SUBJECT:

MANAGEMENT

UNIT-1:

MANAGEMENT AND ECONOMICS

By:

Aksha Memon

Principal, Mindopedia Academy

EasyNotes4U

Make Your Exams Easy

EasyNotes4U

www.easynotes4u.com

support@easynotes4u.com

+91-8814931483

TABLE OF CONTENTS

	Techniques Tools
5.	**Organisation Structure and Design** Types, Authority, Responsibility, Centralisation, Decentralisation Span of Control
6.	**Managerial Economics –** Concept & Importance
7.	**Demand analysis –** Utility Analysis, Indifference Curve, Elasticity & Forecasting
8.	Market Structures – Market Classification & Price Determination
9.	**National Income –** Concept, Types Measurement
10.	**Inflation –** Concept, Types Measurement
11.	Business Ethics & CSR

12.	Ethical Issues & Dilemma
13.	Corporate Governance
14.	Value Based Organisation

CHAPTER 1: MANAGEMENT – CONCEPT, PROCESS, THEORIES AND APPROACHES, MANAGEMENT ROLES AND SKILLS

Concept of Management:

The concept of management has acquired special significance in the present competitive and complex business world. Efficient and purposeful management is absolutely essential for the survival of a business unit. Management concept is comprehensive and covers all aspects of business. In simple words, management means utilising available resources in the best possible manner and also for achieving well defined objectives. It is a distinct and dynamic process involving use of different resources for achieving well defined objectives. The resources are: men, money, materials, machines, methods and markets. These are the six basic inputs in management process (six M's of management) and the output is in the form of achievement of objectives. It is the end result of inputs and is available through efficient management process.

The term 'management' is used extensively in business. It is the core or life giving element in business. We expect that a business unit should be managed efficiently. This is precisely what is done in management. Management is essential for the conduct of business activity in an orderly manner. It is a vital function concerned with all aspects of working of an enterprise.

Definitions of Management:

1. According to George R. Terry, "Management is a distinct process consisting of planning, organising, actuating and controlling,

performed to determine and accomplish stated objectives by the use of human beings and other resources".

2. According to Henry Fayol, "To manage is to forecast and to plan, to organise, to command, to coordinate and to control".
3. According to Peter Drucker, "Management is a multi-purpose organ that manages business and manages managers and manages workers and work".
4. According to Harold Koontz, "Management is the art of getting things done through and with people in formally organized groups”.
5. According to Mary Parker Fallett, "Management is the art of getting things done through people".

Characteristics of Management

1. Management is a managerial process: Management is a process and not merely a body of individuals. Those who perform this process are called managers. The managers exercise leadership by assuming authority and direct others to act within the organisation. Management process involves planning, organising, directing and unifying human efforts for the accomplishment of given tasks.
2. Management is a social process- Management takes place through people. The importance of human factor in management cannot be ignored. A manager's job is to get the things done with the support and cooperation of subordinates. It is this human element which gives management its special character.
3. Management is action-based: Management is always for achieving certain objectives in terms of sales, profit, etc. It is a result-oriented concept and not merely an abstract philosophy. It gives importance to

concrete performance through suitable actions. It is an action based activity.

4. Management involves achieving results through the efforts of others: Management is the art of getting the things done through others. Managers are expected to guide and motivate subordinates and get the expected performance from them. Management acts as an activating factor.
5. Management is a group activity: Management is not an isolated individual activity but it is a collective activity or an activity of a group. It aims at using group efforts for achieving objectives. Managers manage the groups and coordinate the activities of groups functioning in an organisation.
6. Management is intangible: Management is not directly visible but its presence is noticed in the form of concrete results. Management is intangible. It is like invisible spirit, which guides and motivates people working in a business unit. Management is like government, which functions but is not visible in physical form.
7. Management is aided, not replaced by computers: The computer is an extremely powerful tool of management. It helps a manager to widen his vision. The computer supplies ocean of information for important decision-making. The computer has unbelievable data processing and feedback facilities. This has enabled the manager to conduct quick analysis towards making correct decisions. A computer supports manager in his managerial work. However, it cannot replace managers in business. They were required in the past, at present and also in

future. Their existence is absolutely essential in the management process.

8. Management is all pervasive: Management is comprehensive and covers all departments, activities and employees. Managers operate at different levels but their functions are identical. This indicates that management is a universal and all pervasive process.
9. Management is an art, science as well as a profession: Management is an art because certain skills, essential for good management, are unique to individuals. Management is a science because it has an organised body of knowledge. Management is also a profession because it is based on advanced and cultivated knowledge.
10. Management aims at coordination of activities: Coordination is the essence of management. It gives one clear direction to the whole organisation and brings unity and harmony in the whole business unit. For such coordination, effective communication at all levels is essential.
11. Management is innovative: Management techniques are dynamic and innovative. They need to be adjusted as per the requirements of the situations. Another manager need not repeat the decisions of one manager. Similarly, a manager has to change his decisions under different situations.
12. Management has different operational levels: Every Organisation needs managers for managing business activities. The manager's job is basically the same at all levels. The managers at the higher levels have more important duties while managers at the lower levels have to perform routine functions i.e duties.

13. Management is different from ownership: Management is concerned with the management of business activities. Managers are not the owners but they manage the business on behalf of the owners. Separation of ownership and management is a special feature of modem business organisation.
14. Management has vast scope: The scope of management is quite comprehensive. It covers all aspects of business. The principles of management guide managers while managing various business activities.
15. Management is dynamic: Business is influenced by changes in economic, social, political technological and human resource. Management adjusts itself to the changing atmosphere making suitable forecasts and changes in the policies. Hence, management is treated as a dynamic activity.
16. Management aims at achieving predetermined objectives: Management is a meaningful activity. All organisations are essentially groups of individuals formed for achieving common objectives. An Organisation exists for the attainment of specific objectives.

Need of Management

1. Direction, coordination and control of group efforts: In business, many persons work together. They need proper direction and guidance for raising their efficiency. In the absence of guidance, people will work as per their desire and the, orderly working of enterprise will not be possible. Management is needed for planning business activities, for guiding employees in the right direction and finally for coordinating their efforts for achieving best/most favorable results.

2. Orderly achievement of business objectives: Efficient management is needed in order to achieve the objectives of business activity in an orderly and quick manner.
3. Performance of basic managerial functions: Planning, Organising, Co-ordinating and Controlling are the basic functions of management. Management is needed as these functions are performed through the management process.
4. Effective communication at all levels: Management is needed for effective communication within and outside the Organisation.
5. Motivation of employees: Management is needed for motivating employees and also for coordinating their efforts so as to achieve business objectives quickly.
6. Success and stability of business enterprise: Efficient management is needed for success, stability and prosperity of a business enterprise.

Modem business is highly competitive and needs efficient and capable management for survival and growth. Management is needed as it occupies a unique position in the smooth functioning of a business unit. This suggests the need of efficient management of business enterprises. Profitable/successful business may not he possible without efficient management. In this sense, "No management, no business" is true. Survival of a business unit in the present competitive world is possible only through efficient and competent management.

Meaning of Management Process

The term management is explained in different ways. For example, it is said that management is what management does. Here, management is explained with reference to its basic functions which include planning, organising,

UGC NET MANAGEMENT

ORGANIZATIONAL BEHAVIOUR AND HRM

SECOND EDITION - 2019

EasyNotes4U
Make Your Exams Easy

DR. GAURAV JANGRA

WWW.EASYNOTES4U.COM

SUBJECT:
MANAGEMENT

UNIT-2:
ORGANIZATIONAL BEHAVIOUR AND HRM

By:

Dr. Gaurav Jangra

MBA, M.COM, NET & JRF (Commerce & Management, Ph.D.

EasyNotes4U

Make Your Exams Easy

EasyNotes4U

www.easynotes4u.com

Contents

CHAPTER -1: ORGANISATIONAL BEHAVIOUR – SIGNIFICANCE & THEORIES

MEANING

Organizational Behavior (OB) is the study of human behavior in organizational settings, the interface between human behavior and the organization, and the organization itself.

Organizational Behavior researchers study the behavior of individuals primarily in their organizational roles.

One of the main goals of organizational behavior is to revitalize organizational theory and develop a better conceptualization of organizational life.

As a multidisciplinary field, organizational behavior has been influenced by developments in a number of allied disciplines including sociology, psychology, economics, and engineering as well as by the experience of practitioners.

DEFINITIONS:

"Organisational behaviour is a subset of management activities concerned with understanding, predicting and influencing individual behaviour in organisational setting."—Callahan, Fleenor and Kudson.

"Organisational behaviour is a branch of the Social Sciences that seeks to build theories that can be applied" to predicting, understanding and controlling behaviour in work organisations."—Raman J. Aldag.

"Organisational behaviour is the study and application of knowledge about how people act within an organisation. It is a human tool for human benefit. It applies broadly to the behaviour of people in all types of organisation."— Newstrom and Davis.

"Organisational behaviour is directly concerned with the understanding, production and control of human behaviour in organisations."—Fred Luthans.

"Organisational behaviour is a field of study that investigates the impact that individuals, groups and structure have on behaviour within the organisations for the purpose of applying such knowledge toward improving an organization's effectiveness."—Stephens P. Robbins.

In short, organisational behaviour revolves around two fundamental components:

1. The nature of the man.
2. The nature of the organization.

In other words, organizational behaviour may be organization of individual's behaviour in relation to physical means and resources so as to achieve the desired objective of the organization.

Organisational Behaviour, Organizational Theory, Organizational Psychology and Human Resource Management:

Organizational behaviour is generally confused with organisational theory, organizational psychology, and human resource management. Organisational psychology restricts itself to psychological factors only whereas organizational behaviour considers and combines all the branches of study e.g. Science, technology, economics, anthropology, psychology and so on and so forth.

Organisational behaviour is the basis of human resource management and development. The former is concept oriented whereas the latter is concerned with the technology of human development. The variables influencing human development are scientifically studied under organisational behaviour.

Human resource management, is activated, directed and channelized by the application of the knowledge of organizational behaviour which has become a field of study, research and application for the development of human resources and the organisation as a whole. Thus, we can say that all these terms are interrelated but not synonymous with each other.

HISTORY AND EVOLUTION OF ORGANIZATIONAL BEHAVIOR STUDIES

- Origin of Organizational Behaviour can trace its roots back to Max Weber and earlier organizational studies.
- The Industrial Revolution is the period from approximately 1760 when new technologies resulted in the adoption of new manufacturing techniques, including increased mechanization.
- The industrial revolution led to significant social and cultural change, including new forms of organization.
- Analyzing these new organizational forms, sociologist Max Weber described bureaucracy as an ideal type of organization that rested on rational-legal principles and maximized technical efficiency.
- In the 1890's; with the arrival of scientific management and Taylorism, Organizational Behavior Studies was forming it as an academic discipline.
- Failure of scientific management gave birth to the human relations movement which is characterized by a heavy emphasis on employee cooperation and morale.
- Human Relations Movement from the 1930's to 1950's contributed to shaping the Organizational Behavior studies.
- Works of scholars like Elton Mayo, Chester Barnard, Henri Fayol, Mary Parker Follett, Frederick Herzberg, Abraham Mas low, David Mc Cellan and Victor Vroom contributed to the growth of Organisational Behaviour as a discipline.
- Works of scholars like Elton Mayo, Chester Barnard, Henri Fayol, Mary Parker Follett, Frederick Herzberg, Abraham Maslow, David Mc Cellan and Victor Vroom contributed to the growth of Organisational Behaviour as a discipline.
- Herbert Simon's Administrative Behavior introduced a number of important concepts to the study of organizational behavior, most notably decision making.
- Simon along with Chester Barnard; argued that people make decisions differently in organizations than outside of them. Simon was awarded the Nobel Prize in Economics for his work on organizational decision making.
- In the 1960s and 1970s, the field became more quantitative and produced such ideas as the informal organization, and resource dependence. Contingency theory, institutional theory, and organizational ecology also enraged.
- Starting in the 1980s, cultural explanations of organizations and organizational change became areas of study.
- Informed by anthropology, psychology, and sociology, qualitative research became more acceptable in OB.

Features of Organizational Behavior

Organizational Behavior is the study and application of knowledge about how people, individuals, and groups act in organizations. It does this by taking a system approach.

That is, it interprets people-organization relationships in terms of the whole person, the whole group, the whole organization, and the whole social system.
Its purpose is to build better relationships by achieving human objectives, organizational objectives, and social objectives.

Organizational Behavior is;

- A Separate Field of Study and not a Discipline Only.
- An Interdisciplinary Approach.
- Applied Science.
- A Normative Science.
- A Humanistic and Optimistic Approach.
- A Total System Approach.

ORGANIZATIONAL BEHAVIOR – CONCEPTS

The concept of OB is based on two key elements namely −

- Nature of people
- Nature of the organization

Nature of People

In simple words, nature of people is the basic qualities of a person, or the character that personifies an individual they can be similar or unique. Talking at the organizational level, some major factors affecting the nature of people have been highlighted. They are −

- **Individual Difference** − It is the managerial approach towards each employee individually, that is one-on-one approach and not the statistical approach, that is, avoidance of single rule. **Example**− Manager should not be biased towards any particular employee rather should treat them equally and try not to judge anyone on any other factor apart from their work.
- **Perception** − It is a unique ability to observe, listen and conclude something. It is believing in our senses. In short, the way we interpret things and have our point of view is our perception. **Example** − Aman thinks late night parties spoil youth while Anamika thinks late night parties are a way of making new friends. Here we see both Aman and Anamika have different perception about the same thing.
- **A whole person** − As we all know that a person's skill or brain cannot be employed we have to employee a whole person. Skill comes from background and knowledge. Our personal life cannot be totally separated from our work life, just like emotional conditions are not separable from physical conditions. So, people function is the functioning of a total human being not a specific feature of human being.
- **Motivated behavior** − It is the behavior implanted or caused by some motivation from some person, group or even a situation. In an organization, we can see two different types of motivated employees −
  - **Positive motivation** − Encouraging others to change their behavior or say complete a task by luring them with promotions or any other profits. Example − "If you complete this, you will gain this."
  - **Negative motivation** − Forcing or warning others to change their behavior else there can be serious consequences. Example − "If you don't complete this, you will be deprived from the office."
- **Value of person** − Employees want to be valued and appreciated for their skills and abilities followed by opportunities which help them develop themselves.

Nature of Organization

Nature of organization states the motive of the firm. It is the opportunities it provides in the global market. It also defines the employees' standard; in short, it defines the character of the company by acting as a mirror reflection of the company. We can understand the nature of any firm with its social system, the mutual interest it shares and the work ethics.
Let us take a quick look at all these factors −

- **Social system** − Every organization socializes with other firms, their customers, or simply the outer world, and all of its employees - their own social roles and status. Their behavior is mainly influenced by their group as well as individual drives. Social system are of two types namely −
  - **Formal** − Groups formed by people working together in a firm or people that belong to the same club is considered as **formal social system**. **Example** − A success party after getting a project.
  - **Informal** − A group of friends, people socializing with others freely, enjoying, partying or chilling. **Example** − Birthday party.
- **Mutual interest** − Every organization needs people and people need organizations to survive and prosper. Basically it's a mutual understanding between the organization and the employees that helps both reach their respective objectives. **Example** − We deposit our money in the bank, in return the bank gives us loan, interest, etc.
- **Ethics** − They are the moral principles of an individual, group, and organization. In order to attract and keep valuable employees, ethical treatment is necessary and some moral standards need to be set. In fact, companies are now establishing code of ethics training reward for notable ethical behavior.

ORGANIZATIONAL BEHAVIOR – DETERMINANTS

There are three major factors that affect OB. The working environment being the base for all three factors, they are also known as the determinants of OB. The three determinants are −

- People
- Structure
- Technology

UGC NET MANAGEMENT

UNIT-3: HRM

SECOND EDITION

2019

EasyNotes4U

Make Your Exams Easy

DR. GAURAV JANGRA

HOD COMMERCE

MBA, M.COM, NET, JRF, PH.D

WWW.EASYNOTES4U.COM

SUBJECT:
MANAGEMENT

UNIT-3:
HUMAN RESOURCE MANAGEMENT

BY:
DR. GAURAV JANGRA
PhD, MBA, M.COM, NET, JRF

Published By:

EasyNotes4U
Website: www.easynotes4u.com
Email: support@easynotes4u.com
Contact: +91-8814931483

CONTENTS

CHAPTER-1: STRATEGIC ROLE OF HUMAN RESOURCE MANAGEMENT

STRATEGIC HUMAN RESOURCE MANAGEMENT

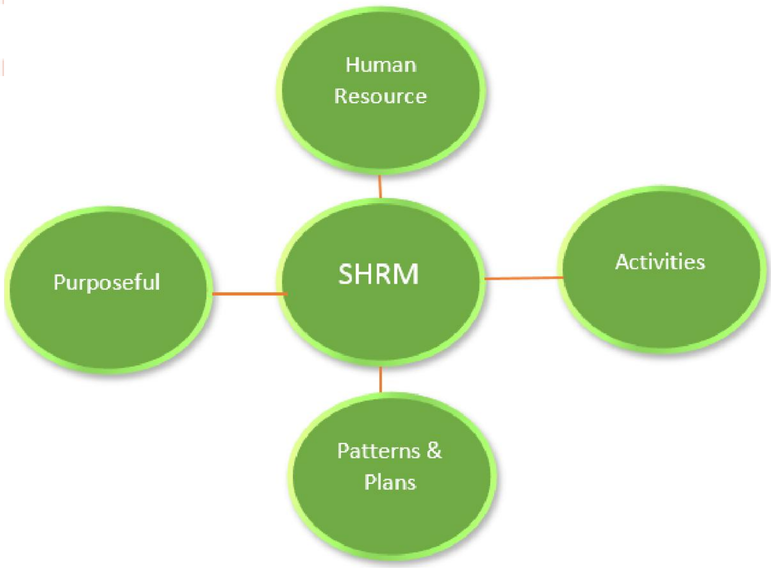
Strategic human resource management is an approach to the practice of human resources that addresses business challenges and makes a direct contribution to long-term objectives. The primary principle of strategic human resource management is to improve business performance and uphold a culture that inspires innovation and works unremittingly to gain a competitive advantage. It's a step above traditional human resources and has a wider reach throughout the organization.

Strategic human resource management has no set definition nor one specific model that practitioners follow. There are organizations, like the American College of Healthcare Executives (ACHE), that suggest best practices for their own profession. The framework that does apply universally to the discipline of strategic human resource management is the link between it and the overall business strategy.

STRATEGIC HUMAN RESOURCE MANAGEMENT'S RELATIONSHIP TO BUSINESS STRATEGY

Reaching ultimate business goals requires leadership. Strategic human resource management encompasses the traditional human resources functions of recruiting, screening, interviewing, and hiring employees, but also works with the overall organizational strategy to achieve success.

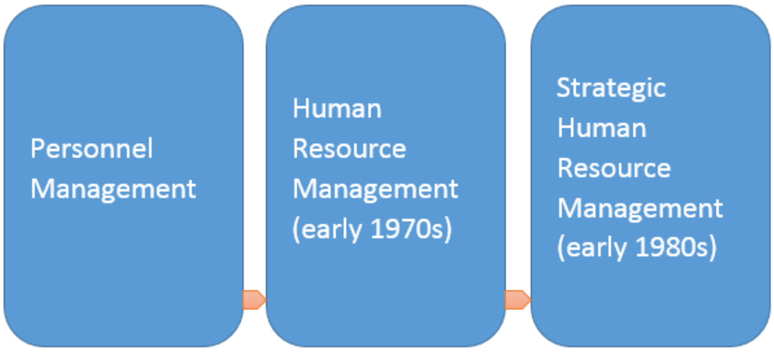
Components of SHRM:



Strategic HRM stresses the requirement for Human Resource plans and strategies to be devised within the framework of general organizational strategies and objectives, and to be approachable to the varying nature of the organizations outside environment. It is a representation which requires interpretation and adjustment by specialists to make sure the most fit between human resource and business strategies and plans. Thus, Strategic Human Resource Management is the incorporation of the adherence of all human resource functions to broad organizational goals, and awareness to the external environment.

Theoretical review of Strategic human resource management: The field of human resource strategy differs from traditional HR management research in two significant ways. First, Strategic human resource management focuses on organizational performance instead of individual performance. Secondly, it also stresses the role of human resource management systems in order to resolve business problems rather than individual human resource management practices in separation. It is apparent that previous studies done for Strategic human resource management are positively related with various conceptualisations of HRM and firm performance (Wright et al., 2005). The strategic dimension of human resource management got attention of researchers at the end of the 1970s, with the confluence of basic changes in the literature. There was shift from the old personnel administration approach to the more modern concept of human resources and the reorientation of generic strategic models to internal aspects of the organization. Strategic Human Resource Management is the designed pattern of human resource deployment and activities intended to enable the organization to meet organizational goals and objectives (Noe et al. 2007). According to Wright and McMahan, strategic human resource management is "the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals" (1992).

Evolution of SHRM:

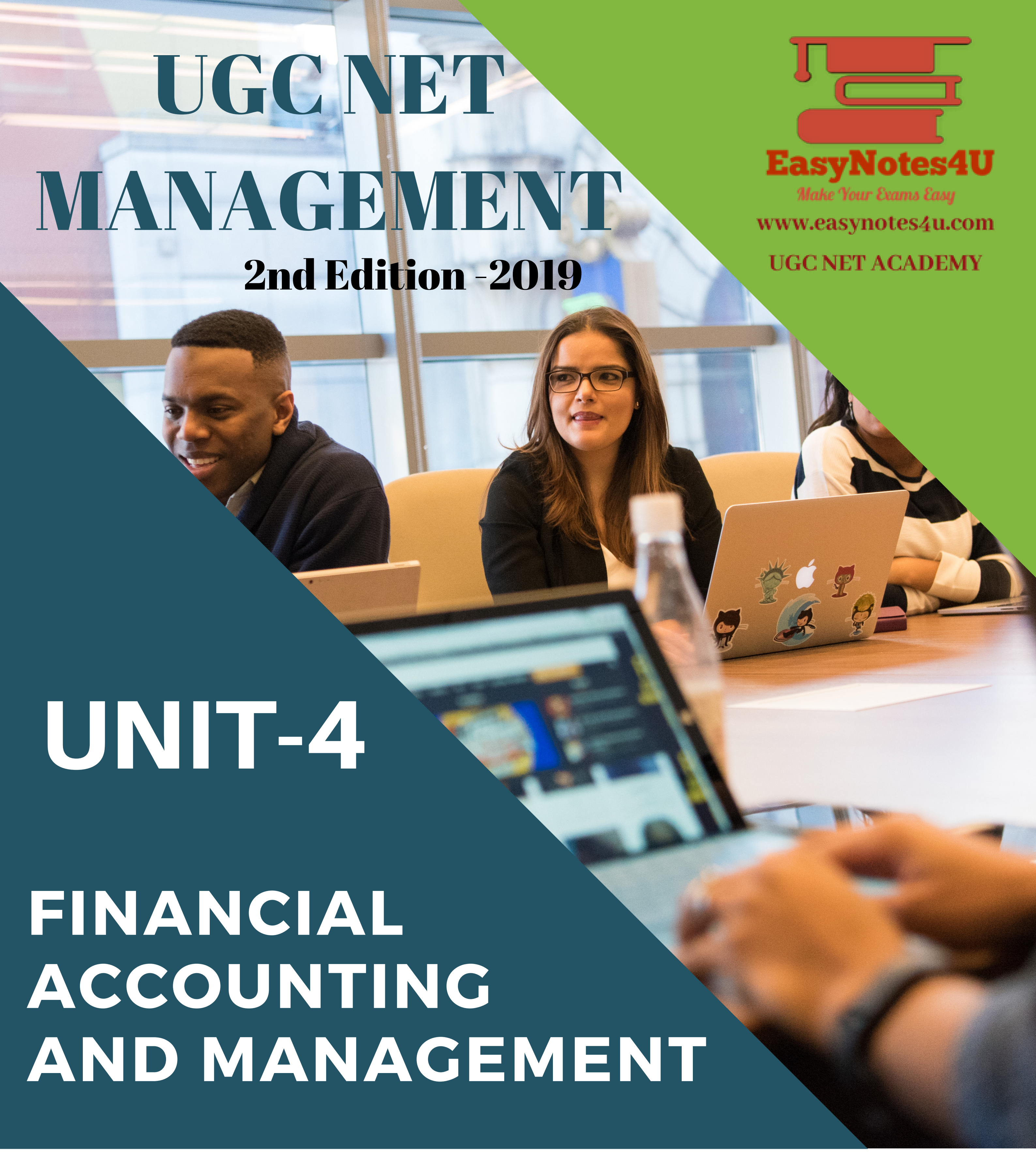


The issue of Strategic human resource management emerged in the beginning of 1990s, at that time scholarly experts described it as: The undertaking of all those activities affecting the behavior of individuals in their efforts to formulate and implement the strategic needs of business. Strategic human resource management deals with extensive organizational issues relating to changes in structure and culture, organizational efficacy and performance, matching resources to future requirements, the development of distinguishing capabilities, knowledge management, and the management of change. It is concerned with both human capital requirements and the development of process capabilities. In general, Strategic human resource management addresses any major people issues that are influenced by the strategic plans of the organization. In theoretical literature, SHRM has been explained "A distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personnel techniques" (Storey, 2001: 6). The simplest representation of the Strategic human resource management model is an association between a firm's HR architecture and firm performance. The HR architecture comprises of the systems, practices, competencies, and employee performance behaviours that reveal the development and management of the firm's strategic human capital. Strategic human resource management mainly emphasizes on actions that distinguish the firm from its competitors (Purcell, 1999). Hendry and Pettigrew (1986) put forward that it has four meanings such as the use of planning; a coherent approach to the design and management of personnel systems based on an employment policy and workforce strategy and often underpinned by a 'philosophy'; matching HRM activities and policies to some explicit business strategy; seeing the people of the organization as a 'strategic resource' for the achievement of 'competitive advantage'. As Boxall (1996) commented that 'The critical concerns of HRM, such as choice of executive leadership and formation of positive patterns of labour relations, are strategic in any firm.' His underlying principle for strategic HRM is the apparent advantage of having an agreed and understood basis for developing approaches to people management in the long term.

According to Lengnick-Hall and Lengnick-Hall (1990), it is the concept of accomplishing competitive advantage. The strategic human resource role focuses to align human resource strategies and practices with business strategy. In this perspective, the HR expert works to be a strategic associate, helping to make certain the success of business strategies. By fulfilling this role, HR professionals increase the capacity of a business to implement its strategies. Converting business strategies into HR practices assists a business in three ways. First, the business can adjust to change because the time from the conception to the execution of a strategy is brief. Second, the business can fulfil purchaser demands because its customer service strategies have been translated into specific policies and practices. Third, the business can accomplish financial performance through its more effective execution of strategy.

Strategic human resource management supplies a perception that critical issues or success factors related to people can be addressed and strategic decisions are taken that have a major and long-term impact on the behaviour and triumph of the organization. The basic objective of Strategic human resource management is to create strategic capability to make certain that the organization has the skilled, committed and well-motivated employees it needs to accomplish sustained competitive advantage. Its purpose is to give a sense of direction in an often unstable environment so that the business needs of the organization and the individual and combined needs of its workers can be fulfilled by the development and execution of consistent and practical human resource strategies and programmes.

Dyer and Holder (1988) commented that tactical human resource management should provide 'unifying frameworks which are at once broad, contingency based and integrative'. Storey's (1989) described that soft strategic HRM will place greater prominence on the human relations aspect of people management, stressing continuous development, communication, involvement, security of employment, the quality of working life and work-life balance. 'Hard strategic HRM' will emphasize the yield to be obtained by investing in human resources in the interests of the business. Strategic human resource management tries to accomplish proper balance between the hard and soft elements. All organizations exist to achieve a purpose and they must ensure that they have the resources required to do so and that they use them effectively. But they should also take into account the human considerations contained in the notion of soft strategic HRM. It is a general belief in the business world that the human resources of an organization can be a basis of competitive advantage, provided that the policies and practices for managing people are incorporated with planned goals and objectives. Strategic human resource management highlights the significance of establishing equivalence between human resource policies and organizational strategic goals.



UGC NET MANAGEMENT

2nd Edition -2019

EasyNotes4U
Make Your Exams Easy
www.easynotes4u.com
UGC NET ACADEMY

UNIT-4

FINANCIAL ACCOUNTING AND MANAGEMENT

DR. GAURAV JANGRA

MBA, M.COM, NET, JRF, PhD

SUBJECT:
MANAGEMENT

UNIT – IV
FINANCIAL ACCOUNTING AND MANAGEMENT

By:
Dr. Gaurav Jangra
MBA, M.COM, NET & JRF (Commerce & Management), Ph.D

EasyNotes4U Academy for UGC NET & JRF

Website: www.easynotes4u.com
Email: support@easynotes4u.com
Contact: +91-8814931483

Table of Contents

CHAPTER-1: ACCOUNTING PRINCIPLES AND STANDARDS

Accounting

"Accounting is the art of recording, classifying and summarizing in significant manner and in terms of money, transactions and events which are in part, at least of a financial character and interpreting the result thereof".

Accounting Principles:

There are general rules and concepts that govern the field of accounting. These general rules–referred to as basic accounting **principles and guidelines**–form the groundwork on which more detailed, complicated, and legalistic accounting rules are based. For example, the Financial Accounting Standards Board (FASB) uses the basic accounting principles and guidelines as a basis for their own detailed and comprehensive set of accounting rules and standards.

The phrase "generally accepted accounting principles" (or "GAAP") consists of three important sets of rules: (1) the basic accounting principles and guidelines, (2) the detailed rules and standards issued by FASB and its predecessor the Accounting Principles Board (APB), and (3) the generally accepted industry practices.

If a company distributes its financial statements to the public, it is required to follow generally accepted accounting principles in the preparation of those statements. Further, if a company's stock is publicly traded, federal law requires the company's financial statements be audited by independent public accountants. Both the company's management and the independent accountants must certify that the financial statements and the related notes to the financial statements have been prepared in accordance with GAAP.

GAAP is exceedingly useful because it attempts to standardize and regulate accounting definitions, assumptions, and methods. Because of generally accepted accounting principles we are able to assume that there is consistency from year to year in the methods used to prepare a company's financial statements. And although variations may exist, we can make reasonably confident conclusions when comparing one company to another, or comparing one company's financial statistics to the statistics for its industry. Over the years the generally accepted accounting principles have become more complex because financial transactions have become more complex.

Accounting Principles Definition:

Accounting principles are uniform practices which entities follow to record, prepare and present financial statements. An entity must prepare its financial statements as per acceptable accounting principles in order to present true and fair view of state of affairs of entity.

In India, general accounting principles are accounting standards and Indian Accounting Standards.

Uniform accounting principles assist in comparison of financial statement of entities. If accounting principles followed are same then reader of financial statements can compare financial results of two entities. However, if separate entities follow different accounting principles, they should at first prepare financials as per same accounting principles and then reader should make a comparison.

Benefits of accounting principles given in Accounting Standards or Indian Accounting Standards (Ind AS):

Accounting principles given in Accounting Standards (AS) and Indian Accounting Standards (Ind AS) are of great importance as it provides the basis for:

1. Recognition of an item as income, expense, asset or liability
2. At what amount it shall be recognised in the books of accounts and
3. How to present these items in statement of P and L or Balance sheet
4. It also provides what all disclosures are required to be made with respect to the items recognised.

Accounting principles guide entities on preparation and presentation of financial statements. It reduces the inconsistencies, presents true and fair view of state of affairs and makes comparison easier.

Accounting Principles are different from accounting policies:

Accounting principles are different from accounting policies. Per se, accounting principles are broader than accounting policies. Accounting principle has been defined above. Accounting policies are accounting principles used in preparing, presenting and disclosing one specific item.

For instance, depreciation is an accounting principle of amortising the amount of tangible asset. Now depreciation can be charged by Straight Line Method (SLM), Written Down Value (WDV) method, etc. Depreciation of tangible asset is an accounting principle whereas following SLM method for depreciation is an accounting policy.

An entity incurred an expense on purchase of a machinery, whose benefit entity will have for the next 5 years. In such case, entire expense should not be charged in the first year, it will be matched with the benefits derived from such asset over 5 years. Now, entity can either follow a policy to charge depreciation at Straight Line Method (SLM) or Written Down Vale (WDV). If entity's benefits flow in a straight line it can charge depreciation in a SLM. But, if the benefits will be higher in the starting years, entity can charge depreciation using the WDV method.

Accounting principles are the basis on which financial statements are prepared. Uniformity in accounting principles is a key for a reader to read and compare financial statements of two entities.

Accounting Principles (Accounting Standards)

Accounting concepts

1. Separate Entity Concept
2. Going Concern Concept
3. Money Measurement Concept
4. Cost Concept
5. Dual Aspect Concept
6. Accounting Period Concept
7. Periodic Matching of Cost and Revenue Concept
8. Realisation Concept

Accounting Conventions (Accounting postulates)

1. Convention of Consistency
2. Convention of full disclosure
3. Convention of Materiality
4. Convention of Conservatism

Accounting Concepts

It includes those basic assumptions or conditions upon which the science of account is based.

1. Separate Entity Concept:

In Accounting business is considered to be a separate entity from the proprietor(s). This concept is applicable to all forms of business organizations.

Ex-In case of partnership business or sole proprietorship business, though partners or sole proprietors are not considered as separate entities is the eyes of law, but for accounting purposes they will be considered as separate entities.

2. Going Concern Concept:

- According to this concept it is assumed that the business will continue for a fairly long time to come.
- It should be noted that the 'going concern concept' does not imply permanent continuance of the enterprise. It rather presumes that the enterprise will continue in operation long enough to charge against income, the cost of fixed assets over their useful lives, to amortize over appropriate period other costs which have been deferred under the actual or matching concept to pay liabilities which they become due and to meet the contractual commitments.

3. Money Measurement Concept:

Accounting records only monetary transactions events or transaction which can't be measured in money do not find place in the accounts book.

Ex- Dedicated and trusted employee is an asset for company but they do not find place in accounts book, although they are very useful for business.

4. Cost Concept:

According to this concept – **a**) an asset is ordinarily entered in the accounting records at the price paid to acquire it, and **b**) this cost is the basis for all subsequent accounting for the assets.

5. Dual Aspect Concept:

According to this concept every business transaction has a dual effect. Ex- If A starts a business with a capital of 10,000, there are two aspects of the transaction. On the one hand the business has set of 10,000, while on the other hand the business has to pay to proprietor a sum of ₹10,000 which is

taken as proprietor capital.

Capital (Equities) = Cash (Assets)

₹10,000= ₹ 10,000

6. Accounting Period Concept:

According to this concept, the life of a business is divided into appropriate segments for studying the results shown by the business after each segment.

Ex-Annual, Semi-Annually or Half Yearly and Quarterly etc. Accounting period generally starts from 01st April and end to 31st March.

7. Periodic Matching of Costs and Revenue Concept:

The objective and motive of business is to earn profit. In order to ascertain the profit made by the business during a period it is necessary that revenues of the period should be matched with the costs (expenses) of the period.

UGC NET MANAGEMENT

2019

UNIT - 5

FINANCIAL MANAGEMENT

Dr. Gaurav Jangra

MBA, M.COM, NET, JRF, PhD

UGC NET ACADEMY

EasyNotes4U

Make Your Exams Easy

www.easynotes4u.com

Contact: +91-8814931483

UGC NET MANAGEMENT

UNIT - V

FINANCIAL MANAGEMENT

by:

Dr. Gaurav Jangra

EASY NOTES4U

WWW.EASYNOTES4U.COM

UGC NET STUDY MATERIAL AND EBOOKS

Contact Us: +918814931483

Email: support@easynotes4u.com

UGC NET MANAGEMENT (FINANCIAL MANAGEMENT) CONTENTS

- Nature and Scope of Financial Management.
- Valuation Concepts – Risk and Return; Valuation of Securities; Pricing Theories – Capital asset pricing model and Arbitrage pricing theory – Understanding financial statements and analysis thereof.
- Capital budgeting decisions; Risk analysis in capital budgeting and Long – Term sources of finance.
- Capital Structure – Theories and Factors; Cost of capital.
- Dividend Policies – Theories and Determinants.
- Working Capital Management – Determinants and Financing; Cash management; Inventory management; Receivables management.
- Elements of Derivatives.
- Corporate risk management.
- Mergers and Acquitions.
- International Financial Management.

UNIT-I

THE FINANCE FUNCTION

INTRODUCTION:

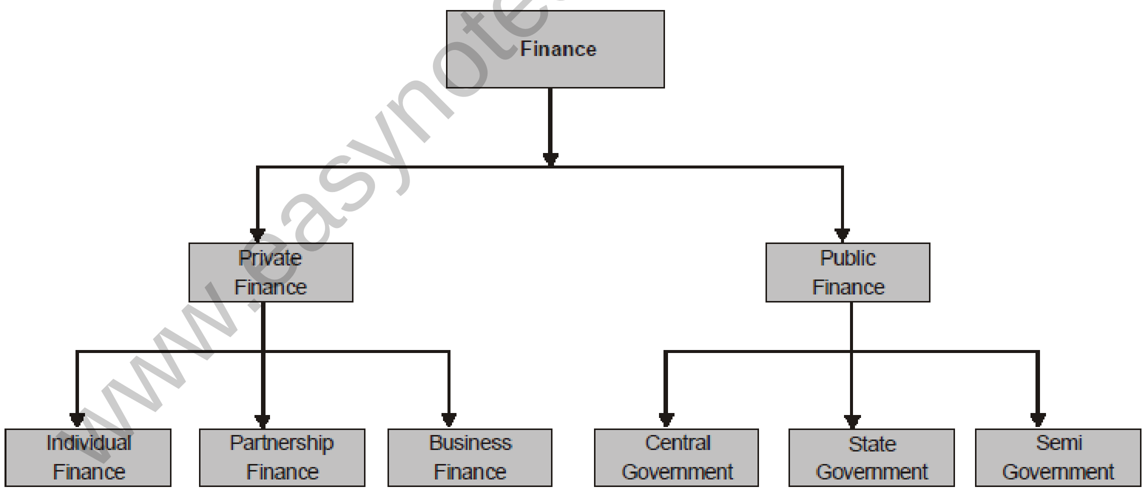
In our present day economy, Finance is defined as the provision of money at the time when it is required. Every enterprise, whether big, medium or small needs finance to carry on its operations and to achieve its targets. In fact, finance is so indispensable today that it is rightly said to be the life blood of an enterprise.

MEANING OF FINANCE

Finance may be defined as the art and science of managing money. It includes financial service and financial instruments. Finance also is referred as the provision of money at the time when it is needed. Finance function is the procurement of funds and their effective utilization in business concerns. The concept of finance includes capital, funds, money, and amount. But each word is having unique meaning. Studying and understanding the concept of finance become an important part of the business concern

TYPES OF FINANCE

Finance is one of the important and integral part of business concerns, hence, it plays a major role in every part of the business activities. It is used in all the area of the activities under the different names. Finance can be classified into two major parts:



Private Finance, which includes the Individual, Firms, Business or Corporate Financial activities to meet the requirements. Public Finance which concerns with revenue and disbursement of Government such
as Central Government, State Government and Semi-Government Financial matters.

Definition:

Finance may be defined as the provision of money at the time when it is required. Finance refers to the management of flow of money through an organization.

- According to WHEELER**,** business finance may be defined as "that business activity which is concerned with the acquisition and conservation of capital

SUBJECT: UGC NET MANAGEMENT

UNIT - 6

STRATEGIC MANAGEMENT
AND
INTRODUCTION TO MARKETING

by:
Dr. Gaurav Jangra

EasyNotes4U

Make Your Exams Easy

EasyNotes4U Academy

www.easynotes4u.com

PART-I

CONTENTS

CHAPTER 1

STRATEGIC MANAGEMENT

INTRODUCTION

Strategic management can be is the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. Strategic management focuses on integrating management, marketing, finance, operations, research and development, and information systems to achieve organizational success. The purpose of strategic management is to exploit and create new and different opportunities for tomorrow. A strategic plan is, in essence, a company's game plan. Just as a cricket team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully. Profit margins among firms in most industries have been so reduced by the global economic crisis that there is little room for error in the overall strategic plan. A strategic plan results from tough managerial choices among numerous good alternatives, and it signals commitment to specific markets, policies, procedures, and operations.

STRATEGY

The word strategy is derived from the Greek word strategos, (meaning army) and ago (meaning leading /moving).Strategy is an action that managers take to attain one or more of the organisation's goals. A strategy is all about integrating organizational activities and utilizing and allocating the scarce resources within the organizational environment so as to meet the present objectives.

Where are the business trying to get to in the long-term (direction), which markets should a business competing in and what kind of activities is involved in such markets? (Markets; scope), How can the business perform better than the competition in those markets? (Advantage), what resources (skills, assets, finance, relationships, technical competence, and facilities) are required in order to be able to compete? (Resources), what external, environmental factors affect the businesses' ability to compete? (Environment), what are the values and expectations of those who have power in and around the business? (Stakeholders).

A few definitions stated below may clarify the concept of Business strategy

Kenneth Andrews "The pattern of objectives, purpose, goals and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be"

Igor Ansoff explained the concept of strategy as "the common thread among the organizations, activities and product markets that defines the essential nature of business that the organization was or planned to be in future".

A few aspects regarding the nature of strategy are as follows:

1. Strategy is concerned with pursuing those activities which move an organization - from its current position to a planned future position

2. It is concerned with the resources necessary for implementing a plan or a predetermined course of action.

3. It is a plan or course of action or a set of decision rules.

4. It is derived from its policies, objectives and goals.

THE CONCEPT OF STRATEGIC MANAGEMENT

The term "Strategic Management" is gaining importance in the era of privatisation, globalization and liberalisation. Strategic management is the process of specifying the organization’s objectives, developing policies and plans to achieve these objectives, and allocating resources to implement the policies and plans to achieve the organization’s objectives. Strategic management, therefore, combines the activities of the various functional areas of a business to achieve organizational objectives. It is the highest level of managerial activity, usually formulated by the Board of Directors and performed by the organization’s Chief Executive Officer (CEO) and executive team. Strategic management provides overall direction to the enterprise and is closely related to the field of organization Studies.

Strategic management techniques can be viewed as bottom-up, top-down or collaborative processes. In the bottom-up approach, employees submit proposals to their managers who, in turn, funnel the best ideas further up the organization. This is often accomplished by a capital budgeting process. Proposals are assessed using financial criteria such as return on investment or cost benefit analysis. The proposals that are approved form the substance of a new strategy, all of which is done without a grand strategic design or a strategic architect. The top-down approach is the most common by far. In it, the CEO possibly with the assistance of a strategic planning team, decides on the overall direction the company should take. Some organizations are starting to experiment with collaborative strategic planning techniques that recognize the emergent nature of strategic decisions.

The twenty fifth National Business Conference sponsored by the Harvard Business School Association in 1955 made one of the earliest attempts to discuss the concept of strategy. In 1965, Ansoff published a book "Business Strategy" which was based on his experiences at the Lock heed Aircraft Corporation. Chandler's historical study of the development of some of the American enterprises proposed strategy as one of the most important variables in the study of organizations. From the literature on strategic management, it is evident that strategic planning refers to the management processes in organizations through which the future impact of change is determined and current decisions are made to reach a designed future. In business parlance, there is no definite meaning assigned to strategy.

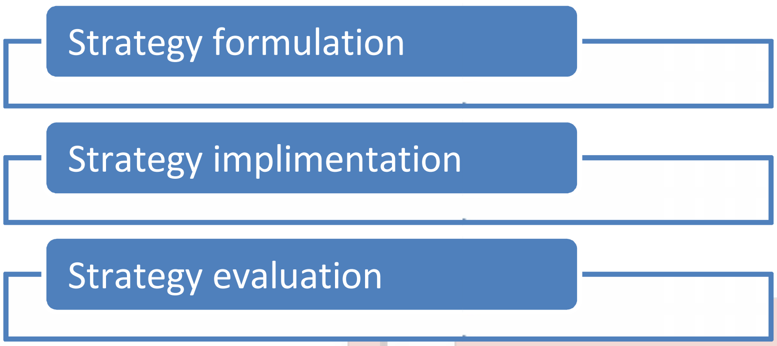
Alfred Chandler (1962) “The determination of the basic long-term goals and objectives for an enterprise and the adoption of action and the allocation of resources necessary for carrying out these goals".

FEATURES

1. Strategic Management is related mostly to external environment.
2. Strategic Management is being formulated at the higher level of management. At operational level, operational strategies are also formulated.
3. Strategic Management integrates three distinct and closely related activities in strategy making. The activities are strategic planning, strategic implementation and strategic evaluation and control.

4. Strategic Management is related to long term.
5. It requires systems and norms for its efficient adoption in any organization.
6. It provides overall frame work for guiding enterprise thinking and action.
7. It is concerned with a unified direction and efficient allocation of organization resources.
8. Strategic Management provides an integrated approach for the organization and aids in meeting the challenges posed by environment.

STRATEGIC MANAGEMENT PROCESS



The strategic management formulation and implementation methods vary with product profile, Company profile, environment within and outside the organization and various other factors. Large organizations which use sophisticated planning use detailed strategic management Models whereas smaller organizations where formality is low use simpler models. Small businesses concentrate on planning steps compared to larger companies in the same industry. Large firms have diverse products, operations, markets, and technologies and hence they have to essentially use complex systems. In spite of the fact that companies have different structures, systems, product profiles, etc, various components of models used for analysis of strategic management are quite similar. You must have observed that different thinkers have defined business strategy differently, yet there are some common elements in the way it is defined and understood. The strategic management consists of different phases, which are sequential in nature.

The strategic-management process consists of three stages:

1. Strategy formulation

2. Strategy implementation, and

3. Strategy evaluation.

Strategy formulation includes developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue. Strategy-formulation issues include deciding what new businesses to enter, what businesses to abandon, how to allocate resources, whether to expand operations or diversify, whether to enter international markets, whether to merge or form a joint venture, and how to avoid a hostile takeover. Because no organization has unlimited resources, strategists must decide which alternative strategies will benefit the firm most. Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time. Strategies determine long-term competitive advantages. For better or worse, strategic decisions have major multifunctional consequences and enduring effects on an organization. Top managers have the best perspective to understand fully the ramifications of strategy-formulation decisions; they have the authority to commit the resources necessary for implementation.
Strategy implementation requires a firm to establish annual objectives, devise policies, motivate

employees, and allocate resources so that formulated strategies can be executed. Strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and utilizing information systems, and linking employee compensation to organizational performance.

Strategy implementation often is called the "action stage" of strategic management. Implementing strategy means mobilizing employees and managers to put formulated strategies into action. Often considered to be the most difficult stage in strategic management, strategy implementation requires personal discipline, commitment, and sacrifice. Successful strategy implementation hinges upon managers' ability to motivate employees, which is more an art than a science. Strategies formulated but not implemented serve no useful purpose. Interpersonal skills are especially critical for successful strategy implementation. Strategy-implementation activities affect all employees and managers in an organization. Every division and department must decide on answers to questions, such as "What must we do to implement our part of the organization's strategy?" and "How best can we get the job done?" The challenge of implementation is to stimulate managers and employees throughout an organization to work with pride and enthusiasm toward achieving stated objectives. Strategy evaluation is the final stage in strategic management. Managers desperately need to know when particular strategies are not working well; strategy evaluation is the primary means for obtaining this information. All strategies are subject to future modification because external and internal factors are constantly changing.

Three fundamental strategy-evaluation activities are

- reviewing external and internal factors that are the bases for current strategies,
- measuring performance, and
- taking corrective actions.

Strategy evaluation is needed because success today is no guarantee of success tomorrow! Success always creates new and different problems; complacent organizations experience demise. Strategy formulation, implementation, and evaluation activities occur at three hierarchical levels in a large organization: corporate, divisional or strategic business unit, and functional. By fostering communication and interaction among managers and employees across hierarchical levels, strategic management helps a firm function as a competitive team. Most small businesses and some large businesses do not have divisions or strategic business units; they have only the corporate and functional levels. Nevertheless, managers and employees at these two levels should be actively involved in strategic-management activities. Peter Drucker says the prime task of strategic management is thinking through the overall mission of a business

The process takes place in the following stages:

1. The Strategic Planner has to define what is intended to be accomplished (not just desired). This will help in defining the objectives, strategies and policies.
2. In the light of stage I, the results of the current performance of the organization are documented.
3. The Board of Directors and the top management will have to review the current performance of the documented.
4. In view of the review, the organization will have to scan the internal environment for strengths and weaknesses and the external environment for opportunities and threats.
5. The internal and external scan helps in selecting the strategic factors.
6. These have to be reviewed and redefined in relation to the Mission and Objectives.
7. At this stage a set of strategic alternatives and generated.
8. The best strategic alternative is selected and implemented through programmed budgets and procedures.

9. Monitoring, evaluation and review of the strategic alternative chosen is undertaken in this mode. This can provide a feedback on the changes in the implementation if required.

COMPONENTS OF STRATEGIC MANAGEMENT

The major components of Business strategy are purpose and objectives, competitive advantage, synergy, personal aspirations and social obligations. AP Soff has used the term "common thread" for the purpose. According to him, the common thread is a statement of relationship between present and future product market postures. In this section, the different components of Business strategy are discussed.

Objectives:

Business objectives should be stated in such a way so that they may provide a clear idea about the scope of the enterprise's business. Objectives give the direction for which action plan is formulated. Objectives are open-ended attributes denoting a future state. Objectives translate the purpose into goals. A few specific aspects about objectives are as follows:

The objectives must have time frame, be attainable, be challenging, be Understandable, be measurable and controllable

For having clarity in objectives, the business domain is defined specifically in terms of a product class, technology, customer group, market need or some other combination.

Competitive Advantage:

Business strategy is relative by nature. In the formulation of Business strategy, the management should isolate unique features of the organization. The steps to be taken must be competitively superior. While making plans, competitors may be ignored. However, when we formulate Business strategies, we cannot ignore competitors. If all organization does not look at competitive advantage, it cannot survive in a dynamic environment. Tills aspect builds internal strength of the organization and enhances the quality of Business strategy.

Synergy

Synergy means measurement of the firm's capability to take advantage of a new product market move. If decisions are made ill the same direction to accomplish the objectives there will be synergic impacts. The Business strategy will give the synergy benefit.

Personal aspirations

Personal aspirations are the goals people want to achieve or the things people would like to have in the life. Aspirations of the people in the organizations play a significant role in the process of strategic management.

Social obligations

It is the informal need to give back to the society. It is based on the prescribed social etiquette. These are established over time based on social norms. Some of the ways in which companies meet social obligations include donating to local charities, participating in community evnts and being transparent with the public.

FUNCTIONS OF STRATEGIC MANAGEMENT

Strategic Management performs the following functions:

1. It provides a dual approach to problem solving. Firstly, it exploits the most effective means to overcome difficulties and face competition. Secondly, it assists ill the deployment of scarce resources among critical activities.
2. It focuses attention upon changes ill the organizational set up, administration of organizational process affecting behavior and the development of effective leadership.
3. It offers a technique to manage changes. The management is totally prepared to anticipate, respond and influence to look at changes. It also offers a different way of thinking.
4. It furnishes the management with a perspective whereby, the latter gives equal importance to present and future opportunities.
5. It provides the management with a mechanism to cope with highly complex environment characterized by diversity of cultural, social, political and competitive forces.

APPROACHES TO STRATEGIC MANAGEMENT

There are two approaches.

I- The Industrial Organizational Approach

This approach is based on economic theory. It focuses mainly on the profit maximization objective of a business entity. It deals with issues like competitive rivalry, resource allocation, economies of scale etc. Assumptions includes rationality, self discipline and profit maximization. An example of a company that currently operates this way is General motors.

II- The Sociological Approach

The approach deals primarily with human interactions. Human element of every organization is considered in this approach. Assumptions include bounded rationality, satisfying behaviour, profit sub-optimality. An example of a company that currently operates this way is Google.

Benefits of strategic management

1. Enhanced Communication through dialogue and participation
2. Deeper/Improved Understanding of others' views and of what the firm is doing/planning and why
3. Greater Commitment
    - to achieve objectives
    - to implement strategies
    - to work hard

LEVELS OF STRATEGY

Strategy may operate at different levels of an organisation-corporate level, business level and functional level. The strategy may change based on the levels of strategy.

1. ***Corporate level strategy (Group level)***
   This strategy occupies the highest level of strategic decision making and covers actions dealing with the objective of the firm, acquisition and allocation of resources and coordination of strategies of various SBU's for optimal performance. Top management of the organization makes such decision.
2. ***Business level strategy (Company level)***
   Applicable in those organizations which have different businesses and each business is treated as separate strategic business unit. Reliance industries limited operates in textile fabrics, yarns, fibers, petrochemical products etc. For each product groups the nature of market in terms of customers, competition, and marketing channel differs.
3. ***Functional level strategy (Department level)***
   As suggested by title relates to a single functional operation and the activities involved therein. These decisions are often referred as tactics. It deals with relatively restricted plan providing objectives for specific action, allocation of resources among different operations within the functional area and coordination between them for the optimal contribution towards the achievement of business level and corporate level strategies. Marketing strategy is an example of a functional strategy

THE STRATEGISTS

Strategists are the individuals who are most responsible for the success or failure of an organization. Strategists have various job titles, such as chief executive officer, president, and owner, chair of the board, executive director, chancellor, dean, or entrepreneur. Jay Conger, professor of organizational behavior at the London Business School and author of Building Leaders says, "All strategists have to be chief learning officers. We are in an extended period of change. If our leaders aren't highly adaptive and great models during this period, then our companies won't adapt either, because ultimately leadership is about being a role model." Strategists help an organization gather, analyze, and organize information. They track industry and competitive trends, develop forecasting models and scenario analyses, evaluate corporate and divisional performance, spot emerging market opportunities, identify business threats, and develop creative action plans. Strategic planners usually serve in a support or staff role. Usually found in higher levels of management, they typically have considerable authority for decision making in the firm. The CEO is the most visible and critical strategic manager. Any manager who has responsibility for a unit or division, responsibility for profit and loss outcomes, or direct authority over a major piece of the business is a strategic manager (strategist). In the last five years, the position of chief strategy officer (CSO) has emerged as a new addition to the top management ranks of many organizations, including ITC, Lenovo, IBM, Alphabet, Tata Tea, Bajaj Finserv etc.

Strategists differ in their attitudes, values, ethics, willingness to take risks, concern for social responsibility, concern for profitability, concern for short-run versus long-run aims, and management style. The founder of Hershey Foods, Milton Hershey, built the company to manage an orphanage. From corporate profits, Hershey Foods today cares for over a thousand boys and girls in its School for Orphans.

CHAPTER II

BUSINESS VISION AND MISSION

BUSINESS VISION

We can perhaps best understand vision and mission by focusing on a business when it is first started. In the beginning, a new business is simply a collection of ideas. Starting a new business rests on a set of beliefs that the new organization can offer some product or service to some customers, in some geographic area, using some type of technology, at a profitable price. A new business owner typically believes that the management philosophy of the new enterprise will result in a favorable public image and that this concept of the business can be communicated to, and will be adopted by, important constituencies. When the set of beliefs about a business at its inception is put into writing, the resulting document mirrors the same basic ideas that underlie the vision and mission statements. As a business grows, owners or managers find it necessary to revise the founding set of beliefs, but those original ideas usually are reflected in the revised statements of vision and mission. Vision and mission statements often can be found in the front of annual reports. They often are displayed throughout a firm's premises and are distributed with company information sent to constituencies.

What Do We Want to Become? It is especially important for managers and executives in any organization to agree on the basic vision that the firm strives to achieve in the long term. A vision statement should answer the basic question, "What do we want to become?" A clear vision provides the foundation for developing a comprehensive mission statement. Many organizations have both a vision and mission statement, but the vision statement should be established first and foremost. The vision statement should be short, preferably one sentence, and as many managers as possible should have input into developing the statement.

Vision is a descriptive image of what a company wants to be or want to be known for. Vision reminds us of what the goals are. Without vision performance of the business are likely to be affected. A vision is a statement for where the organization is heading over the next five to ten years. It is the statement that indicates mission to be accomplished by the management distant future.

Warren Bennis and Burt Nanus described the role of vision as follows "To choose a direction, a leader must first have developed a mental image of a possible and desirable future state of the organization which we call a vision. With a vision, the leader provides the all important bridge from the present to the future of the organization".

Examples:

Tyson Foods' vision is to be the world's first choice for protein solutions while maximizing shareholder value. (Good statement, unless Tyson provides non protein products)

General Motors' vision is to be the world leader in transportation products and related services. (Good statement)

PepsiCo's responsibility is to continually improve all aspects of the world in which we operate— environment, social, economic— creating a better tomorrow than today (Statement is too vague; it should reveal beverage and food business)

Dell's vision is to create a company culture where environmental excellence is second nature (Statement is too vague; it should reveal computer business in some manner; the word environmental is generally used to refer to natural environment so is unclear in its use here)

Samsonite's vision is to provide innovative solutions for the traveling world. (Statement needs to be more specific, perhaps mention luggage; statement as is could refer to air carriers or cruise lines, which is not good)

BUSINESS MISSION

A Business organization cannot set objectives without mission statement. Therefore, it is of utmost importance to frame a mission statement. Many organizations define the basic reason for their existence in terms of a mission statement. An organization's mission includes both a statement of organizational philosophy and purpose. The mission can be seen as a link between performing some social function and attaining objectives of the organization. In military circles, the word "Mission" is used instead of objectives. It also denotes and end point of the activities which doer wants to fulfill. In business management terminology, a mission is an objective that has been psychologically accepted by the doer. A mission explains the reason for the existence and operation of an enterprise. It is a key statement that provides guidelines for the company's business objectives. Mission indicates what is the company's business and what should it be. It reflects the company's philosophy and values.

Organizations often commit their major goals and corporate philosophy to writing in a Mission Statement or a statement of purpose. Though varied in its structure and form, the statement typically describes the company's reasons for existing. If also sometimes outlines the "core values" on which the organization is based and to which it expects corporate behaviour to confirm.

A good mission statement outlines customer needs and utilities. It places emphasis on public need rather the company product e.g. Oil and Natural Gas Commission and the Indian Oil Company may stress that they are meeting the energy need of the people rather than producing and selling oil or gas. Similarly, the Bharat Sanchar Nigam Ltd. (BSNL) may emphasis that it is helping better and faster communications and not merely selling or operating telephones.

Some firms use mission statement to develop core principles or norms which guide decision marking or behaviour. These principles serve as guidelines for a company's course of business as well as strategic decision making or behaviour. Business definition statement is a part of the mission statement. It means a description of products, services, functions, activities and markets of the firm. In any good strategy formulation, mission must be imbibed in the management and the staff. Clarity of a mission statement and publicity given to it on the right lines would get the conveying of mission in a convincing manner to the staff.

A clear mission statement is essential for effectively establishing objectives and formulating strategies. Sometimes called a creed statement, a statement of purpose, a statement of philosophy, a statement of beliefs, a statement of business principles, or a statement "defining our business, a mission statement reveals what an organization wants to be and whom it wants to serve. All organizations have a reason for being, even if strategists have not consciously transformed this reason into writing. Statements of vision and mission are widely recognized by both practitioners and academicians as the first step in strategic management.

Drucker has the following to say about mission statements: A business mission is the foundation for priorities, strategies, plans, and work assignments. It is the starting point for the design of managerial jobs and, above all, for the design of managerial structures. Nothing may seem simpler or more obvious than to know what a company's business is. A steel mill makes steel, a railroad runs trains to carry freight and passengers, an insurance company underwrites fire risks, and a bank lends money. Actually, "What is our business?" is almost always a difficult question and the right answer is usually anything but obvious. The answer to this question is the first responsibility of strategists. Only strategists can make sure that this question receives the attention it deserves and that the answer makes sense and enables the business to plot its course and set its objectives.

Mission Statement Components:

Mission statements can and do vary in length, content, format, and specificity. Most practitioners and academicians of strategic management feel that an effective statement should include nine components. Because a mission statement is often the most visible and public part of the strategic-management process, it is important that it includes the nine characteristics

1. Customers—who are the firm's customers?
2. Products or services—what are the firm's major products or services?
3. Markets—geographically, where does the firm compete?
4. Technology—is the firm technologically current?
5. Concern for survival, growth, and profitability—is the firm committed to growth and financial soundness?
6. Philosophy—what are the basic beliefs, values, aspirations, and ethical priorities of the firm?
7. Self-concept—what is the firm's distinctive competence or major competitive advantage?
8. Concern for public image—Is the firm responsive to social, community, and environmental concerns?
9. Concern for employees—Are employees a valuable asset of the firm?

Examples:

1. Fleetwood Enterprises will lead the recreational vehicle and manufactured housing industries in providing quality products, with a passion for customer-driven innovation. We will emphasize training, embrace diversity and provide growth opportunities for our associates and our dealers. We will lead our industries in the application of appropriate technologies. We will operate at the highest levels of ethics and compliance with a focus on exemplary corporate governance. We will deliver value to our shareholders, positive operating results and industry-leading earnings. (Statement lacks two components: Markets and Concern for Public Image)
2. PepsiCo the world's premier consumer Products Company, focused on convenient foods and beverages. We seek to produce healthy financial rewards for investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive to act with honesty, openness, fairness and integrity. (Comment: Statement lacks three components: Customers, Technology, and Self-Concept)
3. Dell's mission is to be the most successful computer company in the world at delivering the best customer experience in markets we serve. In doing so, Dell will meet customer expectations of highest quality; leading technology; competitive pricing; individual and company accountability ; best-in-class service and support; flexible customization capability; superior corporate citizenship; financial stability. (Statement lacks only one component: Concern for Employees)
4. Procter & Gamble will provide branded products and services of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with industry leadership in sales, profit, and value creation, allowing our people, our shareholders, and the communities in which we live and work to prosper.

Benefits of having a clear mission and vision

1. Achieve clarity of purpose among all managers and employees.

2. Provide a basis for all other strategic planning activities,

3. Provide direction.

4. Provide a focal point for all stakeholders of the firm.

5. Resolve divergent views among managers.

6. Promote a sense of shared expectations among all managers and employees.

7. Project a sense of worth and intent to all stakeholders.

8. Project an organized, motivated organization worthy of support.

9. Achieve higher organizational performance.

10. Achieve synergy among all managers and employees.

BUSINESS OBJECTIVES

An objective is something aimed at or something sought for. It is nothing but the goal or destination of the organization. Objectives should be very clearly spelt out, as clearer the objectives the more the strength one derives to achieve them. The organization should see to it that while fixing business objectives interest of all groups should be considered and under no circumstance should it be sacrificed for others.

According to George Terry- "A Managerial objectives is the intended goal which prescribes definite scope and suggests direction to efforts of a manager".

According to D. E. McFarland- "Objectives are the goals, aims or purposes that organizations wish to achieve over varying period of time".

FEATURES OF BUSINESS OBJECTIVES

1. ***Ultimate goals***: Objectives are the aims; goals and the destination where the organization wants to go Objectives differentiate one company from others. Every organization must have a clearly defined objective, e.g. a marketing objective of an organization may be to increase its profits by 5% or increase its market share by 3%.

2. ***Future Oriented***: Objectives are future destinations which the organization wants to reach. However these objectives are finalized after considering the past trends and the past performance of the organization. This is necessary in order to formulate realistic objectives.

3. ***Guides principles***: Whether economic, social or human objectives guide the organization in taking relevant and quick decisions. Objectives guide in formulating the policies, the programmes and the plans which in turn guide the employees while implementing the plans in order to achieve the objectives

4. ***Complex:*** Business environment is very complex. Change in one environment may have different impacts on the other environmental factors. Moreover these environmental factors are uncontrollable. Objectives have to be modified continuously in order to suit the changed environment. Thus dynamic environment makes setting of objectives difficult.

5. ***Qualitative/Quantitative***: There are certain objectives which are of qualitative nature, especially advertising objectives. Advertising objectives can be creating awareness, changing attitudes, perceptions, enabling recognition of the brand etc. Qualitative objectives are therefore difficult to measure. Quantitative objectives are those which can be measured in volume or value terms. Marketing objectives are generally of quantitative in nature. Some of the common marketing objectives are increasing sales, increasing market share, increasing profits etc.

7. ***Hierarchical*****:** All objectives may not be equally important at a given moment of time, for instance if the organization is new, its objective generally is survival, rather than growth or achieving prestige and recognition. However since many groups are involved like shareholders, creditors, employees etc. identifying proper hierarchy is difficult.

IMPORTANCE OF BUSINESS OBJECTIVES

1. ***Identity to the organization***: Every organization must have an objective. In fact it is the objectives that justify an organization's existence. Outwardly all organizations may be similar but what differentiate one organization from another are its objectives.
2. ***Facilitates co-ordination***: There are various departments in an organization. Success of any organization depends upon the achievements of each department, which in turn depends upon the proper co-ordination between people and functions of different departments. This would enable the different department to work as a cohesive unit.
3. ***Guides decision-making***: The top management has to take number of decisions in different areas every day. Decisions can be relating to extending the product line or changing the pricing structure or the place of sale. Decisions depend entirely upon the objectives of the organization. So, it is the objectives that guide individual as well as group decision making.
4. ***Motivation***: Motivation is the simulation to work with zeal and enthusiasm. When objectives are clear, the employees know what is expected of them and the reward which they would earn on achieving those objectives. Clear definition of business objectives motivates employees to put in their best efforts as they are aware as to what to achieve.
5. ***Ensures planning***: It is said that most people don't succeed in life because they don't know what they want to achieve. One can plan properly only when one knows what one wants to achieve. Moreover implementation would be effective only if it is planned properly. Therefore objectives ensure proper planning.
6. ***Reduces wastage***: Objectives facilitate preparing programmes and schedules for achieving the predetermined goals. Men, money, materials etc. are scare. Success of a business organization depends upon the effective utilization of the resources. So to the extent possible wastage of resources should be avoided.

GOALS

Goals are used to help a business grow and achieve its objectives. They can be used to foster teamwork and help the business describe what it wants to accomplish. Setting goals is an important part of any business plan.

Business Goals

Part of the planning process, business goals describe what a company expects to accomplish over a specific period of time. Businesses usually outline their goals and objectives in their business plans. Goals might pertain to the company as a whole, departments, employees, customers, or any other area of the business.

The Importance of Business Goals

Businesses should not fear setting goals because there is absolutely no downside to the process. Goals give a business direction and help measure results. There are four detailed and important reasons why a business should have goals.

1. ***Measure success*** - Good organizations should always be trying to improve, grow, and become more efficient. Setting goals provides the clearest way to measure the success of the company.
2. ***Leadership cohesion*** - Setting goals ensures that everyone understands what the organization is trying to achieve. When the leadership team clearly understands what the business is trying to accomplish, it provides greater rationale for the decisions management might make regarding hiring, acquisitions, incentives, sales programs, etc.
3. ***Knowledge is power*** - If an employee knows and understands the goals, it becomes easier for him or her to make daily decisions based on the long- and short-term goals that were established.

4. ***Reassess goals*** - When goals are set, they can be monitored on a regular basis to verify the business is headed in the right direction. If the business is not achieving or moving towards accomplishing its goals, then changes or adjustments need to be made.

Pitfalls of Developing Business Goals

Setting business goals can go wrong if not done correctly. Seasoned business managers put a great deal of time and energy into developing and implementing business goals. There are two big pitfalls a business manager should try to avoid.

1. *Setting unrealistically high goals* - When a goal is perceived to be unreachable, no effort will be made by the employees to achieve them. A businessperson needs to set realistic goals so that the employees can come together as a team to achieve them.

2. *Setting vague and ambiguous goals* - Goals that are not specific enough do not lead to action and are useless. If achievements cannot be measured against the businesses expectations, then a manager cannot observe any progress towards the goal.

Measuring the Success of Business Goals

Establishing goals is only half the work in a business plan. Once the goals have been explained to the employees and a plan has been developed to achieve those goals, it is important to review those goals at certain times during the year. A business manager needs to take a 'time-out' every so often and ask him or herself the following questions:

Is the business on target to achieve our goals?
Is a course direction needed to get the business closer to achieving the goals?
Are the goals still relevant with the ever-changing business world we live in?
Are the employees still focused on helping the business achieve its goals?

The answers to these questions will help management decide if corrective action is needed. For example, if a business is not headed in the right direction, the manager might want to get all the employees together to review what is happening and make changes to help achieve the goals. Whether the management is good or bad, it still needs to keep the employees informed about how the business is performing and how the employees are doing with respect to the goals.

2nd Edition - 2019

EasyNotes4U

Make Your Exams Easy

UGC NET MANAGEMENT

MARKETING MANAGEMENT

DR. GAURAV JANGRA

EASYNOTES4U ACADEMY

www.easynotes4u.com

SUBJECT:
MANAGEMENT (CODE: 17)

UNIT-7:
MARKETING MANAGEMENT

BY:
DR. GAURAV JANGRA

EasyNotes4U
Make Your Exams Easy

EasyNotes4U Academy
Website: www.easynotes4u.com
Email: support@easynotes4u.com
Contact: +91-8814931483

Contents

CHAPTER-1: INTRODUCTION TO CONSUMER BEHAVIOUR

Meaning and Definition:

Consumer behaviour is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions.

Marketers expect that by understanding what causes the consumers to buy particular goods and services, they will be able to determine—which products are needed in the marketplace, which are obsolete, and how best to present the goods to the consumers.

The study of consumer behaviour assumes that the consumers are actors in the marketplace. The perspective of role theory assumes that consumers play various roles in the marketplace. Starting from the information provider, from the user to the payer and to the disposer, consumers play these roles in the decision process.

The roles also vary in different consumption situations; for example, a mother plays the role of an influence in a child's purchase process, whereas she plays the role of a disposer for the products consumed by the family.

Some selected definitions of consumer behaviour are as follows:

1. According to Engel, Blackwell, and Mansard, 'consumer behaviour is the actions and decision processes of people who purchase goods and services for personal consumption'.
2. According to Louden and Bitta, 'consumer behaviour is the decision process and physical activity, which individuals engage in when evaluating, acquiring, using or disposing of goods and services'.

Nature of Consumer Behaviour:

1. Influenced by various factors:

The various factors that influence the consumer behaviour are as follows:

a. Marketing factors such as product design, price, promotion, packaging, positioning and distribution.
b. Personal factors such as age, gender, education and income level.
c. Psychological factors such as buying motives, perception of the product and attitudes towards the product.
d. Situational factors such as physical surroundings at the time of purchase, social surroundings and time factor.
e. Social factors such as social status, reference groups and family.
f. Cultural factors, such as religion, social class—caste and sub-castes.

2. Undergoes a constant change:

Consumer behaviour is not static. It undergoes a change over a period of time depending on the nature of products. For example, kids prefer colourful and fancy footwear, but as they grow up as teenagers and young adults, they prefer trendy footwear, and as middle-aged and senior citizens they prefer more sober footwear. The change in buying behaviour may take place due to several other factors such as increase in income level, education level and marketing factors.

3. Varies from consumer to consumer:

All consumers do not behave in the same manner. Different consumers behave differently. The differences in consumer behaviour are due to individual factors such as the nature of the consumers, lifestyle and culture. For example, some consumers are technoholics. They go on a shopping and spend beyond their means.

They borrow money from friends, relatives, banks, and at times even adopt unethical means to spend on shopping of advance technologies. But there are other consumers who, despite having surplus money, do not go even for the regular purchases and avoid use and purchase of advance technologies.

4. Varies from region to region and country to county:

The consumer behaviour varies across states, regions and countries. For example, the behaviour of the urban consumers is different from that of the rural consumers. A good number of rural consumers are conservative in their buying behaviours.

The rich rural consumers may think twice to spend on luxuries despite having sufficient funds, whereas the urban consumers may even take bank loans to buy luxury items such as cars and household appliances. The consumer behaviour may also varies across the states, regions and countries. It may differ depending on the upbringing, lifestyles and level of development.

5. Information on consumer behaviour is important to the marketers:

Marketers need to have a good knowledge of the consumer behaviour. They need to study the various factors that influence the consumer behaviour of their target customers.

The knowledge of consumer behaviour enables them to take appropriate marketing decisions in respect of the following factors:

a. Product design/model
b. Pricing of the product
c. Promotion of the product
d. Packaging
e. Positioning
f. Place of distribution

6. Leads to purchase decision:

A positive consumer behaviour leads to a purchase decision. A consumer may take the decision of buying a product on the basis of different buying motives. The purchase decision leads to higher demand, and the sales of the marketers increase. Therefore, marketers need to influence consumer behaviour to increase their purchases.

7. Varies from product to product:

Consumer behaviour is different for different products. There are some consumers who may buy more quantity of certain items and very low or no quantity of other items. For example, teenagers may spend heavily on products such as cell phones and branded wears for snob appeal, but may not spend on general and academic reading. A middle- aged person may spend less on clothing, but may invest money in savings, insurance schemes, pension schemes, and so on.

8. Improves standard of living:
The buying behaviour of the consumers may lead to higher standard of living. The more a person buys the goods and services, the higher is the standard of living. But if a person spends less on goods and services, despite having a good income, they deprives themselves of higher standard of living.
9. Reflects status:
The consumer behaviour is not only influenced by the status of a consumer, but it also reflects it. The consumers who own luxury cars, watches and other items are considered belonging to a higher status. The luxury items also give a sense of pride to the owners.

DEVELOPMENT OF THE MARKETING CONCEPT AND THE DISCIPLINE OF CONSUMER BEHAVIOUR:

MARKETING CONCEPT, A BUSINESS ORIENTATION:

è The field of consumer behaviour is rooted in the marketing concept, a business orientation that evolved in the 1950s through several alternative approaches toward doing business referred to respectively: -
1) The Production Concept.
2) The Product Concept.
3) The Selling Concept.
4) The Marketing Concept.
5) The Societal Marketing Concept.

1) THE PRODUCTION CONCEPT:

ð The production concept assumes that consumers are mostly interested in product availability at low prices; its implicit marketing objectives are cheap, efficient product and intensive distribution.
ð It makes sense when consumer are more interested in buying what's available rather than wait for what they really want.
ð The main objective is to expand the market.

2) THE PRODUCT CONCEPT:

ð The product concept assumes that consumers will buy the product that offers them the highest quality, the best performance, and the most features.
ð It ensures the company to improve the quality of its product and add new features.
ð The product concept often leads to "marketing myopia" that is focusing on the product rather than the customer needs.

3) THE SELLING CONCEPT:

ð The assumption of the selling concept is that consumers are unlikely to buy the product unless they are aggressively persuaded to do so – mostly through "hard sell" approach.
ð The problem in this concept is that it fails to satisfy a customer.
ð Promotion can be done through advertisement, sales promotion and public relation.
ð Today the selling concept is utilize be marketers of unsought products – that is which people are not willing to buy it (such as life insurance).

4) THE MARKETING CONCEPT:

ð It started in 1950's when some marketers realized we can sell more products by determining what consumer would buy.
ð Consumer need and wants became the firm's primary focus.
ð The marketers should made product what t can sell, instead of what it has made.

STARTING POINT FOCUS MEANS ENDS

SELLING CONCEPT

Factory à Product à Selling & Promotion à Profit through sale volume

MARKETING CONCEPT

Market à Needs à Marketing à Profit via customer satisfaction

5) THE SOCIETAL MARKETING CONCEPT:

ð Developing that product which benefits the society. Doing marketing in such a way that it helps you in increasing your production & also giving benefits to society.
ð The organization should determine the needs, wants and interest of target markets and deliver the desired satisfaction more effectively and efficiently then do competitors in a way that maintains or improves the customers and society's well being.

IMPLEMENTING THE MARKETING CONCEPT:

ð To identify unsatisfied consumer need, companies had to engage in extensive marketing research. The marketing concept underscored the importance of consumer research.
ð The strategic tools that are used to implement the marketing concept include segmentation, targeting, positioning and the marketing mix.

THE ROLE OF CONSUMER RESEARCH:

ð Consumer research describes the process and tools used to study consumer behaviour.
ð Two theoretical perspectives that guides the development of consumer research: -
ð Positive Approach à It tend to be objective and empirical, to seek caused for behaviour, and to conduct research studies that can be generalized to larger population.
ð Interpretivists à the research done by Interpretivists, on the other hand tends to be qualitative and based on small samples.

SEGMENTATION, TARGETING, AND POSITIONING:

MARKET SEGMENTATION:

ð Dividing a market into distinct groups of buyers with different needs, characteristics or behavior who might require separate products or marketing mixes.
ð Market consists of buyers and, buyers differ in one or more ways. They may differ in their wants, resources, locations, buying attitudes, and buying practices.

SUBJECT:

MANAGEMENT (17)

UNIT - 8:

BUSINESS STATISTICS AND PRODUCTION & OPERATIONS MANAGEMENT

By:

Dr. Gaurav Jangra

EasyNotes4U

Make Your Exams Easy

CONTENTS

CHAPTER-1: MEASURES OF CENTRAL TENDENCY

Measures of Central Tendency

According to Prof Bowley "Measures of central tendency (averages) are statistical constants which enable us to comprehend in a single effort the significance of the whole."

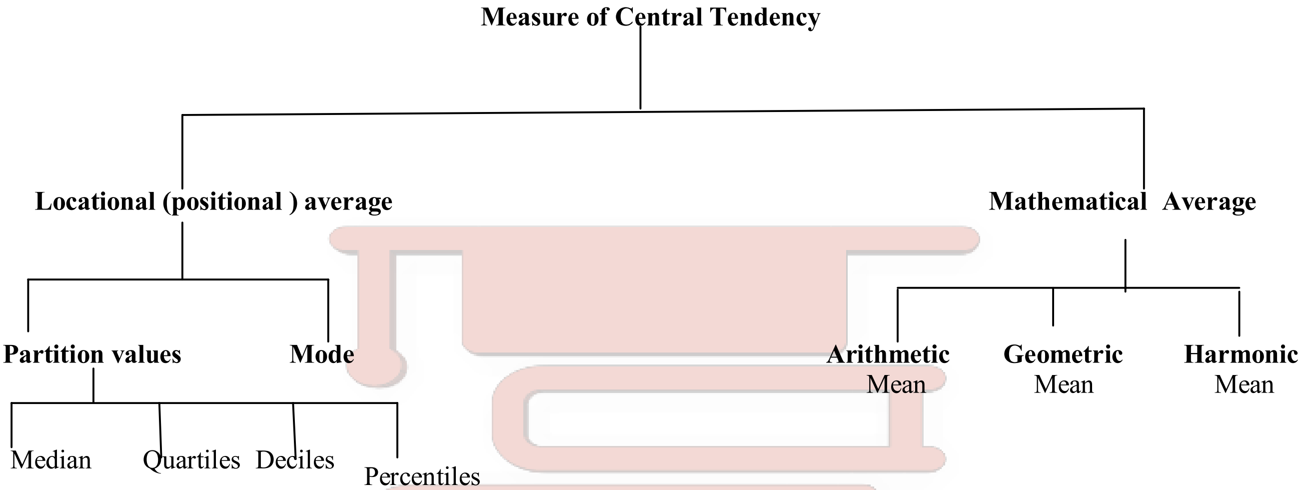
The main objectives of **Measure of Central Tendency are**

1) **To condense data in a single value.**
2) **To facilitate comparisons between data.**

There are different types of averages, each has its own advantages and disadvantages.

<u>Requisites of a Good Measure of Central Tendency:</u>

1. It should be rigidly defined.
2. It should be simple to understand & easy to calculate.
3. It should be based upon all values of given data.
4. It should be capable of further mathematical treatment.
5. It should have sampling stability.
6. It should be not be unduly affected by extreme values.



Partition values: The points which divide the data in to equal parts are called Partition values.

MEDIAN

Median: The point or the value which divides the data in to two equal parts., or when the data is arranged in numerical order

The data must be ranked (sorted in ascending order) first. The median is the number in the middle. Depending on the data size we define median as:

It is the middle value when data size N is odd. It is the mean of the middle two values, when data size N is even.

<u>Ungrouped Frequency Distribution</u>

Find the cumulative frequencies for the data. The value of the variable corresponding to which a cumulative frequency is greater than (N+1)/2 for the first time. (Where N is the total number of observations.)

<u>Example</u> 1: Find the median for the following frequency distribution.

X	1	2	3	4	**5**	6	7	8	9
Freq	8	10	11	16	20	25	15	9	6

Solution: Calculate cumulative frequencies less than type.

X	1	2	3	4	**5**	6	7	8	9
Freq	8	10	11	16	20	25	15	9	6
Cum freq	8	18	29	45	**65**	90	105	114	120

N=120, (N+1)/2=60.5 this value is first exceeded by cumulative frequency 65 , this value is corresponding to X-value 5, hence median is 5

<u>Grouped Frequency Distribution</u> First obtain the cumulative frequencies for the data. Then mark the class corresponding to which a cumulative frequency is greater than (N)/2 for the first time. (N is the total number of observations.) Then that class is median class. Then median is evaluated by interpolation formula.

$$median = l_1 + (l_2 - l_1)\,\frac{(\frac{N}{2} -}{f_m cf}$$

Where l_1= lower limit of the median class, l_2= upper limit of the median class N= Number of observations.

cf = cumulative frequency of the class proceeding to the median class. f_m= frequency of the median class.

<u>Quartiles</u>: The data can be divided in to four equal parts by three points. These three points are known as quartiles. The quartiles

are denoted by Q_i , i = 1,2,3
Qi is the value corresponding to $(iN/4)^{th}$ observation after arranging the data in the increasing order.
For grouped data: First obtain the cumulative frequencies for the data. Then mark the class corresponding to which a cumulative frequency is greater than (iN)/4 for the first time. (Where N is total number of observations.). Then that class is Qi class. Then Qi is evaluated by interpolation formula.

$$Q_i = l_1 + (l_2 - l_1)\frac{(\frac{iN}{4} - cf)}{f_q} \qquad i= 1, 2, 3$$

Where l_1= lower limit of the Qi class, l_2= upper limit of the Qi class N= Number of observations.
cf = cumulative frequency of the class proceeding to the Qi class. f_q= frequency of the Qi class.

Deciles are nine points which divided the data in to ten equal parts.
Di is the value corresponding to $(iN/10)^{th}$ observation after arranging the data in the increasing order.
For grouped data: First obtain the cumulative frequencies for the data. Then mark the class corresponding to which a cumulative frequency is greater than (iN)/10 for the first time. (Where N is total number of observations.). Then that class is Di class. Then Di is evaluated by interpolation formula.

$$D_i = l_1 + (l_2 - l_1)\frac{(\frac{iN}{10} - cf)}{f_d} \qquad i= 1, 2,\ldots\ldots\ldots\ldots 10.$$

Where l_1= lower limit of the Di class, l_2= upper limit of the Di class N= Number of observations.
cf = cumulative frequency of the class proceeding to the Di class. f_d= frequency of the Di class.

Percentiles are ninety-nine points which divided the data in to hundred equal parts.
Pi is the value corresponding to $(iN/100)^{th}$ observation after arranging the data in the increasing order.
For grouped data: First obtain the cumulative frequencies for the data. Then mark the class corresponding to which a cumulative frequency is greater than (iN)/100 for the first time. (Where N is total number of observations.) Then that class is Pi class. Then Pi is evaluated by interpolation formula.

$$Pi = l_1 + (l_2 - l_1)\frac{(\frac{iN}{100} - cf)}{f_t}$$

Where l_1= lower limit of the Pi class, l_2= upper limit of the Pi class N= Number of observations.
cf = cumulative frequency of the class proceeding to the Pi class. f_p= frequency of the Pi class.

Graphical method for locating partition values: These partition values can be located graphically by using ogives. The point of intersection of both ogives is median.
To locate quartiles, mark N/4 on Y- axis, from that point draw a line parallel to X-axis, it cuts less than type ogive at Q_1 and intersects greater than or equal to curve at Q_3.
To locate Di mark iN/10 on Y-axis , from that point draw line parallel to X-axis, it intersects less than type curve at Di.
Similarly to locate Pi mark iN/100 on Y-axis , from that point draw line parallel to X-axis, it intersects less than type curve at Pi.

Example 2 . Find the median

Daily wages in Rs.	100-200	200-300	300-400	400-500	500-600	600-700
No of workers	4	6	20	10	5	5

Solution: To locate median class we have to calculate cumulative frequencies.

Daily wages in Rs.	100-200	200-300	300-400	400-500	500-600	600-700
No of workers	4	6	20	10	5	5
Cum Freq	4	10	30	40	45	50

N=50 , N/2= 25 so median class is 300-400

$$median = l_1 + (l_2 - l_1)\frac{(\frac{N}{2} - cf)}{f_m} = 300 + (400-300)\frac{(25-10)}{20} = 300 + 100 * \frac{15}{20} = 375$$

Example 3: Find the median, Q_1, D8,P65 from the following data.

Marks	0-10	10-30	30-50	50-80	80-90	90-100
No of Students	4	12	20	8	4	2

Solution: To locate median class we have to calculate cumulative frequencies.

Marks	0-10	10-30	30-50	50-80	80-90	90-100
No of Students	4	12	20	8	4	2
Cumulative freq	4	16	36	44	48	50

Here N=50 so N/2=25, hence median class is 30-50

$$median \quad l_1)\frac{(\frac{N}{2} - cf)}{f_m}$$

$$= l_1 + (l_2 - \quad = 30 + \frac{(50-30)(25-16)}{20} = 30 + 20 * \frac{9}{20} = 39$$

Here N=50 so N/4=12.5, hence Q1class is 10-30

$$Q1 = l_1 + (l_2 - l_1)\frac{\left(\frac{N}{4} - cf\right)}{f_q} = 10 + \frac{(30-10)(12.5-4)}{12} = 10 + 20 * \frac{8.5}{12} = 24.16$$

Here N=50 so 8*N/10=40 , hence D8 class is 50-80

$$D8 = l_1 + (l_2 - l_1)\frac{\left(\frac{8N}{10} - cf\right)}{f_d} = 50 + (80-50) * \frac{40-36}{8} = 50 + 30 * \frac{4}{8} = 65$$

Here N=50 so 65*N/100=32.5 , hence P65 class is 30-50

$$P65 = l_1 + (l_2 - l_1)\frac{\left(\frac{65N}{100} - cf\right)}{f_p} = 30 + (50-30) * \frac{32.5-16}{20} = 30 + 20 * \frac{16.5}{20} = 46.5$$

Use the median to describe the middle of a set of data that *does* have an outlier.

Merits of Median

1. It is rigidly defined.
2. It is easy to understand & easy to calculate.
3. It is not affected by extreme values.
4. Even if extreme values are not known median can be calculated.
5. It can be located just by inspection in many cases.
6. It can be located graphically.
7. It is not much affected by sampling fluctuations.
8. It can be calculated for data based on ordinal scale.

Demerits of Median

1. It is not based upon all values of the given data.
2. For larger data size the arrangement of data in the increasing order is difficult process.
3. It is not capable of further mathematical treatment.
4. It is insensitive to some changes in the data values.

MODE

The mode is the most frequent data value. Mode is the value of the variable which is predominant in the given data series. Thus in case of discrete frequency distribution, mode is the value corresponding to maximum frequency. Sometimes there may be no single mode if no one value appears more than any other. There may also be two modes (bimodal), three modes (trimodal), or more than three modes (multi-modal).

For grouped frequency distributions, the modal class is the class with the largest frequency. After identifying modal class mode is evaluated by using interpolated formula. This formula is applicable when classes are of equal width.

$$mode = l_1 + (l_2 - l_1)\frac{d1}{d1 + d2}$$

Where l_1= lower limit of the modal class, l_2= upper limit of the modal class"

d1 =fm-f_0 and d2=fm-f_1

where fm= frequency of the modal class,

f_0 = frequency of the class preceding to the modal class,

f_1= frequency of the class succeeding to the modal class.

Mode can be located graphically by drawing histogram.

Steps:

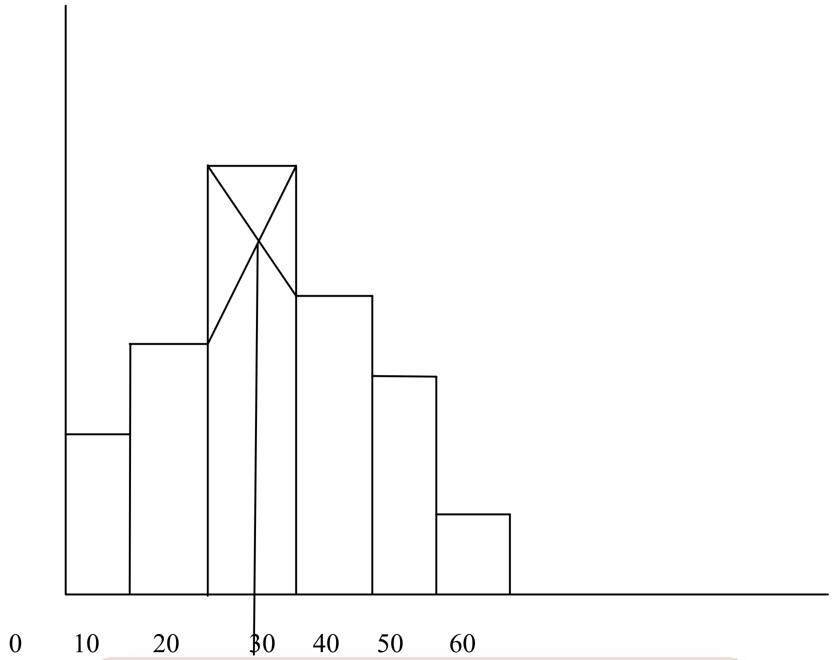
1) Draw histogram
2) Locate modal class (highest bar of the histogram
3) Join diagonally the upper end points of the end points of the highest bar to the adjacent bars.
4) Mark the point of intersection of the diagonals.
5) Draw the perpendicular from this point on the X-axis .
6) The point where the perpendicular meets X-axis gives the modal value.

Example 4: Find the mode

Classes	0-10	10-20	20-30	30-40	40-50	50-60
Frequency	12	18	**27**	20	17	6

Modal class : 20-30 d1= fm-f0= 27-18=9 d2= fm-f1= 27-20=7

$$mode = l_1 + (l_2 - l_1)\frac{d1}{d1 + d2} = 20 + (30-20)\frac{9}{9+7} = 20 + 10 * \frac{9}{16} = 25.6$$



25 = Mode

Use the mode when the data is non-numeric or when asked to choose the most popular item.

Merits of Mode

1. It is easy to understand & easy to calculate.
2. It is not affected by extreme values or sampling fluctuations.
3. Even if extreme values are not known mode can be calculated.
4. It can be located just by inspection in many cases.
5. It is always present within the data.
6. It can be located graphically.
7. It is applicable for both qualitative and quantitative data.

Demerits of Mode

1. It is not rigidly defined.
2. It is not based upon all values of the given data.
3. It is not capable of further mathematical treatment.

Arithmetic Mean

This is what people usually intend when they say "average"

Sample mean: If X_1, X_2, ... X_n are data values then arithmetic mean is given by

$$\bar{X} = \frac{X_1 + X_2 + \dots + X_n}{n} = \frac{\sum_1^n X_i}{n}$$

Frequency Distribution: Let X_1, X_2, ... X_n are class marks and the corresponding frequencies are f_1, f_2,….. f_n , then arithmetic mean is given by

$$N = \sum fi$$

$$\bar{X} = \frac{\sum_1^n fiXi}{N}$$

Example 5 : The Marks obtained in 10 class tests are 25, 20, 20, 9, 16, 10, 21, 12, 8, 13.

The $\bar{X}$ mean = $= \frac{25+20+20+9+16+10+21+12+8+13}{10} = \frac{154}{10} = 15.4$

Example 6: Find the mean

Xi	9	10	11	12	13	14	15	16
Freq=fi	2	5	12	17	14	6	3	1

Then $N=\sum fi = 60$, and $\sum fi\ Xi= 731$

$$\bar{X} = \frac{\sum_1^n fiXi}{N} = \frac{731}{60} = 12.18$$

Example 7: The following data represents income distribution of 100 families, Calculate mean income of 100 families.

Income in "00 Rs.	30-40	40-50	50-60	60-70	70-80	80-90	90-100
No. of families	8	12	25	22	16	11	6

Solution: We have

Income in "00 Rs.	30-40	40-50	50-60	60-70	70-80	80-90	90-100
Class Mark Xi	35	45	55	65	75	85	95
No. of families fi	8	12	25	22	16	11	6

We get $N= \sum fi =100$, $\sum fi\ Xi= 6330$ Mean =

Merits of Mean

1. It is rigidly defined.
2. It is easy to understand & easy to calculate.
3. It is based upon all values of the given data.
4. It is capable of further mathematical treatment.
5. It is not much affected by sampling fluctuations.

Demerits of Mean

1. It cannot be calculated if any observations are missing.
2. It cannot be calculated for the data with open end classes.
3. It is affected by extreme values.
4. It cannot be located graphically.
5. It may be number which is not present in the data.
6. It can be calculated for the data representing qualitative characteristic.

Empirical formula: For symmetric distribution Mean, Median and Mode coincide. If the distribution is moderately asymmetrical the Mean, Median and Mode satisfy the following relationship

Mean- Mode =3(Mean- Median)

Or Mode=3Median-2Mean

Weighted mean: If X_1, X_2………………X_n are given values with corresponding weights W_1, W_2,……W_n then the weighted mean is given by

$$\bar{X}_w = \frac{\sum_1^n WiXi}{\sum_1^n Wi}$$

The mean of a frequency distribution is also the weighted mean.

Use the mean to describe the middle of a set of data that *does not* have an outlier.

Geometric Mean:

a. If X_1, X_2 X_n are given values then

Or GM= antilog $\left(\frac{\sum_1^n log Xi}{n}\right)$

b. If X_1, X_2 X_n are given values with corresponding frequencies f1, f2,……fn then if $N=\sum fi$

GM= antilog $\left(\frac{\sum_1^n fi\ log Xi}{N}\right)$

Merits of Geometric Mean

1. It is based upon all values of the given data.
2. It is capable of further mathematical treatment.
3. It is not much affected by sampling fluctuations.

Demerits of Geometric Mean

1. It is not easy to understand & not easy to calculate
2. It is not well defined.
3. If anyone data value is zero then GM is zero.
4. It cannot be calculated if any observations are missing.
5. It cannot be calculated for the data with open end classes.
6. It is affected by extreme values.
7. It cannot be located graphically.
8. It may be number which is not present in the data.
9. It cannot be calculated for the data representing qualitative characteristic

Harmonic Mean:

a. If $X_1, X_2 \ldots\ldots\ldots X_n$ are given values then Harmonic Mean is given by

$$HM = \frac{n}{\sum \frac{1}{Xi}}$$

b. If $X_1, X_2 \ldots\ldots\ldots X_n$ are given values with corresponding frequencies f1, f2,……fn then Harmonic Mean given by if N=∑fi

$$HM = \frac{N}{\sum \frac{fi}{}}$$

Merits of Harmonic Mean

1. It is rigidly defined.
2. It is easy to understand & easy to calculate.
3. It is based upon all values of the given data.
4. It is capable of further mathematical treatment.
5. It is not much affected by sampling fluctuations.

Demerits of Harmonic Mean

1. It is not easy to understand & not easy to calculate.
2. It cannot be calculated if any observations are missing.
3. It cannot be calculated for the data with open end classes.
4. It is usually not a good representative of the data.
5. It is affected by extreme values.
6. It cannot be located graphically.
7. It may be number which is not present in the data.
8. It can be calculated for the data representing qualitative characteristic.

Selection of an average:

No single average can be regarded as the best or most suitable under all circumstances. Each average has its merits and demerits and its own particular field of importance and utility. A proper selection of an average depends on the 1) nature of the data and 2) purpose of enquiry or requirement of the data.

A.M. satisfies almost all the requisites of a good average and hence can be regarded as the best average but it cannot be used

1) in case of highly skewed data.
2) in case of uneven or irregular spread of the data.
3) in open end distributions.
4) When average growth or average speed is required.
5) When there are extreme values in the data.

Except in these cases AM is widely used in practice.

Median: is the best average in open end distributions or in distributions which give highly skew or j or reverse j type frequency curves. In such cases A.M. gives unnecessarily high or low value whereas median gives a more representative value. But in case of fairly symmetric distribution there is nothing to choose between mean, median and mode, as they are very close to each other.

Mode: is especially useful to describe qualitative data. According to Freunel and Williams, consumer preferences for different kinds of products can be compared using modal preferences as we cannot compute mean or median. Mode can best describe the average size of shoes or shirts.

G.M. is useful to average relative changes, averaging ratios and percentages. It is theoretically the best average for construction of index number. But it should not be used for measuring absolute changes.

H.M. is useful in problems where values of a variable are compared with a constant quantity of another variable like time, distance travelled within a given time, quantities purchased or sold over a unit.

In general we can say that A.M. is the best of all averages and other averages may be used under special circumstances.

CHAPTER-2: MEASURES OF DISPERSION

Types of Measures of Dispersion

Absolute Measure: Those measures of dispersion whose units are same as the units of the given series is known as the absolute measure of dispersion. These types of dispersions can be used only in the comparing the variability of the series or distribution having the same units. Comparison of two distributions with different units cannot be made with absolute measures.

Relative measures: On the other hand, the relative measures of dispersions are obtained as the ratio of the absolute measure of dispersion to the suitable average and are thus a pure number independent of units. Hence two distribution with different units can be compared with the help of relative measures of dispersion.

Methods of measuring dispersion:

The following are the methods of measuring dispersion:

- Range
- Quartile deviation or Semi-interquartile deviation
- Mean deviation or average deviation
- Standard deviation

Range

The simplest method of studying the variation in the distribution is the range. The range is defined as the difference between the largest item and the smallest item in the set of observations. So, in a set of observations if L is the largest item and S is the smallest item, then range is given by

Range = L – S

In a grouped frequency distribution, range is the difference between the upper limit of the largest class and lower limit of the smallest class.

The range is the absolute measure of dispersion.It cannot be used to compare two distributions with different units. So, the relative measures corresponding to the range known as the coefficient of range is defined by

Coefficient of range=L−S/L+S

Merits and demerits of range

Merits:

- It is rigidly defined.
- Range is simple to understand and easy to calculate.
- Only minimum time is required to know the variability with the help of range.

Demerits

- It is not based on all observations.
- Range is affected by the fluctuation of sampling.
- Range is affected by extreme values.
- Range cannot be calculated in case of open classes.
- Range is not suitable for further mathematical treatment.

Semi-Interquartile range or Quartile deviation

The measure of dispersion depending upon the lower and upper quartiles is known as the quartile deviation. The difference between the upper and lower quartile is known as the Interquartile range. Half the interquartile range is known as Semi-interquartile range or quartile deviation.

Quartile deviation=$Q3-Q1/2$

The relative measure based on the lower and upper quartiles known as coefficient of quartile deviation is given by

Coeffi. of Q.D = $Q3-Q1/Q3+Q1$

The variability of the items will be less or greater according to the value of the quartile deviation is less or greater. If the quartile deviation is small then the variability is less or the uniformity is great. In the same way, If the quartile deviation is greater then the variability is greater or the uniformity is less.

Merits and Demerits of Q.D.

Merits

- It is rigidly defined.
- It is simple to understand and easy to calculate.
- It is the better measure of dispersion in comparison to range as it is based on 50% of central items.
- It is not affected by extreme values.
- It can be calculated even when end classes are open.

Demerits

- It is not based on all observations.
- QD. is affected by the fluctuation of sampling.
- Q.D. is not suitable for further mathematical treatment.

Mean Deviation (Average Deviation)

Mean deviation is defined as the arithmetic mean of the deviations of the items from mean, median and mode when all deviations are considered positive.

IF $\overline{x}$, M_d M_o *be the arithmetic mean, median and mode of the set of variate values x,*

Then the mean deviation (M.D) are computed by the following formulae :

M.D. from mean=$\Sigma/x-\bar{x}/n = \Sigma/d/n$

Also M.D. from mean = $\Sigma f/x-\bar{x}/N = \Sigma f/d/N$

where|d|=|x−x¯|and read as modulus of d or x−x¯, n=number of observations and N=total frequency.
M.D. from median and mode can similarly be obtained by replacing mean by M_d and M_0 respectively.
The relative measure of mean deviation is defined as follows:
coeff. Of M.D. from mean = M.D. from mean/mean
coeff. Of M.D. from median = M.D. from median/median

Merits and Demerits of M.D.

Merits

- It is easy to understand and calculate.
- It is based on all observations.
- As the deviations are taken from the central values, so the comparison of two distributions about their formation can easily be made.

Demerits

- The greatest drawback of mean deviation is that the algebraic signs are ignored.
- It is not capable of algebraic treatments.
- It cannot be computed in case of open end classes.
- It does not give satisfactory result when a deviation is taken from mode as the mode is ill-defined.

Standard Deviation

Standard deviation (S.D.) is defined as the positive square root of the mean of the square of the deviations taken from the arithmetic mean. It is denoted by *σ*.
If x be the variate values and $\bar{x}$ their arithmetic mean then the S.D denoted by
σx or simply *σ* is given by:

$$\sigma = \sqrt{\frac{\Sigma(x-\bar{x})^2}{n}} = \sqrt{\frac{\Sigma x^2}{n} - \left(\frac{x}{n}\right)^2}$$

$$Also,\ \sigma = \sqrt{\frac{\Sigma f(x-\bar{x})^2}{N}} = \sqrt{\frac{\Sigma fx^2}{N} - \left(\frac{fx}{N}\right)^2}$$

Where n = no. of observation, N = total frequency
The first formula is for individual series and the second one is for discrete as well as continuous series, x is the mid value of each class for continuous series.
When deviations are taken from the assumed mean, then the formula for S.D. take the following forms

$$\sigma = \sqrt{\frac{\Sigma d^2}{n} - \left(\frac{d}{n}\right)^2}$$

$$Also,\ \sigma = \sqrt{\frac{\Sigma fd^2}{N} - \left(\frac{fd}{N}\right)^2}$$

$$And,\ \sigma = h \times \sqrt{\frac{\Sigma fd'^2}{N} - \left(\frac{fd'}{N}\right)^2}$$

$$where\ d = x - a,\ d' = \frac{x-a}{h}, a = assumed\ mean,\ h = common\ fator.$$

Merits and Demerits of Standard Deviation

Merits

- It is rigidly defined.
- It is based on all observations.
- It is least affected by the fluctuation of sampling.
- It is suitable for further mathematical treatment.

Demerits

- It is difficult to compute.
- It gives greater weight to the extreme values and less to those which are near to the mean.
- The standard deviation cannot be calculated for open end classes.

Variance and Mean Square deviation

Variance is the square of the standard deviation. Hence standard deviation and variance are equivalent in measuring variation. But due to difficulty in the computation of standard deviation, a variance is more preferred. Variance plays an important role in advance work of data analysis and is one of the most useful measurements in statistics. The square of the standard deviation is known as the variance. It is denote by σ\^2μ2σ\^2μ2. Variance is calculated by the following formula:

$$\sigma^2 = \frac{\Sigma(x-\bar{x})^2}{n} = \frac{\Sigma x^2}{n} - \left(\frac{x}{n}\right)^2$$

The mean square deviation denoted by s^2 is defined by

$$s^2 = \frac{\Sigma f(x-a)^2}{N}$$

Where a is an arbitrary number.
So in a mean square deviation, the deviations are taken from the arbitrary number ‘a’/
The positive square root of the mean square deviation is known as the root mean square deviation. It is denoted by s. Thus,

$$s = \sqrt{\frac{\Sigma f(x-a)^2}{N}}$$

Combined standard deviation

If n_1 and n_2 be the sizes, $x^{\overline{\quad}}1andx^{\overline{\quad}}2thearithmeticmeans\sigma1and\sigma2$x¯1andx¯2thearithmeticmeansσ1andσ2 the respective standard deviations of two component series, then their combined standard deviation denoted by $\sigma12$σ12 is given by;

`$$\sigma_{12}=\sqrt{\frac{n_1\sigma_1^2+ n_2\sigma_2^2+ n_1d_1^2+ n_2d_2^2}{n_1+n_2}}`

$$where\ d_1 = \overline{x}_1 - \overline{x}12 \quad d_2 = \overline{x}_2 - \overline{x}12$$

$$and\ \overline{x}_{12} = combined\ mean = \frac{n_1\overline{x}_1 + n_2\overline{x}_2}{n_1 + n_2}$$

Difference between Mean deviation and Standard deviation:

Though mean deviation and standard deviation are the measures of dispersion including all the items, they differ in the following cases;

- Deviations are taken from the mean median or both in the case of mean deviation whereas the deviations are taken only from mean in case of standard deviation.
- Whether the deviation is positive or negative, only the positive value is considered in the case of mean deviation but no such problem occurs in standard deviation.
- Standard deviation follows different properties but mean deviation does not

Properties of standard deviation

The standard deviation satisfies the following properties:

- In discrete distribution, the standard deviation is not less than the mean deviation from the name.
- Standard deviation is the least possible of not mean square deviation
- Standard deviation is independent of the change of origin but not of scale.

CHAPTER -3: **MEASURE OS SKEWNESS**

SKEWNESS

Measures of Skewness and Kurtosis, like measures of central tendency and dispersion, study the characteristics of a frequency distribution. Averages tell us about the central value of the distribution and measures of dispersion tell us about the concentration of the items around a central value. These measures do not reveal whether the dispersal of value on either side of an average is symmetrical or not. If observations are arranged in a symmetrical manner around a measure of central tendency, we get a symmetrical distribution, otherwise, it may be arranged in an asymmetrical order which gives asymmetrical distribution. Thus, skewness is a measure that studies the degree and direction of departure from symmetry.

A symmetrical distribution, when presented on the graph paper, gives a 'symmetrical curve', where the value of mean, median and mode are exactly equal. On the other hand, in an asymmetrical distribution, the values of mean, median and mode are not equal. When two or more symmetrical distributions are compared, the difference in them are studied with 'Kurtosis'. On the other hand, when two or more sysmmetrical distributions are compared, they will give different degrees of Skewness. These measures are mutually exclusive i.e. the presence of skewness implies absence of kurtosis and vice-versa.

Literal meaning of skewness is lack of symmetry. It measures the degree of departure of a distribution from symmetry and reveals the direction of scatterdness of the items.

A frequency distribution is said to be symmetrical when values of the variables equidistant from their mean have equal frequencies. If a frequency distribution is not symmetrical, it is said to be asymmetrical or skewed. Any deviation from symmetry is called skewness.

According to *Morris Humberg* Skewness refers to the asymmetry or lack of symmetry in the shape of a frequency distribution.

According to *Croxton & Cowden* When a series is not symmetrical it is said to be asymmetrical or skewed.

According to *Simpson & Kafka* Measures of skewness tell us the direction and the extent of skewness. In a symmetrical distribution the mean, median and mode are identical. The more we move away from the mode, the larger the asymmetry or skewness.

In the words of *Riggleman and Frisbee* Skewness is the lack of symmetry when a frequency distribution is plotted on a chart, skewness present in the items tends to be dispersed more on one side of the mean than on the other.

Thus the above definitions make it clear that the word skewness refers to the lack of symmetry. If a distribution is normal there would be no skewness in it and the curve drawn from the distribution would be symmetrical. In case of skewed distributions the curve drawn would be elongated either to the left or to the right. The concept of skewness gains importance from the fact that statistical theory is often based upon the assumption of the normal distribution. A measure of skewness is, therefore necessary in order to guard against the consequences of the assumption. The following three figures would give an idea about the shape of symmetrical and asymmetrical curves

Tests of Skewness

There are certain tests to know whether skewness does or does not exist in a frequency distribution.They are :

1. In a skewed distribution, values of mean, median and mode would not coincide. The values of mean and mode are pulled away and the value of median will be at the centre. In this distribution, mean-Mode = 2/3 (Median - Mode).
2. Quartiles will not be equidistant from median.
3. When the asymmetrical distribution is drawn on the graph paper, it will not give a bell shapedcurve.
4. Sum of the positive deviations from the median is not equal to sum of negative deviations.
5. Frequencies are not equal at points of equal deviations from the mode.

Nature of Skewness

Skewness can be positive or negative or zero.

1. When the values of mean, median and mode are equal, there is no skewness.
2. When mean > median > mode, skewness will be positive.
3. When mean < median < mode, skewness will be negative.

Characteristic of a good measure of skewness

1. It should be a pure number in the sense that its value should be independent of the unit of the series and also degree of variation in the series.
2. It should have zero-value, when the distribution is symmetrical.
3. It should have a meaningful scale of measurement so that we could easily interpret the measured value.

Methods of ascertaining Skewness

Skewness can be studied graphically and mathematically. When we study skewness graphically, we can find out whether skewness is positive or negative or zero. This can be shown with the help of a diagram :

Mathematically skewness can be studied as :

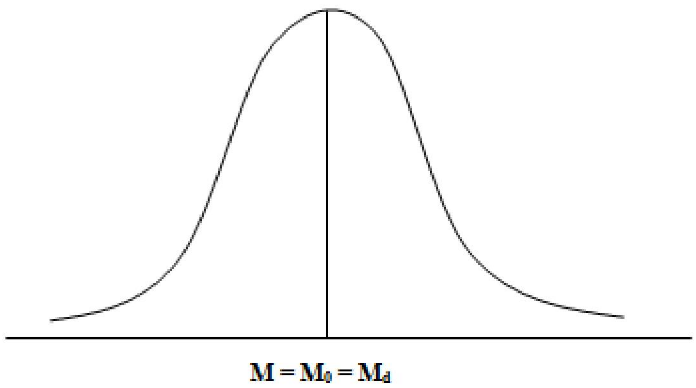
(a) Absolute Skewness

(b) Relative or coefficient of skewness

When the skewness is presented in absolute term i.e, in units, it is absolute skewness. If the value of skewness is obtained in ratios or percentages, it is called relative or coefficient of skewness. When skewness is measured in absolute terms, we can compare one distribution with the other if the units of measurement are same. When it is presented in ratios or percentages, comparison become easy. Relative measures of skewness is also called coefficient of skewness.

Symmetrical curve

The figure 5.1, given below, presents the shape of a symmetrical curve which is bell shaped having no skewness. The value of mean (M), median (M_d) and mode (M_o) for such a curve would be identical.



Symmetrical distribution

In a symmetrical distribution the values of mean, median and mode coincide. The spread of the frequencies is the same on both sides of the centre point of the curve. For a symmetrical distribution Mean = Median = Mode.

Positively skewed curve

A positively skewed curve has a longer tail towards the higher values of X i.e. the frequency curve gradually slopes down towards the higher values of X. In a positively skewed distribution the mean is greater than the median and then mode and the median lies in between mean and mode. The frequencies are spread over a greater range of values on the high value end of the curve (the right hand side) as is clear from the below Fig.

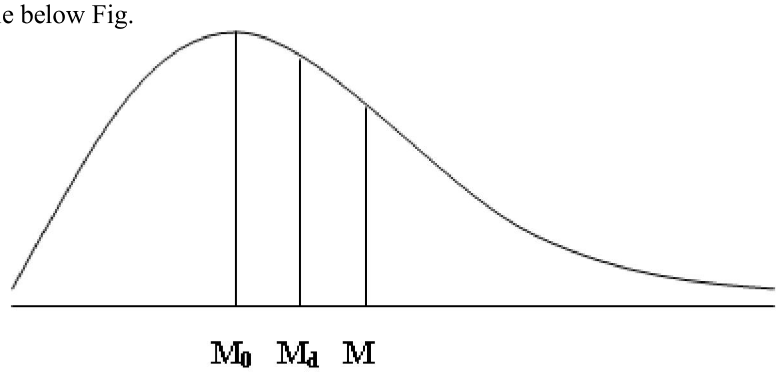


Fig. Positively skewed distribution

For a positively skewed distribution Mean > Median > Mode.

Negatively skewed curve

A negatively skewed curve has a longer tail towards the lower values of X i.e. the frequency curve gradually slopes down towards the lower values of X as shown in below Fig.

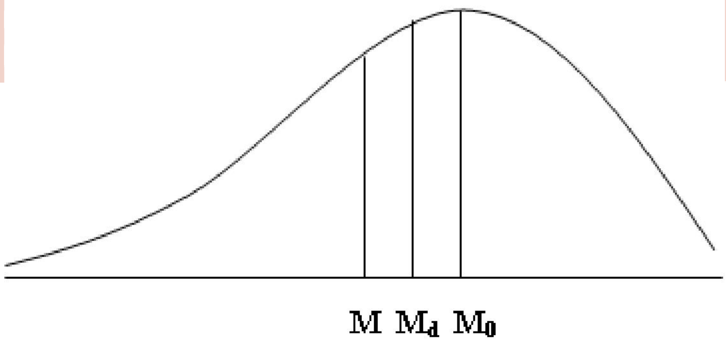


Fig. Negatively skewed distribution

In the negatively skewed distribution the mode is the maximum and mean is the least. The median lies in between mean and mode. The elongated tail in negatively skewed distribution is on the left hand side as would be clear from Fig 5.3. For a negatively skewed distribution, Mean < Median < Mode.

<u>Measures of Skewness</u>

Mathematical measures of skewness can be calculated by :

(a) Bowley's Method

(b) Karl-Pearson's Method

(c) Kelly 's method

Measures of skewness are meant to give an idea about the extent of asymmetry in a series. A distribution is said to be skewed if

- The frequency curve of the distribution is not a symmetric bell shaped curve but stretched more to one side than to the other.
- The values of mean (M), median (M_d) and mode (M_o) fall at different points i.e they don′t coincide.
- Quartiles Q_1 and Q_3 are not equidistant from the median.
- The corresponding pairs of deciles and percentiles are not equidistant from the median.

If a particular distribution is found to be skewed, the next problem that arises is to measure the extent of skewness. To find out the direction and extent of asymmetry in a series statistical measures of skewness are employed.

These measures can be absolute or relative. The absolute measures of skewness tell us the extent of asymmetry and whether it is positive or negative. The absolute skewness is based on the difference between mean and mode. Symbolically,

Absolute skewness = Mean - Mode

Skewness will be positive, if the value of mean is greater than the mode and skewness will be negative, if the value of mean is less than the mode. The difference between the mean and the mode, whether positive or negative, indicates the distribution is positively skewed or negatively skewed. However, such an absolute measure of skewness is not adequate because it cannot be used for comparison of skewness in two distributions, if they are in different units, since difference between the mean and mode will be in terms of the units of distribution. Thus for comparison purposes we use the relative measures of skewness known as co-efficient of skewness.

1. Karl pearson's coefficient of skewness

The first coefficient of skewness as defined by Karl Pearson is

$$\text{Coefficient of skewness} = \frac{\text{Mean}-\text{Mode}}{\text{Std.deviation}} = \frac{\text{M}-\text{M}_0}{\sigma}$$

This measure is based on the fact that the mean and the mode are drawn widely apart. Skewness will be positive if mean > mode and negative if mean < mode. There is no limit to this measure in theory and this is a slight drawback. But in practice the value given by this formula is rarely very high and its value usually lies between -1 and +1.

It may also be written as $\frac{3(\text{Mean}-\text{Median})}{\sigma}$ as Mode = 3 Median - 2 Mean

This coefficient is a pure number without units since both numerator and denominator have the same dimensions. The value of this coefficient lies between -3 and +3.

2. Bowley's Coefficient of Skewness

Prof. A.L. Bowley's Coefficient of Skewness is based on quartiles and is given by:

$$\text{Coefficient of Skewness} = \frac{(\text{Q}_3-\text{Median})-(\text{Median}-\text{Q}_1)}{\text{Q}_3-\text{Median})+(\text{Median}-\text{Q}_1)} = \frac{\text{Q}_3+\text{Q}_1-2\text{Median}}{\text{Q}_3-\text{Q}_1}$$

This is also known as Coefficient of Skewness based on quartiles and is especially useful in situations where quartiles and median are used viz.

- When the mode is ill-defined and extreme observations are present in the data.
- When the distribution has open end classes or unequal class intervals.

This coefficient is a pure number without units since both numerator and denominator have the same dimensions. The value of this coefficient lies between -1 and +1.

3. Kelly's Coefficient of Skewness

The drawback of Bowley's Coefficient of Skewness is that it ignores the 50% of the data which can be partially removed by taking two deciles or percentiles equidistant from the median value. The refinement was suggested by Kelly.

$$\text{Coefficient of Skewness} = \frac{\text{P}_{90}+\text{P}_{10}-2\text{ Median}}{(\text{P}_{90}-\text{P}_{10})} = \frac{\text{D}_9+\text{D}_1-2\text{Median}}{(\text{D}_9-\text{D}_1)}$$

<u>**Coefficient of Skewness based on moments**</u>

Moments

Moments are the general statistical measure used to describe and analyse the characteristics of a frequency distribution viz. central tendency, dispersion, skewness and kurtosis. Let us consider the variable X having a frequency distribution as given below:

X	X_1	X_2	X_3	----	---	X_n
f	f_1	f_2	f_3	----	---	f_n

Then, $\bar{X} = \frac{\sum_{i=1}^{n} f_i x_i}{\sum_{i=1}^{n} f_i} = \frac{\sum_{i=1}^{n} f_i x_i}{N}$ is the arithmetic mean.

CHAPTER-4: CORRELATION AND REGRESSION

CORRELATION

Introduction:

The term correlation is used by a common man without knowing that he is making use of the term correlation. For example when parents advice their children to work hard so that they may get good marks, they are correlating good marks with hard work.

The study related to the characteristics of only variable such as height, weight, ages, marks, wages, etc., is known as univariate analysis. The statistical Analysis related to the study of the relationship between two variables is known as Bi-Variate Analysis. Sometimes the variables may be inter-related. In health sciences we study the relationship between blood pressure and age, consumption level of some nutrient and weight gain, total income and medical expenditure, etc., The nature and strength of relationship may be examined by correlation and Regression analysis.

Thus Correlation refers to the relationship of two variables or more. (e-g) relation between height of father and son, yield and rainfall, wage and price index, share and debentures etc.

Correlation is statistical Analysis which measures and analyses the degree or extent to which the two variables fluctuate with reference to each other. The word relationship is important. It indicates that there is some connection between the variables. It measures the closeness of the relationship. Correlation does not indicate cause and effect relationship. Price and supply, income and expenditure are correlated.

Definitions:

1. Correlation Analysis attempts to determine the degree of relationship between variables- Ya-Kun-Chou.
2. Correlation is an analysis of the covariation between two or more variables.- A.M.Tuttle.

Correlation expresses the inter-dependence of two sets of variables upon each other. One variable may be called as (subject) independent and the other relative variable (dependent). Relative variable is measured in terms of subject.

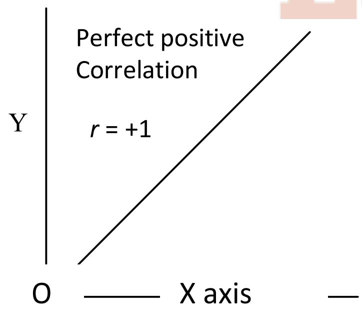
Uses of correlation:

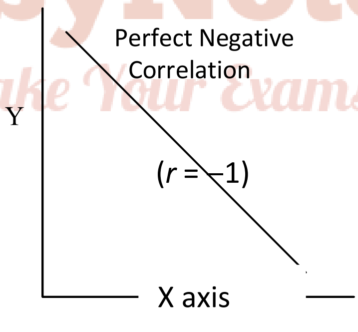
1. It is used in physical and social sciences.
2. It is useful for economists to study the relationship between variables like price, quantity etc. Businessmen estimates costs, sales, price etc. using correlation.
3. It is helpful in measuring the degree of relationship between the variables like income and expenditure, price and supply, supply and demand etc.
4. Sampling error can be calculated.
5. It is the basis for the concept of regression.

Scatter Diagram:

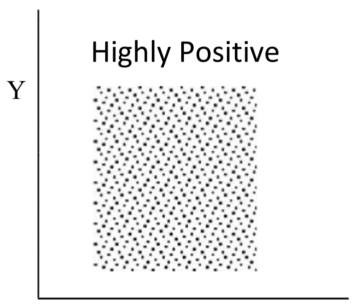
It is the simplest method of studying the relationship between two variables diagrammatically. One variable is represented along the horizontal axis and the second variable along the vertical axis. For each pair of observations of two variables, we put a dot in the plane. There are as many dots in the plane as the number of paired observations of two variables. The direction of dots shows the scatter or concentration of various points. This will show the type of correlation.

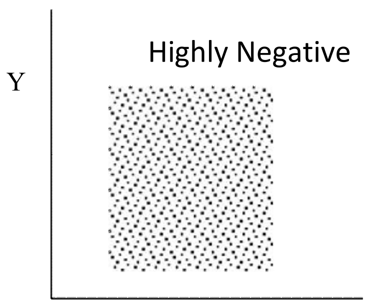
1. If all the plotted points form a straight line from lower left hand corner to the upper right hand corner then there is Perfect positive correlation. We denote this as $r = +1$





2. If all the plotted dots lie on a straight line falling from upper left hand corner to lower right hand corner, there is a perfect negative correlation between the two variables. In this case the coefficient of correlation takes the value $r = -1$.
3. If the plotted points in the plane form a band and they show a rising trend from the lower left hand corner to the upper right hand corner the two variables are highly positively correlated.





SUBJECT :

MANAGEMENT (17)

UNIT – 9:

INTERNATIONAL BUSINESS AND INFORMATION TECHNOLOGY

By :

Dr. Gaurav Jangra

Owner and Founder

EasyNotes4U Academy

EasyNotes4U

Make Your Exams Easy

Website: www.easynotes4u.com

Contact:+91-8814931483

Contents

PART – I :

INTERNATIONAL BUSINESS

International Business

Meaning :

International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations. International Business is the process of focusing on the resources of the globe and objectives of the organisations on global business opportunities and threats.

Definition :

In the words of Jack Wilson ***'All the business transactions (exchange of money) necessary for creating, shipping, and selling goods and services across national boarders is known as international business of international trade or foreign trade'***

Robinson Defined International business as, ***'a feild of study and practices that encompases public and private business activity affecting the persons or institutions of more than one naional state, territory or colony'***

Importance of international business

1. To achieve higher rate of profits
2. Expanding the production capacity beyond the demand of the domestic country
3. Severe competition in the home country
4. Limited home market
5. Political conditions
6. Availability of technology and managerial competence
7. Cost of manpower, transportation
8. Nearness to raw material
9. Liberalisation, Privatisation and Globalisation (LPG)
10. To increase market share
11. Increase in cross border business is due to falling trade barriers (WTO), decreasing costs in telecommunications and transportation; and freer capital markets

Different countries and companies are given the chance to expand and to share their products and services to others beyond their own territory.

In fact, there is an actual give and take scenario between two or more nations that sign a mutual agreement of trading. Below are the lists on what make international business important.

1. It acquires more sales

Businessmen will have the chance to expand their companies and to be known to other countries.Undoubtedly, this will increase their profits rather than restricting their business within their ownborders.

Our local country will also benefit from this since new products, technologies, and services are being offered for us to use.And, because we allow them to export their goods and services to us, we are also given the chance to export our own products to them. In this way, both our local businessmen and government will also earn.

2. It opens new opportunities

If there are increasing numbers of foreign companies in our country, they will need more manpower to help them in running the business. We will be given the chance to use and to share our skills and knowledge, once we are hired.

In return, we will gain income to provide the needs of our family. The agreement also implies that we can go to their country to work, to study, or to live.

3. It gives new technologies

Other countries have invented different technologies which can help us in our daily living like modern appliances and computers.

For those countries that lack the means to create new high quality technologies can also have an access to enjoy the benefits once these technologies are exported to them. Another example is the invention of rear projection screens. These will help us in disseminating and advertising in our country.

4. It utilizes the resources

Countries that are rich in fuel, minerals, and many more can utilize their resources by sharing these to others. Instead of keeping these resources, they can share these to other countries so that others will also have the benefits. In return of their resources, they can have more income for their government.

5. It provides quality products

Different countries have their own unique and useful products and services that they can offer to us. In this way, we can choose the best ones that are helpful to us. There are wide varieties of choices when it comes to brands, prices, designs, and features.

6. It helps in earning foreign exchange

Investors are welcomed to invest from both local and international. More investors mean that the economic status of our country will become stable. This helps a lot, especially those fellow citizens that need assistance from the local government.

7. It acquires investment in infrastructure

Countries that deal with international business need to invest in infrastructure. This will help them in transporting and communicating with other business partners and customers. This will also help the people since these infrastructural developments are open to be used by the public.

Nature of International Business

1. Accurate Information
2. Information not only accurate but should be timely
3. The size of the international business should be large
4. Market segmentation based on geographic segmentation
5. International markets have more potential than domestic markets

DIFFERENT MODES OF ENTRY IN INTERNATIONAL BUSINESS

1. Exports

Export deals with physical movement of goods and services from one place to another through a customs port followings the rules of both the country of origin and country of destination. Depending upon the involvement of the exporter, exports can be classified as direct or indirect. Direct exporters export their goods and services in their own name and the buyer directly remits proceeds, in a proper manner and through a proper channel. The proper channel means that the remittance is made through the banking channel in the currency, which is quoted in the invoice, and the proper channel means that the goods are legally exported through a customs port.

Indirect exporters supply goods to direct exporters. Lack of expertise, international contacts and manpower cause them to depend upon direct exporters. Farmers rarely export grains on their own. Artisans cannot develop international contacts to clinch business deals. Therefore, they become indirect exporters.

Their products are to other countries but not in their names. Exporters can be classified in several ways:

1. Depending upon the size of business, they are classified as small and large exporters. Current national trade policy provides incentives and facilities to promote both small & large exporters in different ways that are status holders due to their performance in earning foreign exchange.
2. Depending upon the product lines exported, they are classified as single product and multiple product line
3. Depending upon their legal status, they are classified as proprietary, partnership, private limited and public limited companies.
4. Depending upon the destination of their exports, they are classified as single destinations or multi destination exporters. Nowadays, the majority of the companies adopt the philosophy of multi product, multi location, multi strategic, and multi dimensional operations.
5. Depending upon the frequency of their exports, they are classified as occasional exporters and dynamic exporters.

2. International licensing

International licensing is an agreement between the licensor and the licensee over a period of time for the use of brand name, marketing, know-how, copyright, work method and trade mark by paying a license fee. For example, British American Tobacco Company (BATS) has given licenses in many countries for the manufacture of their brand of cigarettes “555”. In India, ITC is the licensed producer of “555”. Pepsi cola licensed to Heineken of the Netherlands giving them the exclusive right to produce and sell Pepsi cola in Netherlands. The licensor has minimum involvement in day-to-day functions. Therefore the returns are also comparatively low.

Licensing specifies the territory as well as period. The licensor gives such permission after establishing such a command-able position globally. It has a brand command.

3. Franchising

Franchising is a form of licensing wherein the franchiser exercises more control over franchisee.The franchiser supplies the main part of the product, and provides the following services to the Franchisee: 1. TRADEMARKS 2. OPERATING SYSTEMS 3. PRODUCT, & 4. BRAND NAME.

Company support systems like advertising, training of employees, quality assurance are also involved in franchising. McDonald, Dairy Queen, Domino’s Pizza and KFC are the known franchise brands. NIIT & Aptech have appointed franchisees in Africa, south East Asia, Gulf countries and China. Hotels like The Hilton and Marriott are well known operators in hotel sector. Jatia’s in India are the national franchisees of McDonalds. All the investments on premises, HR, operations and promotions are totally borne by the franchisees. In practice the franchiser is determined to maintain a standard throughout the world in terms of quality brand logo and symbol. But the product is adaptable depending on the socio-cultural background of the country. McDonalds sells BEEF BURGERS in Russia & VEG BURGERS in India. Sometimes the franchisers initiate the process where the economy is on boom. In many developing nations, franchisees initiate the process and they are forced to bear all the expenses.

4. Contract manufacturing

Many companies outsource their products and concentrate mainly on marketing operations. Contract manufacturing is the strategy of identifying a manufacturing unit to produce items at a competitive price in any part of the world. Nike is procuring its athletic footwear in a number of factories in South East Asia. Mega Toys is sourcing from China. Hundreds of international companies with their origin in European countries have selected manufacturing centers in India, China and South East Asia. Mark and Spencer, J.C. penny, Target and H & M have contract manufacturing arrangements in many parts of the world. Contract manufacturing with a dimension in the service sector offer ample opportunities for Indian companies in the form of BUSINESS PROCESS OUTSOURCING (BPO) and KNOWLEDGE PROCESS OUTSOURCING (KPO). All the developed nations are becoming end user of outsourced products and services of developing nations.

5. Contract marketing

All the companies, which are strong in production, may not have equal marketing strengths. However, they may be comfortable dealing with marketing outlets around the world such as TESCO, Maeys, ‘K’ Mart, Wal-Mart and Spinneys. Such manufacturing units enter in to a marketing agreement and concentrate more on production at lower costs.

Exchange and Supreme industries have selected marketing firms in other countries, which have a good background with technology support. Majority of technology-based companies essentially have to identify competent organizations with marketing infrastructure to aggressively promote their products or projects. Many Indian companies are contract marketers for Germany based medical equipments, dental care items and hearing aids. Their contractual obligations include TARGETS & TERRITORIES.

6. Management contracts

Companies with a low level of technology and managerial expertise may seek the assistance of foreign countries. A management contract is an agreement between two companies whereby one company provides managerial and technical assistance for which proper monetary compensation
is given, either as a flat lump sum fee or a percentage on the sales or a share in the profits. Delta airlines, Air France and KLM offer such services in developing countries. Exxon is a major operator in Gulf region in the field of oil exploration.

7. Joint venture

VENTURE ORIGINATES FROM ADVENTURE which means NEW, either market or technology or environment. A joint venture is a binding contract between two venture partners to set up a project either in home country or host country or a third country. In this case both parties are committed to joint risk taking and joint profit sharing. For example, The Taj group of hotels has a joint venture in Russia for setting up Five Star Hotels. Mahindra & Mahindra has recently entered in to a joint venture with Renault to manufacture cars. A large number of joint ventures have been miserable failures in the past. In the initial stage every venture promises excellent opportunities to both the venture partners. However, when the operation actually starts, certain functional level grievances and issues become inevitable. Therefore, it is absolutely necessary for both the venture partners to understand all the aspects of management, investment and regulations of the countries where they operate. The business units should have clear guidelines and operation manuals wherein the role of every one should be clearly defined.

8. Collaboration

While a joint venture deals with the project in totality, in financial terms and the proportionate partnership commitments, Collaboration deals with only a part of the functions. For example Bajaj Auto has technological collaboration with Kawasaki of Japan, who offers the technology for two wheelers. Others well known technological collaborations are Ind-Suzuki, Kinetic-Honda and Hero-Honda. All the developing countries encourage technology collaborations. The investors in the US, Japan, Germany and UK enjoyed the fruits by offering technical expertise to the developing nations. The world famous Kellogg Business School has collaborated with the Indian school of business (ISB) in Hyderabad, by offering teaching methodology. Likewise, there may be financial collaborations, HR collaborations, systems collaborations and strategic collaborations. The common term used for collaboration is TIE-UP.

9. Foreign direct investment

The flow of funds from one destination to another is called investment. Companies, which are constantly involved in international business, invest their money in manufacturing and marketing bases through ownership and control. Kellogg, Pepsi, Coca Cola and the Hyatt group of hotels are willing to invest even if the profits are expected after a long gestation period. Currently every developing country is formulating strategies by offering ample amount of incentives to attract investments. Foreign firms adopt certain methods as mentioned below: a. They control the operations through subsidiaries to achieve strategic synergies. b. They have control through technology, manufacturing expertise, intellectual property rights and brand name. c. One permanent person or a team in the country of operation is appointed to monitor day to day operations. The most attractive part of the operation is the direct investment, which contributes to optimization of resources in the host country, generating employment opportunities and enhancing the standard of living in the host country. The other major developments, which have taken place during the past two decades, are exposure of the host countries to advance technology and quality products. It is boon to the host country since capital is great resource it is coming through investment. The main disadvantages are lack of clarity of repatriation of profits, imposition of restrictions by host countries and elimination of small and medium industries due to the financial power of the investor. A number of South American countries like Argentina and few South East Asian nations like Indonesia fell pray to the dominant forces of overseas investors. They feel that the old colonialism may re-emerge through investments. Generally, a foreign investment takes place on full swing in developing countries only in the past two decades. China, Taiwan, India, Brazil, Argentina and other developing countries have started attracting huge foreign investments. If it takes place in specific sectors like infrastructure, mining, marine technology and agro processing, it is highly beneficial to both the host country and investor.

10. Mergers and acquisitions

In this case the company in the host country selects a foreign company merges itself with it. The foreign company acquires the control of ownership. This mode of entry gives an outstanding competitive edge over others. Such companies strengthen their international manufacturing facilities and marketing network. Proctor & Gamble entered Mexico and became leaders in five years by acquiring Loreto. Tata bearing acquired Metal Box in India. It is an easy and fast method since the cost of acquisition is comparatively low. At the same time the disadvantages are: a. It is a complex task involving banks, lawyers, bureaucrats and obviously politicians. b.The host countries may impose restrictions on acquisitions. c. The labour problem is a big challenge to acquisitions specially in developing countries where unemployment is a critical issue. The global STEEL-KING L.N.Mittal was successful right from the first acquisition of steel mill in Indonesia. Many other acquisitions followed in Trinidad, Kazakhstan, Hungary and others. The recent Aditya Birla Group Company Hindalco acquisition of Novelis has strengthened its production synergy and market access for non-ferrous category in the international market.

11. Take-overs

This is a strategy whereby a company identifies a healthy unit with strong brand name and network and brings it under the management of another unit in order to become a leader in the field and guarantee success. Since there may be many parties wanting to takeover a well-known company, competition becomes inevitable. It is obvious that only one entity will win and the winner has to withstand hostilities. Therefore, the process is called a "hostile take over" and the winner is called the "take over tycoon". Wellknown examples are the Hindujas who took over Ashok Leyland and Uniliver who took over Brook Bond and Lipton. Take-over is also on different levels, such as company takeover, business takeover, product takeover and brand takeover. Some takeovers in the past have made many corporate success stories. For example, Uniliver's take over of Brook Bond and Lipton enhanced its position as a leader in the tea industry in India. Always takeovers cost more as compared to acquisition but probability of
success is high.

12. Turnkey projects

A turnkey project is a contract under which a company is fully involved from concept to completion. It covers right from supply of manpower, capital, and erection of plant, installation and commissioning up to the trial operation of a project. The turnkey project contractors either get a fixed fee or the cost plus profits are collected over a period of time. Today, infrastructure projects like power plants, airports, refineries, railway lines, highways and dams are undertaken on a turnkey basis. Bechtel, Brown Bovery, Hyundai, Mitsubishi, L&T and Daewoo are turnkey contractors for international projects. They use terms like BOT (Build, Operate and Transfer) and BOOT (Build, Own, Operate and Transfer) depending upon the level of involvement and obligations. Whenever turnkey project contractor is capable of cutting costs on material and manpower or finances or speed of completion: every component increases profitability.

13. Counter trade

In all the above operations, foreign exchange is necessary for transactions. For exports, the supplier gets the proceeds in foreign exchange. For joint ventures, profits are shared in foreign exchange. For international licensing, the license fee is paid in foreign exchange. The current challenge to many international business organizations is to get payments in foreign currency. A vast majority of the countries in the world do not have the necessary reserves of foreign exchange to remit. However they can still be actively involved in international business, by using COUNTER TRADE mechanism. Counter trade came in to existence in the absence of foreign exchange reserves in a country. Sometimes the country is not willing to pay, though foreign exchange reserves are with it. Such unwillingness will lead to non-repatriation of payment.Ultimate solution is to enter in to counter trade practices. Counter trade can be classified in to three categories: 1. Pure Barter 2. Buy Back 3. Counter Purchase

1. Pure Barter :

In this system goods and services are mutually exchanged between two countries depending upon their bargaining strength. A country with surplus products can finalize deals with another country that has a shortage of the same range of products. At the same time, the second country may have a surplus of a different range of products, which are in short supply in the first country. Hence, both countries can exchange their products by fixing a price in advance for a given period of time. This age old system that was prevalent during the era of ancient civilizations is being practiced currently. The Indus Valley supplied timber for maritime activities to Mohenjadaro and Harappa. The same practice has re-emerged with sophisticated pre fixation of value. Pure barter is defined as "the mutual exchange of goods and services between two countries depending upon their bargaining strength, in order that both the countries enjoy the benefits".

2. Buy Back :

A buy back is an arrangement by which the home country representative sets up a project in the host country, which does have sufficient foreign exchange reserves to fully pay for the project to the supplier. The project amount is partially paid in foreign exchange and the remaining amount is paid in kind. Usually, the home country representative comparatively at low price purchases the end product of the same project. This can be marketed in the home country or it could even be diverted to a third country in order to maximize the profit margin. Buy back arrangements have become popular since many turnkey project contractors get greater benefits by marketing
the end product in any part of the world at a higher margin. Bharat Heavy Electricals (BHEL) sets up projects in other countries. Partially it gets the payment in foreign exchange. For the balance amount it takes back tankers from the host country and markets them in any other country and also brings them back to India to sell at a higher price. Such deals enable the home country businesses to get international exposure very fast. The host country is an ultimate beneficiary since the project is locate in and owned by it.

3. Counter Purchase :

Counter purchase is a method, wherein company A from country A supplies product X to country B. Country B, which has a surplus of product Y, compensates by supplying it to company A, which finds a market for e product Y, say country C. Country C sells a product Z to a country D, which has sufficient foreign exchange to pay for it. Country D can then pay country C, and finally country A collects payment routed through company B and C. Thus purchasing takes place against supply until a country, which has sufficient foreign exchange reserves is found. He transaction. Many multinationals use this system to make large amounts of money at every stage of For example, Pepsi International supplies rice to South Africa from India. From South Africa it procures steel equivalent to the amount of rice collects and supplies it to Ghana. From Ghana, it procures coffee and cocoa equivalent to the steel imports and sells them to Canada, which has sufficient foreign exchange reserves to pay for them. By appointing one representative or employee the company can carry out routine functions deals in the Far East are Marubeni Corporation, Mitsubishi and Majuko. The age-old economic theory of interdependency of nations has been redefined with the counter purchase mechanism. Today, to trade with other countries, it is not necessary that the country in question has to have sufficient foreign exchange reserves. Without foreign exchange reserve one can continue trade. The model on the next page shows the benefits that both the home country and the host country enjoy on successful completion of the transactions undertaken. Today, anyone can do business with any country.

Foreign exchange as a medium of transaction had a dominant role in all the countries in the past. Due to counter purchase mechanism very few countries with foreign exchange reserve can comfortably contribute to international business.

GLOBALISATION

Globalization (or globalisation) is the process of international integration arising from the interchange of world views, products, ideas and mutual sharing, and other aspects of culture. Advances in transportation, such as the steam locomotive, steamship, jet engine, container ships, and in telecommunications infrastructure, including the rise of the telegraph and its modern offspring, the Internet, and mobile phones, have been major factors
in globalization, generating further interdependence of economic and cultural activities. Though scholars place the origins of globalization in modern times, others trace its history long before the European Age of Discovery and voyages to the New World. Some even trace the origins to the third millennium BCE. Large-scale globalization began in the 19th century. In the late 19th century and early 20th century,

Economic globalization is the increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital. Whereas the globalization of business is centered around the diminution of international trade regulations as well as tariffs, taxes, and other impediments that suppresses global trade, economic globalization is the process of increasing economic integration between countries, leading to the emergence of a global marketplace or a single world market.] Depending on the paradigm, economic globalization can be viewed as either a positive or a negative phenomenon. Economic globalization comprises the globalization of production markets, competition, technology, and corporations and industries. Current globalization trends can be largely accounted for by developed economies integrating with less developed economies by means of foreign direct investment, the reduction of trade barriers as well as other economic reforms and, in many cases, immigration Because of globalization, for the first time in history, the availability of international products and services can be accessed by individuals in many countries, from diverse economic backgrounds.

Globalization refers to the shift toward a more integrated and interdependent world economy. Globalization has several facets, including the globalization of markets and the globalization of production.

The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market.Consumer products such as Citigroup credit cards, Coca-Cola soft drinks, Sony PlayStation video games, McDonald's hamburgers, Starbucks coffee, and IKEA furniture are frequently held up as prototypical examples of this trend. Firms such as those just cited are more than just benefactors of this trend; they are also facilitators of it. By offering the same basic product worldwide, they help to create a global market.

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively. Consider Boeing's 777, a commercial jet airliner. Eight Japanese suppliers make parts for the fuselage, doors, and wings; a supplier in Singapore makes the doors for the nose landing gear; three suppliers in Italy manufacture wing flaps; and so on.11 In total, some 30 percent of the 777, by value, is built by foreign companies.

For its most recent jet airliner, the 787, Boeing has pushed this trend even further; some 65 percent of the total value of the aircraft is outsourced to foreign companies, 35 percent of which goes to three major Japanese companies.

DRIVERS OF GLOBALIZATION

Two macro factors underlie the trend toward greater globalization.17 The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II. The second factor is technological change, particularly the dramatic developments in recent decades in communication, information processing, and transportation technologies.

Declining trade and investment barriers - During the 1920s and 30s many of the world's nation-states erected formidable barriers to international trade and foreign direct investment.

International trade occurs when a firm exports goods or services to consumers in another country. Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country. Many of the barriers to international trade took the form of high tariffs on imports of manufactured goods. The typical aim of such tariffs was to protect domestic industries from foreign competition. One consequence, however, was "beggar thy neighbour" retaliatory trade policies, with countries progressively raising trade barriers against each other.

Having learned from this experience, the advanced industrial nations of the West committed themselves after World War II to removing barriers to the free flow of goods, services, and capital between nations.18 This goal was enshrined in the General Agreement on Tariffs and Trade. Under the umbrella of GATT, eight rounds of negotiations among member states worked to lower barriers to the free flow of goods and services. The most recent negotiations to be completed, known as the Uruguay Round, were finalized in December 1993. The Uruguay Round further reduced trade barriers; extended GATT to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the World Trade Organization to police the international trading system.The impact of GATT agreements on average tariff rates for manufactured goods. As can be seen, average tariff rates have fallen significantly since 1950 and now stand at about 4 percent.

The globalization of markets and production and the resulting growth of world trade, foreign direct investment, and imports all imply that firms are finding their home markets under attack from foreign competitors.

The role of technological change

The lowering of trade barriers made globalization of markets and production a theoretical possibility. Technological change has made it a tangible reality. Since the end of World War II, the world has seen major advances in communication, information processing, and transportation technology, including the explosive emergence of the Internet and World Wide Web.

Telecommunications is creating a global audience. Transportation is creating a global village. From Buenos Aires to Boston, and from Birmingham to Beijing, ordinary people are watching MTV, they're wearing blue jeans, and they're listening to iPods as they commute to work.

In addition to the globalization of production, technological innovations have facilitated the globalization of markets. Low-cost global communications networks such as the World Wide Web are helping to create electronic global marketplaces. Low-cost transportation has made it more economical to ship products around the world, thereby helping to create global markets. For example, due to the tumbling costs of shipping goods by air, roses grown in Ecuador can be cut and two days later sold in New York. This has given rise to an industry in Ecuador that did not exist 20 years ago and now supplies a global market for roses. In addition, low-cost jet travel has resulted in the mass movement of people between countries. This has reduced the cultural distance between countries and is bringing about some convergence of consumer tastes and preferences. At the same time, global communication networks and global media are creating a worldwide culture.

Despite these trends, we must be careful not to overemphasize their importance. While modem communication and transportation technologies are ushering in the "global village," significant national differences remain in culture, consumer preferences, and business practices. A firm that ignores differences between countries does so at its peril.

The Theories of International Business

International trade is the purchase, sale or exchange of goods and services across national border. International trade produces many benefits to countries both exporting and importing products. For countries importing products, the benefits are that they get goods or services they cannot produce enough of on their own. Likewise, for the exporter, one of the benefits is though the trade they can also get either the goods or services they need or the money in which to purchase these goods from another country or source. International trade also helps the economic of the countries.

International trade encompasses many aspects in relation to various countries. There are many theories regarding international trade. Some of these include mercantilism, absolute advantage, comparative advantage, factor proportions theory, international product life cycle, new trade theory and national competitive advantage.

1. Theory of Mercantilism

DEFINITION OF MERCANTILISM

Mercantilism is an economic theory and practice common in Europe from the 16th to the 18th century that promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers. In particular, it demands a positive balance of trade. It was the economic counterpart of political absolutism.

The main goal was to increase a nation's wealth by imposing government regulation concerning all of the nation's commercial interests. It was believed that national strength could be maximized by limiting imports via tariffs and maximizing exports.

Mercantilism was a cause of frequent European wars in that time and motivated colonial expansion.

ORIGIN OF MERCANTALISM

Most of the European economists who wrote between 1500 and 1750 are today generally considered mercantilists; originally the Standard English term was "mercantile system". English merchant Thomas Mun (1571–1641) as a major creator of the mercantile system, especially for his Treasure by Foreign Trade (1664) and Perhaps the last major mercantilist work was James Steuart's Principles of Political Economy published in 1767.

POLICIES OF MERCANTILISM

High tariffs, especially on manufactured goods, are an almost universal feature of mercantilist policy. Other policies have included:

- Building a network of overseas colonies;
- Forbidding colonies to trade with other nations;
- Banning the export of gold and silver, even for payments;
- Forbidding trade to be carried in foreign ships;
- Export subsidies;
- Promoting manufacturing with research or direct subsidies;
- Maximizing the use of domestic resources;
- Restricting domestic consumption with non-tariff barriers to trade.

Mercantilism in its simplest form was bullionism, but mercantilist writers emphasized the circulation of money and rejected hoarding. Their emphasis on monetary metals accords with current ideas regarding the money supply, such as the simulative effect of a growing money supply.

CRITICISMS OF MERCANTILISM

Adam Smith and David Hume were the founding fathers of anti-mercantilist thought. A number of scholars found important flaws with mercantilism long before Adam Smith developed an ideology that could fully replace it. Critics like Hume, Dudley North, and John Locke undermined much of mercantilism, and it steadily lost favor during the 18th century.

Mercantilism contained many interlocking principles. Precious metals, such as gold and silver, were deemed indispensable to a nation's wealth. If a nation did not possess mines or have access to them, precious metals should be obtained by trade. It was believed that trade balances must be "favorable," meaning an excess of exports over imports.

Later, mercantilism was severely criticized. Advocates of laissez-faire argued that there was really no difference between domestic and foreign trade and that all trade was beneficial both to the trader and to the public. They also maintained that the amount of money or treasure that a state needed would be automatically adjusted and that money, like any other commodity, could exist in excess. They denied the idea that a nation could grow rich only at the expense of another and argued that trade was in reality a two-way street. Laissez-faire, like mercantilism, was challenged by other economic ideas. Compare laissez-faire.

2. Theory of Absolute Advantage

DEFINITION OF 'ABSOLUTE ADVANTAGE'

The ability of a country, individual, company or region to produce a good or service at a lower cost per unit than the cost at which any other entity produces that good or service.

Entities with absolute advantages can produce something using a smaller number of inputs than another party producing the same product. As such, absolute advantage can reduce costs and boost profits.

In economics, the principle of absolute advantage refers to the ability of a party (an individual, or firm, or country) to produce more of a good or service than competitors, using the same amount of resources. Adam Smith first described the principle of absolute advantage in the context of international trade, using labor as the only input.

Since absolute advantage is determined by a simple comparison of labor productivities, it is possible for a party to have no absolute advantage in anything; in that case, according to the theory of absolute advantage, no trade will occur with the other party. It can be contrasted with the concept of comparative advantage which refers to the ability to produce a particular good at a lower opportunity cost.

ORIGIN OF THE THEORY

The main concept of absolute advantage is generally attributed to Adam Smith for his 1776 publication An Inquiry into the Nature and Causes of the Wealth of Nations in which he countered mercantilist ideas. Smith argued that it was impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import and instead stated that all nations would gain simultaneously if they practiced free trade and specialized in accordance with their absolute advantage. Smith also stated that the wealth of nations depends upon the goods and services available to their citizens, rather than their gold reserves. While there are possible gains from trade with absolute advantage, the gains may not be mutually beneficial. Comparative advantage focuses on the range of possible mutually beneficial exchanges.

3. Theory of Comparative Advantage

DEFINITION OF COMPARATIVE ADVANTAGE

Comparative advantage refers to the ability of a party to produce a particular good or service at a lower marginal and opportunity cost over another. Even if one country is more efficient in the production of all goods (absolute advantage in all goods) than the other, both countries will still gain by trading with each other, as long as they have different relative efficiencies.

For example, if, using machinery, a worker in one country can produce both shoes and shirts at 6 per hour, and a worker in a country with less machinery can produce either 2 shoes or 4 shirts in an hour, each country can gain from trade because their internal trade-offs between shoes and shirts are different. The less-efficient country has a comparative advantage in shirts, so it finds it more efficient to produce shirts and trade them to the more-efficient country for shoes. The net benefits to each country are called the gains from trade.

ORIGINS OF THE THEORY

The idea of comparative advantage has been first mentioned in Adam Smith's Book The Wealth of Nations: "If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage." But the law of comparative advantages has been formulated by David Ricardo who investigated in detail advantages and alternative or relative opportunity in his 1817 book On the Principles of Political Economy and Taxation in an example involving England and Portugal.

EFFECTS ON THE ECONOMY

This section needs additional citations for verification. Please help improve this article by adding citations to reliable sources. Unsourced material may be challenged and removed.

Conditions that maximize comparative advantage do not automatically resolve trade deficits. In fact, many real world examples where comparative advantage is attainable may require a trade deficit. For example, the amount of goods produced can be maximized, yet it may involve a net transfer of wealth from one country to the other, often because economic agents have widely different rates of saving.

CONSIDERATIONS OF THE THEORY

Development Economics

The theory of comparative advantage, and the corollary that nations should specialize, is criticized on pragmatic grounds within the import substitution industrialization theory of development economics, on empirical grounds by the Singer–Prebisch thesis which states that terms of trade between primary producers and manufactured goods deteriorate over time, and on theoretical grounds of infant industry and Keynesian economics. In older economic terms, comparative advantage has been opposed by mercantilism and economic nationalism. These argue instead that while a country may initially be comparatively disadvantaged in a given industry (such as Japanese cars in the 1950s), countries should shelter and invest in industries until they become globally competitive.

Free mobility of capital in a globalized world

Ricardo explicitly bases his argument on an assumed immobility of capital:" ... if capital freely flowed towards those countries where it could be most profitably employed, there could be no difference in the rate of profit, and no other difference in the real or labor price of commodities, than the additional quantity of labor required to convey them to the various markets where they were to be sold."

CRITICISMS OF THE THEORY

Economist Ha-Joon Chang criticized the comparative advantage principle, contending that it may have helped developed countries maintain relatively advanced technology and industry compared to developing countries. In his book Kicking Away the Ladder, Chang argued that all major developed countries, including the United States and United Kingdom, used interventionist, protectionist economic policies in order to get rich and then tried to forbid other countries from doing the same. For example, according to the comparative advantage principle, developing countries with a comparative advantage in agriculture should continue to specialize in agriculture and import high-technology widgets from developed countries with a comparative advantage in high technology.

4. Hechcher-Ohlin Model Theory

DEFINITION OF HECHCHER-OHLIN MODEL THEORY

The Heckscher–Ohlin model (H–O model) is a general equilibrium mathematical model of international trade, developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics. It builds on David Ricardo's theory of comparative advantage by predicting patterns of commerce and production based on the factor endowments of a trading region. The model essentially says that countries will export products that use their abundant and cheap factor(s) of production and import products that use the countries' scarce factor(s).

FEATURES OF THE MODEL

Relative endowments of the factors of production (land, labor, and capital) determine a country's comparative advantage. Countries have comparative advantages in those goods for which the required factors of production are relatively abundant locally. This is because the profitability of goods is determined by input costs. Goods that require inputs that are locally abundant will be cheaper to produce than those goods that require inputs that are locally scarce.

For example, a country where capital and land are abundant but labor is scarce will have comparative advantage in goods that require lots of capital and land, but little labor — grains. If capital and land are abundant, their prices will be low. As they are the main factors used in the production of grain, the price of grain will also be low—and thus attractive for both local consumption and export. Labor intensive goods on the other hand will be very expensive to produce since labor is scarce and its price is high. Therefore, the country is better off importing those goods.

THEORETICAL DEVELOPMENT OF THE MODEL

The Ricardian model of comparative advantage has trade ultimately motivated by differences in labour productivity using different technologies. Heckscher and Ohlin didn't require production technology to vary between countries, so (in the interests of simplicity) the H-O model has identical production technology everywhere. Ricardo considered a single factor of production (labour) and would not have been able to produce comparative advantage without technological differences between countries (all nations would become autarkic at various stages of growth, with no reason to trade with each other). The H-O model removed technology variations but introduced variable capital endowments, recreating endogenously the inter-country variation of labour productivity that Ricardo had imposed exogenously. With international variations in the capital endowment (i.e. infrastructure) and goods requiring different factor proportions, Ricardo's comparative advantage emerges as a profit-maximizing solution of capitalist's choices from within the model's equations

ASSUMPTIONS OF THE THEORY

The original, 2x2x2 model was derived with restrictive assumptions, partly for the sake of mathematical simplicity. Some of these have been relaxed for the sake of development. These assumptions and developments are listed here.

Both countries have identical production technology

This assumption means that producing the same output of either commodity could be done with the same level of capital and labour in either country. Actually, it would be inefficient to use the same balance in either country (because of the relative availability of either input factor) but, in principle this would be possible.

a) Production output must have constant return to scale

Both of the countries in the simple HO model produced both commodities, and both technologies have constant returns to scale (CRS). (CRS production has twice the output if both capital and labour inputs are doubled, so the two production functions must be 'homogeneous of degree 1').

These conditions are required to produce a mathematical equilibrium. With increasing returns to scale it would likely be more efficient for countries to specialize, but specialization is not possible with the Heckscher-Ohlin assumptions.

b) The technologies used to produce the two commodities differ

The CRS production functions must differ to make trade worthwhile in this model. For instance if the functions are Cobb-Douglas technologies the parameters applied to the inputs must vary. An example would be:

Arable industry: A = {{K}^{1/3}}{{L}^{2/3}}

Fishing industry: F = {{K}^{1/2}} {{L}^{1/2}}

Where A is the output in arable production, F is the output in fish production, and K, L are capital and labour in both cases.

c) Labor mobility within countries

Within countries, capital and labor can be reinvested and re-employed to produce different outputs. Like the comparative advantage argument of Ricardo, this is assumed to happen costlessly.

d) Capital mobility within countries

It is further assumed that capital can shift easily into either technology, so that the industrial mix can change without adjustment costs between the two types of production.

CRITICISM AGAINST THE HECKSCHER–OHLIN MODEL

Although H-O model is normally thought to be basic for international trade theory, there are many points of criticism against the model.

a) Poor predictive power

The original Heckscher–Ohlin model and extended model such as the Vanek model performs poorly, as it is shown in the section "Econometric testing of H-O model theorems". Daniel Trefler and Susan Chun Zhu summarises their paper that "It is hard to believe that factor endowments theory [editor's note: in other words, Heckscher–Ohlin–Vanek Model] could offer an adequate explanation of international trade patterns."

b) Factor equalization theorem

Heckscher–Ohlin theory is badly adapted to the analyze South-North trade problems. The assumptions of HO are unrealistic with respect to North-South trade. Income differences between North and South is the concern that third world cares most. The factor price equalization theorem has not shown a sign of realization, even for a long time lag of a half century.[10]

c) Identical production function

The standard Heckscher–Ohlin model assumes that the production functions are identical for all countries concerned. This means that all countries are in the same level of production and have the same technology. This is highly unrealistic. Technological gap between developed and developing countries is the main concern for the development of poor countries.

d) Capital as endowment

In the modern production system, machines and apparatuses play an important role. What is named capital is nothing other than these machines and apparatuses, together with materials and intermediate products which will be consumed in the production process. Capital is the most important of factors, or one should say as important as labor. By the help of machines and apparatuses, the human being got a tremendous production capability..

e) No room for firms

Standard Heckscher–Ohlin theory assumes the same production function for all countries. This implies that all firms are identical. The theoretical consequence is that there is no room for firms in the HO model. By contrast, the New Trade Theory emphasizes that firms are heterogeneous.

f) Political background for HO-Model

From the middle of the 19th century to 1930s, giant flow of immigration took place from Europe to North America. It is estimated that more than 60 million people crossed the Atlantic Ocean. Some politicians worried if these immigrants may cause various troubles (including cultural conflicts). For those politicians HO-theory provided a good reason "in support of both restrictions on labor migration and free trade in goods."

ME PORTER'S DIAMOND THEORY

The diamond model is an economical model developed by Michael Porter in his book The Competitive Advantage of Nations, where he published his theory of why particular industries become competitive in particular locations. Afterwards, this model has been expanded by other scholars.

The Diamond Model of Michael Porter for the competitive advantage of Nations offers a model that can help understand the comparative position of a nation in global competition. The model can also be used for major geographic regions.

Porter's diamond model suggests that there are inherent reasons why some nations, and industries within nations, are more competitive than others on a global scale. The argument is that the national home base of an organization provides organizations with specific factors, which will potentially create competitive advantages on a global scale.

ADVANTAGES FOR COUNTRIES

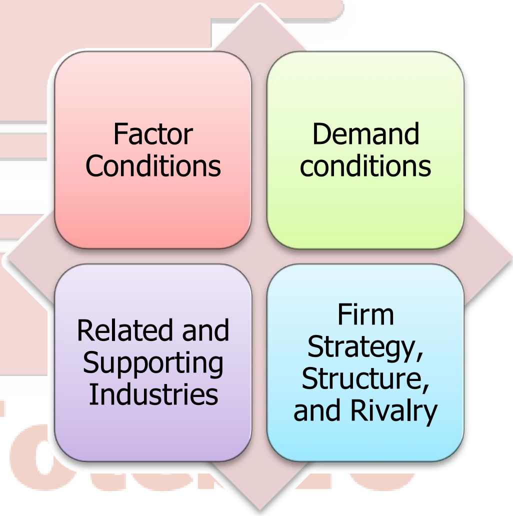
Traditionally, economic theory mentions the following factors for comparative advantage for regions or countries:

1. Land
2. Location
3. Natural resources (minerals, energy)
4. Labor, and
5. Local population size.

Because these 5 factors can hardly be influenced, this fits in a rather passive (inherited) view regarding national economic opportunity.

FOUR DETERMINANTS OF NATIONAL ADVANTAGE:

a) Factor Conditions



Factor conditions include those factors that can be exploited by companies in a given nation. Factor conditions can be seen as advantageous factors found within a country that are subsequently build upon by companies to more advanced factors of competition. Factors not normally seen as advantageous, such as workforce shortage, can also be seen as a factor potentially strengthening competitiveness, because this factor may heighten companies' focus on automation and zero defects.

b) Demand conditions

If the local market for a product is larger and more demanding at home than in foreign markets, local firms potentially put more emphasis on improvements than foreign companies. This will potentially increase the global competitiveness of local exporting companies.

A more demanding home market can thus be seen as a driver of growth, innovation and quality improvements. For instance, Japanese consumers have historically been more demanding of electrical and electronic equipment than western consumers. This has partly founded the success of Japanese manufacturers within this sector.

A more demanding local market leads to national advantage. A strong trend setting local market helps local firms anticipate global trends.

c) Related and Supporting Industries

When local supporting industries and suppliers are competitive, home country companies will potentially get more cost efficient and receive more innovative parts and products. This will potentially lead to greater competitiveness for national firms.Local competition creates innovations and cost effectiveness. This also puts pressure on local suppliers to lift their game.

4) Firm Strategy, Structure, and Rivalry

The structure and management systems of firms in different countries can potentially affect competitiveness. By using Porter's diamond, business leaders may analyze which competitive factors may reside in their company's home country, and which of these factors may be exploited to gain global competitive advantages. Business leaders can also use the Porter's diamond model during a phase of internationalization, in which leaders may use the model to analyze whether or not the home market factors support the process of internationalization, and whether or not the conditions found in the home country are able to create competitive advantages on a global scale.

Finally, business leaders may use this model to asses in which counties to invest and to assess which countries are most likely to be able to sustain growth and development.

THE ROLE OF THE GOVERNMENT IN THIS MODEL

- To encourage
- To stimulate
- To help to create growth in industries

CRITICISMS OF PORTER'S DIAMOND MODEL

In his famous book, The Competitive Advantage of Nations, Porter studied eight developed countries and two newly industrialized countries (NICs). The latter two are Korea and Singapore. Porter is quite optimistic about the future of the Korean economy. He argues that Korea may well reach true advanced status in the next decade . In contrast, Porter is less optimistic about

SUBJECT:
UGC NET MANAGEMENT

UNIT-10:
ENTREPRENEURSHIP DEVELOPMENT

BY:
DR. GAURAV JANGRA

EasyNotes4U
Make Your Exams Easy

EasyNotes4U Academy
www.easynotes4u.com
Ph. +918814931483
Email: support@easynotes4u.com

TABLE OF CONTENTS

CHAPTER-1: OVERVIEW OF ENTREPRENEURSHIP DEVELOPMENT

ENTREPRENEURSHIP:

Entrepreneurial development today has become very significant; in view of its being a key to economic development. The objectives of industrial development, regional growth, and employment generation depend upon entrepreneurial development.

Entrepreneurs are, thus, the seeds of industrial development and the fruits of industrial development are greater employment opportunities to unemployed youth, increase in per capita income, higher standard of living and increased individual saving, revenue to the government in the form of income tax, sales tax, export duties, import duties, and balanced regional development.

Concept of Entrepreneurship:

The word "entrepreneur" is derived from the French verb enterprendre, which means 'to undertake'. This refers to those who "undertake" the risk of ne w enterprises. An enterprise is created by an entrepreneur. The process of creation is called "entrepreneurship".

Entrepreneurship is a process of actions of an entrepreneur who is a person always in search of something new and exploits such ideas into gainful opportunities by accepting the risk and uncertainty with the enterprise.

Characteristics of Entrepreneurship:

Entrepreneurship is characterized by the following features:

1. Economic and dynamic activity:

Entrepreneurship is an economic activity because it involves the creation and operation of an enterprise with a view to creating value or wealth by ensuring optimum utilisation of scarce resources. Since this value creation activity is performed continuously in the midst of uncertain business environment, therefore, entrepreneurship is regarded as a dynamic force.

2. Related to innovation:

Entrepreneurship involves a continuous search for new ideas. Entrepreneurship compels an individual to continuously evaluate the existing modes of business operations so that more efficient and effective systems can be evolved and adopted. In other words, entrepreneurship is a continuous effort for synergy (optimization of performance) in organizations.

3. Profit potential:

"Profit potential is the likely level of return or compensation to the entrepreneur for taking on the risk of developing an idea into an actual business venture." Without profit potential, the efforts of entrepreneurs would remain only an abstract and a theoretical leisure activity.

4. Risk bearing:

The essence of entrepreneurship is the 'willingness to assume risk' arising out of the creation and implementation of new ideas. New ideas are always tentative and their results may not be instantaneous and positive.

An entrepreneur has to have patience to see his efforts bear fruit. In the intervening period (time gap between the conception and implementation of an idea and its results), an entrepreneur has to assume risk. If an entrepreneur does not have the willingness to assume risk, entrepreneurship would never succeed.

Entrepreneurial Process:

Entrepreneurship is a process, a journey, not the destination; a means, not an end. All the successful entrepreneurs like Bill Gates (Microsoft), Warren Buffet (Hathaway), Gordon Moore (Intel) Steve Jobs (Apple Computers), Jack Welch (GE) GD Birla, Jamshedji Tata and others all went through this process.

To establish and run an enterprise it is divided into three parts – the entrepreneurial job, the promotion, and the operation. Entrepreneurial job is restricted to two steps, i.e., generation of an idea and preparation of feasibility report. In this article, we shall restrict ourselves to only these two aspects of entrepreneurial process.

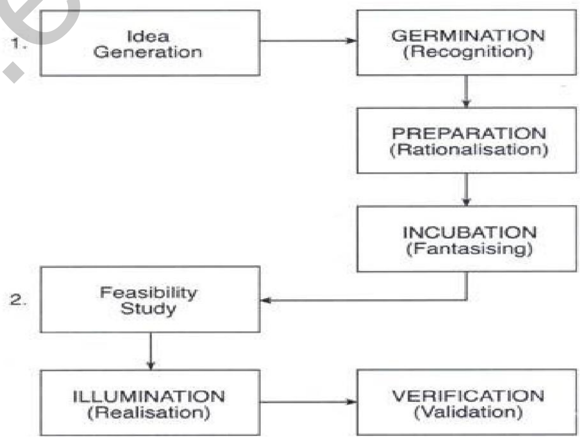


Figure 4.1: The Entrepreneurial Process

1. Idea Generation:

To generate an idea, the entrepreneurial process has to pass through three stages:

a. Germination:

This is like seeding process, not like planting seed. It is more like the natural seeding. Most creative ideas can be linked to an individual's interest or curiosity about a specific problem or area of study.

b. Preparation:

Once the seed of interest curiosity has taken the shape of a focused idea, creative people start a search for answers to the problems. Inventors will go on for setting up laboratories; designers will think of engineering new product ideas and marketers will study consumer buying habits.

c. Incubation:

This is a stage where the entrepreneurial process enters the subconscious intellectualization. The sub-conscious mind joins the unrelated ideas so as to find a resolution.

2. Feasibility study:

Feasibility study is done to see if the idea can be commercially viable.

It passes through two steps:

a. Illumination:

After the generation of idea, this is the stage when the idea is thought of as a realistic creation. The stage of idea blossoming is critical because ideas by themselves have no meaning.

b. Verification:

This is the last thing to verify the idea as realistic and useful for application. Verification is concerned about practicality to implement an idea and explore its usefulness to the society and the entrepreneur.

<u>Importance of Entrepreneurship:</u>

Entrepreneurship offers the following benefits:

Benefits of Entrepreneurship to an Organisation:

1. Development of managerial capabilities:

The biggest significance of entrepreneurship lies in the fact that it helps in identifying and developing managerial capabilities of entrepreneurs. An entrepreneur studies a problem, identifies its alternatives, compares the alternatives in terms of cost and benefits implications, and finally chooses the best alternative.

This exercise helps in sharpening the decision making skills of an entrepreneur. Besides, these managerial capabilities are used by entrepreneurs in creating new technologies and products in place of older technologies and products resulting in higher performance.

2. Creation of organisations:

Entrepreneurship results into creation of organisations when entrepreneurs assemble and coordinate physical, human and financial resources and direct them towards achievement of objectives through managerial skills.

3. Improving standards of living:

By creating productive organisations, entrepreneurship helps in making a wide variety of goods and services available to the society which results into higher standards of living for the people.

Possession of luxury cars, computers, mobile phones, rapid growth of shopping malls, etc. are pointers to the rising living standards of people, and all this is due to the efforts of entrepreneurs.

4. Means of economic development:

Entrepreneurship involves creation and use of innovative ideas, maximisation of output from given resources, development of managerial skills, etc., and all these factors are so essential for the economic development of a country.

<u>Factors affecting Entrepreneurship:</u>

Entrepreneurship is a complex phenomenon influenced by the interplay of a wide variety of factors.

Some of the important factors are listed below:

1. Personality Factors:

Personal factors, becoming core competencies of entrepreneurs, include:

(a) Initiative (does things before being asked for)
(b) Proactive (identification and utilisation of opportunities)
(c) Perseverance (working against all odds to overcome obstacles and never complacent with success)
(d) Problem-solver (conceives new ideas and achieves innovative solutions)
(e) Persuasion (to customers and financiers for patronisation of his business and develops & maintains relationships)
(f) Self-confidence (takes and sticks to his decisions)
(g) Self-critical (learning from his mistakes and experiences of others)
(h) A Planner (collects information, prepares a plan, and monitors performance)
(i) Risk-taker (the basic quality).

2. Environmental factors:

These factors relate to the conditions in which an entrepreneur has to work. Environmental factors such as political climate, legal system, economic and social conditions, market situations, etc. contribute significantly towards the growth of entrepreneurship. For example, political stability in a country is absolutely essential for smooth economic activity.

Frequent political protests, bandhs, strikes, etc. hinder economic activity and entrepreneurship. Unfair trade practices, irrational monetary and fiscal policies, etc. are a roadblock to the growth of entrepreneurship. Higher income levels of people, desire for new products and sophisticated technology, need for faster means of transport and communication, etc. are the factors that stimulate entrepreneurship.

Thus, it is a combination of both personal and environmental factors that influence entrepreneurship and brings in desired results for the individual, the organisation and the society.

TYPES OF ENTREPRENEURS:

Depending upon the level of willingness to create innovative ideas, there can be the following types of entrepreneurs:

1. Innovative entrepreneurs:

These entrepreneurs have the ability to think newer, better and more economical ideas of business organisation and management. They are the business leaders and contributors to the economic development of a country.

Inventions like the introduction of a small car 'Nano' by Ratan Tata, organised retailing by Kishore Biyani, making mobile phones available to the common may by Anil Ambani are the works of innovative entrepreneurs.

2. Imitating entrepreneurs:

These entrepreneurs are people who follow the path shown by innovative entrepreneurs. They imitate innovative entrepreneurs because the environment in which they operate is such that it does not permit them to have creative and innovative ideas on their own.

Such entrepreneurs are found in countries and situations marked with weak industrial and institutional base which creates difficulties in initiating innovative ideas.

In our country also, a large number of such entrepreneurs are found in every field of business activity and they fulfill their need for achievement by imitating the ideas introduced by innovative entrepreneurs.

Development of small shopping complexes is the work of imitating entrepreneurs. All the small car manufacturers now are the imitating entrepreneurs.

3. Fabian entrepreneurs:

The dictionary meaning of the term 'fabian' is 'a person seeking victory by delay rather than by a decisive battle'. Fabian entrepreneurs are those individuals who do not show initiative in visualising and implementing new ideas and innovations wait for some development which would motivate them to initiate unless there is an imminent threat to their very existence.

4. Drone entrepreneurs:

The dictionary meaning of the term 'drone' is 'a person who lives on the labor of others'. Drone entrepreneurs are those individuals who are satisfied with the existing mode and speed of business activity and show no inclination in gaining market leadership. In other words, drone entrepreneurs are die-hard conservatives and even ready to suffer the loss of business.

5. Social Entrepreneur:

Social entrepreneurs drive social innovation and transformation in various fields including education, health, human rights, workers' rights, environment and enterprise development.

They undertake poverty alleviation objectives with the zeal of an entrepreneur, business practices and dare to overcome traditional practices and to innovate. Dr Mohammed Yunus of Bangladesh who started Gramin Bank is a case of social entrepreneur.

According to the Type of Business

Entrepreneurs are found in various types of business occupations of varying size. We may broadly classify them as follows:

1. Business Entrepreneur

Business entrepreneurs are individuals who conceive an idea for a new product or service and then create a business to materialize their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade.

2. Industrial Entrepreneur

Industrial entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

3. Corporate Entrepreneur

Corporate entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is a product oriented man who starts in an industrial unit because of the possibility of making some new product.

Corporate entrepreneur is a person who demonstrates his innovative skill in organising and managing a corporate undertaking. A corporate undertaking is a form of business organisation which is registered under some statute or Act which gives it a separate legal entity.

4. Agricultural Entrepreneur

Agricultural entrepreneurs are those entrepreneurs who undertake such agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture. According to the use of Technology.

5. Technical Entrepreneur

A technical entrepreneur is essentially an entrepreneur of "Craftsman type". He develops a new and improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. He does not care much to generate sales by applying various sales promotional techniques. He demonstrates his innovative capabilities in matters of production of goods and rendering services.

6. Non-technical Entrepreneur

Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.

7. Professional Entrepreneur

Professional entrepreneur is a person who is interested in establishing a business but does not have interest in managing or operating it once it is established.

According to Motivation

Motivation is the force that influences the efforts of the entrepreneur to achieve his objectives. An entrepreneur is motivated to achieve or prove his excellence in job performance. He is also motivated to influence others by demonstrating his power thus satisfying his ego.

1. Pure Entrepreneur

A pure entrepreneur is an individual who is motivated by psychological and economic rewards. He undertakes an entrepreneurial activity for his personal satisfaction in work, ego or status.

2. Induced Entrepreneur
Induced entrepreneur is one who is being induced to take up an entrepreneurial task due to the policy measures of the government that provides assistance, incentives, concessions and necessary overhead facilities to start a venture. Most of the entrepreneurs are induced entrepreneurs who enter business due to financial, technical and several other several other provided to them by the state agencies to promote entrepreneurship.

3. Motivated Entrepreneur
New entrepreneurs are motivated by the desire for self-fulfillment. They come into being because of the possibility of making and marketing some new product for the use of consumers. If the product is developed to a saleable stage, the entrepreneur is further motivated by reward in terms of profit and enlarged customer network.

4. Spontaneous Entrepreneur
These entrepreneurs start their business out of their natural talents and instinct. They are persons with initiative, boldness and confidence in their ability which motivate them to undertake entrepreneurial activity.

5. Growth Entrepreneur
Growth entrepreneurs are those who necessarily take up a high growth industry. These entrepreneurs choose an industry which has substantial growth prospects.

6. Super-Growth Entrepreneur
Super-growth entrepreneur are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

<u>According to Stages of Development</u>

1. First-Generation Entrepreneur
A first generation entrepreneur is one who starts an industrial unit by means of an innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

2. Modern Entrepreneur
A modern entrepreneur is one who undertakes those ventures which go well along with the changing demand in the market. They undertake those ventures which suit the current marketing needs.

3. Classical Entrepreneur
A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of a self supporting venture. He is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the firm with or without an element of growth.

4. Innovating Entrepreneurs
Innovating entrepreneurship is characterized by aggressive assemblage of information and analysis of results, deriving from a novel combination of factors. Men/women in this group are generally aggressive in experimentation who exhibit cleverness in putting attractive possibilities into practice. One need not invent but convert even old established products or services, by changing their utility, their value, their economic characteristics, into something new, attractive and utilitarian. Therein lies the key to their phenomenal success. Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or a new service or even reorganization of an existing enterprise.
Imitative Entrepreneurs: Imitative entrepreneurship is characterized by readiness to adopt successful innovations by innovating entrepreneurs. They first imitate techniques and technology innovated by others.

5. Fabian Entrepreneurs
These categories of entrepreneurs are basically running their venture on the basis of conventions and customary practices. They don't want to introduce change and not interested in coping with changes in environment. They have all sorts of inhibitions, shyness and lethargic attitude. They are basically risk aversor and more cautious in their approach.

6. Drone Entrepreneurs
Entrepreneurs who are reluctant to introduce any changes in their production methods, processes and follow their own traditional style of operations. Though they incur losses and looses their market potential, will not take any effort to overcome the problem. Their products and the firm will get natural death and knockout.

7. Forced Entrepreneurs
Sometimes, circumstances made many persons to become entrepreneurs. They do not have any plan, forward looking and business aptitude. To mitigate the situational problem, they are forced to plunge into entrepreneurial venture. Most of the may not be successful in this category due to lack of training and exposure.

FUNCTIONS OF AN ENTREPRENEUR:

The important functions performed by an entrepreneur are listed below:

1. Innovation:
An entrepreneur is basically an innovator who tries to develop new technology, products, markets, etc. Innovation may involve doing new things or doing existing things differently. An entrepreneur uses his creative faculties to do new things and exploit opportunities in the market. He does not believe in status quo and is always in search of change.

2. Assumption of Risk:
An entrepreneur, by definition, is risk taker and not risk shirker. He is always prepared for assuming losses that may arise on account of new ideas and projects undertaken by him. This willingness to take risks allows an entrepreneur to take initiatives in doing new things and marching ahead in his efforts.

3. Research:
An entrepreneur is a practical dreamer and does a lot of ground-work before taking a leap in his ventures. In other words, an entrepreneur finalizes an idea only after considering a variety of options, analyzing their strengths and weaknesses by applying analytical techniques, testing their applicability, supplementing them with empirical findings, and then choosing the best

alternative. It is then that he applies his ideas in practice. The selection of an idea, thus, involves the application of research methodology by an entrepreneur.

4. Development of Management Skills:

The work of an entrepreneur involves the use of managerial skills which he develops while planning, organizing, staffing, directing, controlling and coordinating the activities of business. His managerial skills get further strengthened when he engages himself in establishing equilibrium between his organization and its environment.

However, when the size of business grows considerably, an entrepreneur can employ professional managers for the effective management of business operations.

5. Overcoming Resistance to Change:

New innovations are generally opposed by people because it makes them change their existing behavior patterns. An entrepreneur always first tries new ideas at his level.

It is only after the successful implementation of these ideas that an entrepreneur makes these ideas available to others for their benefit. In this manner, an entrepreneur paves the way for the acceptance of his ideas by others. This is a reflection of his will power, enthusiasm and energy which helps him in overcoming the society's resistance to change.

6. Catalyst of Economic Development:

An entrepreneur plays an important role in accelerating the pace of economic development of a country by discovering new uses of available resources and maximizing their utilization.

To better appreciate the concept of an entrepreneur, it is desirable to distinguish him from an entrepreneur and promoter. Table 4.1 outlines the distinction between an entrepreneur and entrepreneurs, and Table 4.2 portrays basic points of distinction between an entrepreneur and promoter.

Table 4.1: Distinction between Entrepreneur and Intrapreneur:

Basis	Entrepreneur	Intrapreneur
• Capacity• Status• Decisions • Reward	— Owner— Own boss— Takes own decisions — Uncertain and unlimited	— An manager— Salaried employee— Executes decisions with the concurrence of owner — Fixed rewards and salary

Table 4.2: Distinction between Entrepreneur and Promoter:

Basis	Entrepreneur	Promoter
• Stage of business• Owning business• Nature of job • Example	— From conception to continuation— Owns the enterprise— Includes everything — Any business	— To bring a business into existence— May or may not own— Highly specialised — A consultant or a chartered account and offering services

<u>Some Myths about Entrepreneurship:</u>

Over the years, a few myths about entrepreneurship have developed. These are as under:

(i) Entrepreneurs, like leaders, are born, not made:

The fact does not hold true for the simple reason that entrepreneurship is a discipline comprising of models, processes and case studies.

One can learn about entrepreneurship by studying the discipline.

(ii) Entrepreneurs are academic and socially misfits:

Dhirubai Ambani had no formal education. Bill Gates has been a School drop-out. Therefore, this description does not apply to everyone. Education makes an entrepreneur a true entrepreneur. Mr Anand Mahindra, Mr Kumar Mangalam Birla, for example, is educated entrepreneurs and that is why they are heroes.

(iii) To be an entrepreneur, one needs money only:

Finance is the life-blood of an enterprise to survive and grow. But for a good idea whose time has come, money is not a problem.

(iv) To be an entrepreneur, a great idea is the only ingredient:

A good or great idea shall remain an idea unless there is proper combination of all the resources including management.

(v) One wants to be an entrepreneur as having no boss is great fun:

It is not only the boss who is demanding; even an entrepreneur faces demanding vendors, investors, bankers and above all customers.

An entrepreneur's life will be much simpler, since he works for himself. The truth is working for others are simpler than working for oneself. One thinks 24 hours a day to make his venture successful and thus, there would be a punishing schedule.

TEN STEPS TO BECOME AN ENTREPRENEUR

Bruce Cameron, in his book Getting Started, writes that businesses don't just happen, and that you should assess first whether you should venture out on your own, He recommends that you follow these ten steps in trying to make it on your own:

Assess Yourself

Are you able to sacrifice enough, have you got self-responsibility and finances to commit?

Get Your Personal Finances in Order

Get rid of personal debt and protect yourself against the unexpected first, if you can't, delay starting your own business.

Identify Your Skills

Stick to what you know best. List all your skills and Interests and assess which you can use to successfully run a business.

Research the Market

Is there a need for that type of business' See if you can establish a need for your product or service before committing yourself to it.

Draw up a Business Plan

Before you start your business, you need to be able to predict whether you'll make a profit or not, A business plan will help you do this.

What are Your Resources?

Check what are at your disposal and what you need to get. This Includes financial, skills, equipment and raw materials.

Draw up a Financial Plan

In the early stages, you need cash to keep going, Otherwise you cut costs, reduce services and thus lose sales. Make sure your financial plan can tide you over.

Business Ownership Structure

Choosing one of the four possible structures for owning your business has far--reaching influences on your taxes and legal liability choose carefully.

Enterprise Choices

How should you start your business? From scratch, or buy an existing business? Or should you buy into an existing business or a franchise?

Revisit Your Start-Up Plans

Everything you do in starting up your business, you need to measure up against your predictions and expectations in your original business plan test all aspects and readjust your plan if needed.

All other categories of entrepreneurs are of self explanatory in nature and hence not discussed.

CONCEPTS OF ENTREPRENEURIAL TRAITS

The three prevailing concepts of entrepreneurship are:

1. Psychological Traits

Entrepreneurship development is due to the ability of the individuals' urge to achieve something in their life. This concept was developed by Mc Clelland. According to him individuals have psychological urge to achieve something new. Of course the degree of urge varies from one individual to the another. Those who have high degree of urge to achieve in their life become entrepreneurs and all the activities enabling them to fulfill their urges are called entrepreneurship.

Mc Clelland's research results reveal that the entrepreneurship and its development are the results of a combination of three needs of individuals viz.,

- Low need for achievement.
- High need for power and
- Low need for affiliation.

2. Sociological Traits

Entrepreneurship development is also due to the sociological traits of the individuals living in a particular place. Certain individuals would like to attain status in the society by means of setting up of a new business or industry. However, they are allowed to act within the constraints of the cultural norms and religious moves that are customary in the society.

3. Economic Factors

Apart from the psychological and sociological factors, entrepreneurship development is also due to the existing economic activities of the state where the entrepreneurs live. Individuals learn from the existing economic activities as how best to equip themselves for meeting the future challenges. They collect adequate economic and technical information and decide as how best to introduce new business that suits to the expectations of the Government and its revised economic policies.

Thus, the concept of entrepreneurship is very is widely changing and entrepreneurship and its development is said to be in existence so long as the humankind are in existence and the spheres of entrepreneurship activities are getting multiplied every now and then due to the changes that have been taken place in the liberalization, Privatization, and Globalization (LPG) era.

SCOPE OF ENTREPRENEURSHIP DEVELOPMENT

Entrepreneurship development could be made in all walks of the society and in all fields of activities. The scope of entrepreneurship development encompasses the following:

I. To Identify Entrepreneurial Activities

The entrepreneurial activities 'and opportunities could be identified by the planner of the Government. The Government through various economic policies and programmes like 'Globalisation', 'Privatisation', 'Liberalisation', 'Free Export and Import of Goods and Services' inviting NRI's capital introduction of innovation in the stock market activities, and the establishment of SSI identifies entrepreneurship opportunities. These programmes give ample opportunities for the entrepreneurship development.

- To liberalise the existing licensing policies and offer incentives and thereby attract multinational companies of various countries to develop new industries in the backward regions.
- To encourage the researchers of entrepreneurship development to find new opportunities for the business and industrial development.
- To identify the existing and the emerging economic, social and political crisis and find out a suitable remedial measure to overcome the crisis.
- To offer training to the first generation entrepreneurs and encourage them to enter into new business ventures.
- To find out the entrepreneurial activities of the neighboring countries and the international financial institutions and other associated activities like bilateral agreements, SAARC countries Agreement, Common Wealth Countries agreements and Non-Aligned Nations agreements and the like.

- To encourage the institutions engaged in the industrial development to find avenues for entrepreneurship development. The institutions informing entrepreneurial opportunities are:
    - The Government's sponsored institutes.
    - University Departments and entrepreneurship development institutions.
    - Voluntary organisations and research agencies.
    - The commercial banks and
    - Industrial Development Institutions.

II. Imparting Training to Develop Entrepreneurial Talents

Entrepreneurs can be made by means of allowing them to undergo rigorous training. The level of entrepreneurship development especially in all underdeveloped countries depends upon the extent with which the aspiring men are given training. Through training, they can be able to improve their power of achievement and power of affiliation. Training of this type shall be given to the young pupil even at the school level. The training enables entrepreneurs:

- To know as how to search the innovative business ideas.
- To know the various sources available for new business ideas.
- How to process and find out the best ideas.
- To know the various input requirements for the proposed business.
- To find out the location for the proposed business.
- To know as how to fulfill the various legal formalities.
- To know as how best to make use of the existing infrastructural facilities.
- To know the various sources of finance available for the new business venture.
- To know as how best to overcome the resistance, and
- To know as how to assess the market and future trend.

III. To Develop Infrastructural Facilities

Entrepreneurship development could be possible through the setting up of both social and economic infrastructural facilities forthe aspiring entrepreneurs. The following infrastructural facilities are worth noting:

Impart entrepreneurship education to the pupils at the school level so as to enable them to develop the entrepreneurial talents.

Establish a separate Department of Entrepreneurship Development or School of Entrepreneurship Development at the College/ University level and allow the academics to' undertake researches on 'Entrepreneurship Development' and its allied activities.

Conduct the 'Entrepreneurship Development Programmer's through the setting up of Entrepreneurship Training Institutions at least at the taluk level in all parts of the country.

The State Governments shall give special attention to the entre-preneurship development programme. They can in collaboration with the neighboring states, chalk out a programme of action for developing entrepreneurial activities in a phased manner.

The existing financial institutions especially the commercial banks situated in rural areas shall take utmost care in identifying the aspiring entrepreneurs and offer not only the required financial assistance but also the required managerial techniques so as to enable them to establish new business and withstand in the market.

Institutions which are engaged in the development of small in-dustries shall frame long range planning in developing entrepre-neurial talents. They should monitor the changing industrial and business scenarios and determine the future course of actions to be taken to improve the entrepreneurship development.

The role of R & D institutions is not only to innovate but also to inform the entrepreneurs as how best to make use of the innovation and apply in the manufacturing process. These institutions should act as entrepreneur and all its activities constitute entrepreneurship.

Entrepreneurship development depends upon the existence of a stable Government so that industrialists and business magnets could have long range planning. Foreign investors would not hesitate to go over to any other country if there is an existence of a stable Government.

IV. Ascertain the demand and Supply of Entrepreneurs

It is true that the economic growth depends upon the existence of the technical progress. The level of technical progress in turn depends upon the existence of the entrepreneurs. In other words, the economic growth is the resultant effect of the existing as well as future demand for and supply of entrepreneurs. Disequilibrium between these two affects the economic growth. Excess supply of entrepreneurs over demand leads to exploitation of natural resources beyond the required level. Of course it leads to 'super development'. This is one side of argument. The other side of the argument is how to measure the excess supply. If the measure it with the help of the variable' development', we can say that excess supply is found in all the industrially advanced countries. In real life, what is advanced to-day in industrially advanced countries becomes a common phenomenon tomorrow in all other developing and less developed countries.

THEORIES OF ED

Theory of entrepreneurship helps us to comprehend phenomena better. Understanding theory one can apply the same in practice more effectively. Various theories of entrepreneurship have been propounded by thinkers. They can be classified in three categories:

1. Sociological.
2. Economic.
3. Cultural.

Sociological theories of entrepreneurship

1. Max Weber's theory: Salient features of his theory are:
- Spirit of Capitalism is highlighted.
- Adventurous spirit facilitate taking risk.
- Protestant ethic embodying rebellion is conducive.
- Inducement of profit is the criterion.

2. E.E. Hagen's theory
- Reveals general model of the social- interrelationship among physical environment, social structure, personality and culture.
- Thinks economic theories are inadequate.
- Political & social change– catalyst for entrepreneurs.
- Rejects follower's syndrome imitating western technology. Technology is an integral part of socio- cultural complex.
- Historic shift as a factor initiates change.

Economic theories of entrepreneurship

1. Schumpeter's theory of innovation: Development implies carrying one of new combinations of entrepreneurship. 'Entrepreneur' is an innovator– who carry new combination of:
- New goods/ services.
- New method of production.
- New market.
- New source of supply of raw materials.
- New organization.

2. Harvard Business School considers entrepreneurship as the outcome of the combination of internal and external forces.

Internal forces– Individual's traits and qualities viz:
1. Intelligence.
2. Skill.
3. Knowledge.
4. Intuition.
5. Exposure & experience.

External forces– Surrounding's conditions viz:

6. Economic.
7. Political.
8. Social & cultural.
9. *Legal frame-work:* Stable Govt. External security, law & order and legal process are the influencing factors.

Cultural theories of entrepreneurship

1. Hoseitzs theory: He explains that the supply of Entrepreneurship is governed by cultural factors & culturally minority groups are the spark – plugs of entrepreneurial economic development.
- **Marginal men-** Reservoir of entrepreneurial development. Ambiguous positions from a cultural or social statement make them creative.
- **Emphasis on skills-** Who possess extra-ordinary skills. Function of managerial additional personal traits & leadership skills. Additional personal traits. Exportation of profit ability to lend.
- **Contribution of social classes-** Socio-economic economic background of specific classes make them entrepreneurs. Family patterns in France, protestants in UK/USA & Parsees in India.

2. Peter F Drucker on entrepreneurship: "An entrepreneur is one who always searches for change, rapidness to it and exploits it as an opportunity." He emphasizes on:
- Innovation.
- Resource: A thing is regarded as resource when its economic value is recognized. Example- Fixed salary can also be an opportunity. Thus installment purchase was introduced.

3. ECO model
- Entrepreneurship.
- Creativity.
- Organization.

Entrepreneurs are considered to be the seeds of the development of industries. Entrepreneurs play a pivotal role in the process of the promotion and execution of the business. In other words, entrepreneurs are the persons who are responsible for organizing and managing the business by the judicious utilization of the theories of entrepreneurship.The different theories of entrepreneurship are relevant for the development of the business which helps the beneficiaries to perform better. The objective of these theories is not only to enhance the skills and knowledge of the entrepreneurs but also to help them apply them in the practical world (Chakraborty et al., 2014). The entrepreneurial theories can be divided into sociological, economic and cultural aspects.

There does not exist one universal theory that can be utilized and applied by the entrepreneurs. Every individual is responsible for making cultural choices. Entrepreneurs are one of the important product of culture. It is important for entrepreneurs to apply their cultural values within the cultural environment. Cultural theory of entrepreneurship helps to influence the stakeholders of their enterprise by instilling in their minds the importance of culture with respect to the business (Chatterji et al., 2013). The cultural theories of entrepreneurship provide a massive knowledge of some traditional and effective theories on entrepreneurship.

The three main theories that focus on the cultural aspects of the entrepreneurship are discussed below.

Hoselitz's theory

Hoselitz socio-cultural theory is based on the assumption that every individual is endowed with social and cultural power. According to him, entrepreneurs can be developed where the society is well developed. Most of the entrepreneurs hail from a certain socio-economic class. Hoselitz centres on the concept that the culturally marginal people in the society who are considered as culturally developed. and belong to a well-developed society are considered eligible for being entrepreneurs. These sections of society stimulate entrepreneurial and economic development (Hofstede, 1993). In this regard, the marginally cultural groups of the society include Jews in medieval Europe, Chinese in South Africa, Indians residing in East Africa etc. (Lounsbury & Glynn, 2001). The basis of Hoselitz is derived from the following viewpoint:

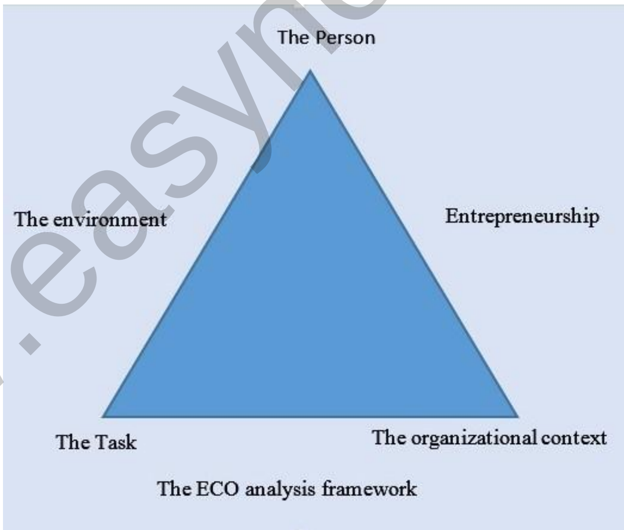
1. **Marginal men hypothesis-** Hoselitz explained that the marginal men are the pools of the development of entrepreneurs. These marginal men have the potentiality to adjust in variable situations in spite of their ambiguous social and cultural position. In the process of adjustment, they innovate their social behaviour.
2. **The importance of the managerial and leadership skills-**Entrepreneurs must possess extraordinary leadership and managerial skills which would drive them to yield profits. Hoselitz emphasizes on the fact that the managerial and the leadership skills are both necessary for the company as it would not only help to manage the company well but would also motivate the entrepreneurs to lead (Lounsbury & Glynn, 2001).
3. **Involvement of specific social classes-** The entrepreneurial talents are prevalent in every country but the persons having socio-economic backgrounds are the ones that shine in the entrepreneurial skill. One example can be drawn from India where the Marwaris and the Parsis are the leading social class in the arena of entrepreneurs (Hofstede, 1993).

Peter F. Drucker's entrepreneurship theory

Peter F. Drucker explained that the entrepreneurs are one that is constantly looking for new avenues to change and utilize this change as an opportunity. Drucker's theory is based on two important factors which are innovation and resources; innovation depends on resources and resources gain importance only when perceived to possess economic value. Innovating new ideas as well as new products or any elements related to his business help him to increase his productivity. Similarly, resources like capital is important to incorporate new innovations. (Simpeh, 2011). The theory explains that there is a complex relationship between the innovation, resources and the behaviour of the entrepreneurs. Peter F. Drucker had derived three main points which help to explain the role of the entrepreneurs:

1. Entrepreneurs increase the value and satisfaction of the customer through the efficient utilization of the resources.
2. Entrepreneurs are responsible for the creation of new values.
3. Entrepreneurs must combine the existing materials and resources (Scholte et al., 2015).

ECO Model



ECO analysis framework

J.J. Kao's conceptual model forms the basis of the ECO Model. The ECO analysis is derived from three key points which are **Entrepreneurship**, **Creativity** and **Organization**. Kao had stated that entrepreneurship and creativity are derived from the interrelationship between three components which are the person, the task and the organizational context (Dacin et al. 2010).

1. The person is regarded as the most important element of this model where new ideas are implemented by efficient persons. The entrepreneurial talents of a person include skills, motivation, experience and psychological factors (Alvarez & Busenitz, 2007).
2. The task emphasizes acquiring opportunities, management of resources and implementing leadership qualities which are necessary for the entrepreneurial growth.
3. The organizational context is the concatenation of the creative and entrepreneurial work. For example, the organizational structure affects the entrepreneurial environment.

There is no single entrepreneurial theory that would be enough for any entrepreneur to operate in the competitive environment yet most of the theorist fails to explain different aspects of the entrepreneurship. The cultural theories are one such example where the cultural aspects are considered to motivate the entrepreneurs.

CHAPTER-2: DEVELOPING ENTREPRENEURIAL COMPETENCIES

DEVELOPING ENTREPRENEURIAL COMPETENCIES

Entrepreneurial behavior requires certain knowledge, skill or personality profile. Generally, it is called entrepreneurial competence or traits.

A competence may be defined as an underlying characteristics of a person which results in effective and/or superior performance in a job. A job competence is an underlying characteristics of a person in that it may be motive, traits, skills, aspect of one's self-image or a body of knowledge which one uses.

Thus, success of an entrepreneur is governed by entrepreneurial competencies. If he has all these competencies, he can be expected to achieve his entrepreneurial goals. Elements of entrepreneurial competencies as follows:

(i) Body of Knowledge
(ii) Set of Skills
(iii) Cluster of Appropriate Motives/Traits.

(i) Body of Knowledge: Innovation is possible only through knowledge. The inventor or originator of the idea that led to the knowledge or vision, of some thing new; the artist of creative endeavour. Inventors include those who identify new technological processes, new forms of plant life and new designs. Thus, inventions deal with new processes, or new technical knowledge. In a simple way, knowledge means collections of information and retention of facts that an individual stores in some parts of his brain.

Creative process provides imaginative people, geminate ideas, nurture them and develop them successfully. This type of idea has a value. However, it must be proven useful or be marketable and to achieve either status or achievement, must be developed. But innovation is the development process which translates an idea into an application. It requires persistence in analytically working out the details of product design or service, to develop marketing, obtain finances and plan operations.

(ii) Set of Skills: Skill is the ability to demonstrate a system and sequence of behavior that are functionally related to attaining a performance or goal. An entrepreneur is required to have certain skills and these skills also constitute his leadership qualities. These skills are as follows.

(a) Anticipatory Skills—foresight into a constantly changing environment;
(b) Visioning Skills—the use of persuation and example to induce a group to act in accordance with the leader's purposes or the shared purposes of a larger group;
(c) Value Congruence Skills—the need to be in touch with employee's economic, safety, psychological, spiritual, sexual, aesthetic and physical needs in order to engage people on the basis of shared motives, values and goals;
(d) Empowerment Skills—the willingness to share power and to do so effectively; and
(e) Self understanding Skills—introspective or self underskills as well as framework within which leaders understand both their own needs and goals and those of their employees.

In practice, an entrepreneur who pursues the idea, planning its application, acquiring resources and establishing its market through persistence, planning, organizing and leadership needs above skills. With the help of these skills, entrepreneur is expected to perform well in his entrepreneurial behavior.

(iii) Cluster of Motives and Traits: Motives deal with recurrent concern for a goal, state or condition appearing in fantasy, which drives, directs and selects behavior of the individual. Actually motive represents thought related to a particular goal, state. McClellend opined that "need achievement" is social motive to excel that tends to characterize successful entrepreneurs especially when reinforced by cultural factors. According to Paul Wilken "entrepreneurship becomes the link between need achievement and economic growth. Thus, need for achievement is guiding force behind entrepreneurial activities. It is the desire to do well and it motivates the people to undertake innovative activities.

The trait may be defined as a dispositional or characteristic way in which the person responds to an equivalent set of stimuli. These responses represent intelligence, charisma decisiveness, enthusiasm, strength, bravery, integrity and self-confidence. Thus, traits are an individual's personal characteristics. Traits are contents of leadership qualities. So an effective leader is one who possesses intelligence, alertness to the needs of others, understanding of the task, good communication skills, initiative and persistence in dealing with the problems. It is important to note that personal elements that govern the leadership ability are intelligence, self-confidence, the drive to accept responsibility, good communication skills and education.

In this way, entrepreneur is required to have certain traits. These traits are necessary for leadership qualities expected from an entrepreneur. An entrepreneur should be (i) adaptable to situations, (ii) alert to social environment, (iii) ambitious and achievement oriented, (iv) assertive, (v) cooperative. (vi) decisive, (vii) dependable, (viii) dominant (desire to influence others), (ix) energetic (high activity level); persistent, (x) self-confident, (xi) tolerant of stress and (xii) willing to assume responsibility.

Thus, for achieving success in his entrepreneurial behavior, entrepreneur is required to have entrepreneurial competencies and these are consist of a set of knowledge, skills, motives and traits.

Entrepreneurial Competencies Identified By The EDI

Entrepreneurship Development Institute of India (EDI) conducted a study under the guidance of David C. McClelland, a reputed behavioural scientist, in three countries, namely, India Malawi and Equador. It was found out that possession of certain competencies or abilities results in superior performance. An entrepreneur may possess certain competencies and at the same time it is possible to develop these through training, experience and guidance. Various competencies required for superior performance by the entrepreneurs (identified during the study) are:

(a) Initiative: It is an inner urge in an individual to do or initiate something. These is a popular saying, 'Well begun is half done'. It is the entrepreneur who takes the first move towards setting up of an enterprise. Most of the innovators have got this urge to do something different. Entrepreneur basically is an innovator who carries out new combinations to initiate and accelerate the process of economic development.