

## INTRODUCTION

### CONCEPT OF BUSINESS

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

### DEFINITION

1. **According to L. H. Haney**

“Business may be defined as human activities directed toward providing or acquiring wealth through buying and selling of goods.”

2. **James Stephenson says that:**

“Every human activity which is engaged in for the sake of earning profit may be called business.”

3. **In the words of B. W. Wheeler**

“An institution organized and operated to provide goods and services to the society, under the incentive of private gain” is business.

### Structural Diagram

### CHARACTERISTICS

Following are the essential characteristics of a good business:

**1. Capital**

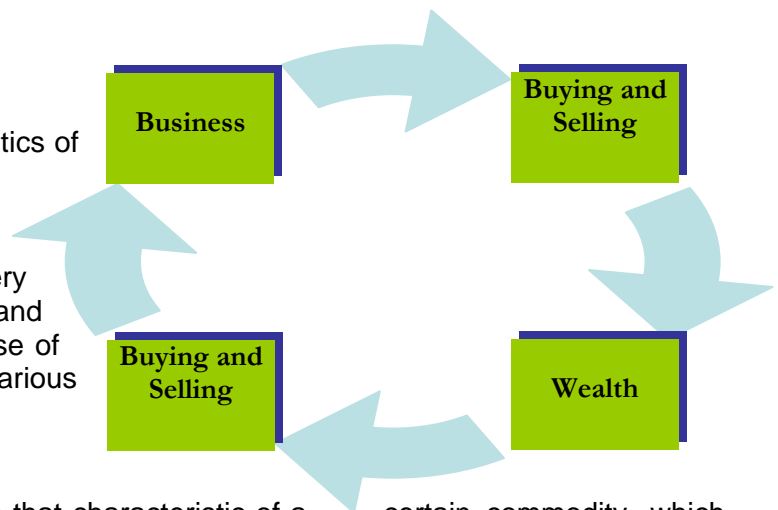
Capital is the lifeblood of every business. It is the most essential and important element of business. In case of deficiency, loans can be taken from various financial institutions.

**2. Creation of Utility**

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

**3. Dealing in Goods and Services**

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



**4. Employment**

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

**5. Islamic Process**

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

**6. Motive**

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

**7. Organization**

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

**8. Productions or Purchase of Goods**

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

**9. Regular Transaction**

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

**10. Risks and Uncertainty**

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

**11. Sale or Transfer for value**

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

**12. Social Welfare**

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

**NATURE OF BUSINESS**

The following points state the nature of business in brief:

**1. Economic Activity**

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

**2. Human Activity**

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

**3. Social Process**

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

## 4. System

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

### *Components and Scope of business*

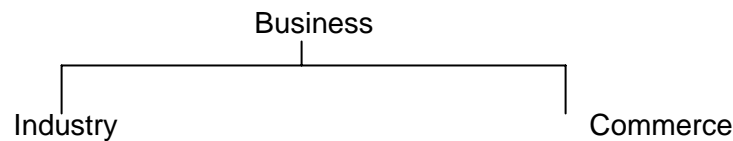
## **BUSINESS**

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

## **COMPONENTS OF BUSINESS**

Business bears the following components:

- Industry
- Commerce



## **INDUSTRY**

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

## **KINDS OF INDUSTRY**

1. Primary Industry
2. Secondary Industry



### **1. PRIMARY INDUSTRY**

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

- a) Extractive Industry
- b) Genetic Industry

#### **(a) Extractive Industry**

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

**(b) Genetic Industry**

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

**2. SECONDARY INDUSTRY**

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

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

**(a) Constructive Industry**

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

**(b) Manufacturing Industry**

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

**(c) Services Industry**

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

**COMMERCE**

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

**In the words of Evelyn Thomas:**

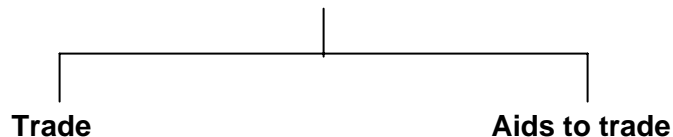
“Commercial occupations deal with the buying and selling of goods, the exchange of commodities and distribution of the finished goods.”

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

**SCOPE OF COMMERCE**

The scope of commerce can be explained as:

1. Trade
2. Aids to Trade

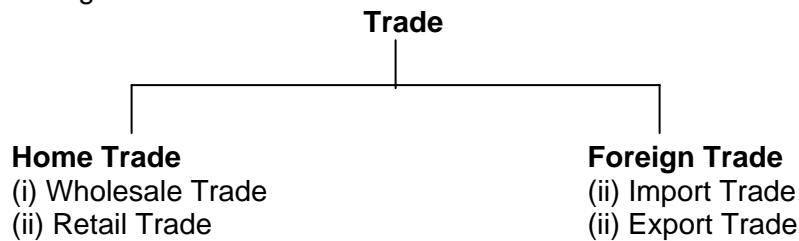
**Commerce****1. TRADE**

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

## TYPES OF TRADE

There are two types of trade:

- (a) Home trade
- (b) Foreign Trade



### (a) Home Trade

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

- (i) Wholesale Trade
- (ii) Retail Trade

#### (i) Wholesale Trade

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

#### (ii) Retail Trade

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

### (b) Foreign Trade

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

- (i) Import Trade
- (ii) Export Trade

#### (i) Import Trade

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

#### (ii) Export Trade

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

## 2. AIDS TO TRADE

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

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

**(a) Banking**

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

**(b) Transportation**

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

**(c) Insurance**

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

**(d) Warehousing**

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

**(e) Agents**

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

**(f) Finance**

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

**(g) Advertising**

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

**(h) Communication**

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

**What are the qualities of a good businessman?****QUALITIES OF A GOOD BUSINESSMAN**

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

**1. Ability to Plan**

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

**2. Activator**

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

**3. Bold or Courage**

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

**4. Cooperation**

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

**5. Courtesy**

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

**6. Decision Making**

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

**7. Discipline**

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

**8. Evaluator**

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

**9. Foresight**

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

**10. Honesty**

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

**11. Hardworking**

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

**12. Initiation**

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

**13. Knowledge**

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

**14. Leadership**

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

**15. Negotiator**

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

**16. Personality**

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

**17. Quick Decisions**

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

**18. Responsibility**

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

**19. Reviewer**

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

**20. Sound Financial Management**

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

**21. Self-Confidence**

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

**22. Tact**

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

**23. Technical Skills**

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



## LESSON 02

## ORGANIZATIONAL BOUNDARIES AND ENVIRONMENTS

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

**External environment**—everything outside an organization's boundaries that might affect it.

- a. **Organizational Boundaries**—that which separates the organization from its environment. Today boundaries are becoming increasingly complicated and hard to pin down.
- b. **Multiple Environments** include economic conditions, technology, political-legal considerations, social issues, the global environment, issues of ethical and social responsibility, the business environment itself, and numerous other emerging challenges and opportunities.

## 1. THE ECONOMIC ENVIRONMENT

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

a. **Economic Growth**i. **Aggregate Output and Standard of Living**

1. **Business cycle**—Pattern of short-term ups and downs (expansions and contractions) in an economy
2. **Aggregate output**—Total quantity of goods and services produced by an economic system during a given period
3. **Standard of living**—Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system

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

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

1. **Real Growth Rate**—the growth rate of GDP adjusted for inflation and changes in the value of the country's currency
2. **GDP per Capita**—GDP per person and reflects the standard of living.
3. **Real GDP**—GDP calculated to account for changes in currency values and price changes **versus Nominal GDP**, GDP measured in current dollars or with all components valued at current prices.
4. **Purchasing Power Parity**—Principle that exchange rates are set so that the prices of similar products in different countries are about the same.

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

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

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

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

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

#### b. Economic Stability

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

Factors which threaten stability include:

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

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

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

1. Recessions and Depressions  
**Recession**—Period during which aggregate output, as measured by real GDP, declines
2. **Depression**—Particularly severe and long-lasting recession

#### c. Managing the U.S. Economy

- i. **Fiscal policies**—Government economic policies that determine how the government collects and spends its revenues
- ii. **Monetary policies**—Government economic policies that determine the size of a nation's monetary supply
- iii. **Stabilization policy**—Government policy, embracing both fiscal and monetary policies, whose goal is to smooth out fluctuations in output and unemployment and to stabilize prices
- iv. **Three Major Forces**
  1. The information revolution will continue to enhance productivity across all sectors of the economy, most notably in such information-dependent industries as finance, media, and wholesale and retail trade.
  2. New technological breakthroughs in areas such as biotechnology will create entirely new industries.
  3. Increasing globalization will create much larger markets while also fostering tougher competition among global businesses; as a result, companies will need to focus even more on innovation and cost cutting.
- v. **Projected Trends and Patterns**—There are a number of projections for the near future. Sudden changes in environmental factors, such as war, can alter these projections.

## 2. THE TECHNOLOGICAL ENVIRONMENT

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

- a. **Product and Service Technologies**—the technologies employed for creating products (both physical goods and services) for customers. Although many

people associate technology with manufacturing, it is also a significant force in the service sector.

- b. Business Process Technologies**—are used not so much to create products as to improve a firm’s performance of internal operations (such as accounting, managing information flows, creating activity reports, and so forth). They also help create better relationships with external constituents, such as suppliers and customers.
  - i. Enterprise Resource Planning**—Large-scale information system for organizing and managing a firm’s processes across product lines, departments, and geographic locations

**LESSON 03****BUSINESS ORGANIZATION**

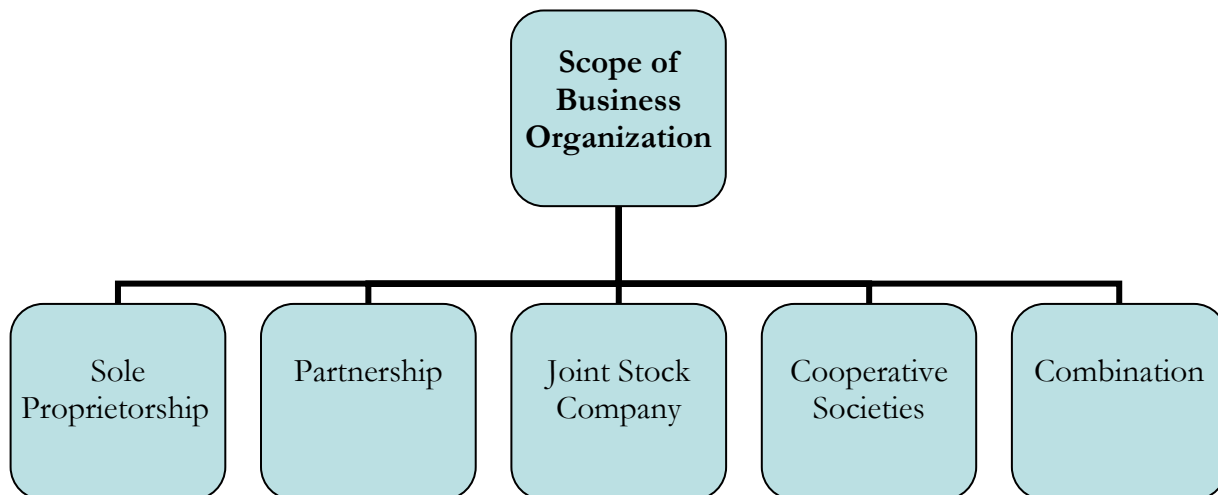
Business organization is an act of grouping activities into effective cooperation to obtain the objective of the business.

**In the words of L. H. Haney**

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

**SCOPE OF BUSINESS ORGANIZATION**

The scope of business organization can be defined as under:

**1. Sole Proprietorship****According to D.W.T. Stafford**

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

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

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

**2. Partnership****According to Partnership Act 1932:**

“Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.”

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

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

### **3. Joint Stock Company**

#### **According to S. E. Thomas:**

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

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

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

### **4. Cooperative Societies**

#### **According to Herrik:**

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

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

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

### **5. Combination**

#### **According to J. L. Hanson**

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

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

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

## **IMPORTANCE OF BUSINESS ORGANIZATION**

The following points elaborate the role of business organizations:

### **1. Distribution**

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

### **2. Feedback**

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

### **3. Finance Management**

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

### **4. Fixing of Responsibilities**

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

### **5. Minimum Cost**

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

### **6. Minimum Wastage**

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

### **7. Product Growth**

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

### **8. Quick Decision**

Business organization makes it easy to take quick decisions.

### **9. Recognition Problems**

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

### **10. Reduces the Cost**

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

### **11. Secretariat Functions**

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

**12. Skilled Salesmen**

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

**13. Transportation**

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

**What are the factors of consideration before starting a business?****PRE-REQUISITES OF BUSINESS**

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

**1. Selection**

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

**2. Feasibility Report**

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

**3. Nature of Business**

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

**4. Demand of Product**

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

**5. Size of Business**

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

**6. Availability of Capital**

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

**7. Business Location**

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

**8. Government Policy**

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

**9. Availability of Raw Material**

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

**10. Availability of Machines**

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

**11. Availability of Labour**

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

**12. Means of Transportation**

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

**13. Power Resources**

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

**14. Hiring Employees**

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

**15. Product Pricing**

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

**FUNCTIONS OF BUSINESS**

Following are the main functions of a business:

**1. Production**

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

**2. Sales**

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

- Cash sales
- Credit sales

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

**3. Finance**

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

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

**4. Management Function**

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

- Planning
- Organizing



- Leading
- Controlling
- Staffing

The management also provides direction for all subordinates.

### **5. Innovation**

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

### **6. Accounting**

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

### **7. Marketing - According to Harry Henser**

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

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

- Product
- Price
- Place
- Promotion

### **8. Quality Improvement**

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

### **9. Motivation**

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

### **10. Research**

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

- Basic Research
- Applied Research

### **11. Public Relations**

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

**LESSON 04****SOLE PROPRIETORSHIP AND ITS CHARACTERISTICS****SOLE PROPRIETORSHIP**

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

**DEFINITION**

Following are some important definition of sole proprietorship:

**1. According to D.W.T. Stafford**

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

**2. According to G. Baker**

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

**CHARACTERISTICS**

Following are the main characteristics of sole proprietorship:

**1. Capital**

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

**2. Easy Dissolution**

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

**3. Easily Transferable**

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

**4. Freedom of Action**

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

**5. Formation**

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

**6. Legal Entity**

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

**7. Legal Restriction**

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

**8. Limited Life**

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

**9. Management**

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

**10. Ownership**

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

**11. Profit**

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

**12. Size**

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

**13. Success of Business**

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

**14. Secrecy**

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

**15. Unlimited Liability**

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

**ADVANTAGES AND DISADVANTAGES OF SOLE PROPRIETORSHIP****ADVANTAGES OF SOLE PROPRIETORSHIP**

Following are the advantages of sole proprietorship:

**1. Contacted with the customers**

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

**2. Direct Relationship with Workers**

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

**3. Easy Formation**

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

**4. Easy Dissolution**

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

**5. Easy Transfer of Ownership**

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

**6. Entire Profit**

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

**7. Entire Control**

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

**8. Flexibility**

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

**9. Honesty**

The sole master of the business performs his functions honestly and efficiently to make the business successful.

**10. Independence**

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

**11. Personal Satisfaction**

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

**12. Prime Credit Standing**

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

**13. Quick Decisions**

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

**14. Personal Interest**

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

**15. Saving in Interest on Borrowed Capital**

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

**16. Saving in Legal Expenses**

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

**17. Saving in Management Expenses**

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

**18. Saving in Taxes**

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

**19. Secrecy**

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

**20. Social Benefits**

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

## **DISADVANTAGES OF SOLE PROPRIETORSHIP**

The disadvantages of sole proprietorship can be narrated as under:

### **1. Continuity**

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

### **2. Chances of Fraud**

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

### **3. Expansion Difficulty**

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

### **4. Lack of Advertisement**

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

### **5. Lack of Capital**

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

### **6. Lack of Inspection and Audit**

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

### **7. Lack of Innovation**

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

### **8. Lack of Public Confidence**

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

### **9. Lack of Skilled Persons**

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

### **10. Management Difficulty**

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

### **11. Much Strain on Health**

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

### **12. Not Durable**

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

### **13. Permanent Existence**

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

**14. Risk of Careless Drawings**

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

**15. Risk of Loss**

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

**16. Unlimited Liability**

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

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

**LESSON 05****PARTNERSHIP AND ITS CHARACTERISTICS****PARTNERSHIP**

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

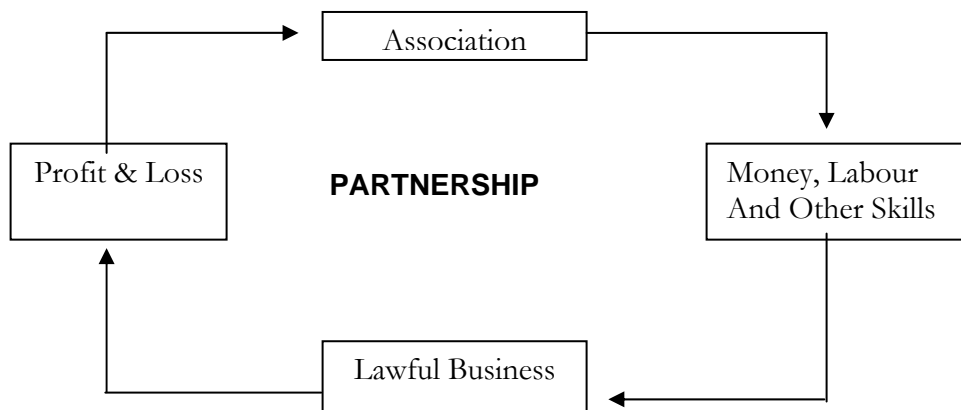
In ordinary business the number of partners should not exceed 20, but in case of banking business it must not exceed 10. This type of business organization is very popular in Pakistan.

**DEFINITION****1. According to Section 4 of Partnership Act, 1932**

“Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.”

**2. According to Mr. Kent**

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

**Structural Diagram:****CHARACTERISTICS**

The main characteristics of partnership may be narrated as under:

**1. Agreement**

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

**2. Audit**

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

**3. Agent**

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

**4. Business**

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

**5. Cooperation**

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

**6. Dissolution**

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

**7. Legal Entity**

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

**8. Management**

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

**9. Number of Partners**

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

**10. Object**

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

**11. Partnership Act**

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

**12. Payment of Tax**

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

**13. Profit and Loss Distribution**

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

**14. Registration**

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

**15. Relationship**

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

**16. Share in Capital**

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

**17. Transfer of Rights**

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



**18. Unlimited Liability**

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

**ADVANTAGES AND DISADVANTAGES OF PARTNERSHIP****ADVANTAGES OF PARTNERSHIP**

Following are the advantages of partnership:

**1. Simplicity in Formation**

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

**2. Simplicity in Dissolution**

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

**3. Sufficient Capital**

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

**4. Skilled Workers**

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

**5. Sense of Responsibility**

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

**6. Satisfaction of Partners**

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

**7. Secrecy**

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

**8. Social Benefit**

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

**9. Expansion of Business**

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

**10. Flexibility**

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

**11. Tax Facility**

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

**12. Public Factor**

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

**13. Prime Credit Standing**

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

**14. Minority Protection**

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

**15. Moral Promotion**

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

**16. Distribution of Work**

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

**17. Combined Abilities**

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

**18. Absence of Fraud**

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

**DISADVANTAGES OF PARTNERSHIP**

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

**1. Unlimited Liability**

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

**2. Limited Life of Firm**

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

**3. Limited Capital**

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

**4. Limited Abilities**

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

**5. Limited number of Partners**

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

**6. Legal Defects**

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

**7. Lack of Interest**

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

**8. Lack of Public Confidence**

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

**9. Lack of Prompt Decision**

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

**10. Lack of Secrecy**

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

**11. Chances of Dispute among Partners**

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

**12. Expansion Problem**

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

**13. Frozen Investment**

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

**14. Risk of Loss**

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

**15. Transfer of Rights**

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

**CONCLUSION**

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

**LESSON 6****PARTNERSHIP (Continued)**

Partnership is the second stage in the evolution of forms of business organization. It means an association of two or more persons to carry on a business for profit.

***According to Partnership Act, 1932,***

“Partnership is the relation between persons who have agreed to share the profits of a business, carried on by all or any of them active for all.”

**PARTNERS**

“The individuals who comprise a partnership are known as partners.”

**KINDS OF PARTNERS**

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

**1. Active Partner**

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

**2. Secret Partner**

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

**3. Sleeping Partner**

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

**4. Silent Partner**

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

**5. Senior Partner**

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

**6. Sub-Partner**

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

**7. Junior Partner**

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

**8. Major Partner**

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

**9. Minor Partner**

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

**10. Nominal Partner**

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

**11. Deceased Partner**

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

**12. Limited Partner**

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

**13. Unlimited Partner**

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

**14. Incoming Partner**

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

**15. Retired Partner**

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

**16. Partner for Profits only**

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

**17. Quasi Partner**

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

**18. Partner by Estoppels**

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

**What are kinds of partnership?*****KINDS OF PARTNERSHIP***

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

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

## **PARTNERSHIP AT WILL**

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

According to Partnership Act, 1932:

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

Partnership at will may be created under the following circumstances:

### **1. Indefinite Period**

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

### **2. Existence after Completion of Venture**

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

### **3. Existence after Expiry of Period**

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

## **PARTICULAR PARTNERSHIP**

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

## **LIMITED PARTBNERSHIP**

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

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

## **MAIN FEATUTRES**

Main features of partnership are:

### **1. Limited Partner**

There is at least one partner who has limited liability.

### **2. Unlimited Partner**

There is at least one partner who has unlimited liability.

### **3. Number of Partners**

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

### **4. Admission of New Partner**

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

### **5. Registration**

The registration of this partnership is compulsory by law.

**6. Transferability of Shares**

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

**7. Inspection of Books**

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

**8. Rights of Suggestions**

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

**9. Participation in Management**

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

**10. Withdrawal of Capital**

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

**11. Separate Legislation**

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

**TERMINATION OF PARTNERSHIP**

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

**1. Notice**

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

**2. Death**

Partnership is also terminated on the death of a partner.

**LESSON 7****PARTNERSHIP (Continued)**

What is Partnership Agreement? Discuss important points of this document. Discuss its contents.

***PARTNESHIP AGREEMENT***

Partnership deed or agreement is a document in which the relations of partners with one another are clearly written. It is the most important document of partnership, which includes the terms and conditions related to partnership and the regulations governing its internal management and organization. It may be oral or written. But it is necessary to have the agreement in writing.

**DEFINITION**

“Partnership deed or agreement is a document which includes the terms and conditions related to the partnership; and regulations governing its internal management and organization.”

**PROVISIONS**

Following are the important provisions of partnership deed:

**1. Date**

Date of starting the business should be written in it.

**2. Name of the Business**

Name of the firm under which the business is to be conducted should be written in it.

**3. Nature of Business**

Nature of business to be conducted by the partners should be mentioned.

**4. Location of Business**

Location of business, i.e. where it is to be operated, should be written in it.

**5. List of Partners**

List of partners, their names, addresses and other particulars should be mentioned.

**6. Duration of partnership**

Duration of partnership, whether it is for a definite period of time or indefinite period of time, should be written.

**7. Dealing Bank**

The name of dealing bank should be written in it.

**8. Division of Work**

Division of work among the partners, for the management of the firm, should be written clearly in it.

**9. Deficiency of Capital**

How the deficiency of capital should be covered at the time of insolvency of any partner must be clearly stated.

**10. Total Capital**

Total capital of the firm and share of each partner in the capital should be mentioned in it.



**11. Additional Capital**

How further capital, if necessary, should be introduced; must be mentioned in it.

**12. Amount of Drawings**

The amount, which each partner would be allowed to withdraw, in anticipation of profit, should be clearly stated.

**13. Amount of Salary**

The amount of salaries payable to the partners should be written in it.

**14. Amount of Profit**

The fixation of the amount of profit payable to any partner, other than the salary, should be mentioned in it.

**15. Arbitration**

In case of dispute, provisions for arbitration should also be available.

**16. Rules of Admission and Retirement**

Rules regarding admission and retirement of partners should be clearly written.

**17. Period of Accounts**

Period, after which final accounts are to be prepared, should be written in it.

**18. Rights and Duties of Partners**

There should also be the provisions of rights and duties of each partner.

**19. Witness**

The witness of agreement provisions should be mentioned.

**20. Ways of Dissolution**

The ways, under which the firm may be dissolved, should also be written in it.

**CONCLUSION**

The above mentioned points are not included in the final list of the clauses. Any clause, which is mutually agreed to be accepted by the partners, can be included in the agreement. If the deed is silent on any point, then provisions of Partnership Act, 1932, should be applied.

What are the rights, duties and liabilities of a partner in the absence of partnership agreement?

**INTRODUCTION**

A partnership agreement may contain special provisions regarding the rights, duties and liabilities of the partners. But in the absence of such an agreement the rules laid down in the Partnership Act, 1932, are applicable.

**What is Partnership Deed?**

“Partnership deed or agreement is a document which includes the terms and conditions related to the partnership; and regulations governing its internal management and organization.”

**RIGHSTS OF PARTNERS**

Section 123 and 13 of Partnership Act, 1932, describe the following rights of the partners:

**1. Rights of Participation**

Every partner has a right to take part in the conduct of the business.

**2. Right of share in Profits**

All the partners are entitled to share the profits of the firm equally.

**3. Right to Exercise Power**

To protect the firm from loss, every partner has a right to use his power.

**4. Right of Existence**

A partner cannot be expelled by any other partner from the business. Every partner has a right to live in the business.

**5. Right of Retirement**

Every partner has a right to retire from the firm after serving a notice.

**6. Right of Inspection**

Every partner has a right to check the accounts of the business.

**7. Right of Salary**

A partner has a right to demand for the salary, for performing his duties in the management of the business.

**8. Indemnify the Expense**

A partner has a right to be indemnified by the firm, in respect of any payment made by him in the ordinary course of business, or in an emergency, for the purposes of protecting the firm from loss.

**9. Issue of Receipt**

A partner has a right to collect the debts of the firm and to issue the receipts.

**10. Interest on Capital**

If a partner make any advance in addition to the amount of his capital, he will be entitled to receive interest at the rate of 6% per annum.

**11. Participation in the Management**

A partner has a right to participate in the management of the firm.

**12. Right to Use the Property**

Every partner has an equal right to use the firm's property exclusively the purpose of partnership.

**13. Right to Act as an Agent**

Every partner has a right to act as an agent on behalf of the remaining partners.

**DUTIES OF PARTNERS**

According to section 9 of Partnership Act, 1932, the general duties of the partners are as follows:

“Partners are bound to carry on the business of the firm to the greatest common advantage, to be just and faithful to each other and to render true accounts, and to provide full information about the things affecting the firm, to any other partner or to their legal representatives.”

**1. Utmost Good Faith**

Every partner is bound to give true and full information under the principle of “utmost good faith”. All the partners should be just and faithful to one another.

**2. Maximum Common Benefit**

It is the duty of the partners to work for the maximum common benefit.

**3. Maintenance of True Accounts**

Every partner should prepare the true account of the firm for other partners.

**4. Use of Powers within Limit**

It is the duty of the partner that he should use his powers within the limits, delegated by the firm.

**5. Use of Property**

It is the duty of a partner that he must not use the property of the firm for his personal interest or benefit.

**6. Provide all Information**

It is the duty of the partner that he must provide all the necessary information about the business to other partners.

**7. Profit should be paid to the Firms**

If a partner earns profit through any source of the firm. It should be paid to the management of the firm.

**8. Distribution of Loss**

In the absence of agreement, each partner should pay the loss equally.

**9. Compensation of Loss**

If a partner commits a fraud with his co-partners, he must compensate the loss.

**10. To be Sincere and Careful**

Every partner must be sincere, careful and faithful to other partners. He should discharge his duties very fairly.

**11. To Maintain the Secrecy of the Firm**

It is the duty of a partner that he should maintain the secrecy of the business from outsiders.

**12. To Abide by the Decisions**

A partner should abide by the decisions made by the majority of the partners.

**13. Not to Enter into a Private Agreement**

A partner must not enter into private agreement with a customer of the firm. If he does so, it is his duty to share his profit with his co-partners.

**14. Not to Use the Firm's Name**

A partner is not allowed to use the firm's name and property for the satisfaction of his personal need. If he does so and gets profit out of it, he must share it with his co-partner.

**LIABILITIES OF PARTNERS**

Generally, the liability of a partner is unlimited. Thus, each partner is liable not only to the extent of his share in partnership, but his personal property is also used up to clear the debts unless he proves that his liability is limited to the extent of his share in the assets of the firm.

According to section 13 (c) of Partnership Act, 1932, subject to contract between the partners, the liabilities of a partner are as follows:

**1. Joint liabilities of Partners for all Debts**

Every partner is liable, jointly with all other partners for all acts and debts of the firm.

**2. Liability of New Partner**

A new partner is liable for all the acts of a firm, which are performed after he becomes a partner.

**3. Liability of Retired Partner**

A retired partner is not responsible for any act of the firm after the date of his retirement.

**4. Liability of Deceased Partner**

If a partner dies and the firm suffers losses, then the property of the deceased partner cannot be held liable for any payment.

**5. Liability of an Expelled Partner**

An expelled partner is not liable to suffer the losses and pay the debts of the firm, which arise after his expulsion from the firm.

**6. Liability of Fraud**

If any partner commits a fraud, then partners are also equally liable with him, for it.

**7. Liability of Insolvent Partner**

The firm is not liable for any transaction of the insolvent partner, after the date of his insolvency is declared by the court.

**8. Liability due to Willful Negligence**

A partner is liable to make good the losses, arising due to his willful negligence.

**9. Share in Loss**

In case of loss, all the partners will have to bear the loss equally.

**10. No Private use of Property**

A partner cannot use the property of the firm or its goodwill for his private gains. If he does so, he is liable to surrender the profits, so earned, to the firm.

***DISSOLUTION OF FIRM***

According to Section 39 of Partnership Act, 1932:

“The dissolution of partnership among all the partners of firm is called dissolution of firm.”

**Explanation**

It means that dissolution of firm includes the dissolution of partnership. But when partnership is dissolved, firm may or may not be dissolved; because business may be conducted by the surviving partners on the retirement, death or insolvency of any partner.

***MODES OF DISSOLUTION OF FIRM***

According to partnership Act, 1932, the dissolution of firm may take place through following ways:

1. Dissolution by Agreement
2. Dissolution by Notice
3. Compulsory Dissolution
4. Contingent Dissolution
5. Dissolution by Court

### **DISSOLUTION BY AGREEMENT**

A firm may be dissolved with the consent of all the partners or in accordance with the contract made between the partners.

### **DISSOLUTION BY NOTICE**

In case of partnership at will, the firm may be dissolved by any partner, serving a notice in writing, of 14 days, to all the other partners of his intention to dissolve the firm. The firm is dissolved as from the date mentioned in the notice.

### **COMPULSORY DISSOLUTION**

Following are the causes of compulsory dissolution of firm:

#### **1. Insolvency**

Insolvency of all the partners or any one partner may become the cause of compulsory dissolution.

#### **2. Unlawful Business**

The firm is dissolved if its business becomes unlawful.

### **CONTINGENT DISSOLUTION**

A partnership firm may be dissolved due to the following reasons:

#### **1. Expiry of Period**

If a firm is established for a fixed period, then it will be dissolved after the expiry of period.

#### **2. Completion of Particular Venture**

A firm may be dissolved after the completion of particular venture, for which it is formed:

#### **3. Death of a Partner**

A partnership firm may also dissolve with the death of a partner.

#### **4. Insolvency**

Insolvency of a partner also serves as a notice for dissolution of firm.

### **DISSOLUTION BY COURT**

The court may dissolve a firm due to the following reasons:

#### **1. Case of Unsound Mind**

A partnership firm may be dissolved by the order of court, if any partner becomes of unsound mind.

#### **2. Case of Incapable Partner**

A partnership firm may be dissolved by the order of court if any partner permanently become incapable of performing his duties.

**3. Case of Misconduct**

A partnership firm may be dissolved if a partner is found guilty of misconduct in affairs of business.

**4. Transfer of Interest**

A partnership firm may be dissolved if any partner transfers his share of interest to other persons, without the consent of existing partners.

**5. Breach of Agreement**

A partnership firm may be dissolved if any partner commits a breach of agreement.

**6. Assurance of Loss**

Court may dissolve a partnership firm if the business of that firm is suffering from continuous loss.

**7. Others Reasons**

The court has the right to accept or reject the application of dissolution. The just and equitable reason is determined by the court.

**LESSON 8****ORGANIZATIONAL BOUNDARIES AND ENVIRONMENTS**

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

**External environment**—Everything outside an organization's boundaries that might affect it.

- a. **Organizational Boundaries**—That which separates the organization from its environment. Today boundaries are becoming increasingly complicated and hard to pin down.
- b. **Multiple Environments** include economic conditions, technology, political-legal considerations, social issues, the global environment, issues of ethical and social responsibility, the business environment itself, and numerous other emerging challenges and opportunities.

**1. THE ECONOMIC ENVIRONMENT**

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

- a. Economic Growth
  - i. Aggregate Output and Standard of Living
    1. **Business cycle**—Pattern of short-term ups and downs (expansions and contractions) in an economy
    2. **Aggregate output**—Total quantity of goods and services produced by an economic system during a given period
    3. **Standard of living**—Total quantity and quality of goods and services that a country's citizens can purchase with the currency used in their economic system
    - 4.
  - ii. **Gross domestic product (GDP)**—Total value of all goods and services produced within a given period by a national economy through domestic factors of production
 

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

    1. **Real Growth Rate**—the growth rate of GDP adjusted for inflation and changes in the value of the country's currency
    2. **GDP per Capita**—GDP per person and reflects the standard of living.
    3. **Real GDP**—GDP calculated to account for changes in currency values and price changes **versus Nominal GDP**, GDP measured in current dollars or with all components valued at current prices.
    4. **Purchasing Power Parity**—Principle that exchange rates are set so that the prices of similar products in different countries are about the same.
- iii. **Productivity**—Measure of economic growth that compares how much a system produces with the resources needed to produce it.

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

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

- a. **Trade Deficit**—A positive balance of trade results when a country exports (sells to other countries) more than it imports (buys from other countries).
  - b. **Trade Surplus**—A negative balance of trade results when a country imports more than it exports.
2. **National Debt**—Amount of money that a government owes its creditors. The U.S. national debt is over \$6 trillion.
- b. Economic Stability**
- Condition in an economic system in which the amount of money available and the quantity of goods and services produced are growing at about the same rate.
- Factors which threaten stability include:
- i. **Inflation**—Occurrence of widespread price increases throughout an economic system
    1. Measuring Inflation: **The CPI**—Measure of the prices of typical products purchased by consumers living in urban areas
  - ii. **Unemployment**—Level of joblessness among people actively seeking work in an economic system. Unemployment may be a symptom of economic downturns.
    1. Recessions and Depressions  
**Recession**—Period during which aggregate output, as measured by real GDP, declines
    2. **Depression**—Particularly severe and long-lasting recession
- c. Managing the U.S. Economy**
- i. **Fiscal policies**—Government economic policies that determine how the government collects and spends its revenues
  - ii. **Monetary policies**—Government economic policies that determine the size of a nation's monetary supply
  - iii. **Stabilization policy**—Government policy, embracing both fiscal and monetary policies, whose goal is to smooth out fluctuations in output and unemployment and to stabilize prices
- d. The Global Economy in the Twenty-first Century**
- The decade of the 1990s saw a sustained period of expansion and growth that served to increase business profits, boost individual wealth, and fuel optimism. During the latter part of 2001 and into 2002, however, economic growth began to stall.
- i. **Three Major Forces**
    1. The information revolution will continue to enhance productivity across all sectors of the economy, most notably in such information-dependent industries as finance, media, and wholesale and retail trade.
    2. New technological breakthroughs in areas such as biotechnology will create entirely new industries.
    3. Increasing globalization will create much larger markets while also fostering tougher competition among global businesses; as a result, companies will need to focus even more on innovation and cost cutting.



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

## 2. THE TECHNOLOGICAL ENVIRONMENT

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

- a. **Product and Service Technologies**—the technologies employed for creating products (both physical goods and services) for customers. Although many people associate technology with manufacturing, it is also a significant force in the service sector.
- b. **Business Process Technologies**—are used not so much to create products as to improve a firm's performance of internal operations (such as accounting, managing information flows, creating activity reports, and so forth). They also help create better relationships with external constituents, such as suppliers and customers.
  - i. **Enterprise Resource Planning**—Large-scale information system for organizing and managing a firm's processes across product lines, departments, and geographic locations

## 3. THE POLITICAL-LEGAL ENVIRONMENT

Conditions reflecting the relationship between business and government, usually in the form of government regulation. Pro- or anti-business sentiment in government can further influence business activity. Political stability is also an important consideration, especially for international firms.

## 4. THE SOCIOCULTURAL ENVIRONMENT

Conditions including the customs, mores, values, and demographic characteristics of the society in which an organization functions

- a. **Customer Preferences and Tastes**—Customer preferences and tastes vary both across and within national boundaries. Similarly, consumer preferences can also vary widely within the same country. Consumer preferences and tastes also change over time. Finally, socio cultural factors influence the way workers in a society feel about their jobs and organizations.
- b. **Ethical Compliance and Responsible Business Behavior**

## 5. THE BUSINESS ENVIRONMENT

- a. **Redrawing Corporate Boundaries**—To stay competitive, companies are removing traditional corporate boundaries. For example building partnerships or temporary alliances with other companies or competitors.
  - i. **Core competency**—Skills and resources with which an organization competes best and creates the most value for owners
- b. **Emerging Challenges and Opportunities in the Environment of Business**
  - i. **Outsourcing**—Strategy of paying suppliers and distributors to perform certain business processes or to provide needed materials or resources
  - ii. **Outsourcing versus Vertical Integration**  
Outsourcing is why vertical integration is no longer as popular as it once was.
    - 1. **Vertical integration**—Strategy of owning the means by which an organization produces goods or services.

- iii. **Disadvantages of Outsourcing**—The expected benefits of outsourcing are sometimes not realized. For example, suppliers often don't understand what they are supposed to do, charge too much, and provide poor service.
- c. **Viral Marketing**—Strategy of using the Internet and word-of-mouth marketing to spread product information. Using various formats—games, contests, chat rooms, and bulletin boards—marketers encourage potential customers to try out products and tell other people about them.
- d. **Business Process Management**
  - i. **Process**—Any activity that adds value to some input by transforming it into an output for a customer (whether internal or external)
  - ii. **Business process management**—Approach by which firms move away from department-oriented organization and toward process-oriented team structures that cut across old departmental boundaries
- e. **The Aftermath of 9/11**—The flexibility and strength inherent in the U.S. political and economic systems became just as obvious as their flaws. Most people kept their jobs, and most businesses kept going. Even as some economic sectors declined, others continued to expand. Exports continue to flow into other countries, as did foreign direct investment. On the other hand, American business now faces major changes. A specific effect that businesses themselves are already addressing involves workplace security.

## 1. ETHICS IN THE WORKPLACE

**Ethics**—beliefs about what is right and wrong or good and bad in actions that affect others.

**Ethical Behavior**—behavior conforming to generally accepted social norms concerning beneficial and harmful actions.

**Unethical Behavior**—behavior that does not conform to generally accepted social norms concerning beneficial and harmful actions.

**Business Ethics**—ethical or unethical behaviors by a manager or employer of an organization.

- a. **The Problem with Ambiguity**—because ethics are based on both individual beliefs and social concepts, they vary from person to person, from situation to situation, and from culture to culture. Social standards tend to be broad enough to support certain differences in beliefs so that, without violating these general standards, an individual may develop personal codes of ethics that reflect a wide range of attitudes and beliefs.
- b. **Individual Values and Codes** begin when we are children and are further developed throughout our life.
- c. **Business and Managerial Ethics**—Standards of behavior that guide individual managers in their work
  - i. **Behavior toward Employees**—this category covers such matters as hiring and firing, wages and working conditions, and privacy and respect.
  - ii. **Behavior toward the Organization**—Ethical issues also arise from employee behavior toward employers, especially in such areas as conflict of interest, confidentiality, and honesty.
    - 1. A **conflict of interest** occurs when an activity may benefit the individual to the detriment of his or her employer.

- iii. **Behavior toward Other Economic Agents**—Ethics also comes into play in the relationship between the firm and its employees with so-called primary agents of interest—mainly customers, competitors, stockholders, suppliers, dealers, and unions.
- d. **Assessing Ethical Behavior**—To reduce subjectivity in distinguishing ethical from unethical behavior, a firm should establish a process for applying ethical judgments to situations that may arise during the course of business activities.
  - i. **Three-step model** for applying ethical judgments to situations:
    1. gather relevant factual information
    2. determine the most appropriate moral values
    3. make an ethical judgment based on the rightness or wrongness of the proposed activity or policy
  - ii. **Four ethical norms:**
    1. **Utility**—does a particular act optimize what is best for those who are affected by it?
    2. **Rights**—does it respect the rights of the individual involved?
    3. **Justice**—is it consistent with what we regard as fair?
    4. **Caring**—is it consistent with people’s responsibilities to each other?
- e. **Company Practices and Business Ethics**  
Perhaps the single most effective step a company can take is to demonstrate top management support. Actions by senior managers, whether commendable or otherwise, often set the tone in the organization.
  - i. **Adopting Written Codes**—Many companies have adopted written codes of ethics that formally acknowledge their intent to do business in an ethical manner.
  - ii. **Instituting Ethics Programs**—The question arises whether business ethics can be “taught.” Most analysts agree that companies must take the chief responsibility for educating employees. Some firms have major training programs or ethical “hot line” numbers employees can call to discuss troubling situations or report unethical behavior of others.

## 2. SOCIAL RESPONSIBILITY

- 3. **Social Responsibility**—the attempt of a business to balance its commitments to groups and individuals in its environment, including customers, other businesses, employees, and investors.

**Organizational Stakeholders**—those groups, individuals, and organizations which are directly affected by the practices of an organization and which therefore have a stake in its performance.

- a. **The Stakeholder Model of Responsibility**

Most companies that strive to be responsible to their stakeholders concentrate on five main groups: customers, employees, investors, suppliers, and local communities.

- b. **Contemporary Social Consciousness**

Social consciousness and views continue to evolve, seemingly to today’s enlightened view stressing the need for a greater social role for business. For instance, Sears and Target stores refuse to sell handguns and other weapons, and toy retailers like KayBee and Toys R Us won’t sell toy guns that look realistic.

## 4. AREAS OF SOCIAL RESPONSIBILITY

### a. Responsibility toward the Environment

**Pollution**—the injection of harmful substances into the environment.

- i. **Air Pollution**—Much of the damage to forests and streams in the eastern United States and Canada has been attributed to acid rain (which occurs when sulfur is pumped into the atmosphere, mixes with moisture, and falls to the ground as rain).
- ii. **Water Pollution**—Water quality in many areas of the United States is improving thanks to new legislation (such as laws forbidding phosphates in New York and Florida).
- iii. **Land Pollution**—The two key issues in land pollution are restoring land that has already been damaged and preventing future contamination.
  1. **Toxic waste disposal**—Toxic wastes are dangerous chemical or radioactive byproducts of manufacturing processes.
  2. **Recycling**—the re-conversion of waste materials into useful products—has become an issue not only for municipal and state governments but also for many companies engaged in high-waste activities.

### b. Responsibility toward Customers

The Federal Trade Commission (FTC) regulates advertising and pricing practices, and the Food and Drug Administration (FDA) enforces guidelines for labeling food products.

#### i. Consumer Rights

**Consumerism**—form of social activism dedicated to protecting the rights of consumers in their dealings with businesses.

1. President John F. Kennedy's Consumer Bill of Rights
  - a. Consumers have a right to safe products.
  - b. Consumers have a right to be informed about all relevant aspects of a product.
  - c. Consumers have a right to be heard.
  - d. Consumers have a right to choose what they buy.

#### ii. Unfair Pricing

1. **Collusion**—illegal agreement between two or more companies to commit such wrongful acts as price fixing.

- iii. **Ethics in Advertising**—Misleading, deceptive, or morally objectionable advertising have been criticized by consumers.

### c. Responsibility toward Employees

#### i. Legal and Social Commitments

Legally, businesses cannot practice illegal discrimination against people in any aspect of the employment relationship. A firm should strive to ensure that the workplace is physically and socially safe.

1. **Whistleblower**—employee who detects and tries to put an end to a company's unethical, illegal, or socially irresponsible actions by publicizing them. Whistleblowers are sometimes demoted or fired when their accusations are made public. The law offers them some recourse in the form of a civil suit for damages.

### d. Responsibility toward Investors

- i. **Improper Financial Management**—Improper Financial Management—Occasionally organizations or their managers may be guilty of blatant

financial mismanagement-offenses that are unethical but not necessarily illegal.

1. **Check Kiting**—illegal practice of writing checks against money that has not yet been credited at the bank on which the checks are drawn.
2. **Insider Trading**—occurs when someone uses confidential information to gain from the purchase or sale of stocks.
3. **Misrepresentation of Finances**—A firm's failure to conform to generally accepted accounting practices (GAAP) when reporting its financial status is illegal.

## 5. IMPLEMENTING SOCIAL RESPONSIBILITY PROGRAMS

- a. Approaches to Social Responsibility
  - i. **Obstructionist Stance**—approach to social responsibility that involves doing as little as possible and may involve attempts to deny or cover up violations.
  - ii. **Defensive Stance**—approach to social responsibility by which a company meets only minimum legal requirements in its commitments to groups and individuals in its social environment.
  - iii. **Accommodative Stance**—approach to social responsibility by which a company exceeds legal minimums in its commitments to groups and individuals in its social environment.
  - iv. **Proactive Stance**—approach to social responsibility by which a company actively seeks opportunities to contribute to the well-being of groups and individuals in its social environment.

## MANAGING SOCIAL RESPONSIBILITY PROGRAMS

Managers must take steps to foster a companywide sense of social responsibility.

- i. **Social Audit**—systematic analysis of a firm's success in using funds earmarked for meeting its social responsibility goals.
- b. **Social Responsibility and the Small Business**—Ethics and social responsibility are decisions faced by all managers in all organizations, regardless of rank or size.

**LESSON 9****JOINT STOCK COMPANY****JOINT STOCK COMPANY**

Joint Stock Company is the third major form of business organization. It has entirely different organizational structure from sole proprietorship and partnership. There are two advantages of Joint Stock Company. First of all, it enjoys the advantage of increased capital. Secondly, the company offers the protection of limited liability to the investors.

The law relating to Joint Stock Company has been laid in Companies Ordinance, 1984, which came into force on January 1, 1985 in Pakistan.

**DEFINITION**

Following are some important definition of Joint Stock Company:

## 1. Simple Definition

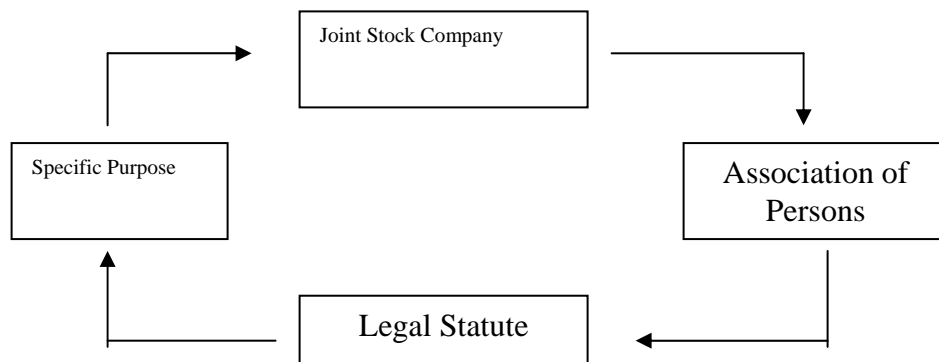
“A company may be defined as an association of persons for the purpose of making profit.”

## 2. According to Kimball,

“A corporation by nature is an artificial person, created or authorized by a legal statute for some specific purpose.”

## 3. According to S.E. Thomas,

“A company is an incorporated association of persons formed usually for the pursuit of some commercial purpose.”

**Structural Diagram****FEATURES OF JOINT STOCK COMPANY**

Following are the main features of a Joint Stock Company.

**1. Creation of Law**

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

**2. Capital Borrowing**

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

**3. Separate Legal Entity**

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

**4. Legal Person**

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

**5. Long Life**

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

**6. Limited Liability**

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

**7. Large Scale Business**

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

**8. Management of Company**

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

**9. Number of members**

In case of private limited company, minimum number of shareholders is '2' and maximum is '50'; but in case of public limited company, minimum number is '7' and there is no limit for maximum number.

**10. Transferability of Shares**

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

**11. Trade Agreement**

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

**12. Purchases and Sale of Property**

A joint stock company can purchase and sale the property in its own name.

**13. Payment of Taxes**

A joint stock company pays double taxes to the government.

**14. Object**

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

**15. Government Control**

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

**16. Easy Mode of Investment**

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

**17. Common Seal**

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

**ADVANTAGES AND DISADVANTAGES OF JOINT STOCK COMPANY****ADVANTAGES OF JOINT STOCK COMPANY**

Following are the advantages of Joint Stock Company:

**1. Expansion of Business**

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

**2. Easy Access to Credit**

A joint stock company can get a huge amount of capital from banks and other institutions.

**3. Easy to Exit**

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

**4. Experts' Services**

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

**5. Employment**

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

**6. Flexibility**

There is flexibility in such business organizations.

**7. Limited Liability**

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

**8. Large Scale Production**

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

**9. Larger Capital**

There is no problem of capital in a joint stock company because there is no limit for maximum number of members. So, a joint stock company collects capital from many people.

**10. Long Life**

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



**11. Long-term Projects**

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

**12. Spread of Risk**

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

**13. Transfer of Shares**

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

**14. Increase in Saving and Investment**

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

**15. Better Management**

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

**16. Beneficial Advices**

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

**17. Public Confidence**

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

**18. Higher Profits**

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

**DISADVANTAGES OF JOINT STOCK COMPANY**

Some of the disadvantages of the joint stock company are given below:

**1. Initial Difficulties**

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

**2. Lack of Interest**

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

**3. Labor Disputes**

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

**4. Lack of Responsibility**

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

**5. Lack of Secrecy**

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

**6. Lack of Freedom**

A joint stock company cannot perform its functions freely because it has to submit various reports to the registrar from time to time.

**7. Monopoly**

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

**8. Speculation**

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

**9. Corruption**

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

**10. Complicated Process**

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

**11. Centralization of Power**

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

**12. Double Taxes**

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

**13. Exploitation**

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

**14. Problem of Large-Scale Production**

Since joint stock company produces on large-scale, so many problems arise in the economy.

**15. Nepotism**

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

**16. Late Decision**

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

**Distinguish between Public Limited Company and Private Limited Company.****PUBLIC COMPANYY**

It is a company which is formed by a least '7' members, and there are no restrictions:

- for the transfer of shares.
- for maximum numbers, and
- for subscription of shares and debentures.

**PRIVATE COMPANY**

It is a company which is formed by at least '2' members and has certain restrictions:

- for the transfer of shares
- for maximum number of members,
- for subscription of shares and debentures.

**DISTINCTION BETWEEN PUBLIC LIMITED COMPANY AND PRIVATE LIMITED COMPANY**

Public Limited Company	Private Limited Company
<p><b>1. Number of Members</b> Minimum number of members should be '7' and there is no restriction for the maximum number of members</p>	<p>There must be at least '2' members and maximum number should not exceed '50'.</p>
<p><b>2. Number of Directors</b> Minimum number of directors is '7' and maximum number of directors is appointed according to its Articles of Association.</p>	<p>Its shareholders may elect at least '2' directors and maximum number of directors is appointed according to its Articles of Association.</p>
<p><b>3. Issue of Security</b> It can invite the public for subscription of its shares and debentures.</p>	<p>It cannot invite the public for subscription of any type of security.</p>
<p><b>4. Prospectus</b> It is compulsory for public company by law to file the prospectus with the registrar's office.</p>	<p>It is not compulsory to file the prospectus with registrar's office.</p>
<p><b>5. Certificate of Incorporation</b> It cannot start the business after receiving the certificate of incorporation, unless it receive the certificate of commencement.</p>	<p>It can commence business soon after it receives the certificate of incorporation.</p>
<p><b>6. Certificate of Commencement</b> It is necessary for public limited company to obtain the certificate of commencement of business.</p>	<p>It is not compulsory by law to obtain the certificate of commencement of business</p>
<p><b>7. Title</b> Every public company has to use the word "limited after its name.</p>	<p>Every private company has to use the word "Private limited" after its name.</p>

**8. Publication**

Public company must publish its annual performance report.

There is no restriction for publication of annual report.

**9. Shares Transferability**

Its shares can be transferred to others without restriction.

Its shares cannot be transferred and disposed off to others without any restriction.

**10. Statutory Meeting**

It has to hold a statutory meeting within prescribed limited.

It is not required by law to hold statutory meeting

**11. Submission of Report**

It is required by law to submit various types of reports to the registrar's office, i.e. Auditors' Report, Profit and Loss Account, Balance Sheet.

It is not required by law to fulfill the conditions of minimum subscription before its incorporation.

**12. Minimum Subscription**

It cannot obtain the certificate of commencement of business without fulfilling the condition of minimum subscription.

It is not required by law to fulfill the conditions of minimum subscription before its incorporation.

**13. Written Consent of Directors**

In public company directors have to give written consent that they are ready to act as the directors of the company.

The directors of private company are not required to give their consent for directorship.

**14. Tax Payment**

Public company has to pay double tax to the government.

Private company only pays tax on its whole profit.

**15. Dissolution**

Public company is dissolved according to Companies Ordinance, 1984.

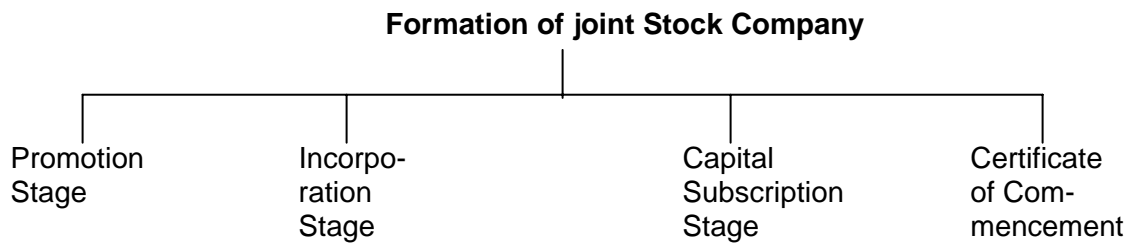
A separate legal procedure is adopted for the dissolution of private company.

**PROCEDURE OF FORMATION OF A JOINT STOCK COMPANY IN PAKISTAN.**

Joint Stock Company is the third major form of business organization. It has entirely different organizational structure from sole proprietorship and partnership. There are two advantages of Joint Stock Company. First of all, it enjoys the advantage of increased capital. Secondly, the company offers the protection of limited liability to the investors.

The law relating to Joint Stock Company has been laid in Companies Ordinance, 1984, which came into force on January 1, 1985 in Pakistan.

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



## **PROMOTION STAGE**

The promoters do the basic work for the start of a commercial or an industrial business on corporate basis.

Promotion is the discovery of ideas and organization of funds, property and skill, to run the business for the purpose of earning income. Following steps are involved in the stage of promotion.

### **1. Idea about Business**

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

### **2. Investigation**

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

### **3. Assembling various Factors**

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

### **4. Financial Sources**

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

### **5. Preparation of Essential Documents**

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

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

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

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

## **INCORPORATION STAGE**

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

### **1. Filling of Document**

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

#### **(a) Memorandum of Association**

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

**(b) Articles of Association**

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

**(c) List of Directors**

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

**(d) Written Consent of Directors**

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

**(e) Declaration of Qualifying Shares**

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

**(f) Prospectus**

Promoters have to file a prospectus with the registrar.

**(g) Statutory Declaration**

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

**2. Payment of Registration Fee**

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

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

**3. Certificate of Incorporation**

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

**CAPITAL SUBSCRIPTION STAGE**

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

- By Issuing Shares
- By Issuing Debentures
- By Savings

**CERTIFICATE OF COMMENCEMENT**

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

**1. Issue of Prospectus**

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

**2. Allotment of Shares**

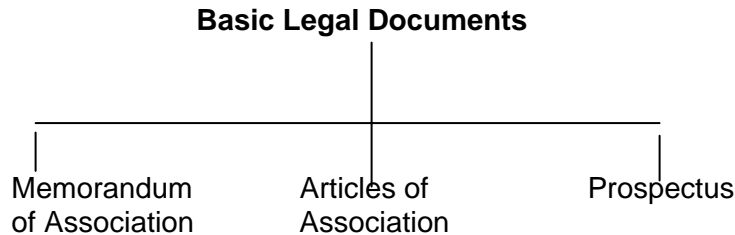
The shares and debentures are allotted according to the provisions of memorandum, when applications are received from the public.

**3. Minimum Subscription**

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

**LESSON 10****LEGAL DOCUMENTS ISSUED BY A COMPANY****BASIC LEGAL DOCUMENTS**

A public company must have three basic legal documents.



The “Memorandum of Association” is the constitution of a company. The “Articles of Association” are the basic rules to run the business and the “Prospectus” is a notice to the public for the purchase of securities of the company.

**MEMORANDUM OF ASSOCIATION****DEFINITION**

According to Companies Ordinance, 1984:

“Memorandum means the memorandum of association of a company as originally framed or as altered from time to time in pursuance of the provisions of any previous Companies Act or of this Ordinance.”

**Explanation**

Memorandum of association is known as “Charter of Company”, as it sets the limits, which the company cannot go out of. Through this, the shareholders and creditors can know about the range of business activities of the company. Any work or business not stated in the memorandum cannot be carried out by the management.

The memorandum of public limited company

- Must be printed
- Divided into paragraphs
- Numbered consecutively
- signed by the members
- Name, occupation, nationality, address and number of shares taken by each subscriber

**CLAUSES OF MEMORANDUM OF ASSOCIATION**

The memorandum of association may have the following six clauses:

**1. Name Clause**

The name of a company should be carefully selected and it must not be similar to any existing company. The Companies Ordinance provides that the name of a public company must end

with the word “Limited”. In case of private company the name must end with the words “(Private) Limited”.

## **2. Situation of Registered Office**

The company should have registered head office in the state or province where it wants to conduct its business. The company cannot start its business without registered head office.

## **3. Object Clause**

This is the most important clause of the memorandum. In this clause it is mentioned that what type of business company will do. If the company does not work according to its objects then this action would be considered as illegal.

## **4. Capital Clause**

It is also mentioned in the memorandum that what will be the amount of total capital, its division in share and the value of each share.

## **5. Liability Clause**

It is clearly written in the memorandum that the liability of the shareholders is limited or unlimited.

## **6. Association Clause**

This clause contains a declaration by the subscribers (promoters) that they are desirous to form a company and agree to have a number of shares written against their names.

## **ALTERNATION IN MEMORANDUM**

According to sections 20 and 21 of the Companies Ordinance, any clause of memorandum can be altered with the sanction of court or Central Government.

## **DEFINITION**

According to Companies Ordinance, 1984:

“Articles mean the articles of association of a company as originally framed or as altered in accordance with the provisions of any previous Companies Act or this Ordinance, including so far as they apply to the company, the regulations contained in Table A in the first schedule.”

## **Explanation**

Articles of association are the by-laws of a company. It includes the rules and regulations, necessary to manage the internal affairs of the company and to achieve the objectives stated in the memorandum. Articles are responsible for the good conduct of the whole management.

### **The articles of association must be:**

- In a printed form
- Divided into paragraphs
- Numbered consecutively
- Signed by the subscribers
- Properly dated

## **CONTENTS OF ARTICLES**

The articles usually state the rules and regulations about the following matters:

1. Share capital and its division into different types
2. Methods for the transfer of shares



3. Conversion of shares
4. Alternation in share capital
5. Methods to call the meetings of the company
6. Voting power of members
7. Appointment of directors
8. Powers and duties of directors
9. Right regarding shareholders
10. Proceedings of Directors' meetings
11. Disqualification of directors
12. Seal of the company
13. Dividends and reserves
14. Accounts and their audits
15. Notices to be issued by the company
16. Winding up a company

### **ALTERNATION IN ARTICLES**

The shareholders of the company can change the articles by passing special resolution but this change should not be against the memorandum and the ordinance.

### **PROSPECTUS**

#### **DEFINITION**

According to English Companies Act,

“Any prospectus, circular, notice, advertisement or other invitation, offering to the public for subscription or purchase any shares or debentures of the company.”

#### **Explanation**

A prospectus is a notice to general public about the formation of new company. The company tries to attract the public to purchase its shares through the prospectus, as the terms and conditions for the purchase of shares and debentures are written in it. There is an application form in every copy of a prospectus. Only the public company is required to issue the prospectus.

### **CONTENTS OF PROSPECTUS**

The important matters to be included in a prospectus are divided in numbers with separate headings. Some of them are briefly discussed below:

#### **1. Share Capital**

Authorized, issued and subscribed capital with basis of allotment.

#### **2. Commission, Brokerage and Tax Exemption**

Commission to be paid to the bankers on issue, brokerage and tax exemption on investment in shares.

#### **3. Brief history and Prospectus**

Brief history, main objects and location of the company, information about project, plant, etc.

#### **4. Financial Information**

Auditor's report, shareholders' equity and liabilities, share capital, etc.

**5. Board of Directors**

Names, addresses and occupations of board of directors.

**6. Interest of Directors**

Interest of directors in dividends, remuneration to be paid to directors, secretaries, etc.

**7. General Information**

General information like:

- Appointment,, election and powers of directors
- Voting rights
- Transfer of shares
- Quorum of general meeting

**8. Miscellaneous**

Place of registered office, factory and bankers, consultants, legal advisor of the company, etc.

**9. Application and Allotment**

The procedure for applying for shares and their allotment is made clear to the prospectus investor.

**Distinction between Memorandum of Association and Articles of Association.****MEMORANDUM OF ASSOCIATION**

Memorandum of association is a basic document of a joint stock company. It is known as the charter of the company. It sets out the limits, which a company cannot go out of. Its main purpose is to enable the shareholders, creditors and all those who deal with the company, to know about its permitted range of enterprise.

**ARTICLES OF ASSOCIATION**

Articles of association is a legal document, secondary in importance of memorandum of association. The articles of association are the regulations by law which govern the internal organization and conduct of a company.

**Distinction between Memorandum of Association and Articles of Association**

<b>Memorandum of Association</b>	<b>Articles of Association</b>
<b>1. Status</b> It is the charter of the company to regulate the external affairs of the company	It contains regulation and laws, which govern the internal administration and management of the company.
<b>2. Preparation</b> It is prepared under the provisions of Companies Ordinance, 1984.	It is prepared under the provisions of Companies Ordinance, 1984, and memorandum of association
<b>3. Registration</b> No company can be registered without submitting memorandum to registrar.	Articles of association are not necessary for the registration of the company.

**4. Limits**

This document determines the limit of company's business

Business limits are not mentioned in it.

**5. Alteration**

It is not alterable, but it can be altered by court and central government.

It can be altered by a special resolution at any time.

**6. Nature**

It deals with external contracts.

It deals with internal administration and management of the company

**7. Priority**

If there is a conflict between memorandum of association and articles of association, then priority is given to memorandum of association.

Priority is not given to articles of association.

**8. Incorporation**

A public company cannot be incorporated unless the memorandum of association is submitted to the registrar.

The registration of articles of association by a company, limited by shares, is optional.

**9. Clauses**

The memorandum of association has usually six clauses, which can be altered as per the requirement.

The articles are not limited to six clauses. For example, Table A of Companies Ordinance has 85 clauses.

**10. Importance**

It is most important and primary document of company.

It is the secondary document of the company.

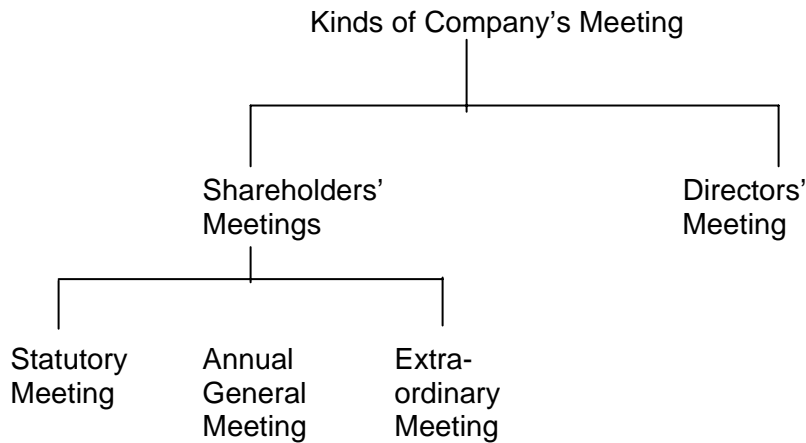
**Discuss briefly various types of meetings which are held in a joint stock company.**

**WHAT IS A "MEETING"**

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

**SHAREHOLDERS' MEETINGS AND COMPANY'S MEETING**

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



## SHAREHOLDERS' MEETINGS

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

### STATUTORY MEETING

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

#### 1. By whom and when held

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

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

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

#### 2. Objects

Its main object is:

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

#### 3. Notice

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

#### 4. How the meeting is called

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

#### 5. Privileges to the members

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

## **STATUTORY REPORT**

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

### **1. Share Allotment**

Total number of shares allotted and their consideration for allotment.

### **2. Summary of Cash received**

Summary of cash received in respect of shares allotted.

### **3. Expenses**

List of basic expenses of the company.

### **4. Commission**

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

### **5. Particulars of Contract**

The particulars of contract and their modifications, if any,

### **6. Particulars of Directors**

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

### **7. Underwriting Contract**

The particulars of underwriting contract, if any.

### **8. List of Arrears**

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

## **ANNUAL GENERAL MEETING**

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

### **1. Notice**

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

### **2. Place of Meeting**

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

### **3. Role of shareholders**

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

### **4. Occasion**

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

## 5. Objects

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

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

## 6. Winding up

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

## EXTRAORDINARY GENERAL MEETING

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

### 1. Right to Call Meeting

- (a) The directors of the company may call extraordinary general meeting for doing some urgent business.
- (b) This meeting can also be called by the directors, on the request of shareholders, having not less than one tenth of the voting power.
- © In case the directors fail to call the extraordinary general meeting within 21 days, the shareholders themselves may call the meeting. In such, case, meeting must be held within 3 months.

### 2. Notice

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

### 3. Procedure

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

### 4. Objects

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

## DIRECTOR'S MEETINGS

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

**1. When is it held?**

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

**2. Notice**

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

**3. Objects**

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

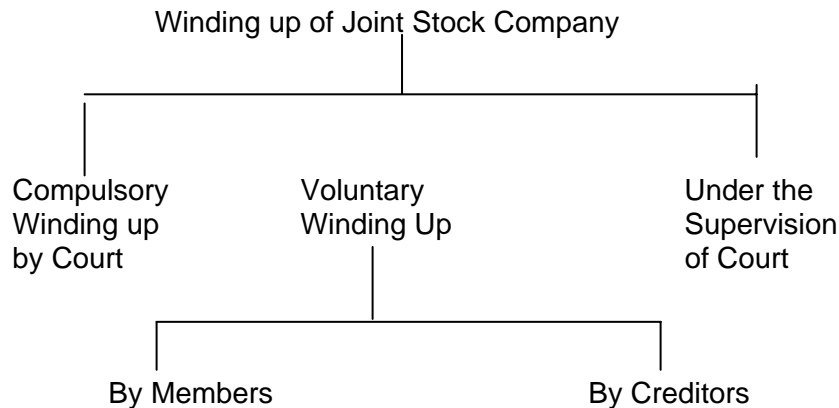
## LESSON 1 1

**WINDING UP OF COMPANY**

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

**MODES OF WINDING UP**

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

**COMPULSORY WINDING UP BY COURT**

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

**1. Special Resolution**

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

**2. Statutory Meeting**

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

**3. Commencement of Business**

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

**4. Reduction in Members**

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

**5. Satisfaction of Court**

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

**6. Payment of Loans**

If a company is unable to pay its debts.

**7. Unlisted**

If a company declares itself unlisted due to any reason.



**VOLUNTARY WINDING UP**

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

**1. By Members**

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

**(i) Expiry of Period**

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

**(ii) Statutory Declaration**

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

**(iii) Special or Ordinary Resolution**

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

**(iv) Appointment of Liquidators**

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

**(v) Final Meeting**

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

**(vi) Dissolution**

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

**2. By Creditors**

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

**(i) Statutory Declaration**

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

**(ii) Special Resolution**

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

**(iii) Creditors' Meeting**

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

**(iv) Statement of Affairs**

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

**(v) Intimation to Registrar**

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

**(vi) Appointment of Liquidator**

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

**(vii) Inspection Committee**

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

**(viii) Liquidators' Remuneration, Rights and Duties**

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

**(ix) Final Meeting**

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

**(x) Dissolution**

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

**VOLUNTARY WINDING UP UNDER THE SUPERVISION OF COURT**

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

**1. Resolution**

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

**2. Supervision Order**

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

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

**3. Power of the Court**

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

**4. Dissolution**

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

**SHARE CAPITAL**

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

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

**DEFINITION**

1. According to Alan Issacs,

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

2. L. B. Curzon says,

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

### **KINDS OF SHARE CAPITAL**

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

#### **1. Authorized Capital**

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

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

#### **2. Issued Capital**

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

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

#### **3. Un-Issued Capital**

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

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

#### **4. Subscribed Capital**

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

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

#### **5. Called up Capital**

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

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

#### **6. Un-Called up Capital**

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

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

#### **7. Paid up Capital**

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

**8. Reserve Capital**

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

**9. Redeemable Capital**

A company can obtain redeemable capital by issue of:

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

## LESSON 12

## COOPERATIVE SOCIETY

## COOPERATIVE SOCIETY

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

## DEFINITION

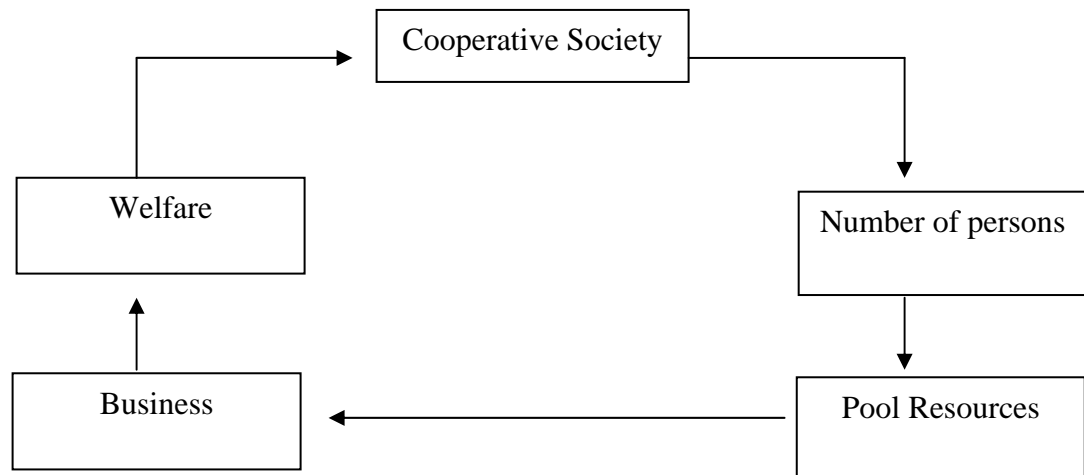
1. According to Herrik,

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

2. According to Mr. Plunket,

“The cooperation is self help made effective by organization.”

## Diagram



## ADVANTAGES OF COOPERATIVE SOCIETY

Following are the important advantages or merits of cooperative society:

## 1. Advantage for Farmers

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

## 2. Easy Formation

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

## 3. Equal Rights

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

## 4. Equal Distribution of Wealth

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

**5. Economic Democracy**

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

**6. Elimination of Middlemen**

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

**7. Financial Assistance**

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

**8. Friendly Relations**

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

**9. Improve the Standard of Living**

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

**10. Increase in Employment**

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

**11. Limited Liability**

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

**12. Mutual Cooperation**

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

**13. No Monopoly**

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

**14. Open Membership**

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

**15. Protection of Mutual Interest**

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

**16. Responsibility**

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

**17. Supply according to Demand**

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

**18. Stable Life**

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

**19. Saving in Expenditure**

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

**20. Tax Concession**

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

**DISADVANTAGES OF COOPERATIVE SOCIETY**

Following are the disadvantages of cooperative societies:

**1. Lack of Capital**

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

**2. Untrained Supervision**

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

**3. Defective Organization**

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

**4. Illiterate and Ignorant**

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

**5. Lack of Experience**

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

**6. Lack of Discipline**

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

**7. Lack of Sincere Management**

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

**8. Lack of Profit Incentive**

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

**9. Lack of Secrecy**

There is no secrecy in the business of cooperative societies.

**10. Lack of Knowledge**

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

**11. Lack of Unity**

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

**12. No use of New Technology**

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

**13. No Public Confidence**

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

**14. Delay in Decision**

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

**15. Government Control**

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



## LESSON 13

## WHO ARE MANAGERS?

**SETTING GOALS AND FORMULATING STRATEGY**

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

**a. Types of Strategy**

- i. **Corporate strategy**—Strategy for determining the firm’s overall attitude toward growth and the way it will manage its businesses or product lines.
- ii. **Business (or competitive) strategy**—Strategy, at the business-unit or product-line level, focusing on a firm’s competitive position.
- iii. **Functional strategy**—Strategy by which managers in specific areas decide how best to achieve corporate goals through productivity

**b. Setting Business Goals**

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

**i. Purposes of Goal Setting**

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

**ii. Kinds of Goals**

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

1. **Mission Statement**—organization’s statement of how it will achieve its purpose in the environment in which it conducts its business.
2. Three kinds of goals for every firm are:
  - a. **long-term goals**—goals set for an extended time, typically 5 years or more into the future
  - b. **intermediate goals**—goals set for a period of 1 to 5 years into the future
  - c. **short-term goals**—goals set for the very near future, typically less than 1 year

**c. Formulating Strategy**—The creation of a broad program for defining and meeting an organization’s goals

- i. **Setting Strategic Goals**—long-term goals derived directly from a firm’s mission statement
- ii. **SWOT Analysis**—Identification and analysis of organizational strengths and weaknesses and environmental opportunities and threats as part of strategy formulation
- iii. Analyzing the Organization and Its Environment
  1. **Environmental analysis**—process of scanning the business environment for threats and opportunities (external factors)

2. **Organizational analysis**—process of analyzing a firm's strengths and weaknesses (internal factors)
- iv. **Matching the Organization and Its Environment**—The heart of strategy formulation matches environmental threats and opportunities against corporate strengths and weaknesses.
- v. A Hierarchy of Plans
  1. **Strategic plans**—plans reflecting decisions about resource allocations, company priorities, and steps needed to meet strategic goals
  2. **Tactical plans**—generally short-range plans concerned with implementing specific aspects of a company's strategic plans
  3. **Operational plans**—plans setting short-term targets for daily, weekly, or monthly performance
- d. **Contingency Planning and Crisis Management**  
Even the best-laid plans can become impractical. Managers prepare for these situations with contingency planning and crisis management.
  - i. **Contingency Planning**—recognizes the need to find solutions to specific aspects of a problem by seeking to identify in advance important aspects of a business or its market that might change.
  - ii. **Crisis Management**—describes an organization's methods for dealing with emergencies.

## 2. THE MANAGEMENT PROCESS

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

- a. **Planning**—management process of determining what an organization needs to do and how best to get it done. Yahoo's creation of partnership agreements with firms like Reuters, Standard & Poor's, and the Associated Press for the new coverage it provides its users represent a form of operational planning.
- b. **Organizing**—management process of determining how best to arrange an organization's resources and activities into a coherent structure. Hewlett-Packard's recent realignment into an integrated, centralized firm, rather than a corporate confederation of individual businesses, has served its comeback strategy well.
- c. **Directing**—management process of guiding and motivating employees to meet an organization's objectives. Gordon Bethune, CEO of Continental Airlines, has turned around morale and performance through his leadership skill, listening to and rewarding employees to guide the company back on track.
- d. **Controlling**—management process of monitoring an organization's performance to ensure that it is meeting its goals. Bethune of Continental instituted a variety of performance indicators including on-time arrivals, baggage-handling errors, number of empty seats per plane, and surveys of customer and employee satisfaction.

## 3. TYPES OF MANAGERS

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

### a. Levels of Management

- i. **Top Managers**—managers responsible to the board of directors and stockholders for a firm’s overall performance and effectiveness. They set strategic goals, make long-range plans, establish major policies, and represent the company to the outside world.
  - ii. **Middle Managers**—managers responsible for implementing the strategies, policies, and decisions made by top managers. In more innovative management structures, they may function as team leaders, acting as consultants who must understand every department’s function and are granted more decision-making authority, previously reserved for high-ranking executives.
  - iii. **First-line Managers**—managers responsible for supervising the work of employees
- b. Areas of Management
- i. **Human Resources Managers**—managers responsible for hiring and training employees, evaluating performance, and determining compensation.
  - ii. **Operations Managers**—managers responsible for the production system, inventory and inventory control, and quality control.
  - iii. **Marketing Managers**—managers responsible for the development, pricing, promotion, and distribution of goods and services.
  - iv. **Information Managers**—managers responsible for designing and implementing systems to gather, organize, and distribute information.
  - v. **Financial Managers**—managers responsible for the firm’s accounting functions and financial resources.
  - vi. **Other Managers**—some firms also employ other specialized managers, such as public relations managers, research & development managers, etc.

#### 4. BASIC MANAGEMENT SKILLS

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

- a. **Technical Skills**—skills needed to perform specialized tasks such as writing computer code, drawing animated characters, or auditing a company’s records.
- b. **Human Relations Skills**—skills in understanding and getting along with people, such as communicating and motivating.
- c. **Conceptual Skills**—abilities to think in the abstract, diagnose and analyze different situations, and see beyond the present situation to recognize future market opportunities and threats.
- d. **Decision-Making Skills**—skills in defining problems and selecting the best course of action. Basic steps in decision making:
  - i. define the problem, gather facts, and identify alternative solutions
  - ii. evaluate each alternative and select the best one
  - iii. implement the chosen alternative, periodically following up and evaluating the effectiveness of that choice
- e. **Time Management Skills**—skills that involve the productive use managers make of their time. Time wasters include paperwork, the telephone, meetings, and e-mail.
- f. Management Skills for the Twenty-First Century
  - i. **Global Management Skills**—special tools, techniques, and skills necessary to compete in a global environment. Managers need to understand foreign markets, cultural differences, and the motives and practices of foreign rivals as well as understanding international operations.

- ii. **Management and Technology Skills**—abilities to process, organize, and interpret a plethora of data and information. Information now flows to everyone in the organization simultaneously, decisions are made more quickly, and more people are involved.

## 5. MANAGEMENT AND THE CORPORATE CULTURE

**Corporate Culture**—The shared experiences, stories, beliefs, and norms that characterize an organization. A strong corporate culture directs employees' efforts and helps everyone work toward the same goals and helps newcomers learn accepted behaviors. Culture either originates with the company's founders (as at Walt Disney Co, Wal-Mart, and JC Penney) or is forged over a long period guided by a constant, focused business strategy (as at PepsiCo). Some cultures are best described as "countercultures," such as Apple's self-styled image as the alternative to staid competitors in the computer industry.

### a. **Communicating the Culture and Managing Change**

To use its culture to a firm's advantage, managers must understand the culture and also transmit it to others in the organization.

- i. **Communicating the Culture**—A clear and meaningful statement of the organization's mission is a valuable communication tool.
- ii. **Managing Change** --- Organizations must sometimes change their cultures and also communicate the nature of the change to both employees and customers. The process has three stages:
  1. Analysis of the company's environment highlights change as the most effective response to its problems
  2. Top management begins to formulate a vision of a new company.
  3. The firm sets up new systems for appraising and compensating employees who enforce the firm's new values.

## LESSON 14

**HUMAN RESOURCE MANAGEMENT**

The goal of human resource management (HRM) is to attract, develop, and maintain an effective workforce. Planning for human resources involves analyzing jobs, forecasting supply and demand for the number and types of workers necessary in the organization, and matching supply with demand for workers. Recruiting is the process of attracting qualified people to apply for open jobs. Human resource managers can recruit either internally (from within the organization) or externally (from outside the organization). Organizations use a variety of methods—including applications, tests, and interviews—to select employees from the pool of applicants. Once workers have been hired, performance appraisals, which typically incorporate either ranking or rating techniques, help managers decide who needs training and who should be promoted. Wages and salaries, incentives, and benefit packages may all be part of a company's compensation program, playing a critical role in attracting and retaining qualified personnel.

In recruiting, hiring, compensating, and managing workers, managers must comply with a variety of federal laws. Equal employment opportunity legislation forbids discrimination based on factors that do not relate to legitimate job requirements. The concept of comparable worth holds that different jobs requiring equal levels of training and skill must pay the same. And the Occupational Health and Safety Administration establishes guidelines for ensuring a safe working environment. Human resource managers must also deal with other contemporary legal issues including employment-at-will, AIDS and sexual harassment.

Key changes that affect the workplace today include workforce diversity, the management of knowledge workers, and the growing use of contingent employees. Many firms are striving to create workforces that reflect the increasing diversity of the population, but not all firms have been equally successful in, or eager to implement, diversity programs. Recruiting, retaining, and managing knowledge workers—employees whose value is based on what they know rather than on their experience—is a particular challenge for technology-related firms who depend on them. Hiring contingent workers—temporary or part-time employees—is a growing trend that offers managers more flexibility, but also creates a new set of management issues.

A labor union is a group of employees working together to achieve shared job-related goals, such as higher pay, shorter working hours, more job security, or improved benefits. For unionized employees, the foundation of labor-management relations is collective bargaining, the process by which union leaders and managers negotiate terms of employment for those workers represented by unions. Both labor and management have a range of tactics that they can use against each other if negotiations fail.

**1. THE FOUNDATIONS OF HUMAN RESOURCE MANAGEMENT**

The ability to attract and retain talented and motivated employees often marks the difference between success and failure in today's competitive business environment. **Human Resource Management**—set of organizational activities directed at attracting, developing, and maintaining an effective workforce.

**a. The Strategic Importance of HRM**

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

## Human Resource Planning

- iv. **Job Analysis**—systematic analysis of jobs in an organization.
  1. **Job Description**—systematic evaluation of the duties, working conditions, tools, materials, and equipment related to the performance of a job.
  2. **Job Specification**—description of the skills, abilities, and other credentials required by a job.
- v. **Forecasting HR Demand and Supply**
  1. Forecasting the supply of labor is two tasks:
    - a. **Forecasting internal supply**—the number and type of employees who will be in the firm at some future date.
    - b. **Forecasting external supply**—the number and type of people who will be available for hiring from the labor market at large. Large organizations use extremely sophisticated models to forecast staffing levels.
  2. **Replacement Chart**—listing of each managerial position, who occupies it, how long that person will likely stay in the job, and who is qualified as a replacement. Replacement charts are used at higher levels of the organization to plan developmental experiences for people identified as potential successors to critical managerial jobs.
  3. **Skills Inventories (or Employee Information System)**—computerized system containing information on each employee's education, skills, work experiences, and career aspirations.
- vi. **Matching HR Supply and Demand**—After comparing future demand and internal supply, managers can make plans to manage predicted shortfalls or overstaffing. If the organization needs to hire, the external labor-supply forecast helps managers plan how to recruit.

## LESSON 15

## STAFFING

**Staffing** is the practice of finding, evaluating, and establishing a working relationship with future colleagues on a project and firing them when they are no longer needed. Staffing involves finding people, who may be hired or already working for the company (organization) or may be working for competing companies.

In knowledge economies, where talent becomes the new capital, this discipline takes on added significance to help organizations achieve a competitive advantage in each of their marketplaces.

"Staffing" can also refer to the industry and/or type of company that provides the functions described in the previous definition for a price. A staffing company may offer a variety of services, including temporary help, permanent placement, temporary-to-permanent placement, long-term and contract help, managed services (often called outsourcing), training, human resources consulting, and PEO arrangements (Professional Employer Organization), in which a staffing firm assumes responsibility for payroll, benefits, and other human resource functions.

The term "staffing company" has replaced the term "temporary service".

## STAFFING THE ORGANIZATION

Staffing is one of the most complex and important tasks of good HR management.

- a. **Recruiting Human Resources**—process of attracting qualified persons to apply for open jobs.
  - i. **Internal Recruiting**—practice of considering present employees as candidates for job openings.
  - ii. **External Recruiting**—practice of attracting people outside an organization to apply for jobs. By early 1998, unemployment had dropped to a 23-year low of 4.6 percent, making recruiting a more difficult task. By 2001, the situation reversed.
- b. **Selecting Human Resources**

**Validation**—process of determining the predictive value of information.

  - i. Application Forms
  - ii. **Tests**— tests of ability, skill, aptitude, or knowledge.
  - iii. **Interviews**—Interviews are sometimes a poor predictor of job success although they remain a popular means of screening candidates. Validity can be improved by training employees to be aware of potential biases created in the interview situation and by using structured interviews, in which questions are written in advance and all interviews follow the same list of questions for each candidate.
  - iv. **Other Techniques**— Polygraph tests are declining in popularity, although some organizations require physical exams. More organizations are using drug tests, particularly in which drug-related performance problems could create serious safety hazards for customers or employees.

## LESSON 16

## STAFF TRAINING &amp; DEVELOPMENT

As a brief review of terms, training involves an expert working with learners to transfer to them certain areas of knowledge or skills to improve in their current jobs. Development is a broad, ongoing multi-faceted set of activities (training activities among them) to bring someone or an organization up to another threshold of performance, often to perform some job or new role in the future.

**Typical Reasons for Employee Training and Development**

Training and development can be initiated for a variety of reasons for an employee or group of employees, e.g.,:

- a.) When a performance appraisal indicates performance improvement is needed
- b.) To "benchmark" the status of improvement so far in a performance improvement effort
- c.) As part of an overall professional development program
- d.) As part of succession planning to help an employee be eligible for a planned change in role in the organization
- e.) To "pilot", or test, the operation of a new performance management system
- f.) To train about a specific topic (see below)

**Typical Topics of Employee Training**

1. **Communications:** The increasing diversity of today's workforce brings a wide variety of languages and customs.
2. **Computer skills:** Computer skills are becoming a necessity for conducting administrative and office tasks.
3. **Customer service:** Increased competition in today's global marketplace makes it critical that employees understand and meet the needs of customers.
4. **Diversity:** Diversity training usually includes explanation about how people have different perspectives and views, and includes techniques to value diversity
5. **Ethics:** Today's society has increasing expectations about corporate social responsibility. Also, today's diverse workforce brings a wide variety of values and morals to the workplace.
6. **Human relations:** The increased stresses of today's workplace can include misunderstandings and conflict. Training can help people to get along in the workplace.
7. **Quality initiatives:** Initiatives such as Total Quality Management, Quality Circles, benchmarking, etc., require basic training about quality concepts, guidelines and standards for quality, etc.
8. **Safety:** Safety training is critical where working with heavy equipment, hazardous chemicals, repetitive activities, etc., but can also be useful with practical advice for avoiding assaults, etc.
9. **Sexual harassment:** Sexual harassment training usually includes careful description of the organization's policies about sexual harassment, especially about what are inappropriate behaviors.

**General Benefits from Employee Training and Development**

There are numerous sources of on-line information about training and development. Several of these sites (they're listed later on in this library) suggest reasons for supervisors to conduct training among employees. These reasons include:

1. Increased job satisfaction and morale among employees.
2. Increased employee motivation.
3. Increased efficiencies in processes, resulting in financial gain.
4. Increased capacity to adopt new technologies and methods.
5. Increased innovation in strategies and products.



6. Reduced employee turnover.
7. Enhanced company image, e.g., conducting ethics training (not a good reason for ethics training!).
8. Risk management, e.g., training about sexual harassment, diversity training.

### Training Methods

- i. **On-the-Job Training**—work-based training, sometimes informal, conducted while an employee is in the actual work situation. As much as 60 percent of training in the United States occurs on the job.
  - ii. **Off-the-Job Training**—Training conducted in a controlled environment away from the work site.
  - iii. **Vestibule Training**—work-based training conducted in a simulated environment away from the work site. Airline pilots and machine operators frequently learn via vestibule training.
- a. **Performance Appraisal**—formal evaluation of an employee’s job performance in order to determine the degree to which the employee is performing effectively. The individual supervisor is usually responsible for the performance of his or her subordinates. Appraisals help managers assess the extent to which they are recruiting and selecting the best employees and contribute to effective training and appropriate compensation.

**LESSON 17****BUSINESS MANAGER'S RESPONSIBILITY PROFILE****Accountability**

- Accountable to the general manager
- Accountable for all companions, employed staff and volunteers who are involved in business activities during their working time

**General responsibilities**

- To develop and maintain business activities that maximize the opportunity of the Emmaus Brighton &Hove community to realize its objectives of solidarity and self sufficiency
- To take part in overall pastoral care as appropriate
- To take part in Supporting people as appropriate
- To assist the Community Team Manager (CTM) where appropriate in discussing and deciding admissions and inductions

**Specific responsibilities**

- Manage and develop the operation of all business-related workshops
- Ensuring adequate provision and monitoring of Health &Safety measures within business activities, and in conjunction with the Premises Manager and CTM the procurement of tools and materials
- Managing the scheduling and collection of donated goods
- Manage fleet of vans
- Manage and develop marketing strategies and business promotion materials
- Manage the development of retail spaces and procedures
- Manage the development and maintenance of recycling activities
- Provide accessible information on business outputs
- Manage and develop opportunities for companions to take on enhanced responsibilities
- Provide appropriate support and supervision to staff responsible for companions who are involved in business activities during their working time
- Support the training and skills development of volunteers
- Recruitment and allocation of tasks for volunteers

**Financial responsibilities**

- Contribute to the construction of annual budget and monitor expenditure
- Verify and authorise expenditure within delegated powers
- Confirm solidarity discounts

## LESSON 18

## COMPENSATION AND BENEFITS

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

**a. Wages and Salaries**

- i. **Wages**—compensation in the form of money paid for time worked.
- ii. **Salary**—compensation in the form of money paid for discharging the responsibilities of a job.

**b. Incentive Programs**—Special compensation program designed to motivate high performance

- i. **Individual Incentives**—incentive-based pay plan that rewards individual performance.
  - 1. **Bonus**—Individual performance incentive in the form of a special payment made over and above the employee's salary
  - 2. **Merit Salary Systems**—Individual incentive linking compensation to performance in nonsales jobs
  - 3. **Pay-for-performance** (or variable pay)—Individual incentive that rewards a manager for especially productive output

ii. **Company-wide Incentives**

- 1. **Profit-sharing plan**—Incentive plan for distributing bonuses to employees when company profits rise above a certain level
- 2. **Gain-sharing plan**—Incentive plan that rewards groups for productivity improvements
- 3. **Pay-for-knowledge plan**—Incentive plan to encourage employees to learn new skills or become proficient at different jobs

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

- i. **Retirement Plans**—prearranged company pensions provided to retired employees.
- ii. **Containing the Costs of Benefits**
  - 1. **Cafeteria Benefit Plan**—benefit plan that sets limits on benefits per employee, each of whom may choose from a variety of alternative benefits. It allows employees to choose those benefits they really want.

## 2. THE LEGAL CONTEXT OF HR MANAGEMENT

Laws impact many areas of human resource management.

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

i. **Protected Classes in the Workplace**

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

## ii. Enforcing Equal Employment Opportunity

1. **Equal Employment Opportunity Commission (EEOC)**—Dept. of Justice agency created by Title VII to enforce discrimination-related laws.
2. **Affirmative Action Plan**—practice of recruiting qualified employees belonging to racial, gender, or ethnic groups who are underrepresented in an organization.

## iii. Legal issues in Compensation

## b. Contemporary Legal Issues in HR Management

### i. Employee Safety and Health

1. **Occupational Safety and Health Act of 1970 (OSHA)**—federal law setting and enforcing guidelines for protecting workers from unsafe conditions and potential health hazards in the workplace. Violators are fined for each incident.

### ii. Emerging Areas of Discrimination Law

1. **AIDS in the Workplace**—Organizations must follow a certain set of guidelines and employ common sense when dealing with AIDS-related issues. AIDS is considered a disability under ADA.
2. **Sexual Harassment**—practice or instance of making unwelcome sexual advances in the workplace. It is a violation of Title VII of the Civil Rights Act of 1964.
  - a. **quid pro quo harassment**—form of sexual harassment in which sexual favors are requested in return for job-related benefits
  - b. **hostile work environment**—form of sexual harassment, deriving from off-color jokes, lewd comments, and so forth, that makes the work environment uncomfortable for some employees
3. **Employment-at-Will**—principle, increasingly modified by legislation and judicial decision, that organizations should be able to retain or dismiss employees at their discretion. Employees, however, cannot be fired for exercising rights protected by law such as filing worker compensation claims or taking excessive time off to serve jury duty.

## 3. NEW CHALLENGES IN THE WORKPLACE

### a. Managing Workforce Diversity

- i. **Workforce Diversity**—range of workers' attitudes, values, and behaviors that differ by gender, race, and ethnicity. Workforce diversity has been increasing in recent years and by 2006 it is expected that almost half all workers in the labor force will be women and almost one-third will be Blacks, Hispanics, Asian Americans, and others.

### b. Managing Knowledge Workers

#### i. The Nature of Knowledge Work

**Knowledge Worker**—employee who is of value because of the knowledge that he or she possesses. Knowledge workers include computer scientists, engineers, and physical scientists who tend to work in high-technology firms and are usually experts in some abstract knowledge base.

## ii. Knowledge Worker Management and Labor Markets

1. The demand for knowledge workers has been growing at a dramatic rate.
2. The growing demand for knowledge workers has inspired some fairly extreme measure for attracting them, such a high starting salaries and sign-on bonuses.

## c. Contingent and Temporary Workers

i. **Trends in Contingent and Temporary Employment**—About 10 percent of the U.S. workforce currently uses an alternative form of employment relationship such as contingent or temporary employment.

1. **Contingent Worker**—employee hired on something other than a full-time basis to supplement an organization's permanent workforce.

ii. **Managing Contingent and Temporary Workers**—HR managers must understand how to use contingent workers by using careful planning, acknowledging both their advantages and disadvantages, and assessing the real cost of using them.

## 4. DEALING WITH ORGANIZED LABOR

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

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

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

### a. Unionism Today

i. **Trends in Union Membership**—U.S. labor unions have experienced increasing difficulties in attracting new members. Union membership has declined, together with the percentage of successful union-organizing campaigns. There are some recent exceptions.

ii. **Trends in Union-Management Relations**—The gradual decline in unionization in the United States has been accompanied by some significant trends in union-management relations. Unions remain quite strong in some sectors, notably the automobile and steel industries. Unions generally are in a weakened position, and many have taken a more conciliatory stance in their relations with management. Most experts agree that improved union-management relations have benefited both sides.

iii. **Trends in Bargaining Perspectives**—Changes in bargaining perspectives have occurred in response to recent trends. Organizational downsizing and several years of low inflation in the U.S. have found unions fighting against wage cuts, rather than striving for wage increases. Another common goal of union strategy is preserving what's already been won, as organizations seek lower health care and other benefits. Unions also place greater emphasis on job security and improved pension plans. Unions have begun to set their sights on preserving jobs for workers in the United States in the face of business

efforts to relocate production in some sectors to countries where labor costs are lower.

- iv. **The Future of Unions**—Despite declining membership and some loss of power, labor unions remain a major factor in the U.S. business world. Some unions still wield considerable power, especially in the traditional strongholds of goods-producing industries.

## 5. COLLECTIVE BARGAINING

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

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

- b. **Contract Issues**

- i. **Compensation**—Unions generally want their members to earn higher wages; compensation is the most common contract issue.
  - 1. cost-of-living adjustment (COLA)—labor contract clause tying future raises to changes in consumer purchasing power
  - 2. wage reopener clause—clause allowing wage rates to be renegotiated during the life of the labor contract
- ii. **Benefits** (e.g., health insurance, retirement benefits, paid holidays, working conditions)—Unions typically want employers to pay all or most of the costs of benefits.
- iii. **Job Security**—In some cases, demands for job security entail the company's promise not to move to another location, or a stipulation that if workforce reductions must occur, seniority will be used to determine which employees lose their jobs.
- iv. **Other Union Issues** (e.g., working hours, overtime policies, rest period arrangements, differential pay plans for shift employees, the use of temporary workers, grievance procedures, and allowable union activities)
- v. **Management Rights**—Management wants as much control as possible over hiring policies and work assignments. Unions try to limit management rights by specifying hiring, assignment, and other policies.

- c. **When Bargaining Fails**

Although it is generally agreed that both parties suffer when, after bargaining, an impasse is reached and action is taken, both sides can use several tactics to support their cause.

- i. **Union Tactics**

- 1. **Strike**—labor action in which employees temporarily walk off the job and refuse to work. Most strikes in the United States are economic strikes, triggered by stalemates over mandatory bargaining items including such noneconomic issues as working hours.

2. **Sympathy Strike** (or Secondary Strike) —strike in which one union strikes to support action initiated by another.
  3. **Wildcat Strike**—strike that is unauthorized by strikers' union.
  4. Other Labor Actions
    - a. **Picketing**—labor action in which workers publicize their grievances at the entrance to an employer's facility.
    - b. **Boycott**—labor action in which workers refuse to buy the products of a targeted employer.
    - c. **Slowdown**—labor action in which workers perform jobs at a slower than normal pace.
- ii. **Management Tactics**—Like workers, management can respond forcefully to an impasse.
1. **Lockout**—management tactic whereby workers are denied access to the employer's workplace.
  2. **Strikebreaker**—worker hired as permanent or temporary replacement for a striking employee.
- iii. **Mediation and Arbitration**—Mediation and arbitration make use of a third party to help resolve the dispute.
1. **Mediation**—method of resolving a labor dispute in which a third party suggests, but does not impose, a settlement.
  2. **Voluntary Arbitration**—method of resolving a labor dispute in which both parties agree to submit to the judgment of a neutral party.
  3. **Compulsory Arbitration**—method of resolving a labor dispute in which both parties are legally required to accept the judgment of a neutral party.

## LESSON 19

**COMPENSATION AND BENEFITS (Continued)**

Psychological contracts in the workplace are the set of expectations held by employees concerning what they will contribute to an organization (contributions) and what the organization will in return provide to them (inducements). Psychological contracts have changed significantly in the last decade. Employers offer less security, but more benefits, while employees offer less loyalty, but are often willing to work longer hours and assume more responsibility.

Good human relations—positive interactions between employers and employees—lead to high levels of job satisfaction and morale. As a result, employees are more productive and more loyal, with a lower level of grievances, absenteeism, and turnover.

Theories of employee motivation have changed dramatically over the years. The most important models are summarized below:

- **Classical Theory:** People are motivated solely by money. This theory impacted business via scientific management, which focused on analyzing jobs and finding more efficient ways to perform tasks.
- **Behavior Theory:** People's needs play a role in motivation. Employees perform better when they believe that management is paying attention to them. This theory was first demonstrated in the Hawthorne studies (1927-1932 at the Western Electric Hawthorne works in Chicago).
- **Human Resources Model:** There are two kinds of managers—Theory X managers who believe that people are inherently uncooperative and must be constantly punished or rewarded, and Theory Y managers who believe that people are naturally responsible and self motivated to be productive.
- **Maslow's Hierarchy of Needs Model:** People have different needs which they attempt to satisfy in their work. Lower level needs must be satisfied before people seek to meet higher level needs.
- **Two-Factor Theory:** If basic hygiene needs are not met, workers will be dissatisfied. Only by increasing more complex motivation factors can companies increase employee performance.
- **Expectancy Theory:** People will work hard if they believe that their efforts will lead to desired rewards.
- **Equity Theory:** Motivation depends on the way employees evaluate their treatment by an organization, relative to its treatment of other workers.

Managers can use several strategies to improve employee satisfaction and motivation. The principle of reinforcement or behavior modification theory proposes that rewards and punishments can control behavior. Management by objectives, participative management, and empowerment can improve human relations by increasing the level of employee commitment and involvement in the organizational team. Job enrichment, job redesign, and modified work schedules can build job satisfaction by adding motivation factors to jobs in which they are normally lacking.



Effective managerial leadership is a key contributor to employee satisfaction and motivation. Autocratic managers typically issue orders that they expect employees to obey. Democratic managers generally seek subordinates' input into decisions. Free-rein managers more often advise than make actual decisions. The contingency approach to leadership suggests that managers should assess each situation individually, and exercise a leadership style based on the elements of the situation.

## 1. PSYCHOLOGICAL CONTRACTS IN ORGANIZATIONS

Set of expectations held by an employee concerning what he or she will contribute to an organization (referred to as contributions) and what the organization will in return provide the employee (referred to as inducements). All organizations face the basic challenge of managing psychological contracts. The massive wave of downsizing and cutbacks that swept the U.S. economy in the 1980s and early 1990s has complicated that challenge. Because job permanence is less likely now, alternative inducements such as lavish benefits packages may be needed instead.

**Human Relations**—Interactions between employers and employees and their attitudes toward one another

## 2. THE IMPORTANCE OF SATISFACTION AND MORALE

**Job Satisfaction**—degree of enjoyment that people derive from performing their jobs. Satisfied employees are likely to have higher morale, fewer grievances, and fewer negative behaviors than dissatisfied counterparts.

**Morale**—overall attitude that employees have toward their workplace. Low morale may result in high turnover, with negative consequences for production schedules, productivity, and skill level within the firm.

**Turnover**—Annual percentage of an organization's workforce that leaves and must be replaced

### a. Recent Trends in Managing Satisfaction and Morale

- i. Many major companies went through periods of massive layoffs and cutbacks during the late 1980s through the mid-1990s, creating a sense of job insecurity.
- ii. A booming economy and the creation of thousands of new jobs led to low unemployment in most industries and regions by the late 1990s. As a result, companies found themselves having to work harder not only to retain current employees but also to offer creative incentives to attract new employees. Innovative benefits and perks have soared as firms try to maintain job satisfaction and employee morale and make themselves more attractive places to work.
- iii. The 2000s have brought back layoffs and cutbacks. Workers appear satisfied enough.

## 3. MOTIVATION IN THE WORKPLACE

Employee motivation is even more critical to a firm's success than job satisfaction and morale.

- a. **Classical Theory**—theory holding that workers are motivated solely by money.
  - i. **Scientific Management**—an approach to employee motivation incorporating the classical theory of motivation.

- ii. Frederick Taylor (Principles of **Scientific Management**, 1911) reasoned that if workers were motivated by money, paying the more should prompt them to produce more. At the same time, firms that analyzed jobs and found better ways to perform them would be able to produce goods more cheaply, make more profits, and be able to pay and motivate workers better than its competitors.
  - iii. **Time-and-motion studies**—industrial-engineering techniques applied to each facet of a job in order to determine how to perform it most efficiently
- b. **Behavior Theory: The Hawthorne Studies**—a set of experiments aimed at examining the relationship between changes in the physical environment and worker output.
  - i. In 1925 Harvard researchers studied Hawthorne Works of Western Electric, outside Chicago. Their experiment with increasing lighting levels to examine the relationship between changes in the physical environment and worker output showed the surprising result that both higher and lower levels increased productivity, while increased pay failed to do so.
  - ii. The answer proved to be that workers were reacting to the attention they were receiving, leading to the conclusion that productivity rose in response to almost any management action that workers interpreted as special attention.
  - iii. **Hawthorne Effect**—tendency for productivity to increase when workers believe they are receiving special attention from management.
- c. **Contemporary Motivational Theories**—Following the Hawthorne studies, managers and researchers focused more attention on the importance of good human relations in motivating employee performance. Most motivation theorists are concerned with the ways in which management thinks about and treats employees.
  - i. **Human Resources Model: Theories X and Y**—Douglas McGregor's theory of motivation suggesting that managers have radically different beliefs about how best to use the human resources employed by a firm.
    - 1. **Theory X**—theory of motivation holding that people are naturally irresponsible and uncooperative.
    - 2. **Theory Y**—theory of motivation holding that people are naturally responsible, growth oriented, self-motivated, and interested in being productive.
  - ii. **Maslow's Hierarchy of Needs Model**—Psychologist Abraham Maslow's theory of motivation proposing that people have several different needs that they attempt to satisfy in their work. These needs are hierarchical in importance; lower-level needs must be met before a person will try to satisfy higher-level needs. Once a set of needs has been satisfied, it ceases to motivate behavior.

**Two-Factor Theory**—Frederick Herzberg's theory of motivation holding that job satisfaction depends on two types of factors, hygiene and motivation. This theory suggests that managers should follow a two-step approach to enhancing motivation—first, ensure that hygiene factors (working conditions, policies) are acceptable, and then offer motivation factors such as recognition and added responsibility.

- i. **Expectancy Theory**—theory of motivation holding that people are motivated to work toward rewards that they want and that they believe they have a reasonable chance of obtaining. In this theory, a reward that is out of reach is likely to be undesirable even if it is intrinsically positive.
- ii. **Equity Theory**—theory of motivation holding that people evaluate their treatment by employers relative to the treatment of others. People derive a ratio of contribution to return from analyzing what they contribute to their jobs (inputs) and what they receive in return (outputs); they then compare their own ratios with those of other employees. The ratios do not have to be the same, only fair.

## LESSON 20

### STRATEGIES FOR ENHANCING JOB SATISFACTION AND MORALE

These strategies are ways to apply manager's knowledge of what provides job satisfaction and motivates workers.

- a. **Reinforcement/Behavior Modification Theory**—theory that behavior can be encouraged or discouraged by means of rewards or punishments. Most managers prefer giving rewards and placing positive value on performance to doling out punishment.
- b. **Management by Objectives**—set of procedures involving both managers and subordinates in setting goals and evaluating progress. Experts agree that motivation is the biggest advantage of MBO if it is used properly.
- c. **Participative Management and Empowerment**—method of increasing job satisfaction by giving employees a voice in the management of their jobs and the company. As an example, workers who no longer report product defects to supervisor but have the freedom to correct problems themselves, or even return defective products to the workers who are responsible for them, have been empowered to take greater responsibility for their own performance.

**Teamwork** is not for every situation. Levi Strauss dismantled production teams in which faster workers became resentful of slower workers who reduced the group's total output, when each member's pay was determined by the team's level of productivity.

- i. **Team Management**—employees are given decision-making responsibility for certain narrow or broad activities.
- d. **Job Enrichment and Job Redesign**
- i. **Job Enrichment Programs**—method of increasing job satisfaction by adding one or more motivating factors to job activities. Job rotation plans, for example, expand growth opportunities and the chance to learn new skills.
  - ii. **Job Redesign Programs**—method of increasing job satisfaction by designing a more satisfactory fit between workers and their jobs. Job redesign is usually implemented in one of three ways: through combining task, forming natural work groups, or establishing client relationships.
- e. **Modified Work Schedules**
- i. **Work-Share Programs**—method of increasing job satisfaction by allowing two or more people to share a single full-time job.
  - ii. **Job sharing** usually benefits both employees and employers, although job-sharing employees generally receive fewer benefits than full-time counterparts.
  - iii. **Flextime Programs and Alternative Workplace Strategies**—method of increasing job satisfaction by allowing workers to adjust work schedules on a daily or weekly basis. **Flextime** can include starting later and leaving later in the day, starting

and leaving earlier, or choosing which 4, 5, or 6 days to work during the week while still completing 40 hours.

- iv. Telecommuting and Virtual Offices
- Telecommuting**—form of flextime that allows people to perform some or all of a job away from standard office settings. Among salaried employees, the telecommuter workforce grew by 21/5 percent in 1994, to 7.6 million; the number of telecommuters now exceeds 25 million employees. The key to telecommuting is technology—networked computers, fax machines, cellular phones, and overnight delivery services make it possible to work from home or while traveling.
- Virtual office**—redesigned conventional office space to accommodate jobs and schedules that are far less dependent on assigned spaces and personal apparatus. Informal work carrels or nooks and open areas can be made available to every employee.

### Advantages and Disadvantages of Modified Schedules and Alternative Workplaces

1. Employees benefit from more freedom in their professional and personal lives.
2. Employers benefit from higher levels of commitment and job satisfaction.
3. Flextime sometimes complicates coordination because people who need to work together are working different schedules.
4. Telecommuting and virtual offices may not be for everyone. Those who can work best in these new environments tend to be disciplined self-starters who require little direct supervision during the day and are not uncomfortable working away from their managers and colleagues.

One other disadvantage is that it can be difficult for telecommuters to convince management that if they are not being supervised, they are still working, a perception based on the often erroneous assumption that “if you can see them, they are working.”

## LESSON 21

**MANAGERIAL STYLES AND LEADERSHIP**

There are many valid styles of leadership. Most managers do not conform to anyone style, but under different circumstances, any given style or combination of styles may prove appropriate.

**Leadership** — A process of motivating others to work to meet specific objectives.

- a. **Managerial Styles**—pattern of behavior that a manager exhibits in dealing with subordinates.
  - i. **Autocratic Style**—managerial style in which managers generally issue orders and expect them to be obeyed without question.
  - ii. **Democratic Style**—managerial style in which managers generally ask for input from subordinates but retain final decision-making power.
  - iii. **Free-Rein Style**—managerial style in which managers typically serve as advisers to subordinates who are allowed to make decisions.

**The Contingency Approach to Leadership**—The contingency approach acknowledges that people in different cultures behave different and expect different things from their managers. Managers will be more effective when they adapt their styles to the contingencies of the situations they face.

**Contingency Approach**—approach to managerial style holding that the appropriate behavior in any situation is dependent (contingent) on the unique elements of that situation.

- a. **Motivation and Leadership in the Twenty-First Century**
  - i. **Changing Patterns of Motivation**
    1. Today's employees want rewards that are often quite different from those valued by earlier generations. —Money is no longer the prime motivator for most people, and because businesses cannot offer the same degree of job security that many workers want, motivation requires skillful attention from managers. —One recent survey found that workers wanted flexible working hours (67 percent), casual dress (56 percent), unlimited Internet access (51 percent), opportunities to telecommute (43 percent), nap time (28 percent), massages and other perks. In another study of fathers, many men said they wanted more flexible working hours in order to spend more time with their families. Today's workers have a complex set of needs and their motivations are increasingly complex.
    2. The diversity inherent in today's workforce makes motivating behavior more complex.
  - ii. **Changing Patterns of Leadership**
    1. Today's leaders are finding it necessary to change their own behavior as organizations become flatter and workers more empowered. —The autocratic style is less acceptable and many managers are functions more as coaches than bosses.
    2. Diversity is affecting leadership processes. —Women, African Americans, and Hispanics are entering the managerial ranks in

- increasing numbers, and they are more and more likely to be younger than some of the people they are leading.
3. Leaders must adopt more of a “network” mentality rather than a “hierarchical” one. — New forms of organizational design may call for one person to be the leader on one project and a team member on another.

**LESSON 22****MARKETING**

The American Marketing Association defines marketing as the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.

Marketing plays an important role in society by helping people satisfy their needs and wants and by helping organizations decide what to produce. Value compares a product's benefits with its costs. Consumers seek products that offer value. Utility is the value to the customer that is added by the marketer. There are four types of utility: time, place, ownership, and form utility.

The external environment consists of the outside forces that influence marketing strategy and decision making. The political/legal environment includes laws and regulations, both domestic and foreign, that may define or constrain business activities. The social/cultural environment is the context within which people's values, beliefs, and ideas affect marketing decisions. The technological environment includes the technological developments that affect existing and new products. The economic environment consists of the conditions, such as inflation, recession, and interest rates, that influence both consumer and organizational spending patterns.

Market segmentation is the process of dividing markets into categories of customers. Businesses have learned that marketing is more successful when it is aimed toward specific target markets groups of consumers with similar wants and needs. Markets may be segmented by geographic, demographic, psychographic, or product use variables.

Market research is the study of what buyers need and of the best ways to meet those needs. This process entails studying the firm's customers, evaluating possible changes in the marketing mix, and helping marketing managers make better decisions about marketing programs. The marketing research process involves the selection of a research method, the collection of data, the analysis of data, and the preparation of a report that may include recommendations for action. The four most common research methods are observation, surveys, focus groups, and experimentation.

A number of personal and psychological considerations, along with various social and cultural influences, affect consumer behavior. When making buying decisions, consumers first determine or respond to a problem or need and then collect as much information as they think necessary before making a purchase. Post-purchase evaluations are also important to marketers because they influence future buying patterns.

The industrial market includes firms that buy goods falling into one of two categories: Goods to be converted into other products and goods that are used up during production. Farmers and manufacturers are members of the industrial market, Members of the reseller market (mostly wholesalers) are intermediaries who buy and resell finished goods. Besides governments and agencies at all levels, the government and institutional market includes such non-government organizations as hospitals, museums, and charities.

There are four main differences between consumer and organizational buying behavior. First, the nature of demand is different; in organizational markets it is often derived (resulting from related consumer demand) or inelastic (largely unaffected by price changes). Second, organizational buyers are typically professionals, specialists, or experts. Third, organizational buyers develop product specifications, evaluate alternatives more thoroughly, and make more



systematic post-purchase evaluations. Finally, they often develop enduring buyer-seller relationships.

## 1. What Is Marketing?

Although you may be just beginning your classroom study of marketing, organizations like Microsoft and Coca-Cola have been trying to sell you things for many years. You have probably become accustomed to many marketing techniques—contests, advertisements, fascinating displays placed in strategic locations, price markdowns and giveaways. What you are about to learn is that marketing requires a lot of planning and implementation to develop a new product, set its price, get it to consumers, and convince them to buy it.

**Marketing**, as defined by the American Marketing Association, is planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. However, in laymen's terms, marketing is quite simply finding a need and filling it.

### a. **Marketing: Providing Value and Satisfaction**

Marketing plays an important role in society by helping people satisfy their needs and wants and by helping organizations decide what to produce.

- i. **Value** compares a product's **benefits** with its costs.
- ii. **Utility** is the value to the customer that is added by the marketer. In other words, utility is the ability of a product to satisfy a human want or need. There are four types of utility:

**Time Utility** is making the product available when the customer wants it.

**Place Utility** is making the product available where consumers want it.

**Ownership Utility** is the customer value created when someone takes ownership of a product. Marketers create possession utility by facilitating the transaction.

**Form Utility** refers to the characteristics of the product such as its shape, size, color, function, and style.

### b. **Marketing: Goods, Services, and Ideas**

The influence of marketing permeates everyday life, applying to **goods**, **services**, and **ideas**. Marketing applies to tangible and intangible goods and include:

**Consumer Goods**—products purchased by consumers for personal use.

**Industrial Goods**—products purchased by companies to produce other products.

**Services**—intangible products, such as time, expertise, or an activity, that can be purchased.

**Ideas**—intangibles such as, MADD, Mothers Against Drunk Driving.

**Relationship Marketing** emphasizes lasting relationships with customers and suppliers. Purchase incentives and customer loyalty programs are just some of the ways in which firms try to promote these relationships.

## LESSON 23

**THE MARKETING ENVIRONMENT**

The powerful forces of the external marketing environment heavily influence marketing programs by posing opportunities and threats.

- a. **Political and legal environment:** From taxes to regulations to laws, the political and legal environment has a profound impact on marketing. This is especially true for certain industries, such as telecommunications, automobiles, and tobacco.
- b. **Social and cultural environment:** Trends in this arena, present enormous opportunities for companies that are both farsighted and flexible. Issues and changes include increasing diversity in the U.S., more single-parent families, a rapidly growing senior population, etc.
- c. **Technological environment:** New technologies create new goods and services, but also make some existing products obsolete (witness the growing dominance of DVDs at Blockbuster). In recent years, the emergence of the Internet has had the greatest impact on marketing.
- d. **Economic environment:** Inflation, interest rates, recession, and recovery-both in the U.S. and (to an increasing extent) abroad-have a dramatic influence on every element of the marketing mix.
- e. **Competitive environment:** Creating a competitive advantage is a fundamental goal of marketing that can only be accomplished by carefully and continually monitoring every element of the competitive environment.
- f. The **competitive environment** drives many marketing decisions. By studying the competition, marketers determine how best to position their own products. Knowing the alternatives available to your customers, who your competitors are and what they offer is as vital to success as watching for the next big food or fashion craze or technological innovation.

There are three specific types of competition:

**Substitute product competition:** Products that are dissimilar from those of competitors, but can fulfill the same need (e.g. television and computer games are very different from one another, but both fulfill the need for entertainment).

**Brand competition:** Occurs between similar products (e.g. Zest bar soap and Irish Spring bar soap).

**International competition:** matches the products of domestic marketers against those of foreign competitors (e.g. Neutrogena skin care products vs. L'Oreal skin care products, or Heineken vs. Budweiser).

**THE MARKETING MIX**

A firm's **marketing mix** (often called the four Ps) consists of **product**, **place** (or distribution), **price**, and **promotion**.

**Product:** The good, service, or idea that is marketed to fill consumer wants and needs. Improving existing products and developing new products are among the marketer's most important tasks.

**Product differentiation:** Creation of a product or product image that differs enough from existing products to attract consumers. Differentiation is a source of competitive advantage. Combinations of physical goods and services can also be sources of differentiation.

**Pricing:** Selecting the most appropriate price at which to sell a product. Lower prices generally lead to higher sales volume, while higher prices generally lead to higher profits per unit. Prices must support a variety of costs, such as the organization's operating, administrative, and research costs, and marketing cost like advertising and sales salaries

**Place (distribution):** Determining the most effective and efficient way to get products from producers to consumers. Distribution also involves choosing which channels of distribution are most appropriate.

**Promotion:** All of the activities a firm undertakes to communicate and promote its products to the target market. This is clearly the most visible element of the marketing mix.

### **Target Marketing and Market Segmentation**

A market contains all the customers or businesses who might be interested in a product and can pay for it.

- a. **Identifying Market Segments:** Companies subdivide the market into **market segments**, homogeneous groups of customers within a market that are significantly different from one another. The goal of the **market segmentation** process is to group customers with similar characteristics, behavior and needs. These **target markets** can then be offered products that are priced, distributed, and promoted differently. Four factors marketers frequently use to identify market segments are:

**Geographic** segmentation divides markets into certain areas such as regions, cities, counties, or neighborhoods to customize and sell products that meet the needs of specific markets.

- i. **Demographics** uses statistical analysis to subdivide the population according to characteristics such as age, gender, income, race, occupation, and ethnic group.
- ii. **Psychographics** is the analysis of people by psychological makeup, including activities, interests, opinions, and lifestyles (e.g. fashion-consciousness, thrill-seeking).
- iii. **Behavioral** segmentation divides markets according to customers' knowledge of, attitude toward, use of, or response to products or their characteristics.

**LESSON 24****MARKET RESEARCH**

**Market research** is the process of systematic gathering, recording and analyzing of data about customers, competitors and the market. Market research can help create a business plan, launch a new product or service, fine tune existing products and services, expand into new markets etc. It can be used to determine which portion of the population will purchase the product/service, based on variables like age, gender, location and income level. It can be found out what market characteristics your target market has. With market research companies can learn more about current and potential customers.

The purpose of market research is to help companies make better business decisions about the development and marketing of new products. Market research represents the voice of the consumer in a company.

A list of questions that can be answered through market research:

- What is happening in the market? What are the trends? Who are the competitors?
- How do consumers talk about the products in the market?
- Which needs are important? Are the needs being met by current products?

A simple example of what market research can do for a business is the following. At the company Chevrolet they brought several disciplines together in a cross-functional team to develop a concept for a completely new Corvette. This team enabled the marketers to come up with an alternative concept, one that balanced 4 attributes: comfort and convenience, quality, styling, and performance. This was considered radical because comfort and convenience were not traditional Corvette values. However, market research demonstrated that consumers supported the alternative concept. As a result the new Corvette was a huge success in the market. [Burns 2001]

With market research you can get some kind of confirmation that there is a market for your idea, and that a successful launch and growth are possible.

**Market research for business planning**

Market research is discovering what people want, need, or believe. It can also involve discovering how they act. Once that research is complete it can be used to determine how to market your specific product. Whenever possible, try to reduce risks at the earliest possible stage. For example you could carry out market research early on and not wait until you are almost ready to enter the market. If early market research reveals that your business idea has real potential, you can use this information in planning the build-up of your business. [Ilar 1998]

For starting up a business there are a few things should be found out through market research in order to know if your business is feasible. These are things like:

- **Market information**

Market information is making known the prices of the different commodities in the market, the supply and the demand. Information about the markets can be obtained in several different varieties and formats. The most basic form of market information is the best quotation and last sale data, including the number of shares, with respect to a particular security at a given time. [Market research 2006]

**Examples of market information questions are:**

Who are the customers?  
Where are they located and how can they be contacted?  
What quantity and quality do they want?  
What is the best time to sell?  
What is the long-term or historical price data over a number of years?  
What is the expected production in the country?  
Is there more demand for one product or another? Etc.

**Market Segmentation**

Market segmentation is the division of the market or population into subgroups with similar motivations. Widely used bases for segmenting include geographic differences, personality differences, demographic

differences, use of product differences, and psychographic differences.

**Market Trends**

The upward or downward movements of a market, during a period of time.

The market size is more difficult to estimate if you are starting with something completely new. In this case, you will have to derive the figures from the number of potential customers or customer segments. [Ilar 1998]

But besides information about the target market you also

need information about your competitor, your customers, products etc. A few techniques are:

**Customer Analysis**

Competitor analysis  
Risk analysis  
Product research

**Advertising Research**

In the last chapter you can read how to perform market research, with interviews and questionnaires, but there is already a lot of information available. Ma

rket research firms and industry experts publish much of their information on websites, and in trade and business magazines. Reference sites index these magazines, many offer the texts online and if not the libraries stock them. Trade associations publish any listings and statistics

on their websites as well as in hard copy publications. So there is already a lot of information available.

**LESSON 25****MARKET RESEARCH PROCESS**

This chapter introduces the steps involved in the market research process. It also provides you with a brief preview of each of the steps necessary to conduct a market research effort. As you can see in figure 1, the market research process has 4 basic steps. These steps include:

**Defining the research problem**

**Establishing the research design**

**Collecting and analyzing data**

**Formulate findings**

**Meta-process model for Market research**

Before these four steps are discussed it is important to make a few comments about these steps. First although the list does strongly imply an orderly step-by-step process, it is rare that a research project follows these steps in the exact order that they are presented

in the figure. Market research is more of an interactive process whereby a researcher, by discovering something in a given step, may move backward in the process and begin again at another step [Market research 2006] Finding some new information while collecting data, may cause the researcher to establish different research objectives

In the following the different market research steps are described.

**Defining the research problem**

The step defining the research problem exists of 2 main steps: (1) formulating the problem and (2) establishing research objectives.

Defining the problem is the single most important step in the market research process. A clear statement of the problem is a key to a good research. A firm may spend hundreds or thousands of dollars doing market research, but if it has not correctly identified the problem, those dollars are wasted. In our case it is obvious that the problem here is setting up a business. But even if this is clear, you still need to know what exactly you need to know to make the new business a success and what specific related to the product is difficult to find out. Problems that may be encountered are: it is unknown what potential markets there are, what customer groups are interested in your products, who the competitors are? After formulating your problem, you need to formulate your research questions. What questions need to be answered and which possible sub-questions do you have.

With the problem or opportunity defined, the next step is to set objectives for your market research operations. Research objectives, related to and determined by the problem formulation, are set so that when achieved they provide the necessary information

to solve the problem. A good way of setting research objectives is to ask,

“What information is needed in order to solve the problem?” Your objective might be to explore the nature of a problem so you may further define it, or perhaps it is to determine how many people will buy your product packaged in a certain way and offered at a certain price. Your

objective might even be to test possible cause and effect relationships. For example, if you lower your price, how much will it increase your sales volume?

And what impact will it have on your profit?

Clear objectives can lead to clear results. An example of this is a situation at Camaro/Firebird. Auto manufacturers are sometimes criticized for creating expensive vehicles with unwanted features and technologies that do not meet the needs of the target market. To avoid this trap engineering team of this company turned to market research to evaluate how changes in performance and fuel economy would affect sales volume and customer satisfaction. It turned out that customers were willing to pay more for greater performance if the car also offered simultaneous increases in fuel economy. [Burns 2001]

The problem description, the research question, sub questions and the research objectives are part of an overall document problem description.

After describing and formulating the problem and the objectives, the next step is to prepare a detailed and realistic time frame to complete all steps of the market research process. If your business operates in cycles, establish target dates that will allow the best accessibility to your market. For example, a holiday greeting card business may want to conduct research before or around the holiday season buying period, when their customers are most likely to be thinking about their purchases. [Market research 2006]

### **Selecting and establishing research design**

The step selecting and establishing research design consists of 3 main steps: (1) select the research design, (2) identify information types and sources and (3) determine and design research instrument.

#### **Select the research design**

As stated earlier, every research project and every business is different. Still, there are enough commonalities among research projects to categorize them by research methods and procedures used to collect and analyze data. There are three types of research design:

1. **Exploratory research** is defined as collecting information in an unstructured and informal way. For example if the owners of a new restaurant often eat out at competitor's restaurants in order to gather information about menu selections, prices and service quality.
2. **Descriptive research** refers to a set of methods and procedures that describe marketing variables. Descriptive studies portray these variables by answering who, what, why and how questions. These types of research studies may describe such things as consumers' attitudes, intentions, and behaviours, or the number of competitors and their strategies.
3. **Causal research design** is conducted by controlling various factors to determine which factor is causing the problem. It allows you to isolate causes and effects. By changing one factor, say price you can monitor its effects on a key consequence such as sales. Although causal research can give you a high level of understanding of the variable you are studying, the designs often require experiments that are complex and expensive. Identify information types and sources

There are two types of information available to a market researcher: primary data and secondary data. Primary data is original information gathered for a specific purpose. Secondary data refers to information that already exists somewhere and has been collected for some other purpose. Both types of research have a number of activities and methods of conducting associated with them. Secondary research is usually faster and less expensive to



obtain than primary research. Gathering secondary research may be as simple as making a trip to a local library or business information center or browsing the Internet. There is already a lot of statistics about different businesses that can be used for this research.

### **Determining and design research instrument**

After determining which type(s) of information are needed, the methods of accessing data must be determined. There are several different methods of collecting data. These methods include telephone surveys, mail surveys, personal interviews or group surveys.

The actual design of the research instrument, the data collection form that is used to ask and record the information is critical to the success of the project. There are two basic methods to collect information: by asking questions or by observing. The most common research instrument is the questionnaire. There are two types of forms: structured and unstructured. Structured questionnaires list close-end questions. These include multiple choice questions which offer respondents the ability to answer "yes" or "no" or choose from a list of several answer choices. Close-end questions also include scales refer to questions that ask respondents to rank their answers at a particular point on a scale. Unstructured questionnaires have open-ended questions. Respondents can answer in their own words.

### **Collecting and analyzing data**

Data collection is usually done by trained interviewers who are employed by field data collection companies to collect primary data. A choice has to be made between collecting the data yourself or hiring an external office who are specialized in interviews. Data analysis is needed to give the raw data any meaning. The first step in analyzing the data is cleaning the data. This is the process of checking the raw data to verify that the data has been correctly entered into the files from the data collection form. After that the data have to be coded. This is the process of assigning all response categories a numerical value.

For example males = 1, females = 2. After that the data can be tabulated, which refers to the actual counting of the number of observations that fall in to each possible response category.

### **Formulate findings**

After analyzing the data you can make your findings based on this data. Once the findings about the target market, competition and environment are finished, present it in an organized manner to the decision makers of the business. In this case report the findings in the market analysis section of your business plan. In summary, the resulting data was created to help guide your business decisions, so it needs to be readily accessible to the decision makers.

## LESSON 26

## MARKETING RESEARCH

Marketing Research is the process of gathering data about marketing issues and transforming that raw data into meaningful information that can improve decisions and reduce risks. Market research can help with nearly every phase of marketing from setting goals for market share to developing new products to monitoring the program's effectiveness. It is also important to monitor the competition, track industry trends, and measure customer satisfaction. Marketing Research can occur at any point in the product's existence.

**The Research Process**

- Study the current situation
- Select a research method
- Collect data
- Secondary data are already available from previous research.
- Primary data is newly performed research.
- Analyze the data
- Prepare a report

**Research Methods**

- i. **Observation-Market Research** technique that involves simply watching and recording consumer behavior. Probably the oldest form of market research, it has been brought up to date with such tools as electronic supermarket scanners that allow managers to see what is selling without having to check shelves or inventory.
- ii. **Survey-Market Research** technique using a questionnaire that is either mailed to individuals or used as the basis of interviews. Surveys can be expensive and may vary widely in accuracy; it is also difficult to find representative groups of respondents.
- iii. **Focus Group-Market Research** technique in which a small group of people is gathered, presented with an issue, and asked to discuss it in depth. At its best it allows exploration of complex issues and can produce creative solutions. Its small size (6 to 15 people is best) means it may not represent the larger market well. Focus groups are often used as a first step, leading to some other form of research.
- iv. **Experimentation**-market research technique that attempts to compare the responses of the same or similar people under different circumstances. This method is very expensive but can supply answers to questions that surveys cannot address, by allowing customers to sample new products, for instance.

**Data Warehousing and Data Mining**

**Database marketing** is the process of recording and analyzing information about the interactions with customers. Two components include

**Data Warehousing and Data Mining**

**Data warehousing** is the process of collecting, storing, and retrieving data in electronic files.

- i. **Data Mining** uses electronic technologies for searching, sifting through, and reorganizing data in order to collect marketing information and target products in the marketplace. Some benefits are:

**LESSON 27****LEARNING EXPERIENCES OF STUDENTS EARNING LOWER LEVEL CREDIT:**

Work in an environment where one or more of the basic principles of marketing are practiced regularly; e.g. marketing department or marketing communications agency have college-level and/or company-sponsored training in marketing-related subjects including: pricing, promotion, distribution, product development, customer relations, direct marketing, marketing analysis and planning or marketing research.

**Typical Learning Experience of Students Earning Upper level Credit:**

Lower level requirements as stated above.

Five or more years of experience as a marketing practitioner.

Knowledge of modern marketing concepts; e.g. Internet marketing, target marketing, mass customization, global marketing, etc.

Three or more years' experience managing a specific marketing function.

**Discussion Topics:**

If students are familiar with some (but not all) of the following topics, they may be eligible for lower level credit in the area of marketing. Students familiar with the advanced questions may be eligible for upper level credit. If knowledge of some of the topics is substantial, students may consider requesting additional credit in more narrowly defined areas.

**What is Marketing?**

Facts, definitions, concepts (lower level):

What are consumer needs? Wants?

Describe the components in the marketing mix.

Relationships, knowledge of discipline, methodologies (upper level):

Describe the marketing mix as it relates to consumers.

How is a marketing department organized?

**Analyzing Marketing Opportunities**

Facts, definitions, concepts (lower level): Describe a company's marketing environment.

What is involved in gathering and accessing environmental marketing data?

Relationships, knowledge of discipline, methodologies (upper level):

Discuss the characteristics affecting consumer behavior.

Discuss the characteristics of business markets and the behavior of business buyers.

### **Market Segmentation**

Facts, definitions, concepts (lower level):

What are the bases for segmenting consumer markets? Business markets?

Relationships, knowledge of discipline, methodologies (upper level):

What is target marketing?

Describe

Positioning for competitive advantage.

### **Product Strategies**

Facts, definitions, concepts (lower level):

What are product attributes?

What is product branding?

Relationships, knowledge of discipline, methodologies (upper level):

Describe a product line vs. a product mix.

Discuss product life cycle marketing strategies.

Describe the stages of a product life cycle.

### **Pricing**

Facts, definitions, concepts (lower level):

Discuss internal and external factors contributing to product pricing.

What is cost-based pricing? Value-based pricing? Competition-based pricing?

Relationships, knowledge of discipline, methodologies (upper level):

Describe product-mix pricing strategies.

Describe price adjustment pricing strategies.

### **Distribution**

Facts, definitions, concepts (lower level):

Why are marketing intermediaries used?

Discuss distribution channels and their relationship to marketing.

Relationships, knowledge of discipline, methodologies (upper level):

What are some of the marketing issues related to channel design decisions?

How are channel members motivated?

### **Retailing and Wholesaling**

Facts, definitions, concepts (lower level):

What is retailing? Wholesaling?

What is non-store retailing?

Relationships, knowledge of discipline, methodologies (upper level):

Components of retail marketing decisions. Types of wholesalers?

### **Marketing Communications**

Facts, definitions, concepts (lower level):

What are the steps in developing effective communications?

What is integrated marketing communications?

Relationships, knowledge of discipline, methodologies (upper level):

Discuss “promotional mix.”

Discuss the attributes of mass media advertising vs. direct marketing.

How is public relations used to support marketing objectives?

### **Global**

Facts, definitions, concepts (lower level):

Why go international?

How would you decide which markets to enter?

What steps would you take before entering a market?

Relationships, knowledge of discipline, methodologies (upper level):

Discuss the global marketing plan.

Discuss the global marketing organization.

## **Internet Marketing**

(Lower and upper levels):

What are the characteristics of electronic marketing?

Discuss consumer vs. B2B marketing.

## **Marketing Ethics**

(Lower and upper levels)

Describe marketing impact on the individual consumer and on society as a whole.

Discuss citizen and public actions to regulate marketing.

What is “socially responsible marketing?”

Discuss privacy issues and Internet marketing.

## LESSON 28

## UNDERSTANDING CONSUMER BEHAVIOR

Marketers study consumer buying behavior to learn what makes individuals buy one product instead of another. Consumer markets consist of individuals or households that purchase goods and services for personal use. Issues to be considered are the differences between organizational and consumer markets, the buyer's decision process, and the factors that affect that decision process.

**Influences on Consumer Behavior**

**Consumer behavior** is essentially the study of why consumers purchase and consume products. Four key factors influence consumer behavior:

- i. **Psychological:** Motivations, perceptions, ability to learn, attitudes
- ii. **Personal:** Lifestyle, personality, economic status
- iii. **Social:** Family, opinion leaders, reference groups (e.g. friends, associates)
- iv. **Cultural:** Culture, subculture, social class

**The Consumer Buying Process**

One way to look at the psychology of buying is to understand the decision-making process people go through when making a purchase. Deciding what to buy is a problem-solving process. Sometimes consumers become

**Brand Loyal** to specific products based on the satisfaction they have received from previous purchases. Nevertheless, consumers decide what to purchase by gathering information to help them make a choice. The more complex the problem, the more information they are likely to seek. The steps in the process usually follow this sequence:

- i. **Problem/Need recognition:** The consumer buying process begins with recognizing a problem or need. Needs often arise when our personal circumstances change, creating windows of opportunity for marketers (e.g. getting married, entering the workforce, etc.).
- ii. **Information seeking:** Sources of information can range from personal sources, to marketing sources, to public sources, to experience. Depending on the product, information seeking ranges from superficial (e.g. "Where is the soft drink machine?") to extensive (e.g. library research).
- iii. **Evaluation of alternatives:** This step is essentially a matching process: How do the attributes of the products you are considering match with your needs and wants? Here, too, the evaluation process can range from brief to protract.
- iv. **Purchase decision:** Purchase decisions are typically based on a combination of rational and emotional motives. **Rational motives** are based on logical evaluation of product attributes (e.g. cost, quality, usefulness). **Emotional motives** are based on non-objective factors (e.g. "All my friends have 4-inch high heel shoes!").
- v. **Post-purchase evaluation:** This includes everything that happens after the sale. Satisfied customers are likely to repurchase products they have used and enjoyed, while unhappy customers are not only unlikely to repurchase, but also are prone to broadcast their negative experience to other potential consumers.



## Organizational Marketing and Buying Behavior

- a. **Organizational Markets** can be divided into three main subgroups:
- i. **Industrial/commercial market** (companies that buy to produce their own goods and services such as Toyota);
  - ii. **Reseller market** such as wholesalers like Ingram Micro, which wholesales computers; retailers such as Ann Taylor
  - iii. **Government and Institutional market** including Federal, State and Local governments, hospitals, churches, museums, and charitable organizations. Products sold to organizational markets include raw materials and highly complex manufactured goods such as printing presses, telecommunications systems, and consulting services.

**Organizational buyers** are quite different from consumer purchasers:

- i. **Professionals:** They are trained in the field of purchasing and negotiating, and they typically use formal contracts.
- ii. **Specialists:** They are often specialists in a line of products (e.g. a drug store buyer might specialize in personal care products).
- iii. **Experts:** They are often experts (or at least very knowledgeable) about the products they are buying. The buyer-seller relationship is often much closer. The development of a long-term connection is beneficial to both parties.

### The International Marketing Mix

Entering foreign markets, a firm must reconsider-and often must adjust-each element of the marketing mix:

**Products** --- Must the products be adapted? Redesigned? Recreated?

Some products can be sold abroad with virtually no changes, while other products need to be adapted to fit the needs of the foreign buyer.

**Pricing** --- Pricing decisions must include all elements considered domestically, but also transportation and delivery costs, and exchange rates.

**Distribution** --- Gaining a distribution foothold is often expensive and time-consuming. Purchasing local businesses can help in this regard.

**Promotion** --- Elements of promotional messages should be matched to the customs and values of each country.

Many standard U.S. promotional devices do not succeed in other countries. Marketers must consider differences in language and culture when promoting products abroad.

### Small Business and the Marketing Mix

Small businesses also face special considerations in terms of the marketing mix:

**Products** --- Some new products and firms are doomed at the start because few consumers want or need what they have to offer. A thorough understanding of what customers want has paid off for many small firms.

Is there really a consumer need? How can the products be tailored to better meet the need? (Research can be very helpful in this regard.)

**Pricing** --- Small business owners must accurately forecast operation expenses. Do prices truly cover the costs of running the business? Haphazard pricing that is often little more than guesswork can sink even a firm with a good product. When small businesses set prices by carefully assessing costs, many earn very satisfactory profits.

**Distribution** --- Perhaps the most important distribution issue for small businesses is location, which can help attract and retain customers. Problems in arranging distribution can make or break a small business. The ability of many small businesses to attract and retain customers depends on the choice of location.

**Promotion** --- Promotional expenses should be considered a necessity. Many small businesses are ignorant when it comes to the methods and cost of promotion. Successful small businesses plan for promotional expenses as part of start-up costs. Targeted promotion (e.g. through trade associations) can be very cost-effective.

**LESSON 29****THE DISTRIBUTION MIX**

In selecting a distribution mix, a firm may use any or all of eight distribution channels. The first four are aimed at getting products to consumers, the fifth is for consumers or business customers, and the last three are aimed at getting products to business customers. Channel 1 involves direct sales to consumers, Channel 2 includes a retailer. Channel 3 involves both a retailer and a wholesaler, and Channel 4 includes an agent or broker who enters the system before the wholesaler and retailer. Channel 5 includes only an agent between the producer and the customer. Channel 6, which is used extensively for e-commerce, involves a direct sale to an industrial user. Channel 7, which is used infrequently, entails selling to business users through wholesalers. Channel 8 includes retail superstores that get products from producers or wholesalers (or both) for reselling to business customers. Distribution strategies include intensive, exclusive, and selective distribution, which differ in the number of products and channel members involved and in the amount of service performed in the channel.

Wholesalers act as distribution intermediaries. They may extend credit as well as store, repackage, and deliver products to other members of the channel. Full-service and limited-function merchant wholesalers differ in the number and types of distribution functions they offer. Unlike wholesalers, agents and brokers never take legal possession of products. Rather they function as sales and merchandising arms of manufacturers who do not have their own sales forces. They may also provide such services as advertising and display merchandising. In e-commerce, e-agents assist Internet users in finding products and best prices.

Retailers fall into two classifications: product line and bargain. Product line retailers include department stores, supermarkets, hypermarkets, and specialty stores. Bargain retailers include discount houses, off-price stores, catalog showrooms, factory outlets, warehouse clubs, and convenience stores. These retailers differ in terms of size, goods and services offered, and pricing. Some retailing also takes place without stores. Non-store retailing may use direct mail catalogs, vending machines, video marketing, telemarketing, electronic retailing, and direct selling. Internet retail shopping includes electronic storefronts where customers can examine a store's products, receive information about sellers and their products, place orders, and make payments electronically. Customers can also visit cybermalls—collections of virtual storefronts representing a variety of product lines on the Internet.

Physical distribution includes all the activities needed to move products from manufacturers to consumers, including customer service, warehousing, and transportation of products. Warehouses may be public or private and may function either as long-term storage warehouses or as distribution centers. In addition to storage, insurance, and wage-related costs, the cost of warehousing goods also includes inventory control (maintaining adequate but not excessive supplies) and material handling (transporting, arranging, and retrieving supplies).

Trucks, railroads, planes, water carriers (boats and barges), and pipelines are the major transportation modes used in the distribution process. They differ in cost, availability, reliability, speed, and number of points served. Air is the fastest but most expensive mode; water carriers are the slowest but least expensive. Since transport companies were deregulated in 1980, they have become more cost-efficient and competitive by developing such innovations as inter modal transportation and containerization.

## The Distribution Mix

Getting products from producer to consumer is the next element of the marketing mix, known as **distribution**, or **place**. An organized network of firms used to move goods and services from producers to customers is called a **distribution channel**, or marketing channel. A company's decisions about which channels to use, the **distribution mix**, plays a major role in the firm's success.

### Intermediaries and Distribution Channels

For most of your purchases, you rely on **market intermediaries**, also known as middlemen, who channel goods and services from producer to end-users.

**Wholesaler-intermediary** those who sells products to other businesses for resale to final consumers.

**Retailer-intermediary** those who sells products directly to consumers.

A firm's choice between using an independent intermediary and employing its own distribution network and sales force depends on three factors: (1) the company's target markets (2) the nature of its products (3) the costs of maintaining distribution and sales networks

The number and type of market intermediaries involved in the channel of distribution depend on the kind of product and the marketing practices of a particular industry. There are important differences among the channels of distribution for **consumer products** and **business products**.

#### i. **Distribution of Consumer Products**

Channels for **consumer goods** are usually the most complex, although they can be categorized. Typical channels include:

1. **Channel 1: Direct Distribution of Consumer Products**, ex. Avon, Fuller Brush, Tupperware
2. **Channel 2: Retail Distribution of Consumer Products**, ex. Levi's, Goodyear, PeaPod.com
3. **Channel 3: Wholesale Distribution of Consumer Products**, ex. combination convenience store/gas station
4. **Channel 4: Distribution through Sales Agents or Brokers**, ex. food brokers, travel agents, realtors

#### ii. **The Pros and Cons of Non-direct Distribution**

Non-direct distribution becomes higher priced for end users because each distribution link charges a markup or commission.

1. Intermediaries can save consumers both time and money by providing added value.

- #### iii. **Channel 5: Distribution by Agents to Consumers and Businesses**, ex. some travel agencies. Channel 5 differs from the other channels in two ways: (1) it includes an agent as the sole intermediary (2) it distributes to both consumers and business customers

## Distribution of Business Products

**Industrial Distribution**—network of channel members involved in the flow of manufactured goods to industrial customers.

- i. **Channel 6: Direct Distribution of Business Products**, ex. Dell Computers
- ii. **Channel 7: Wholesale Distribution of Industrial Products**, ex. distribution of office equipment and accessories
- iii. **Channel 8: Wholesale Distribution to Business Retailers**, ex. Staples, Office Depot, Office Max

**Distribution Strategies** --- A distribution strategy is a company's overall plan for moving products to buyers and it plays a major role in the company's success. One part of that strategy, choosing the appropriate market coverage, depends primarily on the type of product, as convenience goods require different strategies from organizational supplies.

- i. **Intensive distribution**, where the market is saturated with a product, almost certainly needs a long distribution chain. Normally used for low-cost consumer goods with widespread appeal such as candy and magazines.
- ii. **Exclusive distribution** severely limits the number of outlets for the item in a particular geographic area and is most often used for expensive specialty or technical products, such as Jaguar automobiles and Rolex watches.
- iii. **Selective distribution** uses a limited number of outlets and might work better for shipping goods that a buyer is likely to want to compare for features and prices. Examples are fashions and appliances.

**Channel conflict** --- can occur when one channel member places its own success above the success of the entire channel, or when the members of a distribution channel disagree over the roles they should play or the rewards they should receive.

**Channel Leadership** --- can occur when a channel member who is most powerful in determining the roles and rewards of other members. That member is called the Channel Captain. Power may come from the desirability of a producer's product, or from the large sales volume generated by a wholesaler or retailer.

**Wholesaling** --- Wholesalers sell primarily to retailers, other wholesalers, and industrial or institutional users. Wholesalers provide a variety of services to customers who are buying products for resale or business use. The types of wholesale intermediaries are:

**Merchant wholesalers** — independent wholesaler who takes legal possession of goods produced by a variety of manufacturers and then resells them to other businesses. Merchant wholesalers also provide storage and deliver; the merchant wholesaling industry employs 6 million people in the United States.

- i. **Full-Service Merchant Wholesaler**--merchant wholesaler who provides credit, marketing, and merchandising services in addition to traditional buying and selling services. Approximately 80 percent of all merchant wholesalers are full-service merchant wholesalers.

- ii. **Limited-Service Merchant Wholesaler**—merchant wholesaler who provides a limited range of services, sometimes only storage.
- iii. **Drop Shipper**—limited-function merchant wholesaler who receives customer orders, negotiates with producers, takes title to goods, and arranges for shipment to customers.
- iv. **Rack jobbers**—limited-function merchant wholesaler who sets up displays in retail outlets, stock inventory, and mark prices on merchandise displayed in a certain area of a store.

Agents and Broker — independent intermediary who usually represents many manufacturers and sells to wholesalers or retailers. Provides a wide range of services including shelf and display merchandising and advertising layout. Agents and brokers never actually own the merchandise they sell.

**The Advent of the E-Intermediary** — Internet distribution channel member who assists in moving products through to customers or who collects information about various sellers to be presented in convenient format for Internet customers.

- i. **Syndicated Selling**—e-commerce practice whereby a Web site offers other Web sites commissions for referring customers.
- ii. **Shopping Agent (E-Agent)** —e-intermediary (middleman) in the Internet distribution channel that assists users in finding products and prices but who does not take possession of products.
- iii. **Business-to-Business Broker**—e-commerce intermediary serving the business customer.

**Retailing ---** Retailers sell to individuals who buy products for ultimate consumption and are a visible element in the distribution chain. Retailers represent the end of the distribution channel, making the sale of goods or services to final consumers. Today's retail stores include department stores, discount stores, warehouse clubs, hypermarkets, factory outlets, category killers, supermarkets, convenience stores, and catalog stores. Retailers save consumers time and money.

### Types of Retailer Outlets

- i. **Product Line Retailer**-retailer featuring broad product lines.
  - 1. **Department Store**—large product line retailer characterized by organization into specialized departments.
  - 2. **Supermarket**—large product line retailer offering a variety of food and food-related items in specialized departments. Ex., Safeway, Kroger, etc.
  - 3. **Hypermarket**—very large product line retailer carrying a wide variety of unrelated products.
  - 4. **Specialty Stores**—carry only a particular type of good, but an extensive selection of brands, styles, sizes, models, and prices within each line stocked such as children's clothing, books, or sporting goods.
  - 5. **Category killers** are superstores such as Toys R Us or Office Depot that dominate a market by stocking every conceivable variety of a particular line of merchandise.
  - 6. **Scrambled merchandising**—retail practice of carrying any product that is expected to sell well regardless of a store's original product offering

- ii. **Bargain Retailer—retailer** carrying a wide range of products at bargain prices.
  1. **Discount House**—bargain retailer that generates large sales volume by offering goods at substantial price reductions. K-Mart, Wal-mart
  2. **Off-Price Store**—bargain retailer that buys excess inventories from high-quality manufacturers and sells them at discounted prices. Marshall's is one of the most successful.
  3. **Catalog Showroom**—bargain retailer in which customers place orders for catalog items to be picked up at on-premises warehouses.
  4. **Factory Outlet**—bargain retailer owned by the manufacturer whose products it sells.
  5. **Warehouse Club** (or Wholesale Club) —bargain retailer offering large discounts on brand-name merchandise to customers who have paid annual membership fees. Ex., Price Club, which merged with rival Costco.
  6. **Convenience Store**—retail store offering easy accessibility, extended hours, and fast service. Ex. 7-Eleven and Circle K.

### Non-store and Electronic Retailing

- i. Major Types of Non-store Retailing
  1. **Direct Response Retailing**—non-store retailing by direct interaction with customers to inform them of products and to receive sales orders, including **mail-order (catalog) marketing, telemarketing, direct selling** (Avon), and electronic marketing (including video shopping), and mail marketing.
- ii. **The Boom in Electronic Retailing**  
 Electronic retailing is non-store retailing in which information about the seller's products and services is connected to consumers' computers, allowing consumers to receive the information and purchase the products in the home. The Internet is a borderless shopping environment with great potential for some products. Some companies, known as pure-plays, only do business through the Internet.
  1. **Internet-Based Stores**—Use of the Internet to interact with customers is booming. Internet usage by small businesses in the United States doubled in 1998, nearly doubled again in 1999, and added another 2.1 million Websites during 2000. Similar growth has been seen in the B2B market.
  2. **Electronic-Catalog**—a way of using the Internet to display products and services for both retail shoppers and business customers. This format reaches an enormous number of potential customers at relatively low cost. Some catalogs have connected with FedEx's Business Link for ordering and shipping.
  3. **Electronic Storefronts and Cybermalls**
    - a. **Electronic Storefront**—a Web site in which consumers collect information about products and buying opportunities.
    - b. **Cybermall**—A cybermall is a Web-based retail complex that houses dozens of electronic storefronts or Internet-

based stores that sell everything from computer software to gourmet chocolates. These Internet storefronts offer the advantage of “walk-in” traffic and provide Web pages and servers to their tenants for a sizable fee.

**iii. From Door-to-door to E-Sales**

- c. **Multilevel Marketing**—channel in which self-employed distributors are paid commissions for recruiting new customers and new company representatives. Ex. Amway.
- d. Interactive and Video Marketing **Interactive Marketing**—multimedia Web sites using voice, graphics, animation, film clips, and access to live human advice. Ex. LivePerson.com **Video Marketing**-non-store retailing to consumers via standard and cable television. Ex. QVC



## LESSON 30

## PHYSICAL DISTRIBUTION

Physical distribution encompasses all activities required to move finished products from a producer to the consumer. It is a complex strategic activity with many trade-offs that affect the organization and profits. Technology used in physical distribution systems today includes satellite navigation and communication, robots, machine vision, voice input computers, on-board computer logbooks, and planning software that uses artificial intelligence.

The overriding objective of all physical distribution systems should be to achieve a competitive level of customer service standards at the lowest total cost. Producers must be able to analyze whether it is worth it to deliver a product in three days instead of five, if doing so reduces the cost of an item. The goal is to optimize the total cost of achieving the desired level of service by analyzing each step in the process and its relation to the other steps.

**Warehousing Operations** — Warehouses are holding facilities for inventory, whereas distribution centers serve as command posts for moving goods to customers and collect, sort, code, and redistribute products to fill customer orders.

- i. Types of Warehouses:
  1. **Private Warehouse**-warehouse owned by and providing storage for a single company.
  2. **Public Warehouse**-independently owned and operated warehouse that stores goods for many firms.
  3. **Storage Warehouse**-warehouse providing storage for extended periods of time.
  4. **Distribution Center**-warehouse providing short-term storage of goods for which demand is both constant and high.
- ii. **Warehousing costs** include rental or mortgage payments, insurance, and wages. Other costs include:
  1. **Inventory Control**-warehouse operation that tracks inventory on hand and ensures that an adequate supply is in stock at all times.
  2. **Material Handling**-warehouse operation involving the transportation, arrangement, and orderly retrieval of goods in inventory.

**Transportation Operations**

- i. Major **transportation modes** are:
  1. **Trucks** are most frequently used and offer door-to-door delivery and use of public highways, but are unable to carry all types of cargo.
  2. **Railroads** are able to carry heavier and more diversified cargo, but are unable to deliver directly to the customer.
  3. **Water carriers**—Boats are the cheapest form of transport, especially for bulk items, but service is slow and infrequent, and delivery is restricted.
  4. **Air transport** is the fastest means of moving goods, but it doesn't go everywhere, it can carry only certain types of cargo, and is unreliable and expensive.
  5. **Pipelines**, although expensive to build, are extremely economical to operate and maintain.

- ii. **Changes in Transportation Operations**
  - 1. **Intermodal Transportation**—combined use of several different modes of transportation.
  - 2. **Containerization**—use of standardized heavy-duty containers in which many items are sealed at points of shipment and opened only at final destination.
  - 3. **Physical Distribution and E-Customer Satisfaction**—New e-commerce companies need to focus not only on sales but also on after-sale distribution in order to avoid customer dissatisfaction that discourages repeat sales. **Order Fulfillment and E-Customer Satisfaction**—Order fulfillment begins when the sale is made: It ends with getting the product, in good condition and on time, to the customer for each sales transaction.

### Distribution as a Marketing Strategy

Distribution is an increasingly important way of competing for sales. Many firms have turned to distribution as a cornerstone of their business strategies, which means assessing and improving the entire stream of activities involved in getting products to customers.

- i. **The Use of Hubs**--central distribution outlet that controls all or most of the firm's distribution activities. There are three contrasting kinds of hubs.
  - 1. **Supply-side hubs** handle thousands of incoming supplies and can run into logistical nightmares.
  - 2. **Prestaging hubs** are a form of outsourced distribution that can alleviate some of the congestion of supply-side hubs; they are located near the manufacturing firm, managed by separate firms, and function solely to meet the first company's production schedules.
  - 3. **Distribution-side hubs** are located far from their industrial customers and help to streamline delivery system by consolidating storage, sorting, and shipping in fewer locations around the world.

**LESSON 31****PROMOTION**

The ultimate goal of a promotion is to increase sales. Other goals include communicating information, positioning a product, adding value, and controlling sales volume. In deciding on the appropriate promotional mix, marketers must consider the good or service being offered, characteristics of the target audience and the buyer's decision process, and the promotional mix budget.

Advertising strategies often depend on the product life cycle stage. In the introductory stage, informative advertising helps to build awareness. As a product passes through the growth and maturity stages, persuasive advertising, comparative advertising, and reminder advertising are often used. Advertising media include the Internet, newspapers, television, direct mail, radio, magazines, and outdoor advertising, as well as other channels such as Yellow Pages, special events, and door-to-door selling. The combination of media that a company chooses is called its media mix. Personal selling tasks include order processing, creative selling (activities that help persuade buyers), and missionary selling (activities that promote firms and products rather than simply close sales). The personal selling process consists of six steps: prospecting and qualifying (identifying potential customers with the authority to buy), approaching (the first moments of contact), presenting and demonstrating (presenting the promotional message that explains the product), handling objections, closing (asking for the sale), and following up (processing the order and ensuring after-sale service).

Coupons provide savings off the regular price of a product. Point-of-purchase (POP) displays are intended to grab attention and help customers find products in stores. Purchasing incentives include samples (which let customers try products without buying them) and premiums (rewards for buying products). At trade shows, sellers rent booths to display products to customers who already have an interest in buying. Contests are intended to increase sales by stimulating buyers' interest in products.

Many firms began exploring the possibilities of international sales when domestic sales flattened out in the mid-twentieth century. Because advertising is the best tool for stimulating product awareness on a country-by-country basis, it has played a key role in the growth of international marketing. Whereas some firms prefer a decentralized approach (separate marketing management for different countries), others have adopted a global perspective (coordinating marketing programs directed at one worldwide audience). Because the global perspective requires products designed for multinational markets, companies such as Coca-Cola, McDonald's, and many others have developed global brands. In promoting these products, global advertising must overcome such challenges as product variations, language differences, cultural receptiveness, and image differences.

Small business can advertise effectively and economically on the Internet. They can also engage in personal selling activities in local, national, and international markets. Because coupons and contests are more expensive and harder to manage, small business owners are likely to rely more heavily on premiums and special sales.

**The Importance of Promotion** ---- Of the four ingredients in the marketing mix—product, price, distribution, and promotion — promotion is perhaps the one most often associated with marketing. Although there are no guarantees of success, promotion has a profound impact on a product's performance in the marketplace.

**Promotion** --- is persuasive communication that motivates people to buy whatever an organization is selling — goods, services, or ideas. Promotion may take the form of advertising, personal selling, publicity, public relations, or sales promotion. A company's

promotional strategy defines the direction and scope of the promotional activities that will be implemented to meet marketing objectives.

### Information and Exchange Values

A business uses promotional methods to communicate information about itself and its products to consumers and industrial buyers. From an information standpoint, promotions seek to accomplish four things with potential customers:

- i. Make them aware of products.
- ii. Make them knowledgeable about products. Potential customers need to know where the item can be found, how much it will cost, and how to use it.
- iii. Persuade them to like products
- iv. Persuade them to purchase products. Persuading motivates people to satisfy their wants in a particular way. Persuasive advertising lets them know how your product will benefit them.

**Promotional Objectives** --- Promotions experts recognize that not all objectives are sales objectives. Some communications objectives use an indirect approach to make an audience aware of a new product or change a company's negative image. In addition to increasing sales, promotion can have four other objectives.

- i. **Communicating Information**--Information can advise customers about a product's existence or about its features.
- ii. **Positioning Products**--process of establishing an identifiable product image in the minds of consumers. They can base their strategies on several positioning strategies: on specific product features or attributes, on the services that accompany the product, on the product's image, on price, or on category leadership.
- iii. **Adding Value**--Value-conscious customers gain when the promotional mix is shifted so that it communicates value-added benefits in its products.
- iv. **Controlling Sales Volume**--Increasing promotional activities in slow periods can help firms in seasonal businesses to achieve more stable sales volume throughout the year.

### Promotional Strategies

- i. A **push strategy** is a promotional approach designed to motivate wholesalers and retailers to push a producer's products to end users.
- ii. A **pull strategy** is a promotional approach that stimulates consumer demand, which then exerts pressure on wholesalers and retailers to carry a product. Many firms use combinations of these two very different strategies.

**Promotional Mix** --- Marketers use four types of promotional tools: advertising, personal selling, sales promotions, and publicity and public relations. Market-related factors influence the promotion mix. The best combination of promotional tools will depend on many factors, such as

- i. The nature of the product
- ii. The Target Audience

- iii. Promotion and the Buyer Decision Process. This is the five-step process outlined in Chapter 10. Marketers match promotion efforts with different stages of the buying decision process.
- iv. The Promotional Mix Budget. The combined costs of personal selling, advertising, sales promotion, and public relations must fall within the budgeted amount and be balanced to have the desired effects on attitudes and purchasing decisions.

**LESSON 32****ADVERTISING PROMOTION**

**Advertising**—promotional tool consisting of paid, non-personal communication used by an identified sponsor to inform an audience about a product. The average U.S. resident is exposed to roughly 250 ads every day through a variety of media — including floor ads. All forms of advertising have three objectives: to create product awareness, to create and maintain the image of a product, and to stimulate consumer demand. It not only determines what we buy, but it shapes our view of the world.

**Advertising:** (1) The best form of promotion for reaching mass audiences quickly at a low per-person cost. (2) Gives the organization the greatest control over the message. (3) Promotes goods, services, or ideas, using a full range of creative approaches and media to convey your message. (4) Must conform to the law, as well as the ethical and moral standards of the medium and trade associations.

**Advertising Strategies** --- The advertising strategies used for a product most often depend on which stage of the product life cycle the product is in. During a product's growth and maturity stages, marketers may choose one of three common approaches:

- i. **Persuasive Advertising**—advertising strategy that tries to influence consumers to buy one company's products instead of those of its rivals.
- ii. **Comparative Advertising**—advertising strategy that directly compares two or more products.
- iii. **Reminder Advertising**—advertising strategy that tries to keep a product's name in the consumer's mind.

**Advertising Media** — variety of communication devices for carrying a seller's message to potential customers.

- i. Television sometimes leads viewers to confuse commercials because of their brevity and their great number.
  - ii. **Newspapers**—the most widely used medium, accounting for about 20 percent of all advertising expenditures.
  - iii. **Direct Mail**—about 18 percent of all ad spending. Direct mail has the largest advance costs of any technique but the highest cost-effectiveness.
  - iv. **Radio**-8 percent of all advertising outlays. Radio ads are quite inexpensive but easy for consumers to ignore.
  - v. **Magazines**—roughly 5 percent of all advertising. Huge variety of magazines makes for a high level of ready market segmentation.
  - vi. **Outdoor Advertising**—about 1 percent of all advertising. Billboards, signs, ads on buses, taxis, stadiums, etc. are inexpensive and have high repeat exposure. It's growing faster than newspapers, magazines, and television and offers animation and changing images.
  - vii. **The Internet**—Still in its infancy but offers high potential, particularly for targeted advertising.
1. Use **Data Mining and Data Warehousing** (see chapter 10) to tailor advertising to specific target markets. Has the ability to tailor a message directly to individuals and use interactive options to gather information about each interaction such as the exact information accessed by a visitor; develop a profile for their regular visitors; present information of special interest to the

visitor; and alert customers to special savings or remind them of past purchases.

- vii. **Virtual Advertising**—Uses digital implants of brands or products onto live or taped programming, giving the illusion that the product is part of the show.
- xii. **Other Advertising Channels:** Catalogs, sidewalk handouts, Yellow Pages, skywriting, telephone calls, special events, and door-to-door communication represent additional media.
  - 1. The **Media Mix**—combination of advertising media chosen to advertise a company's products. Determinants of the Media Mix include:
    - The characteristics of the target audience and the types of media that will reach it are determined.
    - The choice of media is also determined by what it is expected to do.

### Preparing the Campaign with an Advertising Agency

Advertising Campaign — arrangement of ads in selected media to reach targeted audiences. It consists of six steps:

- i. Identify the target audience
- ii. Establish the advertising budget
- iii. Define the objectives of the advertising messages
- iv. Create the advertising messages
- v. Select the appropriate media
- vi. Evaluate advertising effectiveness

**Advertising Agency**—independent company that provides some or all of a client firm's advertising needs.

## LESSON 33

## PERSONAL SELLING

A promotional tool in which a salesperson communicates one-on-one with potential customers. It is the most expensive form of promotion per contact. Most companies spend twice as much on personal selling as on all other marketing activities combined. Expenses include salespeople's compensation and overhead, usually travel, food, lodging. The cost of a single sales call has been estimated at about \$300.

Sales force automation and new technologies are relieving salespeople of nonproductive tasks, making the time they spend with customers more efficient and profitable.

**Telemarketing and Personal Sales**

Telemarketing, selling over the telephone, is a low-cost, efficient way to reach many people. However, its intrusive nature has led many states to enact legislation that gives consumers rights to place their names on “Do Not Call” lists, restricts telemarketers from calling at certain hours, and prohibits telemarketers from blocking their caller ID technology.

**Sales Force Management**

Sales force management means setting goals at top levels of the organization, setting practical objectives for salespeople, organizing a sales force that can meet those objectives, and implementing and evaluation the success of the overall sales plan.

**Personal Selling Situations**

- i. Retail Selling—personal selling situation in which products are sold for buyers' personal or household use.
- ii. **Industrial Selling**—personal selling situation in which products are sold to businesses, either for manufacturing other products or for resale.

**Personal Selling Tasks**

- i. Order Processing—personal selling task in which salespeople receive orders and see to their handling and delivery.
- ii. **Creative Selling**—personal selling task in which salespeople try to persuade buyers to purchase products by providing information about their benefits.
- iii. **Missionary Selling**—personal selling task in which salespeople promote their firms and products rather than try to close sales.

**The Personal Selling Process**

- i. Prospecting and Qualifying—Prospecting is the process of identifying potential customers; qualifying identifies those who have the authority to buy and the ability to pay.
- ii. **Approaching**—the all-important first few minutes of contact with a qualified prospect.
- iii. **Presenting and Demonstrating**—a full explanation of the product, its features, and its uses, linking its benefits to the prospect's needs.
- iv. **Handling Objections**—Objections show the prospect is interested and pinpoint the parts of the presentation with which the buyer has a problem. The salesperson must work to overcome these objections.



- v. **Closing**—the most critical part of the selling process in which the salesperson asks the prospect to buy the product.
- vi. **Following Up**—a key activity for relationship marketing in which sellers supply after-sale support that provides convenience and added value.

## LESSON 34

## SALES PROMOTIONS

Sales Promotion — short-term promotional activity designed to stimulate consumer buying or cooperation from distributors and sales agents.

**Sales promotion** covers a wide variety of activities from arranging plant tours and trade show exhibits to distributing free samples and publishing promotional booklets. Sales promotion may be divided into two basic categories:

**Consumer promotion**, aimed at the final consumer, and **trade promotion**, aimed at wholesalers and retailers.

**Types of Sales Promotions**

- i. Coupons aim to spur sales by offering a discount through redeemable coupons. It is the biggest category of consumer promotion. Rebates are similar to coupons, except that customers have to mail in proof of purchase with a prepared manufacturer's rebate form.
- ii. **Point-of-purchase** displays are devices used to show a product in a way that stimulates immediate sales. It may be an end-of-aisle display in a supermarket or the computerized kitchen design systems for cabinets in building-supply stores.
- iii. **Purchasing Incentives** (Free samples and Premiums) —free samples and premiums that allow customers to try products without risk.
- iv. **Trade Shows**—Companies rent booths to display and demonstrate products to customers who have a special interest or are ready to buy. These shows are inexpensive and quite effective.
- v. **Contests**—Customers, distributors, and sales reps may all be persuaded to increase sales by means of contests.
- vi. **Special-event sponsorship** has become one of the most popular types of sales promotion.
- vii. **Cross-promotion** uses one brand to promote another non-competing brand, as in McDonald's bundling with Beanie Babies and Intel inside with computer cases.

**Publicity and Public Relations**

**Publicity** --- a promotional tool in which information about a company or product is transmitted by general mass media. Publicity is free, but you have little or no control of the content and delivery. Be aware, there is both good and bad publicity.

**Public Relations** — company-influenced publicity directed at building goodwill between an organization and potential customers. Smart companies know they need to maintain positive relations with their communities, investors, industry analysts, government agencies, and the news media.

Companies seek favorable publicity to create interest in their products. Companies with a good public image are more attractive to investors. Press relations refer to the process of communicating with reporters and editors from newspapers, magazines, and radio and television networks and stations.

News releases are brief statements or video programs released to the press announcing new products, management changes, sales performance, and other potential news items; also called a press release. News conferences are gatherings of media representatives at which companies announce new information; also called a press briefing.

## **Promotional Practices in Small Business**

### **1. Small Business Advertising**

Methods available for small-business advertising depend on the market that the firm is trying to reach: local, national, or international. The Internet has provided advertising opportunities.

Local advertising (non-prime-time slots on local TV or cable shows) offers great impact at affordable cost. Targeted direct mail can help a small firm reach a national audience. For international advertising, most small firms find direct mail and carefully targeted magazine advertising most effective.

## **The Role of Personal Selling in Small Business**

The personal selling strategies used by small businesses depend on their intended markets. Many firms combine telemarketing with catalogs and other product literature.

**Small Business Promotions** — Small companies use the same sales promotion incentives as larger companies.

## **International Promotional Strategies**

Worldwide advertising is a large part of many companies' promotional expenditures.

## **Emergence of the Global Perspective**

Global Perspective-company's approach to directing its marketing toward worldwide rather than local regional markets.

## **Movement toward Global Advertising**

- i. The truly global perspective means designing products for multinational appeal. Four factors make global advertising a challenging proposition: product variations, language differences, cultural receptiveness, and image differences.

## **Universal Messages and Regional Advertising Skills**

In recognizing national differences, many global marketers try to build on a universal advertising theme that nevertheless allows for variations.

## LESSON 35

**THE PRODUCTIVITY**

Productivity is a measure of economic performance. It compares how much is produced with the resources used to produce it. Quality is a product's fitness for use. However, an emphasis solely on productivity or solely on quality is not enough. Profitable competition in today's business world demands high levels of both productivity and quality.

Although the United States is the most productive country in the world, by the early 1970s other nations had begun catching up with U.S. productivity. In particular, the U.S. growth rate of productivity slowed from about 1979 into the early 1990s. Moreover, even though U.S. manufacturing productivity is increasing, the service sector is bringing down overall productivity growth. Because services now account for 60 percent of national income, productivity in this area must improve. Finally, certain industries and companies remain less productive than others.

On the other hand, in the years just before 1994, U.S. firms began regaining significant market share in such industries as airplanes, computers, construction equipment, and transistors. Abandoning a long-standing focus on lower wage rates in other countries, U.S. companies focused instead of revitalizing productivity by becoming more customers oriented. In addition, quality improvement practices were widely implemented. Recover has results from recognition of the connection among customers, quality, productivity, and profits.

Total quality management (TQM) is the planning, organizing, directing, and controlling of all the activities needed to get high-quality goods and services into the marketplace. Managers must set goals for and implement the processes needed to achieve high quality and reliability levels. Value added analysis evaluates all work activities, materials flows, and paperwork to determine what value they add for customers. Statistical process control methods, such as process variation studies and control charts, can help keep quality consistently high. Quality/cost studies, which identify potential savings, can help firms improve quality. Quality improvement teams also can improve operations by more fully involving employees in decision making. Benchmarking — studying the firm's own performance and the best practices of other companies to gather information for improving a company's own goods and services — has become an increasingly common TQM tool. Finally, getting closer to the customer provides a better understanding of what customers want so that firms can satisfy them more efficiently.

Recent trends include ISO 9000, a certification program (originating in Europe) attesting that an organization has met certain international quality management standards. Business process reengineering involves the fundamental redesign of business operations in the interest of gaining improvements in quality, cost, and service. The reengineering process consists of six steps, starting with the company's vision statement and ending with the implementation of the reengineered process.

Productivity and quality can be competitive tools only if firms attend to all aspects of their operations. To increase quality and productivity, businesses must invest in innovation and technology. They must also adopt a long-run perspective for continuous improvement. In addition, they should realize that placing greater emphasis on the quality of work life can also help firms compete. Satisfied, motivated employees are especially important in increasing productivity in the fast-growing service sector.

**The Productivity-Quality Connection**

**Productivity** — a measure of economic performance, comparing how much we produce with the resources we use to produce it.

**Quality** — A product's fitness for use; its success in offering features that consumers want

## Responding to the Productivity Challenge

Productivity has both international and domestic ramifications.

- i. A Reality Check for International Business Survival. After declines in productivity in the 1980s, around 1994 U.S. businesses began to refocus on understanding the true meaning of productivity and to devise ways of measuring it. As quality-improvement practices were gradually implemented, more firms began to realize the payoffs that came from highlighting four factors: customers, quality, productivity, and profits.
  1. **Measuring Productivity**—Labor productivity Partial productivity ratio calculated by dividing total output by total labor inputs
  2. **Productivity among Global Competitors**—Differences in productivity among nations arise from differences in technologies, human skills, economic policies, natural resources, and traditions and culture. For example, in the time it takes a U.S. worker to produce \$100 worth of goods, Japanese workers produce about \$68 worth and Belgians about \$107 worth.
- ii. **Domestic Productivity** --- Nations must care about domestic productivity regardless of their global standing. Additional wealth from higher productivity can be shared among workers, investors, and customers.
  1. The United States remains one of the most productive nations in the world. Output per worker hour rose steadily throughout most of the 1980s and 1990s.
  2. **Growth Rate of Productivity**—annual increase in a nation's output over the previous year.
  3. Uneven Growth in the Manufacturing and Service Sectors. Throughout most of the 1970s, productivity in manufacturing trailed behind the service sector, but services averaged zero improvement from 1978 to 1990, and by 1993 manufacturing productivity in the United States had grown to more than double that of services, a margin sustained through 2001. With services now accounting for about 60 percent of U.S. national income, productivity must increase more rapidly in this sector for the United States to maintain its competitive edge in world markets.
  4. **Industry wide Productivity**—various industries differ vastly in terms of productivity. Some have seen productivity gains (men's/boy's furnishings) and other have fell (plywood manufacturing).
  5. **Companywide Productivity**—high productivity gives a company a competitive edge because its costs are lower than those of other companies. Increased productivity allows the firm to pay higher wages without raising prices.

## LESSON 36

## THE PLANNING PROCESS

Planning is the process by which you determine whether you should attempt the task, work out the most effective way of reaching your target, and prepare to overcome unexpected difficulties with adequate resources. It is the start of the process by which you turn empty dreams into achievements. It helps you to avoid the trap of working extremely hard but achieving little.

*Planning is an up-front investment in success-* by applying the planning process effectively you can:

- *Avoid wasting effort:* It is easy to spend large amounts of time on activities that in retrospect prove to be irrelevant to the success of the project. Alternatively you can miss deadlines by not assessing the order in which dependent jobs should be carried out. Planning helps you to achieve the maximum effect from a given effort.
- Take into account all factors, and focus on the critical ones:

This ensures that you are aware of the implications of what you want to do, and that you are prepared for all reasonable eventualities.

- Be aware of all changes that will need to be made:

If you know these, then you can assess in advance the likelihood of being able to make those changes, and take action to ensure that they will be successful.

- Gather the resources needed:

This ensures that the project will not fail or suffer for lack of a critical resource.

- Carry out the task in the most efficient way possible:

So that you conserve your own resources, avoid wasting ecological resources, make a fair profit and are seen as an effective, useful person. The formal procedure of applying the planning process helps you to:

- Take stock of your current position. Identify precisely what is to be achieved.
- Detail precisely and cost the who, what, when, where, why and how of achieving your target.
- Assess the impact of your plan on your organization and the people within it, and on the outside world.
- Evaluate whether the effort, costs and implications of achieving your plan are worth the achievement.
- Consider the control mechanisms, whether reporting, quality or cost control, etc. that are needed to achieve your plan and keep it on course. Pareto You may have heard of one approach to the Pareto principle: that 80% of a job is completed in 20% of the time. Another application in a non-planning environment is that 80% of the effort tends to achieve 20% of the results. By thinking and planning we can reverse this to 20% of the effort achieving 80% of the results. We may even decide that it is more efficient not to attempt the remaining work at all!

## How to Spot what needs to be done

Planning may be done on a routine basis or may need to be carried out as a result of new ideas, poor performance or pressure from customers or the organization's environment. This section examines how you can clarify the problems and opportunities that face you.

New Ideas --- One simple approach to generating ideas is to look at what irritates you in your life and what seems unnecessarily laborious and tedious. Often this will prompt ideas for improvements, whether these are administrative changes in your organization or are ideas for new consumer products or services.

## SWOT Analysis - Strengths, Weaknesses, Opportunities, Threats

A more systematic method is to use SWOT Analysis to detail and examine your organization's Strengths and Weaknesses, and to examine the Opportunities and Threats it faces. Often carrying out an analysis using the SWOT framework will be enough to reveal the changes which can be usefully made. To carry out a SWOT Analysis for yourself or your organization, write down answers to the following questions:

### **Strengths:**

- What are your advantages?
- What do you do well?
- Consider this from your own point of view and from the point of view of your customers or the people who rely on you. Don't be modest, be realistic. If you are having any difficulty with this, try writing down a list of your or your organization's characteristics. Some of these will hopefully be strengths!

### **Weaknesses:**

- What could be improved?
- What is done badly?
- What should be avoided?
- Again this should be considered from an internal and external basis - do your customers perceive weaknesses that you don't see? Do your competitors do any better? Again it is best to be realistic now, and face any unpleasant truths at this stage in the planning process.

### **Opportunities**

- Where are the good chances facing you?
- What are the interesting trends?
- Useful opportunities can come from such things as:
  - Changes in technology and markets on both a broad and industry-specific scale.
  - Changes in government policy related to your field.
  - Changes in social patterns, population profiles, lifestyle changes, etc.

### **Threats**

- What obstacles do you face?
- What is your competition doing?
- Are the required specifications for your products and services changing?
- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Carrying out this analysis is will often be illuminating - both in terms of pointing out what needs to be done, and in pointing out that problems may be smaller than initially anticipated

## LESSON 37

**TOTAL QUALITY MANAGEMENT**

The advice of U.S. business consultant W. Edwards Deming on quality was heeded more widely in Japan than at home until recently. Now U.S. companies are increasingly customer-driven, quality initiatives exist at all levels of the corporation, and more measurements are used to document progress objective and identify areas for improvement. Rather than occasional, quality efforts are now continuous.

**Managing for Quality**

**Total Quality Management (TQM) (or Quality Assurance)**—the sum of all activities involved in getting high-quality products into the marketplace. Customer focus is the starting point and includes methods of determining what customers want, then causing all the company's activities and people to be directed toward fulfilling those needs and creating customer satisfaction.

- i. **Planning for Quality**—To achieve high quality, managers must plan for production processes (including equipment, methods, worker skills, and materials).
  1. **Performance Quality**—the performance features offered by a product.
  2. **Quality Reliability**—consistency of a product's quality from unit to unit.
- ii. **Organizing for Quality**—Although everyone in a company contributes to product quality, responsibility for specific aspects of total quality management is often assigned to specific departments and jobs.
- iii. **Quality**—Directing for quality means that managers must motivate employees throughout the company to achieve quality goals.
  1. **Quality ownership** means that quality belongs to each person who creates it while performing a job.
- iv. **Controlling for Quality**—Managers must establish specific quality standards and measurements.



## TOTAL QUALITY MANAGEMENT (continued)

**Definition ---** As defined by ISO:

"TQM is a management approach for an organization, centered on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction, and benefits to all members of the organization and to society."

In Japanese, TQM comprises four process steps, namely:

1. **Kaizen** – Focuses on Continuous Process Improvement, to make processes *visible*, *repeatable* and *measurable*.
2. **Atarimae Hinshitsu** – Focuses on intangible effects on processes and ways to optimize and reduce their effects.
3. **Kansei** – Examining the way the user applies the product leads to improvement in the product itself.
4. **Miryokuteki Hinshitsu** – Broadens management concern beyond the immediate product.

TQM requires that the company maintain this quality standard in all aspects of its business. This requires ensuring that things are done right the first time and that defects and waste are eliminated from operations.

**Origins ---** Although W. Edwards Deming is largely credited with igniting the quality revolution in Japan starting in 1946 and trying to bring it to the United States in the 1980s,

Armand V. Feigenbaum was developing a similar set of principles at General Electric in the United States at around the same time. "Total Quality Control" was the key concept of Feigenbaum's 1951 book,

*Quality Control: Principles, Practice, and Administration*, a book that was subsequently released in 1961 under the title, *Total Quality Control* (ISBN 0-07-020353-9). Joseph Juran, Philip B. Crosby, and Kaoru Ishikawa also contributed to the body of knowledge now known as TQM.

The American Society for Quality says that the term Total Quality Management was first used by the U.S. Naval Air Systems Command "to describe its Japanese-style management approach to quality improvement."

This is consistent with the story that the United States Department of the Navy Personnel Research and Development Center began researching the use of statistical process control (SPC); the work of Juran, Crosby, and Ishikawa; and the philosophy of Deming to make performance improvements in 1984. This approach was first tested at the North Island Naval Aviation Depot. In his paper, "The Making of TQM: History and Margins of the Hi (gh)-Story" from 1994, Xu claims that "Total Quality Control" is translated incorrectly from Japanese since there is no difference between the words "control" and "management" in Japanese.

William Golimski refers to Koji Kobayashi, former CEO of NEC, being the first to use TQM, which he did during a speech when he got the Deming prize in 1974.

**TQM in manufacturing** --- Quality assurance through statistical methods is a key component in a manufacturing organization, where TQM generally starts by sampling a random selection of the product. The sample can then be tested for things that matter most to the end users. The causes of any failures are isolated, secondary measures of the production process are designed, and then the causes of the failure are corrected. The statistical distributions of important measurements are tracked. When parts' measures drift into a defined "error band", the process is fixed. The error band is usually a tighter distribution than the "failure band", so that the production process is fixed before failing parts can be produced. It is important to record not just the measurement ranges, but what failures caused them to be chosen. In that way, cheaper fixes can be substituted later (say, when the product is redesigned) with no loss of quality. After TQM has been in use, it's very common for parts to be redesigned so that critical measurements either cease to exist, or become much wider.

It took people a while to develop tests to find emergent problems. One popular test is a "life test" in which the sample product is operated until a part fails. Another popular test is called "shake and bake", in which the product is mounted on a vibrator in an environmental oven, and operated at progressively more extreme vibration and temperatures until something fails. The failure is then isolated and engineers design an improvement.

A commonly-discovered failure is for the product to disintegrate. If fasteners fail, the improvements might be to use measured-tension nut drivers to ensure that screws don't come off, or improved adhesives to ensure that parts remain glued. If a gearbox wears out first, a typical engineering design improvement might be to substitute a brushless stepper motor for a DC motor with a gearbox. The improvement is that a stepper motor has no brushes or gears to wear out, so it lasts ten or more times as long. The stepper motor is more expensive than a DC motor, but cheaper than a DC motor combined with a gearbox. The electronics are radically different, but equally expensive. One disadvantage might be that a stepper motor can hum or whine, and usually needs noise-isolating mounts.

Often, a "TQMed" product is cheaper to produce because of efficiency/performance improvements and because there's no need to repair dead-on-arrival products, which represents an immensely more desirable product.

**TQM and contingency-based research** --- TQM has not been independent of its environment. In the context of management accounting systems (MCSs), Sim and Killough (1998) show that incentive pay enhanced the positive effects of TQM on customer and quality performance. Ittner and Larcker (1995) demonstrated that product focused TQM was linked to timely problem solving information and flexible revisions to reward systems. Chendall (2003) summarizes the findings from contingency-based research concerning management control systems and TQM by noting that "TQM is associated with broadly based MCSs including timely, flexible, externally focused information; close interactions between advanced technologies and strategy; and non-financial performance measurement." (p.143)

### **TQM, just another --- Management fad ?**

Abrahamson (1996) argued that fashionable management discourse such as Quality Circles tends to follow a lifecycle in the form of a bell curve. Ponzi and Koenig (2002) showed that the same can be said about TQM, which peaked between 1992 and 1996, while rapidly losing popularity in terms of citations after these years. Dubois (2002) argued that the use of the term TQM in management discourse created a positive utility regardless of what managers meant by it (which showed a large variation), while in the late 1990s the usage of the term TQM in implementation of reforms lost the positive utility attached to the mere fact of using the term and sometimes associations with TQM became even negative. Nevertheless, management concepts such as TQM leave their traces, as their core ideas can be very valuable. For

example, Dubois (2002) showed that the core ideas behind the two management fads reengineering and TQM, without explicit usage of their names, can even work in a synergistic way.

### **Tools for Total Quality Management**

**Competitive product analysis** — Process by which a company analyzes a competitor's products to identify desirable improvements.

**Value-Added Analysis** — process of evaluating all work activities, materials flows, and paperwork to determine the value they add for customers.

**Statistical Process Control** — methods for gathering data to analyze variations in production activities to see when adjustments are needed.

- i. **Process Variation**—variation in products arising from changes in production inputs.
- ii. **Control Chart**—process of checking production periodically by plotting the results, to determine when a process is beginning to depart from normal operating conditions.

**Quality/Cost Studies** — studies identifying a firm's current costs as well as the areas with the largest cost-savings potential.

- i. **Internal Failures**—reducible costs incurred during production and before bad products leave a plant.
- ii. **External Failures**—reducible costs incurred after defective products have left a plant.

**Quality Improvement Teams** — TQM tool in which groups of employees work together to improve quality by meeting regularly to define, analyze, and solve common production problems to improve both work methods and the products they make.

**LESSON 39****TOTAL QUALITY MANAGEMENT (continued)**

**Benchmarking**—process by which a company implements the best practices from its own past performance and those of other companies to improve its own products.

**Internal benchmarking** uses the firm’s own performance to evaluate progress and set goals; external benchmarking begins with a critical review of competitors or even companies in other businesses to determine which have “best practices.”

**Getting Closer to the Customer**

- i. Customers are the driving force for all business activity.
- ii. The most successful businesses keep close to their customers and know what they want in the products they consume.

**Trends in Productivity and Quality Management****a. ISO 9000:2000 and ISO 14000**

- i. **ISO 9000:2000**—a certification program attesting to the fact that a factory, a laboratory, or an office has met the rigorous quality management requirements set by the International Organization for Standardization, to ensure that a manufacturer’s product is exactly the same today, in terms of level of quality, as it was yesterday and will be tomorrow. More than 140 countries have adopted ISO 9000 as a national standard.
- ii. **ISO 14000**—Certification program attesting to the fact that a factory, laboratory, or office has improved environmental performance

**Process Re-engineering**

**Business Process Re-engineering** — quality improvement process that focuses on improving both the productivity and quality of business processes.

**Re-engineering** — quality improvement process that entails rethinking an organization’s approach to productivity and quality.

- i. **The Re-engineering Process**
  1. Identify the business activity that will be changed
  2. Evaluate information and human resources to see if they can meet the requirements for change
  3. Diagnose the current process to identify its strengths and weaknesses
  4. Create the new process design
  5. Implement the new design

**Adding Value through Supply Chains**

- i. **The Supply Chain Strategy**—Flow of information, materials, and services that starts with raw-materials suppliers and continues through other stages in the operations process until the product reaches the end customer

- ii. **Supply Chain Management**—Principle of looking at the supply chain as a whole in order to improve the overall flow through the system
- iii. **Reengineering Supply Chains for Better Results**—By lowering costs, speeding service, or coordinating flows of information and materials, process improvements and reengineering often improve supply chains.

**Investing in Innovation and Technology** — Many U.S. firms that have continued to invest in innovative technology have enjoyed rising productivity and rising incomes.

**Adopting a Long-Run Perspective** — Many quality-oriented firms are committed to long-term efforts at continuous improvement: the ongoing commitment to improving products and processes.

### **Emphasizing Quality of Work Life**

- i. **Employee Empowerment**—concept that all employees are valuable contributors to a firm's business and should be entrusted with decisions regarding their work.
- ii. **Employee Training**—For employee involvement to be effective, firms are investing in employee training programs that will enhance employee performance.

**Improving the Service Sector** — in trying to offer more satisfactory services, many companies have discovered five criteria that customers use to judge service quality:

- i. reliability
- ii. responsiveness
- iii. assurance
- iv. empathy
- v. tangibles

## LESSON 40

**BUSINESS IN DIGITAL AGE**

Because businesses are faced with an overwhelming amount of data and information about customers, competitors, and their own operations, the ability to manage this input can mean the difference between success and failure. The management of its information system is a core activity because all a firm's business activities are linked to it. New digital technologies have taken an integral place among an organization's resources for conducting everyday business.

**Data communication networks** --- Both public and private, carry streams of digital data (electronic messages) back and forth quickly and economically via telecommunication systems. The largest public communications network, the Internet, is a gigantic system of networks linking millions of computers offering information about business around the world. The Net is the most important e-mail system in the world. Individuals can subscribe to the Net via an Internet service provider (ISP). The World Wide Web is a system with universally accepted standards for storing, formatting, retrieving, and displaying information. It provides the common language that enables users around the world to "surf" the Net using a common format. Intranets are private networks that any company can develop to extend Net technology internally — that is, for transmitting information throughout the firm. Intranets are accessible only to employees, with access to outsiders prevented by hardware and software security systems called firewalls. Information networks are leading to leaner organizations — business with fewer employees and simpler organizational structures — because networked firms can maintain electronic, rather than human, information linkages among employees and customers. Operations are more flexible because electronic networks allow business to offer greater product variety and faster delivery cycles. Aided by intranets and the Internet, greater collaboration is possible, both among internal units and with outside firms. Geographic separation of the workplace and company headquarters is more common because electronic linkages are replacing the need for physical proximity between the company and its workstations. Improved management processes are feasible because managers have rapid access to more information about the current status of company activities and easier access to electronic tools for planning and decision making.

**Transaction processing systems (TPS)** --- are applications for basic day-to-day business transactions. They are useful for routine transactions, such as taking reservations and meeting payrolls, that follow predetermined steps. Systems for knowledge workers and office applications include personal productivity tools such as word processing, document imaging, desktop publishing, computer-aided design, and simulation modeling. Managing information systems (MISs) support an organization's managers by providing daily reports, schedules, plans, and budgets. Middle managers, the largest MIS user group, need networked information to plan upcoming activities and to track current activities. Decision support systems (DSSs) are interactive applications that assist the decision-making processes of middle- and top-level managers. Artificial intelligence (AI) and expert systems are designed to imitate human behavior and provide computer-based assistance in performing certain business activities.

Hardware is the physical devices and components, including the computers, in the information system (IS). It consists of an input device (such as a keyboard), a central processing unit (CPU), a main memory, disks for data storage, and output devices (such as video monitors and printers). Software includes the computer's operating system, application programs (such as word processing, spreadsheets, and Web browsers), and a graphical user interface (GUI) that helps users select among the computer's many possible applications.

Control is important to ensure not only that the system operates correctly but also that data and information are transmitted through secure channels to people who really need them. Control is aided by the use of electronic security measures, such as firewalls, that bar entry to the system by unauthorized outsiders. The database is the organized collection of all the data files in the system. People are also part of the information system. **IS knowledge workers** include systems analysts who design the systems and programmers who write software instructions that tell computers what to do. System users, too, are integral to the system. Telecommunication components include multimedia technology that incorporates sound, animation, video, and photography along with ordinary graphics and text. Electronic discussion groups, videoconferencing, and other forms of interactive dialog are possible with communication devices (such as global positioning systems and personal digital assistants) and communication channels (such as satellite communications).

### Information Management: An Overview

Most business regard their information as a private resource, an asset they plan, develop, and protect.

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

**Information Management** — internal operations for arranging a firm's information resources to support business performance and outcomes. Information managers oversee the task of information management.

### Data versus Information

- i. **Data**—raw facts and figures.
- ii. **Information**—meaningful, useful interpretation of data.

**Information Systems (s)** — a system for transforming data into information and transmitting it for use in decision-making.

### New Business Technologies in the Information Age

The Expanding Scope of Information Systems

- i. The relationship between information systems and organizations is among the fastest-changing aspects of business today.
- ii. Information systems are crucial in planning.
- iii. An increased interdependence between a company's business strategy and its IS is a basic change.

### Electronic Business and Communications Technologies

- i. Electronic Information Technologies Information-systems applications, based on telecommunications technologies, that use networks of appliances or devices to communicate information by electronic means;
  1. **Fax machine**—Machine that can transmit copies of documents (text and graphics) over telephone lines
  2. **Voice mail**—Computer-based system for receiving and delivering incoming telephone calls

3. **Electronic mail (e-mail)**—Computer system that electronically transmits letters, reports, and other information between computers
  4. **Electronic conferencing**—Computer-based system that allows people to communicate simultaneously from different locations via software or telephone
  5. **Groupware**—Software that connects members of a group for shared e-mail distribution, electronic meetings, appointments, and group writing
- ii. **Data Communication Networks** --- Global network (such as the Internet) that permits users to send electronic messages and information quickly and economically
1. **Internet**—global data communication network serving millions of computers with information on a wide array of topics and providing communication flows among certain private networks. In 2002, more than 700 million Net users were active on links connecting more than 180 countries. In the United States alone, more than 95 million users were on the Net every day.
  2. **Internet Service Provider (ISP)**—commercial firm that maintains a permanent connection to the Net and sells temporary connections to subscribers.
  3. **World Wide Web (WWW, or "the Web")**—subsystem of computers providing access to the Internet and offering multimedia and linking capabilities.
    - a. **Web server**—dedicated work station customized for managing, maintaining, and supporting Web sites
    - b. **Browser**—software supporting the graphics and linking capabilities necessary to navigate the World Wide Web
    - c. **Directories**—Service which organize web-pages into directories, such as, Yahoo
    - d. **Search Engines**—Tool that searches Web pages containing the user's search terms and then displays pages that match
    - e. **Intranet**—private network of internal Web sites and other sources of information available to a company's employees. The Ford Motor Company intranet connects 120,000 work stations in Asia, Europe, and the United States to thousands of Ford Web sites containing private information on production, engineering, distribution, and marketing.
    - f. **Firewall**—hardware and software security systems that are not accessible to outsiders
    - g. **Extranet**—application allowing outsiders limited access to a firm's internal information system.

### New Options for Organizational Design: The Networked Enterprise

- i. **Leaner Organizations**—Networked firms can accomplish more work with fewer resources.
- ii. **More Flexible Operations**—Electronic networks allow businesses to offer customers greater variety and faster delivery cycles.
  1. **Mass-customization**—Flexible production process that generates customized products in high volumes at low cost



- iii. **Increased Collaboration**—Networked systems make it cheaper and easier to work together.
  - 1. **Networking and the Virtual Company**—Networked systems can also improve collaboration between organizations through the so-called virtual company
- iv. **Greater Independence of Company and Workplace**—Employees no longer need to work only at the office or the factory, nor are all the company's operations performed at one location. Geographically separate processes can be tightly coordinated via networking.
- v. **Improved Management Processes**—Because instantaneous information is accessible in a convenient usable format, more upper managers use it routinely for planning, leading, directing, and controlling operations.
  - 1. **Enterprise Resource Planning (ERP)**—Large information system for integrating all the activities of a company's business units

### Types of Information Systems

Organizations depend on quality information to make good decisions and help them accomplish their goals. To design and develop good information systems, companies hire a top-level manager known as a CIO. A **Chief Information Officer (CIO)** is a strategic-level manager who oversees the company's information systems. An **information system** is a complex of several information systems that share information while serving different levels of the organization, different departments, or different operations.

### User Groups and System Requirements

- i. **Knowledge Workers**—An increasingly important group of employees who use information and knowledge as the raw materials of their work, and who rely on technology to design new products or business systems (e.g. engineers, scientists, computer programmers, etc.).
- ii. **Managers at Different Levels**—First-line managers need information on the day-to-day details of their departments or projects. Middle managers need summaries and analyses for setting intermediate and long-range goals for their departments or projects. And top managers need information on broader economic and business trends, and overall company performance.
- iii. **Functional Areas and Business Processes**—Each business area (e.g. marketing, finance) has its own information requirements, and each business process (e.g. strategic planning, product development) also has specific information needs.

### Major Systems by Levels

- i. **Transaction Processing Systems**—information-processing applications for routine, day-to-day business activities involving well-defined processing steps.
- ii. **Systems for Knowledge Workers and Office Applications**— These systems provide assistant for data processing and other office activities.

Like other departments, the IS department includes both knowledge workers and data workers. **Knowledge workers** include: systems analysts, programmers, system operations personnel

- iii. **Knowledge-Level and Office Systems**
  1. **Computer-Aided Design (CAD)**—computer-based electronic technology that assists in designing products by simulating a real product and displaying it in three-dimensional graphics.
  2. **Computer-Aided Manufacturing (CAM)** —computer-based electronic technology used in designing manufacturing equipment, facilities, and plant layouts for better product flows and productivity.
- iv. **Management Information Systems**—computer-based system that supports an organization’s managers by providing daily reports, schedules, plans, and budgets. Middle managers are the largest MIS user group.
- v. **Decision Support Systems**—interactive computer-based system that locates and presents information needed to support decision making. Middle and top-level managers use DSS.
- vi. **Executive Support Systems**—quick-reference information-system application designed specially for instant access by upper-level managers.
- vii. **Artificial Intelligence and Expert Systems**
  1. **Robotics**—combination of computers and industrial robots.
  2. **Expert System**—AI program designed to imitate the thought processes of human experts in a particular field.

### Elements of the Information System

**Computer Network** — all the computer and information technology devices, which by working together, drive the flow of digital information throughout a system.

**Hardware** — physical components of a computer system

- i. **Inputting**
  1. **Input Device**—part of the computer system that enters data into it.
  2. **Central Processing Unit (CPU)**—part of the computer system where data processing takes place.
- ii. **Main Memory**—part of the computer CPU housing memory of programs it needs to operate.
- iii. **Programs**
  1. **Program**—set of instructions used by a computer to perform specified activities.
  2. **Output Device**—part of the computer system that presents results, either visually or in printed form.

**Software** — programs that instruct a computer in what to do.

- i. **System program**—Software that tells the computer what resources to use and how to use them.

- ii. **Application program**—Software (such as Word for Windows) that processes data according to a user’s special needs
- iii. **Graphical User Interface**—Software that provides a visual display to help users select applications.

**Control** --- ensures that the system is operating according to specific procedures and within specific guidelines.

- i. Problems of Privacy and Security
  - 1. **Privacy** invasion occurs when intruders (hackers) gain unauthorized access, either to steal information, money, or property or to tamper with data.
  - 2. **Security** measures for protection against intrusion are a constant challenge.

### Databases and Application Programs

- i. Data and Databases—centralized, organized collection of related data.
- ii. **Application Programs**
  - 1. **Word-Processing Program**—applications program that allows computers to store, edit, and print letters and numbers for documents created by users.
  - 2. **Electronic Spreadsheet**—applications program with a row-and-column format that allows users to store, manipulate, and compare numeric data.
  - 3. **Database Management System**—applications program for creating, storing, searching, and manipulating an organized collection of data.
  - 4. **Computer Graphics Program**—applications program that converts numeric character data into pictorial information such as graphs and charts.
  - 5. **Presentation Graphics Software**—applications that enable users to create visual presentations that can include animation and sound.
    - a. **Desktop publishing**—process of combining word-processing and graphics capability to produce virtually typeset-quality text from personal computer

### Telecommunications and Networks

A **network** organizes telecommunications components into an effective system.

**Multimedia Communication Systems** — system connected to networks of communication appliances such as faxes televisions, sound equipment, cell phones, printers, and photocopiers that may also be linked by satellites with other remote networks.

- i. Communication Devices include global-positioning-systems (GPS), paging systems and cellular telephones.
- ii. Communication Channels include wired and wireless transmission.

**System Architecture Wide Area Network (WAN)**—network of computers and workstations located far from one another and linked by telephone wires or by satellite.

- i. **Local Area Network (LAN)**—network of computers and workstations, usually within a company, that are linked together by cable.
- ii. **Wireless Networks**—Wireless technologies use airborne electronic signals for linking network appliances. In addition to mobile phones, wireless technology extends to laptops, hand-held computers, and applications in cars (including Internet access and music players, map terminals, and game machines).
- iii. **Client-server Network**—Information-technology system consisting of clients (users) that are electronically linked to share network resources provided by a server, such as a host.

## LESSON 41

## NON-VERBAL COMMUNICATION MODES

**What is non-verbal communication?**

Definition “nonverbal communication involves those nonverbal stimuli in a communication setting that are generated by both the source [speaker] and his or her use of the environment and that have potential message value for the source or receiver [listener]. Basically it is sending and receiving messages in a variety of ways without the use of verbal codes (words). It is both intentional and unintentional. Most speakers / listeners are not conscious of this. It includes — but is not limited to:

- touch
- glance
- eye contact (gaze)
- volume
- vocal nuance
- proximity
- gestures
- facial expression ? pause (silence)
- intonation
- dress
- posture
- smell
- word choice and syntax
- sounds (paralanguage)

Broadly speaking, there are two basic categories of non-verbal language: nonverbal messages produced by the body; nonverbal messages produced by the broad setting (time, space, silence).

**Why is non-verbal communication important?**

Basically, it is one of the key aspects of communication (and especially important in a high-context culture). It has multiple functions:

- Used to **repeat** the verbal message (e.g. point in a direction while stating directions).
- Often used to **accent** a verbal message. (e.g. verbal tone indicates the actual meaning of the specific words).
- Often **complement** the verbal message but also may contradict. E.g.: a nod reinforces a positive message (among Americans); a “wink” may contradict a stated positive message.
- **Regulate** interactions (non-verbal cues convey when the other person should speak or not speak).
- May **substitute** for the verbal message (especially if it is blocked by noise, interruption, etc) — i.e. gestures (finger to lips to indicate need for quiet), facial expressions (i.e. a nod instead of a yes).

Note the implications of the proverb: “Actions speak louder than words.” In essence, this underscores the importance of non-verbal communication. Non-verbal communication is especially significant in intercultural situations. Probably non-verbal differences account for typical difficulties in communicating.

## Cultural Differences in Non-verbal Communication

### General Appearance and Dress

All cultures are concerned for how they look and make judgments based on looks and dress. Americans, for instance, appear almost obsessed with dress and personal attractiveness. Consider differing cultural standards on what is attractive in dress and on what constitutes modesty. Note ways dress is used as a sign of status?

### Body Movement

We send information on attitude toward person (facing or leaning towards another), emotional status (tapping fingers, jiggling coins), and desire to control the environment (moving towards or away from a person).

More than 700,000 possible motions we can make — so impossible to categorize them all! But just need to be aware the body movement and position is a key ingredient in sending messages.

### Posture

Consider the following actions and note cultural differences:

- Bowing (not done, criticized, or affected in US; shows rank in Japan)
- Slouching (rude in most Northern European areas)
- Hands in pocket (disrespectful in Turkey)
- Sitting with legs crossed (offensive in Ghana, Turkey)
- Showing soles of feet. (Offensive in Thailand, Saudi Arabia)
- Even in US, there is a gender difference on acceptable posture?

### Gestures

Impossible to catalog them all. But need to recognize: 1) incredible possibility and variety and 2) that an acceptable in one's own culture may be offensive in another. In addition, amount of gesturing varies from culture to culture. Some cultures are animated; other restrained. Restrained cultures often feel animated cultures lack manners and overall restraint. Animated cultures often feel restrained cultures lack emotion or interest.

Even simple things like using hands to point and count differ.

Pointing: US with index finger; Germany with little finger; Japanese with entire hand (in fact most Asians consider pointing with index finger to be rude)

Counting: Thumb = 1 in Germany, 5 in Japan, middle finger for 1 in Indonesia.

### Facial Expressions

While some say that facial expressions are identical, meaning attached to them differs. Majority opinion is that these do have similar meanings world-wide with respect to smiling, crying, or showing anger, sorrow, or disgust. However, the intensity varies from culture to culture. Note the following:

- Many Asian cultures suppress facial expression as much as possible.
- Many Mediterranean (Latino / Arabic) cultures exaggerate grief or sadness while most American men hide grief or sorrow.
- Some see “animated” expressions as a sign of a lack of control.
- Too much smiling is viewed in as a sign of shallowness.
- Women smile more than men.

### Eye Contact and Gaze

In USA, eye contact indicates: degree of attention or interest, influences attitude change or persuasion, regulates interaction, communicates emotion, defines power and status, and has a central role in managing impressions of others.

- Western cultures — see direct eye to eye contact as positive (advise children to look a person in the eyes). But within USA, African-Americans use more eye contact when talking and less when listening with reverse true for Anglo Americans. This is a possible cause for some sense of unease between races in US. A prolonged gaze is often seen as a sign of sexual interest.
- Arabic cultures make prolonged eye-contact. — believe it shows interest and helps them understand truthfulness of the other person. (A person who doesn't reciprocate is seen as untrustworthy)
- Japan, Africa, Latin American, Caribbean — avoid eye contact to show respect.

### Touch

Question: Why do we touch, where do we touch, and what meanings do we assign when someone else touches us?

Illustration: An African-American male goes into a convenience store recently taken over by new Korean immigrants. He gives a \$20 bill for his purchase to Mrs. Cho who is cashier and waits for his change. He is upset when his change is put down on the counter in front of him.

What is the problem? Traditional Korean (and many other Asian countries) don't touch strangers. Especially between members of the opposite sex. But the African-American sees this as another example of discrimination (not touching him because he is black).

Basic answer: Touch is culturally determined! But each culture has a clear concept of what parts of the body one may not touch. Basic message of touch is to affect or control — protect, support, disapprove (i.e. hug, kiss, hit, kick).

- USA — handshake is common (even for strangers), hugs, kisses for those of opposite gender or of family (usually) on an increasingly more intimate basis. Note differences between African-Americans and Anglos in USA. Most African Americans touch on greeting but are annoyed if touched on the head (good boy, good girl overtones).
- Islamic and Hindu: typically don't touch with the left hand. To do so is a social insult. Left hand is for toilet functions. Mannerly in India to break your bread only with your right hand (sometimes difficult for non-Indians)
- Islamic cultures generally don't approve of any touching between genders (even hand shakes). But consider such touching (including hand holding, hugs) between same-sex to be appropriate.

- Many Asians don't touch the head (Head houses the soul and a touch puts it in jeopardy).

Basic patterns: Cultures (English, German, Scandinavian, Chinese, and Japanese) with high emotional restraint concepts have little public touch; those which encourage emotion (Latino, Middle-East, Jewish) accept frequent touches.

### Smell

- USA — fear of offensive natural smells (billion dollar industry to mask objectionable odors with what is perceived to be pleasant ) — again connected with “attractiveness” concept.
- Many other cultures consider natural body odors as normal (Arabic).
- Asian cultures (Filipino, Malay, Indonesian, Thai, Indian) stress frequent bathing — and often criticize USA of not bathing often enough!

### Paralanguage

- vocal characterizers (laugh, cry, yell, moan, whine, belch, yawn). These send different messages in different cultures (Japan — giggling indicates embarrassment; India – belch indicates satisfaction)
- vocal qualifiers (volume, pitch, rhythm, tempo, and tone). Loudness indicates strength in Arabic cultures and softness indicates weakness; indicates confidence and authority to the Germans,; indicates impoliteness to the Thais; indicates loss of control to the Japanese. (Generally, one learns not to “shout” in Asia for nearly any reason!). Gender based as well: women tend to speak higher and more softly than men.
- vocal segregates (un-huh, shh, uh, ooh, mmmh, humm, eh, mah, lah). Segregates indicate formality, acceptance, assent, uncertainty.



**LESSON 42****BUSINESS ORGANIZATIONS**

Basically, an organization is a group of people intentionally organized to accomplish an overall, common goal or set of goals. Business organizations can range in size from two people to tens of thousands.

There are several important aspects to consider about the goal of the business organization. These features are explicit (deliberate and recognized) or implicit (operating unrecognized, "behind the scenes"). Ideally, these features are carefully considered and established, usually during the strategic planning process. (Later, we'll consider dimensions and concepts that are common to organizations.)

**Vision** --- Members of the organization often have some image in their minds about how the organization should be working, how it should appear when things are going well.

**Mission** --- An organization operates according to an overall purpose, or mission.

**Values** --- All organizations operate according to overall values, or priorities in the nature of how they carry out their activities. These values are the personality, or culture, of the organization.

**Strategic Goals** --- Organizations members often work to achieve several overall accomplishments, or goals, as they work toward their mission.

**Strategies** --- Organizations usually follow several overall general approaches to reach their goals.

***Systems and Processes that (Hopefully) Are Aligned With Achieving the Goals***

Organizations have major subsystems, such as departments, programs, divisions, teams, etc. Each of these subsystems has a way of doing things to, along with other subsystems; achieve the overall goals of the organization. Often, these systems and processes are define by plans, policies and procedures.

How you interpret each of the above major parts of an organization depends very much on your values and your nature. People can view organizations as machines, organisms, families, groups, etc. (We'll consider more about these metaphors later on in this topic in the library.)

**Organizations as Systems (of Systems of Systems)*****Organization as a System***

It helps to think of organizations are systems. Simply put, a system is an organized collection of parts that are highly integrated in order to accomplish an overall goal. The system has various inputs which are processed to produce certain outputs that together, accomplish the overall goal desired by the organization. There is ongoing feedback among these various parts to ensure they remain aligned to accomplish the overall goal of the organization. There are several classes of systems, ranging from very simple frameworks all the way to social systems, which are the most complex. Organizations are, of course, social systems.

Systems have inputs, processes, outputs and outcomes. To explain,

**Inputs** --- to the system include resources such as raw materials, money, technologies and people. These inputs go through a

**Process** --- where they're aligned, moved along and carefully coordinated, ultimately to achieve the goals set for the system.

**Outputs** --- are tangible results produced by processes in the system, such as products or services for consumers. Another kind of result is **outcomes**, or benefits for consumers, e.g., jobs for workers, enhanced quality of life for customers, etc. Systems can be the entire organization, or its departments, groups, processes, etc.

**Feedback** comes from, e.g., employees who carry out processes in the organization, customers/clients using the products and services, etc. Feedback also comes from the larger environment of the organization, e.g., influences from government, society, economics, and technologies.

Each organization has numerous subsystems, as well. Each subsystem has its own boundaries of sorts, and includes various inputs, processes, outputs and outcomes geared to accomplish an overall goal for the subsystem. Common examples of subsystems are departments, programs, projects, teams, processes to produce products or services, etc. Organizations are made up of people -- who are also systems of systems of systems -- and on it goes. Subsystems are organized in an hierarchy needed to accomplish the overall goal of the overall system.

The organizational system is defined by, e.g., its legal documents (articles of incorporation, by laws, roles of officers, etc.), mission, goals and strategies, policies and procedures, operating manuals, etc. The organization is depicted by its organizational charts, job descriptions, marketing materials, etc. The organizational system is also maintained or controlled by policies and procedures, budgets, information management systems, quality management systems, performance review systems, etc.

### ***Standard Planning Process is Similar to Working Backwards Through the System***

Remember how systems have input, processes, outputs and outcomes? One of the common ways that people manage systems is to work backwards from what they want the system to produce. This process is essentially the same as the overall, standard, basic planning process. This process typically includes:

- a) Establishing overall goals (it's best if goals are defined in measurable terms, so they usually are in terms of outputs) (the overall impacts of goals are outcomes, a term increasingly used in nonprofits)
- b) Associating smaller goals or objectives (or outputs?) along the way to each goal.
- c) Designing strategies/methods (or processes) to meet the goals and objectives
- d) Identifying what resources (or inputs) are needed, including who will implement the methods and by when.

### **Methods to the Madness: Systems Theory and Chaos Theory (Optional Reading)**

NOTE: A person need not understand systems or chaos theory to start and run an organization. A basic understanding, though, sure helps when dealing with the many kinds of

typical issues that face members of organizations. Information at the following link is geared to give the reader a taste of what systems theory is about, and then refer the reader to more information if they are interested.

Thinking About Organizations as Systems --- Use functional structures when the organization is small, geographically centralized, and provides few goods and services.

When the organization experiences bottlenecks in decision making and difficulties in coordination, it has outgrown its functional structure. Use a divisional structure when the organization is relatively large, geographically dispersed, and/or produces wide range of goods/services. Use lateral relations to offset coordination problems in functional and divisional structures. When the organization needs constant coordination of its functional activities, then lateral relations do not provide sufficient integration. Consider the matrix structure. To adopt the matrix structure effectively, the organization should modify many traditional management practices.

**LESSON 43****ACCOUNTING**

By collecting, analyzing, and communicating financial information, accountants provide business managers and investors with an accurate picture of the firm's financial health. Certified public accountants (CPAs) are licensed professionals who provide auditing, tax, and management advisory services for other firms and individuals. Public accountants who have not yet been certified perform similar tasks. Private accountants provide diverse specialized services for the specific firms that employ them.

The Vision Project is a profession-wide assessment to see what the future of the accounting profession will be like. It was initiated because of the declining number of students entering the accounting profession and because of rapid changes in the business world. Practicing CPAs and other industry leaders have participated in identifying key forces that are affecting the profession. Then the developed recommendations for change, including a set of core services that the profession should offer clients and a set of core competencies that CPAs should possess. Overall, the new vision reflects changes in the CPA's culture and professional lifestyle.

The accounting equation (assets = liabilities + owners' equity) is used to balance the data in accounting documents. Double-entry accounting acknowledged the dual effects of financial transactions and ensures that the accounting equation always balances.

These tools enable accountants not only to enter but to track transactions. They also serve as double checks for accounting errors. The balance sheet summarizes a company's assets, liabilities, and owners equity at a given point in time. The income statement details revenues and expenses for a given period of time and identifies any profit or loss. The statement of cash flows reports cash receipts and payments from operating, investing, and financing activities.

Drawing on data from financial statements, ratios can help creditors, investors, and managers assess a firm's finances. The liquidity ratios — current and debt-to-equity —measure solvency (a firm's ability to pay its debt) in both the short and the long run.. Return on equity and earnings per share measure profitability. inventory turnover ratios show how efficiently a firm is using its funds.

Accounting for foreign transactions requires some special procedures. First, accountants must consider the fact that the exchange rates of national currencies change. Accordingly, the value of a foreign currency at any given time, its foreign currency exchange rate, is what buyers are willing to pay for it.

Exchange rates affect the amount of money that a firm pays for foreign purchases and the amount that it gains from foreign sales. U.S. accountants, therefore, must always translate foreign currencies into the value of the U.S. dollar. Then, in recording a firm's transactions, they must make adjustments to reflect shifting exchange rates over time. Shifting rates may result in either foreign currency transaction gains (a debt, for example, may be paid with fewer dollars) or foreign currency transaction losses.

**What Is Accounting and Who Uses Accounting Information?**

**Accounting** — comprehensive system for collecting, analyzing, and communicating financial information.

**Bookkeeping** — recording of accounting transactions. It is just one phase of accounting.

**Accounting Information System (AIS)** — Organized means by which financial information is identified, measured, recorded, and retained for use in accounting statements and management reports.

### Users of Accounting Information

**Business Managers** --- Set goals, develop plans, set budgets, and evaluate future prospects

**Employees and Unions** --- Get paid, plan for and receive benefits.

**Investors and Creditors** --- Estimate returns to stockholders, determine company's growth prospects, determine creditworthiness before investing or lending.

**Tax Authorities** --- Plan for tax inflows, determine tax liabilities, ensure proper payment

**Government Regulatory Agencies** --- Fulfill their duties to citizens.

### Who Are Accountants and What Do They Do?

**Controller** — the person who manages all of firm's accounting activities (chief accounting officer)

### Financial versus Managerial Accounting

- i. **Financial Accounting**—field of accounting that informs external users of a company's financial information.
- ii. **Managerial Accounting**—field of accounting that serves internal users of a company's financial information.

**Certified Public Accountants** --- Accountant licensed by the state and offering services to the public

- i. **Professional Practice**  
Some CPAs work as individual practitioners, while others join with one or more CPAs in partnerships or professional corporations.
  1. Nearly one-half of accounting's total revenues in the U.S. are received by the Big 4 accounting firms, Deloitte & Touche, Ernst & Young, KPMG LLP, Price Waterhouse Coopers.
- ii. **CPA Services**
  1. **Audit**—systematic examination of a company's accounting system to determine whether its financial reports fairly represent its operations.
    - a. **Generally Accepted Accounting Principles (GAAP)**—accepted rules and procedures governing the content and form of financial reports.
  2. **Tax services** include assistance not only with tax return preparation but also with tax planning.
  3. **Management Advisory Services**—specialized accounting services to help managers resolve a variety of business problems.

- iii. **Non-certified Public Accountants** may work for small businesses, individuals, and even larger firms, performing income tax preparation, payroll accounting, and financial planning services.

**Private Accountants** — salaried accountant hired by a business to carry out its day-to-day financial activities.

### The CPA Vision Project

- i. Identifying Issues for the Future—CPA success will depend on public perceptions of abilities and roles, CPAs must respond to market needs, market demands more high-value consulting and fewer auditing and accounting services, specialization will be vital, CPAs must be conversant in global strategies and business practices
- ii. **Global Forces as Drivers of Change**—Forces include political, economic, technical, social, human resources, and regulatory
- iii. **Recommendations for Change**—CPA profession must adopt broader focus to include strategic thinking, provide more value to society by expanding education and experience, revitalize itself to meet future demands, and increase opportunities for achievement, rewards, and lifestyle preferences.
- iv. A New Direction
  1. **Core Services**—A broader perspective is strongly recommended that moves into areas traditionally outside the accounting realm.
  2. **Core Competencies** Vision Project identifies unique combination of skills, technology, and knowledge including strategic and critical thinking skills, communication and leadership skills, focus on the client and the market, skills in interpreting information, and technology skills.

## LESSON 44

## TOOLS OF THE ACCOUNTING TRADE

For thousands of years, businesses and governments have kept records of their transactions. Accountants are guided by three fundamental principles: the accounting equation, double-entry accounting, and the matching principle.

**The Accounting Equation** --- Accountants use the following equation to balance the data in journals and ledgers: **Assets = Liabilities + Owners' Equity**

- i. Assets and Liabilities
  1. **Asset**—any economic resource expected to benefit a firm or an individual who owns it.
  2. **Liability**—debt owned by a firm to an outside organization or individual.
- ii. **Owners' Equity**—amount of money that owners would receive if they sold all of a firm's assets and paid all of its liabilities. It consists of two sources of capital: the amount the owners originally invested, and profits earned by and reinvested in the company.

**Double-Entry Accounting** ----To keep the accounting equation in balance, companies use a system developed by Fra Luca Pacioli, an Italian monk, in 1494.

- i. **Double-entry accounting** is a way of recording financial transactions that requires two entries for every transaction, so that the accounting equation is always kept in balance.
- ii. Every transaction—a sale, a payment, a collection—has two offsetting sides. Any excess plowed back into the business becomes retained earnings. The accounting equation remains in balance if the transactions are properly recorded.
- iii. Once the individual transactions are recorded and then summarized, accountants review the summaries and adjust or correct errors, so they can **close the books**, the act of transferring net revenue and expense account balances to retained earnings for the period.
- iv. Although computers do much of the tedious recording today, mastering the fundamental principles such as double-entry bookkeeping is important because accountants must decide which accounts to increase or decrease, and they must understand what to do if transactions are recorded improperly.

**Financial Statements** --- Any of several types of reports summarizing a company's financial status to aid in managerial decision making.

**Balance Sheets** — also known as a statement of financial position, is a kind of “snapshot” of where a company is, financially speaking, at one moment in time. The balance sheet includes all the elements in the accounting equation, showing the balance between assets on one side and liabilities and owners' equity on the other.

Every company prepares a balance sheet at least once a year, most often at the end of the calendar year, January 1 to December 31. The fiscal year, any 12 consecutive months, is used by many business and government bodies.

i. **Assets**

There are three types:

1. **Current Asset**—asset that can or will be converted into cash within the following year.
  - a. **Liquidity**—ease with which an asset can be converted into cash.
  - b. **Non-liquid Assets**—Includes marketable securities which vary in liquidity and three other forms:
    - i. **accounts receivable**—amount due from a customer who has purchased goods on credit
    - ii. **merchandise inventory**—cost of merchandise that has been acquired for sale to customers and is still on hand
    - iii. **prepaid expense**—expense that is paid before the upcoming period in which it is due
2. **Fixed Asset**—asset with long-term use or value
  - a. **depreciation**—process of distributing the cost of an asset over its life
3. **Intangible Asset**—nonphysical asset that has economic value in the form of expected benefits.
  - a. **goodwill**—amount paid for an existing business above the value of its other assets

ii. **Liabilities** are the debts that a business has incurred and appear after assets because they are claims against the assets as shown in the accounting equation:  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$ 

1. **Current Liability**—debt that must be paid within the year.
2. **Account Payable**—current liabilities consisting of bills owed to suppliers, plus wages and taxes due within the upcoming year.
3. **Long-Term Liability**—debt that is not due for more than one year.

iii. **Owners' Equity** is the owners' investment in a business. This is also the section that shows a corporation's retained earnings, the portion of shareholders' equity earned by the company, but not distributed to its owners in the form of dividends.

1. **Common Stock**
2. **Paid-In Capital**—additional money, above proceeds from stock sale, paid directly to a firm by its owners.
3. **Retained Earnings**—earnings retained by a firm for its use rather than paid as dividends.

**Income Statements** — financial statement listing a firm's annual revenues and expenses so that a bottom line shows annual profit or loss. If the balance sheet is a “snapshot,” the income statement is a “movie.”

- i. **Revenues**—funds that flow into a business from the sale of goods or services.
- ii. **Cost of Goods Sold**—total cost of obtaining materials for making the products sold by a firm during the year.
- iii. **Gross Profit (or Gross Margin)**—revenues obtained from goods sold minus cost of goods sold.
- iv. **Operating Expenses**—costs, other than the cost of goods sold, incurred in producing a good or service.
- v. **Operating Income**—gross profit minus operating expenses.



1. net income (or net profit or net earnings)—gross profit minus operating expenses and income taxes

**Statement of Cash Flows** — financial statement describing a firm’s yearly cash receipts and cash payments.

- i. cash flows from operations
- ii. cash flows from investing
- iii. cash flows from financing

### **The Budget: An Internal Financial Statement**

A detailed statement of estimated receipts and expenditures for a period of time in the future. The budget is probably the most crucial internal financial report. Most companies use their budgets for internal planning, controlling, and decision-making. Although the accounting staff coordinates the budget process, many different employees contribute to creating and updating the budget.

### **Reporting Standards and Practices**

The common language dictated by standard practices is designed to give external users confidence in the accuracy and meaning of the information in any financial statement.

- i. **Revenue Recognition**—formal recording and reporting revenues in the financial statements. This principle states that revenue is not formally recorded and reported until 1) The sale is complete and the product has been delivered, and 2) The sale price is collected or is collectable (part of accounts receivable).
- ii. **Matching principle** requires that expenses incurred in producing revenues be deducted from the revenue they generated during the same accounting period in order to accurately present the profitability of a business.
  1. Accountants match revenue to expenses by adopting the accrual basis of accounting, which states that revenue is recognized when you make a sale and expense is recorded when it is incurred.
  2. If a business runs on a cash basis, the company records revenue only when money from the sale is actually received and expense is recorded when cash is paid.
  3. Depreciation is the accounting procedure for systematically spreading the cost of a tangible asset over its estimated useful life.
- iii. **Full Disclosure** means that financial statements should include not just numbers, but also interpretations and explanations by management so that external users can better understand information contained in the statements.

### **Analyzing Financial Statements**

Organizations and individuals use financial statements to spot problems and opportunities. Managers and outsiders use them to evaluate a company’s performance in relation to the economy, the competition, and past performance. To perform this analysis, most users look at

historical trends and key ratios. Three major **classifications of ratios: solvency, profitability, activity.**

### Short-Term Solvency Ratios

**Liquidity Ratio** — solvency ratio measuring a firm's ability to pay its immediate debts.

- i. **current ratio**—solvency ratio that determines a firm's credit worthiness by measuring its ability to pay current liabilities, calculated by dividing current assets by current liabilities.
- ii. **working capital**—the difference between the firm's current assets and current liabilities, which indicates the firm's ability to pay off short-term debts to outsiders.

### Long-Term Solvency Ratios

**Debt Ratio** — solvency ratio measuring a firm's ability to meet its long-term debts.

- i. debt-to-owners' equity ratio (or debt-to-equity ratio)—solvency ratio describing the extent to which a firm is financed through borrowing, calculated by dividing debt by owners' equity.
- ii. leverage—ability to finance an investment through borrowed funds

### Profitability Ratios

- i. Return on Equity—profitability ratio measuring income earned for each dollar invested, calculated by dividing net income by total owners' equity.
- ii. **Earnings per Share**—profitability ratio measuring the size of the dividend that a firm can pay shareholders, calculated by dividing net income by the number of shares of common stock outstanding.

**Activity Ratios** --- may be used to analyze how well a company is managing its assets.

- i. **Inventory Turnover Ratio**—activity ratio measuring the average number of times that inventory is sold and restocked during the year, calculated as cost of goods sold divided by average inventory.

### International Accounting

- a. **Foreign Currency Exchange Rate**—value of a nation's currency as determined by market forces.

**International Transactions** --- International purchases, sales on credit, and accounting for foreign subsidiaries all involve accounting transactions that include currency exchange rates.

**International Accounting Standards** --- Bankers, investors, and managers would like to see financial reporting that is comparable from country-to-country and across all firms regardless of home nation.

**LESSON 45****FINANCIAL MANAGEMENT**

The job of the financial manager is to increase the firm's value by planning and controlling the acquisition and dispersal of its financial assets. This task involves three key responsibilities: cash-flow management (making sure the firm has enough available money to purchase the materials it needs to produce goods and services), financial control (checking actual performance against plans to ensure that desired financial results occur), and financial planning (devising strategies for reaching future financial goals).

To finance short-term expenditures, firms rely on trade credit (credit extended by suppliers) and loans. Secured loans require collateral (legal interest in assets that may include inventories or accounts receivable). Unsecured loans may be in the form of lines of credit or revolving credit agreements. Smaller firms may choose to factor accounts receivable (that is, sell them to financial institutions).

Long-term sources of funds include debt financing, equity financing, and the use of preferred stock. Debt financing uses long-term loans and corporate bonds (promises to pay holders specified amounts by certain dates), both of which obligate the firm to pay regular interest. Equity financing involves the use of owners' capital, either from the sale of common stock or from retained earnings. Preferred stock is a hybrid source of funding that has some of the features of both common stock and corporate bonds. Financial planners must choose the proper mix of long-term funding. All-equity financing is the most conservative, least risky, and most expensive strategy. All-debt financing is the most speculative option.

Businesses operate in an environment pervaded by risk. Speculative risks involve the prospect of gain or loss. Pure risks involve only the prospect of loss or no loss. Firms manage their risks by following some form of five-step process: identifying risks, measuring possible losses, evaluating alternative techniques, implementing chosen techniques, and monitoring programs on an ongoing basis. Four general methods for dealing with risk are risk avoidance, control, retention, and transfer.

Insurance companies issue policies only for insurable risks—those that meet four criteria. First the risk must be predictable in a statistical sense; the insurer must be able to use statistical tools to forecast the likelihood of a loss. A loss must also pass the test of casualty, which indicates the loss is accidental rather than intentional. Potential losses must also display unconnectedness—they must be random and occur independently to other losses. Finally, losses must be verifiable in terms of cause, time, place, and amount.

Liability insurance covers losses resulting from damage to people or property when the insured is judged responsible. Property insurance covers losses to a firm's won buildings, equipment, and financial assets. Life insurance pays benefits to the survivors of a policyholder and has a cash value that can be claimed before the policyholder's death. Health insurance covers losses resulting from medical and hospital expenses.

**The Role of the Financial Manager**

Corporate finance typically entails four responsibilities: determining a firm's long-term investments, obtaining funds to pay for those investments, conducting the firm's everyday financial activities, and helping to manage the risks the firm takes.

Responsibilities of the **Financial Manager** include planning and controlling the acquisition and dispersal of a firm's financial resources.

- i. **Cash-Flow Management**—management of cash inflows and outflows to ensure adequate funds for purchases and the productive use of excess funds.
- ii. **Financial Control**—process of checking actual performance against plans to ensure that desired financial results occur.
- iii. **Financial Planning**—A **financial plan** shows the funds a firm will need for a period of time, as well as the sources and uses of those funds. A strategy for reaching some future financial position.

### Why Do Businesses Need Funds?

It takes capital to run a business. There are numerous expenditures, which can be classified into two broad categories.

#### Short-Term (Operating) Expenditures

- i. **Accounts Payable**—unpaid bills plus wages and taxes due within the upcoming year.
- ii. **Accounts Receivable**—funds due from customers who have bought on credit. **Credit Policy**—rules governing a firm's extension of credit to customers.
- iii. **Inventories**—materials and goods which are held by a company but which will be sold within the year. The goal is to maintain an adequate supply without incurring more costs than necessary for storage, handling, insurance, and taxes. Three types of inventories—raw materials inventory, work-in-process inventory, and finished-goods inventory.
- iv. **Working Capital**—liquid current assets out of which a firm can pay current debts. Calculated by adding inventories (raw materials, work-in-process, and finished goods on hand) and accounts receivable (minus accounts payable).

#### Long-Term (Capital) Expenditures

Companies need funds to cover long-term expenditures on fixed assets. Long-term expenditures are not normally sold or converted into cash, require a very large investment, and represent a binding commitment of company funds that continues long into the future.

##### 1. Sources of Short-Term Funds

- a. **Trade Credit**—when a company buys products or supplies on credit from its suppliers, postponing payment.
  - i. **Open-Book Credit**—form of trade credit in which sellers ship merchandise on faith that payment will be forthcoming. Granting of credit by one firm to another.
  - ii. **Promissory Note**—form of trade credit in which sellers insist that buyers sign a legally binding agreement before merchandise is shipped.
  - iii. **Trade Draft**—form of trade credit in which a document stating the promised date and amount of payment due, is attached to the merchandise shipment by the seller.

## Secured Short-Term Loans

**Secured loans** are those backed by some specific valuable item or items, known as **collateral**, which may be seized by the lender, should the borrower fail to repay the loan.

- i. **Inventory Loans** use inventory as a collateral asset.
- ii. **Accounts Receivable**—accounts receivable are used as collateral, known as **pledging accounts receivable**.

**Factoring Accounts Receivable** — A firm can raise funds rapidly by factoring: selling the firm's accounts receivable. They are sold at a discount.

## Unsecured Short-Term Loans

- i. **Line of Credit**—standing arrangement in which a lender agrees to make available a specified amount of funds upon the borrower's request.
- ii. **Revolving Credit Agreement**—arrangement in which a lender agrees to make funds available on demand and on a continuing basis.
- iii. **Commercial Paper**—short-term securities, or notes, containing a borrower's promise to pay. Matures in 270 days or less.

## 2. Sources of Long-Term Funds

- a. **Debt Financing**—used to cover long-term expenses such as assets (generally repaid in more than one year).
  - i. **Long-Term Loans** usually issued by commercial banks. **Interest rates** fluctuate over time, and financial managers try to time their borrowing to take advantage of drops in interest rates.
  - ii. **Corporate Bonds**—Terms of a bond, including the amount to be paid, the interest rate, and the maturity date differ from company to company and from issue to issue. They are spelled out in the bond contract, or **bond indenture**.

**Equity Financing** — use of common stock and/or retained earnings to raise long-term funding.

- i. **Common Stock**—selling ownership to raise money.
- ii. **Retained Earnings**—reinvesting profits in the company rather than issue a dividend
- iii. **Financial Burden on the Firm**—a firm cannot deduct paid-out dividends as business expenses but it can deduct the interest it pays on bonds. However, debt is a legal obligation to repay regardless of changes in economic conditions.

**Hybrid Financing: Preferred Stock** — Preferred stock is a "hybrid" because it has some of the features of both corporate bonds and common stocks. Provides a fixed dividend, is paid dividends before common stock, and has no voting rights.

**Choosing between Debt and Equity Financing** — relative mix of a firm's debt and equity financing.

- i. **Indexes of Financial Risk**—To help understand and measure the amount of financial risk they face, financial managers rely on published indexes for various investments.

**The Risk-Return Relationship** — principle that, whereas safer investments tend to offer lower returns, riskier investments tend to offer higher returns.

### 3. Financial Management for Small Business

**Establishing Bank and Trade Credit** — obtaining a line of credit begins with finding a bank that can and will support a small firm's financial needs. Liberal trade credit terms with suppliers let small firms increase short-term funds and avoid additional borrowing from banks.

- i. **Long-Term Funding**—with unproven repayment ability, start-up firms can expect to pay higher interest rates than older firms. A **Business Plan** detailing financial needs may help attain financing.

**Venture Capital** — outside equity financing provided in return for part ownership of the borrowing firm.

**Planning for Cash-Flow Requirements** — Cash-flow planning is especially critical for small businesses. By anticipating shortfalls, a financial manager can seek funds in advance and minimize their cost.

### 4. Risk Management

- a. Coping with Risk

**Speculative Risk** — risk involving the possibility of gain or loss.

**Pure Risk** — risk involving only the possibility of loss or no loss.

**Risk Management**—process of conserving the firm's earning power and assets by reducing the threat of losses due to uncontrollable events.

- i. **Step 1:** Identify Risks and Potential Losses
- ii. **Step 2:** Measure the Frequency and Severity of Losses and their Impact
- iii. **Step 3:** Evaluate Alternatives and Choose the Techniques That Will Best Handle the Losses

**Risk Avoidance**—practice of avoiding risk by declining or ceasing to participate in an activity.

**Risk Control**—practice of minimizing the frequency or severity of losses from risky activities.

**Risk Retention**—practice of covering a firm's losses with its own funds.

**Risk Transfer**—practice of transferring a firm's risk to another firm. A **Premium** is the fee paid by a policyholder for insurance coverage

- iv. **Step 4:** Implement the Risk-Management Program
- v. **Step 5:** Monitor Results

The Contemporary Risk Management Program — Virtually all business decisions involve risk having financial consequences. The company's chief financial officer (CFO) has a major voice in applying the risk management process.

### Insurance as Risk Management

Companies may choose to transfer the risk of loss to an insurance company, which will agree to compensate them for certain types of losses.

- i. **Insurable versus Uninsurable Risk**—Insurance companies must avoid certain risks. Insurers divide potential sources of loss into insurable and uninsurable risks. An insurable risk must meet four criteria:
  1. Predictability
  2. Casualty
  3. un-connectedness
  4. Verifiability.
  
- ii. **The Insurance Product**
  1. **Liability Insurance**—insurance covering losses resulting from damage to people or property when the insured is judged responsible.
  2. **Workers' Compensation Coverage**—coverage provided by a firm to employees for medical expenses, loss of wages, and rehabilitation costs resulting from job-related injuries or disease.
  3. **Property Insurance**—insurance covering losses resulting from physical damage to or loss of the insured's real estate or personal property.
  4. **Business Interruption Insurance**—insurance covering income lost during times when a company is unable to conduct business.
  5. **Life Insurance**—insurance paying benefits to the policyholder's survivors.
  6. **Group Life Insurance**—insurance underwritten for a group as a whole rather than for each individual in it.
  7. **Health Insurance**—insurance covering losses resulting from medical and hospital expenses as well as income lost from injury or disease.
  8. **Disability Income Insurance**—insurance providing continuous income when disability keeps the insured from gainful employment.
  9. **Special Health Care Providers**
    - a. **health maintenance organization (HMO)**—organized health care system providing comprehensive care in return for fixed membership fees
    - b. **preferred provider organization (PPO)**—arrangement whereby selected professional providers offer services at reduced rates and permit thorough review of their service recommendations
    - c. **point-of-service (POS) plan**—plan that allows member patients to select a primary care doctor who provides medical services but may refer patients to other providers in the plan
  10. **Special Forms of Business Insurance**
    - a. **Key Person Insurance**—special form of business insurance designed to offset both lost income and additional expenses.
    - b. **Business Continuation Agreement**—special form of business insurance whereby owners arrange to buy the interests of deceased associates from their heirs.

**THE END**