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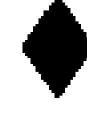

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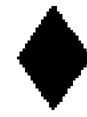

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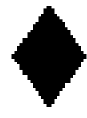

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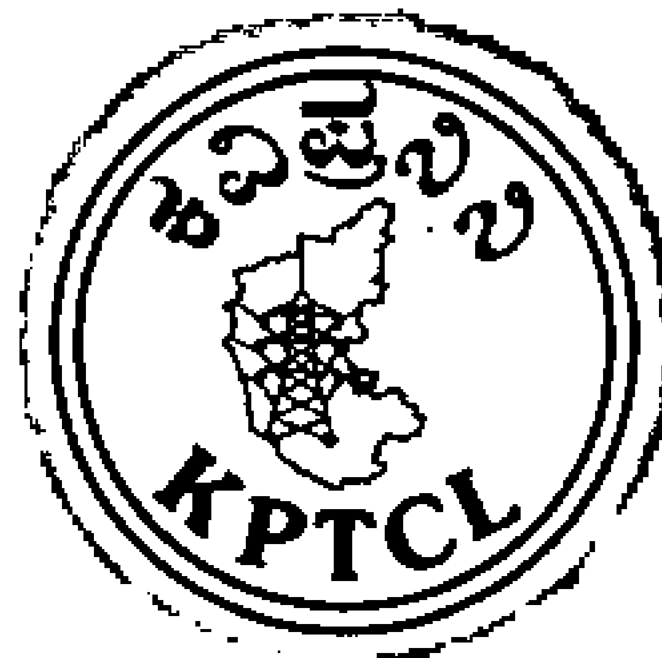
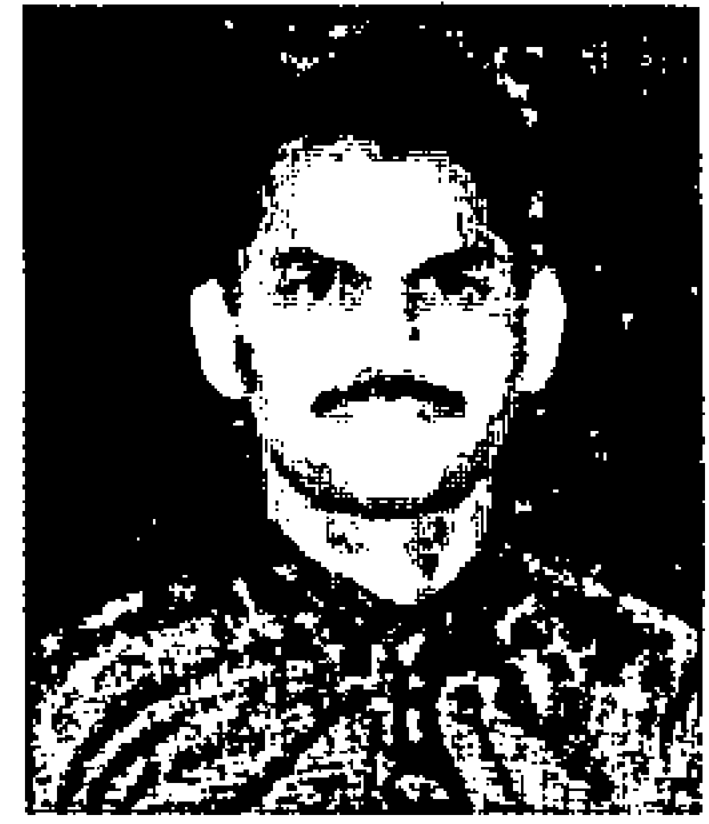


KARNATAKA POWER TRANSMISSION CORPORATION LIMITED

KAVERI BHAVAN, BANGALORE-9

BHARAT LAL, I.A.S.



PREFACE

It gives me great pleasure to write a foreword to the Notes on (a) Financial Management (b) Human Resource Development (c) The Electricity Act, 2003 and (d) The Companies Act, 1956.

These subjects have been included in the syllabus for departmental examinations as these are relevant for the present day requirement of the organisation. These are also intended to equip the employees with the latest subjects by which they and the organisation are benefited.

This 'Module' is prepared for the benefit of employees taking up departmental examinations. Other employees also can enrich their knowledge by referring to these notes.

Subjects like Financial Management and Human Resource Development are covered in an exhaustive manner whereas a brief introduction is given to the important Sections of The Electricity Act, 2003 and The Companies Act, 1956.

I also take this opportunity to place on record my appreciation for the concerned officers of KTI, Bangalore, Examination Section and the Company Secretary, KPTCL who have worked hard to make this book a reality.

MANAGING DIRECTOR
K.P.T.C.L.

Financial Management

Financial Management

Contents

Page Nos.

1. **Introduction to Financial Management** .... 3 - 8
   - Objectives of F.M.
   - Scope
   - Finance Decisions
   - Functions of F.M.
   - Organisation of Finance Functions

2. **The Indian Financial System** .... 9 - 13
   - Indian Financial Structure
     - Money Market
     - Capital Exchange Market
     - Development Banks
     - Financial Institutions
     - Commercial Banks & Devpt. Bks
     - Investment Institutions
     - Specialised Institutions
   - Financial Instruments
   - Functions of Financial system

3. **Financial Planning** .... 14 - 16
   - Meaning of Financial Planning
   - Principles Governing a Financial Plan
   - Steps Involved in Financial Planning
   - Time of Floatation / Business Cycle

4. **Short Term Finance / Working Capital** .... 17 - 19

- Meaning
- Concepts of Working Capital
- Types of Working Capital
- Need for Working Capital
- Determinants of Working Capital
- Sources of Short-term-Working Capital

5. **Long Term Finance** .... 20 - 26

- Meaning of Long Term Finance & Capital Budgeting
- Sources of Long Term Finance
    - Equity Capital
    - Preference Capital
    - Bonds & Debentures
    - Term Loans

6. **Working Capital Management** .... 27 -32

- Management of Cash
- Management of Credit
- Management of Receivables

7. **M.I.S. in Financial Management** .... 33 - 35

CHAPTER - I

Introduction to Financial Management

Finance is regarded as the life blood of any organisation. This is because in the modern money oriented economy finance is one of the basic foundations of all kinds of economic activities. It has been rightly said that business needs money to make more money. When finance is well managed the organisation is bound to withstand the pressures of business cycle and more prone to achieve the targets.

Meaning of Financial Management :

Financial management refers to entire gamut of managerial efforts devoted to the management of finance - both mobilisations and deployment or uses of fund of the enterprise.

According to Soloman Ezra "Financial management is concerned with the efficient use of an important economic resource, namely, capital funds."

The finance manager must see that the funds are procured in a manner that the risk, cost and control considerations are properly balanced in a given situation and there is optimum utilization of funds.

Objectives of Financial Management :

The objectives are of two categories :

1. Basic objectives 2. Other objectives

Basic Objectives :

1. Maintenance of liquid assets - Maintenance of adequate liquid assets to meet its obligations at all times should be ensured by the financial manager.
2. Profit maximisation : Profit provides the yardstick for measuring the economic performance of firms. It makes allocation of resources to profitable and desirable areas. It also ensures effective utilisation of resources and maximum social welfare. On these grounds profit maximisation serves as a criterion for the financial decisions.

3. Maximisation of wealth : The value of a company's shares depends largely on its networth which itself depends on earning for shares. The finance manager should therefore follow a policy which increases the earning per share in the long run.

Other objectives :

1. Ensuring a fair return to share holders
2. Building up reserves for growth and expansion.
3. Ensuring maximum operational efficiency by efficient and effective utilisation of finances.
4. Ensuring financial discipline in the organisation.

Scope of Financial Management :

The approach to the scope and functions of financial management is classified into two categories :-

1. Traditional approach
2. Modern approach

Traditional approach :

According to this approach, the scope of finance function is restricted to procurement of funds by corporate enterprises to meet their financing needs. The term "procurement" refers to raising of funds externally as well as the inter related aspects of raising funds. The inter related aspects are the institutional arrangements for finance, financial instruments through which funds are raised and legal and accounting aspects between the firm and its sources of funds. Thus the traditional approach to financial management revolves round these issues only i.e. how resources could best be raised from the combination of the available sources.

The traditional approach has many limitations.

a) This approach is confined to procurement of funds only. It fails to consider an important aspect i.e. allocation of funds.

b) It deals with only outsiders i.e. investors, investment bankers and so on. The internal decision making is completely ignored in this approach.

c) The traditional approach fails to consider the problems involved in working capital.

Thus the traditional approach placed emphasis on raising of funds and neglected the issue relating to the allocation and management of funds. It failed to provide conceptual frame work for making financial decisions. So the traditional approach is discarded now.

Modern approach :

The modern approach is an analytical way of looking into the financial problems of firm. According to this approach, the finance function covers both acquisition of funds as well as the allocation of the funds to various uses. In other words the financial management is concerned with the issues involved in raising the funds and efficient and effective allocation of funds.

The main contents of this approach are :

a) How large should an enterprise be and how far it should grow ?

b) In what form should it hold its assets ?

c) How should the funds required be raised ?

Finance Decisions :

The financial operations of a firm involves three problems relating to investment, financing and dividend. The financial management is concerned with taking decisions on the above problems. Thus, financial management involves three major decision areas :

- The Investment decisions
- The Financing decisions
- The Dividend policy decisions

Investment decision :

Investment decision relates to selections of asset in which funds will be invested by a firm. The assets that can be acquired by a firm may be long term asset and short term asset. Decision with regard to long term assets is called capital budgeting and short term are current assets is called working capital management.

Capital budgeting relates to selection of an asset or investment proposal which would yield benefit in future. It involves three elements :

- The measurement of the worth of the proposal
- Evaluation of the investment proposal in terms of risk associated with it.
- Evaluation of the worth of the investment proposal against certain norms or standard. The standard is broadly known as cost of capital.

Financing Decision :

Financing decision is concerned with the financing mix or capital structure. The mix of debt and equity is known as capital structure. Determination of the proportion of equity and debt is the main issue in financing decision. The use of debt implies a higher return to shareholders and also financial risk. A proper balance will have to be struck between return and risk. A capital structure with a reasonable proportion of debt and equity is called optimum capital structure.

Dividend Decision :

The Financial Manager should determine the optimum pay out ratio i.e. the proportion of net profit to be paid out to the shareholders. The optimum dividend policy is one which maximizes the value of shares and wealth of the shareholders.

Functions of Financial Management :

The functions are classified into two groups :

- Executive functions
- Incidental functions

Executive functions :

1. **Establishing asset management policies :** The formation of a sound asset management policy is a prerequisite to successful financial management. All finance functions are concerned with the control of cash flows. The asset management policy can be formulated in consultation with marketing manager, production manager and other officers concerned.

2. **Financial forecasting :** The prime responsibility of financial manager is to see that an adequate supply of cash is on hand at proper time for smooth flow of

firm's activities. The estimation of cash flows is necessary to maintain liquidity in the business.

3. **Allocation of net profits :** This includes allocation of net profits after payments of taxes to share holders as dividends, employees in profit sharing plan and retaining a part of profit for expansion of business. The manager has to get an optimum dividend pay out ratio that will maximize share holder's wealth in the long run.

4. **Deciding upon the sources of outside financing :** The financing manager, on the basis of forecast of volume of operation, has to decide upon borrowings to supplement cash flowing from these operations. He should also decide the time of borrowing, sources of borrowing, period for which loan will be required, cost of borrowing along with sources for repayment of loan.

5. **Carry on negotiations for new financing :** The short term finances arranged with commercial banks on a continuous basis requires negotiations. Where as negotiation and completion of arrangements for long term financing require more time than short term financing.

6. **Appraisal of financial performance :** This requires evaluation of wisdom and efficiency of financial planning. For this purpose, various financial statements are prepared, analyzed and guidelines are set for future. Analysis of what has happened is of great value in improving the standards, techniques and procedures of financial controls.

7. **Advising the top management :** The finance manager should advice the management in financial matters and suggest various alternative solutions to solve financial problems and make more efforts to increase profitability of the organisations.

II. Incidental functions :

The incidental functions cover routine work that are necessary to carry into effect financial decisions at the executive level. They are :

- Supervision of cash receipts.
- Disbursement and safeguarding of cash balance.
- Custody and safeguarding of securities.

- Record keeping and reporting.
- Preparation of various financial statements
- Credit management.

Organisation of Finance Functions :

Since finance function is crucial for the survival and growth of the firms, it is essential to set up a sound and efficient organisation for the finance functions. The organisation chart of the department is given below :

Finance Manager			
Treasurer		Controller	
Auditing	Credit analysis	Planning & Budgeting	Cost & inventory
Pension Payment	Cost management	Profit analysis	Accounting & payroll

CHAPTER - II

The Indian Financial System

The economic development of any country depends upon the existence of a well organised financial system. The responsibilities of the financial system is to mobilise the savings in the form of money and monetary assets and invest them to productive ventures. An efficient functioning of the financial system facilitates the free flow of funds to more productive activities and thus promotes investment. Thus, the financial system provides the inter-mediation between savers and investors and promotes faster economic development.

Structure of Financial System in India :

The Financial Transactions are very pervasive throughout the economic system. Wherever a financial transaction takes place it is deemed to have taken place in the financial market. Hence financial markets are also pervasive in nature.

The financial markets are classified into two categories.

1. Unorganised market :

The unorganised market includes money lenders, indigenous bankers, traders etc., Recently the RBI has taken steps to bring the unorganised sector under control. However the regulations concerning their financial dealings are still inadequate.

2. Organised market :

In the organised markets, there are standardised rules and regulations governing their financial dealings. These markets are subject to strict supervision and control by the RBI or other regulatory bodies.

The basic structure of organised financial market are classified into three broad segments :

1. The Money Market :

The money market deals in short-term finance, in contrast to the capital market which deals in long-term finance. The money market includes :

- Call money market
- Commercial bills market

- Treasury bills market
- Short term loan market

2. The Capital Market :

The capital market is a market for long term funds. Generally, it deals with long term securities which have a maturity period of above one year Capital market may be further divided into three namely :

- Industrial securities market
- Government securities market and
- Long term loans market

3. The Foreign Exchange market :

The term foreign exchange refers to the process of converting home currencies into foreign currencies and vice versa. The place where foreign exchange transactions take place is called a foreign exchange market. It also includes the central bank of each country and the treasury authorities who enter into this market as controlling authorities.

Financial Institutions :

Since independence a number of financial institutions are functioning in the Indian economy. They have been reasonably responsive to the growing and varied financial requirements of the Industrial sector. The structure of financial institutions can be broadly classified into following four categories :

1. Commercial Banks
2. Development Banks
3. Investment Institutions
4. Specialised Institutions

Commercial Banks :

This sector includes following three types of Institutions

- Public Sector Banks : The Nationalised Banks
  The State Bank of India &
  The Associate Banks

- Private Sector Domestic Banks
- Private Sector Foreign Banks

Development Banks :

Banks like IDBI & State Development Banks are established to facilitate financial requirement of the country for industries.

Investment Institutions :

Some financial institutions are established to mobilise funds from small investors and it is deployed in the form of investable funds Eg. Unit Trust of India , Life Insurance Corporation etc.,

Specialised Institutions :

Some institutions are set up to perform a special activity required by the Financial system. Following are a few of them :

- Exim Bank
- NABARD (National Bank for Agricultural and Rural Development)
- Agricultural Reconstruction Banks
- NHB (National Housing Bank)

Financial Instruments :

Financial Instruments refer to those documents which represent financial claims on assets. As discussed earlier, financial asset refers to a claim to the repayment of a certain sum of money at the end of a specified period together with interest or dividend. Examples : Bill of exchange, Promissory Note, Treasury Bill, Government Bond, Deposit receipt, Share, Debenture, etc. The innovative instruments introduced in India have been discussed later in the chapter 'Financial Services'.

Financial instruments can also be called financial securities. Financial securities can be classified into :

(i) Primary or direct securities

(ii) Secondary or indirect securities

Primary Securities :

These are securities directly issued by the users of the funds to the investors. Eg. Shares and debentures issued directly to the public.

Secondary Securities :

These are securities issued by some intermediaries called financial intermediaries to the ultimate savers. Eg. Unit Trust of India and mutual funds issue securities in the form of units to the public and the money pooled is invested in companies.

Again these securities may be classified on the basis of duration as follows :

(i) Short-term securities

(ii) Medium term securities

(iii) Long-term securities

Short-term securities are those which mature within a period of one year. Eg. Bill of Exchange, Treasury bill, etc. Medium term securities are those which have a maturity period ranging between one and five years. Eg. Debentures maturing within a period of 5 years. Long-term securities are those which have a maturity period of more than five years. Eg. Government Bonds maturing after 10 years.

Thus a good financial system consists of a variety of institutions, markets and instruments related in a systematic manner so that it provides.

- The principal means by which savings are transformed into investments.
- A payment mechanism, and
- Enables pooling of funds

Functions of Financial System :

The Financial System performs multiple interrelated functions that are essential to a modern economy. However its functions can be briefly explained in two broad headings :

- Provision of Liquidity
- Mobilisation of Savings

Provisions of Liquidity :

The major function of the financial system is the provision of money and monetary assets for the production of goods and services. There should not be any shortage of money for productive ventures. In financial language, the money and monetary assets are referred to as liquidity. The term liquidity refers to cash or money and other assets which can be converted into cash readily without loss. Hence, all activities in a financial system are related to liquidity-either provision of liquidity or trading in liquidity. In fact, in India the RBI has been vested with the monopoly power of issuing coins and currency notes. Commercial banks can also create cash (deposit) in the form of 'credit creation' and other financial institutions also deal in monetary assets.

Mobilisation of Savings :

Another important activity of the financial system is to mobilise savings and channelise them into productive activities. The financial system should offer appropriate incentives to attract savings and make them available for more productive ventures. Thus, the financial system facilitates the transformation of saving into investment and consumption.

On the whole the multiple but inter-related functions of financial system can be listed as follows :

1. **Payment System** : It provides payment system for the exchange of goods and services. Ex. Banks.
2. **Pooling of Funds** : It enables the pooling of funds for undertaking large scale enterprise. Ex. Financial intermediaries.
3. **Transfer of Resources** : It provides a mechanism for the transfer of economic resources across time and space.
4. **Risk Management** : It provides a way for managing uncertainty and controlling risk.
5. **Price Information for Decentralised Decision Making :** It generates information that helps in coordinating decentralised decision making.
6. **Coping with Informational Asymmetry :** It helps in dealing with the problem of informational asymmetry by making the information available to all the parties through Banks, venture capital organisations etc.,

CHAPTER - III

Financial Planning

Meaning Financial Planning :

Funds requirements decision is concerned with the estimation of the total funds required for the organisation while the financing decision is concerned with the sources from which the funds are to be raised. It is necessary to raise the funds at proper time and also at reasonable cost. Hence it becomes necessary for any organisation to have a proper financial planning.

Therefore Financial Planning includes :-

1. Estimating the amount of capital to be raised.
2. Determining the form and proportionate amount of securities.
3. Laying down the policies as to the administration of the financial plan.

Principles Governing a Financial Plan :

Following Principles need to be taken note of by preparing a financial Plan

1. **Simplicity :**

   A Financial Plan should envisage simple structure capable of being managed easily and use minimum types of securities.

2. **Long-term View :**

   The management should keep in view the long term needs of the orgnisation for obtaining capital rather than easiest way.

3. **Foresight :**

   Even though difficult, Technological Improvements, demand forecast, resource availability and other secular changes in future years should be kept in view while drafting the financial plan.

4. **Optimum Use :**

   The business should neither be starved of funds not it should have unnecessary spare funds. It should meet the genuine needs of the company.

5. **Contingencies :**

A reserve to meet the contingencies is required. However the Capital should not be kept unnecessarily idle.

6. **Flexibility :**

Flexibility helps in making changes or revising the plan according to pressure of circumstances.

7. **Liquidity :**

Liquidity is to make available the ready cash whenever required. This will help in avoiding embarrassment to management and loss of goodwill to the organisation.

8. **Economy :**

Cost involved in planning and execution of financial requirements should be minimum.

Estimating Capital Requirements :

The capital requirements of a business enterprise can broadly be classified into two main categories. They are :

1. Fixed capital requirements, and
2. Working capital requirements

Fixed Capital

Meaning of Fixed Capital :

It means the capital which is meant for meeting the permanent or long term needs of the business. Capital is basically required for acquisition of Land. Building, Plant and Machinery, Furniture and Fittings etc. Fixed capital cannot be withdrawn from the business in normal course. Therefore it is necessary that sufficient funds are raised for acquisition fixed assets.

Following factors determine the fixed capital

1. Nature of the Business
2. Size of the Business
3. Types of products

4. Diversity of Production Lines

5. Method of Production

Working Capital Requirements :

The term working capital refers to capital required for day-to-day operations of a business enterprise particularly to complete the operating cycle. The process of determining the Quantum as well as patterns of financing is referred as capitalisation.

Time of Floatation :

The Floatation refers to right time in which the company's securities need to be floated. Right decision in right time makes the capital issue a complete success. During the course of business the ups and downs are inevitable at more or less regular intervals of 3 to 5 years. These are referred as "Trade Cycles".

CHAPTER - IV

Short Term Finance / Working Capital

Meaning :

A business unit or an industrial establishment require two types of finance viz., long-term and short-term finance. Long term finance is required to meet capital expenditure whereas, short term finance are needed to meet the day to day requirement of the business. Working capital +may be regarded as the life-blood of a business.

Concepts of Working Capital :

There are two concepts of working capital :

(1) Gross working capital

(2) Net working capital

Gross Working Capital :

It refers to the capital invested in total current assets of the enterprise. Current assets are those which can be easily converted into cash within a short period, say, one year. Bills receivables, sundry debtors, stock, short-term investments, Cash in hand and at bank are the examples of current assets.

Net Working Capital :

In narrow sense the working capital refers to Net working capital which is the excess of current assets over current liabilities.

Net Working Capital = Current Assets - Current Liabilities

Current liabilities are short-term liabilities generally repayable in a period of one year. Bills payable, sundry creditors, outstanding expenses, short-term loans, outstanding dividends, bank over-draft etc., are some of the examples of current liabilities.

Types of Working Capital :

1. **Permanent working capital :**

The minimum amount of investment in all current assets which is required at all times to carry on minimum level of business activities is called permanent working capital The amount of permanent working capital remains in the business in one form or the other. It also grows with the size of the business.

2. **Temporary or variable working capital :**

It refers to that amount of extra working capital required to meet the seasonal demands and some special exigencies such as launching of extensive marketing campanies for research etc.

Financing of Temporary or short-term working capital or Sources of Short Term working capital :

1. **Commercial Banks :** The major portion of temporary working capital is provided by the commercial banks in the forms of loans, cash credits, over-drafts, purchasing and discounting of bills. These advances are repayable at a varied rates of interest.
2. **Trade Credits :** This is an arrangement with suppliers by which goods are supplied on short-term credit. It is convenient, flexible method of getting short-term credit on favourable terms. But, its greatest dis-advantage is charging of high prices.
3. **Instalment Credit :** In this, the assets are purchased and the possession of goods is taken immediately but the payment is made in instalments with an agreed rate of interest on the balance amount.
4. **Advances :** In this cheap source, the firm takes advances from customers and agents against orders and it is a short-term source of financing. This source is used by firms having long production cycles. Specially firms manufacturing industrial goods.
5. **Accounts Receivables :** Credit : This is nothing but the use of bills of exchange payable after a certain period.

Need for Working Capital :

Every business needs working capital due to the time gap between production and realisation of cash from sales. Working capital is also required to meet expenses on purchase of raw materials, payment of wages and various other expenses during this time gap.

Operating cycle : Refers to the time taken for connecting the current assets, particularly the raw materials to get converted to saleable products and further ending with actual sales. It means time taken to realise cash when the same is invested in raw materials.

Determinants of Working Capital :

Following are the various factors which determine the amount of working capital.

1. **Nature of Industry :** Small business concerns require lesser amount of working

capital compared to large trading concerns, similarly, the public utilities require less working capital as compared to trading concerns and manufacturing units.

2. **Solvency of the business :** If helps to maintain solvency by providing uninterrupted production.

3. **Manufacturing cycle :** Labour intensive industries require larger amounts of working capital compared to the industries working with mechanisation. Further, longer the duration of manufacturing process larger will be the amount of working capital required and vice-versa.

4. **Credit policy :** Higher credit sales and lower credit purchases necessitates large amount of working capital. If the business makes more of cash sales and credit purchases it requires lesser amount of working capital.

5. **Business cycle :** The amount of working capital required is larger during the period of prosperity as compared to the period of depression.

6. **Rapidity of turnover :** Firms with higher rate of turnover need lower working capital compared to firms with lower rate of turnover.

7. **Seasonal fluctuations :** Seasonal industries such as sugar industry and woollen industry require more working capital only during the period of production.

8. **Regular supply of raw-material :** Companies which have to obtain and maintain large reserves of raw materials due to their irregular sales and intermittent supply do require large amount of working capital.

9. **Price level changes :** Rising price level of raw-materials will make the company to keep a large amount of working capital.

10. **Exploitation of favourable market conditions :** Only firms with a large amount of working capital can take advantage of buying raw-materials in large quantity when they are available at lower prices.

11. **Profit margin :** Since net profit earned in cash is a source of working capital, the companies able to make large amount of profit (in cash) require small amount of working capital

12. **Profit Appropriation :** Larger the amount of profits appropriated towards tax provision, depreciation provision etc. higher is the working capital required.

13. **High morale :** Adequacy of working capital creates an environment of security, confidence and high morale leading to increased efficiency among workers.

14. **Dividend policy :** If the company wants to pay dividend in cash it requires a large amount of working capital.

CHAPTER - V

Long Term Finance

When a firm wants to invest in long-term assets, it must find the means to finance them. The firm can rely to some extent on funds generated internally. However, in most cases internal resources are not enough to support investment plans. When that happens the firm may have to curtail its investment plan or seek external funding. Most firms choose the latter course of action. They supplement internal funding with external funding raised from a variety of sources.

This chapter looks at the following sources of long-term finance commonly employed by business firms :

- Retained earnings
- Equity Capital
- Preference Capital
- Debenture & Bonds
- Term Loans

It describes the features of these sources of finance and evaluates them from the point of view of the firm as well as the investors, specifically cost involved i.e., cost of each source of finance.

Retained Earnings

Depreciation charges and retained earnings represent the internal sources of finance available to the company. If depreciation charges are used for replacing worn-out equipment, retained earnings represent the only internal source for financing expansion and growth. Thus, retained earnings can be an important source of long-term financing.

Merits

In Firms point of view retained earnings are viewed very favourably by most corporates for the following reasons.

1. Retained earnings are readily available internally. They do not require going to outsiders (lenders or shareholders).

2. Retained earnings effectively represent infusion of additional equity in the firm. Use of retained earnings. in lieu of external equity, eliminates issue cost and losses on account of under pricing.

3. There is no dilution of control when a firm relies on retained earnings.

The disadvantages of retained earnings :

1. The amount that can be raised by way of retained earnings may be limited. Further, the quantum of retained earnings tends to be highly variable.

2. The opportunity cost of retained earnings is quite high. The retained earnings, in essence, represent dividends foregone by equity shareholders.

The advantages from the Shareholders point of view :

1. Compared to dividend income, the capital appreciation that arises as equal to retained earnings is subject to a lower rate of tax.

2. Reinvestment of profits may be convenient for many shareholders as it relieves them to some extent of the problem of investing on their own.

From the point of view of shareholders the disadvantages of retained earnings are :

1. Shareholders who want a current income higher than the dividend income may be highly averse to, or may find it inconvenient to, convert a portion of capital appreciation (which results from retention of earning) into current income, as it calls for selling some shares.

2. Many firms do not fully appreciate the opportunity cost of retained earnings. They impute a low cost to it. As a result, they may, comforted by the easy availability of retained earnings, invest in sub-marginal projects that have a negative NPV. Obviously such a sub-optimal investment policy hurts the shareholders.

Equity Capital :

Equity capital represents ownership capital as equity shareholders collectively own the company. They enjoy the rewards and bear the risks of ownership. However, their liability is limited to their capital contributions. Equity share has a number of special features.

1. The dividend on these shares are paid after the dividend on preference share has been paid.

2. The rate of dividend depends upon the amount of profits available and the intention of directors.

3. The equity shareholders have a residual claim on the company's assets in case of liquidation.

4. The company is controlled by the equity shareholders and they are entitled to vote in the meetings of the company.

Merits of equity financing :

The equity capital is a permanent capital, and is available for as long as the company exists. The equity capital is to be repaid only in the event of the company's liquidation.

They do not impose any burden on the company's resources because the dividends on these shares are subject to the availability of profits.

The equity shares do not create any charge on the assets of the company. If the company wishes to raise further finance through mortgage of assets, it can do so freely.

The equity capital increases the financial base of the company and thus its borrowing limit. Lenders generally give loan in proportion to the company's equity capital.

Financing through equity shares provides the company with sufficient flexibility in the utilisation of funds and its profits, since neither the payment of dividend nor repayment of capital is compulsory.

Demerits of equity financing :

Equity shares have a higher cost because of two reasons

1. The flotation costs are higher in equity shares than debt.

2. Excessive reliance on financing through equity shares reduces the capacity of company to trade on equity i.e. it can not take advantage of the issue of preference shares and debentures with lower fixed rate.

Over enthusiasm in the issue of equity share may lead to over capitalisation.

The control of the company can be manipulated by cliques of equity shareholders to their advantage. This may be detrimental to the company itself.

Preference Capital :

Preference shares are those which carry preferential right over other class of shares with regard to payment of dividend and repayment of capital. The rate of dividend on preference share is a fixed one. Before any dividend is paid on other share, dividend on preference share should be paid. In case of winding up of the company a preferential right as to repayment of capital is given to them.

Types of Preference Capital :

There are 3 types of preference capital viz.

1. Cumulative or Non-Cumulative
2. Participating or Non-participating
3. Redeemable or Irredeemable

Cumulative or Non-Cumulative : In case of cumulative preference share the arrears of dividends for the years of inadequate dividend, are payable out of future profits. In case of non-cumulative preference shares, the right to claim dividend lapses if there are no profits in a particular year.

Participating or Non Participating : Participating preference share holders are entitled to get a share out of surplus profits in addition to the fixed rate of dividend and non participating shares do not have such rights.

Redeemable or Irredeemable : In case of redeemable preference shares, the company undertakes to repay the amount paid on shares after a specified time. Irredeemable shares are redeemed only at the time of liquidation of the company. According to the Companies (Amendment) Act 1988, no company can now issue preference shares which are irredeemable or redeemable after 10 years from the date of their issue.

Merits of preference Capital :

Preference shares bear a fixed return and enable the company to declare higher rate of dividend for equity shareholders by trading on equity.

Preference shares add to the equity base of the company and thereby strengthen its financial position. Additional equity base enhances the ability of the company to borrow in future.

Issue of preference shares does not create charge on the assets of the company.

These shares have the merit of not being a burden of finances because dividend on the preference shares will be paid if profits are available.

The promoters can retain control over the company by the issue of preference shares. The preference shareholders can vote only when their interests are affected.

The preference shares are preferred by people who do not want to risk their capital but want an income higher than that obtainable on debentures.

In case of rdeemable preference shares, the company can redeem as soon as the company gets funds.

Demerits :

The preference dividend is not deductible as an expense for tax purposes out of profits of the company. So, the cost of financing through preference shares is high.

Preference shares dilute the claim of equity shareholders over the assets of the company.

Debentures :

A debenture is a document acknowledging the debt of the company under seal. It promises to pay interest and principal as stipulated. The purchasers of debentures are called debenture holders. They are the creditors of the firm. The debentures are issued in different denominations.

The following are some of the important features of debentures.

The rate of interest on debentures is a fixed one. They are paid annually as a percentage of the par value of debentures. Debenture interest is tax deductible for computing company's corporate tax.

Debentures are issued for a specific period of time. They are redeemed on maturity.

Debentures are either secured or unsecured. A secured debenture is one which is secured by a charge on the assets of the company. When debentures are not secured they are called unsecured or naked debentures.

Debentures are either convertible or non-convertible. A convertible debenture is on which can be converted fully or partly into shares at a specified price at a given time. Debentures without convertible features are called non-convertible or straight debentures.

Debenture holders have a claim on the profits of the company prior to that of the shareholders. Interest should be paid before paying any dividend. In liquidation, the debenture holders have a claim on assets prior to that of shareholders.

Merits :

From the point of view of investors, debentures are a definite security. So it has an appeal to cautious investors.

Advantages of debentures from the point of view of the company.

The rate of interest payable is lesser than the rates of dividend payable on shares.

The company is able to trade on equity and pay better rate of dividend to equity shareholders.

It does not cause dilution of ownership.

Demerits :

Debentures can be issued by those companies which have stable earnings and high proportion of fixed assets in the total assets.

Redemption of debentures on maturity involves substantial cash outflows.

Non payment of interest and principal can force the company into liquidation.

Term Loans :

Term loans represent long term debt with a maturity of more than one year. They are obtained from commercial banks and specially created financial institutions. The purpose of term loan is to finance company's capital expenditure.

Features of term loans :

Objectives :

The term loans are granted for one or more of the following objectives

Establishment, expansion and modernisation of industries.

To redeem preference shares or to retire bonds.

To meet core working capital.

Security :

Term loans are always secured. The lending institution creates either fixed or floating charge on the assets of the company.

Period of Loan :

The term loans are granted for a period ranging from one to 15 years depending on the nature of the project. For repayment of loan a grace period of 1 to 2 years is granted. Commercial banks advance term loans generally for a lesser period ranging from 3 to 5 years.

Merits :

Company's point of view Term loans offer the following advantages to the borrower.

1. In post-tax terms, the cost of term loans is lower than the cost of equity capital or preference capital.
2. Term loans do not result in dilution of control, as lenders do not have the right to vote.

The **disadvantages** of term loans from the borrower's point of view, are as follows :

1. The interest and principal repayment are obligatory payments. Failure to meet these payments may threaten the existence of the firm.
2. Term loan contracts carry restrictive convenants which may reduce managerial freedom. Further, they entitle the lenders to put their nominee on the board of the borrowing company.
3. Term loans increase the financial risk of the firm. This, in turn, tends to raise the cost of equity capital.

Lender's point of view :

Term loans appear attractive to the lender for the following reasons :

1. Term loans earn a fixed rate of interest and have a definite maturity period.
2. Term loans represent secured lending.
3. Term loans carry several restrictive convenants to protect the interest of the lender.

The **disadvantages** to the lender of the term loan are as follows :

1. Term loans do not carry the right to vote.
2. Term loans are not represented by negotiable securities (of course, if term loans can be securitised, this limitation can be overcome)

CHAPTER - VI

Working Capital Management
Management of Cash

It is the duty of the Finance Manager to provide adequate cash to all segments of the organisation. He has also to ensure that no funds are blocked in idle cash since this will involve cost in terms of interest to the business. On one side cash is essential to meet business obligations, at the same time it is unproductive when not used. A sound cash management scheme, therefore, maintains the balance between the twin objectives of liquidity and cost.

Cash Management deals with following :

1. Controlling levels of cash.
2. Controlling cash inflows and cash outflows
3. Optimum investment of surplus of cash

Steps in Cash Management :

1. Cash Planning
2. Controlling inflows of Cash
3. Control over Cash Outflows
4. Investing surplus cash

1. Cash Planning : It is a technique to plan and control the use of cash. It is done by preparing a projected cash flow statement prepared for anticipated future activities based on current operations. Cash planning includes cash forecasting and cash budgeting.

Cash Forecasting and Budgeting : Cash budget involves a projection of future cash receipts and cash payments. It is a forecast of expected cash intake and outlay during a future period of time.

2. Controlling inflows of cash : It is necessary to prevent fraudulent diversion of cash receipt and at the same time to speed up the collection of cash. To avoid cash defalcations proper internal checking system should be adopted.

3. Control over cash outflows : The objective of controlling cash outflow is to slow down, as far as possible, the cash payments and thereby to see that more funds are available. The combination of faster collection and slow payments will result in maximum availability of cash. Following steps are followed for this purpose :

i) Centralised system of payments and decentralised system of collections.

ii) Payments should be made exactly on the last date whereby neither discount nor prestige is lost.

iii) "Technique of Playing float" : The time gap between issue of cheques and arrival of cheques at the Bank for clearance need to be assessed and utilised properly.

4. Investing surplus cash : This includes following steps :

a) **Determination of surplus cash :** Surplus cash is the cash in excess of the firm's normal cash requirements.

b) **Determining safety level of cash :** Following two factors determine a safety level of cash both for normal periods and peak periods.

1. Desired days of cash

2. Average daily cash outflows

c) **Determination of channels of investments :** The surplus cash determined by the financial manager may be either of a temporary or a permanent nature. Temporary cash surplus consists of funds which are available for investment on a short term basis. The cash surplus of permanent nature can be invested in long term channels.

Receivable Management :

Accounts Receivable constituting major portion of current assets is the result of 'trade credit'. Usually, the credit sales are made on open accounts which do not require any formal acknowledgement.

Meaning :

Receivables are amounts owed to the firm as a result of credit sale of goods or services in the ordinary course of business. In other words, receivables represent the

claims of a firm against its customers and they are shown on the asset side of the balance sheet under different titles such as book debts, trade receivables, or customer receivables etc.

Purpose of Receivables :

a) **To achieve higher sales :** A firm offering credit facility will attract more customers and definitely achieve higher level of sales.

b) **Increasing Profits :** As credit sales results in increased sales and higher margin of profits, the profits are likely to increase.

c) **Meeting competition :** The strategies of competitors need to be adopted in order to survive.

Cost of Maintaining Receivables :

Maintaining of huge receivables also involves certain cost which can be listed as below :

- Capital Costs
- Administrative costs
- Collection costs
- Defaulting costs

Optimum size of Receivables :

A liberal credit policy may increase the volume of receivables resulting in increased bad debts and collection costs. On the other hand a stringent credit policy reduces the profitability but increases the liquidity of the firm. Therefore, it is necessary to strike a balance between profitability due to increased sales and liquidity. The optimum size of receivables depend upon volume of sales and the average period (time gap) between sales and collection of debts.

Policies for Managing Receivables :

1. Credit Standards : Represents the basic criteria for granting of credit to customers.

- Character - the honesty and integrity of the customer
- Capacity-ability to manage the business
- Capital-Financial soundness

- Collateral-offering property as security
- Conditions-general economic condition of the firm and the economy

2. **Credit terms :** Includes following two components :
   - Credit period
   - Cash discounts

3. **Collection Procedures :** It is necessary to strike a balance between liberal and stringent collection as both of them are not advantageous.

Factoring :

Vaghul Committee and Kalyana Sundaram Committee recommended for the introduction of Factoring Services in India. It is a financial service, under which a 'factor' (usually a banker) undertakes the responsibility of collecting his client's accounts receivables.

The factor keeps complete record of his client's accounts receivables, sends them periodical statement of accounts, collects money from them and keeps his client aware about the progress of recovery. For this service, the banker charges a small fee varying from 3/4 percent to 2 1/2 percent.

Functions of Factoring :

- Providing timely finance
- Risk bearing

Uses :

It simplifies the accounting procedure, reduces expenses of accounting and credit control. It relieves the borrower from the burden of debt collections and makes the funds flow smooth.

However, it is not suitable to small traders as the service charges depend upon the quality of debt i.e. credit standing of the customers, credit terms, natures of business of the customer etc.

Inventory Management :

Inventories are Goods held for eventual use by a firm. Inventories often constitute a major element of the total working capital and hence it has been correctly observed,

"good inventory management is good financial management". Inventories are thus one of the major elements which help the firm in obtaining the desired level of execution of works.

Inventory Management covers following issues :

- Fixation of minimum and maximum level of inventories
- Determining the size.
- Deciding about the issue price policies
- Setting up receipt and inspection procedure
- Determining the economic order quantity
- Providing proper storage facility
- Keeping check on obsolescence
- Setting up effective information system with regard to inventories

Problems in Inventory Management :

However, Inventory Management involves two basic problems :

- Maintaining a sufficiently large size of inventory for efficient and smooth functioning of the organisation.
- Maintaining a minimum investment in inventories to minimise the direct-indirect costs associated with holding inventories.

Holding of inventories helps a firm in separating the process of purchasing producing and selling. Thus, inventories provide cushion so that the purchasing, production and sales functions can proceed at optimum speed.

The specific **Benefits** of holding inventories can be put as follows :

1. Avoiding Losses of Sales
2. Availing Quantity Discount
3. Reducing Ordering Cost
4. Achieving Efficient Execution.

Risks & Costs Associated with Inventories :

Holding of inventories exposes the firm to a number of risks and costs. The risks can be listed as follows :

1. Price Decline
2. Product Deterioration
3. Obsolescence

The costs are :

1. Materials Cost
2. Ordering Cost
3. Carrying / Storage Cost
4. Insurance Cost

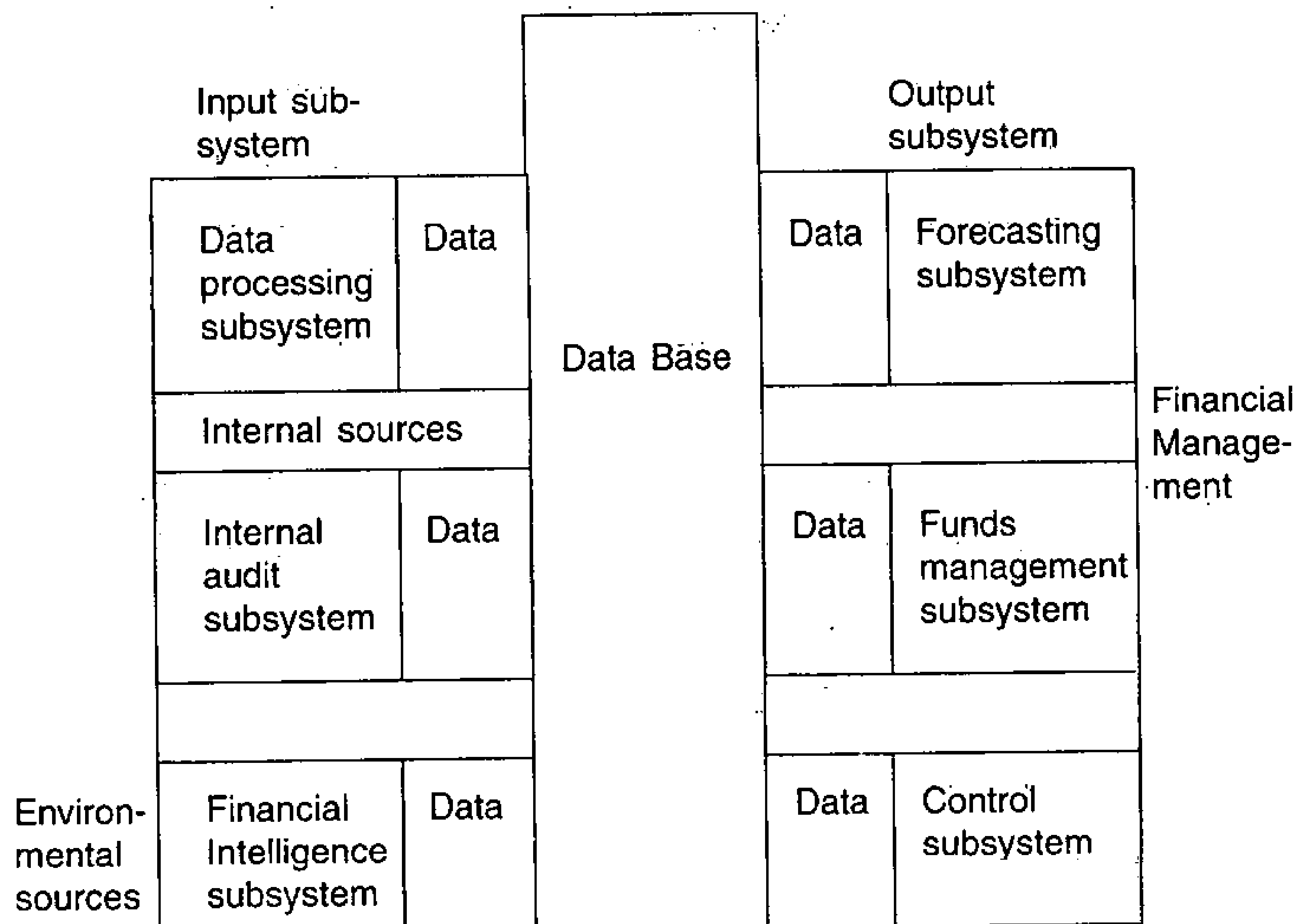
Finance Manager and Inventory Management :

Although, the finance manager is not directly concerned with inventory policies, yet he cannot ignore them since they directly affect the financial needs of the firm to a significant extent. It is, therefore, necessary for the finance manager to get familiar with ways to control inventories effectively so that there can be efficient allocation of funds. He should make all-out efforts to reduce lead time, regulate usage and minimise the safety stock.

The financial information system has three basic tasks.

- To identify future money needs.
- To assist in the acquisition of those funds.
- To control their use.

Model of the Financial Information System :



Methods of obtaining Financial Intelligence :

Firms gather financial intelligence in three basic ways - informal communications, written publications and computer data bases.

Informal Communication :

Financial information is gathered by means of informal communications, between the firm's executives who make contacts with bankers and financial analysts for the purpose of obtaining such information.

Written Publications :

Newspapers, news letters and magazines and other publications are other important source of financial intelligence.

Computer Databases :

On line data services such as DIALOG and BRS include databases that contain information specially suited to financial intelligence.

Forecasting subsystem :

Top level managers look for into the future, say for ten or more years. The lower level managers have a planning horizon of one year or less. They must also forecast for that time period.

Forecasting methods :

A large verity of forecasting techniques are available for looking into the future. A firm will frequently use a combination of several techniques, seeking the best prediction of the future. Many of the techniques are informal and depend to a great extent on the knowledge, judgement, and intuition of the manager. Others involve the use of quantitative methods.

Funds Management Subsystem :

The finance function represents the money flow through the firm. The funds management subsystem is the part of the financial information system. The cash flow model is the best example of how the computer can be used in managing the money flow because it encompasses the overall structure - from cash receipts to cash disbursements. Many subsidiary decision must be made within this structure and the funds management subsystem can provide support.

Financial managers use the financial information system to manage the money flow. They use the information system to keep current on the financial environment and to cultivate that environment so that it represents an asset of the firm rather than a constraint. Financial managers also use the information system to identify the best places to invest surplus funds.

Books Referred

Sl. No.	Book Title	Author	Publisher
1.	Financial Management	Prasanna Chandra	Tata McGraw Hill Publishing Co. Ltd.
2.	Elements of Financial Management	Dr. S.N.Maheshwari	Sultan Chand & Sons, New Delhi
3.	Financial Markets & Services	E. Gordon K. Natarajan	Himalaya Publishing House
4.	Financial Management	P.N.Reddy H.R.Appannaiah B.G.Sathyaprasad	Himalaya Publishing House
5.	Guidelines and suggestions	Dr. D.K.Murthy Reader & Research Guide	Bangalore University

Human Resource Development

V. Training and Development .... 53 - 57

- Introduction - (Meaning of Training and Development)
- Need for Training
- Importance & Benefits of Training
- Principles & Types of Training
- Types of Training
- Methods or Techniques of Executive Development
- Evaluation of Training

VI. Job Analysis, Job Description and Job Evaluation ..... 58 - 60

- Meaning and contents of Job Analysis.
- Uses of Job Analysis.
- Job Evalution and Job Description.
- Objectives and Importance of Job Evaluation.
- Methods of Job Evaluation.

VII. Merit Rating and Performance Appraisal .... 61 - 66

- Introduction - Definition of Performance Appraisal.
- Methods of Performance Appraisal.

VIII. Motivation and Morale .... 67 - 71

- Meaning - Definition - and nature of motivation.
- Factors and steps in motivation.
- Importance of Morale

IX. Communication .... 72 - 75

- Definition & Aims
- Elements & Types
- Barriers to Communication
- Essentials of Good Communicatioı.

CHAPTER - I

Human Resource Development

INTRODUCTION AND MEANING :

Of all the factors of production required by an organisation, human resource is by far the most important factor. The importance of human factor in any business organisation cannot be over looked because, success or failure of an organization depends upon the effective coordination of the human resources along with money, material, machinery. It is through the combined efforts of human resource that other resource such as money and materials are effectively utilised to achieve organizational objectives.

Personnel management is concerned with managing people at work. However the dynamic nature of human resource has rendered personnel management a complex and challenging task. Work force in an organization consists of individuals of different sex, age, social and religious background and varied educational and literary standards. They exhibit similar behavior and characteristic as well as many dissimilarities. No two persons are similar in mental abilities, traditions, sentiments and behavior. People are responsive, they feel, think act and react. As such they cannot be treated like a machine but require a tactful handling. Hence a business cannot succeed if human resource is neglected. Hence the following aspects are to be considered while managing human resource.

1. Organisations are not mere bricks mortar and machines or inventories but people, who manage organisations.
2. HRD involves management functions and principles, which are applied to acquisitioning, developing, maintaining and remunerating employees in the organisations.
3. Decision relating to employees' integration.
4. Decision's made must influence the effectiveness of an organization which inturn result in better service to customers in the form of quality products supplied at reasonable cost.

5. HRD functions that are applicable to business establishment also extend to education, health care and national development.

HISTORY OF HRD :

The concept of HRD was first introduced to the world by Dr, Professor, Len Nedler during 1969 in the USA. According to him "human resource development constitutes those learning experiences which are organised for specific time and designed to bring about the possibility of behavioral change".

In India, M/s Larsen Turbo Ltd. was the first company to introduce this concept of HRD during 1975 among the private sector companies with an objective of facilitating growth of employees. Later it was extended to the public sector companies as well as private sector companies. Recognising the need of HRD in a diversified country like India, the central Government established HRD department under its administration headed by cabinet ranking minister. Today HRD plays a vital role in our country.

MEANING AND DEFINITION :

According to Prof. T.V.Rao, "HRD is a process in which employees of an organisation are continually helped in a planned way to :

a) Acquire or sharpen capabilities required to perform various functions associated to their present or expected future roles;

b) Develop their general capabilities so that they may be able to discover their own potentialities and exploit them fully for their own and organisational development purpose; and

c) Develop an organisational culture where superior-subordinate relationship, teamwork and collaboration among different sub units are strong and contribute to organisational wealth and motivation and pride of the employees.

Thus, human resource development may be defined as **a system of developing, in a continuous, systematic and planned way, the competencies of individual, employees in order to achieve the organisational goals which maximise the harmony between the employees' individual goals and organisational goals.** Agreement

OBJECTIVES OF HRD :

The important objectives of Human Resource Development are :

1. To provide a comprehensive framework and methods for the development of human resources in an organisation.
2. To generate systematic information about human resources for the purposes of manpower planning, placement, succession and planning.
3. To increase the capabilities of an organisation to recruit, retain and motivate talented employees.
4. To create a climate that enables every employee to discover, develop and use his/her capabilities to a fuller extent, in order to further both individual and organisational goals.

MECHANISMS OF HRD :

In order to achieve the objectives of Human Resource Development System the following mechanisms are adopted.

1. Manpower planning.
2. Performance appraisal and development.
3. Training, education and development
4. Potential appraisal and development.
5. Career development and career planning.
6. Compensation and reward.
7. Organisation development.
8. Role analysis and role development.
9. Quality of worklife and employees welfare.
10. Data storage and research.
11. Participative devices.
12. Industrial relations.

IMPORTANCE OF HUMAN RESOURCE DEVELOPMENT :

The importance of Human Resource Development may be ascertained from the following points :

1. Human Resource Development improves the competencies of the people by making them aware of the skills required for job performance and by increasing the clarity of norms and standards.
2. Human Resource Development improves communication system in the organisation so as to enable each employee to understand his role better and become aware of the expectations of other employees from his role.
3. Human Resource Development helps the organisation in procuring the right people at the right time and placing them at the right place.
4. Human Resource Development improves employees' commitment to their jobs because of greater objectivity in the administration of rewards.
5. Human Resource Development improves problem solving capabilities and adaptation skills of employees. They become more pro-active and innovative and more prone to risk -taking.
6. Human Resource Development provides an opportunity to the employees for their continuous and all-round growth through succession planning and career planning.
7. Human Resource Development improves collaboration and team-work among employees. The employees become more open and authentic in their behavior.
8. Human Resource Development develops greater trust and respect for each other among the employees, and thereby generates new values among them.
9. Human Resource Development generates lot of useful and objectives data on employees, which facilitate better human resource planning and control.

FACTORS RESPONSIBLE FOR SUCCESS OF HRD :

1. Support from top management.
2. Plans for utilisation of man power skill.
3. Better conditions for the growth and development.
4. Openness and trust.
5. Investment in programs.

CHAPTER - II

Personnel Management

MEANING OF PERSONNEL MANAGEMENT :

Personnel management is the process of attracting, holding and motivating people involving all managers - line and staff.

According to Dale yoder, "personnel management is that phase of management which deals with the effective control and use of manpower as distinguished from other sources of power.

According to Edwin B. Flippo Personnel Management is the planning, organizing, directing and controlling of the procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organizational and social objectives are accomplished. It is clear from the definitions that personnel management involves the following.

1. It is a management of human resources.
2. It is concerned with effective utilization of human resources.
3. It is a staff activity.
4. It is concerned with the achievement of common goals and integration of individual effects with the common goals.
5. The principles of general management are applicable to this area of management.

SALIENT FEATURES OF PERSONNEL MANAGEMENT :

The salient features of personnel management are as follows :

1. The personnel management consists of certain guiding principles that form the basis of organising and dealing with workers. These principles provide as a set of techniques for handling the workers.
2. The personnel management is a continuous process. It requires constant alertness and awareness of human relations, which are important in every day operations.
3. The primary objective of personnel management is the promotion of group satisfaction and building up of team spirit among the workers.

4. The fundamental of personnel management is to get the best results from the workers employed in the organisation. The ultimate aim is to maximise the profits of the enterprise.

5. The aim of getting optimum contribution from the workers does not mean that workers are to be exploited. While aiming at optimum contribution by the workers, the personnel management keeps in mind the following considerations :

   i) Every worker must be able to work to his maximum capacity.

   ii) All his interests, his ambitions and his desires should get a proper place.

   iii) Every worker should get opportunities to advance and to exercise his capacity and satisfy his interests.

   iv) No worker should feel that his personality is being ignored or his status is being lost.

6. The workers should be skillfully handled both as individuals and as group members so that they give their best to the organisation if they are apart. This means that the management must adopt democratic outlook rather than authoritative outlook towards the workers, since democracy is stronger and more effective than authoritarianism. If men and women employed in an organisation are free, they will be happier and work more effectively and efficiently than when they are regimented.

IMPORTANCE OF PERSONNEL MANAGEMENT :

The personnel management is attaining increasing importance in modern days. The reasons for its increasing importance are :

1. Large scale enterprises have been growing very rapidly in these days because of the growth of corporate form of business organisation. This has led to centralisation of managerial authority and loss of communication in the organisation. This creates increasing and recurring labour problems. Further, these developments have also widened the gap between the management and labour. Personnel department has become quite essential for the solution of these problems.

2. Because of the speedy technological progress, supply of skilled personnel is assuming increasing importance. To ensure this supply, both selection and training of personnel become essential. For this purpose, a separate personnel department has to be set up.

3. In these days, workers in general are becoming more and more sophisticated and organised. They have formed trade unions to protect their interest as against the

employers. The management of every enterprise has to deal with these trade unions and succeed in winning the cooperation of the workers. This work is generally entrusted to a special department called personnel department. The personnel manager of this department acts as a liaison officer between the workers and the management and tries to solve the problems and grievance of workers.

4. In these days, the management of many large enterprises is paying more attention to the education and training of its workers. For the purpose of providing such training facilities, a personnel department in every organisation becomes essential.

5. The management of every business enterprise thinks of reducing labour costs by increasing productivity of its workers. This requires innovation and experimentation in the management of labour force. Therefore, a separate department known as personnel department becomes absolutely essential.

6. Recently, a new science known as 'Ergonomics' has been developed. According to this branch of science, the environment in which the workers work determines the effectiveness of their work. Therefore, it becomes necessary to provide congenial environment to workers to work to the best of their ability. This necessitates the setting up of a separate personnel department.

7. The government's policy relating to labour is changing in these days. The government is trying to protect the interest of labour through such measures as fixing minimum wages, reservation of jobs, payment of compensation to injured workers, social insurance, social security etc. Therefore, a separate department will have to be set up to deal with labour in respect of all these measures.

FUNCTIONS OF PERSONNEL MANAGEMENT :

The functions of Personnel management may be classified as follows :

a) Managerial Functions

i) Planning
ii) Organising
iii) Directing
iv) Coordinating
v) Controlling

b) Operative Functions

1. Procurement
2. Development.
3. Promotion, Transfers and Termination.
4. Compensation.
5. Integration.
6. Welfare Activities
7. Maintenance

CHAPTER - III

Human Resource Planning

INTRODUCTION :

Manpower planning forms an integral part of the strategic corporate planning process. It can be defined as Strategy for acquisition, utilization, improvement and preservation of Human Resource. It helps organization to have enough of right kind of people at right time adjusting the requirement to the available supply.

DEFINITION :

Velter defines manpower management as "The process by which management determines how the organisation should move from its current man power position to its deserved manpower position. **Through planning management tries to get and to have the right number and right kind of people at right place and right time doing things which result to both the organisation and individuals receiving maximum long run benefit".**

The emphasis on manpower planning is given due to the following reasons :

1. Technological changes.
2. Legislative controls.
3. Demographic changes
4. Skill shortages.

OBJECTIVES & IMPORTANCE OF HUMAN RESOURCE PLANNING :

The important objectives of human resource planning in an organisation are :

1. To recruit and retain the human resource of required quantity and quality.
2. To foresee the employee turnover and make the arrangements for minimizing turnover and filling of consequent vacancies.
3. To meet the needs of the programmes of expansion, diversification etc.,
4. To foresee the impact of technology on work, existing employees and future human resource requirements.

5. To improve the standards, skills, knowledge, ability, discipline etc.

6. To assess the surplus or shortage of human resources and take measures accordingly.

7. To maintain congenial industrial relations by maintaining optimum level and structure of human resources.

8. To minimize imbalances caused due to non-availability of human resources of right kind, right number in right time and right place.

9. To make the best use of its human resources and

10. To estimate the cost of human resources.

STEPS OF HUMAN RESOURCE PLANNING :

Human Resource Planning process involves important steps which are briefly explained below :

1. Anticipating human resource needs.
2. Planning job requirements and descriptions.
3. Analysing skills to determine the nature of manpower required.
4. Selecting adequate sources of recruitment.

• Anticipating Human Resource Needs :

On the basis of the functional and business plans and the level of future activity, the future needs for human resources in the organisation are anticipated. The number of skilled, semi skilled and ordinary people and the levels of skills, required in future depend upon the volume of production and sales estimates, production technology, makes or buy decisions, job contents, behavior patterns and control systems and a number of other factors. It is also necessary to make estimates of new jobs to be created and the vacancies arising in the existing labour force due to retirement, promotion, resignation etc. Thus job analysis and forecasts of future activity levels of the enterprise help the management in forecasting human resource requirements.

• Planning Job Requirements and Descriptions :

The next step involved in human resource planning relates to planning job requirement and job description. The requirements of a particular job should therefore

be clearly delineated through a minute study of the duties to be performed in that job. In order to secure the relevant information about the job, the management has to undertake job analysis.

It should be noted that job information is the basis of various management activities. For example, without job information, recruitment would be almost impossible, training would have no goal, and no salary basis. It is therefore absolutely essential to collect accurate and adequate information about the job so that it can be identified and distinguished from other jobs. Job information helps in securing adequate recruitment, adequate training, adequate salary structure and fair appraisal of the performance.

Job description relates to written record of the duties, responsibilities and conditions of the job. The methods used for job description are such as.

1. Observing employees when they are performing their work.
2. Studying specially maintained diaries.
3. Reviewing critical incidents.
4. Discussing with personnel or departmental heads, and
5. Discussing with outside experts and job consultants.

- **Analysing Skills to Determine the Nature of Manpower required :**

Skills required in manpower differs from job to job. Therefore skills required for a job are determined only after determining the job requirements followed by job analysis.

Skills required by successful executives can be divided into four types viz.

Decision making skills, leadership skills, communication skills and organisational and social skills.

These skills can also be classified into three types viz., Technical skills, Human skills and Conceptual skills.

CHAPTER - IV

Recruitment, Selection and Placement and Induction of Personnel

INTRODUCTION :

Once human resource requirements are determined in terms of quality and quantity, the next step is the procurement of personnel. Procurement involves recruitment, selection and placement of employees. As the success or failure of an organization depends upon the procurement of capable employees, recruitment is considered to be an important function. Recruitment is discovering potential applicants for actual or anticipated organizational vacancies.

DEFINITION :

Date Yoder defines" Recruitment is a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting that manpower in adequate numbers to facilitate effective selection of an efficient working force".

According to Flippo "Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization. It is often termed "positive" in that it stimulates people to apply for jobs to increase the "hiring ratio " i.e. the number of applicants leaving only the best to be hired.

The above definitions point out that the purpose of recruitment is to prepare an inventory of people who meet the criteria laid down in job specification to choose those who are found suitable for the vacant positions.

SOURCES OF RECRUITMENT :

The sources of recruitment could be internal and external.

- **Internal source :** Internal source recruitment involves filling a job "from within" the organisation, through promotion or transfer. This source is suitable for recruitment of middle and senior level staff. The advantage of this is that the employees are already familiar with the organisational activities and requirements. It also ensures

stability and continuity of employment as the promotional avenues is quire clear for employees.

- **External Source :** Following are the external source of recruitment.

a) Advertising : This method is used when the organisation is reaching out to the larger targeted groups talent spread out in wide geographical area. This indirect method uses print media, radio, televisions, and professional journals.

b) Employment exchanges : The unemployed personnel register their names and qualifications in employment exchanges. Special employment exchanges are organised for ex-military personnel, physically handicapped and professionals in different places. Head hunting services, consultancy firms, professional societies are new sources of recruitment.

c) Present employees : The present employees usually recommend their friends and acquaintances who are trust worthy. Their recommendation indirectly bears testimony to the character, capability and efficiency of the person.

d) Schools and colleges : As jobs in business tend to become technical and complex fresh graduates from colleges are demanded. Campus interviews are conducted and preliminary screening is done. The short listed candidates are subject to the remainder of the selection process.

e) Trade unions : In firms where trade unions are effective, the management looks to the union in their recruitment efforts. It makes possible good labour relations.

f) Casual applicants : Unsolicited applications list is maintained in the office and persons are called in times of need.

SOURCES OF RECRUITMENT COMMONLY USED IN INDIA :

In India several sources of recruitment are used for getting employees in public and private sector industries through

1. Employment exchange.
2. External advertisement.
3. Internal advertisement.
4. Central training Institute.
5. Deputation of personnel and
6. Transfer from other public undertakings.

SELECTION :

Selection is the process of matching the candidates and the job. It is done by assessing the information about applicants. The purpose is to pickup the most suitable person who fulfills the requirements of the job it also aims to select the best available person. The selection policy should be in consonance with the organisational requirements as well as technical and professional dimensions of selection procedure.

The selection procedure consists of number of steps and the steps are uniformly adopted in all organisations. In Selection the following are steps adopted generally.

- **Initial interview :** The objective of this step is to eliminate the obviously unqualified person and limit the cost of selection. Facts and details such as age, qualification, appearance, facility in speech are evaluated in this step.
- **Application :** Application form is designed to gather information on various aspects of the applicant such as name, age, nationality, physical disability, identification marks, educational attainments etc.
- **Tests :** Tests serve as additional predicators to make selection decision accurate. These standardized phycological tests can improve the accuracy of predicting success in the job. These tests could be,
  1. Intelligence Test.
  2. Achievement Test.
  3. Interest Test.
  4. Personality Test.
  5. Aptitude Test.

PLACEMENT AND INDUCTION :

MEANING OF PLACEMENT :

After selecting a candidates, he should be placed on a suitable job. Placement is the actual posting of an employee to a specific job, involves assigning a specific rank and responsibility to an employee. The decision of placement are taken by the line manager after matching the requirements of a job with qualification of the candidate.

MEANING OF INDUCTION :

Induction, also known as orientation, is a process of making the new employee familiar with the work environment and the fellow employees. The new employee can be inducted into the organisation by introducing his job, fellow workers, supervisors and his subordinates. He should be oriented to the new organisation and its policies, rules

and regulations. Really speaking, induction is a socialising process by which the organisation tries to make the new employees as its agent for the achievement of its aims and objectives while the new individual employee seeks to make the new employee feel at home and helps him to adjust with the new environment in the organisation.

According to Michael Armstrong, induction, also known as orientation, is "the process of receiving and welcoming an employee when he first joins a company and giving him the basic information he needs to settle down quickly and happily and start work".

When a new employee joins an organisation, he is completely a stranger to the people of the organisation, work place and the work environment in the organisation. In the absence of any information and support, there is likely to be anxiety and fear in the mind of that new employee. He is likely to undergo reality shock caused by a gap between his expectations and the real situation in the organisation. Induction or orientation will help him overcome these problems. Once a candidate is selected and placed on a particular job, the process of familiarising him with the job, with the people who work with him and also with the organisation begins. This process is nothing but induction or orientation.

OBJECTIVES OF INDUCTION :

Induction helps to reduce labour absenteeism as well as labour turn over. It also reduces startup time and cost. It helps in developing realistic expectations and in reducing labour anxiety. It also helps in preventing an employee from falling prey to subversive elements thriving to create labour unrest by misrepresenting employers to uneducated employees. Proper induction enables the new employee to adjust himself with the new environment in which he has to work and to prove his overall effectiveness on the job. There are several objectives of induction.

The objectives of placement and induction are as follows :

1. To create confidence in the new employee about the organisation and about himself.
2. To create a feeling of belongingness and loyalty among the new employees.
3. To foster cordial and close relationship between old and new employees.
4. To see that the new employees do not form any false impression about the negative attitude towards the organisation or their job.
5. To give to the new employees full information essential for their job and work performance.

CHAPTER - V

Training and Development

INTRODUCTION :

After an employee is selected, placed and inducted, he/she must be provided with training. Training is the act of increasing the knowledge and skill of an employee for doing a particular job. Training is a short-term educational process and utilizing a systematic and organized procedure by which employees learn technical knowledge and skill for a definite purpose.

Training on whole improves, changes, moulds the employee's knowledge, skill, behavior, aptitude and attitude towards the requirements of the job and organization which in turn helps to acquire and apply the knowledge, skills, abilities and attitudes needed by a particular job and organization.

NEED FOR TRAINING :

Organisational Knowledge : Apart from job knowledge, the trainee is required to gain knowledge of the total organisation in terms of information and events. Position and multiple management are two popular methods utilized to offer organization knowledge.

General Knowledge : In executable development, much emphasis is laid on education. Formal education institutions play a decisive role in contributing to training and education. Special courses, Special meetings and selective reading are some of the methods used to realise the development objectives.

EVALUATION OF TRAINING :

The evaluation of training has been defined by Hambin as "an attempt to obtain information (feedback) on the effects of training programme and to assess the value of training in the light of that information."

There are several methods of evaluating training programme effectiveness. One method is measurement of the group before and after the training programme. The second approach is measure the group before and after the training period and also to establish a control group that is equivalent to the trained group in all respects except the training experience.

Any evaluation of a training programme must consider the suitability of the objectives as,

Reaction objectives - intended to stimulate a high level of involvement and interest.

Learning objectives - concerned with acquiring knowledge, skills, attitudes.

Job behavior objects - learning to bring about desired changes in job behavior and organizational objectives intended to promote overall results.

IMPORTANCE AND BENEFITS OF TRAINING :

A systematic and scientific training programme has the following advantages :

1. **Higher Productivity :** Training programme, by increasing skills, aptitudes and abilities of workers, increases their productivity, which means increase in the quantity of output and improvement in the quality of the products.

2. **Economical Use of Materials etc. :** A well planned training programme results in better and economical use of materials and equipment which means little or no wastage of materials and longer life to the machines.

3. **Job Satisfaction :** Training enables the new employees to meet fully all the requirements of the specific jobs assigned to them. This ensures job satisfaction to the employees by helping them to reach the standards of performance.

4. **Less Learning Period :** A well-planned training programme helps to reduce time and cost involved in learning new skills and knowledge. By getting training, the employees can quickly reach the acceptable standards of performance. Even while performing their jobs, they will not waste time and energy.

5. **High Morale :** Proper Training develops positive attitudes among the employees. It improves the morale and loyalty of the employees, as it provides job security and increases their remuneration.

6. **Low Accident Rate :** Good training programme minimises the chances of accidents, spoiled work and damage to machinery and equipments.

7. **Less Supervision :** Well-trained employees tend to be self-reliant and motivated. They require less guidance and supervision. Therefore, the management is relieved from the close supervision of work and it can devote more time for planning, decision-making etc.

8. **Organisational Stability :** It increases the organisational stability and flexibility. Stability refers to the ability of the organisation to sustain its effectiveness despite the loss of key personnel because a reservoir of trained personnel can be maintained to replace those who leave the concern. Flexibility refers to the organisation to adjust to short-run changes in the volume of work. This is possible if the organisation has trained personnel.

9. **Personnel Growth :** Good training enlarges the knowledge and skills of the trainee-employees. Hence trained personnel can grow faster in their career. Trained employees are a very valuable asset to any organisation. Training helps employees to develop themselves for promotion to higher positions and become managers in course of time.

PRINCIPLES OF TRAINING :

Several principles of training have been evolved over the years and they can be followed as guidelines for making training programme more effective.

1. Motivation : Employees will be motivated by training programme if they feel that they will be benefited by undergoing such training. Therefore, training must be related to the job-performance of the employees and it must meet their needs and solve their problems as well as increase their efficiency and improve their aptitudes.

Training should create great hopes in the employees that their chances of promotion would be better, they would be getting more wages or better jobs, better recognition, higher status, quick promotions etc. The managment should find out novel ways of motivating experienced employees who already enjoy better facilities.

2. Reinforcement : According to B.F. Skinner's Behavior Modification Model, when a behaviour is repeatedly rewarded, it becomes a permanent part of one's personality. Therefore, the effectiveness of the trainees in learning new skills or in acquiring new knowledge relating to the job should be reinforced by means of rewards and punishments. Rewards or positive reinforcements are more effective in changing behaviour than punishments or negative reinforcements. Positive reinforcements are in the form of promotions, rise in pay, praise etc., whereas negative enforcements are in the form of demotions, threats of dismissal, cuts in salary etc. It should be noted that positive reinforcement is far better than negative reinforcement.

3. Clear objectives : The management should clearly define the objectives and scope of the training programme. The management should prepare a comparative statement of the job requirements and existing personnel skills and knowledge. This will enable the employees to know the need for undergoing training.

4. Training Policy : The management should formulate an ideal training policy, which serve as a guide for designing and implementing the training programme. It should specify the persons responsible for conducting the training programme, the nature of training and employees to be trained.

5. Organised Material : The training material should be properly organised and a complete outline of the training programme should be distributed to the employees who are required to undergo training. This will also enable them to prepare themselves to undergo training.

6. Practice : Practice makes a man perfect is an old maxim. The employees should take active part in the training programme and take keen interest in practicing what they have learnt. Continuous practice is absolutely essential if they have to be perfect in what they have learnt.

7. Feedback : The employees who have undergone training should inform the management or the trainers on how much they have learnt, what benefit they have derived from training and how well they are doing their work after training. They should also inform the trainers about the difficulties, if any, they are facing in their performance. Such feedback should be quick, frequent and positive.

8. Suitable Techniques : The methods and techniques used for training should be related directly to the needs and objectives of the organisation as well as the job. Training should be conducted as far as possible in the actual job environment if it is to be meaningful and if it is to serve the desired purpose. It is better if the training is based on the tested principles of learning.

TYPES OF TRAINING :

The important types of training based on different specific purposes are given below :

1. Induction Training
2. Job Training
3. Training for Promotion
4. Refresher Training.

1. Induction Training : Induction training is the initial training to be given to the new employees. The aim of induction training is to introduce the new employees to the organisation and familiarise them with it. When the number of new employees is large,

the programme of induction training includes tour of the whole plant, supply of a hand book giving information about the employer, main products of the firm, rules, regulations and privileges concerning the employees etc.

2. Job Training : Job Training refers to the training of workers for a particular job. It is the most common of formal in-plant training programme. It is provided to the workers with a view to increase their knowledge about their jobs and make them more proficient in handling machines, equipments and materials so that operations are smooth and faults and accidents are avoided.

3. Training for Promotion : In most of the organisations in these days, some of the vacancies are filled up through promotion from amongst the existing employees. When an employee is promoted, he will be called upon to discharge higher duties and shoulder higher responsibilities. In order to enable such employees to shoulder higher responsibilities, some training will have to be provided to them.

4. Refresher Training : Though workers are given initial training when they are newly employed, they require further training in course of time, because with the passage of time, they are likely to forget or lose sight of various methods and instructions and become out-dated. Refresher training is designed to avoid this personnel obsolescence in the organisation. The need for refresher training also arises because of technological changes in the process of production, changes in the products etc.

METHODS OR TECHNIQUES OF EXECUTIVE DEVELOPMENT :

There are several methods or techniques of executive development. They can be broadly classified into two categories as follows :

On-the-Job Techniques

1. Coaching
2. Job Rotation
3. Understudy
4. Multiple Management
5. Committees
6. Selected Readings

Off-the-Job Techniques

1. Lectures
2. Case Study Method
3. Conferences
4. Group Discussion
5. Role-Playing
6. In Basket Training
7. Management Games
8. Programmed Instructions
9. Sensitivity Training

CHAPTER - VI

Job Analysis, Job Description and Job Evaluation

MEANING :

Job Analysis is a detailed examination of jobs. It is a process of gathering information about a job. Job analysis involves the process of identifying required tasks. The knowledge and skills necessary for performing them and the conditions under which they must be performed.

Job analysis provides the following information :

a) **Job Identification :** Its title including code number

b) **Important Characteristics of a Job :** Its location, physical setting supervision, union jurisdiction hazards and discomforts.

c) **What the Typical Worker does :** This includes information on specific operation and tasks to be performed by the worker including their timing, significance, complexity and sequence.

d) **Job Duties :** Detailed list of duties along with probable frequency of occurrence of each duty.

e) **Materials / Equipments Used :** Metals, Plastics, Yarn, Lathes, Milling machine, Micrometers etc.

f) **How a Job is done :** The focus here in on the nature of operation like handling, cleaning, washing, drying etc.

g) **Required Personnel Attitudes :** The job holder must possess required capabilities to perform his job e.g. physical mental capabilities, experience, Sociability training etc.

USES OF JOB ANALYSIS :

Good personnel management demands both employee and the employer to have a clear under standing of the duties and responsibilities to be performed on a job. As such a comprehensive job analysis can be used as foundation for an essential element of sound human resource management and industrial relation. A brief description of specific uses of job analysis are as follows :

i) Employment

ii) Organisational Design

iii) Human Resource Planning

iv) Recruitment and Selection

v) Placement and Induction.

vi) Training and Development.

vii) Performance Appraisal

viii) Career Path Planning

ix) Labour Relations

x) Discipline

xi) Health and Safety

xii) Promotion and Transfer

CONTENTS OF JOB DESCRIPTIONS :

A Job description is written statement of what the jobholder does, how it is done, under what condition it is done and why it is done. It describes what the job is all about, throwing light on job content, environment and conditions of employment. It is descriptive in nature and defines purpose and scope of job. A job description usually covers the following information.

i) **Job Title :** Tells about the job title, code number and the department where it is done.

ii) **Job Summary :** A brief worth up about what the job is all about.

iii) **Working conditions :** The physical environment of job in terms of heat, noise, and other hazards.

iv) **Social environments** : Size of work group and interpersonal interactions required to do the job.

JOB EVALUATION :

Job evaluation is a systematic way of determining the value/worth of a job in relation to other jobs in an organisation. It tries to make a systematic comparison between jobs to assess their relative worth for the purpose of establishing a rational pay structure. Job evaluation begins with job analysis and ends at that point where the worth of a job is ascertained for achieving.

OBJECTIVES AND IMPORTANCE OF JOB EVALUATION :

The primary objective of job evaluation is to ascertain relative worth of each job for properly rewarding the workers performing that job. Job evaluation thus aims at determining minimum and maximum fair wages for each job in the organisation with the following objectives :

a) To eliminate the inequalities of wage rates if any existing in the wage structure for different jobs.

b) To solve wage controversies involving comparative wage rates.

c) To eliminate personal prejudices in establishing wage rates by putting the rate structure on an objective and scientific basis.

d) To establish basis of comparison of salaries and wages for the same categories of job in other organisations.

e) To facilitate recognition of merit and deciding about the basis of promotion.

f) To establish definite wage plan and simplify rate structure.

g) To furnish basis for carrying out training programme for workers working on different jobs.

METHODS OF JOB EVALUATION :

The related worth of various jobs in an organisation may be evaluated in two ways :

i) By comparing them one against another

ii) By comparing them against a scale constructed for the purpose

- There are four methods of job evaluation.

i) Ranking method.

ii) Job classification method

iii) Factor comparison method and

iv) Point method

CHAPTER - VII

Merit Rating and Performance Appraisal

Introduction :

As it is necessary to measure the relative worth of various jobs in an organization it is also necessary to assess relative efficiency of various workers as reflected in their performance of these jobs. The technique of assessment of relative efficiency of the workers of the job is known as merit rating. Hence it is a system of evaluating and recording of the abilities and personal characteristics of the worker on their jobs, with the view to assess his potential for development.

Definition of Performance Appraisal :

Performance appraisal is a method of evaluating the behavior of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance. It is a systematic and objective way of evaluating both work related behavior and potential of employee. It is a process that involves determining and communicating to an employee how he is performing the job and ideally establishing a plan of improvement.

Performance appraisal seeks to measure the merits of the workers during performing job assigned to them. Factors to be taken into account in performance appraisal are :

i. Quality of workmanship

ii. Quality and quantity of output

iii. Knowledge of job.

iv. Ability to do that job.

v. Personal qualitites like spirit of cooperation, reliability and dependability.

vi. Special qualitites like adjustability in unusual circumstances.

vii. Supervisory qualities such as leadership, initiative, self-confidence, judgement, industriousness, etc.

viii. Health and personality.

OBJECTIVES OF PERFORMANCE APPRAISAL :

Performance appraisal could be taken either for evaluating the performance of the employee or for developing them. The evaluation is of two types (i) Telling the employee where he stands and using the data for personal decision concerning fare and promotion (ii) The developmental objectives focus on finding individual and organizational strengths and weaknesses; developing healthy superior-subordinate relations; and offering appropriate counseling/coaching to the employee with a view to develop his potential in future.

The objectives for performance appraisal could be broadly classified under the following :

a) **Compensation decisions :** It can serve as a basis for pay raises. This approach to compensation is with the idea that raises should be given for merit rather than for seniority. Performance appraisal helps to make compensation plans more scientific and rational.

b) **Promotion decisions :** It can serve as a usual basis for job change of promotion. When merit is the basis for reward, person doing the best job receives promotion. If relevant work aspects are measured properly, it helps in minimizing the feelings of frustrations of those who are not promoted.

c) **Training and Development programs :** It can serve as a guide for formulating a suitable training and development programme. It also can inform employees about their progress and indicate skills that needs to be developed for further pay raise or promotion or both.

d) **Feedback :** Performance appraisal enables the employee to know how well the job is being done by him. It also enlightens him of the improvement possibilities to climb up organization ladder.

e) **Personal Development :** Performance can also reveal causes of good and poor employee performance. It is possible through discussions with individual employees that a line manager can find out why they perform as they do and what steps can be initiated to improve their performance.

f) **Maintaining Harmony in work spot :** To remove grievances of workers and settle disputes between workers and management and to maintain cordial relations between them on the basis of mutual confidence and better understanding.

METHODS OF PERFORMANCE APPRAISAL :

The methods of performance appraisal may be broadly classified into traditional and modern methods. The important traditional methods used in performance appraisal are as follows :

1. Ranking method
2. Paired comparison method
3. Graphic rating scale method.
4. Forced distribution method.
5. Check-list method.
6. Critical Incident method.
7. Forced Choice method.
8. Free-from evaluation method.

The important modern methods of performance appraisal are as follows :

1. Assessment Centre
2. Human resource Accounting.
3. Bahaviorally Anchored Rating Scales.
4. Appraisal through MBO.

1) Ranking Method : Under this method the supervisor evaluates and rates his men and arranges them in the order of merit from most efficient to least efficient duly considering all essential qualities required for evaluation. Employee possessing most of all qualities is ranked first followed by others in the order of rating. Though this method is simple it cannot be conveniently used in the organization where number of employees is large. This method does not ensure the degree by which efficiency of one worker differs from the other.

2) Paired Comparison Method : In this method each employee is compared with every other. This method is a bit scientific compared to ranking method and is very cumbersome when number of employees is very large.

3) Graphic Rating Method : Graphic scale represents a graph or charts sketching the list of qualities and range of gradation for each quality. The factors which will be

considered for rating are generally classified as 'employee traits' and 'employee performance' The employee traits include such characteristics as initiative, loyalty, leadership, reliability, enthusiasm, knowledge, accurancy, attitude towards superiors and associates etc. The "employee performance" or "employee contribution" is something which the employee produces e.g. the actual quantity of work turned out, quality of work, specific goals achieved, responsibilities assumed, particular situation or problem tackled etc. The traits and achievements of each employee are recorded in the form of demarcated grades. Graphic scales are implemented by suggestive words which imply descriptive pointers of the related abilities and qualities.

4) Forced distribution method : This method aims to reduce or eliminate the possibility of rater's bias by forcing a choice between descriptive statements of seemingly equal work. Number of statements describing the employees are prepared and the rater is forced to choose among the descriptive statements which could be favorable or unfavourable. This method is very lengthy and time consuming.

5) Check-list Method or Questionnaire Method : Under this method the rater does not evaluate but reports employee performance and final rating is made by the personnel department. A check list questionnaire is prepared in the form of a series of questions concerning the employee and his behaviour Rater reads the question before the concerned person and the employee answers the questions in 'yes' or 'no' on the basis of checklist completed by the rater the rating is made by the personal department. This system is subjected to bias or prejudice of the rater.

6) Critical Incidental method : Under this method the behavior of the employees during the critical incidents is recorded. Such incidents may be favourable or unfavourable to the employees. Critical incidents will have important effects on the behavior of the employees. Such effects would influence their performance of the jobs assigned to them. They would also help in determining their reaction, their attitudes, their sentiment, their incentive for work, their initiative in execution etc., The evaluator has to record the strength and weakness reflected in their behavior and performance during such critical incidents. Thus the feelings, thinking and acting of the employees under critical incidents are recorded and studied in order to rank their merit.

7) Forced-Choice Method : This method is used to eliminate or reduce the possibilities of the evaluator's bias by forcing him to choose between a pair of descriptive statements which appear to be equal in worth. e.g., the evaluator or the rater is asked

to state which of the following statements is more descriptive of the employee in question.

1. Dynamic in planning and execution.
2. Quick, accurate and well thought-out in decisions.

Here, the rater has to mark which statement is most appropriate and which statement is least appropriate to the employee in question. Then on the basis of these markings, suitable rank is given to that employee. This method is advantageous because it reduces or eliminates the personal bias of the rater.

8) Free-from Evaluation Method : Under this method, the evaluator or the supervisor rates the employee on the basis of written comments or description of the performance of each employee. Here the supervisor gives a complete description of each employee working under him. Such description should be as far as possible factual and concrete. On the basis of such description, the employee's merit is ascertained. This method however suffers from limitation. Firstly it is not quite objective in its approach. Secondly, it requires lot of time and skill on the part of the supervisor.

MODERN METHOD :

1. Assessment centre Method : This method refers to group of employees drawn from different departments. They are brought together to a place known as assessment centre to spend two or three days on an assignment similar to the one they would be handling when promoted. Executive managers with proven ability acts as evaluators who observe the performance of each and every participant and rank them in order of merit. The evaluators use simulation techniques like role playing, business games and in-basket exercises and evaluate the participant employees on job-related characteristics considered important for job success. The evaluators observe and evaluate the participant-employees as they perform jobs.

At such assessment centre, impersonal skills, communicating ability, ability to organize and plan and such other traits are measured. Personal interviews and projective tests are taken for assessing work-motivation, career-orientation and dependence on others. Paper and pencil are used for evaluating intellectual capacity.

2. Human Resource Accounting : Human resource accounting deals with cost and contribution of human resources i.e., employees to the organization. Cost of the

employees includes cost of manpower, planning, recruitment, induction, placement, training, development, wages, benefits etc. Contribution of human resources is the money value of employee productivity or value added by employees. Difference between cost and contribution will reflect the performance of the employees in the organization. Employee performance can be taken as positive when the contribution is more than the cost. Employee performance can be taken as negative, when the cost is more than the performance. This method of measurement of employee performance is still in the transitionary stage and hence it is not popular at present.

3. Behaviorally Anchored Rating Scales (BARS) : This method combines the elements of the traditional rating scales method and critical incidence method. BARS are the descriptions of various degrees of behavior relating to specific performance dimensions. Using BARS job behaviors from critical incidents, the most effective and uneffective behaviors are described more objectively. This method uses employees who are familiar with a particular job to identify its major components. Then the rater observes behavior of the employee and compares these observations with BARS. In this way, the employee's actual job behavior is judged against the desired behavior and is given a particular rank.

4. Appraisal by results or MBO : The concept of Management by Objectives (MBO) was developed by Peter F. Drucker in 1954. Recently MBO has become an operational technique of performance appraisal and a powerful philosophy of management. It is also called goal setting approach. It is a process whereby the supervisor and the subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of results expected of him and use these measures as guides for operating the unit and assessing the contributions of each of its members. Thus MBO involves appraisal of employee's performance against clear, time bound and mutually agreed job goals. These goals are tangible, verifiable and measurable. It emphasises on what must be accomplished rather than how it is to be completed.

CHAPTER - VIII

Motivation and Morale

1. Meaning, Definitions and Nature of Motivation

- **MEANING :**

Motivation is psychological technique of inspiring the personnel to do their work efficiently and effectively and co-operate with the management for the accomplishment of the common objectives. Motivation is a managerial function dealing exclusively with the human beings of the enterprise. All other functions of management e.g. careful planning, systematic organising, efficient directing and co ordinating and effective controlling fail to achieve the desired goals, if the employees are not motivated to co-operate whole-heartedly. Every business enterprise today is facing three requirements viz.

i) To increase production.

ii) To secure employees' satisfaction and

iii) To minimise or curtail conflicts between employees and employer.

These three objectives can be achieved only by treating the employees as human beings and winning their heart. **Peter Drucker says, "Human being is the central, the rarest, the most precious capital resource of our industrial society".**

- **Nature of Motivation :**

From the definitions given above, the following inferences can be derived about the nature of motivation :

1. Motivation is an inner feeling which energizes individuals to put in best of their efforts and work more.
2. Motivation produces a profound influence on human behavior so that their behavior is directed towards the accomplishment of the enterprise goals.
3. Motivation may be positive or negative. Positive motivation means provision of additional pay and allowances, incentives, praise etc. in order to induce the employees to show their satisfactory work-performance Negative motivation emphasises penalties and punishments on those for failing to perform their work as expected.

Motivation means bargaining Behavior in what people Do. Motivation is WHY they do it. Motivation focusses on workers and organisations endeavouring to final what payouts (inducements) to workers in exchange for what degree of cooperation (Contributions) from workers will be satisfactory to both the parties.

4. Therefore Motivation is a problem of arriving at compensation to workers that will coax them the output that is required.

5. Motivation is a complete process so that the needs of the employees are fully met and they have no any unsatisfied needs or motives.

6. Motivation activises the dormant energies to the employees by providing various incentives and inducements.

7. Motivation is a psychological phenomenon which generates within the employees themselves.

8. Motivation and satisfaction are closely related though they are not synonymous cencepts.

2. Factors in Motivation :

The management must understand the motives that underline human activities. Motive is an impulse for action. Human mind is a composite of instincts, impulses or emotions. The important factors that motivate all individuals are as follows :

1) Recognition of individual status.

2) Security of job.

3) Fair treatment by management.

4) Scope for better prospects.

5) Accommodative or cooperative colleagues.

6) Congenial working conditions.

7) Fair wages.

8) Suitable incentives.

9) Pride in work.

10) Interest and helpful attitude of the management in the fare of the workers. Given ability and aptitude, human beings are positively impelled by the above motivating factors in the efficient completion of the work allotted to them.

3. Steps in Motivation :

The management has to take the following steps in motivating the subordinates :

1) **Selection** : The management has to adopt scientific recruitment policy to select the right type of persons for the right job and to ensure responsibility on their part.

2) **Proper Communication and participation** : The management should devise a process by which the subordinates are properly communicated on matters such as wages, bonus, promotion, working conditions, changes in policies and techniques of operations etc. and are given an opportunity to participate in discussions so as to enable them to offer their views and suggestions or express their doubts on matters of their intimate concern. Thus there must be a two-way channel of communication between the management and employees.

3) **Clear and Courteous Directives** : The management should cultivate the art of giving directives in clear and courteous words so as to create an urge in the subordinate to work hard in the interest of the enterprise.

4) **Scope for Initiative and Creative Talent** : The management should give adequate scope to the subordinates to show initiative and creative talent in their work performance.

5) **Standardised Procedures** : The management should adopt standardised practices and procedures for counselling and coaching the subordinates. This will create a favourable spontaneous response from the subordinates.

6) **Objective Evaluation** : The management should undertake objective evaluation of the performance of the subordinates according to scientifically designed criteria. Such an evaluation enables the management to recognise the meritorious employees and reward them properly.

7) **Discipline** : Discipline may be maintained among the employees by adopting negative methods of motivation.

8) **Congenial Working Conditions** : The management should provide congenial working conditions in the factory, office and other operational areas.

9) **Social Security :** The management should provide various social security measures such as provident fund, pension, unemployment insurance, sickness and accident insurance etc.

Thus, all these steps contribute towards motivating the employees in improving their performance and showing better results.

MORALE :

The team morale has been defined differently by different writers. But all these definitions revolve round the attitude of the group members towards their work and attitude of the group for the attainment of the common goals. Morale is the byproduct of motivation. If refers to the attitude of individuals and groups in an organization towards work environment and co-operation for the accomplishment of the organizational goals. It indicates employees' attitude towards their work, superiors, fellow workers, prestige and status in the organisation as well as to their employees. It represents a collection of employees' attitudes, feelings and sentiments. Some important definitions of morale are :

- Theo Haimann : "Morale is a state of mind and emotions, affecting the attitude and willingness to work which in turn affects individual and organisational objectives.
- Dr. William R. Spriegel : Morale means Co-operative attitude or mental health of a number of people who are related to each other on some basis.

Thus morale is an attitude of mind, a state of well-being or ill-being and an emotional force. It affects productivity, cost, quality, co-operation, enthusiasm, initiative etc., It is invisible since it is a state of mind. It is in the minds of the people. It is reflected collectively by the attitudes and emotions of the people. It affects willingness to work and co-operate in the achievement of enterprise objectives.

IMPORTANCE OF MORALE :

The importance of morale in business management need not be overemphasised. Good morale certainly improves the productivity of the employees and reduces the amount of supervision over them for achieving the desired results. Again good morale avoids any industrial strike. The general experience of the management is that high employee morale reduces labour turn-over waste, labour strike and industrial disputes. High employee morale keeps the employees' grievances at minimum.

Bad morale could result in the following :

I. Excessive tardiness and absenteeism.

II. Antagonism towards rules and supervision

III. Excessive complaints and grievances.

IV. High employee turnover.

V. Friction between employees themselves

VI. Alcoholism and accident.

High employees morale gives the following effects :

i. Willing co-operation towards the organisational objectives.

ii. Loyalty to the organisation and its leadership.

iii. Good discipline or the voluntary conformance to rules, regulations and orders.

iv. Strong organisational stamina or the ability of the organisation to take it during times or difficulty.

v. High degree of employee-interest in the job and the organisation.

vi. Reasonable display of employee initiative and

vii. Pride in the organisation.

CHAPTER - IX

Communication

Communication basically means, exchange of ideas, objectives, instructions, suggestions etc., among the managerial staff and their subordinates operating at different levels of the organisation for the purpose of planning and executing or operating the business policies.

DEFINITIONS :

LEWIS A. ALLEN defines communication as the sum of all things one person does when he wants to create understanding in the mind of another. It is a bridge of meaning. It involves a systematic and continuous process of telling, listening and understanding.

THEO HAIMANN defines communication is the process of passing information and understanding from one person to another. It is the process of imparting ideas and making oneself understood by others. Communication literally means sharing of ideas in common. But in management, it refers to the exchange of ideas, objectives, instructions, suggestions etc. among the managerial staff for the purpose of planning, executing or operating the business policies. Communication is the function of the managers to tell their subordinates what they are required to do, how to do. Communication therefore involves telling, listening and understanding. It includes transmission and reception of message. Through a proper system of communication the management would be able to study the understanding and reaction of the subordinates and create a congenial atmosphere so that they put their best efforts to accomplish the organisational objectives.

Communication thus is a process of transmitting information, ideas, directions. etc. with a view to achieve perfect identity of mind with others in the organization.

IMPORTANT AIMS OF COMMUNICATION :

The important aims of communication are as follows :

a) To inform subordinates about their duties and make them aware of their responsibilities.

b) To issue orders, directives and instructions to the subordinates as to what they should do and how they should do and guide them in their work performance.

c) To explain subordinates the plans and policies of the enterprise in order to secure better and higher work accomplishment.

d) To motivate the personnel for better productivity by providing various incentives and inducements.

e) To receive subordinates, suggestions, opinions, ideas, grievances, etc. and deal with them suitably.

ELEMENTS OF COMMUNICATION :

Communication consists of the following elements :

i) **Sender (communicator) :** The person who intends to transmit information is known as communicator or speaker.

ii) **Message :** Contents of communication such as orders, instructions, suggestions, reports, information, ideas, speech intended to be passed on.

iii) **Communication channels :** The media by which the information. ideas, etc. are passed from the sender to the receiver which serves as a link. Such channel may be formal or informal.

iv) **Receiver :** Person who receives the information.

v) **Response or feedback :** Effect of information transmitted.

TYPES OF COMMUNICATION :

Communication may be classified into different categories.

i. Classification on the basis of organizational structure or relationship

   a) Formal communication.

   b) Informal communication.

ii. Classification on the basis of flow of direction.

   a) Downward communication

   b) Upward communication.

   c) Horizontal or lateral or sideward communication.

   d) Diagonal communication.

iii. Classification on the basis of methods or media used or expression.

   a) Oral communication

   b) Written communication

   c) Gestural or non-verbal communication

BARRIERS TO COMMUNICATION :

Communication serves as the lubricant fostering for the smooth operations of management process. Its efficient flow in all directions become absolutely essential. But in practise, all messages are not transmitted or received as smoothly and effectively as possible. Certain barriers are experienced in between. They could be

1) Physical barriers namely distance, time and noise.
2) Personal barriers such as attitudes, opinions, judgement capacity, social values, inferiority complex, prejudiced mind, suspicious nature, inability to communicate.
3) Semantic or language barriers : Semantic is the science of meaning. Most of the communications is carried through symbols or words spoken or written. Since same word or symbols carry different meanings they may not covey the same meaning to the sender or receiver. Similarly language used may not be fully and clearly understood.
4) Organization structure barrier : Complex structure of the organization introduces rigidity and causes delay in the transmission of information.
5) Status and position barriers
6) Inadequate attention barrier
7) Emotional attitude barrier
8) Premature evaluation barrier
9) Resistance to change barrier
10) Lack of mutual trust

ESSENTIALS OF GOOD COMMUNICATION :

In order to get desired action from the communicator the communication should possess following essential requirements.

1) **Clarity of thought :** Idea to be communicated must be very clear and unambiguous, easily understandable. The process of communication will be complete and effective only if the receiver understands it.
2) **Consistency :** Contents of communication should be consistent. If for eg. it contains orders then they should be consistent with its objective. If the message contains suggestions there should be logical sequence.

3) **Actions more important than words :** The golden rule to be observed here is that action take priority over words in all communications.

4) **Participation :** Communication to be effective should involve participation of both communicator and communicatee. It should be two way channel giving and receiving information. It is an art of hearing the other side and taking necessary action afterwards.

5) **Proper transmission :** Many times the communication does not reach those for whom it is meant. This results in failure of communication. Therefore the communicator must plan cautiously as to what to communicate and how best to communicate. The communicatee should also be able to know the purpose of communication and interprete correctly.

6) **Proper channel :** The communication channel should be proper depending upon the nature and purpose of the message to be conveyed. Orders should pass through every stage of the line of authority.

7) **Cordial relation :** Communication should be so planned as to motivate the subordinates to act upon it. It should not hurt the feelings of the communicatees. It should create friendly relations between the superior and the subordinates. For this purpose, the management should be good enough to operate it effectively and efficiently. In other words, good communication requires good management but good communication is not a substitute for good management.

Managers need timely and accurate information in order to make sound decisions. Management information system (MIS) provides information needed by the manager to administer an organisation and to take decisions. Though MIS was originally developed for large business, it has application in all organisation and on all its area of management.

A management information system (MIS) is defined as "as computer system, integrating equipment, procedures and personnel that develops and provides information used by management for decision-making". An effective combination of personnel, equipment and computer system is essential for the proper functioning of a MIS.

Books Referred

Sl. No.	Book Title	Author	Publisher
1.	Personal Management and Human Resources	C.S.Venkata Ratnam & B.K.Srivastava	Himalaya Publishing House
2.	Personal Management	C.B. Memona	Himalaya Publishing House, Delhi
3.	Personal Management & Industrial Relations	C.M.Muniramappa & A. Shankaraiah	Excel Publishers New Delhi.
4.	Human Resource Development	R. Sharma	Laxmi Narayana Agarwala Education Publishers, Agra
5.	Managing People	V.S.P. Rao	Excel Publishers New Delhi
6.	Human Resource Development	K.D.Basava	A.K.Basava Vidya Vani Prasanna Publishers Hubli
7.	Human Resource Development	G.B.Baligar	Ashoka Publishers Hubli

The Electricity Act, 2003

THE ELECTRICITY ACT, 2003 - BRIEF NOTES

INTRODUCTION :

Purpose of the Act :

Electricity Act, 2003 was enacted by the parliament in the 54th year of the Republic of India with the following objectives:

1. To consolidate the laws relating to Generation, Transmission, Distribution, Trading and use of Electricity.
2. Generally, to take measures conductive to the development of electricity industry such as:
   a) Promoting competition in the Electricity Industry.
   b) Protecting the interest of consumers of electricity.
   c) Supply of electricity to all areas.
   d) Rationalisation of electricity tariff.
   e) Ensuring efficient and environmentally favourable policies.
   f) Constitution of Central Electricity Authority, Regulatory Commission and establishment of Appellate Tribunal to regulate and monitor the electricity industry.

Repeal and Savings :

The Electricity Act, 2003 has repealed (quashed) the following Acts on Electricity:

a) The Indian Electricity Act, 1910

b) The Electricity (Supply) Act, 1948 and

c). The Electricity Regulatory Commissions Act, 1998.

However, the Act saves the things done or action taken already under the above repealed Acts and as well as certain enactments like the Karnataka Electricity Reforms Act, 1999 to the extent of there being inconsistency with its own provisions.

Applicability:

The Electricity Act, 2003 extends to the whole of India except the state of Jammu and Kashmir. However, Section 184 exempts the application of the Act to the Ministry or Department of the Central Government dealing with Defence, Atomic Energy or such other similar ministries.

Necessity for enactment of the Electricity Act, 2003 :

The electricity supply industry in India was hitherto governed by 3 enactments namely :

a) The Indian Electricity Act, 1910.

b) The Electricity (supply) Act, 1948.

c) The Electricity Regulatory Commissions Act, 1998.

The Indian Electricity Act, 1910 created the basic framework for electric supply industry in India which was then in its infancy. The Act envisaged the growth of electrical industry through private Licensees. The Licensees could supply electricity in a specified area. The Act created the legal framework for laying down of wires and other works relating to supply of electricity.

The Electricity (Supply) Act, 1948 mandated the creation of a State Electricity Board. The State Electricity Board had the legal responsibility of arranging the supply of electricity in the state. Further, as the electrification was limited to cities, the state electricity boards had to shoulder the responsibility of extending electricity supply in the state rapidly. Accordingly the state electricity boards through the successive five year plans undertook rapid growth expansion by utilising plan funds.

Over a period of time, however, the performance of SEBs deteriorated substantially on account of various reasons. The tariff fixation has been done by the State Governments though the power to fix tariff vested with the SEBs. Cross subsidies reached unsustainable levels. To address this issue and to provide for distancing of government from determination of tariffs, the Electricity Regulatory Commissions Act, 1998 was enacted. It created the Central Electricity Regulatory Commission and has an enabling provision through which the state governments can create a State Electricity Regulatory Commission.

Some state governments have been undertaking reforms through their own Reforms Acts. These reforms have involved unbundling of the State Electricity Boards into separate Generation, Transmission and Distribution companies through transfer schemes

for the transfer of assets and staff into successor companies. These State Reforms Act envisaged unbundling/corporatisation of SEBs.

With the policy of encouraging private sector participation in Generation, Transmission and Distribution and the objective of distancing the regulatory responsibilities from the Government to the Regulatory Commissions, the need for harmonizing and rationalizing the provisions of the I.E.Act, 1910, E.(S) Act, 1948 and ERC Act, 1998 in a new self contained comprehensive legislation arose.

Accordingly it became necessary to enact a new legislation for regulating the electricity supply industry in the country which would replace the existing laws, preserve its core features other than those relating to the mandatory existence of the SEB and the responsibility of State Government and SEB with respect to regulating Licensees.

Also there was a need to provide for newer concepts like power trading and open access and to obviate the requirement of each State Government to pass its own Reforms Act.

In view of the above, the Electricity Act, 2003 is enacted.

PART I

1. SHORT TITLE, EXTENT AND COMMENCEMENT.
2. DEFINITIONS

(Section 1 and 2 of the Act to be referred)

PART II

NATIONAL ELECTRICITY POLICY AND PLAN

Under the Act, the Central Government shall have to form national electricity policy and tariff policy so that:

1. The power system is developed based on optimum utilization of resources.
2. Rural areas are permitted to have stand alone systems based on renewable sources and energy and non-conventional sources of energy.
3. Bulk purchase and local distribution in rural areas through panchayat institutions, co-operatives etc.
4. Supply electricity to all areas including villages and hamlets.

(Section 3 to 6 of the Act to be referred)

PART - IV

LICENSING

No person unless authorized to do so by a License issued by the appropriate commission can transmit or distribute or undertake trading in electricity.

(Section 12 to 24 of the Act to be referred)

PART – V

TRANSMISSION OF ELECTRICITY

As per the Act, there would be a Transmission utility at the central as well as state level, which would be a Government company and have the responsibility of ensuring that the transmission network is developed in a planned and coordinated manner to meet the requirements of the sector. The load dispatch function could be kept with the transmission utility or separated. In the case of separation of the load dispatch function would have to remain with a State Government organization or company.

The Act also provides for private transmission Licensees. The Act provides for open access in transmission from the onset with the provision for surcharge for taking care of current level of cross subsidy with the surcharge being gradually phased out.

(Section 25 to 41 of the Act to be referred)

PART - VI

DISTRIBUTION OF ELECTRICITY

The Act provides for the following :

1. Distribution Licensees would be free to undertake generation and generating companies would be free to take up distribution as a Licensee.
2. The State Electricity Regulatory Commissions may permit open access in distribution in phases with surcharge for :
   a) current level of cross subsidy to be gradually phased out along with cross subsidies and
   b) obligation to supply
3. Standalone systems for rural and remote areas would be permitted.

4. Decentralised management of distribution through panchayats, user associations, co-operatives or Franchisees would be permitted.

(Sections 42 to 51 of the Act to be referred)

TRADING ACTIVITY

In the Act, trading as a distinct activity is being recognized with the safeguard of the Regulatory Commissions being authorized to fix ceilings on trading margins, if necessary.

Where there is direct commercial relationship between a consumer, a generating company or a trader, the price of power would not be regulated an only the transmission and wheeling chargers with surcharge would be regulated.

(section 52 of the Act to be referred)

PROVISIONS WITH RESPECT TO SUPPLY GENERALLY

The Act provides for taking measures for the personal safety from electrical injuries, supply of electricity through a system confirming to specifications, inspection by authorised persons, control of transmission and use of electricity, energy accounting, disconnection of supply in default of payment etc.

(Section 53 to 56 of the Act to be referred)

CONSUMER PROTECTION :

STANDARDS OF PERFORMANCE

The Act provides for standards of performance of Licensee, deviation of which by the Licensee will attract penalty, prosecution and compensation liability.

Also the Act provides for avoiding market domination by a generating company or Licensee.

(Section 57 to 60 of the Act to be referred)

PART - VII

TARIFF

The Act provides for determination of tariff to achieve

1. Commercial principles of operation in supply of electricity.
2. Encourage competition, efficiency and economical use of resources and optimum investments.
3. Safeguarding the consumer interest and at the same time recovery of cost of supply.
4. The tariff to reflect the cost of supply and reduction of cross-subsidies.
5. Promotion of cogeneneration and renewable sources of energy.
6. To conform to national electricity policy and tariff policy.

(Section 61 to 66 of the Act to be referred)

PART - IX

CENTRAL ELECTRICITY AUTHORITY

The functions of Central Electricity Authority is of advisory nature and specifying grid standards.

(Section 70 to 73 of the Act to be referred)

PART - XV

SPECIAL COURTS

For speedy trial of offences, special courts may be formed by the State Government. Every offence punishable under Sections 135 to 139 shall be triable only by the Special Court within whose jurisdiction such offence has been committed. The Special Court shall be deemed to be a Court of Session and shall have all powers of a Court of Session.

(Section 153 to 157 of the Act to be referred)

The Companies Act, 1956

COMPANIES ACT 1956 - BRIEF NOTES

Company - Meaning and Characteristics

Company – Its meaning :

A company is a voluntary association of persons formed for some common purpose, with capital divisible into parts, known as shares and with a limited liability. It is a creation of Law and is sometimes known as an artificial person with a perpetual succession and a common seal. A company has no body, no soul and no conscience.

Company – Its nature and characteristics :

A company has a separate legal entity

A company has an independent corporate existence and is regarded as an entity separate from its members. A member of the company cannot be held liable for the acts of the company even if he holds virtually the entire share capital. The company's money and property belong to the company and not to the shareholders (although the shareholders own the company)

Liability of the members is limited :

In a company limited by shares, the liability of members is limited to the unpaid value of the shares.

In a company limited by guarantee, the liability of members is limited to such an amount as the members may undertake to contribute to the assets of the company in the event of its being wound up.

Is company a citizen ? J-06/3 mks

Although a company is regarded as a legal person, it has no fundamental rights under the Constitution. It can however claim the protection of those Fundamental Rights which are available to all persons whether citizens or not. But it cannot claim the protection of those Fundamental Rights, which are expressly available to citizens only. Although a company cannot be a citizen, it has a nationality and residence and its nationality is primarily important in connection with taxation.

Distinction between company and partnership :

1) A company is regulated by the Companies Act. 1956, while a partnership is governed by the Indian Parthership Act, 1932.

2) A Company comes into existence after registration under the Companies Act, 1956. Registration is not compulsory in case of a partnership.

3) The members of a company are not personally liable for its contracts, debts or for wrongs done by it, whilst the members of a partnership are.

4) The property of a company belongs to the company and not to its individual members or shareholders whereas the property of a partnership firm is the joint property of the partners who are collectively entitled to it.

5) The liability of members of a company to contribute towards satisfaction of the company's debts and liabilities is limited, whereas partners are liable without limit to contribute towards payment of the partnership's debts and liabilities.

6) The affairs of a company are managed by its directors, or managing director or manager and its members have no right to take part in the management. On the other hand every member of a partnership may take part in its management unless the partnership agreement provides otherwise.

7) Shares in a company are freely transferable and the transferee becomes a member of the company and succeeds to all the rights of the transferor. A partner cannot transfer his share in the partnership provided the partnership agreement does not provide otherwise.

8) Each partner is an agent of the partnership firm whereas a shareholder is not an agent of the company.

9) A partnership firm can do anything which the partners agree to do and there is no limit to its activities. A company's powers are limited to those allowed by the objects clause in the Memorandum of Association.

10) A partnership may be dissolved at any time by any partner, and every partnership will automatically be dissolved by the death or insolvency of a partner. A company has a perpetual existence. No personal circumstance affecting a member such as death, insolvency or unsoundness of mind will affect its existence.

11) The maximum number of partners in a firm carrying banking business can be ten and in any other business is twenty. The maximum number of shareholders in a private company is fifty. There is no limit in case of a public company.

12) Partners may make some arrangements among themselves. But in case of company, some arrangements between its members are not allowed.

Corporation – its meaning :

A corporation is an association of individuals so constituted in law as to be invested with an independent collective personality. Subject to certain qualifications, it is capable of holding property, incurring debts, and suing or being sued in the same manner as an ordinary person.

Lifting of 'corporate veil' :

The company has a corporate personality which is distinct from its members. But over a period the abuses of this corporate personality became apparent. The courts have lifted the veil in order to see that corporate personality is not blatantly used as a cloak for fraud or improper conduct. When a benefit is misused, the Court is not powerless and it can lift the veil of corporate personality to see the realities behind the veil because in so doing the court subserves the important public interest, namely, to arrest misuse or abuse of benefit conferred by law.

Distinction between a Public Company & Private Company

Public Company	Private Company
The minimum number of persons required to form a public company is seven - 7	The minimum number required is two
There is no restriction on maximum number of members	The maximum number should not exceed fifty
Must have at least 3 directors	Must have at least 2 directors
The directors must file with the Registrar a consent to act as directors	The directors need not do so.
Invites general public to subscribe for the shares or debentures	Prohibits any such invitation to public
The shares are freely transferable	The right to transfer shares is restricted by the Articles.
Does not enjoy any special privileges	Enjoys some special privileges

Limited Company :

a) Companies limited by shares :

These are the most common type. In such companies, the liability of the members of a company is limited by the Memorandum to the amount, if any, unpaid on the shares.

b) Companies limited by guarantee :

Where the liability of the members of a company is limited by the Memorandum to a fixed amount which the members undertake to contribute to the assets of the company in case of its winding up. Companies limited by guarantee are not formed for the purpose of profit but for the promotion of art, culture, charity, sport, commerce or for some similar purpose.

Unlimited company :

A company without limited liability is known as an unlimited company. In such a company, there is no limit on the liability of its members i.e., every member is liable for the debts of the company, as in an ordinary partnership, in proportion to his interest in the company.

Government Company :

A company in which not less than 51 % of the paid up share capital is held by the Central Government or State Government or Governments, or partly by the Central Government and partly by one or more State Governments.

2) **Foreign Company :**

A company incorporated outside India which

a) After 1.4.1956 established a place of business within India or

b) Before 1.4.1956 established a place of business within India and continued to have an established place of business within India on 1.4.1956.

Where not less than 50% of the paid up share capital of a foreign company having an established place of business in India is held by one or more citizens of India or/ and by one or more Indian companies, singly or jointly, such company shall comply with such provisions as may be prescribed as if it were an Indian company.

Holding company :

A company is known as the holding company of another company if it has control over that other company.

Subsidiary Company :

a) A company is known as a subsidiary of another company when control is exercised by the latter over the former.

b) The controlling company controls the composition of Board of Directors of subsidiary company.

c) The controlling company holds more than half the nominal value of equity share capital of subsidiary company.

d) A subsidiary company can have another subsidiary company under its control and both the subsidiary companies can be under the control of the Holding company.

Memorandum of Association :

It is the fundamental document of the company. It is the charter of the company and it defines its powers. It lays down the area of operation, regulates the external affairs of the company in relation to outsiders. It defines the relationship of the company with the outside world. It enables the shareholders, creditors and those who deal with the company to know what its permitted range of enterprise is. It shows the object of the formation of the company and also the utmost possible scope of it.

Memorandum of Association must be

a) printed

b) divided into paragraphs numbered consecutively and

c) signed by seven subscribers

Purpose of Memorandum of Association :

1) The prospective shareholders know the field in, or the purpose for which their money is going to be used by the company.

2) The outsiders who deal with the company should know with certainty as to what the objects of the company are .

Contents of Memorandum of Association :

1) The name of the company with 'Limited' as the last word in case of public limited company and with 'private limited' as the last word in case of private limited company.

2) The state in which Registered office of the company is.

3) The objects of the company i.e., main objects, incidental objects and other objects.

4) In case of a company limited by shares or by guarantee that the liability of its members is limited.

5) In the case of a company having a share capital, the amount of share capital with which the company is to be registered and the division thereof into shares of a fixed amount.

6) The Memorandum concludes with an 'Association clause' which states that the subscribers desire to form a company and agree to take shares in it.

Doctrine of 'Ultra-vires' :

Ultra-vires is doing of an act beyond the legal power and authority of the company. If the transaction is outside the scope of the company's objects, it is wholly void and inoperative and will not be binding on the company. If the act is ultra vires the company, even the shareholders cannot ratify it and make it binding on the company. An utra vires contract can never be made binding on the company.

Articles of Association :

These are the Rules, Regulations, and bye-laws for the internal management of the affairs of a company. They are framed with the object of carrying out the aims and objects of the Memorandum of Association.

Contents of Articles of Association :

They contain provisions relating to the following:

1) Share capital, rights of shareholders, variation of these rights, payment of commissions, share certificates.

2) Lien on shares.

3) Calls on shares.

4) Transfer of shares.

5) Transmission of shares.

6) Forfeiture of shares.

7) Conversion of shares into stock.

8) Share warrants.

9) Alteration of capital.

10) General meetings and proceedings thereat.

11) Voting rights of members, voting and poll, proxies.

12) Directors, their appointments, remuneration, qualifications, powers and proceedings of Board of Directors.

13) Manager or Secretary.

14) Dividends and reserves.

15) Accounts, audit and borrowing powers.

16) Capitalisation of profits.

17) Winding up.

Distinction between Memorandum and Articles

Memorandum of Association	Articles of Association
It is the Charter of the company indicating the nature of business, its nationality and its capital.	They are the regulations for the internal arrangement and management of the company
It defines the scope of the activities of the company	They are the rules for carrying out the objects of the company
It is the supreme document	It is subordinate to the Memorandum
Every company must have its Memorandum	A company limited by shares need not have Articles of its own
There are strict restrictions on the alteration of the Memorandum	They can be altered by a special Resolution
Any act of the company which is 'ultra vires the Memorandum' is wholly void and cannot be ratified even by the whole body of shareholders	Any act of the company which is 'ultra vires the Articles' (but is intra vires the Memorandum) can be ratified by the shareholders.