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BCOC-132
Business Organisation and Management

Functional Areas of Management

5

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Block

5

FUNCTIONAL AREAS OF MANAGEMENT

UNIT 18
Marketing Management 5

UNIT 19
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UNIT 20
Human Resource Management 50

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BLOCK 5 FUNCTIONAL AREAS OF MANAGEMENT

You have learnt foundation of Indian business covering introductory aspects of business, technological innovation, social responsibility and emerging opportunities in business in Block-1.The Business Enterprises covering forms of business organisations, public enterprises and international business including Multi-national Corporation have been discussed in Block-2. You have been exposed to various dimensions of managerial functions like planning and decision making, organising, departmentation and forms of authority relationship, delegation of authority and decentralisation as well as techniques of control in Block-3. Communication and Coordination, motivation, leadership and team building have been discussed in Block-4.

This last Block-5 entitled 'Functional Areas of Management' will expose you to the important functional areas of management like marketing, finance and human resource management. These are very significant areas of management.

Unit 17 entitled 'Marketing Management' discusses the concept and evolution of marketing, the importance of marketing and marketing in a developing country. The marketing mix, concept of product life cycle and basics of pricing have been further discussed.

Unit 18 entitled 'Financial Management' describes the concept and objectives of financial managment, the sources of fund covering equity shares, debentures as well as venture capital and lease finance. The security market and role of SEBI have been further elaborated.

Unit 19 entitled 'Human Resource Management' discusses the definition and functions of HRM, the skills of HR professional, competitive challenges and dynamics of employer-employee relations. The employee empowerment and employee engagement have been further elaborated.

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UNIT 18 MARKETING MANAGEMENT

Structure

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18.0 OBJECTIVES

After studying this unit, you should able to:

- explain the meaning of the term marketing and various marketing concepts
- state the importance of marketing to the business, the consumer and the society
- describe the nature of marketing in a developing economy
- discuss the concept of marketing mix
- explain the concept of product life cycle; and
- describe the basics of pricing.

17.1 INTRODUCTION

As you know that the manufacturer produce the products and sell those products. This process facilitated the emergence of exchange system. Now question arises

what is marketing? Is it selling the product? Is it advertising the product? Is it promoting the product? In fact, marketing is a wider concept. In simple terms, marketing refers to identification and satisfaction of needs of the customers. It involves creation of value as well as management of relationship. In this Unit, you will study the meaning of marketing and various marketing concepts, evolution of marketing, importance of marketing and the nature of marketing in a developing economy like India. You will also learn the concept of marketing mix and the components of marketing mix. You will be further acquainted with the concept of product life cycle and the basics of pricing.

18.2 DEFINITION OF MARKETING

According to the American Marketing Association "marketing is the activity, set of institution, and process for creating, communicating, delivering and exchanging offerings that have value for customers, client, partners and society at large". This definition focuses on creation of communication, delivering and exchange of offerings. The creation of value for the stakeholder has been the significant aspect of marketing.

If you are an entrepreneur who wants to start a new business and you do not have a product. In fact you will have to decide what product you should manufacture and sell. How do you decide this? This you can do only when you identify the need, which require satisfaction among human beings. Once you identify the need of a group of human beings, you can determine the product which can satisfy that need. This is a part of the modern philosophy of marketing or the marketing concept.

Philip Kotler, a well known author in the area of marketing, defines marketing as "*a human activity directed at satisfying needs and want through exchange processes*." Thus, the most fundamental concept which must be realised as being the basis of all marketing activities is the existence of human needs. A marketing man may devise a product or service aimed at satisfying a certain need, and thus provide satisfaction to the user. People may have unlimited wants but the ability to buy may be restricted on account of their economic background. They will, therefore, select from among those products which give more satisfaction or are needed more. Thus, when they are backed by ability to buy, the wants are converted into demand for your product. Therefore, when people decide to satisfy their needs and wants, in terms of marketing activities, exchange takes place. This explains in detail the definition given by Kotler.

Kotler, Armstrong and Agnihotri (2018) in their book Principles of Marketing defined marketing as "*the process by which companies engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return*."

The analysis of above definition reflects that:

- Marketing is a wholistic process;
- In this process, the organisation makes effort to engage customers;
- The organisation makes effort to develop strong customer relationships;
- The customer value is created;

- The company takes back the value from the customers in terms of revenue and profit.

Based on the above discussion we can develop a process-oriented definition of marketing, as "*the process of ascertaining consumer needs, converting them into products or services, and moving the products or services to the final consumer or user to satisfy certain needs and wants of specific consumer segment or segments with emphasis on profitability, ensuring the optimum use of the resources available to the organisation.*"

In practice, often, the business functions such as production, finance and marketing are performed by separate departments with their own way of thinking. Production was often considered the more important function as compared to marketing. This practice is, gradually losing ground and it is being recognised that unless you can sell a product, you should not manufacture it. Production-orientation evolved because often products were designed and developed by inventors who hoped that they would sell. However, if these products fail to satisfy some needs, they would never sell in the market place. Therefore, consumer oriented thinking becomes necessary for any business to survive and grow.

18.3 MARKETING CONCEPTS

There are five different marketing concepts under which business enterprises conduct their marketing activity. These concepts are;

1) Production concept
2) Product concept
3) Selling concept
4) Marketing concept
5) Societal concept

Let us learn them in detail.

18.3.1 Production Concept

This is probably the oldest concept. Some businessmen believe that the consumers are interested only in low priced, easily and extensively available goods. The finer points of the product are not very important to them. So the producers believe they must concentrate only in efficient (economical) and extensive (large scale) production. A company which believes in this approach concentrates on achieving high production efficiency and wide distribution coverage. Organisations may adopt this concept in two types of situations:

i) When the demand for the product is higher than the supply, you can sell more if you increase production. Here the main concern of the management is to find ways to increase production to bridge the demand and supply gap.

ii) When the cost of the product is high and increase in production is going to bring down the cost due to economies of scale.

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The organisations which adopt this concept are typically production oriented concerns. Production and engineering departments play an important role in this situation. Such organisations have only sales departments to sell the product at a price set by production and finance departments.

18.3.2 Product Concept

As against the production concept, some organisations believe in product concept. The product concept implies that consumers favour those products that offer the most quality, performance and features. They also believe that consumers appreciate quality features and will be willing to pay 'higher' price for the 'extra' quality in the product or service made available. Hence, those companies which believe in this concept concentrate on product and its improvement. But, while improving the product they rarely take into consideration the consumers' satisfaction and his multifarious needs. Even when new products are planned, the producer is concerned more with the product and less with its uses or the consumer needs. For example, a biscuit manufacturer produced a new brand of biscuits with good ingredients, colour, packaging, etc., without taking into account consumer tastes and preferences. This may fail in the market if the buscuit does not taste good to the ultimate consumer.

18.3.3 Selling Concept

Sometimes the main problem of the enterprise is not more production, but to sell the output. Similarly, a better product may not assure success in the market. Hence, selling assumes greater importance. So some producers believe that aggressive persuasion and selling is the crux of their business success, and without such aggressive methods they cannot sell and survive. Therefore, attention is paid to find ways and means to sell. They also believe that customers left to themselves will not buy enough of organisation's products and services, and hence considerable promotional effort is justified. Thus, the selling concept assumes that consumers on their own will not buy enough of organisation's products, unless the organisation undertakes aggressive sales and promotional efforts. Many insurance agents, sales persons of certain electrical gadgets, health drinks, soft drinks, and fund raisers for social or religious causes come under this category.

Sale is the index of success of marketing as well as production efforts. The marketers who believe in sales concept often forget that the consumers buy goods to fulfil certain needs. After the sale, what happens or how the consumer feels is not their concern. They may not expect the customer to come again to buy the product. They may go to new target consumers rather than building up a network of satisfied customers. Some firms facing with excess production also adopt selling concept. There are fair as well as unfair persuasive means adopted in this process. But the purpose behind all such action is selling more. Sales executives or sales department assumes greater importance in sales concept compared with production concept and product concept.

18.3.4 Marketing Concept

In an evolutionary process, many organisations have come to change their focus and to see their marketing tasks in a broader perspective. Marketing concept is considered a business philosophy wider in its implications. Under the marketing

concept, the organisation considers the needs and wants of consumers as the guiding spirit and the delivery of such goods and services which can satisfy the consumer needs more efficiently and effectively than the competitors. It is also said that the marketing concept is consumer orientation with the objective of achieving long run profits. It is a modern marketing philosophy for dynamic business growth. In other words, under this concept, the task of marketing begins with finding what the consumer wants, and produce a product which will meet that want and provide maximum satisfaction. Implicitly, the consumer is the boss or king who dictates. The focus which moved from the product to selling, now rests with the consumer.

When organisations practice the marketing concept, all their activities (manufacturing, finance, research and development, quality control, distribution, selling, etc.) are directed to satisfy the consumer. Consumer satisfaction becomes a single value which becomes the core of corporate culture in such organisations. Companies produce what consumers want and, thus, satisfy consumers and make profits.

Those companies which have attained a certain maturity and which could see far beyond the immediate future adopt this concept. Some companies may not adopt this concept because they feel that this may result in the decline of sales or profits in the short run and the long run profits in any case are unpredictable or uncertain. The companies which want to make 'quick-bucks' also do not adopt this concept. Even the departments within the organisation may not fully cooperate since they may not be 'convinced' about the advantages of following the marketing concept. In spite of these hurdles, it is now a world-wide experience. Companies which are successful, enjoy goodwill and grow in the long run are companies which have adopted the marketing concept as their business philosophy. These companies realised that a satisfied customer is the best advertiser for their product. Their profits are generated from the satisfaction of the customer and not only from the product or their selling efforts. In an economy like India with shortages in many goods as well as lack of resistance from the consumers, the firms which practice the first three concepts also survive.

18.3.5 Societal Concept

With the growing awareness of the social relevance of business, there is an attempt to make marketing also relevant to the society. In a sense, marketing is not a business activity alone but must take into account the social needs. Excessive exploitation of resources, environmental deterioration and the customer movements in particular have necessitated the recognition of the relevance of marketing to the society. Marketing then must be a socially responsible or accountable activity. The societal concept holds that the business organisation must take into account the needs and wants of the consumer's satisfaction as well as the society's well being. The societal concept is an extension of the marketing concept to cover the society in addition to the consumer.

In effect, a company which adopts the societal concept has to balance the company profit, consumer satisfaction and interests of the soceity. The problem is almost the same as that of social responsibility of business. What is good for the society is a question to be decided. A voluntary acceptance of this concept is desirable for the long run survival of private business. An effective implementation of the

societal concept will certainly enhance the goodwill of the business house. The business enterprises which believe in this concept will produce and market those goods and services which are beneficial to the society, those that do not pollute the environment, and give full value for the money spent.

Check Your Progress A

1) What do you mean by marketing?

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2) Distinguish between selling concept and marketing concept.

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3) Distinguish between marketing concept and societal concept.

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4) Match the organisational objectives given in Column 1 with the marketing concepts in Column 2.

Organisational Objectives	Marketing Concept
i) Effective distribution	a) Product concept
ii) Large scale selling and promotion effort	b) Societal concept
iii) Product what consumers need	c) Selling concept
iv) Product improvement	d) Production concept
v) Improve society's well being	e) Marketing concept

5) State whether the following statements are **True** or **False.**

   i) In an organisation which adopts the production concept, marketing department assumes greater importance.

ii) Producing a cheaper product is the focus of product concept of marketing.

iii) Selling concept of marketing assumes that left to themselves consumers will not buy enough of organisation's products.

iv) "Make what you can sell instead of trying to sell what you can make", is the approach in marketing concept.

18.4 EVOLUTION OF MARKETING

Marketing has gradually evolved out of the barter system. The industrial revolution, growing population, improvements in communications and transport facilities have contributed to the growth of marketing as an important economic activity. In the initial stages of development, a village artisans or craftsmen made goods to order and tried to meet the neighbourhood demand. After the industrial revolution, large scale production became possible and large scale industries came into existence. In the initial stages of industrial revolution, producers were able to sell whatever they have produced. So, they concentrated on higher production. At that stage, most of the enterprises adopted the production concept. Later when the competition started building-up, producers faced difficulties to sell whatever they produced and the need to improve the product arose. This led to the emergence of product concept and selling concept. With the increase in competition, producers realised the advantage of producing what consumers need instead of selling whatever is produced. This led to the consumer orientation in marketing and the emergence of marketing concept and societal concept.

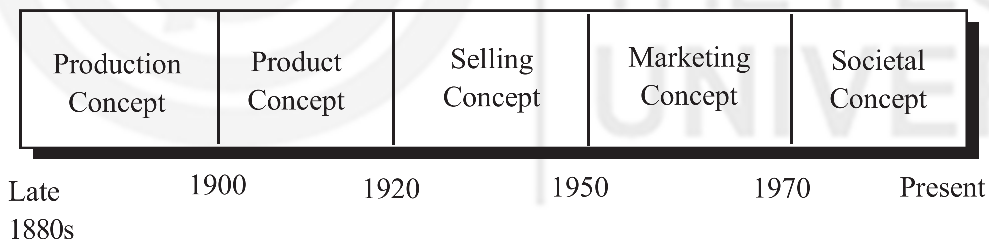

Fig. 18.1: Evolution of Marketing Concepts - Approximate Time Period

Figure 18.1 presents the approximate time spans covered by each of the five concepts in the USA. Since changes occur gradually over a continuum, the periods overlap one another. So, the figure indicates only the times during which a particular concept has been prevalent. Other developed countries also have gone throuugh the similar periods, as USA.

In the developed countries where the markets are developed, most of the producer adopt the marketing concept. In the developing countries, markets are heterogeneous and you can see the co-existence of all the five concepts. Thus, the concept of marketing has grown along with the process of economic development.

The growth of civilisation, the standard of living, the changing life styles and technological growth have created new wants. These can be satisfied only with a wide variety of new goods and services apart from changes and improvements

in the existing goods and services. This is however the general trend, and there are several exceptions. Markets for all products and services have to reach a certain maturity to experience this evolutionary trend. It may not be so in the case of each and every product or market. The rural market in India, for example, is fairly different from the urban market. Even among a set of consumer goods, for example, cosmetics which serve the middle/upper income groups are much more consumer oriented than the market for undergarments for men. Besides, there is a seller's market in some goods and services and a buyer's market in some others.

Another feature in the evolutionary process of marketing is the growing role of service marketing. The demand for service contracts to maintain the gadgets in use have become more easily marketable and a reliable service commands a premium in the market. When one computer manufacturer enters the market, may be another 20 to 30 service organisations come up to offer their services for an uninterrupted performance of the computer or to train people in computer software and operation.

Another feature in the growth of marketing is the globalisation of markets. Many producers aim at selling in more than one country. The product and promotion strategies are planned that way. It does not require a large scale business to enter the export market, even the small scale businesses are entering the export market quite significantly.

18.5 DIFFERENCE BETWEEN SELLING AND MARKETING

Many people use the terms marketing and selling as synonyms. In fact, these two terms have different meanings in marketing management. An understanding of the differences between them is necessary for you to be a successful marketing manager.

Selling is an action which converts the product into cash but marketing is the whole process of meeting and satisfying the needs of the consumer. Marketing consists of all those activities that are associated with product planning, pricing, promoting and distributing the product or service. Selling focuses on the needs of the seller whereas marketing concentrates on the needs of the buyer.

Selling is the modern version of the exchange under barter system. When the focus is on selling, the business man thinks that after production has been completed the task of the sales force starts. It is also the task of the sales department to sell whatever the production department has manufactured. Aggressive sales methods are justified to meet this goal and customer's actual needs and satisfaction are taken for granted.

But marketing is a wider and all pervasive activity to a business firm. The task commences with identifying consumer needs and does not end till feedback on consumer satisfaction from the consumption of the product is received. It is a long chain of activity which comprises production, packaging, promotion, pricing, distribution and then the selling. Consumer needs become the guiding force behind all these activities. Profits are not ignored but they are built up on a long run basis. Distinction between selling and marketing are summarised in Table 18.1.

Table 18.1: Difference between Selling and Marketing

Selling	Marketing
1. Emphasis is on the product.	Emphasis is on customers wants.
2. Company first makes the product and then figures out how to sell it.	Company first determines customers wants and then figures out how to make and deliver a product to satisfy these wants.
3. Management is sales volume oriented.	Management is profit oriented
4. Planning is short-run-oriented in terms of today's products and markets.	Planning is long-run oriented, in terms of new products, tomorrow's markets and future growth.
5. Stresses needs of seller.	Stresses wants of buyers.

Source: Stant on W.J., and Charles Futrell, 1987. Fundamentals of Marketing, McGrawa Hills P.11-12

18.6 IMPORTANCE OF MARKETING

Marketing is considered to be the most important activity of the present day business. Without it, business will be meaningless. Quite often the success of a business is considered synonymous with the success of its marketing. Apart form becoming so crucial to a business, it is also helpful to the consumer and the development of the economy as well as the society. Over a period of time, business have realised various dimensions and significance of this function and a more comprehensive view is being adopted. Specialised branches of marketing like the marketing of consumer goods and services, industrial goods and services, have developed with their own unique features.

Marketing is a concept applicable not only to goods but also to services such as health service, investment counselling, bank deposits and loans, etc. Marketing is important to the business, consumer and the society. For the business house marketing brings in revenue, for the consumer it provides the goods and services of utility, for the society it enables a redistribution of income and generation of employment, and improving the standard of living of people. Major advantages of marketing are briefly discussed below:

1) Marketing is important to the business organisation, since it is the activity that sells the product and brings revenue to the company, and it is also the key to its success. Research and development and production become meaningless if the product is not marketed successfully. Scanning the environment, finding marketing opportunities, formulating product policies, evolving distribution and pricing strategies are some of the problem areas which pose challenges to the success of a business. Marketing takes care of all these challenges.

2) Marketing enables the consumers to exercise choice and to improve their levels of consumption. In a sense, marketing is defined as the delivery of a standard of living. The easy availability of goods and services of good quality at competitive prices is made posssible only by an efficient marketing

system. In such a system the consumer is the king.

3) Marketing creates time, place and possession utilities to products and services. Products are useful only when they are available at the required time and place as well as to the person who needs them. Marketing creates these utilities.

4) Marketing contributes to the economic development of the country. It symbolises the economic development of a country. This is because on the one hand marketing activities generate employment and income. On the other hand the development of a country is reflected in the variety and volume of goods available and consumed by the people of that country. The per capita availability of essential consumer goods is an indicator of the level of poverty or affluencce in a country.

5) Marketing offers career opportunities to a large number of people. Marketing related occupations account for a significant portion of the employment generated in a country.

18.7 MARKETING IN A DEVELOPING ECONOMY

Marketing in a developed economy is somewhat different from a developing economy like India. All the advantages of a matured marketing system as found in a developed economy, may not be realised in a developing economy. Some characteristics of marketing in a developing economy are as follows:

1) Most of the markets remain seller's markets. The seller is in a dominating position and can influence the pattern of consumption, prices and quality of goods and services to his advantage. Many of the manufacturers may believe in the selling concept and bother less about consumer satisfaction.

2) The variety of goods and services available are limited and even their quality may require improvement. Lack of effective competition may enable the manufacturers to sell whatever they produce. The consumers may have to accept and buy whatever is available in the market.

3) In a developing economy, due to lower per capita income, people spend most of their income on necessities and little money is available for discretionary spending. People may not be able to buy many goods and services within the limited income. As income determines consumption patterns, the scope for marketing is also determined by income.

4) The consumers knowledge and awareness about their rights is also limited because they do not have more exposure to marketing activities. It is difficult to know about higher quality, better service and wider choice unless one has an exposure in these terms. The consumers of the developing economies, therefore, appear to be content with whatever is available in their country.

5) The supporting services such as departmental stores, credit facilities, packing and delivery systems, after sales services, product guarantee, money back guarantee etc., may also be less in developing countries.

All the developing countries are in a process of gradual evolution and in the normal course of events must grow into developed systems.

18.8 CONCEPT OF MARKETING MIX

Marketing requires several activities to be done. To begin with, a company may choose to enter into one or more segments of a market, since it may not be possible to cover the entire market. The manufacturer of a bathing soap, for example, may aim at the working class in the middle or lower income groups as his target consumers. Once the target market is decided, the product is positioned in that market by providing the appropriate product qualities, price, distribution and advertising efforts. These and other relevant marketing functions are to be combined or mixed in an effective proportion so as to achieve the marketing goal. In order to appreciate this process, it is easier to divide the marketing activities into four basic elements which are together referred to as the marketing mix. These four basic elements are : 1) product, 2) price, 3) promotion, and 4) physical distribution. As all these four start with the letter 'P', they are referred to as the four Ps of the marketing mix or the four Ps in marketing. Thus, marketing mix may be defined as the set of controllable marketing variables/activities that the firm blends to produce the response it wants in the target markets. Let us study the four Ps in details.

The word product stands for the goods or services offered by the organisations. Once the needs are identified, it is necessary to plan the product and after that keep on analysing whether the product still satisfies the needs which were originally planned for, and if not, to determine the necessary changes. In the product, we study how are new products introduced? How have they to be modified in due course to continue to be successful in sales? Why should marginal or non-profitable products be removed, unless they are contributing in some way to the overall benefit of the organisation.

Price is the money that the consumer has to pay. Price must be considered as worth the value of the product to become an effective marketing tool. The product has to be reasonably priced. The manufacturer has to take into account cost factors, profit margin, the possibility of sales at different price levels and the concept of the right price.

Promotion is the aspect of selling and advertising or communicating the benefits of the product or service to the target customers or the market segment in order to persuade them to purchase such products or services. It includes selling through advertising as well as the sales force. Besides, a certain amount of promotion is also done through special seasonal discounts, competitions, special price reductions, etc.

Physical distribution refers to the aspect of the channels of distribution through which the product has to move before it reaches the consumer. It also includes the logistic aspects of distribution such as warehousing, transportation, etc., needed for geographical distribution of products. It is also concerned with the selection of distribution channels. The organisation must decide whether it should sell through wholesalers and then to retailers, or whether directly to the consumers. There are many ways in wihch a product can be moved from the producer to the consumer. The optimum method has to be determined in terms of both consumer satisfaction and profitability to the organisation, or optimum use of the organisation's resources.

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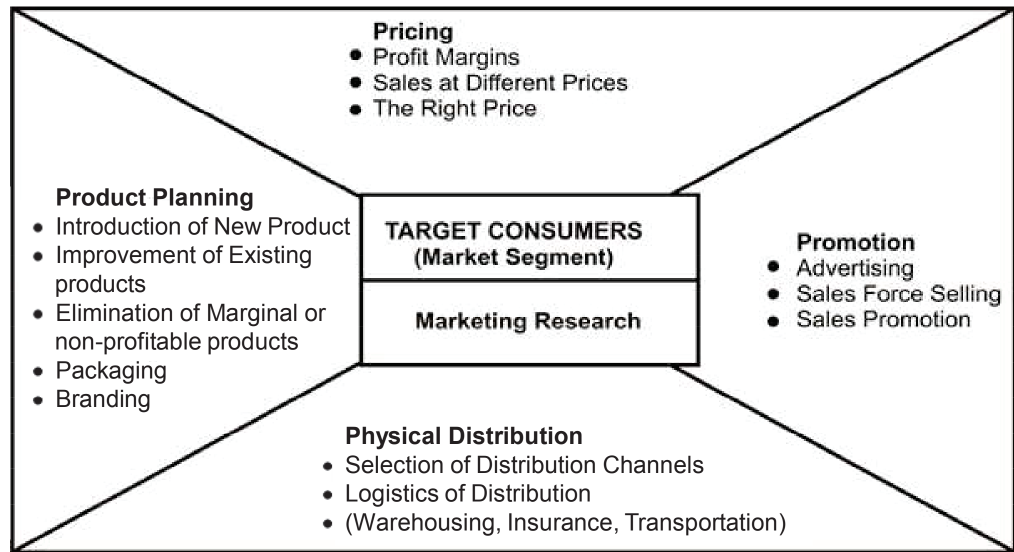

Fig. 18.2: Marketing Mix

The manufacturer must design the most effective combination of these four basic factors as well as the expenditure he would like to incur on them. The variables that are relevant in the marketing mix vary from company to company. These variables are not independent in their effect on the marketing effort. One variable may influence the other. Apart from the expenditure involved, these decisions are influenced by the company's market positioning decision. Look at Figure 18.2 carefully. It summarises all the components of marketing mix.

Check Your Progress B

1) What are the four Ps of marketing?

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2) Identify three distinction between selling and marketing.

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3) State whether the following statements are **True** or **False.**

   i) From the society's point of view marketing is a waste.

   ii) An underdeveloped economy is primarily a buyer's market.

   iii) Marketing creates time and place utilities to products and services.

iv) Selling primarily refers to exchange function.

v) Marketing starts with the product.

vi) Marketing in developing countries is different from the marketing in developed countries.

vii) In developing countries markets are mostly sellers' markets.

18.9 CONCEPT OF PRODUCT LIFE CYCLE

Like human beings, products also have a distinct life cycle. A product generally passes through four stages during its entire life from birth to death. These stages are: 1) Introduction, 2) Growth, 3) Maturity, and 4) Decline or Obsolescence.

Thus, product life cycle refers to the stages a product goes through from its introduction, through its growth and maturity, to its eventual decline and death (withdrawal from the market).

A company which introduces a new product naturally hopes that the product will contribute to the profits and provide consumer satisfaction for a long period of time. This however, does not always happen in practice. So, business organisations try to remain aware of what is happening throughout the life of the product in terms of the sales and the resultant profits. The sales volume and profit curves may be different with each product. However, basic shape and relationship between the two factors usually remain identical. As stated earlier, new products are essential for sustaining the organisations and for each new products we have to take stock of the relation between sales volume and profit margin. The relationship of the two curves (sales volume curve and profit margin curve) must be clearly understood before formulating marketing policy. A company must understand and manage the various stages of life cycle of a product to ensure marketing success.

The total length of the life cycle varies from product to product. It ranges from a few weeks (as in the case of a fashion or a fad) to several years (as in the case of motor cycles or refrigerators).

You should note that among various products the duration of each stage is not the same. As a matter of fact, it is different with each product. There are products which remain in the introductory stage for a number of years, while some others may find market acceptance in a few weeks and thus move on to the next stage of the life cycle.

Similarly, all products may not pass throguh all stages of life cycle. A product may fail right at the stage of introduction. There may be situations where a company may not enter a market till the product of another company gains acceptance and reaches the growth or maturity stage.

However, all products enter the decline and possible abandonment phase. This could be because of any of the following three reasons. Firstly, the need for the product is not there. Secondly, a better or less expensive product came into the market. Thirdly, a competitor, with a better marketing effort, forces the company product out of the market arena.

Look at Figure 18.3 carefully. It presents the relationship between the sales volume and profit volume at different stages of the product life cycle.

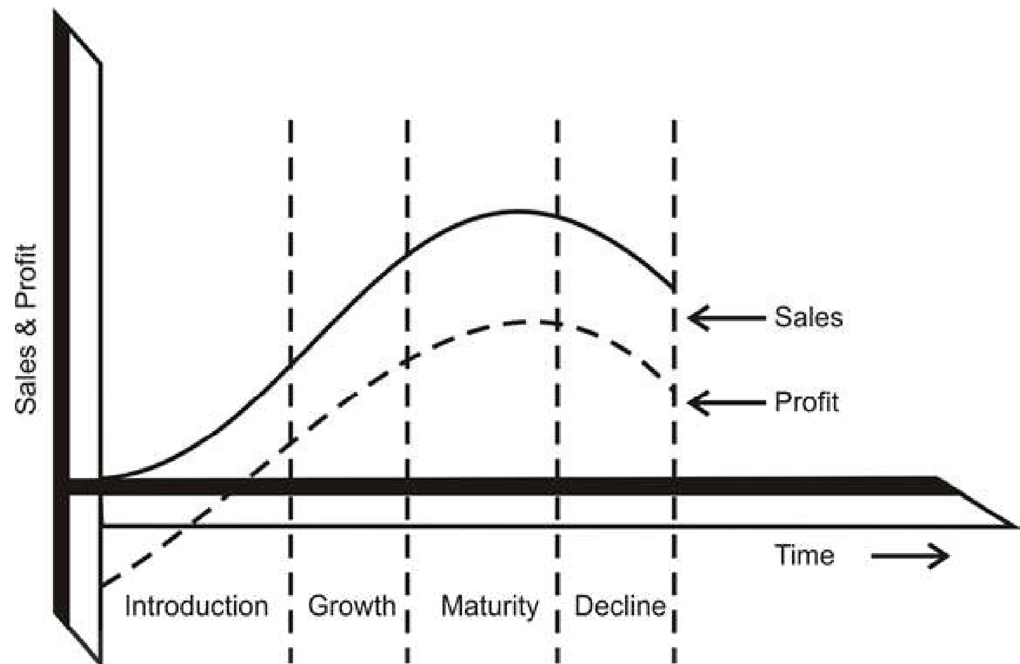

Fig. 18.3: The Product Life Cycle

Introductory Stage

During this stage arrangements for full scale production are made, a marketing programme is finalised, and the product is offered to the market. From Figure 18.3, you can assess that the sales volume shows an upward trend, but the rate of growth is quite slow. At this stage, the product being new and has been first made available for purchase in the market, it may not face competition in the market.

The company has to communicate with target market and inform potential customers of the new arrival in a big way, thus incurring high promotional expenditure. The promotional effort is also aimed at inducing the potential buyers to buy and test the product. It also aims at securing distribution at retail outlets in the process. More money is spent in attracting distributors for the new product. Because of this high promotional costs and low sales volume during this introduction stage, the profits of the company are low and sometimes even negative.

There are, if at all, only a few competitors and they all offer the basic version of the new product without any refinements. Selling efforts at this stage is, therefore, aimed at those prospective buyers who can be motivated to buy. Product at this stage, is usually priced high because of low level of production and high cost of promotion and distribution.

Growth Stage

After the product gains acceptance in the market i.e., accepted by the consumers as well as trade, it enters into the growth stage. Now the demand of the product grows rapidly, generally outpacing supply. In the light of increased sales volume,

the company profits also increase. Effective distribution and promotional efforts are considered key factors during this stage, so as to cash on the rising trend of demand. The company considers increased sales volume as a top priority.

In the wake of rising demand, a large number of competitors begin to enter the market. The competitors start adding new features to the product. With the rise in competition, distribution outlets also increase in number resulting in increased demand to "fill the pipeline".

Prices normally remain at the same level or may fall marginally. Promotional tempo is maintained or even raised to meet the challenge of competition.

Maturiity Stage

It is too optimistic to think that sales will keep on shooting up. At this stage, it is more likely that the competitors become more active. In case your product is a novel one, by now competition would have come out with a similar product in the market to compete with yours. Therefore, the sales are likely to be pushed downwards by the competitors while your promotional efforts would have to be increased to try and sustain the sales. Thus, the sales reach a plateau. This is called the 'maturity stage' or 'saturation'. At this point, it is difficult to push sales up. With regard to the profit picture, the profits are likely to stabilise or start declining as more promotional effort has to be made now in order to meet competition. Unless of course, you have the larrgest market share with your product and it needs no extra push in the market.

Decline or Obsolescence Stage

Thereafter the sales are likely to decline and the product could reach the 'obsolescence' stage. Steps should be taken to prevent this obsolescence and avoid the decline. This decline that generally follows could be due to several reasons such as changes in consumer tastes, improvement in technology and introduction of better substitutes. This is the stage where the profits drop rapidly and ultimately the last stage emerges. Retaining such a product after this stage may be risky, and certainly not profitable to the organisation. Thus, a firm has to finally choose between a total abandonment of the product or continue it in a specialised limited market. The decision will be based on the level of remaining opportunity and ability of the management.

18.10 BASICS OF PRICING

From the point of view of sound business principles, prices should be determined after taking into consideration the costs, demand, competition, elements of marketing mix, and legal considerations. However, in practice, marketters often rely on one of the three major determinants of prices i.e. costs, demand and competition. Based on the relative emphasis given to these factors, there are three practical approaches to the settting of the price of a product or service:

1) Cost-oriented pricing
2) Demand-oriented pricing
3) Competition-oriented pricing

Look at Figure 18.4 carefully for the classification of various methods of pricing. Let us learn these methods in detail.

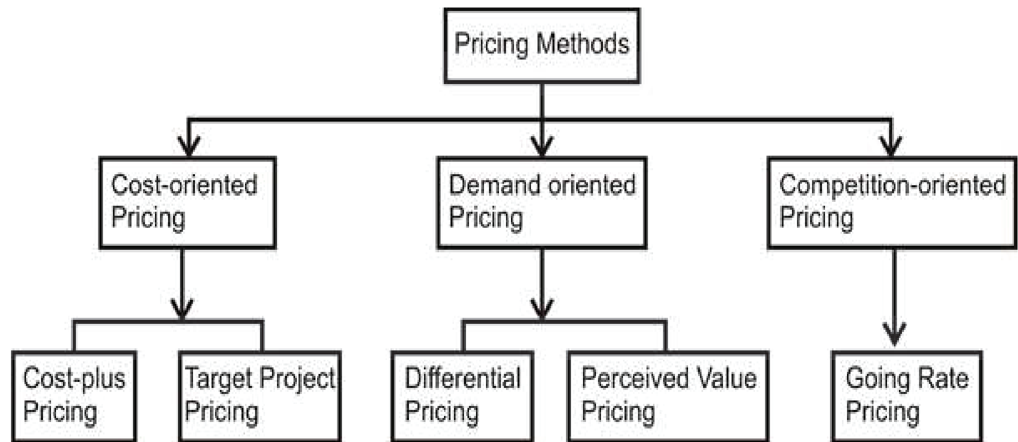

Fig. 18.4: Methods of Price Determination

18.10.1 Cost-oriented Pricing

When the selling price is determined based on the total product cost and a specified margin of profit, the approach is known as the cost-oriented approach to pricing or the cost-based pricing. There are two methods of price setting which stem from the cost-oriented pricing: 1) Cost-plus pricing, and 2) Target-profit pricing or break-even analysis. Let us learn these two methods in details.

1) Cost-plus Pricing

Some Firms set the selling price of their products by aggregating all the costs of the product (including the manufacturing cost, distribution and marketing costs) plus a predetermined margin of profit. The cost-plus pricing method has been explained in the following illustration:

	Rs. per Unit
Total manufacturing costs	30.00
Selling and promotional costs	4.00
Distribution and administration costs	6.00
Total costs	40.00
Margin of profit	10.00
Selling price	50.00

In this method, the product costs include both variable cost and fixed overhead costs. This approach can be simply stated as:

Selling Price = Variable Costs + Overhead Costs (Fixed Cost) + Profit Margin.

To make this method of cost-plus pricing more realistic, the company must consider the changes that are expected to occur in these costs as a result of change in the volume of production.

The pricing method enables the firm in covering all the costs and, in addition, to earn the desired margin of profit. Thus, the method is quite justifiable on grounds of fairness to both the sellers and the buyers. The method is also easy to understand and implement as there is generally less uncertainty about cost than the demand for the product. The margin of profit to be added to the cost has to be determined by the company. It can vary from industry to industry and from situation to situation. Retailers using the cost-plus method of pricing do not necessarily apply the same percentage of mark-up to every item.

This may also be a safe method in an uncertain market. It can safely be used for pricing the jobs like government contracts that are difficult to estimate in advance. For fixing prices for services, often cost-plus pricing method is adopted.

2) Break-even Analysis and Target-profit Pricing

This pricing method is slightly different from the cost-plus pricing method. Here, the firm wants to determine a price that will enable it to earn the desired profit. For this purpose, the break-even analysis is used by the firm and the break-even point is determined.

A break-even analysis relates total cost to total revenue. A break-even point is that level of production at which the total sales revenue (TR) equals the total cost (TC). In other words, a break-even point is the level of production or supply where the firms neither earns any profit nor suffers any loss.

For fixing of price through the break-even analysis, the company must consider different prices, their impact on the sales volume required to pass the break-even point and earn the desired profit. Possibility of achieving the break-even sales level at different price levels also must be examined. The break-even analysis is particularly useful for fixing the price of a new product.

18.10.2 Demand-oriented Pricing

Demand-oriented pricing is based on an estimate of how much sales volume can be expected at various prices which can be paid by different types of buyers. Instead of fixing the price on the basis of costs or competitors price, some firms often fix the selling price of their products on the basis of the demand. In other words, irrespective of the cost of the product or what the competitors are charging, a higher price is charged for a product or service when its demand is more. Similarty, lower price is charged when the demand is less, even though the costs are the same in both cases.

The two methods of pricing under this approach are:

1) Differential pricing

2) Perceived-value pricing

1) Differential Pricing

Generally different groups of buyers have different wants and desires. Consequently the intensity of their demand for the product would also be different. In such situations, for the same product sellers would be tempted to charge higher price for those having less elastic demand and lower price for those having more elastic demand. Differential pricing is normally based

on one of the four factors; the customer, place (location of the customer), time of purchase, and the product version.

Different prices may be fixed for different customers, persons or groups of persons. This may be possible due to the difference in the capacity of bargaining, ability to pay, level of knowledge about the product features or the availability of the product. For example, in a cinema hall tickets for different classes of seats are priced at different rates whereas there is no significant difference in the cinema shown to these classes.

If the prices are different for the same or similar product sold at different places, it is a case of location or place differential. In terms of time, the demand for a product frequently varies by season, day, or even by the hour of the day. The prices may be fixed to take advantage of the demand intensity at a particular season or point of time.

Under product based differential pricing, the seller charges substantially different prices from the buyers of slightly different versions of the same products, so that the difference in prices is more than proportionate to the cost of different product forms of versions.

Discriminatory prices are likely to generate customer ill-will and may also attract legal action. Hence, the seller has to consider the consequences well before deciding upon the discriminatory prices.

2) **Perceived-value Pricing**

Different buyers often have different perceptions of the same product on the basis of its value to them. A cup of tea is priced differently by hotels and restaurants of different categories, because buyers will assign different value to the same item. When you follow this 'perceived-value' method of pricing, you have to ascertain how different buyers perceive the product in terms of its quality, features and attributes (like colour, size, durability, softness etc.), and how they perceive the value of the product in terms of such product differences.

18.10.3 Competition-oriented Pricing

When the price is determined with reference to the price of a similar product charged by the competitor, and not on the basis of the costs of the product or the different perceptions of the product by different buyers, the pricing approach is referred to as competition-oriented pricing. The company firm may adopt going rate pricing for competition oriented princing.

Going Rate Pricing

This is the important method under competition-oriented pricing approach. In this case the firm does not maintain an elaborate record of various product costs. The firm also does not try to ascertain the difference in the intensity of demand or the perceptions of the value of the product in the minds of the buyers. The firm decides the price of its products on the 'going-rate' prices in the market. The price is not necessarily the same as that charged by the competitors or by the industry leader, it can be lower or higher. Whenever the industry leader or

the trade association increases/decreases the price, the firm follows them. The practice of fixing the going rate price is quite popular among traders, especially among the retailers.

Those who adopt the going rate method of pricing argue that the prevailing rates represent the collective wisdom of the industry. Furthermore, it is often difficult to ascertain the customer's reaction to price differentials and their perception of the different product features. Moreover, this method is easy to adopt as there is no need to estimate the price elasticity of demand or various product costs. It is also felt that the adoption of the going-rate pricing method prevents price wars among competitors. This method is practiced mainly in the case of homogeneous products, under conditions of pure competition and oligopoly. The firm selling an undifferentiated product is under purely competitive market such firm has very little choice in setting its prices.

Check Your Progress C

1) What do you mean by product life cycle?

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2) Distinguish between cost-oriented pricing and demand-oriented pricing.

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3) What do you mean by competition-oriented pricing.

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18.11 LET US SUM UP

The term marketing has been defined in different ways. This is because each author defines it with a particular approach or purpose. According to Philip

Kotler, 'marketing is human activity directed at satisfying needs and wants through exchange process.' It is a process of ascertaining consumer needs, converting them into product or services; and moving the product or service to the final consumer or user to satisfy certain needs and wants with emphasis on profitability and ensuring the optimum use of the resources available to the organisation.

After the industrial revolution, marketing philosophy has undergone so many changes. It has passed through four stages and a fifth stage is emerging. During these five stages of development, five marketing concepts emerged. They are: 1) Production concept, 2) Product concept, 3) Selling concept, 4) Marketing concept, and 5) Societal concept. However, even in the present day world many companies are still in the earlier stages.

Many people think that the terms selling and marketing are synonymous. In fact, selling is different from marketing. Selling is the action which converts the product into cash whereas marketing is the whole process of identifying, meeting and satisfying the needs of the consumers.

Marketing is the most important activity of any business. Quite often the success of the business is considered synonymous with the success of its marketing efforts. Apart from becoming crucial to the business, it is also helpful to the consumer and the development of the economy as well as the society. Marketing in a developing economy is somewhat different from developed economy. All the advantages of a matured marketing system as found in a developed economy may not be realised in a developing economy.

Marketing activities may be divided into four basic elements which are together referred to as the marketing mix. These four basic elements are: 1) Product, 2) Price, 3) Promotion, and 4) Physical distribution. As all these elements start with the letter P, they are referred to as the 'four Ps' of the marketing mix or the 'four Ps' in marketing.

The product life cycle refers to the stages a product goes through from its introduction through its growth and maturity, to its eventual decline and death i.e. withdrawal from the market. The understanding of these stages may be useful in designing the marketing strategy.

The major determinants of prices are: Costs, demand and competition. Based on these determinants, various methods of pricing include: Cost-oriented pricing, demand oriented pricing and competition-oriented pricing.

18.12 KEY WORDS

Competition-oriented Pricing : In this method, the price is determined with reference to the price of a similar product charged by the competitor.

Cost-oriented Pricing : In this method, the price is determined based on the total product cost and a specified margin of profit.

Demand-oriented Pricing : In this method, the price is determined on an estimate of how much sales volume can be expected at various prices which can be paid by different types of buyers.

Marketing : The process of ascertaining consumer needs, converting them into products or services, and moving the product or service to the final consumer or user to satisfy certain needs and wants with emphasis on profitability and ensuring optimum use of the resources available to the organisation.

Marketing Concept : A marketing philosophy which holds that achieving organisational goals depends on determining needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors.

Marketing Mix : The set of four Ps-product, price, promotion and physical distribution-that the firm blends to produce the response it wants in the target group.

Product Concept : A marketing philosophy which holds that consumers will favour the products that offer the most quality, performance and features, and therefore the organisation should devote its energy to making continuous product improvement.

Production Concept : A marketing philosophy which holds that consumer will favour products that are available and highly affordable, and therefore management should focus on improving production and distribution efficiency.

Product Life Cycle : Refers to the stages a product goes through from its introduction, through its growth and maturity, to its eventual decline and death.

Selling Concept : A marketing philosophy which holds that consumer will not buy enough of the organisation's products unless the organisation undertakes a large selling and production effort.

Societal Concept : A marketing philosphy which holds that the organisation must take into account the needs and wants of the consumers and deliver the goods and services efficiently so as to enhance consumer's satisfaction as well as the societal well being.

18.13 ANSWERS TO CHECK YOUR PROGRESS

A) 4. i) d ii) c iii) e iv) a v) b

5. i) False ii) False iii) True iv) True

B) 3. i) False ii) False iii) True iv) True

v) False vi) True vii) True

18.14 TERMINAL QUESTIONS

1) Define marketing and explain its implications. Explain how is marketing different from selling.
2) What are the marketing concepts? Explain the process of evolution of these concepts.
3) Describe the profile of a company which has adopted the marketing concept.
4) What is the consumer's place in modern marketing?
5) Explain the importance and features of marketing in a developing economy.
6) What is marketing mix? Explain the components of marketing mix.
7) Describe the concept of product life cycle. Explain various stages of product life cycle.
8) Discuss the methods of price determination of a product.

Note: These questions will help you to understand the unit better. Try to write answers for them. Do not submit your answers to the University for assessment. These are for your practice only.

References

Kotler Philip, Armstrong Gary and Agnihotri Prafulla, (2018). Principles of Marketing, Pearson, Noida, U.P.

UNIT 19 FINANCIAL MANAGEMENT

Structure

19.0 Objectives

19.1 Introduction

19.2 Definition and Functions of Financial Management

19.3 Objectives of Financial Management

- 19.3.1 Profit Maximisation Approach
- 19.3.2 Wealth Maximisation Approach
- 19.3.3 Profit Maximisation Vs. Wealth Maximisation

19.4 Sources of Finance

- 19.4.1 Shares
- 19.4.2 Debentures
- 19.4.3 Venture Capital
- 19.4.4 Lease Financing

19.5 Security Market

- 19.5.1 Primary Market
- 19.5.2 Secondary Market

19.6 Role of SEBI

19.7 Let Us Sum Up

19.8 Key Words

19.9 Answers to Check Your Progress

19.10 Terminal Questions

19.0 OBJECTIVES

After studying this unit, you should be able to:

- describe the concept of financial management and its functions
- discuss the objectives of financial management
- explain various sources of finance
- discuss the merits and demerits of equity shares and preference shares
- explain the various types, merits and demerits of debentures
- describe the features, advantages and disadvantages of venture capital
- discuss the features, advantages and disadvantages of lease financing
- describe about securities markets, i.e. primary and secondary market; and
- state the role of SEBI

19.1 INTRODUCTION

You must be aware that the major activities involved in a manufacturing organisation may be : purchasing of raw materials, processing them with the association of labour, machinery etc., manufacturing the final product and

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marketing the finished product. Thus, the finance, production and marketing are important aspects of business. Finance plays very crucial role in the business. The production and marketing activities are related to the finance. It is essential to take the financial decisions at the right time and in the most rational way. The success of the business may depend on taking right financial decision. Thus, finance is considered as life-blood of business. In this unit, you will learn the concept, functions and objectives of financial management. You will further learn the sources of finance i.e. equity shares, debentures, venture capital and lease financing. You will be also acquainted with the security market i.e. primary and secondary market and the role of SEBI.

19.2 DEFINITION AND FUNCTIONS OF FINANCIAL MANAGEMENT

Financial management is concerned with planning and controlling of resources of Firms. According to Paul. G. Hasings, "Finance is the management of the monetary affairs of a company. It includes determining what has to be paid for raising the money on the best terms available and devoting the available resources to best uses."

Kenneth Midgley and Ronald Burns stated that "Financing is the process of organising the flow of funds so that a business can carry out its objectives in the most efficient manner and meet its obligations as they fall due."

From the above definitions of finance, it can be concluded that the term business finance mainly involves : raising of funds and their effective utilisation keeping in view the overall objectives of the firm. The management makes use of the various financial techniques and devices for the most effective and efficient way of financing. Let us now discuss the various functions and objectives of Financial Management.

Functions of Financial Management

The functions of financial management are as follows :

1) **Estimation of capital requirements:** An estimation regarding the capital requirements of the company has to be made in the most appropriate way. The estimation depends on costs and profits as well as future programmes and policies of the organisation. Estimations have to be made in an adequate manner to facilitate earning capacity of the organisation.

2) **Determination of capital composition:** The capital structure has to be decided after making estimation of capital. Short- term and long- term debt equity analysis may be done for this purpose. This depends on the proportion of equity capital and the additional fund to be raised.

3) **Choice of sources of funds:** The company has many sources for raising funds. These sources are :

   a) Issue of shares and debentures

   b) Loans to be taken from banks and financial institutions

   c) Public deposits to be drawn in the form of bonds.

4) **Investment of funds:** The finance manager has to decide to allocate funds into profitable ventures. This facilitates safety and regular returns on investment.

5) **Disposal of surplus:** The finance manager has to decide about the disposal of surplus. The disposal of surplus may be decided in the following ways :

   a) Dividend declaration – The manager may decide about the rate of dividends and other benefits like bonus.

   b) Retained profits - The amount of retained profit may be decided by the manager. The decision may depend on the expansional, innovational diversification etc., as well as the plans of the company.

6) **Management of Cash:** The cash management may be decided by the finance manager. Cash may be required for payment of wages and salaries, payment of electricity and water bills, payment to creditors, meeting current liabilities, maintenance of enough stock, purchase of raw materials, etc.

7) **Financial controls:** In addition to planning, procuring and utilisation of funds, the finance manager has to exercise control over finances. The financial control may be done through ratio analysis, financial forecasting, cost and profit control, etc.

19.3 OBJECTIVES OF FINANCIAL MANAGEMENT

As you have learnt that the Financial Management is concerned with the efficient use of capital funds. It evaluates how are funds procured and used. Financial Management includes taking decision in three inter related areas. These are : investment, financing and dividend policy. The decisions are taken by the finance manager considering the objectives of the firm. The objectives provide a framework for optimal financial decision of the company. There are two approaches for this purpose.

i) Profit Maximisation Approach

ii) Wealth Maximisation Approach

Let us learn them in detail.

19.3.1 Profit Maximisation Approach

According to this approach, actions that increase profits should be undertaken and that decrease profits should be avoided. This approach focuses on maximisation of profits and income of the company. The company should decide those projects which are profitable. The projects which are not profitable should be rejected. The behavior of a Company is analysed in terms of profit maximisation in economic theory. In the profit maximisation, a firm either produces maximum output for a minimum input, or uses minimum input for a given output. Therefore, the efficiency is the most significant aspect for the company. Profit is a test of economic efficiency which provides a yardstick for evaluating the economic performance.

There are several criticisms of profit maximisation approach. The main technical flaws are ambiguity, timing of benefits and quality of benefits. These are discussed as below:

a) **Ambiguity :** There is an ambiguity in the concept of profit. Different scholars have interpreted this concept differently. The profit may be total profit before tax or after tax or profitability rate. The rate of profitability may be determined in relation to share capital; owner's funds, total capital employed or sales. The profit does not indicate about the short-term and long-term profits. The short-term profit may not be the same as those in the long term. For example, a firm may maximise its short-term profit by avoiding current expenditures on maintenance of a machine. In lack of maintenance, the machine may not be able to operate for manufacturing the products. As a result, the firm will have to make huge investment to replace the machine. In this way, the profit maximisation suffers in the long run due to maximisation of short-term profit.

b) **Timing of benefit :** The profit maximisation approach ignores the differences in the time pattern of the benefits received. It does not consider the difference between returns received in different time periods. It treats all benefits irrespective of the timings equally. This is not true in actual practice. The benefits in early years should be valued more than benefits in later years.

c) **Quality of benefits :** This approach ignores the quality aspect of benefits in financial action of the company. The quality refers to the degree of certainty with which benefits can be expected. The more certain the expected return, the higher is the quality of the benefits. An uncertain and fluctuating return may lead to high risk for stakeholders.

The above criticisms show that the profit maximisation approach may not be only decider for financing, investing and dividend decision of the company. It does not consider the risk and time value of money.

19.3.2 Wealth Maximisation Approach

This approach is also known as value maximisation or Net Present Worth maximisation. It tries to remove the technical limitations of profit maximisation approach.

Wealth maximisation means maximising the Net Present Value (or wealth) of a course of action. The net present value of a course of action is the difference between the present value of its benefits and the present value of its costs. A financial action which leads to positive Net Present Value may create wealth, this should be acceptable by the company. A financial action which leads to negative NPV and does not create wealth should not be accepted. Thus, the project which has the potential of highest NPV should be decided.

The objective of wealth maximisation takes into account the timing and risk of expected benefits. These problems are taken care by selecting an appropriate rate for discounting the expected flow of future benefits. You should understand that the benefits are measured in terms of cash flows. The flow of cash is important in investment and financial decisions, not the accounting profits. The wealth created by a Company through its actions is reflected in the market value of

company's shares. The value of the company's share is represented by the market price. The market price of the company's share reflects sound financial decision of the company. It shows the performance indicator of the company.

There are three requirements of a suitable operational objective of financial courses of action. These are : exactness, quality of benefits and the time value of money. Let us learn them in detail.

1) **Exactness :** The value of an asset should be determined in terms of returns. The worth of a course of action should be valued in terms of the returns less the cost of undertaking the particular course of action. The important factor in computing the value of a financial course of action is the exactness in computing the benefits associated with the course of action. This approach focuses on cash flows and not on accounting profit. The computation of cash inflows and cash outflows should be precise.

2) **Quality, benefit and time value of money :** The wealth maximisation considers both the quality and quantity dimensions of benefits. It also considers the time value of money. You have understood from earlier discussion that the quality of benefits refers to certainty with which benefits are received in future.

The more certain the expected cash inflows, the better the quality of benefits and higher the value. If the flows are less certain, the quality would be less and the value of benefits would be less. You should also understand that money has time value. Therefore, the benefits received in earlier years should be valued higher than benefits received later.

In order to deal with the uncertainty and timing dimensions of the benefits of financial decision, the adjustments need to be made in the cash flow pattern. The cash flow pattern should incorporate risk and make an allowance for differences in the timing of benefits. Thus, Net Present Value maximisation appears to be superior to the profit maximisation approach.

It involves a comparison of value of cost. Let us consider an action that has a discounted value which reflects both time and risk. If this action exceeds cost, it is said to create value. Such actions should be selected. Contrary to this, actions with less value than cost, reduce wealth, such actions should be rejected. Therefore, the Net Present Value Maximisation appears to be superior to the profit maximisation.

19.3.3 Profit Maximisation Vs. Wealth Maximisation

One of the main objective of financial management has been profit maximisation and wealth maximisation. Profit maximisation focuses on improving profitability, maintaining the stability and reducing losses and inefficiencies.

1) Profit may be considered in two senses :

   1) Profit maximisation for the owner; and

   2) Profit maximisation for others.

   Normally profit is linked with efficiency, therefore, it is the test of efficiency. The limitation of this concept may be ambiguity which reflects different interpretation from different persons.

2) Quality of profit – Usually, profit is calculated in rupees. The amount earned is known as profit. It ignores wastage, efficiency, employee's skill, employee's turnover, product mix, manufacturing process, administrative set-up etc., which may influence profit.

3) Timing of benefit - In inflationary conditions, the value of profit may decrease. Therefore, the profits may not be comparable over a longer period span.

4) Some economists argue that profit maximisation may result into unhealthy trends. The unhealthy trend may be harmful to the society. It may lead to exploitation, unhealthy competition and taking undue advantage of the position.

Check Your Progress A

1) Define Financial management?

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2) What do you mean by Profit maximisation approach?

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3) What is Wealth Maximisation approach?

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19.4 SOURCES OF FINANCE

You have learnt the functions and objectives of financial management. The finance is the backbone of the business. The finance is required for performing the operations of the business. When the business is carried out in the company form, there are different sources of finance for the company. The company has to decide the sources of finance based on the financial requirement and the position of the debt to the company.

The finance may be raised through equity shares, debentures, venture capital and lease financing. Let us learn them in detail.

19.4.1 Shares

According to Companies Act 2013, "Share means a share in the share capital of a company including stocks shares are considered as a type of security". There are two types of shares i.e. equity shares and preference shares. Let us learn about both the types of shares.

Equity Shares

Equity shares are the most important source of raising long term capital by a company. These shares represent the ownership of a company. The capital raised by issue of equity shares is known as ownership capital or owner's funds. Equity share capital is a prerequisite to the creation of a company. Equity shareholders do not get a fixed dividend. They are paid on the basis of earnings by the company. They are also referred to 'residual owners'. They receive the claim after all other claims on the company's income and assets have been settled. They enjoy the reward and also bear the risk of ownership. The liability of equity shareholder is limited to the extent of capital contributed by them in the company. They have a right to participate in the management of the company through their right to vote.

Merits

The important merits of raising funds through issuing equity shares are as follows:

i) Equity shares are suitable for those investors who are ready to take risk for higher returns.

ii) Payment of dividend is not compulsory for equity shareholders. Therefore, there is no burden on the company for payment of dividend to them.

iii) Equity capital is a permanent capital. It is repaid only at the time of liquidation of a company. The claims are paid after all settlement. Therefore, it works as cushion for creditors in case of winding-up of company.

iv) It provides credit worthiness to the company. It also provides confidence to prospective loan providers.

v) Funds may be raised through equity issue without creating any charge on the assets of the company. The assets of a company may not be required to be mortgaged for the purpose of borrowings.

vi) The voting rights of equity shareholders facilitates democratic control over management of the company.

Demerits

The demerits of equity shares are as follows :

A) **To the Shareholders**

1) **Uncertainty about payment of dividend:** The equity share-holders get dividend only when the company is earning sufficient profits and the Board of Directors declare dividend. In case of preference

shareholders, equity shareholders get dividend only after payment of dividend to the preference shareholders.

2) **Speculative:** There may be speculation on the prices of equity shares. This may happen at the time of boom when company pays high dividend.

3) **Danger of over–capitalisation:** If the management is not able to predict long-term financial requirements, it may raise more funds than required by issuing shares. This may lead to over-capitalisation. The over-capitalisation results into low value of shares in the stock market.

4) **Ownership in name only:** The holder of equity shares becomes the owner of the company. They have got voting rights. They manage and control the company. This may be true theoretically. In fact, few persons may control the voting rights and thus, they may manage the company. Board of Directors take the decision to declare dividends.

5) **Higher Risk:** Equity shareholders take high degree of risk. In case of losses, they do not get dividend. In case of winding-up of a company, they are the last persons to get refund of the money which they have invested. Equity shares actually swim and sink with the company.

B) **To the Management**

1) **No trading on equity:** It refers to the ability of a company to raise funds through preference shares, debentures and bank loans, etc. The company has to make payment at a fixed rate on the funds. When profits are high, the equity shareholders get a higher rate of return. The major part of the profit earned is paid to the equity shareholders. This is done because borrowed funds carry only a fixed rate of interest. The company may get advantage of trading on equity if a company has only equity shares and does not have either preference shares, debentures or loans.

2) **Conflict of interests:** You are aware that the equity shareholders carry voting rights. Therefore, the groups are formed to corner the votes. Such groups grab the control of the company. The conflict of interests may develop which may be harmful for the smooth functioning of a company.

7) Preference Shares

Preference shares refer to those shares which have certain special rights. The dividend is payable on these shares before the equity shares. Capital is repaid to preference shareholders before the return of equity capital in case of winding-up of the company. Preference shareholders do not have the voting rights. In case of non-payment of dividend, the preference shareholders may claim the voting rights. The voting rights may be claimed if dividends are not paid to cumulative preference shareholders for two years or more and for non-cumulative preference shares for three years or more.

Merits

The merits of the preference shares are as follow:

1) **Appeal to Cautious Investors:** There are investors, who want safety of their capital. They want fixed and regular return. The preference shares may be sold to such investors.

2) **No Obligation:** When the profits of the company are not sufficient, the company may not pay dividend on preference shares. In case of cumulative preference shares, the dividend may be postponed.

3) **No Intervention:** Preference shares have no voting rights. Therefore, they are not able to intervene in the management of the company.

4) **Trading on Equity:** As you know that rate of dividend on preference shares has been fixed. The benefits of trading on equity may be provided to the equity shareholders when the profits of the company are high.

5) **No Charge on Assets:** As you know that preference shares do not create any mortgage or charge on the assets of the company. The fixed assets of the company may be utilised for raising the funds in future.

6) **Flexibility:** The redeemable preference shares may be issued by the company for a fixed period. When the capital is not required for the business, it can be repaid. The capital structure becomes elastic. The company does not face the problem of over-capitalisation.

Demerits

The demerits of the preference shares are as follow:

1) **Fixed Obligation:** The company is bound to pay the dividend on preference shares at a fixed rate. This is paid before the payment of dividend on equity shares.

2) **Limited Appeal:** The risk taker investors may not invest in preference shares. The investors who do not want to take risk may like to invest in debentures and government securities. The company may provide high rate of dividend to attract the investors.

3) **Low Return:** The fixed rate of dividend on preference shares may not be attractive, when the profits of the company are high.

4) **No Voting Rights:** There are no voting rights to the preference shareholders. As a result, they can not intervene in the management of the company.

Difference between Equity Share and Preference Share

You have learnt merits and demerits of equity shares and preference shares. Let us now learn the difference between equity shares and preference shares which are discussed below :

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Difference between Equity Share and Preference Share

Basics	Equity share	Preference share
Refund of Capital	The payment to the equity share capital is made after the payment of preference share capital in case of winding-up of the company.	The payment to the preference share capital is made before the payment of the equity share capital in case of winding-up of the company.
Right of Dividend	Equity shares are paid dividend after the payment of dividend on preference shares.	The preference shares are paid dividend before the payment of dividend on Equity shares.
Rate of Dividend	There is no fixed rate of dividend. The dividend is decided by Board of Directors every year and vary from time to time.	There is a fixed rate of dividend. The dividend is prescribed on the face of preference shares at the fixed rate. For example, 9% preference share means rate of dividend is 9%.
Right to Vote	The right to vote has been provided to equity shareholder. The equity shareholders elect Director for managing the company.	The right to vote has not been provided to preference share-holders in normal case. In special case, they may be provided right to vote.
Redemption	Equity shares are not redeemable. According to Companies Act, 2013 (Section 68), the company may buyback its equity shares.	Preference shares are always redeemable. The company cannot issue irredeemable preference shares.

19.4.2 Debentures

The company issues debentures under its common seal. Debentures are the debt for the company. The terms of payment as well as interest are mentioned on the debentures. Section 2 (30) of Companies Act, 2013 defines debenture as "Debenture includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the company's assets or not."

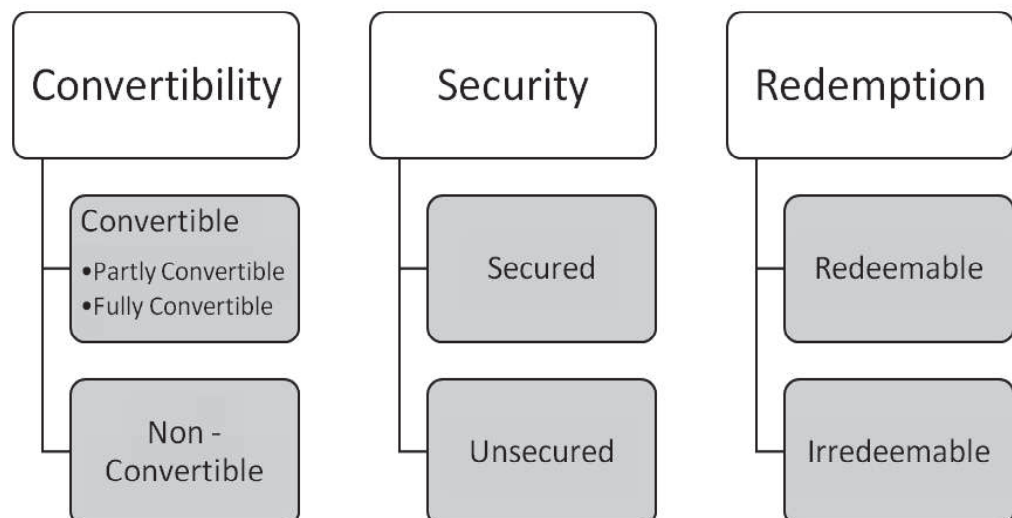

Fig. 19.1 : Types of Debentures

Debentures are generally freely transferable. Debenture holders do not have rights to vote in the general meetings of the company. The interest paid to debenture holder is charged against the profit of the company.

Types of Debentures

There are three types of debentures based on Convertibility, Security and Redemption. Let us learn them in detail.

i) **Convertibility :** On the basis of convertibility, debentures are classified into following types :

Convertible debentures : These debentures may be converted into equity shares of the issuing company after a predetermined period of time. The convertible debentures may be partly convertible debentures and fully convertible debentures.

Partly Convertible Debentures (PCD): A part of these debentures may be converted into equity shares in the future at the issuers notice. The issuer company decides the ratio for conversion. It is generally decided at the time of subscription.

Fully Convertible Debentures (FCD): These debentures are fully convertible into Equity shares at the notice of the issuer company. The issuer company decides the ratio of conversion. When these debentures are converted into ordinary shares, investors get the status of ordinary shareholders of the company.

Non-convertible Debentures: These are regular debentures which cannot be converted into equity shares. Since these debentures do not have convertibility features, their rates of interest are higher than convertible debentures.

ii) **Security :** On the basis of security, debentures are classified into following types:

Secured Debentures: These debentures are secured by a charge on the fixed assets of the issuer company. In case the issuer company fails to make payment of principal or interest, the assets of the issuer company may be sold to make the payment of the secured debenture holders.

Unsecured Debentures: These debentures are unsecured. In case the issuer company is not able to pay the principal or interest, the investors are considered like unsecured creditors of the company.

iii) **Redemption :** On the basis of redemption, debentures are classified into following types :

Redeemable Debentures: These are the debentures which are redeemed or paid off after the termination of fixed term. The amount includes the principal amount and the current year's interest. The company may redeem all the debentures at specified date. The company may also redeem a specific number of debentures annually.

Irredeemable or Perpetual Debentures: These are the debentures which do not have any fixed date of redemption. They are redeemed in case the company is winding-up or they may be redeemed after a very long time.

Bearer of such debentures can not force the company to redeem their debentures.

Merits

a) **Raising funds without allowing control over the company:** The debenture holders do not have right to vote. Thus, they can not intervene in the management of the company. The company can raise funds without the control of debenture holders.

b) **Reliable source of long term finance:** Debentures are ordinarily issued for a fixed time. The company may use the funds raised by issuing debentures. It facilitates long-term planning of the company.

c) **Tax Benefits:** Interest paid on debentures is treated as an expense. The interest is charged to the profits of the company. It results into reduction in tax liability of the company.

d) **Investors' Safety:** Generally debentures are secured. When the company is winding-up, they are repayable before any payment is made to the shareholders. Interest on debentures has to be paid whether the company is earning profit or loss.

Demerits

1) As you have understood that the interest on debentures have to be paid every year whether the company earns profits or incurs losses. In case of losses, payment becomes a burden for the company.

2) Generally the debentures are secured. The company creates a charge on its assets in favour of debenture holders. If company does not own sufficient amount of assets, the company may not be in a position to issue debentures. If the assets of the company are mortgaged, these assets can not be issued for further borrowing.

3) Debenture-finance enables a company to trade on equity. If the company issues very large number of debentures, it may have adverse impact on shareholders. The shareholders may get frustrated. As a result, the value of shares may fall.

4) It may be a burden on the company during recession. At the time of recession, the profits of the company may decline. In such cases, it may be difficult to pay interest on debentures. The interest may keep on accumulating. The accumulation of very large amount of interest may lead to the closure of the company.

19.4.3 Venture Capital

These days, the venture capital has emerged as an important source of finance. The investors invest in start-up companies, micro, small and medium size enterprises with long-term growth perspective. The investment is made particularly for starting the business and expansion for the business considering the long-term growth potential. The capital invested in such project is known as venture capital. The person who contributes capital in such project is known as venture capitalist. It is an important method of equity financing for the long-

term growth potential enterprises. The venture capitalists may be professionals in many fields. They provide funds for earning high returns. They take active part in the management of the enterprises. They provide professional expertise to the organisation.

Advantages of Venture Capital

- Venture Capital provides fund as well as expertise to the company.
- The enterprise may obtain large amount of equity finance.
- The enterprise is not obligated to repay the fund.
- The venture capital provides important information, resources, technical assistance for the enterprises.

Disadvantages of Venture Capital

- The founder may loose the control and autonomy because the investors become part of the owners.
- The finance through venture capital may be complex and lengthy.
- This method of financing may be uncertain.
- This method of financing may not be suitable for short-term.

19.4.4 Lease Financing

A lease is a contractual agreement whereby one party i.e., the owner of an asset grants the other party the right to use the asset in return for a periodic payment. In the lease financing the asset is given on rent for specified period. The owner of the assets is known as the Lessor. The party whom the asset is given is called the Lessee. The fixed amount is paid by Lessee to the Lessor for the use of the asset which is known as lease rental. The lease contract is signed, which stipulates the terms and conditions for regulation of the lease arrangements. The asset is given back after the expiry of lease period. This finance may be used for modernisation and diversification of the organisation. Lease financing may be suitable for the business related to fast changing technological developments. The Lessee shall compare the cost of buying the asset and the cost of leasing the asset for entering to lease financing.

Types of Lease

There may be two types of lease financing. These may be finance lease and operating lease. Let us learn them in detail.

a) **Finance Lease:** The Lessor transfers substantially all the risks and rewards of ownership of assets to the Lessee for lease rentals. The Lessee is brought in the same condition as he/she would have been if he/she had purchased the asset. There are two phases of finance lease. The first phase is known as primary phase. The primary phase is non-cancellable period. The Lessor recovers his investment through the rent of the lease. The primary period may last for indefinite period of time. The lease rental for the secondary period is smaller than that of primary period.

Features of Finance Lease

1) In the lease financing, the Lessee gets a right to use an asset.

2) The Lessor charges lease rent during the primary period of lease. The amount of the lease rent may recover the investment.

3) The amount of lease rent for secondary period is less.

4) The maintenance of asset is done by the Lessee.

5) The Lessor do not take the risk and reward related to asset.

6) The investment of Lessor is ensured because the lease is non-cancellable.

b) Operating Lease

Lease which is not finance lease is called operating lease. In case of operating lease, the risks and rewards incidental to the ownership of asset are not transferred by the Lessor to the Lessee. The term of such lease is much less than the economic life of the asset. The Lessee may not recover the total investment through lease rental during the primary period of lease. The Lessor usually provides advice to the Lessee for repair, maintenance and technical know how of the leased asset. Thus, the operating lease is also referred as service lease.

Features of Operating Lease

1) The term of lease is less than the economic life of the asset.

2) The Lessee can terminate the lease at a short notice. The penalty is not charged for termination.

3) The technical know how is provided by the Lessor.

4) The Lessor bears the risks and rewards.

5) Lessor gives leasing an asset to different Lessee. The leasing facilitates recovery of investment.

Advantages and Disadvantages of Lease Financing

There are many advantages and disadvantages of lease financing. Let us learn them in detail :

Advantages of Lease Financing

a) To Lessor

1) **Regular Income:** The lease rental income is received by the Lessor for the lease period. Thus, the Lessor gets regular and assured income.

2) **Ownership:** The ownership of asset is not transferred to Lessee. Lessee bears the risks and rewards related to the asset.

3) **Tax Benefit :** The Lessor gets tax benefit by charging the depreciation of the leased asset.

4) **Profitability:** The rate of return on lease rent is higher than the interest payable on financing the asset. Thus, the leasing of asset is highly profitable.

5) **Growth Potential :** Being the cost efficient financing, the leasing business has been growing. This may facilitate the business during

the depression period. Therefore, the growth potential of leasing may be higher than other financing business.

6) **Investment Recovery :** The Lessor may recover investment through lease rentals.

b) To Lessee

1) **Use of asset:** The Lessee can use an asset by paying fixed rentals. He need not spend large amount on the purchase of the asset.

2) **Tax benefits:** The lease expenses are chargeable to profits, hence, the enterprise gets the tax benefits.

3) **Cheaper:** The lease financing is cheaper than other sources of finance.

4) **Assistance:** The technical support may be provided by the Lessor to the Lessee for the leased asset.

5) **Inflation friendly:** The Lessee makes fixed payment in the form of lease rent. The same fixed amount is paid when the cost of asset increases. Thus, leasing is considered as inflation friendly.

6) **Ownership:** The Lessor offers the Lessee to purchase the asset by paying less amount when the primary period expires.

Disadvantages

a) To Lessor

1) **Unprofitable in case of inflation:** The lease rent is fixed, therefore, the Lessor gets the same amount even if the cost of asset increases.

2) **Double taxation:** The tax burden is doubled. At the time of buying the asset as well as at the time of leasing the asset.

3) **Greater chance of damage of asset:** The asset may be used carelessly by the Lessee because the ownership of asset is not transferred. Thus, the asset may not be usable after the expiry of primary period.

b) To Lessee

1) **Compulsion:** The lease can not be cancelled. The Lessee is bound to make the payment of lease rent when the asset is not used by him/her.

2) **Ownership:** The ownership is not transferred to Lessee. He/she can not be the owner unless the asset is bought by him/her.

3) **Costly:** The Lessee pay the lease rental as well as the incidental expenses related to the asset. Therefore, the lease financing may be costlier than other financing.

4) **Understatement of asset:** The lease asset is not shown in the Balance Sheet because Lessee is not the owner of asset. This leads to understatement of the asset for the Lessee.

Check Your Progress B

1) What is the difference between equity shares and debentures?

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2) Write two merits and demerits of equity shares.

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3) Write two merits and demerits of debentures.

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4) What do you mean by venture capital?

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5) What is lease financing?

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19.5 SECURITY MARKET

You have learnt the sources of finance being raised through equity shares, debentures, venture capital and lease financing. Security Market is another important source of raising finance. The Securities Market consist of primary market and secondary market. In security market, the securities are bought and sold on the basis of demand and supply of securities. It consists of equity markets, bond markets and derivative markets. It plays a crucial role in the economy. The fund is channelised from savers to investors by the security market. The security market facilitates in the allocation of funds by channelising the fund to the users of the fund. Let us learn them in detail.

19.5.1 Primary Market

In the primary market new securities are issued. It is also known as New Issue Market. Issuers, Government and Corporate issue security in primary market. It helps in raising resources and fulfills the requirement of investment. The securities may be issued at face value, or at a discount/premium value. The securities may be in the form of equity, debt, etc. The market participants may issue the securities in domestic market as well as the international market.

In primary market, the issue is carried out through public issues or private placement. A public issue does not restrict in investing. In private placement, the issue is provided to select people. In terms of the Companies Act, 1956, an issue becomes public if it results in allotment to more than 50 persons. This means an issue of less than 50 persons falls in private placement. There are two types of security issuers. These are : (i) Corporate entities, who issue mainly shares, debentures, etc. and (ii) the Government, who mainly issue debt securities like dated securities, treasury bills and others.

The price may reflect information about the issuer and his business. The risk involved in the secondary market may attract the investors in the primary market.

There are various ways to raise capital or equity in primary market. These are :

1) **Public Issue :** In this issue, the securities are sold through IPO.
2) **Rights Issue :** In this issue, Shares are offered to existing shareholders on pro-rata basis. This facilitates raising of supplementary capital.
3) **Private Placement :** Securities are sold to high profile investors. These may be Venture Capitalists, Mutual Funds and Banks.
4) **Preferential Allotment :** Equity shares are issued to selected investors. A listed company issues equity shares which may or may not be in accordance with the market price.

19.5.2 Secondary Market

A market where securities are traded which were initially offered to the public in the primary market and/or listed on the Stock Exchange is known as secondary market. Majority of the trading are preformed in the secondary market. Secondary market consists of equity markets and the debt markets.

The investors or participants trade the already held securities. This is done considering the risk and return. Secondary market has two components : (i) The over-the-counter (OTC) market and (ii) exchange-traded market. The Over the

Counter Exchange of India Limited has provided the OTC market. The OTC market are informal markets where trades are negotiated. Most of the trades in Government securities are done in the OTC market. Spot trades are not provided. Cash market is also somewhat like spot market. In cash market, settlement takes place after sometime. Trades takes place over a trading cycle, i.e. a day under rolling settlement. Trades are settled after a two working days. Clearing corporation clears and settles the trades done on the National Stock Exchange of India Limited (NSE). In this way, notation and settlement guarantee are provided. Almost all the trades are settled in DEMAT (dematerialisation) form. NSE also provides a platform for trading of a wide range of debt securities. The Government securities are also traded.

In the Secondary market, the trade may also take place for future date, this is known as forward market. In this market, securities are traded for future delivery and payment. There are two types of forward market i.e. Futures and Options. In future market, standardised securities are traded for future delivery and settlement. These Futures are on an underlying asset i.e. an index or a security or even a commodity. In Options, securities are traded for conditional future delivery. There are two types of Options. These are put and call Options. A Call Options allows the owner to buy a security from the writer of the Option at a predetermined price. A Put Option allows the owner to sell a security to the writer of Options at a predetermined price. These Options also derive their value from underlying security. NSE and the Bombay Stock Exchange (BSE) provide trading of derivatives of securities.

You have learnt about the primary and secondary market. Let us learn the difference between primary market and secondary market.

Difference between Primary and Secondary Market

Basis	Primary Market	Secondary Market
Meaning	It is a new issue of market. In this market, first time dealings take place.	The securities which have been already issued, are bought and sold in secondary market.
Type of buying	There is direct buying.	There is an indirect buying.
Financing	Finances are raised for expansion and diversification.	The trading of prior-issued shares take place. Finances are not raised.
Selling of security	The securities are sold only once.	The securities which have been already issued are traded several times.
Buying and Selling	Buying and selling take place between company and investors.	Buying and selling take place among investors.
Gain	Company	Investors
Intermediary	Underwriters	Brokers
Price	There is a fixed price provided at the time of IPO.	There is a price fluctuation. It depends on the demand and supply in the market.

19.6 ROLE OF SEBI

The stock market has grown over the year. The malpractices such as price rigging, new issue unofficial premium, delay in delivery of shares, stock exchange rules and regulations violation and others have also been noticed. Therefore, Government of India took decision to set-up a regulatory body SEBI (Securities Exchange Board of India).

SEBI is the regulator for the securities market in India. It is known as Securities Exchange Board of India. The regulation facilitates smooth functioning of security market. The statutory powers of SEBI are as follows :

- It protects interests of the investors in securities.
- It promotes the development of the securities market.
- It regulates the securities market.

SEBI may conduct enquiries, audits and inspection as well as adjudicate offences. It may register and regulate the market Intermediaries. It may also penalise in case of violation of the Act. SEBI aims at the development of orderly security markets.

Purpose and Role of SEBI

SEBI was formed to keep check on the malpractices and protect the interest of investors. It focused on protecting the interest of issuers, investors and Intermediaries as discussed below :

1) **Issuers:** SEBI provides safe market place to Issuers for raising the finance fairly and easily.

2) **Investors:** SEBI aimed at protecting the investors and supplying them accurate information.

3) **Intermediaries:** Professionally competitive market is provided by SEBI for the Intermediaries.

Objectives of SEBI

The objectives of the SEBI are :

1) The activities of stock exchange are regulated.
2) The rights of investors are protected. Safety is ensured for their investment.
3) Establishes the balance between self regulation and statutory regulations.
4) Development and regulation of Code of Conduct for brokers, underwriters and others.

Functions of SEBI

The functions of SEBI are:

1) **Protective functions :** SEBI aims at protecting the interest of the investors. It provides safety of investment. The malpractices, fraudulent activities and unfair trade practices are curbed. It promotes fair practices and provides code of conduct for fair operations.

2) **Developmental functions :** SEBI promotes training for securities market Intermediaries. Stock Exchanges are encouraged to adopt flexible and adoptable approach.

3) **Regulatory functions :** SEBI regulates the business in Stock Exchange. Regulations, Rules and Code of Conduct have been prepared to regulate the operations of the Intermediaries. It regulates the working of stock brokers, mutual funds, take-over of companies, etc. It also conducts audit of Stock Exchange.

Check Your Progress C

1) What is Primary market ?

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2) What do you mean by Secondary market ?

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3) What is SEBI?

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4) Write two functions of SEBI?

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5) State whether following statement are **True** or **False**.

   i) New shares are issued in Secondary market.

   ii) Equity shares are paid dividend before the payment of dividend on preference shares.

   iii) The lease is not a contractual agreement

   vi) Venture capital provides fund as well as expertise to the company

   v) SEBI does not register and regulate the working of mutual funds.

19.7 LET US SUM UP

Financial Management means planning, organising, directing and controlling the financial activities such as procurement and utilisation of funds of the enterprise. It means applying general management principles to financial resources of the enterprise. The objectives of the financial management are to ensure the regular and adequate supply of funds, optimum utilisation of funds and reasonable returns to the investment. The main objective of the financial management is still a debatable issue that whether firm should focus on profit maximisation or wealth maximisation. Every firm has a predefined goal or an objective. Therefore, the most important goal of a financial manager is to increase the owner's economic welfare. Here economic welfare may refer to maximisation of profit or maximisation of shareholders wealth. Therefore, Shareholders wealth maximisation plays a very crucial role as far as financial goals of a firm are concerned.

In order to earn the return, firm has to invest the money and in order to invest the money firm has to look for suitable sources of funds. The sources of funds are : Equity shares, Debentures, Venture Capital and Lease Financing. Equity shares are the ownership of the company and help in raising the finance from the public. It is considered as permanent source of capital although shareholder has the share in the profit. Debentures are the kind of loan. In other words, any money borrowed for a longer duration is known as debentures. They carry a fixed rate of return.

Venture capital is financing that investors provide to start-up companies and small businesses that are believed to have long-term growth potential. Leasing provides the opportunity to secure the use of capital without ownership. It is effectively a hire agreement. In security market, securities are bought and sold. There are two types of securities market i.e. Primary market and Secondary market. Primary market is the market where the first-time securities are traded. It is done via an Initial Public offering. Secondary market is a place where further buying and selling of securities/shares takes place. In other words, in secondary market actually trading of shares take place. Primary market provides or generates funding for the companies by letting them issue securities, while secondary market provides them the platform to trade in those securities. SEBI i.e the Securities Exchange Board of India which manages and monitor the securities market. The purpose is to protect the interests of investors in securities, promote the development of the securities market and regulate the securities market.

19.8 KEY WORDS

Authorised Capital : Maximum amount of capital a company can issue.

Capital : The amount invested in the business for the purpose of earning revenue.

Called-up Capital : The amount of nominal value of shares that has been called up by the company for payment by the subscriber.

Capital Reserve : Capital profit not available for distribution as dividend. It is represented in Balance Sheet as Reserves and Surplus under the heading Shareholder's Funds.

Debentures : A long-term security yielding a fixed rate of interest, issued by a company and secured against assets.

Equity Shares : Equity shares represent the ownership of a company and thus, the capital raised by issue of such shares is known as ownership capital or owner's funds.

Financial Management : Financial management is that managerial activity which is concerned with planning and controlling of firm's financial resources.

Issued Capital : Part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital.

Lease Financing : Where the owner of an asset gives another person, the right to use that asset against periodical payments. The owner of the asset is known as Lessor and the user is called Lessee.

Paid-up Capital : Part of called up capital that the members of company or shareholders have paid.

Profit Maximisation : Profits maximisation approach implies that the functions of financial management/decisions taken by financial managers should be oriented towards maximisation of profits or income of the firm.

Reserve Capital : It is part of increased capital and/or portion of uncalled share capital of an unlimited company which can be called only in case of winding- up of the company.

Share Capital : Capital raised by issue of shares.

SEBI : Securities Exchange Board of India is the regulator for the securities market in India.

Venture Capital : Financing that investors provide to start-up companies and small businesses that are believed to have long-term growth potential

Wealth Maximisation : Wealth maximisation means maximising the Net Present Value (or wealth) of a course of action.

19.9 ANSWERS TO CHECK YOUR PROGRESS

Answers to check your Progress (C)

5) i) False, ii) False, iii) False, iv) True, v) False

19.10 TERMINAL QUESTIONS

1) What is meant by Financial Management? Describe the functions and objectives of Financial Management.

2) "Wealth Maximisation is preferred over Profit Maximisation". Critically examine.

3) Discuss the sources of raising finance through the equity shares and debentures ? Compare their relative merits and demerits.

4) Elucidate the difference between Primary Market and Secondary Market?

5) How do Equity Share differ from Preference shares and Debentures?

6) Describe the financing through Venture Capital, explaining its merits and limitations.

7) What is the meaning of Lease Financing? Explain its advantages and limitations.

8) Explain the Role and Functions of SEBI?

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UNIT 20 HUMAN RESOURCE MANAGEMENT

Structure

20.0 Objectives
20.1 Introduction
20.2 Definition of Human Resource Management
20.3 Functions of Human Resource Management
 20.3.1 Managerial Functions
 20.3.2 Operative Functions
 20.3.3 Advisory Functions
20.4 Skills of HR Professionals
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20.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning of Human Resource Management
- discuss functions of Human Resource Management
- describe the skills of HR professionals
- explain the dynamics of employer-employee relations
- discuss the concept of employee empowerment and employee engagement

20.1 INTRODUCTION

Human resource management is a function concentrated on recruiting, managing and directing people who work in an organisation. It deals with issues related to compensation, performance management, organisation development, safety, wellness, benefits, employee motivation, training, etc. HRM plays a strategic role in managing people and the workplace culture and environment. The performance of effective HRM function may facilitate accomplishment of goals and objectives of the Organisation.

HR function of an organisation has a very critical role to play in an organisation. When the organisation realises the value of its people and their responsibilities, it indicates that the HR department has emerged as a true support for all managers.

Over the time, it has expanded from traditional role of ensuring employment, law compliance and maintaining staffing levels (named as personnel management), to becoming an influential partner in the strategic development and growth of an organisation.

In this Unit, on Human Resource Management, you will learn the concept of HRM, various functions of HRM, skills required from HR professionals to perform these functions and challenges of competitive environment. You will also learn the concept of employer-employee relationship, employee empowerment, and employee engagement.

20.2 DEFINITION OF HUMAN RESOURCE MANAGEMENT

According to Flippo (1980), human resource management is "the planning, organising, directing, and controlling of the procurement, development, compensation, integration, maintenance, and reproduction of human resources to end that individual, organisational, and societal goals are met".

According to National Institute of Personnel Management of India (2014), "human resource management is that part of management concerned with people at work and with their relationship within the organisation. It seeks to bring together men and women who make up an enterprise, enabling each to make his own best contribution to its success both as an individual and as a member of working group".

Dessler (2005), defined HRM as "the process of acquiring, training, appraising, and compensating employees, and of attending to their labour relations, health and safety, and fairness concerns".

Based on the analysis of above definitions, Human Resource Management is the process of acquisition, utilisation and development, compensations and reward, integration, maintenance, and separation of human resources of an organisation. This definition gives us a base to understand various functions of human resource management.

20.3 FUNCTIONS OF HUMAN RESOURCE MANAGEMENT

The functions of HRM can be broadly classified into three broad categories.

1) Managerial Functions
2) Operative Functions
3) Advisory Functions

Let us learn them in detail.

20.3.1 Managerial Functions

HR Managers perform the essential functions of managing the people. In line with the other managers, a human resource manager performs the function of planning, organising, directing and controlling. The primary functions of

management are planning, organising, staffing, leading, and controlling. These functions are discussed below.

Planning: Planning involves deciding human resource goals, formulating human resource policies and preparing the human resource budget.

Organising: It involves developing the organisation structure, establishing the relationship among jobs and allocating resources to perform the organisation objectives.

Directing: Directing helps in building sound individual and human relations in the Organisation.

Controlling: Controlling the management of human resources involves: auditing, training, analysing labour turnover records, directing surveys, conducting separation interviews, and such other means.

These four areas and their related functions have the common objective. The skills, abilities, knowledge, and experience are required for the achievement of further organisational goals. Each managerial human resource function may be assigned to one of the four areas of HR responsibility. There may be some specialised or operative HR functions which may serve many purposes. For example, performance appraisal measures serve to stimulate and guide employee development as well as salary administration purposes. The compensation function facilitates retention of existing talented employees and attraction of potential employees to the organisation. A brief description of operative human resource functions are given below:

20.3.2 Operative Functions

Operative functions of human resource management are concerned with specific activities of procuring, developing, compensating, and maintaining an efficient workforce. Let us learn them.

1) **The Procurement Functions**

   It is concerned with the acquisition of a proper kind and number of personnel necessary to accomplish organisational goals. It deals specifically with following activities :

   Human Resource Planning: Human resource planning refers to forecasting human resource needs for the Organisation. It involves planning the required mechanism to meet the objectives of the Organisation. Human resource planning is essential to timely and properly manage the human resource. Proper planning facilitates the managers in achieving the organisational goal.

   Job analysis: It is the process of determining the tasks that constitute a job. It is related to identification of nature of the job and skills, abilities, and responsibilities that an individual require to perform that job.

   Job design: Job design is a written record of overall summary about the kind of work to be done. How the job should be performed and where it should be performed ? It describes the contents of the job and methods of

performing the job. It clearly defines the position of employee performing the job.

Recruitment: It is the process of identifying the vacant posts and taking steps to get candidates for such positions. It is a positive function of getting sufficient number of candidates for the vacant or new positions. The process of recruitment ends where selection process starts.

Interviewing: It is a formal interaction between the employers and the candidates. It provides an opportunity to extract as much information as possible from the candidates.

Selection: It is the process of picking up the best candidate from the pool of applicants. It involves selecting the perfect match with adequate qualification and skills for the respective post. It is a negative function for rejecting or filtering the candidates.

Hiring and Socialising: Hiring is the act of finding the most suitable candidate in the company and handing over the concerned duty to him / her. The selected candidate is hired and made familiar with the environment and people working in the Organisation. This process is commonly known as socialisation. The socialisation is important to attain quality output from the employees.

2) Development Functions

Another basic function of human resource management is development of people working for the organisation for better performance. The development function of HRM involves : training and development, performance management, and career development functions.

Training and Development: Training is designed to help employees in acquiring better skills for their current job. Development is designed to help the organisation ensure that it has the necessary talent internally for meeting future human resource needs. The employee training focuses on skill development to cope with the changes.

Career Development: It is concerned with overall development of individuals. It is the lifelong process of managing employee's work experience within or between organisations. It is also the responsibility of the individual to develop his/her career. Career development Programmes are designed to help employees in improving their work lives in an Organisation. Career development involves understanding career path of the employee to match long-term individual and organisational needs.

Management Development: It is a systematic process of training and growth of the employees. This process facilitates individuals in gaining and applying knowledge, skills, insights, and attitudes to manage work in the Organisation. It involves developing in a systematic manner the knowledge, skills, and attitudes of managers.

Performance Appraisal and Performance Management: HRM appraises employees' performance. It evaluates the individual with respect to performance on the job and potential for further development. In

performance management process, managers and employees work plan, monitor, and evaluate employee's work objectives and overall contribution to the Organisation.

3) **Compensating Functions**

It is the activity by which human resource management evaluates the contribution of the employee in order to distribute direct and indirect monetary and non-monetary reward within the organisational ability to pay. It involves financial as well as non-financial reward to employees for services rendered to the organisation. It consists of following activities:

Job Evaluation: It is the process of determining the relative worth of a job.

Wage and Salary Administration: It implies developing and operating a suitable wage and salary programme.

Bonus and Incentives: It involves payment of bonus as well as other incentives to the employees.

4) **Integration Functions**

It is a process of reconciling the goals of the organisation with its members. Integration function concerns with activities for managing human relations in integrating employees in work environment. The integration motivates them to work together productively, co-operatively and with economic, psychological, and social satisfaction. This function involves:

i) Motivating the employees

ii) Boosting employee morale

iii) Collective bargaining

iv) Workers' participation in management

v) Redressing employee grievances properly

vi) Developing well formulated grievance redressal procedures

vii) Handling disciplinary cases by means of an established disciplinary procedure.

viii) Counselling the employees in solving their personal, family, and work problems.

ix) Improving quality of work life of employees through participation and other means.

5) **Maintenance Functions**

It is concerned with protecting and promoting the physical and mental health of the employees. Competent and committed employees are invaluable assets for any company. Under this function, HRM focuses on various functions which are briefly described below.

Good Working Climate: It is essential for physical and mental well-being of employees. It may be difficult to make good input in lack of healthy work space.

Employee welfare activities: It involves facilitating employees with various fringe benefits. These benefits may be conveyance, health insurance, retirement benefits along with other incentives to retain employees.

6) **Separation Functions**

An employee may be separated from an organisation as a consequence of resignation, retirement, retrenchment, downsizing, layoff, voluntary retirement, death or any other cause. It involves great deal of empathy and planning to deal with such separation. Organisations must have a comprehensive separation policies and procedures to deal with the leaving employee. They should be treated equitably for smooth transition for him/her. Some of these are:

i) **Out Processing:** The separating employee must return organisation's property at the time of separation. It may include uniforms, phone, keys, laptops, identification cards etc. If they fail to return some items of the organisation, it may result in deductions from the employee's final payment.

ii) **Exit Interviews:** Such employees can provide significant information at the time of separation. Exit interviews can be conducted by the HR department to ascertain the views of the leaving employees about different aspects of the organisation, including the efficacy of its HR policies.

iii) **Retirement Benefits:** The HR manager has to ensure the release of retirement benefits to the retiring personnel in time. In other cases of separation, all other dues need to be cleared.

iv) **Rehire:** Employees who have left the company may be considered for hiring in future by the organisation. This is done when the employee has good performance record. In such cases, the former employee must submit an application to the HR department. He must meet all minimum qualifications and requirements of the position.

20.3.3 Advisory Functions

Human resource manager has specialised education and training in managing human resources. He is an expert in his area. He/she advises on matters relating to human resources of the organisation to :

Top Management: HR manager advises the top management in formulation and evaluation of personnel policies, and procedures. He/she also advises on issues related to human relations, employee motivation, and morale.

Departmental Heads: HR manager offers advice to the heads of various departments. The advice may involve : manpower planning, job analysis, job design, recruitment, selection, placement, training, performance appraisal, etc.

Look at Figure-1 which shows the functions of human resource management.

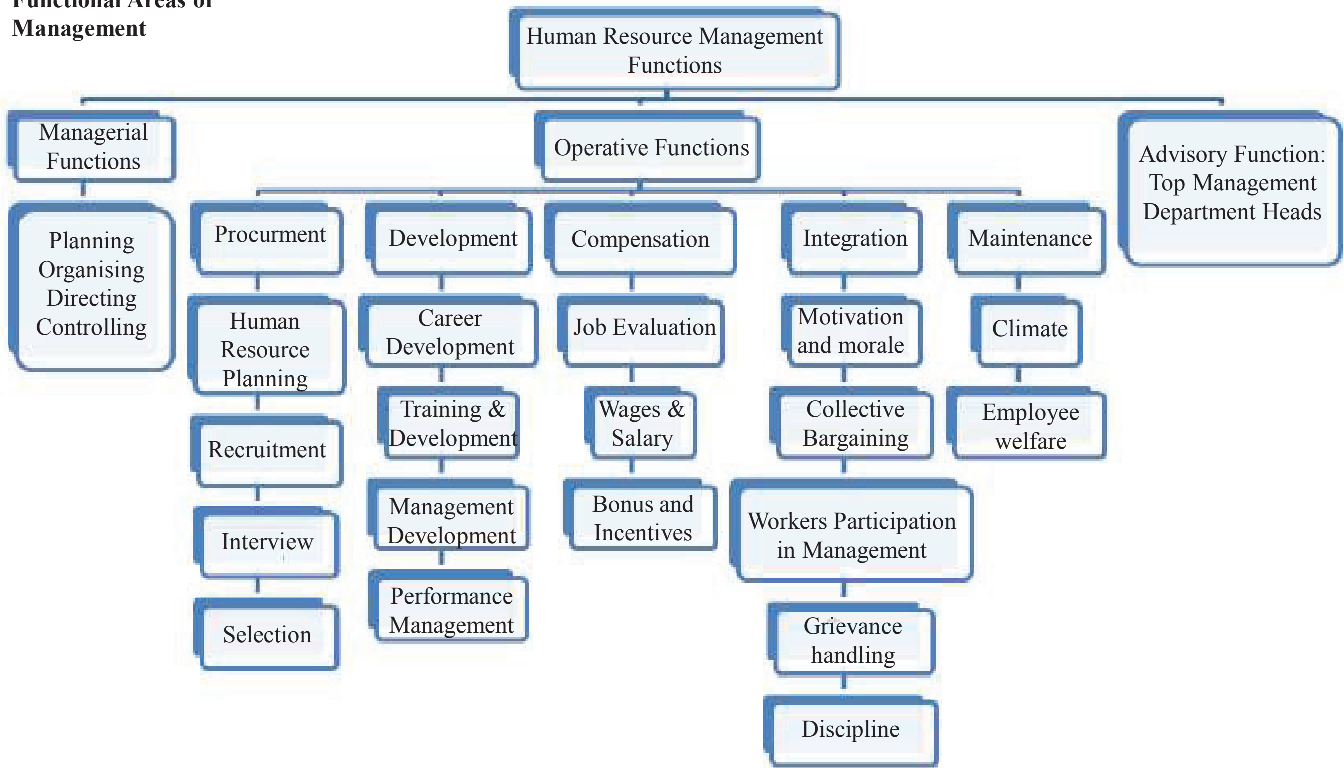

Fig. 19.1: Functions of Human Resource Management

20.4 SKILLS OF HR PROFESSIONALS

You have learnt the managerial, operative and advisory functions of HRM. Let us now learn the various skills required for HR Professionals.

Human Resource professionals serve an important role in the Organisation. Hence, it is essential that they possess requisite skills to perform all the HR functions well. Some of the important skills are discussed below:

Multi-tasking Skills: HR professionals have to deal with many aspects of business. The business moves fast and priorities also change from time to time. Hence, the main skill for human resource management is to acquire multitasking capability of the professionals. For example, recruitment for key position involves understanding of leadership requirement, organisation culture, finding suitable candidates, matching suitable candidate with the position, etc.

Interpersonal Skills: In order to be an effective managers, they must possess strong interpersonal skills as well as decision making skills. Since they have to deal with the interview process, they should be able to communicate in an effective manner. They should also present the company in an appropriate manner.

Communication Skills: The HR managers should be able to communicate in a clear and effective manner. Good communication skills are required for posting memos, policy handbooks, and related information. HR managers need to be empathetic listener. The HR managers should possess the capability to clearly understand the problems of the employees. For example, grievance handling of employees. Further, HR professionals should be able to understand non-verbal communication and voice inflections as well as verbal communication.

Negotiation Skills: HR professionals must possess the competence to negotiate. For example, while making offer for employment to new employee, HR managers often negotiate on salary and benefits. They should possess negotiation, analytical, and problem solving skills in order to assess the overall package as per the industry norms.

Problem-solving and Conflict Management: Problem-solving and conflict management as a combination is necessary for HR managers. All employees in an organisation may not be able to adjust with their co-workers. The managers are required to manage conflicts and solve problems.

Assessment Skills: Assessment skills are required in performing many functions of human resource management. For example, in the process of implementing performance management, assessment skills is required for performance evaluation of employees. These skills may be useful for performance assessment, skills assessment of employees before designing relevant training programmes, etc.

Instruction Design Skills: The HR managers should possess the competence to develop training for the Organisation. They should possess presentation abilities, instructional design skills to conduct best training programmes for the benefit of the Organisations

Organisational Skills: The HR management requires suitable organisational skills. These may include : time management skills, organisation of files, and personal efficiency. HR professional deals with careers and lives of many people. In case, a HR professional receives request for details regarding termination or compensation, he should provide the desired information.

Ethical and Discretionary Skills: HR professionals are the keepers of confidential information of the Organisation. The HR department deals with the top level of management. The department should make sure that the regulations and policies are followed in the right manner.

Strategic Skills: The human resource management has objectives, goals, budgets, and people to manage. The functioning of the organisation along with its strategic plans must be well understood by the HR professionals. They assist the management in strategic way, e.g., bringing in new skill sets for business growth, and revision of compensation in the light of business strategy etc.

Fairness: There should be fairness demonstrated from the HR professionals towards all employees. There should be a clear communication. The voices of people must be heard and all policies must be followed in fair manner. The HR professionals must also make sure that respect and privacy are also maintained.

Development Skills: The HR professionals need to assist, coach, and develop the employees. The main intention of the HR professionals should be continued improvement and innovation in the organisation for the development of employees.

Team Orientation: The organisations have hierarchies which are headed with supervisors. The HR professionals should be able to understand the team dynamics and work in order to bring in different individuals together and develop team work.

Technology Skills: There are number of software applications and tools that are used in the HR management. HR professionals should be proficient in the applications of these tools. They should possess HR competencies such as applicant tracking software, human resource information system, data analytics, and many more innovative tools and techniques, etc.

Check Your Progress A

1) Write three functions of HRM.

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2) Write three operative functions of HRM.

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3) Write three advisory functions of HRM.

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4) Match the following statements given in Column I with the appropriate skills given in Column II

	Statement		Skills
i)	Designing training and development of employees	a)	Assessment Skills
ii)	Performance appraisal	b)	Interpersonal Skills
iii)	Managing human resource information system	c)	Instructional Design Skills
iv)	Keeping important information confidential and following rules and regulations	d)	Technology skills
v)	Interviewing candidate for a new job	e)	Ethical and discretionary skills

5) Fill in the blanks with appropriate word:

   i) Organising activities such as developing structure of relationships among jobs, personnel, and physical factors is .... function of human resource management.

   ii) .... is the process of inviting applications to fill vacant positions in an organisation.

   iii) Developing and operating a suitable wage and salary programme is concerned with .... function of human resource management.

   iv) Helping top management in formulating and evaluating HR related policies and is .... function of HRM.

   v) Collective bargaining and workers participation in management are part of .... function of management.

20.5 COMPETITIVE CHALLENGES INFLUENCING HRM

Organisations have to keep pace with the ongoing challenges and trends influencing human resource management. Some of these challenges are detailed below:

Responding Strategically to Changes in the Marketplace : In today's highly competitive environments, the competition has been global and innovation has emerged as a continuous process. As a result, innovation and adaptation have become the key to capturing opportunities and overcome obstacles. Adaptation of innovative practices facilitate the success of the organisation. For example. When big auto manufacturing companies like General Motors, Chrysler, and Ford were on the verge of bankruptcy, most of their part suppliers sold exclusively to them. As a result, part suppliers of these auto manufacturing companies had to rapidly find other markets which required significant human resource changes and challenges.

Competing, Recruiting, and Staffing Globally : The integration of world economies and markets has sent businesses abroad to look for opportunities as well as deal with foreign competition domestically. Consumers around the world want to be able to buy "anything, anytime, anywhere." The companies are also making it possible for them to do so. For example, BMW has traditionally been a German brand, but now the automaker builds cars in the United States, China, and elsewhere. In globalisation, managers have to balance a complicated set of issues related to different geographies, including different cultures, employment laws, business practices, and the safety of employees and facilities abroad.

Setting and Achieving Corporate Social Responsibility and Sustainability Goals: Companies are realising that being socially responsible may not only help them to avoid legal complications and also improve their earnings. Sustainability is closely related to corporate social responsibility. Sustainability refers to a company's ability to produce without damaging the environment or depleting resources. For instance, after the 2010 oil spill in the gulf of Mexico,

one of the several accidents in BP Oil's history that have harmed both the people and the environment. Many people demanded that BP should change its approach to corporate social responsibility. Corporate social responsibility has now become more important for prospective customers as well as employees.

Advancing HRM through Technology : Advanced technology tends to reduce the number of jobs that require little skill and to increase the number of jobs that require considerable skill. In general, this transformation has referred to as a shift from "touch labour" to "knowledge workers." In this process, responsibilities of employee expand to include a richer array of activities such as planning, decision making and problem solving.

The most central use of technology in HRM is an organisation's Human Resource Information System. It is a computerised system that provides recent and accurate data for purposes of control and decision making. Information technology is affecting human resource management in relational nature. It also connects people with each other and with HR data. For example, companies are using software to recruit, screen, and pre-test applications online before hiring them as well as to train, track, and promote employees once they have been hired. The internet and social media are also having an impact. Social media networking has become the new way to find employees and find out the acceptable candidates.

Managing Costs While Retaining Top Talent and Maximising Productivity: For years, most human resources managers have been under pressure to cut labour costs. Organisations apply many approaches to lower labour-related costs, including carefully managing employee benefits, downsizing, outsourcing, and engaging in employee leasing in order to enhance productivity.

Few jobs come with lifetime guarantees and benefits that will never change. Nonetheless, employees want to work for employers that can provide them with a certain amount of economic security. Some companies, such as, Google, are able to hire talented employees by offering them a great deal of job security and great benefits. However, most companies, especially smaller ones, find it hard to compete with bigger firms with deluxe benefit packages. HR managers have to face this challenge of retaining the top talent at the same time managing the labour cost of the company.

Responding to the Demographic and Workforce Diversity : Changes in the demographic composition of employees, such as their age, education levels, caste, creed, gender, and other ethnicities are the biggest challenge in managing workforce diversity. In such scenario, it is absolutely vital to increase efforts to recruit, train, and manage more diverse workforce. Workplace diversity impacts the way human resource management functions are performed to cater to their diverse needs. For example, Generation Y, also known as millennials, are generally regarded as having good technical know-how and initiative, especially when it comes to starting their own business (Facebook founder Mark Zuckerberg is notable example). Moreover, employers wanting to attract talented women, have to devise measures to ensure that they are treated equally in the workplace in terms of advancement, opportunities and compensation.

20.6 DYNAMICS OF EMPLOYER-EMPLOYEE RELATIONS

You have learnt the functions of HRM, skills required for HR Professionals and competitive challenges influencing HRM. Let us now learn the dynamics of employer-employee relations.

Employer-employee relations is one of the most delicate and complex problems of industrial society today. When an employer hires a new employee, s/he should not be considered as only new member of the Organisation. s/he should initiate new relationship in the Organisation. Managing these relationships are most important task for the success of the organisation. Industrial progress may hamper without labour management cooperation and industrial harmony. Therefore, creation of good relations between employers and employees becomes essential for smooth functioning of the Organisation.

According to Dale Yoder, the term employer-employee relations refer to "the whole field of relationship among people, human relationship that exist because of the necessary collaboration of men and women in the employment process of modern industry". The clear spelt out roles and responsibilities of employer and employee may lead to good relationship.

Employer-employee relationship exists from employment relationship. Employment relationship exists when a person performs work or services under certain conditions in return for remuneration. It is through the employment relationship, the reciprocal rights and obligations are created between the employee and the employer.

The existence of an employment relationship is the condition that determines the application of the labour and social security law provisions addressed to employees. It is the key point of reference for determining the nature and extent of employers' rights and obligations towards their workers. According to ILO, the issue has become more important because of the increasingly widespread phenomenon of dependent workers who lack protection because of one or a combination of the following factors:

- The scope of the labour law is too narrow or it is too narrowly interpreted.
- The labour law is poorly or ambiguously formulated so that its scope is unclear.
- The employment relationship is disguised.
- The relationship is objectively ambiguous, giving rise to doubt as to whether or not an employment relationship really exists.
- The employment relationship clearly exists but it is not clear who the employer is, what rights the worker has and who is responsible for them; and.
- Lack of compliance and enforcement.

The employer-employee relations may involve : (i) the relations between the various unions (ii) the relationship between the State and the unions and (iii) the relationship between the employers and the Government.

According to the International Labour Organisation, "employer-employee relations comprise relationships between the State on the one hand and the employers' and employees' of organisations on the other hand and the relationship among the occupational organisations themselves. The ILO uses the term to "denote such matters as freedom of association and the protection of the right to organise, the right of collective bargaining, collective agreements, conciliation and arbitration and the machinery for cooperation between the authorities and the occupational organisations at various levels of economy".

Major Features of Employer-Employee Relations

Based on the discussion above, major features of employer-employee relations are summarised below:

1) **Outcome of the Employment Relationship**: Employer-employee relations are the outcome of the employment relationship in industry. These relations exist due to existence of two parties, employer and employees. It is the industry which provides the setting for employer-employee relations.

2) **Inclusive of Individual Relations as well as Collective Relations:** Employer-employee relations include both individual relations as well as collective relations. Individual relations imply relations between employer and employees. Collective relations refer to relations between employers' associations and trade unions as well as the role of the State in regulating these relations.

3) **Complex and Multi-dimensional**: The concept is not limited to relations between trade unions and employer. It extends to the broad relationships between employers, employees and the Government. It covers regulated as well as unregulated, institutionalised as well as individual relations. It may occur in organised as well as unorganised sector.

4) **Dynamic and Developing**: It may change with changing environment of industry. It changes along with the economic and social institutions of the society. Economic factors include : economic organisations (capitalist, socialist, individual ownership, company ownership, and Government ownership), capital structure and technology, nature and composition of labour force, demand and supply of labour. Institutional factors refer to : state policy, labour legislation, employers' organisations, trade unions, social institutions (community, caste, joint family, and religions), attitude to work, power and status systems, motivation and influence, etc.

5) **Involvement of Multiple Parties in the Employer-Employee Relations System**: As you must be aware that the main parties are employers and their associations, employees and their unions, and the Government. These three groups interact to shape the relationship.

Three main groups that are involved in shaping employer-employee relations for the purpose of manufacturing or services. are :

a) **Employers:** Employers hire and fire workers. Management may relocate, close or merge a factory and introduce technological changes which may affect employees adversely. Many employers may use different tactics to

weaken unions. They may focus on commitment and efficiency of labour. Employers may negotiate individually. They may also negotiate through associations to settle terms and conditions of employment.

b) **Employees:** Workers are desirous to improve the terms and conditions of their employment. They may focus and discuss their views with management and put-up their grievances. Workers may get support from trade unions as well as labour legislation. Trade unions may influence both at plant level and industry level.

c) **Government:** Government has come to play an important role in employer-employee relations to protect the interests of both employers and employees. The Central and State Government evolve, influence and regulate employer-employee relations through laws, rules, agreements, awards of courts as well as executive and financial machinery.

20.7 EMPLOYEE EMPOWERMENT

Empowerment may be defined as providing employees at all levels the authority and responsibility to take decisions on their own. It occurs when power goes to employees who then experience a sense of ownership and control over their job. According to, Newstrom and Davis (1986) "empowerment is any process that provides greater authority through the sharing of relevant information and the provision of control over factors affecting job performance."

Empowerment has become necessary due to the following reasons:

1) The response time has been reduced drastically. For example, the complaints of the customers are resolved within the stipulated time.

2) First-line employees are expected to take appropriate decisions.

3) Authority has been granted to employees, therefore, he may take quick decision.

4) The empowerment may help in channelising the untapped potential of employees.

Benefits of Employee Empowerment

1) **Accountability Improves:** The management develops trust by empowering the employees. As a result, employees become more accountable. S/he feels confident that the superior recognises her/his abilities.

2) **Faster Problem Resolution:** If a person is given the resources and authority to get the job done, the job may be performed faster.

3) **Higher Quality Customer Service:** If the employees are empowered to take decision, s/he may be motivated to provide better quality service to the customers. He need not consult every time from his superiors. He feels pride in serving better to the customer.

4) **Job Satisfaction:** Empowered employees feel valued and trusted. If he solves the problem of the customer, he feels happy and satisfied. He gets the feeling of accomplishment. Moreover, he becomes confident in resolving the problems of the customers.

5) **Improved Processes and Procedures:** Empowered employees are involved in every aspect of the job from their perspective. An empowered employee explores for better way of performing the job. Empowered employees understand that managers respect new ideas which may facilitate better performance.

Approaches to Empowerment

Following approaches can be used by the managers to empower its employees:

i) Developing employees through training, coaching, and guided experience.

ii) Providing discretion over job performance and making them accountable for the performance outcomes.

iii) Providing successful role models.

iv) Reinforcing employees by giving promise, encouragement, and feedback.

v) Providing emotional support through role clarity, assistance, personal care and continuous support.

20.8 EMPLOYEE ENGAGEMENT

Kahn (1990) described "employee engagement as the harnessing of people's selves to their work, such that they fully invest their physical, cognitive, and emotional resources in their work roles. He suggested meaningfulness, safety, and availability as essential conditions and important indicators of engagement".

Employee Engagement refers to employee being psychologically involved in, connected to, and committed to the job. Employee engagement is important because many employee behaviours, including turnover, reflect the degree to which employees are engaged. Based on surveys by the Gallup organisation, business units with the highest levels of employee engagement have better chances of higher productivity, sales, and profitability (Corbin, 2017). Similarly, in a survey conducted by consultants Watson Wyatt Worldwide, it was found that companies with highly engaged employees have higher revenue per employee (Worldwide, 2008).

Seijts and Crim (2006) has provided ten Cs for employee engagement. These are : "Connect, Career, Clarity, Convey, Congratulate, Contribute, Control, Collaborate, Credibility, and Confidence". Let us learn them.

1) **Connect**: Managers should develop connection with the employees by showing value to them.

2) **Career**: Employees should be provided opportunities for the development of their career.

3) **Clarity**: Employees should be provided clear vision to make them understand the goals of the organisation. The contributions of employees should be highlighted.

4) **Convey**: There should be clarity regarding the expectations of the employees. The feedback of their performance should be provided.

5) **Congratulate:** The employees should be appreciated for their performance.

6) **Contribute**: When employees realise that their contribution leads to the success of the organisation, they feel happy and confident.

7) **Control**: Employees should be encouraged to participate in the working of the organisation. The deviations should be controlled for effective performance.

8) **Collaborate**: Employees should work as teams. They should develop trust and cooperation with their team members.

9) **Credibility**: Managers should make effort for enhancing reputation and credibility of the organisation. Employees should be proud of their jobs, performance and organisation.

10) **Confidence:** Managers should make effort for instilling confidence among employees. The confident employees feel pride for being part of the organisation.

Kumar and Singh (2013) analysed the drivers of employee engagement and impact of employee engagement on certain organisational outcomes in Indian context. They developed spiritually aligned employee engagement scale in which spirituality, meaningfulness, and alignment are the profound dimensions. 'Fit' between an individual's self-concept and role assigned to him/her leads to an experienced sense of meaning, and thereby point towards spirituality as an opportunity to grow, and to contribute to society. They have highlighted the factors like "experienced meaningfulness of the job, work-role-fit, co-worker relations, psychological safety, supportive supervisory relations, group norms, self-assessment, and work-role security as the important drivers of employee engagement".

Fostering Employee Engagement: In addition to above factors, employee engagement may be improved by :

1) Employees should realise about the contribution of their department for the success of their organisation.

2) Employee's efforts should be linked to the company's goals, and

3) Achieve a sense of accomplishment as a part of working in the organisation.

Check Your Progress B

1) Identify three major competitive challenges influencing HRM.

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2) What do you mean by dynamics of employer-employee relations ?

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3) What is employee empowerment ?

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4) What is employee engagement ?

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5) State whether following statements are **true** or **false**:

   i) State government has no role to play in managing employer and employee relations.

   ii) Employer and employee relationship emerges from employment contract.

   iii) Employee empowerment is simply delegation of authority to the employee.

   iv) Employee engagement can be improved by aligning individual's goals with the departmental goals and organisational goals.

   v) Employee empowerment leads to more control on the behaviour and actions of the employees.

20.9 LET US SUM UP

Most of the authors have defined human resource management in terms of various functions to be performed by managers for managing human resources. Human resource management involves all the activities performed by managers for acquisition, utilisation, maintenance and development of human resource in an organisation. It involves managerial operative and advisory functions. Planning, organising, directing, and controlling are managerial functions. Operative

functions are specialised function of HR like procurement, development, maintenance, integration, compensation and separation. It also involves advising top management and departmental head related to strategic human resources.

HR professionals need to possess requisite skills to perform necessary HR functions well. Some of the important skills are multi-tasking skills, interpersonal skills, communication skills, negotiation skills, problem-solving, and conflict management, assessment skills, instruction design skills, perfect organisation skills, ethical and discretionary skills, strategic skills, fairness, development skills, team orientation, and technology skills.

Organisations have to keep pace with the ongoing challenges and trends influencing human resource management. Some of these challenges are : responding strategically to changes in the marketplace, managing HR globally, setting and achieving corporate social responsibility and sustainability goals, advancing HRM through technology, managing costs while retaining top talent and maximising productivity, responding to the demographic and diversity challenges of the workforce.

Employer-employee relations have become one of the most delicate and complex problems of modern industrial society. Industrial progress is impossible without labour management cooperation and industrial harmony. Employer-employee relations are complex set of relationships that exist between employers, employees, unions, and government.

Employee empowerment may be defined as providing employees at all levels the authority and responsibility to take decisions on their own. It provides greater authority through the sharing of relevant information and the provision of control over factors affecting job performance. Employee Engagement on the other hand, refers to employee being psychologically involved in, connected to, and committed to the job.

20.10 KEY WORDS

Human Resource Management : The planning, organising, directing, and controlling of the procurement, development, compensation, integration, maintenance and reproduction of human resources to end that individual, organisational, and societal goals are met.

Human resource planning : Forecasting human resource needs for the organisation and planning the steps necessary to meet these needs.

Job analysis : The process of determining the tasks that constitute a job.

Recruitment : The process of identifying the vacant posts and taking steps to get candidates for such positions. It is positive function of getting sufficient number of candidates for the vacant or new positions.

Selection	:	The process of picking up the best candidate from the pool of applicants.
Performance Appraisal	:	Periodic process of evaluating individual's on the job performance with the performance standards.
Exit Interviews	:	Interview conducted at the time of separation.
Instruction Design	:	The systematic process by which instructional materials are designed, developed, and delivered. This is used in the context of training and development activities.
Employer-employee Relations	:	Employer-employee relations are complex set of relationships that exist between employers, employees, unions, and government.
Employee empowerment	:	Providing employees at all levels the authority and responsibility to take decisions on their own, through the sharing of relevant information and the provision of control over factors affecting job performance.
Employee Engagement	:	Refers to employee being psychologically involved in, connected to, and committed to the job.

20.11 ANSWERS TO CHECK YOUR PROGRESS

A) 4. i) c ii) a iii) d iv) e v) b.

5. i) Managerial ii) Recruitment
iii) Compensating/operative
iv) Advisory v) Integration

B) 5. i) False ii) True iii) False iv) True v) False

20.12 TERMINAL QUESTIONS

1) Explain Human Resource Management.

2) Explain functions and sub-functions performed by managers involved in managing human resources of an organisation?

3) Discuss the necessary skills required to be possessed by Human Resource Professionals?

4) Briefly explain the dynamics of employer and employee relationship.

5) What is employee empowerment? What are different approaches to empower employees in an organisation?

6) What is employee engagement? Discuss its relevance for today's organisations?

7) Assuming you are entrusted with the duty of determining personnel needs of a sales department of manufacturing organisation. In which HR functions will you be involved to perform this duty?

8) "A good human resource manager is no longer just a hirer and firer of men." Critically evaluate this statement. Also, explain the competencies of HR manager.

9) "Of all the tasks of management, managing human components is the central and most important task because all others depend on how well is it done". Discuss.

10) "Globalisation, technology, changes in demographics, nature of work and demographic trends are significantly influencing the way HR managers do their work today". Discuss this statement giving adequate examples.

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Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university for assessment. These are for your practice only.

SOME USEFUL BOOKS

Basu C. R. (2017), Business Organisation and Management, Mc Graw Hill India.

Tulsian. P.C. (Recent Edition), Business Organisation and Management, Pearson.

Gupta C.B. (2018), Business Organisation and Management, Sultan Chand and Sons.

Singh B. P. and T. N. Chhabra, Business Organisation and Management, Dhanpat Rai and Co.

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