, physical, technological, political-legal, and social-cultural environment.

- **ANALYIZING THE MARKETING ENVIRONMENT OR FACTORS AFFECTING MARKETING ENVIRONMENT**

The marketing environment is made up of the internal and external environment of the business. While the internal environment can be controlled, the business has very less or no control over the external environment.

1. Internal Environment

The internal environment of the business includes all the forces and factors inside the organization which affect its marketing operations. These components can be grouped under the Five Ms of the business, which are:

- Men
- Money
- Machinery

- Materials
- Markets

The internal environment is under the control of the marketer and can be changed with the changing external environment. Nevertheless, the internal marketing environment is as important for the business as the external marketing environment. This environment includes the sales department, marketing department, the manufacturing unit, the human resource department, etc.

2. External Environment

The external environment constitutes factors and forces which are external to the business and on which the marketer has little or no control. The external environment is of two types:

a) Micro Environment

The micro-component of the external environment is also known as the task environment. It comprises of external forces and factors that are directly related to the business. These include suppliers, market intermediaries, customers, partners, competitors and the public

- **Suppliers** include all the parties which provide resources needed by the organization.
- **Market intermediaries** include parties involved in distributing the product or service of the organization.
- **Partners** are all the separate entities like advertising agencies, market research organisations, banking and insurance companies, transportation companies, brokers, etc. which conduct business with the organization.
- **Customers** comprise of the target group of the organization.
- **Competitors** are the players in the same market who targets similar customers as that of the organization.
- **Public** is made up of any other group that has an actual or potential interest or affects the company's ability to serve its customers.

b**) Macro Environment**

The macro component of the marketing environment is also known as the broad environment. It constitutes the external factors and forces which affect the industry as a whole but don't have a direct effect on the business. The macro-environment can be divided into 6 parts.

i) Demographic Environment

The demographic environment is made up of the people who constitute the market. It is characterized as the factual investigation and segregation of the population according to their size, density, location, age, gender, race, and occupation.

ii) Economic Environment

The economic environment constitutes factors which influence customers' purchasing power and spending patterns. These factors include the GDP, GNP, interest rates, inflation, income distribution, government funding and subsidies, and other major economic variables.

iii) Physical Environment

The physical environment includes the natural environment in which the business operates. This includes the climatic conditions, environmental change, accessibility to water and raw materials, natural disasters, pollution etc.

iv) Technological Environment

The technological environment constitutes innovation, research and development in technology, technological alternatives, innovation inducements also technological barriers to smooth operation. Technology is one of the biggest sources of threats and opportunities for the organization and it is very dynamic

v) Political-Legal Environment

The political & Legal environment includes laws and government's policies prevailing in the country. It also includes other pressure groups and agencies which influence or limit the working of the industry and/or the business in the society.

vi) Social-Cultural Environment

The social-cultural aspect of the macro-environment is made up of the lifestyle, values, culture, prejudice and beliefs of the people. This differs in different regions.

➢ IMPORTANCE OF MARKETING ENVIRONMENT

Every business, no matter how big or small, operates within the marketing environment. Its present and future existence, profits, image, and positioning depend on its internal and external environment. The business environment is one of the most dynamic aspects of the business. In order to operate and stay in the market for long, one has to understand and analyze the marketing environment and its components properly.

1. Essential for planning

An understanding of the external and internal environment is essential for planning for the future. A marketer needs to be fully aware of the current scenario, dynamism, and future predictions of the marketing environment if he wants his plans to succeed.

2. Understanding Customers

Thorough knowledge of the marketing environment helps marketers acknowledge and predict what the customer actually wants. In-depth analysis of the marketing environment reduces (and even removes) the noise between the marketer and customers and helps the marketer to understand consumer behaviour better.

3. Tapping Trends

Breaking into new markets and capitalizing on new trends requires a lot of insight about the marketing environment. The marketer needs to research about every aspect of the environment to create a foolproof plan.

4. Threats and Opportunities

Sound knowledge of the market environment often gives a first-mover advantage to the marketer as he makes sure that his business is safe from future threats and taps the future opportunities.

5. Understanding the Competitors

Every niche has different players fighting for the same spot. A better understanding of the marketing environment allows the marketer to understand more about the competitions and about what advantages do the competitors have over his business and vice versa.

CONSUMER BEHAVIOUR

➢ WHO IS A CONSUMER

Consumer is the person who consumes or uses the goods or the services. The customer can be the consumer as well, however not in all cases. Nonetheless, it is the consumer who will know the genuine quality and the nature of the product or the service since it is the consumer who consumes it.

➢ WHO IS A CUSTOMER

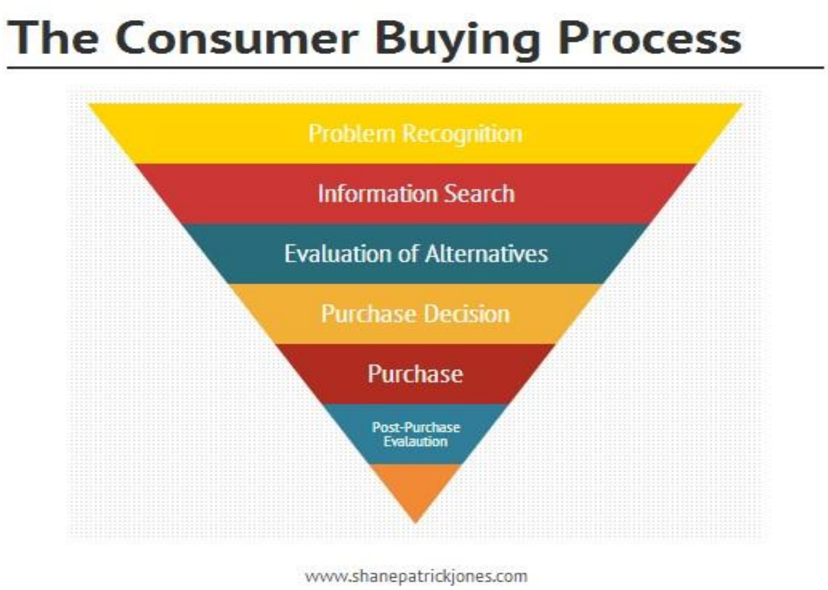
Customer is the person who pays the price and purchases the goods or services of a certain producer or a business. Therefore, the customer is not essentially the consumer as well. The customer may pay the price and buy the products and give them to a different person who then becomes the consumer of them.

➢ CONSUMER BEHAVIOUR:

Consumer behavior is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions.

Marketers expect that by understanding what causes the consumers to buy particular goods and services, they will be able to determine—which products are needed in the marketplace, which are obsolete, and how best to present the goods to the consumers.

- **<u>CONSUMER BUYING PROCESS:</u>**



1. Problem Recognition

Before a purchase can ever take place, the customer must have a reason to believe that what they want, where they want to be or how they perceive themselves or a situation is different from where they actually are. The desire is different from the reality – this presents a problem for the customer.

2. Information Search

Once a problem is recognized, the customer search process begins. They know there is an issue and they're looking for a solution. **EXAMPLE:** If it's a new makeup foundation, they look for foundation; if it's a new refrigerator with all the newest technology thrown in, they start looking at refrigerators.

3. Evaluation of Alternatives

Just because you stand out among the competition doesn't mean a customer will absolutely purchase your product or service. In fact, now more than ever, customers want to be sure they've done thorough research prior to making a purchase. Because of this, even though they may be sure of what they want, they'll still want to compare other options to ensure their decision is the right one.

4. Purchase Decision

Somewhat surprisingly, the purchase decision falls near the middle of the six stages of the consumer buying process. At this point, the customer has explored multiple options, they understand pricing and payment options and they are deciding whether to move forward with the purchase or not.

5. Purchase

A need has been created, research has been completed and the customer has decided to make a purchase. All the stages that lead to a conversion have been finished. However, this doesn't mean it's a sure thing. A consumer could still be lost. Marketing is just as important during this stage as during the previous.

➢ **FACTORS AFFECTING CONSUMER BUYING BEHAVIOUR**

(A) Cultural Factors:

Cultural factors have the broadest and deepest impact on consumer behavior. Culture is a powerful and dominant determinant of personal needs and wants. Culture can be broadly defined as: The way of living, way of doing, and way of worshiping. Culture determines the total patter of life. Culture has a tremendous effect on needs and preference. People react according to the culture to which they belong.

(B) Social Factors:

Here, we examine the effect of social factors on consumer needs and preferences (behaviour). Social factors affect consumer behaviour. Consumer response to product, brand, and company is notably influenced by a number of social factors – family, reference groups, and roles and statuses. Marketer needs to analyze these social factors of his target market to cater its needs effectively.

1. Family:

Family is one of the most powerful social factors affecting consumer behaviour. This is more significant where there is joint family system, in which children use to live with family for longer time. Values, traditions, and preferences are transmitted from parents to children inherently.

Family members constitute the most influential primary reference group. From family, its member acquires an orientation toward religion, politics, ambition, self-worth, love, respect, and so on. Need, preference, buying habits, consumption rate, and many other aspects determined by family affect one's behaviour.

In every family, elders, husband-wife, other members, and children have varying degree of influence on purchase decision, which is the matter of interest for the marker to appeal them. Some products are children dominant; some products are husband dominant; some products are wife dominant; while some products are equal dominant.

2. Reference Groups:

Philip Kotler states: "A person's reference group consists of all the groups that have a direct (face-to-face) or indirect influence on the person's attitudes or behaviour." Groups having a direct influence on the person are called membership groups.

3. Roles and Statuses:

A person plays various roles in many groups throughout his life. He has to play different roles in family, club, office, or social organisation. A role consists of the activities that a person is expected to perform. For example, a person is father for his children, husband for his wife, son for his parents, friend for his friends, boss for his department, and a member of social organisation.

Each role carries status. For example, sales manager has more status than sales officer. People choose those products that communicate or represent their roles and statuses in society. Therefore, marketer must be aware of the status symbol potential of products and brands. The marketer should also try to associate products and brands with specific roles and status.

4. Social Customs and Traditions:

Social customs, beliefs or traditions can be associated with religion, caste, or economic aspects. Such customs determine needs and preference of products in different occasions and, hence, affect consumer behaviour.

5. Income Level:

Income affects needs and wants of consumers. Preference of the rich consumers and the poor consumers differ notably. In case of quality, brand image, novelty, and costs, there is wide difference between the rich and the poor buyers. Marketer must be aware of expectations of different income groups of his target market.

(C) Personal Factors:

Along with cultural and social factors, personal factors also affect one's buying decision. Personal factors are related to the buyer himself. These factors mainly include age and stage in life cycle, occupation, economic circumstances, life style, personality, and self-concept. Let us briefly examine the effect of personal factors on consumer behaviour.

i**. Age and Stage in Life Cycle:**

A man passes through various stages of his life cycle, such as infant, child, teenager, young, adult, and old. Need and preference vary as one passes through different stages of life cycle. For example, child and adult differ to a great extent in terms of needs and preference. Marketer may concentrate on one or more stages of his target consumers' life cycle. Use of different product depends on age and stage of buyers' life cycle.

ii. Occupation:

Buying and using pattern of consumer, to a large extent, is affected by a person's occupation. For example, industrialist, teacher, artist, scientist, manager, doctor, supervisor, worker, trader, etc., differ significantly in term of need, preference, and overall buying pattern. Company can specialize its products according to needs and wants of special professional groups.

iii. Economic Circumstances:

Product preference, frequency of buying, quality, and quantity are largely affected by consumers' economic circumstances. Economic circumstances consist of spendable income, income stability, level of savings, assets, debts, borrowing power, and attitudes toward saving versus spending. People buy products keeping in mind these economic circumstances.

iv. Life Style:

People with the same culture, social class, and occupation may differ in term of their life style. Knowledge of life style of the target market is essential for marketer to design more relevant marketing programme. Kotler defines: "Life style is the person's pattern of living in the world as expressed in the person's activities, interest, and opinions."

v. Personality:

Personality is a distinguished set of physical and psychotically characteristics that lead to relatively consistent and enduring response to one's environment. Personality characteristics, such as individualism, difference, self-confidence, courage, firmness, sociability, mental balance, patience, etc., have a strong influence on needs and preferences. Every person buys that product which suits his personality. In case of clothing, automobiles, shoes, perfumes, etc., products are influenced by users' personality characteristics.

vi. Self-concept:

It is also referred as self-image. It is what person believes of him. There can be actual self-concept, how he views himself; ideal self-concept, how he would like to view himself; and others-self-concept, how he thinks other see him. Person purchases such product that matches with his/her self-image. Marker must identify self-concept of his target buyers and must try to match the products with them.

vii. Gender:

Gender or sex affects buying behaviour. Some products are male-dominated while some are female-dominated. Male customers react to those products which are closely suit their needs and styles. Cosmetics products are more closely related to female customers than male. Marketer must be aware of gender-effect on buying behaviour of the market.

viii. Education:

Education makes the difference. Highly educated, moderately educated, less educated, and illiterates differ considerably in terms of their needs and preferences. In the same way, stage of education (like primary, secondary, college, etc.) affects buyers' behaviour.

Education factor seems more relevant to academic institutes, book publishers, magazines, and newspapers. Education affects one's mindset. Buyers' colour choice, quality-orientation, services, and other aspects have more or less educational significance.

(D) Psychological Factors:

Buying behaviour is influenced by several psychological factors. The dominants among them include motivation, perception, learning, and beliefs and attitudes. It is difficult to measure the impact of psychological factors as they are internal, but are much powerful to control persons' buying choice. Manager must try to understand probable role the factors play in making buying decisions.

i. Motivation:

It has a significant impact on consumer behaviour. Motivation is closely related to human needs. One has many needs at a given time. Some needs are biogenic or physiological in nature arising from physiological states of tension, such as hunger, thirst, or discomfort.

Other needs are psychogenic or psychological in nature arising from psychological state of tension, such as recognition, esteem, or belonging. Motivation comes from motive; motive is expression of needs; or intensified need become a motive. Thus, a motive is the need that is sufficiently pressing to drive the person to act. Satisfying the need reduces the felt tension.

ii. Perception:

Person's motivation to act depends on his perception of situation. It is one of the strongest factors affecting behaviour. The stimuli – product, advertising appeal, incentives, or anything – are perceived differently by different people due to difference in perception. Marketer should know how people perceive marketing offers.

iii. Learning:

Most human behaviour is learned. Learning is basically concerned with experience of an individual. Learning can be defined as: Relatively permanent changes arising from experience. If an individual has satisfactory experience of buying and using the products, he is more likely to talk favourably or repeat the same.

iv. Beliefs:

People hold beliefs about company, company's goods or services, and they act accordingly. Beliefs of the buyers affect product and brand image. We can define the term as: Belief is a descriptive thought that a person holds about something. Beliefs may be based on knowledge, opinion, or faith.

v. Attitudes:

An attitude is a person's enduring favourable or unfavorable evaluations, emotional feelings, and action tendencies toward some object or idea. These emotional feelings are usually evaluative in nature. People hold attitudes toward almost everything, such as religion, politics, clothes, music, food, product, company, and so on.

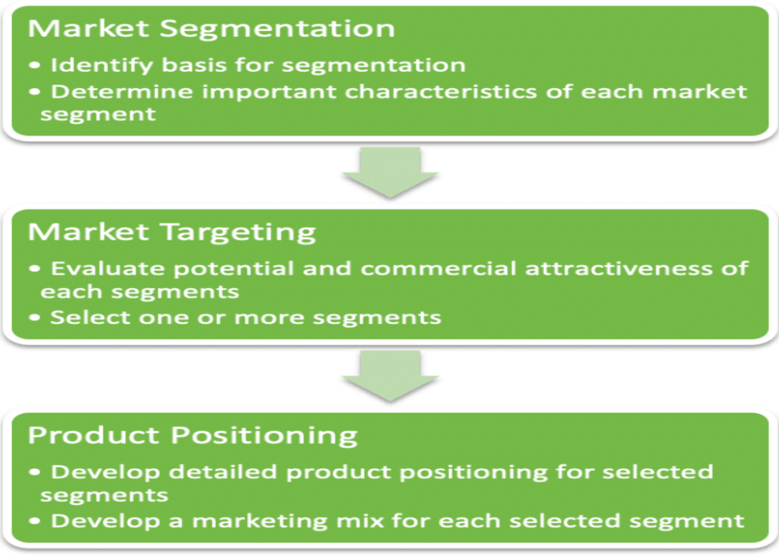
UNIT-II

MARKET SEGMENTATION, TARGETING, POSITIONING (STP)

STP is one of the most important concepts of marketing which helps in developing a suitable marketing mix. STP is necessary to understand the behavior of customers and choose the right target market for products. It tells the business about the target market so that they can focus on the right audience and not waste time on other segments.

STP marketing example:

Financial Services: A bank (S) segments (STP) by demographics and behavior, targeting (T) young professionals with a good income, who are new to investing. They position (P) themselves as a friendly and educational resource for first-time investors.



1. Segmentation is the first step of the STP strategy. Segmentation is the process of dividing the whole market into small subgroups based on shared characteristics like age, gender, taste, preferences, etc. Customers having similar needs and behaviours are to be put together. A market segment is a portion of the whole market that is expected to respond similarly to a given situation. **For example Volkswagen Group** is responsible for producing brands like Audi, Porsche, Lamborghini, and Ducati. Even after being so expensive, brands still generate a handsome revenue. Volkswagen depicts the importance of perfect market segmentation.

2. What is Targeting?

The process of evaluating market segments and choosing the best to target comes under Market **Targeting**. Market Targeting undertakes the decision of choosing the best target audience and the degree to which the target market should be targeted. In simple terms, it is a **process of choosing the best target audience for the product/service** and declaring the other segments to be useless for a particular kind of product/service. **For example**: **Nike's** target market includes those people who are interested in getting fitter.

3. What is Positioning?

The activity of positioning involves placing the product/service in the minds of the target customers and making the image of the product/service superior as compared to other similar products. **For example**: **Starbucks** wanted to make itself 'The Third Home' between home and work so that people can come and relax whenever they are tired. They decided to target customers with medium and high-level income.

➢ BASES FOR CONSUMER MARKET SEGMENTATION

There are number of variables involved in **consumer market segmentation**, alone and in combination. These variables are:

1. Geographic variables
2. Demographic variables
3. Psychographic variables
4. Behavioral variables

1. Geographic Segmentation: In **geographical segmentation, market is divided into different geographical units**. A company, either serving a few or all geographic segments, needs to put attention on variability of geographic needs and wants. After segmenting consumer market on geographic bases, companies localize their marketing efforts (product, advertising, promotion and sales efforts).

- Regions (by country, nation, state, neighborhood)
- Population Density (Urban, suburban, rural)
- City size (Size of area, population size and growth rate)
- Climate (Regions having similar climate pattern)

▪ **2. Demographic Segmentation**: In **demographic segmentation**, market is divided into small segments based on demographic variables like **Age, Gender, Income, Occupation, Education, Social Class etc.** Demographic factors are most important factors for segmenting the customer's groups. Consumer needs, wants, usage rate these all depend upon demographic variables. So, considering demographic factors, while defining marketing strategy, is crucial. Psychographic Segmentation

3. **Psychographic Segmentation**, segments are defined on the basis of social class, lifestyle and personality characteristics.Psychographic variables include: Interests, Opinions, Personality, Self Image, Activities, Values, Attitudes A segment having demographically grouped consumers may have different psychographic characteristics.

4. Behavioral Segmentation: In this segmentation market is divided into segments based on consumer knowledge, attitude, use or response to product. Behavioral segmentation is considered most favorable segmentation tool as it uses those variables that are closely related to the product itself. Behavioral variables include:

- ✓ Usage Rate
- ✓ Product benefits
- ✓ Brand Loyalty
- ✓ Price Consciousness
- ✓ Occasions (holidays like mother's day, New Year and Eid)

BASES FOR BUSINESS MARKET SEGMENTATION

Business market can be segmented on the bases consumer market variables but because of many inherent differences like Businesses are few but purchase in bulk, evaluate in depth, Joint decisions are made Business market might be segmented on the bases of following variables:

- ✓ **Company Size**: what company sizes should we serve?
- ✓ **Industry**: Which industry to serve?
- ✓ **Purchasing approaches**: Purchasing-function organization, Nature of existing relationships, purchase policies and criteria.
- ✓ **Product usage**
- ✓ **Situational factors**: seasonal trend, urgency: should serve companies needing quick order deliver, Order: focus on large orders or small.
- ✓ **Geographic**: Regional industrial growth rate, Customer concentration, and international macroeconomic factors.

➢ COMPETITIVE ADVANTAGE

It is a profit over competitors gained by offering customers great value, either through lower cost or by providing more benefits that justify their higher prices. To build beneficial relationship with target customers, marketers must understand the customers' needs better than their competitors do and deliver more value to them. Furthermore, a company can position itself as providing superior value to its customers, it gains competitive advantage

✓ Competitive Advantage Areas

To build a competitive advantage, a company can use one of three main methods:

- **Cost:** Provide offerings at the lowest price
- **Differentiation:** Provide offerings that are superior in quality, service, or features
- **Specialization:** Provide offerings narrowly tailored to a focused market

✓ How to Build a Competitive Advantage?

To build a competitive advantage, a company must know what sets it apart from its competitors and then focus its message, service, and products with that difference in mind. Here are several strategies companies use to build a competitive advantage:

- **Research the market**: Market research helps a company identify and define its target market, which can guide it in developing the most effective advantage.
- **Identify strengths**: A company can find its unique strengths, especially relative to competitors, by reviewing products, services, features, positioning, and branding.
- **Evaluate finances**: Companies can take a close look at their financial performance to spot profit centers and areas of stability, using financial statements and ratios.
- **Review operations**: How efficient is a company's operations? Where is it effective, and where is there room for improvement? Consider customer service as well as production and supply chain management.
- **Research and development (R&D):** Securing intellectual property prohibits competitors from using processes or know-how that the company can use to produce products competitors can't legally copy.

- **Consider human resources**: The talent a company can attract as employees and leadership can make an important difference in the success of the business. Evaluating company culture, hiring, and staffing practices can help.

PRODUCT AND BRAND MANAGEMENT

Product and Brand Management focuses on strategies for developing, positioning, and managing products and brands to maximize market success. It includes product lifecycle management, brand equity, brand positioning, product innovation, and marketing strategies.

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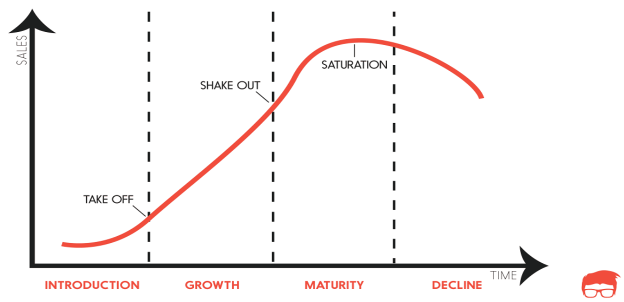
PRODUCT LIFE CYCLE:



- ✓ **Introduction** – The product is launched with high marketing costs and low sales. Businesses focus on awareness and attracting early adopters.
- ✓ **Growth** – Sales and profits increase as demand rises. Competitors enter the market, and businesses invest in promotions and improvements.

- ✓ **Maturity** – Sales peak, and competition is intense. Companies focus on differentiation, pricing strategies, and brand loyalty to maintain market share.
- ✓ Decline – Demand decreases due to market saturation or changing trends. Businesses may discontinue the product, reposition it, or innovate to extend its life.

NEW PRODUCT DEVELOPMENT (NPD)

New Product Development (NPD) is the process of creating and launching new products to meet market needs and stay competitive. It involves several key stages:

1. **Idea Generation** – Collecting new product ideas from customers, employees, and market research.
2. **Idea Screening** – Evaluating ideas based on feasibility, market potential, and company goals.
3. **Concept Development & Testing** – Defining product features and testing them with potential customers.
4. **Business Analysis** – Assessing costs, pricing, sales forecasts, and profitability.
5. **Product Development** – Creating a prototype and testing for quality and performance.
6. **Market Testing** – Introducing the product in a limited market to gather feedback.
7. **Commercialization** – Full-scale launch with production, distribution, and marketing strategies.

BRANDING STRATEGIES

Branding strategies are techniques used by businesses to create a strong, recognizable, and competitive brand. Here are some key strategies:

1. **Brand Extension** – Using an existing brand name to launch new products in different categories (e.g., Apple expanding from computers to smartphones).
2. **Brand Positioning** – Establishing a unique place in the market by differentiating from competitors based on quality, price, or benefits (e.g., Tesla as a premium electric car brand).
3. **Multi-Brand Strategy** – Launching multiple brands under the same company to target different customer segments (e.g., P&G with Tide, Ariel, and Gain).
4. **Co-Branding** – Partnering with another brand to create a combined product for mutual benefits (e.g., Nike and Apple's fitness-tracking collaboration).

5. **Private Label Branding** – Retailers selling products under their own brand instead of a manufacturer's name (e.g., Amazon Basics).
6. **Brand Repositioning** – Changing the perception of an existing brand to attract a new audience or adapt to market changes (e.g., McDonald's shifting towards healthier menu options).
7. **Global Branding** – Establishing a consistent brand presence worldwide to reach international customers (e.g., Coca-Cola).

A strong branding strategy helps businesses build customer loyalty, increase market share, and maintain a competitive advantage.

PACKAGING AND LABELING IN MARKETING

1. PACKAGING

Packaging refers to the process of designing and producing a container or wrapper for a product. It serves multiple purposes, including protection, convenience, promotion, and differentiation.

✓ **Functions of Packaging:**

- **Protection**: Shields the product from damage during transportation, storage, and handling.
- **Convenience**: Makes storage, handling, and usage easier for consumers.
- **Promotion**: Helps attract customers through appealing design and branding.
- **Differentiation**: Distinguishes the product from competitors.
- **Information**: Provides details about the product, such as ingredients, usage, and expiry date.
- **Legal Compliance**: Fulfills regulatory requirements regarding labeling and safety instructions.

✓ **Types of Packaging:**

1. **Primary Packaging**: Directly encloses the product (e.g., a bottle of juice).
2. **Secondary Packaging**: Holds multiple primary packages together (e.g., a carton containing multiple juice bottles).
3. **Tertiary Packaging**: Used for bulk handling and transportation (e.g., large boxes used for shipping).

2. LABELING

Labeling refers to the information attached to a product that provides details about its contents, usage, and other essential aspects.

Functions of Labeling:

- **Identification**: Helps consumers recognize the product and brand.
- **Information**: Provides product details like ingredients, weight, manufacturing date, and expiry date.
- **Legal Compliance**: Includes mandatory details required by law, such as nutritional information and safety warnings.
- **Marketing**: Attracts consumers through eye-catching designs and persuasive messaging.

✓ **Types of Labels:**

1. **Brand Label**: Displays only the brand name (e.g., Nike logo on a shoe).
2. **Descriptive Label**: Provides information about the product's features, ingredients, and usage (e.g., a food label with nutrition facts).
3. **Grade Label**: Indicates the product's quality standard (e.g., Grade A eggs).
4. **Informative Label**: Contains detailed instructions, warnings, and manufacturer information (e.g., a medicine bottle).

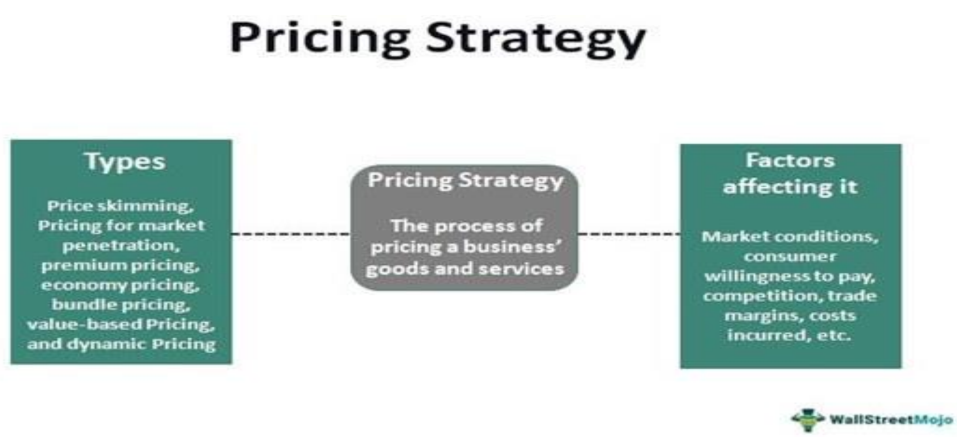
Conclusion

Packaging and labeling play a crucial role in marketing by ensuring product safety, enhancing appeal, and providing necessary information. Effective packaging and labeling strategies can significantly influence consumer purchasing decisions.

➢ **PRICING STRATEGY**

A pricing strategy is an approach taken by businesses to decide how much to charge for their goods and services. The interaction between margin, price, and selling level is given specific consideration while pricing products. Therefore, it's important and complicated to design a proper pricing plan that ensures business success.

EXAMPLE: Uber's American mobility service provider is a good example of a dynamic pricing system. The pricing system employed by Uber modifies charges depending on a number of factors, including traffic, the prevailing rider-to-driver demand, the time and distance of the route, etc. Occasionally, this may entail a brief price increase at very busy times. As a result, there will be consumer demand for travel for the purposes in the above situations. Accordingly, they use this customer urgency to make money.



1. Price Skimming

A skimming pricing strategy is a pricing technique in which a business sets its initial price high and gradually lowers it when more competitors enter the market. This is ideal for businesses that are entering an emerging market. Here, businesses maximize profit utilizing the price demand of certain markets. They possess the first-mover advantage, where they are the first to introduce or market the product or service.

2. Pricing for market penetration

It is the opposite of price skimming. Skimming starts with huge prices, and the penetration pricing strategy uses low prices to enter the market. This is done to attract the existing consumer base of the competitors. Once there is establishment of a reliable pool of consumers, the costs slowly increase. Penetration pricing strategy depends mostly on the ability of the business to bear the losses made in the initial years. Big MNCs especially employ this to get a strong footing in developing countries' markets.

3. Premium pricing

Premium pricing strategy involves businesses that create high-quality products and market them to high-income or net-worth individuals. The key here is to manufacture unique, high-quality designs and products that convince the users to pay such huge amounts. The premium pricing strategy targets the luxury goods market.

4. Economy pricing

The strategy targets customers who prefer to save money. Big companies employ the strategy to make customers feel they are in control. Walmart in the U.S. is an example where they offer deals that please customers. This does depend on the overhead costs and the value of the products.

5. Bundle pricing

As the name suggests, it is a strategy where a business sells a bundle of goods together. Typically, the total of the goods is lower than the individual products sold separately. This helps in moving the inventory and selling the stocks that are left over. The strategy has the potential to make profits (or save from losses) on low-value items.

6. Value-based Pricing

A concept is similar to premium-based pricing. Here, the business decides the price based on the customer's valuation of the product's worth. This is best suited for unique products.

7. Dynamic Pricing

A dynamic pricing strategy in marketing involves changing the price of the items based on the present market demand.

➢ FACTORS AFFECTING PRICING DECISIONS:

1.Internal Factors Affecting Pricing Decisions

Talking about the internal factors means the factors that work from within the organization. The factors are:

1. **Organizational Factors:**

   Two management levels decide the pricing policy, one is the price range and the policies are decided by the top-level managers while the distinct price is fixed by the lower-level staff.

2. Marketing Mix:

For implementing a price, the marketing mix needs to be in sync, without matching the marketing mix, consumers will not be attracted to the price. The marketing mix should be decisive for the price range fixed, meaning the marketing mix needs to maintain the standard of the price of the product.

3. Product Differentiation:

In today's market, it is uncommon to find a unique product, hence the differentiation lies in the nature, feature and characteristic of the product. The added features like quality, size, colour, packaging, and its utility all these factors force the customers to pay more price regarding other products.

4. Cost of the Product:

Cost and Price are closely related. With the cost of the product, the firm decides its price. The firm makes sure that the price does not fall below the cost lese they will run on losses. Cost of the price includes the input cost that a company spends on raw materials, wages for labourers, advertisement cost, promotion cost and salaries for the employees

2. External Factors Affecting Pricing Decisions

External factors are not under the control of the firm. These factors affect the whole industry group uniformly. Yet, a company tries to estimate any upcoming problems in the external environment and also makes up a backup plan in advance. This is done by forecasting the market trend.

The Factors Affecting Pricing Decisions are:

1. Demand:

The market demand of a product has an impact on the price of the product, if the demand is inelastic then a higher price can be fixed, if the demand is highly elastic then less price is to be fixed. When the demand for the goods is more and the supply of the goods is constant, the price of the goods can be increased and if the demand for the goods decreases the price of the goods should be decreased to survive in the market.

2. Competition:

The prices are required to be competitive without any compromise on the quality of the product. While in a monopolistic market, the prices are fixed irrespective of the competition. Thus, the manufacturer tries to estimate the price of his competitor. When the price of the supplementary goods is high, the customers will buy the manufacturer’s product.

3. Supplies:

If the supplies condition, the easy availing option of the raw materials are available, then the price of the product can be moderate. Once, the raw materials supply price heightens then the price also rises.In the period of recession, price is lowered so that easy purchase is guaranteed. While in boom periods, prices shoot up high as now they can earn profit.

➢ PRICING POLICIES AND STRATEGIES EXAMPLES

Here are some real-world Pricing Strategies with Examples of how businesses set their prices:

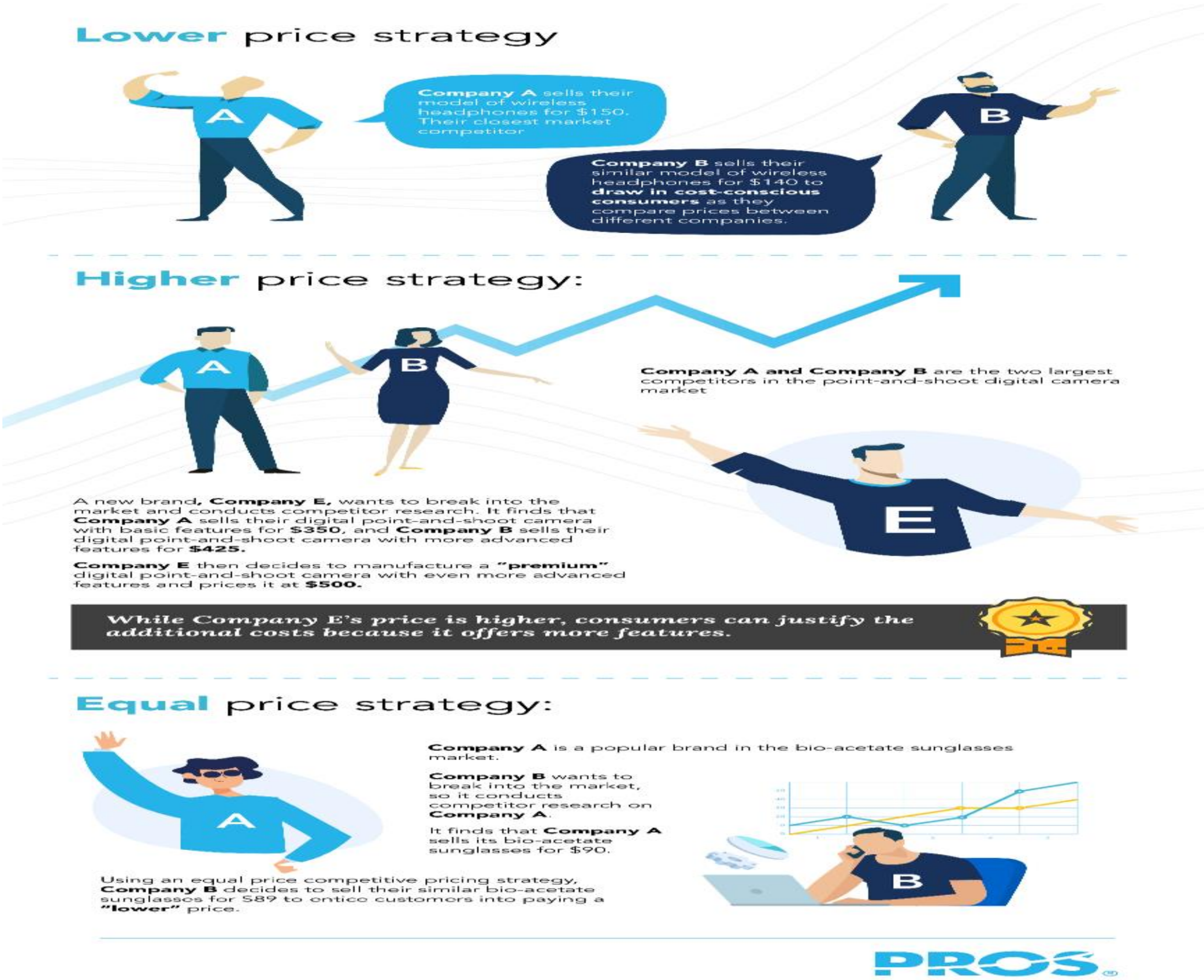
Example 1: Apple charges premium prices for its iPhones, MacBooks, and other products because customers value the brand and its innovative features, willing to pay more for the perceived quality.

Example 2: Walmart keeps its prices competitive by constantly monitoring competitors' prices and adjusting its own, ensuring customers get the best deals, especially on everyday items like groceries.

Example 3: When a new PlayStation console is launched, it is priced high to attract early adopters. Over time, the price drops as newer models are introduced, making the product more affordable for the general public.

➢ WHAT IS COMPETITIVE PRICING STRATEGY?

Competitive pricing is the process of strategically selecting price points for your goods or services based on competitor pricing in your market or niche, rather than basing prices solely on business costs or target profit margins. Competitive pricing is typically used by businesses that sell the same or highly similar products in the same market for an extended period, as prices of these products often reach a level of equilibrium.



- **Lower price strategy**: Company A sells their model of wireless headphones for $150. Their closest market competitor, Company B, sells their similar model of wireless headphones for $140 to draw in cost-conscious consumers as they compare prices between different companies.

- **Higher price strategy**: Company A and Company B are the two largest competitors in the point-and-shoot digital camera market. A new brand, Company E, wants to break into the market and conducts competitor research. It finds that Company A sells their digital point-and-shoot camera with basic features for $350, and Company B sells their digital point-and-shoot camera with more advanced features for $425. Company E then decides to manufacture a "premium" digital point-and-shoot camera with even more advanced features and prices it at $500. While Company E's price is higher, consumers can justify the additional costs because it offers more features.

- **Equal price strategy**: Company A is a popular brand in the bio-acetate sunglasses market. Company B wants to break into the market, so it conducts competitor research on Company A. It finds that Company A sells its bio-acetate sunglasses for $90. Using an equal price competitive pricing strategy, Company B decides to sell their similar bio-acetate sunglasses for $89 to entice customers into paying a "lower" price.

UNIT-III

INTEGRATED MARKETING COMMUNICATION (IMC)

- **What is integrated marketing communications?**

Integrated marketing communications (IMC) is the process of unifying a brand's messaging to make it consistent across all media that the brand uses to reach its target audience. It's a strategic approach that guides communication and tactics used across all marketing channels.

Integrated Marketing Communications Examples

1. Coca-Cola's "Share a Coke" Campaign: The Coca-Cola "Share a Coke" campaign is a great illustration of integrated marketing communications (IMC). Customers' names were printed on bespoke packaging, and they were urged to use the hashtag #ShareACoke when posting pictures and narratives on social media. In order to produce a cohesive message that connected with customers all across the world, this campaign skillfully combined public relations, experiential marketing, social media marketing, and advertising.

➢ WHY IMC IS IMPORTANT?

1. Constant Brand Communication: IMC makes ensuring that a single brand message is communicated over all channels of communication, supporting the maintenance of the brand's identity and core values at different touchpoints.

2. Improved Consumer Participation: IMC helps businesses engage consumers more successfully by combining marketing initiatives, which builds stronger bonds and relationships.

3. Efficient Resource Allocation: By coordinating marketing initiatives, reducing effort duplication, and optimizing the impact of each campaign, IMC makes it possible to allocate resources efficiently.

4. Better ROI: IMC may increase marketing campaigns' efficacy and therefore their return on investment and overall cost-efficiency by aligning marketing channels in a synergistic way.

5. Enhanced Brand Loyalty: IMC's consistent and well-coordinated communication fosters consumer trust and loyalty, which promotes advocacy and repeat business.

6. Flexibility in Changing Markets: By incorporating real-time data and insights into communication plans, integrated marketing communications (IMC) helps businesses to adjust to changing customer preferences and market trends.

7. Competitive Advantage: Organizations that successfully integrate IMC stand out from the competition by offering a smooth and engaging brand experience that appeals to customers.

➢ BENEFITS OF INTEGRATED MARKETING COMMUNICATIONS

1. Consistency: By ensuring a consistent brand message across all marketing channels, integrated marketing communications (IMC) removes uncertainty and strengthens brand identification in customers' perceptions.

2. Enhanced Brand Exposure: IMC increases brand exposure by combining several communication channels including digital marketing, public relations, and advertising. This helps the brand reach a larger audience and become more recognizable.

3. Enhanced Customer Engagement: Through the delivery of consistent and pertinent messages that are customized to each customer's preferences and behaviors across a variety of touchpoints, IMC enhances customer engagement, resulting in stronger bonds and greater loyalty.

4. Cost Efficiency: IMC minimizes waste and redundancy by better leveraging resources and coordinating marketing operations. This maximizes the return on investment (ROI) for marketing initiatives while also reducing costs over time.

5. Enhanced Marketing Effectiveness: Campaigns that are integrated and make use of a variety of channels and strategies are more likely to motivate consumers to take action, whether it be sharing content, making a purchase, or interacting with the brand. This leads to increased conversion rates and better sales results.

6. Improved Data Insights: IMC makes it possible to gather and analyze data from a variety of channels and sources, which offers insightful information about the trends, tastes, and behavior of consumers. With this data-driven strategy, marketers can optimize their campaigns for maximum efficacy and make well-informed decisions.

7. Competitive Advantage: Businesses who use integrated marketing communications (IMC) stand out from rivals who might not use such integration and consistency in their marketing campaigns by showcasing a united and cohesive brand image that appeals to customers.

➢ IMC CHALLENGES

Integrated Marketing Communication (IMC) is a strategic approach to coordinating and unifying all marketing communication tools to deliver a consistent and clear brand message. However, implementing IMC comes with several challenges, including:

1. **Consistency Across Channels** – Ensuring a uniform message across multiple platforms (social media, TV, print, radio, etc.) can be difficult, leading to potential brand inconsistencies.

2. **Coordination Across Departments** – Different teams (advertising, sales, PR, digital marketing) must work together, which can be challenging due to different priorities and communication gaps.
3. **Budget Constraints** – IMC requires investment in various channels and tools, which may strain the marketing budget, especially for smaller organizations.
4. **Managing Multiple Agencies** – Companies often work with different agencies for advertising, PR, digital marketing, and sales promotions, making coordination complex.
5. **Adapting to Changing Consumer Behavior** – Rapidly evolving consumer preferences and digital trends require continuous adjustments in communication strategies.
6. **Measurement and ROI Tracking** – Evaluating the effectiveness of an IMC campaign across multiple channels is challenging due to difficulties in attributing success to specific efforts.
7. **Technology Integration** – Using multiple marketing technologies (CRM, analytics, automation tools) effectively and ensuring seamless integration can be complex.

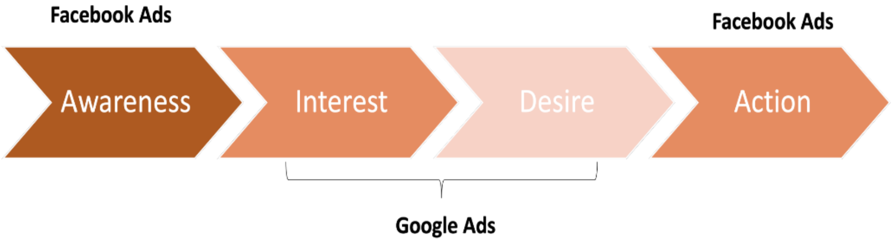
➢ DIGITAL MARKETING

Digital marketing typically refers to online marketing campaigns that appear on a computer, phone, tablet, or other device. It can take many forms, including online video, display ads, search engine marketing, paid social ads and social media posts.

Digital marketing is often compared to "traditional marketing" such as magazine ads, billboards, and direct mail. Oddly, television is usually lumped in with traditional marketing.

➢ HOW TO BUILD CONTENT FOR YOUR DIGITAL MARKETING STRATEGY?

Content marketing is the creation and dissemination of relevant, helpful content to existing and future consumers, such as blogs, newsletters, white papers, social media postings, emails, videos, and the like. When done correctly, this material shows knowledge while also demonstrating that a firm loves the individuals to whom it sells.



GOOGLE ADS VS. FACEBOOK ADS?

Google Ads are more Efficient for Conversion Strategy

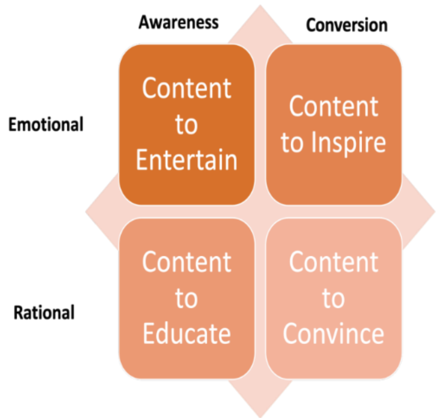
Currently, Google is the dominant option for digital marketing. People show interest and desire by searching keywords. So, it has the potential to provide more conversions than Facebook ads.

You put advertising on Google websites and apps and other websites and apps that use Google's ad services. This means you only pay when someone clicks on your ad. These advertisements are also available on YouTube, Gmail, and other websites. The idea of targeting potential consumers based on their internet browsing history is novel; it makes the purchase experience more pleasant for customers and decreases your marketing expenditure.

Facebook Ads are more Efficient for Awareness and Brand Building Strategy

On the other hand, Facebook ads provide a large population, but this population doesn't see the ad because they are interested or desire to buy your product. Facebook ads capture users' attention, and hence it is more efficient for brand building.

The following framework can be followed to develop efficient content for your firm:



➢ SOCIAL MEDIA MARKETING

Social media marketing means driving traffic and brand awareness by engaging people in discussion online. You can use social media marketing to highlight your brand, products, services, culture, and more. With billions of people spending their time engaging on social media platforms, focusing on social media marketing can be worthwhile.The most popular digital platforms for social media marketing are Facebook, X, and Instagram, with LinkedIn and YouTube not far behind.

➢ SEO AS MARKETING TOOL

Search engine optimization (SEO) is a technique for increasing the ranking of a web page in non-paid search engine results. Keyword research and the availability of high-quality content are the core component of any SEO strategy for the firm.

An SEO manager's primary goal is to increase the site's rating and exposure for specific keywords. This may be achieved by using on-page SEO strategies such as adding metadata tags to web pages, writing blog posts about relevant subjects, optimizing images for online use, and so on. Off-site optimization, such as connecting other websites to yours or identifying ways for your business partners' websites, are instances of extra responsibilities.

➢ WHY IS SEO IMPORTANT FOR MARKETING?

Consumers do billions of searches each year to obtain information about products and services, sometimes for commercial purposes. Search is frequently the major source of internet traffic for companies, supplementing other marketing methods. Greater exposure and a higher position in search results than your competitors may have a significant influence on your bottom line.

➢ EMAIL MARKETING

The concept of email marketing is simple—you send a promotional message and hope that your prospect clicks on it. However, the execution is much more complex. First of all, you have to make sure that your emails are wanted. This means having an email marketing provider that offers the following is crucial:

- Individualizes the content, both in the body and in the subject line
- An email signature that offers a clear unsubscribe option
- Both, transactional and promotional emails

UNIT-IV

EMERGING TRENDS AND ISSUES IN MARKETING

1. GREEN MARKETING

MEANING:

Green marketing refers to the process of selling products or services for showcasing the benefits of environmental nature. In Green, marketing companies show their products as the environment-friendly such as **"safe"** or **"sustainable"** production, while others seek to reduce a company's "carbon footprint.

Green marketing products that are presumed to be environmentally safe. It incorporates a broad range of activities, including product modification, changes to the production process, sustainable packaging, as well as modifying advertising.

- **CHARACTERISTICS OF GREEN MARKETING:**

✓ Recyclable packaging of the product

✓ Sustainable manufacturing or design

✓ Implementation of marketing strategies.

✓ Security of the ecological environment.

GREEN MARKETING EXAMPLES IN INDIA

- **Tata Consultancy service** is well established eco-friendly company. it has more than 80% green score. Now, it is creating technology for agricultural and community benefits.
- **Indusland Bank** is the first bank which is started paperless ATM in India. This helps to reduce to the cutting of the trees.
- **MRF** has launched the ZSLK series and which is about creating eco- friendly tubeless tires.
- **Johnson and Johnson** is also using green products Which is environment-friendly as well as body friendly too

2. SUSTAINABLE MARKETING

Sustainable marketing focuses on promoting products and services in a way that considers social, environmental, and economic well-being. It involves ethical business practices, eco-friendly product development, and long-term customer relationships.

➢ KEY FEATURES OF SUSTAINABLE MARKETING:

1. **Eco-Friendly Products** – Promotes green products with minimal environmental impact.
2. **Corporate Social Responsibility (CSR)** – Engages in ethical business practices and social welfare initiatives.
3. **Long-Term Customer Value** – Focuses on building trust and loyalty through transparency and ethical branding.
4. **Minimal Resource Consumption** – Encourages sustainability in packaging, distribution, and production.
5. **Cause-Related Marketing** – Aligns brands with social and environmental causes.

Examples of Sustainable Marketing:

- Patagonia's "Don't Buy This Jacket" campaign encouraged sustainable consumption.
- Tesla's promotion of electric vehicles to reduce carbon emissions.
- Unilever's commitment to reducing plastic waste and sustainable sourcing.

3. EXPERIMENTAL MARKETING

Experimental marketing (or experiential marketing) focuses on engaging customers through interactive and immersive experiences. It aims to create emotional connections between brands and consumers through events, live interactions, and sensory engagement.

➢ Key Features of Experimental Marketing:

1. **Live Events & Activations –** Uses pop-up stores, interactive installations, and brand experiences.
2. **Sensory Engagement** – Engages sight, sound, touch, taste, or smell to create memorable interactions.
3. **Personalization** – Provides customized experiences based on customer preferences.
4. **Technology Integration** – Uses AR, VR, AI, and gamification to enhance customer involvement.
5. **Social Media Amplification –** Encourages user-generated content and viral engagement.

- **EXAMPLES OF EXPERIMENTAL MARKETING:**

- Coca-Cola's "Share a Coke" campaign with personalized bottles.
- Nike's interactive pop-up stores with real-time shoe customization.
- IKEA's overnight sleepover experience for customers.

- **LEGAL ASPECTS OF MARKETING, SOCIAL RESPONSIBILITY IN MARKETING, AND ETHICAL DECISION MAKING IN MARKETING**

1**. Legal Aspects of Marketing**

Marketing activities are governed by various laws and regulations to ensure fairness, protect consumers, and maintain ethical business practices. These laws cover areas such as advertising, pricing, competition, and consumer rights.

KEY LEGAL ASPECTS IN MARKETING:

1. **Consumer Protection Laws** – Ensure fair treatment of consumers, prevent misleading advertisements, and protect against fraud.
    - Example: **Consumer Protection Act** (CPA), **Federal Trade Commission (FTC) Act** (U.S.).
2. **Advertising Laws** – Regulate truth in advertising and prohibit false claims.Example: **Truth in Advertising Law**, **Competition Act** (India).
3. **Intellectual Property Laws** – Protect trademarks, copyrights, and patents to prevent infringement.Example: **Trademark Act**, **Patent Laws**, **Copyright Laws**.
4. **Data Protection and Privacy Laws** – Ensure consumer data is handled securely and ethically.Example: **General Data Protection Regulation (GDPR)**, **Data Protection Act**.
5. **Anti-Competitive Practices Laws** – Prevent monopolistic behavior and promote fair competition.Example: **Competition Act**, **Antitrust Laws**.

📌 **Example:** The **Coca-Cola vs. Pepsi trademark disputes** over branding rights.

5. SOCIAL RESPONSIBILITY IN MARKETING

Social responsibility in marketing refers to a company's commitment to ethical practices, sustainability, and community welfare while promoting products and services.

- **Key Elements of Social Responsibility in Marketing:**

1. **Ethical Business Practices** – Companies follow honesty, transparency, and fairness in marketing.
2. **Sustainable Marketing** – Focuses on eco-friendly products, waste reduction, and ethical sourcing.
3. **Community Engagement** – Supports local communities through CSR programs, donations, and social initiatives.
4. **Diversity and Inclusion** – Promotes fair representation of all groups in marketing campaigns.
5. **Cause-Related Marketing** – Aligns brand messages with social causes (e.g., environment, health, education).

📌 **Example: Unilever's Sustainable Living Plan** promotes eco-friendly products and ethical sourcing.

6. ETHICAL DECISION MAKING IN MARKETING

Ethical decision-making involves choosing marketing strategies that align with moral principles, fairness, and honesty.

Key Ethical Issues in Marketing:

1. **Deceptive Advertising** – False claims, exaggerated benefits, or hidden costs.Example: Misleading "fat-free" or "sugar-free" labels.
2. **Unfair Pricing** – Predatory pricing, price discrimination, or hidden fees. Example: Airlines charging hidden fees.
3. **Consumer Privacy** – Unethical use of customer data, unauthorized tracking.Example: Facebook's data privacy controversies.
4. **Targeting Vulnerable Groups** – Marketing unhealthy food to children or addictive products. Example: Tobacco and alcohol ads targeting youth.
5. **Greenwashing** – Falsely claiming to be eco-friendly.Example: Brands falsely labeling products as "100% natural" without proof.

📌 **Example:** The **Volkswagen emissions scandal**, where the company misrepresented environmental compliance.

➢ CUSTOMER RELATIONSHIP MANAGEMENT

✓ What is Customer Relationship Management?

Customer Relationship Management (CRM) is an enterprise-wide strategy for presenting a single face to the customer. A long-term relationship with customer gives the service marketers a competitive edge. A company's revenue, profit and market share come ultimately from the customers. The need for building a relationship has become the essential part for the long-term success of the organization. The process of CRM involves creation and management of data mines, development of appropriate organizational structure, investment in technology and development of people. CRM remains at the top of the minds of marketing professionals.

✓ OBJECTIVES OF CRM

The following are the important objectives of CRM

1. Turning prospects into advocates
2. Minimizing defections
3. Having a large proportion of loyal advocates
4. Having a profitable relationship of the type the customers would desire and with those who desire them.
5. Using cross selling opportunities without annoying customers.

CASE STUDIES AND REAL-WORLD APPLICATIONS

CASE STUDY 1: COCA-COLA'S "SHARE A COKE" CAMPAIGN (SUCCESS)

Overview:

Coca-Cola's "Share a Coke" campaign, launched in 2011 in Australia and later expanded globally, replaced the brand's iconic logo with popular first names on bottles and cans.

Why It Succeeded:

1. **Personalization:** Customers felt a personal connection to the product, increasing engagement.
2. **Social Media Buzz:** Encouraged people to share pictures of their customized Coke bottles, creating organic marketing.
3. **Emotional Appeal:** The campaign promoted sharing and social bonding, resonating with a wide audience.
4. **Sales Growth:** Coca-Cola saw a significant rise in sales, with a 2% increase in the U.S. market.

Personalized marketing and customer engagement can create strong emotional connections and boost sales.

CASE STUDY 2: PEPSI'S KENDALL JENNER AD (FAILURE)

Overview:
In 2017, Pepsi released an ad featuring Kendall Jenner that depicted her joining a protest and handing a can of Pepsi to a police officer, seemingly resolving the conflict.

Why It Failed:

1. **Tone-Deaf Messaging:** The ad trivialized serious social justice movements, sparking backlash.
2. **Lack of Authenticity:** Critics felt the campaign was a commercial exploitation of protests.
3. **Negative Public Response:** The ad was widely criticized on social media, forcing Pepsi to pull it within 24 hours.

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SMBME2406 ESSENTIAL MANAGEMENT SKILLS

CREDIT HOURS ALLOTED:5 HRS

OBJECTIVE:

1. **Understand Key Management Skills**: Equip students with essential management skills, including technical, human, and conceptual skills.
2. **Enhance Communication Abilities**: Improve verbal and non-verbal communication, active listening, feedback, and presentation skills.
3. **Develop Leadership and Team Management Skills**: Understand leadership styles and theories, develop emotional intelligence, and learn to build and lead effective teams.

4. **Master Emotional Intelligence**: Gain insights into the importance of emotional intelligence, its components, and its impact on management and decision-making.
5. **Improve Problem Solving**: Learn problem-solving processes and techniques, foster creativity and innovation, and apply root cause analysis.
6. **Apply Theoretical Knowledge**: Use case studies and practical applications to translate theoretical knowledge into real-world management scenarios.

S.NO.	CONTENT	CREDIT HRS
	UNIT-I	
1	**Introduction to Management and Communication Skills**	**1**
1.1	Definition, Importance, Types (Technical, Human, Conceptual)	
1.2	Role of a Manager, Developing Skills	
1.3	Verbal and Non-Verbal Communication, Active Listening, Feedback	
1.4	Presentation Skills, Overcoming Communication Barriers	
	UNIT-II	
2	**Leadership Skills and Team management**	**1**
2.1	Definition, Importance, Styles and Theories (Transactional, Transformational, Situational)	
2.3	Building and Leading Effective Teams	
	UNIT-III	
3	**Emotional Intelligence**	**1**
3.1	Definition and Importance of EI	
3.2	Components of EI	
3.3	Self-Awareness in Management	
3.4	Impact of Emotions on Decision Making	
3.5	Motivation and Emotional Intelligence	

	UNIT-IV	
4	**Problem Solving skills**	**1**
4.1	Process and Techniques, Creativity, Innovation	
4.2	Root Cause Analysis (5 Whys, Fishbone Diagram)	
5	**Practical Applications and Case Studies**	**1**
5.1	Applying Skills in Various Contexts, Analyzing Scenarios, Role-Playing	
5.2	Case Studies on Management Practices	

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- **"The Art of Communicating"** by Thich Nhat Hanh
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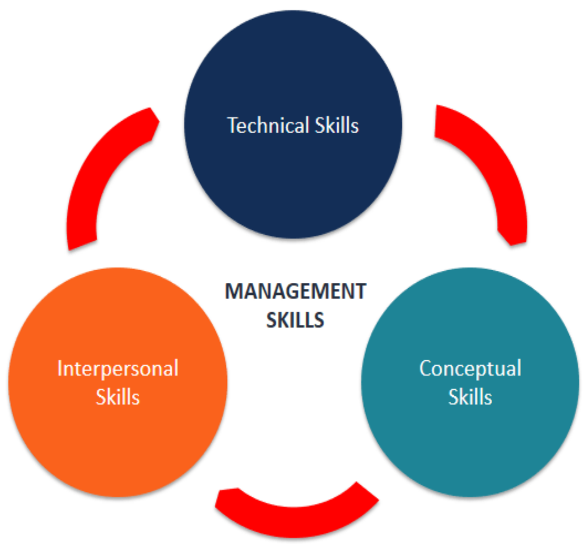
- **"Management and Organizational Behaviour"** by P. Subba Rao
- **"Leaders Eat Last"** by Simon Sinek
- **"The McKinsey Mind"** by Ethan M. Rasiel and Paul N. Friga

UNIT-I
INTRODUCTION TO MANAGEMENT AND COMMUNICATION SKILLS

Management Skills

There is a wide range of skills that management should possess to run an organization effectively and efficiently. The following are six essential management skills that any manager ought to possess for them to perform their duties: Effective managers can coordinate projects successfully, make effective decisions for an organization and inspire a team of people to overcome challenges. They apply a wide variety of skills to perform well in their roles. Whether you're pursuing a management position for the first time or just seeking to improve your leadership style, building a strong skill set is essential to achieving your professional goals and advancing in your career.



As a manager, it's important to develop abilities that can effectively guide others in honing the same skills. In contrast, soft skills have more broad applications. They typically relate to interpersonal interactions and communication or personal development in the workplace. **Problem-solving, time management** and **organizational abilities** are all examples of important soft skills. While hard skills are key when completing particular tasks, soft skills are essential when directing people, overseeing teams and making informed decisions.

What are Management Skills?

Management skills are abilities that enable a professional to lead a team, department or company effectively. Hard skills are technical competencies that relate to specific programs or areas of expertise. For example, if you're a software engineer, one of your hard skills may be proficiency in a certain programming language. For the purpose of this course, we have shortlisted the following **seven as essential management skills** to succeed in any business or non-profit field:

1. **Planning & Organising**
2. **Communication**
3. **Decision-making**
4. **Delegation**
5. **Motivating**
6. **Leadership**
7. **Problem-solving**

We briefly illustrate these seven management skills can help leaders across industries excel in their roles and professionals or owners of businesses or processes.

1. Planning & Organizing

Planning is a vital aspect within an organization. It refers to one's ability to organize activities in line with set guidelines while still remaining within the limits of the available resources such as time, money, and labor. It is also the process of formulating a set of actions or one or more strategies to pursue and achieve certain goals or objectives with the available resources.

The planning process includes identifying and setting achievable goals, developing necessary strategies, and outlining the tasks and schedules on how to achieve the set goals. Without a good plan, little can be achieved.

Whether you're managing people, projects or a combination of the two, the ability to prepare a vision for the future and strategize solutions is essential to good management. Planning skills help when setting goals and determining the most efficient path to meet objective

They can also be useful when conducting administrative activities like budgeting and scheduling. The following are specific examples of planning skills:

- Cognitive skills
- Adaptability
- Business development
- Critical thinking
- Flexibility
- Logical reasoning

As a manager, you may be responsible for balancing many tasks at the same time. Often, this means overseeing multiple project timelines, deadlines and calendar events such as meetings, conferences and presentations. Staying organized can help you complete tasks efficiently. Arranging your work logically ensures you have access to important information when you want it. It also prevents you and the team from missing critical dates or events. Organizational skills examples include:

- Goal setting
- Administrative skills
- Project management
- Time management
- Deadline management
- Event coordination
- Recordkeeping
- Scheduling

2. Communication

Possessing great communication skills is crucial for a manager. It can determine how well information is shared throughout a team, ensuring that the group acts as a unified workforce. How well a manager communicates with the rest of his/her team also determines how well outlined procedures can be followed, how well the tasks and activities can be completed, and thus, how successful an organization will be.

Communication involves the flow of information within the organization, whether formal or informal, verbal or written, vertical or horizontal, and it facilitates the smooth functioning of the organization. Clearly established communication channels in an organization allow the manager to collaborate with the team, prevent conflicts, and resolve issues as they arise. A manager with good communication skills can relate well with the employees and, thus, be able to achieve the company's set goals and objectives easily.

To lead people and projects effectively, managers convey complex information to others in a simple and straightforward way. Communication skills ensure they can provide helpful instructions to the right people at the right time.

Great communicators listen carefully to others, retain information well and correspond with team members in a timely manner. Managers with strong communication skills typically have the following aptitudes:

- Active listening
- Collaboration
- Interpersonal communication
- Negotiation
- Persuasion
- Public speaking
- Verbal communication
- Written communication
- Interviewing
- Building relationships

3. Decision-making

Decision making is the process of making a choice. Although it sounds simple yet what choice you make from the given alternatives have far reaching consequences. Therefore, decision making often isn't easy and can be particularly complex in an organizational context. Hence decision-making becomes another vital management skill. Managers make numerous decisions, whether knowingly or not, and making decisions is a key component in a manager's success. Making proper and right decisions, results in the success of the organization, while poor or bad decisions may lead to failure or poor performance.

For the organization to run effectively and smoothly, clear and right decisions should be made. A manager must be accountable for every decision that they make and also be willing to take responsibility for the results of their decisions. A good manager needs to possess great decision-making skills, as it often dictates his/her success in achieving organizational objectives.

There is generally speaking three decisions category that matter the most to senior management and standout in making the big difference:

1. ***Big-bet decisions*** are infrequent but high risk, such as acquisitions. These decisions carry the potential to shape the future of the company, and as a result are generally made by top leaders and the board. Spurring productive debate by assigning someone to argue the case for and against a potential decision can improve big-bet decision making.
2. ***Cross-cutting decisions***, such as pricing, can be frequent and high risk. These are usually made by business unit heads, in cross-functional forums as part of a collaborative process. These types of decisions can be improved by doubling down on process refinement. The ideal process should be one that helps clarify objectives, measures, and targets.
3. ***Delegated decisions*** are frequent but low risk and are handled by an individual or working team with some input from others. Delegated decision making can be improved by ensuring that the responsibility for the decision is firmly in the hands of those closest to the work. This approach also enhances engagement and accountability.

4. Delegation

Delegation is another key management skill. Delegation is the act of passing on work-related tasks and/or authorities to other employees or subordinates. It involves the process of allowing your tasks or those of your employees to be reassigned or reallocated to other employees depending on current workloads. A manager with good delegation skills is able to effectively and efficiently reassign tasks and give authority to the right employees. When delegation is carried out effectively, it helps facilitate efficient task completion. There are several reasons why managers may *shy away* from delegating work. They might be as follows:

- Think it would take longer to explain the task than actually completing it themselves
- Want to feel indispensable to their team by being the keeper of specific knowledge
- Enjoy completing certain projects so prefer not to reassign them
- Feel guilty about adding more work onto another employee’s to-do list
- Lack confidence or trust in who they need to transfer the project to
- Believe that they’re the only ones who can do the job right

Delegation helps the manager to avoid wastage of time, optimizes productivity, and ensures responsibility and accountability on the part of employees. Every manager must have good delegation abilities to achieve optimal results and accomplish the required productivity results. There are several benefits why so much importance is given to the Right Delegation:

Effective Management

Delegation provides a breathing space to managers by sharing their workload. As a result, managers can concentrate on tasks with higher priority. Further, freedom from routine work allows for exploration of new ideas.

Employee Development

With the help of delegation, we assign new responsibilities to employees. This allows for them to work on a domain which is different from the monotonous routine work, helping them to develop new skills and discover hidden talents. Thus, delegation leads to the development of employees by providing them to expand their area of operation and helping them to grow. Effectively, it increases their future prospects and breeds future managers.

Motivation of Employees

Through the process of delegation, superiors entrust suitable subordinates with the tasks that are assigned to them. This not only leads to the development of talent but also has various psychological benefits. This is because; the faith and trust displayed in the subordinate build his confidence and self-esteem, which ultimately drives him to work harder.

Facilitation of Growth

As mentioned, delegation provides employees with opportunities to develop and effectively trains them as better decision makers and managers. This further aids in the process of expansion of an organisation, as it already has the suitable workforce which is competent enough.

Management Hierarchy

Delegation establishes the superior-subordinate relationship. Also, it directly relates to the extent and flow of authority. This is because authority determines who has to report to whom.

5. Motivating

The ability to motivate is another important skill in an organization. Motivation helps bring forth a desired behavior or response from the employees or certain stakeholders. There are numerous motivation tactics that managers can use, and choosing the right ones can depend on characteristics such as company and team culture, team personalities, and more. There are two primary types of motivation that a manager can use. These are intrinsic and extrinsic motivation.

The ability to motivate is another important skill in an organization. Motivation helps bring forth a desired behavior or response from the employees or certain stakeholders. There are numerous motivation tactics that managers can use, and choosing the right ones can depend on characteristics such as company and team culture, team personalities, and more. There are two primary types of motivation that a manager can use. These are intrinsic and extrinsic motivation. Managers are responsible for overseeing the work of others and motivating a team toward a common goal. They also lead meetings, assign workloads and support collaboration across teams and departments.

NB: Motivation as a subject has been taught in detail in MODULE-A as part of Principles of Management

6. Leadership

Well-developed leadership skills can aid you in coordinating tasks and directing employees to complete work on time and according to plan. They can also prepare you to conduct employee evaluations and foster professional development for team members. Here is some examples of leadership skills:

- Decisiveness
- Team building
- Empathy
- Dependability
- Constructive criticism
- Delegating tasks
- Empowerment
- Integrity
- Mentoring
- Motivating others
- Patience
- Relationship management

7. Problem-solving

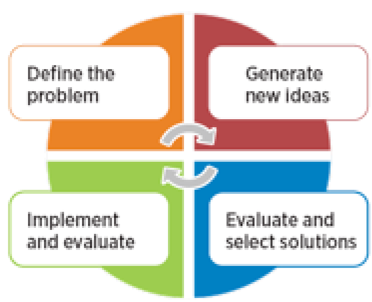
Problem-solving is another essential skill. A good manager must have the ability to tackle and solve the frequent problems that can arise in a typical workday. Problem-solving in management involves identifying a certain problem or situation and then finding the best way to handle the problem and get the best solution. It is the ability to sort things out even when the prevailing conditions are not right. When it is clear that a manager has great problem-solving skills, it differentiates him/her from the rest of the team and gives subordinates confidence in his/her managerial skills.

Problem solving is the act of defining a problem; determining the cause of the problem; identifying, prioritizing, and selecting alternatives for a solution; and implementing a solution.Problem-solving is a mental process that involves discovering, analyzing, and solving problems. The ultimate goal of problem-solving is to overcome obstacles and find a solution that best resolves the issue.

The best strategy for solving a problem depends largely on the unique situation. In some cases, people are better off learning everything they can about the issue and then using factual knowledge to come up with a solution. In other instances, creativity and insight are the best options.

It is not necessary to follow problem-solving steps sequentially, It is common to skip steps or even go back through steps multiple times until the desired solution is reached.

In order to correctly solve a problem, it is often important to follow a series of steps. Researchers sometimes refer to this as the problem-solving cycle. While this cycle is portrayed sequentially, people rarely follow a rigid series of steps to find a solution. The following steps include developing strategies and organizing knowledge.



A strategic manager is someone who can identify inefficiencies and make improvements quickly. They can also determine how to overcome obstacles, complete projects and reach targets. Good managers try different strategies until they find one that works well. They also update their strategies continually to integrate industry advancements. Connecting project methods to overall company goals can ensure strategies are effective. Strategy skills include:

- Strategic thinking
- Problem-solving
- Conflict resolution
- Creativity
- Analytical thinking

➢ HOW TO DEVELOP MANAGEMENT SKILLS

Being in a management position means you have the opportunity to make impactful contributions to an organization and grow your professional career. Enhancing your abilities can help you prepare for the challenges of a leadership role. Here are three steps for developing your management skills:

1. Seek opportunities to lead

Like with all professional abilities, perfecting managerial skills requires time, effort and practice. To practice applying management abilities, look for opportunities to lead within your current position.

For example, you may be able to volunteer to complete urgent tasks, deliver presentations or help train new employees. Seeking more challenging obligations can prove to your supervisor that you're ready for the demands of a management role.

2. Find a role model

Look for great leaders both inside and outside your organization, and take time to observe how they interact with others. Pay close attention to the character traits they exhibit, how they behave under pressure and what they do when they encounter complex challenges.

Consider asking a leader to mentor you to help nurture your managerial talents. While it takes time and experience to become a successful manager, an accomplished leader's advice can help you understand the obstacles and circumstances you may see when leading a team.

3. Ask for feedback

While self-evaluation is important, asking for feedback from others can help you identify areas to improve that you may have otherwise missed. Next time you have an employee evaluation, ask your supervisor for feedback on your organization, planning and strategy, communication and people management skills. Once you know your strengths and weaknesses in these areas, you can continue developing your best attributes and work on areas in need of improvement.

➢ ESSENTIAL COMPONENTS OF EFFECTIVE COMMUNICATION.

1. Verbal and Non-Verbal Communication

- **Verbal Communication**: This involves spoken or written words to convey a message. It includes face-to-face conversations, phone calls, presentations, emails, and reports. Key elements include tone, clarity, vocabulary, and articulation.
- **Non-Verbal Communication**: This refers to body language, facial expressions, gestures, posture, eye contact, and even silence. It can reinforce or contradict verbal messages. For example, maintaining eye contact shows confidence, while crossed arms might indicate defensiveness.

2. Active Listening

Active listening is the process of fully concentrating, understanding, and responding to a speaker. It involves:

- **Paying full attention** (avoiding distractions)
- **Providing feedback** (nodding, paraphrasing, asking clarifying questions)
- **Avoiding premature judgment**
- **Responding appropriately**

3. Feedback

Feedback is the process of providing a response to communication to ensure mutual understanding. It can be:

- **Positive Feedback**: Encourages and reinforces good communication (e.g., "Great job on the presentation!")
- **Constructive Feedback**: Provides guidance for improvement (e.g., "You presented well, but try to slow down for clarity.")
- **Negative Feedback**: Highlights areas of concern but should be given diplomatically to avoid discouragement.

➢ PRESENTATION SKILLS

Effective presentation skills are crucial for delivering clear, engaging, and impactful messages. Key aspects include:

A. Preparation

- Understand your audience (background, interests, and expectations).
- Research your topic thoroughly.
- Organize content logically (Introduction, Main Body, Conclusion).
- Prepare visual aids (slides, charts, videos) to enhance understanding.

B. Delivery Techniques

- **Clear and Confident Speech**: Avoid fillers like "um" and "uh."
- **Body Language**: Maintain good posture, eye contact, and use gestures effectively.
- **Pacing and Tone**: Speak at a moderate pace with variations in tone to maintain interest.
- **Engagement**: Ask questions, encourage participation, and use storytelling techniques.

C. Handling Questions and Feedback

- Listen actively to questions.
- Answer concisely and confidently.
- If unsure, acknowledge and offer to follow up later.

➢ TYPES OF COMMUNICATION BARRIERS & SOLUTIONS

1. **Physical Barriers** (Noise, Distance, Poor Technology)
    - Ensure a quiet environment.
    - Use clear audio-visual aids.

2. **Language Barriers** (Jargon, Accents, Different Languages)
   - Use simple and clear language.
   - Avoid excessive technical terms.
   - Provide translations or explanations if necessary.
3. **Psychological Barriers** (Stress, Emotions, Prejudices)
   - Stay calm and composed.
   - Maintain an open mindset.
   - Encourage positive interaction.
4. **Cultural Barriers** (Different Norms and Values)
   - Be culturally aware and respectful.
   - Adapt communication style based on cultural context.
5. **Perceptual Barriers** (Biases, Assumptions, Misinterpretations)
   - Seek clarification when in doubt.
   - Use active listening to understand the speaker’s intent.

UNIT-II

LEADERSHIP SKILLS AND TEAM MANAGEMENT

Definition

Leadership is the ability to influence, guide, and motivate individuals or teams toward achieving a common goal. It involves decision-making, problem-solving, communication, and conflict resolution.

Team management refers to the coordination and organization of a group to achieve specific objectives effectively. It involves planning, delegation, motivation, and performance evaluation.

➢ IMPORTANCE OF LEADERSHIP AND TEAM MANAGEMENT

- **Enhances Productivity**: Good leadership boosts employee morale and efficiency.
- **Encourages Teamwork**: Effective management fosters collaboration and innovation.
- **Ensures Goal Achievement**: Leadership aligns team efforts with organizational goals.
- **Boosts Employee Engagement**: Employees feel valued and motivated under strong leadership.
- **Facilitates Adaptability**: Leaders help teams navigate changes and challenges.

➢ LEADERSHIP STYLES

Different leaders adopt different styles based on their personality, team, and situation.

1. **Autocratic Leadership** – The leader makes decisions without consulting the team. (Best for emergencies or strict environments)
2. **Democratic Leadership** – The leader involves the team in decision-making. (Encourages creativity and teamwork)

3. **Laissez-Faire Leadership** – The leader provides minimal supervision and trusts employees to make decisions. (Best for highly skilled teams)
4. **Bureaucratic Leadership** – Leadership follows strict rules and procedures. (Works in highly regulated industries)
5. **Charismatic Leadership** – The leader inspires and influences through their personality. (Best for vision-driven organizations)

➢ LEADERSHIP THEORIES

A. Transactional Leadership

- Based on a system of rewards and punishments.
- Focuses on maintaining structure, efficiency, and routine tasks.
- Best for organizations requiring discipline and consistency.
- Example: A sales manager setting targets and offering incentives.

B. Transformational Leadership

- Inspires and motivates employees to achieve extraordinary results.
- Encourages innovation, personal growth, and a shared vision.
- Best for dynamic industries needing creativity and adaptability.
- Example: Elon Musk or Steve Jobs driving vision and innovation.

C. Situational Leadership (Developed by Paul Hersey & Ken Blanchard)

- No single leadership style fits all situations.
- Leaders adapt their style based on the team's maturity and competence.

Four styles:

1. **Telling (Directive)** – High guidance, low support (for beginners).
2. **Selling (Coaching)** – High guidance, high support (for developing employees).
3. **Participating (Supporting)** – Low guidance, high support (for capable but unconfident employees).
4. **Delegating** – Low guidance, low support (for self-reliant employees).

SHORT CASE STUDIES ON LEADERSHIP IMPLEMENTATION

1. Transactional Leadership – Jack Welch (General Electric)

Jack Welch, the former CEO of General Electric (GE), used **transactional leadership** by implementing a performance-based reward system. He introduced the "Rank and Yank" policy, where the bottom 10% of employees were dismissed while top performers were rewarded. This strict but effective approach improved GE's efficiency and profitability.

2. Transformational Leadership – Elon Musk (Tesla & SpaceX)

Elon Musk is a **transformational leader** who inspires innovation and challenges the status quo. His vision for electric cars and space exploration has driven Tesla and SpaceX to remarkable success. By setting high expectations and motivating employees to think creatively, he has revolutionized multiple industries.

3. Situational Leadership – Satya Nadella (Microsoft)

Satya Nadella transformed Microsoft by adopting a **situational leadership** approach. When he became CEO, he encouraged a growth mindset, shifting Microsoft's culture from competition to collaboration. He supported innovation in cloud computing (Azure) while adapting his leadership style based on employee needs.

➢ BUILDING AND LEADING EFFECTIVE TEAMS

1. Building an Effective Team

To build a high-performing team, leaders must focus on:

- **Clear Goals & Vision** – Define objectives and align the team with a common purpose.
- **Right Team Composition** – Select members with diverse skills and strengths.
- **Defined Roles & Responsibilities** – Ensure each member understands their role.
- **Trust & Collaboration** – Create an open and inclusive environment.
- **Effective Communication** – Encourage transparency and active listening.

2. Leading an Effective Team

To ensure team success, leaders should focus on:

- **Strong Leadership** – Inspire, motivate, and set an example.
- **Conflict Resolution** – Address issues constructively.
- **Continuous Feedback** – Provide regular performance feedback.
- **Empowerment & Delegation** – Trust employees with responsibility.
- **Recognition & Motivation** – Reward achievements to boost morale.

3. Key Strategies for Team Success

- **Tuckman's Team Development Model** (Forming, Storming, Norming, Performing, Adjourning) helps understand team growth stages.
- **Agile & Cross-functional Teams** allow flexibility and collaboration in dynamic environments.
- **Emotional Intelligence (EQ)** in leadership fosters strong team relationships.

UNIT-III

EMOTIONAL INTELLIGENCE

➢ Definition of Emotional Intelligence (EI)

Emotional Intelligence (EI) is the ability to recognize, understand, manage, and influence emotions in oneself and others. It plays a vital role in personal and professional life, as it enables individuals to navigate social interactions, handle stress, and make informed decisions. Unlike cognitive intelligence (IQ), which focuses on intellectual abilities, EI is centered on emotional and social skills that contribute to effective communication, leadership, and relationship-building. Psychologist Daniel Goleman popularized the concept of EI, highlighting its significance in leadership and workplace success.

➢ IMPORTANCE OF EMOTIONAL INTELLIGENCE

1. Enhances Leadership Effectiveness

Leaders with high emotional intelligence can understand and manage their emotions while influencing and inspiring their teams. This ability allows them to lead with empathy, communicate effectively, and create a positive work environment. Emotionally intelligent leaders are also better at handling workplace challenges, resolving conflicts, and making well-balanced decisions that benefit the organization.

2. Improves Workplace Relationships and Teamwork

A workplace that values emotional intelligence fosters strong interpersonal relationships and teamwork. Employees with high EI can collaborate more effectively, as they are better at understanding the emotions and perspectives of their colleagues. This leads to a more cohesive team dynamic, where individuals can work together harmoniously, resolve misunderstandings, and support one another in achieving common goals.

3. Strengthens Decision-Making

Emotions play a significant role in decision-making, and individuals with high EI can manage their emotions to make rational and informed choices. They are less likely to make impulsive decisions driven by stress or frustration. Instead, they consider the emotional impact of their decisions on themselves and others, leading to more thoughtful and strategic outcomes. This skill is particularly valuable in high-pressure environments, where maintaining composure is essential for sound judgment.

4. Increases Motivation and Productivity

Emotional intelligence contributes to intrinsic motivation, as individuals with high EI tend to be more driven, adaptable, and committed to their goals. They are better at managing setbacks, staying focused on their objectives, and maintaining a positive attitude in challenging situations. This resilience leads to higher levels of productivity and engagement in the workplace, benefiting both employees and the organization.

5. Helps in Stress Management and Adaptability

Managing stress effectively is crucial for maintaining well-being and performance. Emotionally intelligent individuals can recognize and regulate their stress levels, allowing them to remain calm and composed in demanding situations. They also adapt more easily to change, as they can manage the emotions associated with uncertainty and transition. This adaptability is essential in dynamic work environments where change is constant.

6. Enhances Customer Service and Client Relations

In customer-facing roles, emotional intelligence is essential for understanding and responding to customer needs. Employees with high EI can handle customer concerns with empathy, patience, and professionalism, leading to better customer satisfaction and brand loyalty. By recognizing and addressing customer emotions effectively, businesses can build stronger relationships and improve their reputation in the market.

➢ COMPONENTS OF EMOTIONAL INTELLIGENCE (DANIEL GOLEMAN'S MODEL)

EI consists of **five key components**:

- **Self-Awareness** – Understanding one's emotions and their impact.
- **Self-Regulation** – Managing emotions and staying in control.
- **Motivation** – Being driven to achieve beyond expectations.
- **Empathy** –Understanding others' emotions and perspectives.
- **Social Skills** – Building relationships, communication, and teamwork.

➢ SELF-AWARENESS IN MANAGEMENT

Self-awareness helps managers:

✓ Recognize personal strengths and weaknesses.
✓ Make better decisions based on rational thinking.
✓ Adapt leadership styles to different situations.
✓ Improve interactions with employees and stakeholders.

➢ IMPACT OF EMOTIONS ON DECISION-MAKING

Emotions play a significant role in decision-making, influencing how individuals perceive situations, assess risks, and choose between alternatives. While emotions can provide valuable insights and enhance decision-making, they can also lead to impulsive or biased choices if not managed effectively. Understanding the impact of emotions on decision-making helps individuals make more rational, balanced, and informed decisions.

1. Influence of Positive Emotions

Positive emotions, such as happiness, enthusiasm, and optimism, can enhance decision-making by fostering creativity, problem-solving, and confidence. When individuals are in a positive emotional state, they tend to think more broadly, explore multiple solutions, and take calculated risks. However, excessive optimism can sometimes lead to overconfidence, where individuals underestimate potential risks and make decisions without fully evaluating the consequences.

2. Influence of Negative Emotions

Negative emotions, such as fear, anger, stress, and anxiety, can narrow focus and lead to impulsive or risk-averse decision-making. Fear may cause individuals to avoid taking necessary risks, while anger can result in rushed and irrational choices. Stress can cloud judgment, making it difficult to analyze information objectively. However, negative emotions can also serve as warning signals, helping individuals recognize potential dangers and make more cautious decisions.

3. Emotional Bias in Decision-Making

Emotional biases occur when emotions distort rational thinking, leading to poor decisions. For example, the **confirmation bias** causes individuals to seek information that aligns with their existing emotions and beliefs while ignoring contradictory evidence. Similarly, the **loss aversion bias** leads individuals to prioritize avoiding losses over gaining potential benefits, often resulting in overly conservative decisions. Recognizing these biases helps individuals make more balanced and logical choices.

4. Role of Emotional Intelligence in Decision-Making

Emotional intelligence (EI) helps individuals regulate their emotions and use them constructively in decision-making. Self-awareness allows individuals to recognize how emotions influence their choices, while self-regulation ensures they do not make impulsive decisions based on temporary feelings. Empathy helps in understanding the emotional impact of decisions on others, while motivation and social skills contribute to making ethical and well-thought-out choices.

5. Decision-Making Under Emotional Pressure

High-pressure situations often trigger strong emotions, making decision-making more challenging. Individuals who can manage their emotions effectively remain calm, analyze the situation objectively, and make rational choices. Techniques such as pausing before making a decision, seeking diverse perspectives, and considering long-term consequences can help minimize the negative impact of emotions.

➢ MOTIVATION AND EMOTIONAL INTELLIGENCE

EI-driven motivation goes beyond financial rewards; it includes:

- **Intrinsic Motivation** – Passion for work and self-improvement.
- **Resilience** – Overcoming challenges with a positive attitude.
- **Commitment** – Staying focused on long-term goals.
- **Inspirational Leadership** – Encouraging and energizing team members.

UNIT-IV

PROBLEM-SOLVING SKILLS: PROCESS, TECHNIQUES, CREATIVITY, AND INNOVATION

Problem-solving is the ability to identify challenges, analyze situations, and develop effective solutions. Strong problem-solving skills are essential in both personal and professional life, as they help individuals and organizations overcome obstacles, improve efficiency, and achieve success. Effective problem-solving involves structured processes, various techniques, creativity, and innovation.

➢ Problem-Solving Process

1. **Identifying the Problem**

The first step in problem-solving is recognizing that a problem exists. This involves analyzing the situation, gathering relevant information, and defining the problem clearly. A well-defined problem ensures that solutions are targeted and effective.

2. **Analyzing the Problem**

Once the problem is identified, it is important to examine its root causes and contributing factors. This step may involve data collection, discussions with stakeholders, and breaking the issue down into smaller components to understand its complexity.

3. **Generating Possible Solutions**

Brainstorming multiple solutions allows for creative and diverse approaches. It is essential to consider various alternatives and weigh their advantages and disadvantages before making a decision.

4. **Evaluating and Selecting the Best Solution**

After generating solutions, each option should be analyzed based on feasibility, cost, time, and potential risks. The best solution is chosen based on logical reasoning and expected outcomes.

5. **Implementing the Solution**

The chosen solution is put into action with proper planning, resources, and execution. This step may involve coordination with different teams or individuals to ensure smooth implementation.

6. **Monitoring and Reviewing**

After implementation, it is necessary to evaluate the effectiveness of the solution. If the problem persists, adjustments may be needed, and alternative solutions may be explored.

✓ Problem-Solving Techniques

- **Brainstorming**: Encourages free thinking and the generation of multiple ideas without immediate judgment.
- **Root Cause Analysis (RCA)**: Identifies the underlying causes of a problem rather than just addressing symptoms.
- **SWOT Analysis**: Evaluates strengths, weaknesses, opportunities, and threats to make informed decisions.
- **Pareto Analysis (80/20 Rule)**: Focuses on solving the most significant problems that yield the most impact.
- **Decision Matrix**: Compares multiple options based on criteria such as cost, feasibility, and risk.
- **Trial and Error**: Testing different approaches to see which one works best in real-world scenarios.

✓ Creativity in Problem-Solving

Creativity involves thinking outside the box and generating unique solutions to problems. It requires an open mind, a willingness to take risks, and the ability to see problems from different perspectives. Creative problem-solving often involves unconventional methods and encourages fresh ideas.

✓ Innovation in Problem-Solving

Innovation takes creativity a step further by turning new ideas into practical and effective solutions. It involves improving existing processes, creating new methods, or implementing technology to solve problems in a more efficient and sustainable way. Organizations that foster innovation often stay ahead in competitive markets by continuously improving their products, services, and workflows.

➢ ROOT CAUSE ANALYSIS (RCA) AND ITS TECHNIQUES

Root Cause Analysis (RCA) is a systematic approach to identifying the underlying cause of a problem rather than just addressing its symptoms. It helps organizations prevent recurring issues by finding long-term solutions. Two widely used RCA techniques are the **5 Whys Method** and the **Fishbone Diagram (Ishikawa Diagram).**

✓ 5 Whys Method

The **5 Whys** technique is a simple but powerful tool used to uncover the root cause of a problem by repeatedly asking "Why?" until the fundamental issue is identified. The process typically involves asking "Why?" five times, but it can be adjusted based on the complexity of the problem.

Example:
Problem: A manufacturing company experiences frequent delays in product delivery.

1. **Why** is the delivery delayed? → Because production takes longer than expected.
2. **Why** does production take longer? → Because raw materials arrive late.
3. **Why** do raw materials arrive late? → Because suppliers face frequent stock shortages.
4. **Why** do suppliers have stock shortages? → Because demand forecasting is inaccurate.
5. **Why** is demand forecasting inaccurate? → Because outdated data is used for predictions.

Root Cause Identified: The company uses outdated data for demand forecasting. **Solution:** Implement a real-time inventory management system to improve forecasting accuracy.

✓ **Fishbone Diagram (Ishikawa Diagram)**

The **Fishbone Diagram**, also known as the **Cause-and-Effect Diagram**, helps in visualizing different factors contributing to a problem. It categorizes possible causes into broad areas such as **People, Process, Equipment, Environment, Materials, and Management.**

Example:
Problem: High employee turnover in a company.

- **People:** Lack of motivation, inadequate training.
- **Process:** Lengthy hiring procedures, unclear job roles.
- **Equipment:** Outdated tools, insufficient technology support.
- **Environment:** Poor work culture, stressful work conditions.
- **Materials:** Low-quality resources, lack of necessary supplies.
- **Management:** Weak leadership, lack of recognition.

By analyzing these categories, managers can identify and address the key issues contributing to high employee turnover.

CASE STUDIES

1. Toyota's Use of the 5 Whys in Lean Manufacturing

Toyota implemented the **5 Whys Method** in its **Toyota Production System (TPS)** to identify inefficiencies in manufacturing processes. By repeatedly questioning the root cause of defects, Toyota reduced waste, improved efficiency, and maintained high product quality.

2. Amazon's Customer-Centric Approach

Amazon's management focuses on **Root Cause Analysis (RCA)** to improve customer satisfaction. For example, if a customer receives a damaged product, RCA helps Amazon track whether the issue is due to warehouse handling, packaging errors, or shipping problems. This continuous improvement strategy ensures a seamless shopping experience.

3. Ford's Fishbone Analysis for Quality Control

Ford Motor Company used the **Fishbone Diagram** to analyze vehicle defects and improve production quality. By categorizing potential causes under **People, Process, Equipment, and Materials**, Ford identified key quality issues in assembly lines and significantly reduced manufacturing defects.

CASE STUDIES ON MANAGEMENT PRACTICES

1. Google's People-Centric Management Approach

Management Practice: Employee Engagement & Innovation

Google is known for its exceptional employee management strategies. The company fosters a culture of innovation by giving employees autonomy, flexibility, and opportunities for personal development. One of Google's most famous initiatives was the **"20% Rule,"** which allowed employees to dedicate 20% of their work time to passion projects. This led to the development of products like Gmail and Google Maps. By prioritizing employee engagement and work-life balance, Google has consistently ranked as one of the best workplaces in the world.

Lesson: Empowering employees and fostering innovation can lead to groundbreaking developments and a motivated workforce.

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2. Toyota's Lean Manufacturing & Continuous Improvement

Management Practice: Just-in-Time (JIT) & Kaizen

Toyota revolutionized the automobile industry with its **Toyota Production System (TPS)**, which introduced **Just-in-Time (JIT) manufacturing** to minimize waste and improve efficiency. The company also follows the **Kaizen philosophy**, meaning "continuous improvement," where employees at all levels contribute to process optimization.

By implementing these management techniques, Toyota significantly reduced production costs, improved quality, and maintained high efficiency, making it one of the most successful automobile manufacturers in the world.

Lesson: Continuous improvement and waste reduction can enhance operational efficiency and long-term success.

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3. Amazon's Customer-Centric Strategy

Management Practice: Data-Driven Decision Making & Customer Experience

Amazon's success is largely attributed to its **customer-first approach** and **data-driven decision-making.** The company uses advanced data analytics to predict customer behavior, optimize logistics, and improve personalization. Services like **1-Click Ordering, Prime Membership, and Alexa** were developed based on deep customer insights.

Additionally, Amazon invests heavily in supply chain management to ensure **fast delivery** and **high customer satisfaction.** Their warehouse automation, AI-powered logistics, and smart inventory management have made Amazon the global leader in e-commerce.

Lesson: Using data-driven strategies and prioritizing customer experience can lead to sustainable business growth.

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4. Apple's Leadership and Brand Management

Management Practice: Visionary Leadership & Product Differentiation

Under Steve Jobs' leadership, Apple became one of the most valuable brands in the world. Apple's success is based on **strong leadership, innovative design, and a focus on user experience.** Jobs emphasized the importance of product differentiation, ensuring that Apple's products stood out in terms of design, functionality, and simplicity.

Apple also invests heavily in marketing and brand management, creating a loyal customer base. The iPhone, MacBook, and Apple Watch have maintained dominance in their markets due to their high-quality design and seamless user experience.

Lesson: Strong leadership, brand differentiation, and a focus on user experience can create a lasting competitive advantage.

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5. Ford's Turnaround Strategy under Alan Mulally

Management Practice: Crisis Management & Strategic Leadership

In the mid-2000s, Ford faced severe financial losses and was struggling to stay competitive. When Alan Mulally became CEO in 2006, he implemented a **turnaround strategy** that focused on **cost reduction, streamlining operations, and cultural transformation.** He promoted transparency, teamwork, and data-driven decision-making to improve efficiency.

Mulally's "One Ford" strategy eliminated unprofitable models, strengthened the company's financial position, and improved product quality. As a result, Ford returned to profitability and regained its position as a leading automobile company.

Lesson: Strategic leadership and operational efficiency can help businesses recover from financial crises and achieve long-term growth.

Conclusion

These case studies highlight the importance of effective management practices in achieving business success. **Google** thrives on innovation and employee engagement, **Toyota** excels in efficiency through lean manufacturing, **Amazon** dominates with customer-centric strategies, **Apple** leverages strong leadership and branding, and **Ford** showcases the power of crisis management. Organizations that implement structured management strategies can enhance productivity, customer satisfaction, and overall business growth.

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4) https://fupping.com/taegan/2018/09/08/19-best-books-to-read-on-management-skills
5) https://asana.com/resources/decision-making-process
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SMBME2407 ENTREPRENEURSHIP DEVELOPMENT AND START UP MANAGEMENT

CREDIT HOURS ALLOTED:10 HRS

OBJECTIVE:

- **Understand Entrepreneurship Fundamentals**: Learn the roles, characteristics, and types of entrepreneurs and intrapreneurs.
- **Develop Business Plans**: Master the importance, components, and presentation of business plans.
- **Master Startup Strategies**: Explore market entry, competitive positioning, and Lean Startup methodologies.
- **Enhance Creativity**: Foster innovation through creative problem-solving and idea generation.
- **Protect Intellectual Property**: Understand IPR, including patents, trademarks, and copyrights, and other legal startup issues.
- **Analyze Case Studies**: Learn practical lessons from real-world startup successes and failures.
- **Cultivate an Entrepreneurial Mindset**: Develop resilience, adaptability, and strategic thinking.
- **Foster Corporate Entrepreneurship**: Recognize and develop corporate entrepreneurship for innovation in established organizations.

S.NO.	TOPIC	CREDIT HRS
	UNIT-I	
1	**Introduction to Entrepreneurship**	**2**
1.1	Meaning of Entrepreneur, Enterprise, Entrepreneurship	
1.2	Characteristics, functions, importance	

1.3	Types of Entrepreneurs, Entrepreneur Vs Manager	
1.4	Entrepreneurship and Intrapreneurship: Similarities and variance	
	UNIT-II	
2	**Business Planning and Startup Strategies**	**1**
2.1	Importance of a Business Plan	
2.2	Components of a Business Plan	
2.3	Writing and Presenting a Business Plan	
3	**Startup Strategies**	**1**
3.1	Market Entry Strategies (Direct, Partnerships, Franchising)	
3.2	Competitive Analysis and Positioning	
3.3	Developing a Minimum Viable Product (MVP) and Lean Startup Methodology	
	UNIT-III	
4	**Creativity and Business Idea Generation**	**2**
4.1	Concept of creativity, ideas from trend analysis, sources of new ideas, Methods of generating new ideas	
4.2	Creative problem solving, creativity and entrepreneurship	
	UNIT-IV	
5	**Protecting Ideas and Legal Issues for the Entrepreneur**	2
5.1	Concept of IPR, Patents, Trademarks, Copyrights, Licensing, Product Safety, Other Legal Issues in Setting Up An Organisation.	
5.2	**Case studies:** Analysis of Successful and Failed Startups, Lessons Learned from Real-World Examples	1

REFERENCE BOOKS:

- **Entrepreneurship: Theory, Process, and Practice"** by Donald F. Kuratko

- **"The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses"** by Eric Ries
- **"Business Model Generation"** by Alexander Osterwalder and Yves Pigneur
- **"Creativity, Inc.: Overcoming the Unseen Forces That Stand in the Way of True Inspiration"** by Ed Catmull and Amy Wallace
- **"Intellectual Property: Patents, Trademarks, and Copyright in a Nutshell"** by Arthur R. Miller and Michael H. Davis
- **"Startup Owner's Manual: The Step-by-Step Guide for Building a Great Company"** by Steve Blank and Bob Dorf
- **"The Art of the Start 2.0: The Time-Tested, Battle-Hardened Guide for Anyone Starting Anything"** by Guy Kawasaki
- **"Corporate Entrepreneurship: Innovation and Strategy in Large Organizations"** by Paul Burns
- **"Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant"** by W. Chan Kim and Renée Mauborgne
- **"Entrepreneurship Development"** by S.S. Khanka
- **"Entrepreneurial Development"** by C.B. Gupta and N.P. Srinivasan
- **"Managing Creativity and Innovation"** by Harvard Business Review
- **"Intellectual Property Rights: Unleashing the Knowledge Economy"** by Prabuddha Ganguli

LINKS TO IMPORTANT INTERNET BASED BOOKS/YOUTUBE/ARTICLE

https://www.entrepreneur.com/

http://www.free-management-ebooks.com/index.htm

https://librarygenesis.net/

https://www.ebooks.com/en-in/category/business-and-economics/human-resources-and-personnel-management/502/

INTRODUCTION TO ENTREPRENEURSHIP

- **THE ENTERPRISE** is some business structure/object that usually carries out some commercial activity, creates new job positions, gains some profits.

- **ENTREPRENEURSHIP** is the art of starting a business, basically a startup company offering creative product, process or service. We can say that it is an activity full of creativity. An entrepreneur perceives everything as a chance and displays bias in taking decision to exploit the chance. An enterprise is created by an entrepreneur. The process of creation is called "entrepreneurship

- **AN ENTREPRENEUR** The word "entrepreneur" is derived from the French verb enterprendre, which means 'to undertake'. This refers to those who "undertake" the risk of new enterprises. is a creator or a designer who designs new ideas and business processes according to the market requirements and his/her own passion. To be a successful entrepreneur, it is very important to have managerial skill and strong team building abilities. Leadership attributes are a sign of successful entrepreneurs.

- **CHARACTERISTICS OF ENTREPRENEURSHIP**

1. Ability to Take a Risk

There is always the possibility of having a loss in a new venture. So an entrepreneur must be ready to bear a considerable amount of failure risk. For this purpose, he/she needs enough courage and the ability to evaluate and take the risks, which is the most important quality of an entrepreneur.

2. Innovation

Innovation is one of the most demanding characteristics for successful entrepreneurship to adapt to the changing business environment. Entrepreneurs should be highly innovative to **think of new and unique ideas, start a company, and make profits.** This innovation or change can be related to the launch of a new product in the market or introducing a process that can do the same work more effectively and efficiently.

3. Visionary and Leadership Quality

An entrepreneur must have a clear vision of his/her start-up and ideas. Other than this, leadership skills are also highly required to guide the employees and bring harmony to the organization to achieve success.

4. Open-minded

An entrepreneur must have the ability to convert every circumstance into an **opportunity** and use it for the **company's benefit.** For this purpose, the entrepreneur must be open-minded. For example, the online transaction company **Paytm** recognized the gravity of demonetization and accept the market requirement of online transactions. To convert this opportunity into benefit, the company expanded its business at a huge level by massive advertisement and understanding the effect of the situation at the right time.

5. Flexible

An entrepreneur should have enough flexibility to adapt to the changing business environment and various situations. A business person should be always ready to make changes in the products and services whenever required as per the **customers' tastes and preferences.** Such an attitude helps in defeating the competitors and attracting a huge number of customers.

6. Know Your Product

For successful entrepreneurship, the owner of the company should have the proper knowledge about the product and services that the company is offering. The owner should also be aware of the latest trend and changes in the market to fulfill the consumers' demand.

IMPORTANCE OF ENTREPRENEURSHIP

Entrepreneurship is very important not only for individuals but also for the whole economy. It helps in increasing the GDP of a country and also improves the Human Development Index (HDI). It promotes technology and modernization in the country. Some of the vital roles played by entrepreneurship are as follows:

- **Creation of Employment**

One of the major importance of entrepreneurship is the **creation of job opportunities in the economy.** It helps the un-experienced and fresher to get an entry-level job not only to improve their resume but also to get **experience, training, and skills.**

- **Innovation**

Entrepreneurship supports **innovative ideas and plans.** It provides new product ventures, technology, services, market, etc. to the society which led to the development of a nation and increases the standard of living. The innovation saves **time, money, and resources.**

- **Impact on Society**

The large and diversified employment opportunities led to the development of society. It supports the livelihood of the society with higher expenditure on **education, health, and sanitization, fewer slums, reduced poverty, etc.** In short, entrepreneurship takes a company towards a high quality of community life.

- **Increase Standard of Living**

By providing employment opportunities and increasing income, entrepreneurship helps in improving the standard of living of a person. Here, the standard of living means, more consumption of goods and services by an individual or household for the betterment of life.

- **Supports Research and Development**

Before launching a new product or service into the market, it is must to do **proper research and testing** to avoid any market uncertainty. For this purpose, the entrepreneur discharges finance to research institutions and universities which further helps in the promotion of research, general construction, and development in the economy of a country.

TYPES OF ENTREPRENEURS

1. Small Business Entrepreneurship-

These businesses are a hairdresser, grocery store, travel agent, consultant, carpenter, plumber, electrician, etc. These people run or own their own business and hire family members or local employee. For them, the profit would be able to feed their family and not making 100 million business or taking over an industry. They fund their business by taking small business loans or loans from friends and family.

2. Scalable Startup Entrepreneurship-

This start-up entrepreneur starts a business knowing that their vision can change the world. They attract investors who think and encourage people who think out of the box. The research focuses on a scalable business and experimental models, so, they hire the best and the brightest employees. They require more venture capital to fuel and back their project or business.

3. Large Company Entrepreneurship-

These huge companies have defined life-cycle. Most of these companies grow and sustain by offering new and innovative products that revolve around their main products. The change in technology, customer preferences, new competition, etc., build pressure for large companies to create an innovative product and sell it to the new set of customers in the new market. To cope with the rapid technological changes, the existing organisations either buy innovation enterprises or attempt to construct the product internally.

4. Social Entrepreneurship-

This type of entrepreneurship focuses on producing product and services that resolve social needs and problems. Their only motto and goal is to work for society and not make any profits.

PRACTICE QUESTIONS

Q1. Who is the father of entrepreneurship?

Ans: Joseph Alois Schumpeter is regarded as the father of entrepreneurship. He introduced the concept of entrepreneurship.

Q2. What are the two main types of entrepreneurship?

Ans: There are many types of entrepreneurship, two examples of such are:
1. Small business entrepreneurship 2. Large company entrepreneurship

Q3. What are the key concepts of entrepreneurship?

Ans: The 4 key concepts of entrepreneurship are as follows:

1. Innovation
2. Risk taking
3. Vision
4. Organization

Q4. What are entrepreneur traits?
Some of the most important entrepreneurial traits are:

1. Passion
2. Risk taking ability
3. Persisting nature
4. Innovative
5. Leading from the front
6. Ethical in nature

- **ENTREPRENEUR VS MANAGER**

BASIS	ENTREPRENEUR	MANAGER

BASIS	ENTREPRENEUR	MANAGER
Origin	Entrepreneurs create and start businesses.	Managers enter established businesses to maintain and improve operations.
Risk	Entrepreneurs are responsible for the strategic direction and vision of the company.	Managers work to mitigate risks within an established business.
Responsibility	Entrepreneurs are responsible for the strategic direction and vision of the company.	Managers focus on the execution of these strategies and day-to-day operations.
Innovation	Entrepreneurs are known for their innovative thinking and ability to identify new opportunities	Managers, however, often focus on improving efficiency within existing frameworks
Ownership	Entrepreneurs typically own the business and bear the financial risks.	Managers are usually employees and do not bear the financial risk, though they might hold shares or other incentives.
Resource Allocation	Entrepreneurs are responsible for securing resources (like funding) needed for the business.	Managers, however, are tasked with efficiently utilizing these resources to achieve the company's goals.
Decision-Making	Entrepreneurs often make decisions based on their vision and long-term	Managers, on the other hand, make decisions within the

BASIS	ENTREPRENEUR	MANAGER
	goals for the company. They have the freedom to take calculated risks.	framework set by the business and primarily focused on operational efficiency and effectiveness.

➢ ENTREPRENEURSHIP AND INTRAPRENEURSHIP: SIMILARITIES AND VARIANCE

Key Differences:

1. Risk and Ownership:

- Entrepreneurs bear the full risk and financial liability of their ventures, as they often invest their personal funds or secure external investments.
- Intrapreneurs operate within the safety net of an established company, sharing the risk with the organization. They might have access to company resources and funding.

2. Resources and Support:

- Entrepreneurs typically have limited resources and need to seek external funding or bootstrap their ventures.
- Intrapreneurs can leverage the resources, infrastructure, and financial backing of their parent company, which reduces the financial burden on them.

3. Autonomy and Decision-Making:

Entrepreneurs enjoy a high level of autonomy and decision-making power, as they are solely responsible for their business.

- Intrapreneurs may have to work within the existing hierarchy of the company, which can impact their decision-making authority.

Key Similarities:

1. Innovation:

Both entrepreneurship and intrapreneurship emphasize innovation and the pursuit of creative solutions to address market needs or challenges.

2. Problem-Solving:

Entrepreneurs and intrapreneurs alike focus on identifying problems and finding effective solutions, whether in the context of a new startup or an established company.

3. Market Orientation:

Both approaches require a deep understanding of the market, customer needs, and trends to create offerings that resonate with the target audience.

UNIT-II

BUSINESS PLANNING AND STARTUP STRATEGIES

WHAT IS A BUSINESS PLAN?

A business plan is a document that outlines a company's goals and the strategies to achieve them. It's valuable for both startups and established companies. For startups, a well-crafted business plan is crucial for attracting potential lenders and investors. Established businesses use business plans to stay on track and aligned with their growth objectives. This article will explain the key components of an effective business plan and guidance on how to write one.

COMMON ELEMENTS OF A BUSINESS PLAN

The length of a business plan can vary greatly from business to business. Regardless, gathering the basic information into a 15- to 25-page document is best. Any additional crucial elements, such as patent applications, can be referenced in the main document and included as appendices.

- **Common elements in many business plans include:**

- **Executive summary**: This section introduces the company and includes its mission statement along with relevant information about the company's leadership, employees, operations, and locations.
- **Products and services**: Describe the products and services the company offers or plans to introduce. Include details on pricing, product lifespan, and unique consumer benefits. Mention production and manufacturing processes, relevant patents, proprietary technology, and research and development (R&D) information.
- **Market analysis**: Explain the current state of the industry and the competition. Detail where the company fits in, the types of customers it plans to target, and how it plans to capture market share from competitors.
- **Marketing strategy**: Outline the company's plans to attract and retain customers, including anticipated advertising and marketing campaigns. Describe the distribution channels that will be used to deliver products or services to consumers.
- **Financial plans and projections**: Established businesses should include financial statements, balance sheets, and other relevant financial information. New businesses should provide financial targets and estimates for the first few years. This section may also include any funding requests.

➢ WHY DO BUSINESS PLANS FAIL?

A business plan isn't a surefire recipe for success. The plan may have been unrealistic in its assumptions and projections. Markets and the economy might change in ways that couldn't have been foreseen. A competitor might introduce a revolutionary new product or service. All this calls for building flexibility into your plan, so you can pivot to a new course if needed.

➢ HOW TO WRITE A SMALL STARTUP BUSINESS PLAN

Use this guide for entrepreneurs to develop or tweak a startup business plan. By following this easy six-step process, you'll soon have a clear path to startup success.

1. Clarify the startup vision, mission, and values

The first step to writing a startup business plan is understanding the startup itself. Once you know what your startup does, ask yourself why. What is the startup's mission? What problem will it help customers solve? The startup's mission statement helps define its reason for existing. It’s usually expressed in a simple sentence, but can also be written as a short paragraph.

2. Outline the executive summary

Now that you have an idea for your startup, its mission, and a vision in mind, it's time to write your startup business plan executive summary.

Keep it simple and precise. Begin by writing a one-sentence startup business plan introduction that showcases the core customer need/pain point and how you propose to solve it.

3. Develop startup goals and milestones

Next, write down the milestones and goals for your startup business plan. This is a crucial step that many entrepreneurs forget when they're starting out.Do you want to focus on getting new customers? Or attaining a specific revenue number? Without clear short-term goals, it can be hard to know how to prioritize startup tasks.

4. Write a company description

Answer the two fundamental questions — who are you and what will you do? Then, give an introduction to why you're in business. Provide a summary of introspective goals, clarifying intangible aspects such as values or cultural philosophies. Make sure to mention:

- Proposed business structure (limited partnership, sole proprietorship, incorporated company, or a general partnership)
- Business model
- Industry
- Business vision and mission statement
- Background information of your team members

5. Conduct market analysis

Choosing the right market is crucial to your organization's success. There are different kinds of products and services that a business can offer and each has particular requirements for a successful market fit. If you choose one that doesn't have a large enough customer base or is not profitable enough, your company may end up struggling for every sale.

Ensure that there is a clear market niche — an ideal audience of customers with a need or a pain point that your business can help solve.

6. Develop startup partnerships and resources

When you're launching a small startup, one of the most important things that your business needs is capital. There are several ways to get going on this front. When thinking about sources of funding for startups, consider startup grants, startup loans, startup investors, and startup accelerators.

7. Write a startup marketing plan and startup budget

Your startup business plan is almost complete! All that's left is to create a startup marketing plan and budget. Your startup marketing plan will help you define your company's target audience and brand image.The startup budget is an integral part of any startup that helps you take the guesswork out of writing expenses.

➢ STARTUP STRATEGIES FOR SUCCESS

Starting a business requires careful planning, innovation, and execution. Here are some essential startup strategies to maximize success:

1. Market Research and Validation

- Identify target customers and their needs.
- Conduct surveys, interviews, and competitor analysis.
- Test ideas with a Minimum Viable Product (MVP).

2. Unique Value Proposition (UVP)

- Define what makes your product/service unique.
- Focus on solving a specific problem better than competitors.

3. Business Model Selection

- Choose a sustainable revenue model (e.g., subscription, freemium, marketplace).
- Ensure cost structure and pricing are competitive and profitable.

4. Financial Planning and Bootstrapping

- Manage cash flow efficiently.
- Explore funding options (self-funding, angel investors, venture capital, crowdfunding).

5. Building the Right Team

- Hire skilled individuals who align with the startup's vision.
- Encourage a culture of innovation and agility.

6. Effective Marketing and Branding

- Develop a strong brand identity.
- Leverage digital marketing (SEO, social media, content marketing).
- Utilize influencer and referral marketing.

7. Strategic Partnerships and Networking

- Collaborate with other businesses for mutual growth.
- Attend industry events and seek mentorship.

8. Scalability and Growth Strategies

- Optimize operations for future expansion.
- Expand product lines, enter new markets, or adopt franchising models.

9. Adaptability and Continuous Learning

- Stay updated with industry trends.
- Pivot business strategies when necessary based on market feedback.

10. Market Entry Strategies

1. **Direct Entry** – The company enters the market independently by setting up operations, selling online, or opening physical stores.
2. **Partnerships** – Collaborating with existing businesses (e.g., joint ventures, strategic alliances) to gain market access and resources.
3. **Franchising** – Allowing other entrepreneurs to use your business model, brand, and operational guidelines in exchange for fees/royalties.

11. Competitive Analysis and Positioning

- **Competitive Analysis** – Evaluating competitors' strengths, weaknesses, pricing, marketing, and product offerings to identify gaps.
- **Positioning** – Establishing a unique market position by differentiating through price, quality, innovation, or customer service.

12. Developing a Minimum Viable Product (MVP) and Lean Startup Methodology

- **MVP** – A basic version of a product with essential features to test its market viability and gather feedback.
- **Lean Startup Methodology** – A process of launching, testing, and iterating a business idea with minimal resources to reduce risks and maximize learning.

UNIT-III

CREATIVITY AND BUSINESS IDEA GENERATION

WHAT IS IDEA GENERATION?

This is the first and most important step in product development. It involves collecting ideas from various sources. These sources include individuals, groups or communities willing to provide their ideas.

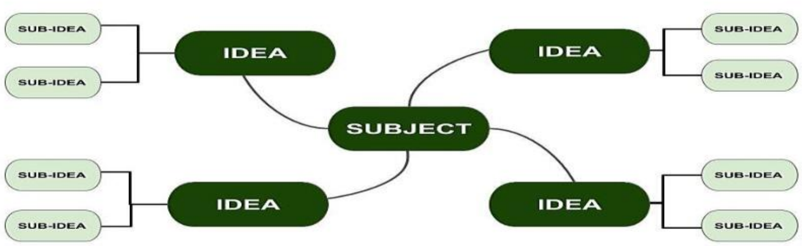
TECHNIQUES/ METHODS OF IDEA GENERATION:

1. **Brainstorming:** Brainstorming is a collaborative and creative technique to create a wide range of ideas for a specific problem or task. It typically involves a group of individuals but can also be done individually.

Example: In a brainstorming session for a new restaurant concept, team members might suggest ideas like a themed menu based on classic movies, an interactive dining experience, or a sustainable farm-to-table approach

2. **Mind Mapping**: Visual brainstorming techniques like mind mapping help organize ideas in a structured and interconnected manner. It starts with a central idea or concept and branches into related subtopics or ideas.

Example: When planning a marketing strategy, you can create a mind map with the central idea "Marketing Plan" branching into subtopics like "Target Audience," "Advertising Channels," "Budget Allocation," and "Key Performance Indicators (KPIs)."



3. SWOT Analysis: SWOT Analysis is a strategic planning tool to assess a business or project's internal strengths and weaknesses and external opportunities and threats in the market or environment.

Example: In a SWOT Analysis for a small retail business, strengths might include a loyal customer base, while weaknesses could involve limited financial resources. Opportunities could include expanding into e-commerce, while threats might include a downturn in the local economy.

4. SCAMPER Technique

The SCAMPER technique is a creative thinking tool offering seven ways to manipulate existing ideas, products, or processes to generate new and innovative solutions. Each letter in SCAMPER represents a specific action:

ROLE OF IDEA GENERATION IN INNOVATION AND PROBLEM-SOLVING

Idea generation is pivotal in innovation and problem-solving, the initial spark driving progress. Take Apple Inc. as an example. Their relentless commitment to idea generation has led to groundbreaking innovations like the iPhone. Apple has revolutionized communication, work, and entertainment by continuously generating and refining ideas. In problem-solving, idea generation helps identify novel solutions. When Apple faced declining sales in the early 2000s,

Steve Jobs' idea to create sleek, user-friendly products and innovative marketing revitalized the company. Thus, idea generation fuels innovation by spawning fresh concepts and problem-solving by offering creative approaches to challenges, leading to remarkable advancements and successful business strategies.

WHAT IS CREATIVITY IN THE WORKPLACE?

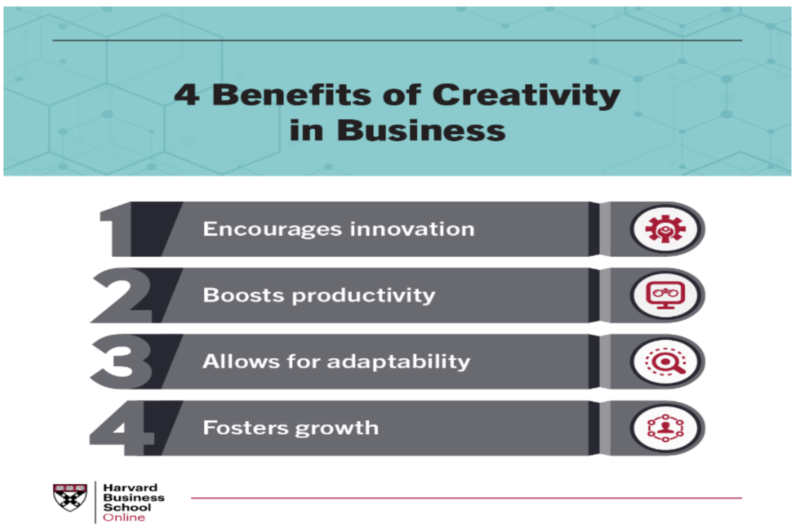
Creativity is the ability to think outside the box and generate new and original ideas. It plays a crucial role in problem-solving and entrepreneurship by enabling:

- **Divergent Thinking** – Exploring multiple possibilities.

- **Innovation** – Developing novel products, services, or processes.
- **Adaptability** – Finding unique ways to overcome challenges.

WHY IS CREATIVITY IMPORTANT?

Creativity serves several purposes. It not only combats stagnation but facilitates growth and innovation.



1. It Accompanies Innovation

For something to be innovative, there are two requirements: It must be novel and useful. While creativity is crucial to generate ideas that are both unique and original, they're not always inherently useful. Innovative solutions can't exist, however, without a component of creativity.

2. It Increases Productivity

Creativity gives you the space to work smarter instead of harder, which can increase productivity and combat stagnation in the workplace. Routine and structure are incredibly important but shouldn't be implemented at the expense of improvement and growth. When a creative and innovative environment is established, a business's productivity level can spike upward.

3. It Allows for Adaptability

Sometimes events—both internal and external—can disrupt an organization's structure. For example, the COVID-19 pandemic has dramatically changed how the present-day business world functions. In such instances, imaginative thinking and innovation are critical to maintaining business operations.

4. It's Necessary for Growth

One of the main hindrances to a business's growth is cognitive fixedness, or the idea that there's only one way to interpret or approach a situation or challenge.

CREATIVE PROBLEM SOLVING (CPS)

Creative Problem Solving is a structured approach to identifying challenges, generating innovative solutions, and implementing them effectively. It involves:

- **Problem Identification** – Recognizing and defining the issue.
- **Idea Generation** – Brainstorming and exploring creative solutions.
- **Evaluation & Selection** – Assessing ideas and selecting the best one.
- **Implementation** – Turning ideas into actionable plans.
- **Reflection & Adaptation** – Reviewing results and making improvements.

HOW THE THREE CONCEPTS WORK TOGETHER

Concept	Role	Impact on Business
Creativity	Generates innovative ideas	Leads to new products, services, and marketing strategies

Concept	Role	Impact on Business
Creative Problem Solving (CPS)	Provides a structured way to implement creative ideas	Helps in overcoming business challenges effectively
Entrepreneurship	Turns creative solutions into profitable ventures	Leads to business growth, innovation, and industry disruption

Example of Integration: Uber

1. **Creativity:** The idea of using an app to connect riders with drivers.
2. **CPS:** Solving issues like pricing, driver availability, and safety regulations.
3. **Entrepreneurship:** Turning the idea into a multi-billion-dollar global business.

Creative Problem Solving, Creativity, and Entrepreneurship are interdependent:

- **Creativity sparks new ideas.**
- **CPS transforms those ideas into practical solutions.**
- **Entrepreneurship applies these solutions to build successful businesses.**

A business or startup cannot succeed without leveraging all three elements. Entrepreneurs must cultivate creative thinking, use CPS techniques, and apply innovative strategies to stay ahead in the market.

QUESTIONS:

1. What is idea generation and why is it important?

ANS; Idea generation is a process that is used to form new ideas. Idea generation is important because it helps people find new solutions to problems by helping an individual come up with ideas that they otherwise might not have.

2. What are the methods of idea generation?

ANS: There are several idea generation methods. These include brainstorming, the SCAMPER technique, role-playing, saving discussions for later, storyboarding, questioning assumptions, and building on theory.

3. What is the goal of idea generation?

ANS:The goal of idea generation is to convert intangible ideas into a more tangible course of action. It is also used to come up with as many ideas as possible.

UNIT-IV

PROTECTING IDEAS AND LEGAL ISSUES FOR THE ENTREPRENEUR

WHAT IS INTELLECTUAL PROPERTY?

Intellectual property rights are any and all rights associated with intangible assets owned by a person or company and protected against use without consent. Intangible assets refer to non-physical property, including right of ownership in intellectual property. **Examples of intellectual property rights include:**

• Patents • Domain names • Industrial design • Confidential information • Inventions • Moral rights • Database rights • Works of authorship • Service marks	• Logos • Trademarks • Design rights • Business or trade names • Commercial secrets • Computer software

TYPES OF IPR

- **Patents** – Protects inventions and technological innovations.
- **Trademarks** – Protects brand names, logos, and slogans.
- **Copyrights** – Protects literary, artistic, and musical works.
- **Industrial Designs** – Protects the aesthetic or visual appearance of products.
- **Trade Secrets** – Protects confidential business information like formulas and processes.

1. PATENTS

Patents apply to industrial processes and inventions, and protect against the unauthorised implementation of the invention.

Patents are grants made by national governments that give the creator of an invention an exclusive right to use, sell or manufacture the invention. Like trademarks, patents are registered at a national or territory level with an appointed government body. Patents typically take 2 to 3 years to be granted.

Example: Tesla's Electric Car Patents – **Tesla has numerous patents for battery technology and electric vehicle designs.**

2. TRADEMARKS

A trademark is intended to prevent confusion in the marketplace. A trademark can be a name, word, slogan, design, symbol or other unique device that identifies a product or organisation. It is quite literally ‘a mark under which you trade’.

Trademark can be represented by the 'R in a circle' ® denoting a registered trademark, or the letters 'TM'. The USA additionally has a separate classification for services using the letters 'SM' to denote a 'service mark'. Service marks have the same legal protection as trademarks.

Types of Trademarks

- **Word Marks** – Brand names like "Nike" or "Coca-Cola."
- **Logos and Symbols** – Apple’s apple logo.
- **Taglines/Slogans** – McDonald's "I'm Lovin' It."
- **Colors and Sounds** – The unique sound of Intel’s logo animation.

Example: The Nike "Swoosh" Logo **– Trademarked as a brand identifier.**

3. COPYRIGHT

It applies to recorded artistic and literary works. This includes a wide range of works, including:

- Literary works, such as poetry, song lyrics, manuscripts, manuals, computer programs/software, website code/scripts and text content, commercial documents, leaflets, newsletters and articles etc.
- Dramatic works, such as plays, dance choreography, etc.
- Musical works, in both sound recordings and score or notation.
- Artworks, such as photography, painting, digital art, sculptures, technical drawings/diagrams, maps, logos, etc.
- Typographical arrangement of published editions such as in magazines and periodicals.
- Sound recordings, which includes recordings of other copyright works, e.g. a performance of musical or literary work.
- Films, video footage, broadcasts and cable programmes.

Example: Harry Potter Series **– J.K. Rowling's books and characters are copyrighted.**

4. LICENSING

Licensing is a legal agreement where the owner of intellectual property (licensor) grants another party (licensee) permission to use their intellectual property (IP) under specific terms and conditions

Benefits of Licensing

✓ **Revenue Generation** – Licensors earn royalties without producing the product.
✓ **Brand Expansion** – Companies can expand into new markets without direct investment.
✓ **Risk Reduction** – Licensees take responsibility for local business operations.

Challenges in Licensing

- ✓ **Loss of Control** – Licensees may damage brand reputation if quality is not maintained.
- ✓ **Legal Disputes** – Poorly drafted agreements can lead to conflicts.
- ✓ **Dependency** – Over-reliance on licensing can reduce direct business growth.

5. PRODUCT SAFETY

Product safety refers to the process of ensuring that consumer goods are free from defects or hazards that could harm users.

Why Product Safety Matters?

- **Protects Consumers** – Prevents injuries, illnesses, and fatalities.
- **Avoids Legal Liabilities** – Reduces lawsuits and penalties.
- **Enhances Brand Trust** – Ensures customer satisfaction and loyalty.

- **Regulatory Compliance** – Businesses must follow government safety standards.

Key Aspects of Product Safety

1. **Safety Regulations & Standards**
   - **ISO 9001 & ISO 13485** – International quality and medical device safety standards.
   - **BIS (Bureau of Indian Standards)** – India's product safety regulations.
   - **FDA (Food and Drug Administration, USA)** – Ensures food and drug safety.
2. **Testing & Certification**
   - **Quality Control Tests** – Assess durability, toxicity, and electrical safety.
   - **CE Marking** – Indicates conformity with European safety standards.
   - **UL Certification** – Ensures electrical and fire safety compliance.
3. **Product Recalls**
   - Occurs when a defective product poses a risk to consumers.
   - Example: **Samsung Galaxy Note 7 recall due to battery explosion risks.**
4. **Consumer Awareness**
   - Clear labeling, usage instructions, and hazard warnings are required.
   - Example: **"Choking Hazard" labels on children's toys.**

Challenges in Product Safety

⚠ **High Testing Costs** – Compliance with safety regulations can be expensive.
⚠ **Supply Chain Risks** – Poor quality control in manufacturing can lead to unsafe products.
⚠ **Evolving Safety Standards** – Businesses must continuously update their processes.

❖ CASE STUDIES: ANALYSIS OF SUCCESSFUL AND FAILED STARTUPS & LESSONS LEARNED

Startups play a crucial role in innovation, but while some achieve massive success, others fail due to various reasons. Below are real-world case studies of both successful and failed startups

❖ SUCCESSFUL STARTUPS

1. AIRBNB: DISRUPTING THE HOSPITALITY INDUSTRY

Founded: 2008 | **Industry:** Hospitality | **Valuation:** $100B+

Background

Brian Chesky and Joe Gebbia started Airbnb when they struggled to pay rent. They rented out air mattresses in their apartment to visitors during a conference and realized the potential of a home-sharing marketplace.

Key Success Factors

- ✓ **Market Disruption** – Provided a unique alternative to hotels.
- ✓ **Lean Startup Approach** – Started small, iterated based on customer feedback.
- ✓ **Strong Community Engagement** – Focused on trust and reviews for credibility.
- ✓ **Scalability & Technology** – Built a seamless digital platform for bookings.

Lessons Learned

- **Solve a real problem.** Airbnb addressed the issue of expensive accommodations.
- **Leverage the sharing economy.** Allowed homeowners to monetize their spaces.
- **Build trust.** Customer reviews and verification processes ensured safety.

2. TESLA: REVOLUTIONIZING ELECTRIC VEHICLES

Founded: 2003 | **Industry:** Automotive | **Market Cap:** $800B+

Background

Tesla, led by Elon Musk, aimed to make electric vehicles (EVs) mainstream by producing high-performance and sustainable cars.

Key Success Factors

✓ **Innovation & Vision** – Pioneered advanced EV technology and autonomous driving.
✓ **Vertical Integration** – Controlled manufacturing, battery production, and charging networks.
✓ **Brand & Leadership** – Elon Musk's vision attracted massive customer and investor interest.
✓ **Government Incentives** – Benefited from subsidies for EV adoption.

Lessons Learned

- **Think long-term.** Tesla invested in R&D for years before profitability.
- **Control key resources.** Owning battery production reduced dependency.
- **Sustainability matters.** Customers value environmentally friendly solutions.

FAILED STARTUPS

1. THERANOS: THE $9 BILLION FRAUD

Founded: 2003 | **Industry:** HealthTech | **Collapse:** 2018

Background

Elizabeth Holmes founded Theranos, claiming its technology could perform 200+ blood tests using a single drop of blood. The company raised billions but never delivered on its promises.

Reasons for Failure

✕ **Lack of Scientific Proof** – The technology never worked as claimed.
✕ **Secrecy & Fraud** – Misled investors, regulators, and customers.
✕ **Poor Leadership Ethics** – Leadership prioritized hype over honesty.

Lessons Learned

- **Transparency is critical.** Startups must validate claims before scaling.
- **Ethics matter.** Misleading investors and customers can destroy a company.
- **Real innovation requires testing.** Breakthroughs need scientific backing.

2. WEWORK: OVERVALUATION & MISMANAGEMENT

Founded: 2010 | **Industry:** Co-working Spaces | **Failed IPO:** 2019

Background

WeWork, led by Adam Neumann, aimed to redefine office spaces by offering flexible co-working environments. It raised billions but collapsed before its IPO due to financial mismanagement.

Reasons for Failure

- **Unrealistic Valuation** – Raised money at an inflated $47B valuation, later plummeting.
- **Leadership Issues** – CEO Adam Neumann's extravagant lifestyle hurt investor trust.
- **Unprofitable Business Model** – High lease costs with low profitability.

Lessons Learned

- **Sustainable growth is key.** Rapid expansion without profits is risky.
- **Strong governance is necessary.** Poor leadership can lead to downfall.
- **Real estate is different from tech.** Traditional businesses require financial discipline.

KEY TAKEAWAYS FROM STARTUPS

Factor	Successful Startups	Failed Startups
Product/Service	Solves a real problem	Overpromised, underdelivered

Factor	Successful Startups	Failed Startups
Leadership	Visionary, disciplined	Mismanagement, poor ethics
Business Model	Profitable, scalable	Unsustainable, unprofitable
Customer Focus	Built trust, engagement	Ignored user needs
Transparency	Open about challenges	Misled investors

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