



# SHREE H. N. SHUKLA COLLEGE OF I.T. & MGMT.

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## B.COM. SEM – 5 MATERIAL

<u>SR NO.</u>	<u>SUBJECT NAME</u>	<u>PAGE NO</u>
1	ENGLISH	1 – 34
2	AUDITING	35 – 104
3	INDIAN ECONOMY	105 – 205
4	HRM	206 – 293



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## B.COM SEM - 5

### ENGLISH

SR NO.	UNIT NAME
UNIT-2	MODALS & AUXILIARIES
UNIT-3	PRESS RELEASE
UNIT-4	FORMAL MAIL & LETTER



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## Unit 2 Modal & Auxiliaries

### Overview:

Modal verbs and auxiliary verbs have grammatical functions and are used for forming tenses, questions, the passive, etc. This unit will answer three crucial questions regarding Modals and Auxiliaries-1) What is Modals and Auxiliaries, 2) When and 3) How can one use these.

### Take away:

Modals help to express the mood or attitude of the speaker and convey ideas about possibility, probability, necessity, obligation, advisability, and permission. All verbs lend different shades of meaning to the main verb to which they are attached after learning Modals and auxiliaries, reader will be able to identify them.

### Detailing:

Modal verbs always accompany the base (infinitive) form of another verb. A modal verb is a type of verb that is used to indicate modality – that is: likelihood, ability, permission, request, capacity, suggestions, order, obligation, or advice commonly used Modals are *can, could, may, might, shall, should, will, would, and must*.

### Examples:

- We **can** play football.
- We **could** play football.
- We **may** play football.
- We **might** play football.
- We **must** play football.
- We **mustn't** play football.
- We **needn't** play football.
- We **ought to** play football.
- We **shall** play football.
- We **should** play football.
- We **will** play football.
- We **would** play football.

### What to keep in mind when using Modals?



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Explanation	Examples
Do <b>not</b> use modals for things which happen definitely.	The sun <b>rises</b> in the east. - A modal can't be used in this sentence.
They have <b>no -s</b> in the 3rd person singular.	He <b>can play</b> football.
Questions are formed <b>without do/does/did</b> .	<b>Can</b> he <b>speak</b> Spanish?
It follows a <b>main verb in its infinitive</b> .	They <b>must read</b> the book.
There are <b>no past forms</b> (except <i>could</i> and <i>would</i> ).	He <b>was allowed to watch</b> the film.
When you use the <b>past participle</b> , you talk about things which <b>did not happen in the past</b> .	You <b>should have told</b> me.

Modal auxiliary verbs never change form, but they have a different form for past tense.

Present Tense	Past Tense
Will	Would (used to)
Can	Could



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**Must** (have to)

**May**

**Should** (ought to) (had better)

(Had to)

**Might**

**Should** (ought to)

## **Will – Would**

**Will** indicates a ‘willingness’ to do something in the future. The negative form of **will** – **will not (won’t)** indicates an ‘unwillingness’ (refusal, reluctance) to do something.

### **Example:**

- I will give you another opportunity.
- I will play tomorrow.
- They will arrive at 10 AM.
- She won’t come today.

**Would** indicates *general or repeated* willingness in the past. It also indicates preference in the present.

### **Example:**

- If you did not leave, I would still be taking care of you.
- Whenever I had to go there, they would throw a party.
- We thought that people would buy this book.
- If I, were you, I would not do it?
- I would like to make a toast.

**Note:** *Used to* sometimes replaces **would** but sometimes it would be grammatically incorrect if we use *used to* in place of **would**.

### **Example:**

- When I was in school, I used to make sketches.
- He often used to cry at night without reason.
- I used to take a break at this time of the year.

## **Can – Could – May – Might**

These modals express possibility and ability.

**Can** indicates ability. **Could** indicates ability with an option.



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## Example:

- I can do it. (The subject 'I' is sure about his/her ability)
- I could do it. (The subject 'I' is not sure about his/her ability)
- They cannot do it. (present)
- They could not do it. (past)

## **Can & could also indicate possibility.**

### Example:

- The temperature can rise this month.
- They can't go too far by now.
- It could rain later.

## **May and might both indicate possibility but *might* can suggest that there is less possibility than *may*.**

### Example:

- It may rain later.
- It might rain later.
- They may come back.
- They might come back.

## **Must**

### **Must indicates necessity.**

### Example:

- I must leave now.
- He must study hard.
- Alex must go home by 6.00 pm.

## **Note: *Have to* has the similar meaning to *must* but implies less urgency.**

### Example:

- I have to leave now.
- He has to study hard.
- Alex has to go by 6.00 pm.
- I had to leave then. (past)
- He had to study hard to pass the exam. (past)



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## Should

**Should** indicates obligation and probability.

### Example:

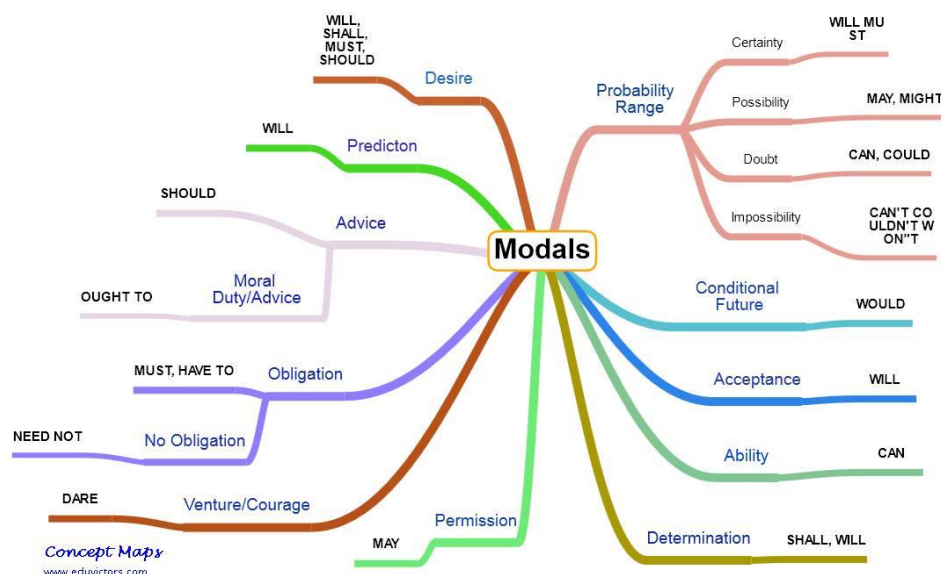
- You should come home early.
- You should not smoke at all.
- I should visit my parents more often.
- There should be an extra key for the lock in the drawer. (probability)
- He should have reached by now. (probability)
- I should have done that. (Obligation in the past)

**Ought to** and **had better** sometimes replaces **should**.

**Note:** **ought to** indicate moral obligation

### Example:

- You ought to come home early.
- We ought to have taken a taxi. (Past)
- I think parents ought to give children more freedom. (*Had better* won't be appropriate here.)



### One-word question answer:

Sr. No.	Question	Answer





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1	Modal verbs and auxiliary verbs have which type of functions and are used for forming tenses, questions, the passive?	Grammatical
2	Modals help to express what of the speaker and convey ideas about possibility, probability, necessity, obligation, advisability, and permission?	Mood/Attitude
3	Modal verbs always accompany the which form of another verb?	Base (infinitive)
4	Do not use modals for things which happen_____.	Definitely
5	Modals have no -s in the 3rd person _____.	Singular
6	Questions are formed without what in modals?	'Do' form
7	Can indicates what?	Ability
8	There are only two past forms in modals could and _____.	Would
9	When you use the past participle, you talk about things which did not happen in which tense?	Past
10	What indicates a 'willingness' to do something in the future?	Will
11	Would indicates general or repeated willingness in the past. It also indicates what in the present?	Preference
12	What indicates ability with an option?	Could
13	May and might both indicate what?	Possibility
14	What indicates necessity?	Must
15	Have to has the similar meaning to must but implies _____ urgency.	Less
16	What indicates obligation and probability?	Should
17	Ought to and had better sometimes replaces should. Ought to indicate _____ obligation	Moral
18	What suggests that there is less possibility?	Might



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## UNIT 3 PRESS RELEASE

### What is a Press Release?

A press release is a **written document prepared for the media** – also called the press - that announces something newsworthy.

This **1-3-page document** is disseminated to the media in the hopes that **reporters and editors will use the information contained within in an upcoming TV or radio broadcast, in a newspaper or magazine issue, or on the media’s website.**

### Take away:

The whole idea behind the press release is communication. It can be written, recorded or even shown – the form doesn’t matter as long as it’s effective. **It is a tool made to announce something that is newsworthy in the most objective way possible. The whole purpose of a press release is to get coverage and get noticed by a target audience.**

### Detailing:

#### Reasons for a Press Release

There are a number of situations that might call for the use of a press release, such as:

- **Company announcement** - *Restructuring, expansion, relocation, new locations, strategic partnership, new financial backers or investors* are all worthy of a press release.
- **Product announcement** - *new products, improved products, new brands, new retail outlets carrying the product* could all be announced through a press release.
- **Initiative announcement** - *New internal or external projects that impact the company’s community* would be appropriate for a press release.
- **Employee announcement** - *new hires and promotions* are worthy of a press release.
- **Honors or awards** - *Awards or special recognition given to a company, product, project, or employee* are all press release-worthy.
- **Research results** - *Releasing the findings of a survey or study of some kind related to the business.*



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The key question to ask yourself before preparing one is, “Who cares about this information?” And as long as the answer is people who will turn to the press for information, you’re on the right track with your press release.

### One-word question answer:

Sr. No.	Question	Answer
1	A press release is a written document prepared for the media that _____ something newsworthy.	Announces
2	Press release is of how many pages?	1-3
3	What is the whole idea behind the press release?	Communication
4	The whole purpose of a press release is to get what and get noticed by a target audience?	Coverage
5	Restructuring, expansion, relocation, new locations, strategic partnership, new financial backers fall under which type of announcement?	Company
6	New products, improved products, new brands, new retail outlets carrying the product fall under which type of announcement.	Product
7	Initiative New internal or external projects that impact the company’s community would be appropriate for a what?	Press release
8	Employee announcement includes new hires and what?	Promotions
9	Honours or awards includes special recognition and _____ given to a company, product, project, or employee are all press release-worthy.	Awards
10	Releasing the findings of a survey or study of some kind related to the business is included under which types of announcements?	Research

### Who to Send it to:

Getting your press release in the hands of the news media most likely to be interested in what you have to say is next task. This might include:



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- *Your local business community*
- *Your customers*
- *Your prospects*
- *Influencers who refer your business*
- *Potential business partners*
- *Your vendors*
- *Other companies in your industry*
- *Thought leaders in your space*

## Characteristics:

### Timing Is Important

**Most press releases are available for "immediate release."** This means anyone can share the information as soon as you make it public. If you're publicizing an upcoming event, for example, you probably want to encourage as much timely coverage as possible.

**Other press releases may have time limits to when media can begin reporting or may allow only certain media sources to report them immediately.** They may be offered to other news services, websites, or blog owners for publication at a later time. If you're sharing something that needs to remain secret until the right time, you might specify a date coverage can begin.

### The Goal of a Press Release

The main purpose of all press releases is to promote something significant and specific, and to do so clearly. Beyond that, a press release is a document that adheres to a strict format and serves three marketing and promotional purposes:

- **To notify the media about an event** in hopes that they will spread the word.
- **To share something about your business**, hoping a reporter will see a story in your press release and write an actual news article about it.
- **To promote your business' appearance on the internet** via blogs, websites, and social networks.



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## What a Press Release Looks Like

To make it clear to members of the press – reporters, writers, and editors – that the information you’re giving them is a press release for their use, and not an advertisement or letter to the editor, you need to send it in press release format. Yes, there is a specific format you should use when preparing a press release. Here are some of the key features:

- In an upper right or left corner, you should have the words **“Media Contact,”** followed by the name, phone number, and email address of the person reporters should reach out to if they have follow-up questions.
- Below that, on the left side of the page, include the date on which the information can be made public. If it’s immediately, type **“For immediate release.”** But if you’re not making the announcement public until a future date, type, **“Embargoed until [whatever the date is].”**
- In the center or left of the page, include a headline that summarizes the information in the press release. That might be, **“Jones Promoted to General Manager.”**
- Some press releases use a subhead on the next line, providing a little more detail, but this is optional.
- On the next line, which is the first line of your release, include the city and state you’re in formatted in all caps, and the date on which you’re making the announcement. For example, **“CHICAGO, ILLINOIS – November 21, 2017.”** Then start your announcement.
- Write in an inverted pyramid style, where the most important information goes in the first sentence, with the next most important second, and so on. This way, if an editor needs to cut material from the bottom, you can at least be assured the most essential details were included.
- Double space your paragraphs.
- End with the symbols, **“###”** in the center at the bottom of your release.



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## One-word question answer:

Sr. No.	Question	Answer
1	Getting your press release in the hands of whom is most likely to be interested in what you have to say is next task?	News media
2	If you're publicizing an upcoming event, for example, you probably want to encourage which type of coverage?	Timely
3	The main purpose of all press releases is to _____ something significant and specific, and to do so clearly	Promote
4	One of the purposes of press release is to promote your business' appearance on which network?	Social
5	In an upper right or left corner, you should have what?	“Media Contact,”
6	Below that, on the left side of the page, include what?	Date
7	In the center or left of the page, include a headline that _____ the information in the press release.	Summarizes
8	If it's immediately, type “For immediate release.” But if you're not making the announcement public until a future date, type, “_____ until [whatever the date is].”	Embargoed
9	Which line of your release, includes the city and state in formatted in all caps, and the date of announcement?	First
10	Press release is to be written in which order?	Priority
11	Paragraphs in press release are to be spaced in which format?	Double
12	End with the symbols, “###” in the _____ at the bottom of your release.	Center



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## Sample

NITI Aayog

### NITI Aayog Releases Handbook to Guide EV Charging Infrastructure in India

**The handbook will enable states and local bodies to establish public charging networks efficiently**

Posted On: 12 AUG 2021 3:13PM by PIB Delhi

NITI Aayog today released a handbook to guide state governments and local bodies to frame policies and norms towards setting up charging networks for electric vehicles (EV). The objective is to enhance charging infrastructure and facilitate a rapid transition to electric mobility in the country.

**The Handbook for Electric Vehicle Charging Infrastructure Implementation** has been jointly developed by NITI Aayog, Ministry of Power (MoP), Department of Science and Technology (DST), Bureau of Energy Efficiency (BEE), and World Resources Institute (WRI) India.

The Handbook provides a systematic and a holistic approach for adoptions by implementing authorities and other stakeholders involved in planning, authorisation and execution of EV charging infrastructure. It presents an overview of the technological and regulatory frameworks and governance structures needed to facilitate EV charging. It focuses on the present needs of charging infrastructure development while considering the evolving nature of the sector.



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The transition to electric mobility is a global strategy in the fight against climate change, on which India has expressed ambitious aspirations. “The handbook addresses the common challenges being faced by different local authorities in implementing EV charging networks. It serves as a starting point for the peer-to-peer exchange of best practices between states and local bodies,” said **Dr Rajiv Kumar**, Vice Chairman, NITI Aayog.

“The EV ecosystem in India is evolving rapidly and there are several players entering the charging infrastructure market. This handbook provides holistic governance for public and private stakeholders to work together in establishing robust and accessible EV charging networks,” said, **Mr Amitabh Kant**, CEO, NITI Aayog.

EV charging is a new type of power demand for discoms, which play a pivotal role in providing seamless power supply connections for charging facilities and ensuring that the electrical distribution network has the requisite capacity to serve this demand. “The Ministry of Power and it's Central Nodal Agency for the establishment of Charging Infrastructure for EVs in India i.e. the Bureau of Energy Efficiency (BEE), are working closely with DISCOMs and State agencies in overcoming barriers to charging infrastructure implementation, for which this handbook will be greatly helpful. With the rapidly growing share of renewables in the energy mix in the country, the benefits from transition towards e-mobility are only expected to become more significant in the coming years,” said **Mr Alok Kumar**, Secretary, Ministry of Power.





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Unlike fossil fuel-powered vehicles, electric vehicles can be charged at any location, provided charging points are available. This requires a distinct approach to planning EV charging networks—one that allows them to charge whenever they are parked, either at night or during the day. Local authorities need to set targets for the required scale of public charging infrastructure and ensure that it is covered in planning processes. “The handbook highlights the critical role of planning authorities in integrating EV charging infrastructure into their transport and urban planning frameworks. It’s a timely resource to support local planning for charging networks, as more states and cities begin to consider the requirements for charging infrastructure implementation,” said **Dr OP Agarwal**, CEO, WRI India.

Creating a robust, widespread network of charging points either public or private—is crucial to support this transition. “The DST is spearheading the development of Indian standards and prototypes for EV charging, to support cost-effective charging networks that are tailored for the requirements of the EV ecosystem in India. The distributed planning approach for low-cost EV charge points defined in this handbook is well-aligned with the upcoming standards, and can support the rapid scaling of charging infrastructure,” said **Dr Ashutosh Sharma**, Secretary, DST.

While the MoP has set a national target of having at least one charging station for every 3\*3 grid, or at every 25km on a highway, setting granular targets and plans are up to urban local bodies or state nodal agencies. The handbook is primarily meant for implementing authorities like municipal corporations and discoms but also highlights regulatory measures that can further ease the process of installing charging infrastructure.

The handbook has received the support from the Ministry of Housing and Urban Affairs, Ministry of Environment, Forest and Climate Change, and Department of Heavy Industry.



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## UNIT 4 – A

### FORMAL E-MAIL

#### Summary:

- The rules for writing formal emails in English
- The right format to use
- Examples of formal emails in English

#### Take away

Emails are among the most commonly used means of communication in the world. They're fast, immediate, and allow you to interact with all kinds of businesses within and beyond the national boundaries. At work above all, writing formal emails in English in the right way requires certain skills, and being a professional situation, it's essential not to commit mistakes in order to make a good impression of yourself and your company and that will be covered in this topic.

### CONTENT

#### 1. What Is a Formal Email?

A formal email is typically **sent to someone you don't know well or to someone who's in authority.**

If your **workplace has a formal environment, use formal emails with your boss and colleagues** unless you're told to do otherwise.

**Example:** someone who you might send a formal email to include **your professor, a public official, or even a company you're doing business with.**

#### 2. Casual Versus Formal Email: What's the Difference?

A **casual email** usually goes to a **person you know well—often it's someone you're on good terms with** such as a **friend or family member**. When sending a casual email, you **don't need to worry** as much about **structure and tone.**



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In fact, part of what makes a formal email different from a casual email is the structure. A **formal email** has a very **defined structure, with a definite salutation** (the opening part of the email), **signature section, opening sentence, and body.**

You also use **language differently** in a formal email than in a casual email. **Avoid using abbreviations, contractions, slang, emoticons,** and other informal terminology.

## Example of formal email language:

*The meeting is scheduled for December 5th at 9:30 a.m. All students must attend. Your project updates are needed.*

Compare the formal language with the informal email language in this email:

*Required meeting—Dec 5, 9:30 a.m. Updates needed. See yathere. :)*

Both statements share the same information. But the tone of the first is much more formal. Notice the incomplete sentence, slang, and emoticon in the informal example.

## 2. Writing a Formal Email

While an informal email can often be sent quickly, writing a formal email typically takes a bit more thought and a bit more time. Careful consideration needs to be given to each email element.

With that in mind, let's take a closer look at **some common elements of a formal email:**

### 1. Subject Line

The **subject line is what the reader sees in their inbox.** If the subject line is misleading or missing information, your email may not get read. The message may even be sent to spam. But beware of making your subject line too long.



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Here's an example of a formal email subject line:

*Required Student Meeting: December 5th, 9:30 a.m.*

## 2. Salutation

Each email is directed towards someone. Start your formal email with **addressing the recipient in a manner fitting the relationship you have with them.**

For **people you are unfamiliar with or do not know the names of**, use

*'To Whom It May Concern' or 'Dear sir/madam'.*

For **senior officials, stick to their designation** or follow it with their name, for example,

*'To the Manager', 'Dear Dr. Ghosh', or 'Dear Ms. Kapoor'.*

**Among colleagues**, it may be appropriate to simply **precede the name** with a *'Hi'*.

## 3. Email body

**Always devote one email to one topic.** For example, you may need your colleague to review your quarterly report and discuss the hiring strategy for your department. It's better to send two separate messages on each subject, making it easy for a person to answer. This way, you're more likely to get a fast reply.

**State the purpose of your email clearly** so a person can understand why you're emailing them and how they can help. For example:

*I would like to invite you to speak at our annual developer conference.*

**Make your email easy to read. Break your message into paragraphs** and take advantage of headings and lists. **Where it's appropriate, emphasize the key information with bold or italics**, just don't overdo it. **Your goal is to make your email as structured and easy to skim as possible.**



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## Introduction

After the initial greeting you need an **introductory sentence that indicates clearly the reason for writing and is consistent with the subject** of the email.

**Introduce yourself briefly** (long texts often discourage people from reading them), then follow on with:

- *I am writing with regard to... (email subject)*
- *I am writing in connection with... (email subject)*
- *I am writing in reference to...*

If you're **writing an email to send information**, you can start with one of the following sentences:

- *I am writing to let you know...*
- *I am delighted to tell you... (if you're communicating good news)*
- *I regret to inform you that... (if you're communicating bad news)*

If instead **you're replying to an email** you received, you can say:

- *I am writing in response to...*
- *I am writing in reply to...*
- *I am writing to thank you for... (if you need to thank the recipient)*

## Body of the email

**Elaborate on your concern, question, or response** as comprehensively as possible. Write in a way that is easy to understand, but at the same time, do not lose your point in providing unnecessary information. Say only what is required.



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## Formal email closing

The formal tells a recipient what's next. If you want them to do something, include a clear and specific call to action. If you're just wrapping up the discussion you've previously had, end your email on a friendly note to show a reader you're willing to keep in touch with them.

Here's how to end a formal email:

- *I look forward to hearing from you soon*
- *Thank you in advance*
- *For further information, please do not hesitate to contact me*
- *Please let me know if you have any questions*
- *Thanks for your attention*

## Conclusion

The most common way to end an email are:

- *Best regards*
- *Kind regards*
- *Yours faithfully (if you began the email with 'Dear Sir/Madam' because you don't know the name of the recipient)*
- *Yours sincerely (if you began the email with 'Dear Mr/Mrs/Ms + surname)*
- *Regards*

## Signature

Be sure to have set your emails to end with all the important information about you, including:

- *name and surname*
- *job title*
- *relative details about your company (name, address, etc.)*
- *link to the company website*



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## 4. Sending a Formal Email

Once you’ve written and formatted your formal email, you’re almost ready to send your message. **But before you press that Send button, review your email carefully.** Look for:

### Style

Unlike many other languages which require long complex sentences in a formal written context, English is very concise and favours short sentences and a simple structure. **Make sure you break up the text into two or three paragraphs – this enables the reader to quickly see the key points.**

### Courtesy formulas

When you write an email in English, you’re not only using another language but you’re also entering another culture with different habits. The Anglo-Saxons in general **pay a lot of attention to forms of courtesy and gratitude**, therefore never forget to add them.

### Check the email

Double-checking what you’ve written is a simple step to take that can prevent you from appearing unprofessional and above all careless.

- *Spelling errors*
- *Mistakes in a name*
- *Typos*
- *Grammatical errors*

- **One-word question answer:**

Sr. No.	Question	Answer
1	Which type of email is typically sent to someone you don’t know well or to someone who’s in authority?	Formal
2	When sending which type of email, you don’t need to worry as much about structure and tone?	Casual
3	Usage of abbreviations, contractions, slang, emoticons, and other	Avoided



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	informal terminology should be _____ in formal mail.	
4	Which line the reader sees in their inbox?	Subject
5	For whom does the writer needs to stick to their designation or follow it with their namewhile greeting in formal mail?	Officials
6	Always devote one email to how many topics?	One
7	'To Whom It May Concern' or 'Dear sir/madam', is used when writer of mail is _____ with the receiver.	Unfamiliar
8	Writer needs to state what clearly in a mail so that a person can understand why he is emailing?	Purpose
9	Where it's appropriate, _____ in mail by highlighting the key information with bold or italics.	Emphasize
10	Make sure you break up the text into two or three what? Which will enable the reader to quickly see the key points.	Paragraphs
11	Elaborate on your concern, question, or responsein which manner?	Comprehensively
12	To prevent spelling errors, mistakes in a name, typos and grammatical errors writer of the mail needs to do what?	Double-checking

## In your own words

**Emailing is all about context** so before drafting your message, take a moment to think about **your relationship with a recipient**. Is it your boss, colleague, potential partner? **This will help you define the appropriate level of formality for your email**. If you're in doubt, it's safer to stick to a more formal version.

## What to include in your e-mail?

Writing a business email is far easier when you know how to structure it. Here are the key components your message should contain. **Greetings, introduction, main body, conclusion and signature**.





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Next, **put in your name and contact details**. If you're writing on behalf of a company or organization, include this information in your signature as well.

**Stick to a professional font**. Although many email clients let you of your emails, use something conservative like **Arial or Sans Serif**. Avoid playing with different colours and using all caps.

**Don't forget to attach files**. If you're sending someone a document, make sure to attach it. Name your file properly so a recipient can guess what's inside (e.g., "Marketing Budget Q4.")

There are four questions that you must consider as you begin to draft a business email:

### Four Key Questions:

#### 1. Who is My Audience?

**Who you are writing for will determine how you write** your email? The reader will determine the tone, formality, and content of the communication.

*The 'To:' field is for the direct audience who needs to reply or take action from the email content.*

*The 'CC:' field is for readers who need to receive the email conversation for reference or clarity, but do not need to take action nor reply.*

*The 'BCC:' field is for the audience who only needs to see the initial email and none of the later chain of replies.*

Use the Bcc field very judiciously. Often, it's best to forward an email separately, with a brief statement on why you're sending this information.



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## 2. What is the Purpose?

An email must have a purpose. And, it must have only one purpose. **Covering multiple actions in one email can cause confusion and inefficiency.** One email should not include both client report revision notes and a scheduling question for the quarterly meeting. This scenario calls for two separate emails.

## 3. Is This Email Necessary?

There is a tendency to over-communicate by email. While email is efficient and provides an electronic paper-trail, not all communication should occur over email.

**Ask yourself: “Is this email really necessary?”** Perhaps a quick phone call or a ping on the company messenger is more appropriate. If you’re expecting a lot of back-and-forth on the topic, a short conversation can eliminate a lengthy email chain.

**If you are delivering bad news, do so in person or buffer the email thoughtfully. An email is impersonal and is difficult to convey empathy or compassion.** If you must write a business apology email follow these rules.

## 4. Email Style

**Tone:** Finding the correct tone can be the biggest headache in drafting an email. The tone changes based on your audience. **It can range to formal to friendly but is always professional and should always be matched to your audience.**

**Wordy politeness can often be overlooked in efforts to be brief in emails. However, "please" and "thank you" should be included anytime it is appropriate.**

**Also, writing in all caps could route your email to the spam folder. If you wouldn’t shout the statement in person, don’t shout it in an email. Instead, use italics, underlining, or bold to emphasize important points.**

**Text Size:** You should try to keep your email in the normal size. **This is between 10–12pt.**

**Bold:** You can use **bold for headings and to emphasize important text.** Bold text catches the eye of readers as they scan the email.



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**Italics:** Italics are a **softer way to draw attention to an area of text**. They are used to bring emphasis to an area of a sentence. They do not make words stand out when the user is scanning a page the way bold text does. Italics should also be used for titles of full works.

**Text Colour:** You should **avoid using multiple text colours** in an email as it draws the eye in to multiple locations and looks unprofessional. It is likely that your email program makes your hyperlinks blue.

**Alignment:** Business writing uses text that is **fully aligned left**. **Academic writing indents the first sentence of a paragraph five spaces**. In business email, you will never need to indent the start of a paragraph.

**Quote Text:** **If you are referring to quoted text you should use the quote text function**. It provides a slight indent to your content and a grey vertical line to the left. This shows readers that you are quoting text.

**Disclaimers:** Many companies insist on using an email 'disclaimer' at the bottom of all their outgoing emails. **If you are responsible for drafting a disclaimer for your department or company, try to keep the length to a minimum, and make sure that readers can distinguish it from the rest of the text**.

Don't forget that a disclaimer doesn't necessarily mean you are not liable for any defamatory statements you make in the email.

### One-word question answer:

Sr. No.	Question	Answer
1	If you're in doubt, it's safer to stick to which version?	Formal
2	Key components of your message should contain: Greetings, introduction, main body, conclusion and what?	Signature
3	Stick to a _____ font like Arial or Sans Serif and avoid	Professional



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	playing with different colours and using all caps.	
4	Who will determine how you write your email?	Reader
5	Writing in all caps could route your email to the _____ folder.	Spam
6	Use italics, underlining, or bold to _____ important points.	Emphasize
7	You should try to keep your email in the normal size which is between _____.	10–12pt
8	Slight indent to your content and a grey vertical line to the left, this shows readers that you are doing what?	Quoting text

## Email sample

### Email sample 1: A question

Subject: Enquiry about Conference Centre Timings

Dear sir/madam,

I am writing to enquire about the timings for the conference centre at {place}. Our company is hosting a delegation from {place} and is interested in booking the centre for an important corporate event on {date}. I checked your website but could not find the information I require.

If you could kindly send across the timings when the conference centre is available, we can design an itinerary at the earliest and share the schedule with you to initiate the booking procedure.

Looking forward to an early response.

Thanks,  
{Your name}



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{Phone number}

{Designation, company}

## Email sample 2: A complaint

Subject: Complaint against Gender Discrimination in the Office

Dear Mr./Ms. {Recipient's name}

This is to bring to your notice an instance of discrimination on the basis of gender in the office. I was due for a meeting with {name, department} this month, and was surprised to see that I was dropped from the plan at the last minute. In a conversation with {name of offending person} on {date} about it, I was told that the move was taken because they did not feel I would land the deal as a woman and that “it was best left to the men”.

I have worked tirelessly in {Name of Company} for the last {Time Period}. Given the reputation of {Name of Company} as a female-friendly and discrimination-free workplace, and I am appalled at being treated like this.

I have previously raised this issue privately with {name of offending person} but failed to receive an apology or a satisfactory response. I wish to pursue this further with this official complaint and come to a swift and fitting solution with the help of Human Resources and other members of Management.

Hoping to see this matter dealt with at the earliest,

{Your name}

{Phone number}

## Email sample 3: A response to a query/complaint

Subject: Response to complaint dated {date}

Dear {Name of Complainant},



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I would like to apologize for the disappointment caused to you on behalf of the company. I assure you that your complaint has been forwarded to the concerned department and strict action is being taken to rectify the taken situation.

Your satisfaction with our services and your feedback as a client are of the utmost importance to us. I would be happy to answer any further queries while we look into this matter.

Thank you for your patience.

Best regards,

{Your name}

{Phone number}

{Designation}

### **Email sample 4: An announcement or statement**

Subject: New member in the team!

Dear all,

I am glad to introduce you to {name of person}, who will be assisting us as an intern for the next 6 months. He is a third-year Economics student at {name of institution}, and is excited about joining the team.

I hope to see you all welcome him into the office and provide him with your help and feedback wherever necessary.

Fond regards,

{Your name}



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## UNIT 4- B

### Formal Letters

#### Summary

Knowing exactly how to write an official letter puts you ahead of the game and makes you stand out from the crowd—which is exactly what you need in today’s world. In the first place, we need to understand what an official letter is. **These are letters that are written for official purposes to authorities, dignitaries, colleagues, seniors, etc and not to personal contacts, friends or family.**

#### Take away

While email is quick and efficient, it will never make as strong an impression as will a nicely written, professionally formatted, nonvirtual, hold-it-in-your-hands letter, which makes official letters ideal for a few key situations.

It follows a definite and more formal pattern. Before you write a formal letter, there are some features it must contain. Here, **we are going to discuss the features that must be captured when writing an official letter.**

#### Detailing

Below are the features well explained:

1. **Sender’s Address:** This is the address of the writer. You the one writing the letter, you need to provide your address where you can be found in terms of reply. The sender’s address is written at the right top corner of the paper. This is the first feature of official letter.
2. **Date:** The date you are writing the letter must also be captured in the letter. Others say that, the date is part of the sender’s address and others too say is independent. Whatever it is, it must be written under the sender’s address. Remember, the date is not repeated under the receiver’s address.



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3. **Receiver's Address:** The person in position you are writing to is the receiver. Right after putting your address on the paper, what follows is the receiver's address. This is written below the sender's address but at the left side of the paper.
4. **Salutation:** In official or formal letter, your salutation should be Dear Sir/Madam. This is not informal letter where you can address the receiver like someone you are of the same position with. Remember in official letter, you are writing to someone higher in position and so the need to give maximum respect.
5. **Heading:** Right after the salutation, it must be followed with the heading. The heading will give brief information about what you are writing about. The heading contains the purpose or the aim of the letter. It must be written and underlined.
6. **Introduction:** The introduction explains the heading. This will give the receiver clearer understanding on what you are writing about. Here, it is advisable that, the writer at least show some concern and gratitude or must show that, it is a honor to write to the receiver in such position.
7. **Body:** This is where the work is. In the body, you must clearly indicate the main reasons you are writing the letter. Example, you are asked to write about the why your school should participate in sporting activity. In the body, you must clearly give out the reasons why you must participate in the sporting activity. Your points in the body should be explained individually in a different paragraph. Hence, points here must connect to each other but in different paragraphs.
8. **Conclusion:** After you have clearly explained your points in the body, there is the need for you to conclude on what you are writing. All the points you have explained must be summarized in the conclusion part.
9. **Subscription:** After concluding the letter, you need to subscribe. The subscription is done right bottom of the letter. In official letter, there is always one kind of subscription which is needed. Remember it is official, so you need to subscribe by using "yours faithfully".
10. **Signature:** After subscription, you need to sign the letter. Your signature must be below the subscription all align at the same position or direction.
11. **Name:** After signing the letter, you need to write your name below the signature all in the same position. This is for the purpose of identification and reply when the need arises.





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## One-word question answer:

Sr. No.	Question	Answer
1	Sender need to provide his address where he can be found in terms of what?	Reply
2	Whose address is written below the sender's address but at the left side of the paper?	Receiver's
3	In an official letter, you are writing to someone higher in position and so the need to give maximum respect, which you will show with what?	Salutation
4	Your points in the body should be explained individually in a different paragraph. Hence, points here must _____ to each other but in different paragraphs.	Connect
5	All the points you have explained must be summarized in the which part?	Conclusion
6	After signing the letter, you need to write what below the signature all in the same position?	Name
7	Your signature must be below what aligning at the same position or direction?	Subscription
8	What contains the purpose or the aim of the letter?	Heading
9	Heading must be written and _____.	Underlined

### Types of Official Letters

There are many types of official letters, and each one serves a specific purpose. Here are just a few examples:

**Inquiry letters elicit information.** These are perfect when you're on the job hunt, need legal advice, or are soliciting a donation.

**Follow-up letters** come after an initial communication; a great example is a thank-you after an interview.



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**Complaint letters** can be useful, but remember to use a professional, polite tone.

**Recommendation letters** are also known as letters of reference or simply references and often go hand in hand with...

**Letters of resignation** generally go to the immediate manager and will often detail the reason for leaving.

**Other types of official letters** can be used in a variety of situations, such as submitting a grant application, requesting a raise, or responding to an inquiry.

### One-word question answer:

Sr. No.	Question	Answer
1	When you're on the job hunt, need legal advice, or are soliciting a donation which type of letters do you write?	Inquiry
2	Follow-up letters come after an initial _____.	Communication
3	While writing complaint letter you must use professional and which type of tone?	Polite
4	Which letters are also known as letters of reference?	Recommendation
5	Which letters generally go to the immediate manager and will often detail the reason for leaving?	Resignation



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### Sample letters:

*Example 1: Letter to Government Example 1: Write a letter to the Municipal Commissioner of your city regarding the poor quality and inadequate supply of the municipal water. You are the President of HWA of Gulmohar Colony, Bhopal, Madhya Pradesh.*

Street 5, H.No.432  
Gulmohar Colony  
Bhopal, MP- 450158  
8 September 2020

To  
Municipal Commissioner  
Bhopal  
Madhya Pradesh

Subject- Poor quality and inadequate supply of municipal water

Sir

I, on behalf of all the residents, write to draw your attention towards the poor quality and inadequate supply of municipal water in the area of Gulmohar Colony. We have been facing this inconvenience since a week now.

Earlier, there was regular supply of municipal water throughout the day. But now the situation is worrisome. The water is rarely available and the quality too, has deteriorated. It is pale in colour and has a foul smell. Due to this, it has become unfit for drinking and can neither be used for any other activity. The situation has become so bad that we are compelled to purchase bottled water or even consume ground water at times.

I hereby humbly request you to look into the grave issue and take the necessary action required to restore adequate supply of clean water in the area. I look forward to your cooperation at the earliest.

Thanking you



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Yours truly  
Meera  
President, HWA

*Example 2: You are Sunil/ Sunita. Your exams are approaching but the neighbours play loud music even past the appropriate time. This has caused a lot of disturbance.*

House No. 18/521  
Borivali East, Mumbai  
Maharashtra- 400066  
10 September 2020  
To  
The Deputy Superintendent of Police  
Borivali East, Mumbai

Subject- Regarding disturbance in the neighbourhood

Respected Sir

I want to draw your kind attention to the issue of nuisance being created in my neighbourhood. It is very troublesome.

Sir, the residents of house no. 18/519 play music all day and night at a high volume. They use loudspeakers, even past 10 pm, which makes it impossible for us to do any other activity. Since my exams are around the corner, it is important to study but loud music makes it impossible to focus and concentrate. The president of the Housing Welfare Association has tried to talk to them but all his efforts have gone in vain.

I request you to look into this matter as soon as possible and take the rectifying action. I look forward to your cooperation.

Thanking you

Yours faithfully

Sunita



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## B.COM. SEM – 5 AUDITING

### INDEX

Sr. No.	Unit Name
1	INTRODUCTION TO AUDITING
2	INTERNAL AUDIT- INTERNAL CONTROL AND VOUCHING
3	COMPANY AUDIT: [As per relative guideline of Companies Act-2013]
4	INTRODUCTION TO CORPORATE GOVERNANCE



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## Unit 1 Introduction to Auditing

### ❖ Meaning and Definition of Auditing

The word Audit is derived from Latin word “Audire” which means ‘to hear’. Auditing is the verification of financial position as disclosed by the financial statements. It is an examination of accounts to ascertain whether the financial statements give a true and fair view financial position and profit or loss of the business. Auditing is the intelligent and critical test of accuracy, adequacy and dependability of accounting data and accounting statements. Different authors have defined auditing differently, some of the definition are:

“Auditing is an examination of accounting records undertaken with a view to establishment whether they correctly and completely reflect the transactions to which they purport to relate.”-**L.R.Dicksee**

“Auditing is concerned with the verification of accounting data determining the accuracy and reliability of accounting statements and reports.” - **R.K. Mautz**

“Auditing is the systematic examination of financial statements, records and related operations to determine adherence to generally accepted accounting principles, management policies and stated requirement.” -**R.E.Schlosser**

### ❖ Objectives of Auditing

The objectives of auditing are changing with the advancement of business techniques. Earlier it was only to check the correctness of receipts and payments. The objectives of the auditing have been classified under two heads:

- 1) Main objective
- 2) Subsidiary objectives

**Main Objective:** The main objective of the auditing is to find reliability of financial position and profit and loss statements. The objective is to ensure that the accounts reveal a true and fair view of the business and its transactions. The objective is to verify and establish



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that at a given date balance sheet presents true and fair view of financial position of the business and the profit and loss account gives the true and fair view of profit or loss for the accounting period. It is to be established that accounting statements satisfy certain degree of reliability. Thus the main objective of auditing is to form an independent judgement and opinion about the reliability of accounts and truth and fairness of financial state of affairs and working results.

**Subsidiary objectives:** The subsidiary objectives of the auditing are:

1. Detection and prevention of fraud: the one of the important subsidiary objective of auditing is the detection and prevention of fraud. Fraud refers to intentional misrepresentation of financial information. Fraud may involve:

- a. Manipulation, falsification or alteration of records or documents
- b. Misappropriation of assets.
- c. Suppression of effect of transactions from records or documents.
- d. Recording of transactions without substance.
- e. Misapplication of accounting policies

2. Detection and prevention of errors: is another important objective of auditing. Auditing ensures that there is no mis-statement in the financial statements. Errors can be detected through checking and vouching thoroughly books of accounts, ledger accounts, vouchers and other relevant information. Importance of Auditing Importance of auditing can be judged from the fact that even those organizations which are not covered by companies Act get their financial statements audited. It has become a necessity for every commercial and even non- commercial organization. The importance of auditing can be summed in following points:

- a. Audited accounts help a sole trader in knowing the value of the business for the purpose of sale.
- b. Dispute over correctness of profits can be avoided.
- c. Shareholders, who do not know about day-to-day administration of the company , can judge the performance of management from audited accounts.



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- d. It helps management in detecting and preventing errors and frauds.
- e. Management gets advice on financial affairs from the auditors.
- f. Long and short term creditors depend on audited financial statements while taking decision to grant credit to business houses.
- g. Taxation authorities depend on audited statements in assessing the income tax, sales tax and wealth tax liability of the business.
- h. Audited accounts are useful for the government while granting subsidies etc.
- i. It can be used by insurance companies to settle the claims arising on account of loss by fire.
- j. Audited accounts serve as a basis for calculating purchase consideration in case of amalgamation and absorption.
- k. It safe guards the interests of the workers because audited accounts are useful for settling trade disputes for higher wages or bonus.

## ❖ Types of audit

### Based on ownership:

On the basis of ownership audit can be:-

1. **Audit of Proprietorship:** In case of proprietary concerns, the owner himself takes the decision to get the accounts audited. Sole trader will decide about the scope of audit and appointment of auditor. The auditing work will depend upon the agreement of audit and the specific instructions given by the proprietor.
2. **Audit of Partnership:** To avoid any misunderstanding and doubt, partnership audits their accounts. Partnership deed on mutual agreement between the partners may provide for audit of financial statements. Auditor is appointed by the mutual consent of all the partners. Rights, duties and liabilities of auditor are defined in the mutual agreement and can be modified by the partners.





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**3. Audit of Companies:** Under companies Act, audit of accounts of companies in India is compulsory. Chartered accountant who is professionally qualified is required for the audit of accounts of companies. Companies Act 1913 for the first time made it compulsory for joint stock companies to get their accounts audited from a qualified accountant. A number of amendments have been made in companies Act, 1956 and 2013 regarding appointment, duties, qualification, power and liabilities of a qualified auditor.

**4. Audit of Trusts:** The beneficiaries of the trusts may not have access and knowledge of accounts of the trust. The trustees are appointed to manage and look after the property and business of the trust. Accounts of the trust are maintained as per the conditions and terms of the trust deed. The income of the trust is distributed to the beneficiaries. There are more chances of frauds and mis-appropriation of incomes. In the trust deed as well as in the Public Trust Act which provide for compulsory audit of the accounts of the trust by a qualified auditor. The audited accounts of the trust ensure true and fair view of accounts of the trust.

**5. Audit of Accounts of Co-operative Societies:** Co-Operative societies are established under the Co-Operative Societies Act, 1912. It contains various provisions for the regulations and the working of these societies. Some of the states have adopted it without any change, while others have brought certain changes to it. The auditor of the Co-operative Society should have an expert knowledge of the particular act under which Co-operative society under audit is functioning. He should also study by-laws of the society and make sure that the amendments made from time to time in the by-laws have been duly registered in the Registrar's Office. Companies Act is not applicable to the co-operative Societies. The Registrar of co-operative societies shall audit or cause to be audited by some person authorized by him, the accounts of the society once in every financial year.

**6. Government Audit:** Audit of government offices and departments is covered under this heading. A separate department is maintained by government of India known as Accounts and Audit Department. This department is headed by the Comptroller and Auditor General of India. This department works only for the government offices and departments. This



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department cannot undertake audit of non-government concerns. Its working is strictly according to government rules and regulations.

## Based on Time:

On the basis of time the audit can be of following types:

1. **Interim Audit:** When an audit is conducted between two annual audits, such audit is known as Interim audit. It may involve complete checking of accounts for a part of the year. Sometimes it is conducted to enable the board of directors to declare an Interim dividend. It may also be for the purpose of dealing with interim figures of sales.

2. **Continuous Audit:** The Continuous Audit is conducted throughout the year or at the regular short intervals of time.

“A continuous audit involves a detailed examination of all the transactions by the auditor attending at regular intervals say weekly, fortnightly or monthly, during the whole period of trading.” - T.R. Batliboi

“A continuous audit is one where the auditor or his staff is constantly engaged in checking the accounts during the whole period or where the auditor or his staff attends at regular or irregular intervals during the period.” -R.C Williams.





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## ➤ Advantages of continuous Audit:

- a. Complete checking of all the records: Since the audit is carried out throughout the year, sufficient time is available for detailed checking. Any enquiry and doubt arising in the course of audit can be tackled in a better way.
- b. Proper planning: Auditor can plan his audit work in a systematic manner. He can evenly spread his work throughout the year. It will improve efficiency of auditor.
- c. Early detection of frauds and errors: The work of auditor becomes easier for detecting frauds and errors, otherwise it will involve more time.
- d. Up-to-date accounts: The efficiency of account staff will increase and their work will be up-to-date and accurate.
- e. Valuable suggestions: Continuous audit will help the auditor to understand the technicalities of business. This will help the auditor to make suggestions for the improvement of business.
- f. Preparation of interim accounts: Interim accounts can be prepared without much delay. It will help the Board of Directors to declare interim dividend.

## ➤ Disadvantages of Continuous Audit:

- a. **Expensive:** It is an expensive system as it may not suit the budget of small organizations.
- b. **Dislocation of routine work:** Frequent visits by auditor may dislocate the smooth flow of office work.
- c. **Alteration of Figures:** after the accounts have been audited, the figures may be fraudulently altered by the staff.
- d. **Losing link in the audit work:** As the work is not completed continuously, the auditor may lose continuity and certain questions and inquires may be left unanswered.

3. **Final Audit:** Final Audit means when the audit work is conducted after the close of financial year. A final audit is commonly understood to be an audit which is not commenced until after end of the financial period and is then carried on until completed.



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4. **Balance Sheet Audit:** Balance Sheet Audit relates to the verification of various items of balance sheet such as assets, liabilities, reserves and surplus, provisions and profit and loss balance. The procedure under this audit is to follow a backward process. First the item is located in balance sheet, and then it is located in original record for the purpose of verification.

### Based on Objectives:

On the basis of objectives the audit can be of following types:

1. **Internal Audit:** It implies the audit of accounts by the staff of the business. Internal audit is an appraisal activity within an organization for the review of the accounting, financial and other operations as basis for protective and constructive service to the management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of control. It deals primarily with accounting and financial matters but it may also properly deal with matters of operating nature.

2. **Cost Audit:** Cost Audit is the verification of the correctness of cost accounts and adherence to the cost accounting plans. Cost Audit is the detailed checking of costing system, techniques and accounts to verifying correctness and to ensure adherence to the objectives of cost accounting.

3. **Secretarial Audit:** Secretarial Audit is concerned with verification compliance by the company of various provisions of Companies Act and other relevant laws. Secretarial audit report includes

- a. Whether the books are maintained as per companies act, 2013
- b. Whether necessary approvals as required from central Government, Company law board or other authorities were obtained.

4. **Independent Audit:** Is conducted by the independent qualified auditor. The purpose of independent audit is to see whether financial statements give true and fair view of financial position and profits. Mainly it is for safeguarding the interest of owners, shareholders and other parties who do not have knowledge of day-to-day operations of organization.



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5. **Tax Audit:** Now-a-days tax audit has become very important to ascertain the accuracy of tax related documents. Tax audit mostly covers income returns, invoices, debit and credit notes and various current and fixed assets. Tax audit is an innovation of 21st century. It has added one more chapter to the practice of auditing. Tax audit ensures the validity and credibility of tax related documents.

## ❖ Audit Programme

### Meaning and Definition

Audit programme represents an outline of procedure to be followed to support an opinion on financial statements. It is the auditor's plan of action. It provides a plan of work of examination and a set of audit procedures.

According to Megis, An audit programme is a detailed plan of the auditing work to be performed, specifying the procedure to be followed in verification of each item in the financial statements and giving the estimated time required.

According to holmes, Audit programme is a flexible planned procedure of examination. Thus audit programme is a planning of audit by auditor so that he may be able to complete his work in a diligent manner and complete the work without loss of time.

### ➤ Advantages of audit programme:

Some of the important advantages of thee audit programme are:

1. It enables the auditor to keep in touch with the work done and general progress of the work.

2. The auditor can be certain that the audit staff will cover whole of the ground.

3. It will help the audit assistants to know their duties.

4. It helps to increase the efficiency of audit assistants.

5. Fixing of the responsibility of audit assistants becomes easier.

6. It provides a check against the possibility of certain important items requiring verification which are being omitted.

7. Continuity is not lost even if the person on the duty is changed.



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## ❖ Audit Note book:

Audit note book is a diary or register maintained by audit staff to note errors, doubtful quarries and difficulties. The purpose is to note down the various points which need to be either clarified with the client or the chief editor. The Audit note book is used for recording important points to be included in the auditor's report.

### Contents of an Auditor's Note Book:

1. A list of books of accounts maintained.
2. The names, duties and responsibilities of principal officers.
3. The particulars of missing receipts and vouchers.
4. Mistakes and errors detected.
5. The points which need clarifications and explanations.
6. The points deserving the attention of the auditor.
7. Various totals and balances.
8. The Points to be a part of auditor's report.

**Advantages of Audit Note book:** Some of the advantages of the audit note book are.

1. It ensures the uniformity and helps in knowing the amount of work performed.
2. Important matters relating to the audit work may be easily recalled.
3. Facilities and preparation of the audit report.
4. In case of the assistant in charge is changed, no difficulty is faced in continuing the incomplete work.
5. The responsibility of the errors undetected can be fixed on clerk concerned.
6. The audit note book shows the extent of the interest and pain taken by the audit staff. It helps in their appraisal.
7. It ensures that the audit programme has been sincerely followed. Deviations can be noticed.
8. It is reliable evidence in the court of law, If an auditor has to defend himself.



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## UNIT: 2 Internal Audit and Internal Check (Part – A)

### ❖ Internal Check

Internal check is a method of organizing the accounts system of a business concern or a factory where the duties of different clerks are arranged in such a way that the work of one person is automatically checked by another and thus the possibility of fraud, or error or irregularity is minimised unless there is collusion between the clerks. For example, the receipt of cash is entered by the cashier on the debit side of the cash book; this entry is carried to the ledger by another clerk; the statement of account relating to this transaction is sent to the customer by a third clerk and so on. Thus the same transaction has passed through three different hands and the work of one is checked automatically by the other. It is a kind of division of labour. This minimizes the possibilities of frauds and errors unless all the three join hands in defrauding their employer.

According to the special committee on Terminology, American Institute of Accountants, 1949 "Internal check-a system under which the accounting methods and details of an establishment are so laid out that the accounts procedures are not under the absolute and independent control of any person - that, on the contrary, the work of one employee is complementary of that of another, and that a continuous audit of the business is made by the employees."

### The essential elements of an internal check are:

- (a) Instituting of checks on day-to-day transactions.
- (b) These checks operate continuously as a part of routine system.
- (c) Work of each person is made complementary to the work of another.

The objective of such allocation of the duties is that no one has an exclusive control over any transaction.

Internal check system in the various aspects of the accounting is given below :



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## Internal check as regards cash

There should be a proper system of internal check in respect of all transactions because majority of the frauds arise in connection with cash. The auditor must familiarise himself with the system of internal check in operation. Duties in respect of cash should be divided in such a manner that there is automatic check on the various functionaries connected with cash section. It is necessary that employees of the cash are encouraged to go on vacation. Rotation of duties relating to cash section should also be enforced.

## Internal check as regards Cash Receipts

1. The cashier should not have access to the incoming mail books (which do not concern him), petty cash funds and the ledgers.
2. Remittances should be opened by the cashier in the presence of a responsible person. All cheques and bank drafts received should be marked - 'Not negotiable A/c Payee only.'
3. All the receipts of the day should be deposited in the bank at the end of the day or the next morning.
4. On receiving cash, it should be acknowledged by issuing a printed receipt. This receipt should have a counterfoil. These receipts should be consecutively numbered. The receipt should be kept under lock and key.
5. Cash registers should be used.
6. The cashier should prepare the paying-in-slips to be retained by the bank. However, the counter-foils of the paying-in-slips should be entered by some other clerk and not by the Cashier.
7. Cash sales should be so organised as to reduce the chances of misappropriation to the minimum.
8. As far as possible the system of collection by travellers should be discouraged. However, if they are authorised to collect debts on behalf of the business, there should be proper rules and regulations.
9. Bank reconciliation statement should be made by cashier and someone else frequently.





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## Internal check as regards cash payments

1. As far as possible, all payments should be made by cheques authorised by a responsible person and signed by responsible persons. Cheques should be marked 'A/c Payee only' before they are despatched. Unused cheque books should be kept under lock and key by a responsible person.
2. Employees authorised to sign or countersign cheques should not have any other duty connected with cash. Otherwise, it will provide them with opportunity to influence entries in the ledgers.
3. Petty cash should be maintained under the imprest system.
4. There should be an efficient system of internal check as regards wages (discussed elsewhere in this chapter).
5. Vouchers should be numbered properly and filed in order. The cashier should not be asked to do this.
6. There should be a proper internal check system of cash sales (discussed in this chapter).
7. Castings of cash book should be independently checked.

## Internal check as regards wages

In case of manufacturing concerns wage bill is of great magnitude. The system of internal check is of great importance in such concerns as regards wages. Any system of internal check as regards wages much counteract the following dangers -

- (i) Inadequate time records. This may result in the workers receiving wages for time not devoted.
- (ii) Inadequate piece work records. This will result in workers receiving wages for work not done.
- (iii) Errors in preparation of wage-sheets or pay rolls,
- (iv) Manipulation of wage sheet by inserting dummies.



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The system of internal check to be suggested will vary according to each particular case. However, to counter-act the above dangers, the following system of internal check is suggested :

- 1. Time Records :** Where the wages are to be paid according to the time basis, the times of employees entering and leaving the work should be recorded. This may be done either by a gatekeeper or time recording clock. Further, the foreman of each department should take the time of entering and leaving the department. This will not only act as a counter-check on the original records but also as a deterrent to wasting to times by the workers.
- 2. Piece work records :** Where wages are paid on piece-wages basis, an efficient system of recording piece work is essential. When the work is given, it should be entered in the concerned piece worker's card. On completion, this card should be signed by the worker and foreman. Where necessary, it should be signed by the store-keeper.
- 3. Preparation of wage-sheets :** Separate wage-sheets should be used for time workers and piece workers. They should be ruled to record all the essential particulars. Special columns should be provided for the gross amount payable, deductions for employees, state insurance, provident fund contribution, loans, fines etc. and the net amount payable. Columns should also be provided showing the employers' contribution under the Employees State Insurance Act.

For time workers, the gate-keepers records and departmental time records should be compared by two clerks in the wage office. Discrepancy, if any, should be enquired into. A third clerks should record on the wages sheet, the name of the employees, rate of wages and other particulars. These entries should be checked by another clerk. Net amount payable to each worker should be calculated by another clerk. Similarly, wage sheets should be prepared for the piece workers following the above procedure. It should be remembered that each wage clerk should initial for that portion of work connected with wage sheet undertaken by him. All the wage sheets should be counter signed by the Works Manager, a Director or a Partner.

- 4. Payment of wages :** Wages should be paid by Cashier. The cashier should not have any hand in the preparation of wage sheets. A separate cheque should be drawn for the precise amount of the wages. The workers should attend personally to receive their wages in the



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presence of their foreman to avoid impersonation. Wages of the absentees should be paid to a worker only when he has brought letter of authority. The Works Manager or some responsible officer should be present at the time of payment.

## Internal check as regards purchases

For this purpose the system of internal check to be adopted by any concern will depend on its size and resources. However, the following system of internal check for purchases is suggested -

1. All the orders for purchases should be recorded in the Purchases Order Book. They should be properly authorised. A carbon-copy of every order placed should be kept.
2. On receipt of the goods, the gate-keeper or store-keeper should make a record in the Goods Inwards Books.
3. Invoices received from the sellers should be checked with the Orders Books and Goods Inwards Books as to its quality, quantity, prices and calculations. The clerks checking them should also initial the invoices. After this invoices should be entered in the Bought Day Book and filed.
4. In case, there are a number of departments, each placing its order, the invoice should be sent to the concerned department for checking.
5. Entry for all goods purchased should be made by an independent person in the stores ledger.
6. The payment of every invoice should be authorised by a responsible official.
7. A proper system of internal check for cash purchases should be in operation. As far as possible, cash purchases should be discouraged.

## Internal check as regards sales

Chances of errors and frauds are greater in the case of sales. Goods sent on approval being treated as actual sales or entering of fictitious sales in the sales book is possible. Further, it is possible that the next year's sales may be taken as this year's or sale of fixed assets recorded as sale of goods. The object of internal check should be to counteract the above.



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1. All orders received should be recorded properly and in writing. Orders received on telephone or verbally should be confirmed in writing.
2. All goods supplied should be recorded in the Goods Outward Book.
3. Invoice should be prepared in duplicate - one copy sent to the customer and other carbon copy should be kept. Details of every invoice should be checked before sent out. Entries in Goods Outwards Book should be compared with invoices.
4. Entries should be made in the sales Book on the basis of invoices.
5. Goods returned by the customer should be entered in the returns inwards book and a credit note be prepared.
6. In case of cash sales, cash should be received by a person other than salesman. Goods should be delivered on the basis of the receipt cash memo.

## Internal Check and Auditor

How far an auditor can rely on the internal check system ? This is not an easy question to answer. The answer to this question will depend upon the size and nature of the business. Before he can decide upon the reliance on internal check system, he will have to take the following steps :-

1. Seek a statement from his client in this regard.
2. Examine the system taking into account the size and nature of the business.
3. Examine the system especially from its weakest point to assess the possibilities of errors and frauds.

If the auditor finds that the system of internal check is defective, he should carry on detailed checking.

An efficient system of internal check can reduce to a great extent the work of the auditor but does not reduce his liability. On the other hand, a defective system makes his work difficult.



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## ❖ INTERNAL AUDIT

Internal audit is the review of operations and records undertaken within a business by specially assigned staff on a continuous basis. Internal audit has been defined as "the independent appraisal of activity within an organization for the review of accounting, financial and other business practices as a protective and constructive arm of management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of controls." Therefore it is clear that internal audit not only includes the verifications of accounting matters but also financial and other matters.

### Objectives of Internal Audit

Following are the main objectives of internal audit –

- To comment about effectiveness of internal control system in force.
- To give suggestions about improvement of internal control system in organization.
- To check and ensure whether policies and procedure as laid down by the top management are being followed or not.
- Whether assets of organization are properly accounted for and safeguarded.
- To ensure whether standard accounting practices are followed by the organization.
- Earlier detection and prevention of errors and frauds.
- To ensure correctness, accuracy and authenticity of financial accounting.
- To do investigation at the special request of the management.
- To check whether liabilities of organization are valid and legitimate

### Scope of Internal Audit

Following is the scope of Internal Audit according to the Institute of Internal Auditors –

- Safeguarding the assets.
- Economical and efficient use of resources.
- Reliability and integrity of information.



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- Accomplishment of established objectives and goals for operations or programs

## ❖ INTERNAL CONTROL

Internal control has been defined as being "not only internal check and internal audit but the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the company in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of its records."

Therefore internal control is a broad term with a wide coverage. Its scope extends beyond those matters which relate directly to the functions of accounting and financial records. In its modern sense, internal control includes two types of controls:

(a) **Accounting Controls** : These comprise primarily the plan of organization and the procedures and records that are concerned with and directly related to the safeguarding of assets and reliability of financial records. These include budgeting control, standard costing, control accounts, bank reconciliation, self balancing ledgers and internal auditing etc.

**(b) Administrative Controls** : These comprise the plan of organization that are concerned mainly with operational efficiency. They may include controls, such as time and motion studies, quality controls through inspection, performance reports and statistical analysis.

From the point of view of the auditor, the distinction between these two controls, is very significant. An auditor has to make a careful review of the accounting controls in order to ensure the accuracy and adequacy of financial statements. He is not expected to review the administrative controls because they have only a remote relationship with financial records. However he may evaluate only those administrative controls that have a bearing on the reliability of financial statements.

## Characteristics of Good Internal Control System

1. There should be a well developed plan of organization with delegation of proper responsibilities at various levels of operational hierarchy.
2. There should be a scientifically developed system of record procedures with a view to maintain reasonable control over assets, liabilities, revenues and expenses.



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3. A system of healthy practices and traditions is also necessary for the performance of duties and activities of various departments of the organization.
4. The personnel engaged in the business should be of high quality and character with a deep understanding of their responsibilities and a proper background of training and ability. This is necessary because controls are exercised by personnel engaged in the business.
5. There should be managerial supervision and reviews of the company's financial operation and positions at regular and frequent intervals by means of interim accounts and reports and operating summaries etc.

## Divisions of Internal control

Depending upon the nature of business and the environment in which it works, the main divisions of an overall internal control system are:

1. **General Financial Control** : This control includes a proper efficient system of accounting, adequate supervision, recording and duplicating systems, good efficient staff and the maintenance of healthy relationships amongst the staff.
2. **Cash Control**: The system includes certain important aspects of control for receipts, payments and balances held. A proper system of internal check must operate at all stages. There may be specially deputed officials including the internal audit staff to exercise checks at regular and irregular intervals. Effort should be made to avoid misappropriation of cash.
3. **Employee Remuneration** : The system must cover all sections of employee remuneration and maintenance of records for remuneration, their preparation and methods of payment should be brought under tight control. So pacific instructions must be issued to the staff concerned.
4. **Trading Transactions** : These refer to the purchases, sales etc. So in respect of these transactions, effective procedure should laid down for acquisitions, handling and accounting of goods purchased or sold.
5. **Fixed Assets** : Capital expenditure on fixed assets should be kept under strict check and supervision. The authority right from sanctioning of capital expenditure to its use should be clearly defined so that any type of misappropriation by officials of the organization can be reduced to the minimum.



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6. **Stock maintenance** : Stocks of raw materials, work-in-progress and finished goods should be properly maintained and accounted for. Regular stock taking procedures are quite helpful as means of independent, checks and reconciliation of records.

7. **Investments** : The procedures of control in regard to investments cover such measures as authorization, recording and maintaining record of investments held and safeguarding the documents of title.

## Internal control and the Auditor

An auditor is mainly concerned with the evaluation of the internal control system in force so that he may be able to know :

- (i) whether mistakes, errors and frauds are likely to be located in the ordinary course of business.
- (ii) Whether an effective internal auditing department exist or not.
- (iii) How far and how adequately the management is discharging its function in so far as correct recording of transaction is concerned.
- (iv) How extensive examination he should carry out in different areas of accounting.
- (v) How far administrative control has a bearing on his work.
- (vi) What should be the appropriate audit programme in existing circumstances.
- (vii) To what extent reliability can be placed on the reports, records and the certificates of the management.
- (viii) Whether some suggestion can be given to improve the existing control system.

Therefore we can conclude by saying that internal control is a broad term which includes internal check, internal audit, and other forms of control.

## Internal Check V/S Internal Audit

Basis	Internal Check	Internal Audit
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<b>Meaning</b>	It is an arrangement of the duties of staff members in such a manner that work performed by one person is automatically and independently checked by the other	Internal Audit is a review of various operations and records of the company by staff specially appointed for this purpose.
<b>Object</b>	To prevent and minimize the possibilities of errors, frauds or irregularities.	To detect errors and frauds which have already been committed.
<b>Timing</b>	Internal Check works during the course of transactions.	Internal Audit begins after the completion of accounting process of different transactions.
<b>Scope</b>	Scope of Internal Check is very limited.	Scope of Internal Audit is very broad.
<b>Staff</b>	The arrangement of the duties is done with the existing staff, no new member of staff is required for Internal Check.	Separate staff is required to do internal audit.
<b>Nature</b>	Internal Check checks the progress of work automatically.	Internal Auditor reports to the management and suggest improvement about various inefficiencies.
<b>Involvement</b>	A large number of employees are involved in the Internal Check	For implementation of Internal Audit, a small team with limited



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	system.	members can also perform the audit.
<b>Device</b>	Internal Check acts like a device and keeps check on the work.	Internal Audit is a device for checking the work.

## VOUCHING (PART – (B))

Vouching is the examination of transactions of a business together with documentary and other evidence of sufficient validity to satisfy an auditor that such transactions are in order, have been properly authorized and are correctly recorded in books.

### OBJECTIVES OF VOUCHING

- 1. PROPER EVIDENCE:** The purpose of vouching is to note that proper evidence is available for every entry. The signatures, initials and rubber stamp are evidence that document has been authorized and checked:
- 2. PROPER AUTHORITY:** The purpose of vouching is to note that there is proper authority behind every transaction. The transactions are not acceptable at all in the absence of signature of the manager.
- 3. RIGHT PERIOD:** The purpose of vouching is to check that date of the vouchers relates to the accounting period. The adjustments in books are made on the basis of current year record of the transaction.
- 4. CORRECT AMOUNT:** The purpose of vouching is to check that correct amount has been recorded in the entry. The vouching is helpful to record only exact amount in the books of accounts.
- 5. CAPITAL AND REVENUE EXPENSES.** The purpose of vouching is to scrutinize the analysis of transaction into capital or revenue. The expense relating to one year is treated as revenue otherwise it is called capital.
- 6. PURCHASE FOR BUSINESS:** The purpose of vouching is to confirm that purchases relate to the nature of the business. Vouching helps to confirm that private purchases are not



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recorded as business purchases.

**7. ARITHMETICAL ACCURACY:** The purpose of vouching is to an arithmetical accuracy of books of accounts. The auditor can confirm that books are accurate by checking totals, sub-totals, of casting and posting.

**8. POSTINGS:** The auditor can vouch posting ledgers; He can see through vouchers that postings are complete and correct.

**9. NO ERRORS:** The purpose of vouching is to check and confirm that there are no errors in books of accounts. The errors are the result of negligence or overwork. Audit staff is not overloaded so that they can find errors.

**10. NO FRAUDS:** The purpose of vouching is to examine that no fraudulent payments are made. The fraud can be committed due to matching minds of employee and customer. The auditor can vouch for entries to disclose such frauds.

**11. CASTINGS:** The purpose of vouching is to check castings or totals. The auditor can calculate all totals by himself. He can evaluate the totals with books to sustain accuracy.

**12. CASH AT BANK:** The purpose of vouching is to determine true cash at the bank. He can vouch all receipts and payments. The result is that he can check whether cash book is correct or not.

**13. CASH BALANCE:** The purpose of vouching is to check that cash in hand is correct. He can count cash and compare it with cash book. He checks that cash book figure tally with cash in hand.

**14. REPORTING:** The purpose of vouching is to form an opinion for the purpose of reporting. In case of true and fair view, there is a good report. In absence of such results, there may be a qualified report.

## TECHNIQUES OF VOUCHING

**1. ARRANGED VOUCHERS.** The vouchers are the basis of entry in books accounts. The vouchers support all transactions. It may be cash memo, bill, and voucher, ticket or any other piece of paper showing the dealing in terms of money.

**2. RELATE TO BUSINESS:** The vouchers must be in the name of the business concern. The vouchers bring name of managers or employees. not acceptable. The name of business must be mentioned on vouchers otherwise transactions are doubtful.



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**3. CORRECT ACCOUNTS:** The auditor can check the accounts debited credited are correct in all respect. The rules of debit and credit can followed for dividing the transaction into two accounts.

**4. DATE OF VOUCHERS:** The date of the vouchers is checked. It should relate to the year under audit. The date of last year or next year must not accepted. In the absence of date on voucher, it cannot be acceptable

**5. AMOUNT IN WORDS:** The amount stated in the voucher is recorded in the entry. The net amount must be entered. The trade discount is not included in the amount of the voucher. The amount in words and figures must be the same.

**6. CHANGES IN VOUCHERS:** The changes in vouchers should be discouraged. The date, amount, rate of one unit and name of concern may be changed. The changes should not be accepted unless approved by the owner or manager.

**7. REVENUE STAMPS:** The stamps are used according to the value of cash memos. The Stamp Act 1899 is applicable for affixing revenue stamps. A voucher of less than twenty rupees does not require revenue stamp.

**8. AUTHORITY:** The vouchers must be recorded in the books of accounts after proper authority. The owner or manager must put his signature on every voucher for approval of dealing. The voucher without signature of management is not recorded.

**9. AGREEMENTS:** The auditor must examine the agreements, correspondence and other papers relating to business activities. Such agreements provide basic information to the auditor. He can vouch the transaction based on such agreements.

**10. BY-LAWS:** The memorandum and articles of association are rules and regulations in case of company. The by-laws of societies and clubs are used to determine management power. The auditor has the right to go through these rules and regulations.

**11. MORTGAGE DEEDS:** The management may enter into agreement with any party for purchase and sale of assets. The deed or agreement is prepared. In case of loan against immovable property mortgage deed is signed. The contents of deed must be studied.

**12. MINUTES BOOK:** The auditor should examine the minute book. The resolutions and decisions of directors and shareholders are recorded there. He can see that such decisions have been implemented in the books of accounts.

**13. NOTES AVAILABLE WITH MANAGEMENT:** The notes or other papers available with



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management can be studied, The working papers of Previous year can help the auditor to note many points of evidence relating to last year.

## WHY VOUCHING IS THE ESSENCE OF AUDITING?

- 1. ACCURACY OF BOOKS:** Vouching is concerned with checking entries in the books 'of accounts with the help of vouchers. The accuracy Of books of accounts is maintained through vouching: The entry is recorded and posted on the bass of vouchers only.
- 2. LOCATION OF ERRORS:** Comparing of figures in entries and vouchers can help the auditor to locate errors. The location and correction of errors leads to reliable data. The vouching is thus the backbone of auditing for discovery of errors.
- 3. DETECTING FRAUDS:** Vouching is an element of auditing. The minor frauds are detected by it. The management can fib( the responsibility of fraud. Vouching is a tool in the hands of auditors for ensuring that the books of accounts are accurate.
- 4. CORRECT TOTALS:** Vouching is essential for checking totals and subtotals. The totals of voucher are tested. The deductions of discount are checked. The addition of taxes or other charges are noted. The net amount is recorded in journals and ledgers. There is a need of correct total for accuracy.
- 5. COMPLETE POSTING:** Vouching is the essence of auditing. There is a demand for accurate record of audit. When posting is complete in all respect, it means work of vouching is under process. The trial balance is extracted from such record. It will facilitate audit work.
- 6. THOROUGH CHECKING.** Vouching is the essence of auditing. All vouchers may be compared with all entries in journal and posting into the ledgers. In small companies or where internal, control system is weak thorough checking is highly essential. Vouching is the only way of thorough checking.
- 7. RELIABLE FINAL ACCOUNTS:** Vouching is the essence of auditing. There is a need of reliable final accounts. It is only possible when accounting record is correct. Thus vouching helps to produce true journal and ledger books upon which we can draw true final accounts.
- 8. ALTERATIONS ARE NOT POSSIBLE:** Vouching is the essence of auditing. The alteration in figures after vouching is not possible at all. All entries are ticked with the help of special



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symbols used for this purpose. Thus vouching discourages the change in figures for maintaining accuracy.

**9. RELATED VOUCHER:** Vouching is the essence of auditing. The related vouchers are acceptable for recording business transaction. The irrelevant or doubtful voucher cannot be used for making the business record. Vouching accepts only real and genuine voucher relating to nature of work.

**10. RELATE TO BUSINESS:** Vouching is necessary for auditing routine business activities. The voucher must be relevant to routine business transaction. The nature of business will determine the relevance to business, the personal activities of owners or manager do not relate to the business.

**11. CURRENT YEAR:** The expense and income of assets liabilities Of the current year must be recorded in the current year. The adjustments outstanding. Prepaid, accrued and unearned incomes must be made The matching revenues and expenses of current year are needed.

**12. NO- OMISSION:** There must be any omission of any business transaction. The omission of transaction cannot show true and fair view of business affairs. Vouching is useful tool in the hands of auditor. The omission can be traced and corrections can be made for true. Business position.

**13. ACTUAL TRANSACTION:** There is a demand of audit that actual transactions be recorded. The fictitious transaction must be avoided. The auditor can use vouching technique to track actual transactions. The possibility of fictitious transactions is altogether eliminated through vouching.

**14. BUSINESS POLICIES FOLLOWED:** Vouching is helpful to find that business policies have been followed. The policies are broad guidelines for doing the business. The business objectives are achieved only when policies are implemented. Vouching is used to examine the policies adopted.

**15. TRUE FINANCIAL STATEMENTS:** Vouching is essence of auditing. The auditor can see whether there is link between books of account and financial statements. The truth in financial statements depends upon truth in books. Therefore vouching is a means of tracking truth in financial statements of business concern.

**16. HELPS TO FORM OPINION:** The auditor can form an opinion on the books of accounts



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and financial statements. His opinion is based on accounting, principles followed and completion of ledger formalities. Vouching tells us about accounting principles and legal obligation. Thus vouching is the essence of auditing.

**17. PROPER AUTHORITY:** Vouching is the essence of auditing. Proper authority supports every transaction. The signature of management on every voucher shows proper authority.

### The auditor must take care of following while vouching.

1. Proper filing of vouchers in serial order.
2. Adoption of test check methodology for examining vouchers.
3. Comparison of evidences with accounting entries.
4. Voucher must be in name of the person or business whose account is audited.
5. It must be related with business transactions.
6. Voucher should relate to period under audit.
7. It must be in printed form.
8. The amount and calculations in voucher must be checked.
9. Voucher must be signed, authenticated and duly stamped.

### Vouching of Cash Book

Cash Receipts :

- (i) Internal check should be examined.
- (ii) Issue of receipts and use of receipt books should be checked.
- (iii) System of depositing the receipts into bank should be checked.



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(iv) Auditor must obtain the list of all memorandum books like cash diary, Kuchi Rokar Bahi, Pucci Rokar Bahi, etc.

(v) Vouchers must be serially numbered and the name, amount date in vouchers must tally with the accounting records.

(vi) Accounting records unsupported by vouchers must be probed.

(vii) Soiled, unissued or cancelled receipts should not be torn but checked along with counterfoils.

## **Important points while vouching Cash Payments.**

1. Actuality of payment.
2. Payment relates to audit year.
3. Payment for business
4. Payment to right person
5. Right amount to be paid.
6. Payment must be due with regard to date.
7. Authorization of payment.
8. No payment for ultravires acts
9. Legitimacy of payment
10. Correct accounting.

## **Vouching Sales Book**

1. On the basis of copies of sales invoices.





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2. Help from other books like orders received book, goods outward book, correspondence, etc.
3. Intensive examination of goods sold of the end of the year and beginning of new year.
4. Recording of only actual sales.
5. Help from statements of accounts of debtors.
6. Audit of totals and postings of sales book.

## Vouching of Sales Returns Book

1. Vouching the records on the basis of copies of credit notes.
2. Checking of goods inward book and correspondence.
3. Examination of the records at the commencement of the next year.
4. Totals and ledger posting of sales returns to be carefully examined.

## Vouching Purchases

1. Examination of purchase book on the basis of invoices.
2. Record of lost vouchers.
3. Help from goods inward book, challan form and packing notes.
4. Checking of totals & postings on the basis of invoices goods inward books, purchase order, challan form, goods receipt notes.

## Vouching of Purchases Returns Book

1. Checking entries of purchases returns book on the basis of credit notes.
2. Tallying with goods outward book.
3. Checking the totals and postings in ledger.

## Vouching of Journal

1. Opening entries shall be vouched with the balance sheet of previous year.
2. Closing entries to be vouched by checking the ledger postings.
3. Rectification entries must be checked thoroughly and must be countersigned.



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4. Adjustment entries relating to outstanding and prepaid expenses, unearned income and accrued income must be vouched on the basis of relevant documents.
5. Transfer entries must be backed by proper authority.
6. Bad debts must be vouched on the basis of authorization and relevant correspondence with the debtors.
7. Consignment transactions must be checked by the account sale received from the agent.

## Vouching Ledger Postings

1. Methodology of vouching, i.e., checking the ledger postings on the basis of entries in books of original entries.
2. Persons vouching the accounts.
3. Recording the errors.
4. Vouching the balances of accounts
5. Test checking of ledger postings.
6. Vouching of different ledgers – purchase ledger, sales ledger, etc.

## Vouching of various receipts

1. **Cash Sales & Credit Sales** : Voucher, date, serial no., account head, sales invoices, charging of sales tax and excise duty, copy of delivery order, sales order, rates, quantity and authorization by sales/ marketing manager.
2. **Receipt from debtor** : Cash/Bank receipt voucher, date, serial no., account head, copy of invoice, sales order, rates quantity party ledger, bank statement, sales register.
3. **Other Income (Interest dividend, etc)** : Bank receipt voucher, date, serial no., account head copy of dividend warrant, interest warrant. TDS certificate, rates paid up value, investment register, bank book, bank statement.
4. **Loan received:** Receipt voucher, date, serial no., account head, (secured/unsecured) loan agreement, hypothecation or pledge deed, rates of interest, principal amount, resolution of board of directors, bank statement, ledger.



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**5. Rent Received :** Cash/Bank receipt voucher, date, serial no., account head, rent agreement, rent receipt, TDS certificate, prepaid or outstanding rent, bank statement, ledger.

**6. Sale of Investment :** Voucher, account head, broker's note, copy of demat account, rate, quantity, bank statement, investment ledger.

**7. Bills Receivable Discounted :** Voucher date, account head, discounting charges, copy of B/R, bank advice, noting charges, bank statement/book, BR register.

**8. Sale of Fixed Assets :** Receipts voucher, sale agreement, sale value and wdv, authorization by BOD, fixed assets register, bank statement.

**9. Royalty Received :** Receipt voucher, account head, copy of agreement, TDS certificate, rates and quantity explored, produced or sold, royalty register, bank statement.

**10. Insurance Claim :** Receipt voucher, account head, copy of intimation of claim copy of sanction, loss assessors report, verify the amount of claim, insurance claim register, bank statement.

**11. Recovery of Bad Debts :** Voucher, account head, debtors control account, commission to factor, bank book, statement or list of bad debts written off in previous years.

**12. Miscellaneous receipts (subscriptions amount received from, agents etc) :** Voucher, counter fails of receipts, bank pass book, membership register, statements of agents, etc.

## Vouching of Payments :

1. Purchase of Goods : Payment voucher, purchase order, bulky, material received note, inspection report, bank statement, rates, quantity and terms of purchases, stores ledger, goods inward register, authorization, cash purchase register.

2. Payment to Creditors : Receipt by customer, statement of account, invoice copy, discount and allowances, and other deeds.

3. Salaries & Wages : Payment voucher, attendance register, salary sheet, wage roll, time keeping record, bank statement, PF, ESIC, overtime sheets, cash book or bank book, ledger,

4. Payment for Acquisition of Assets : Payment voucher, account head, sale/purchase agreement, title deed, bank statement, transfer deed, valuer certificate, stamp duty, broker's statement, auctioneer's note, fixed asset register, cash/bank book, authorization by BOD, Articles of association, etc.



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5. Payment of Taxes (Income Tax, Sales Tax) : Computation of tax, copy of challan of advance tax, TDS certificates, challan of self assessment tax, return, etc.
6. Travelling Expenses : Voucher tour program, schedule, TADA rules, expense voucher, receipts, etc.
7. Preliminary Expenses : Memorandum & Articles of association, registry, Cheque no., bills & receipts, rate of stamps, vouchers, etc.

## Verification of Assets & Liabilities

Verification is the process of substantiation involved in proving that a statement account or item is accurate and stated properly. It is an enquiry into the value, ownership & title, existence and possession, and presence of any charge on the assets as stated in the balance sheet.

### **Objects of Verification**

1. Picture of true position.
2. Correct valuation.
3. Not exceeding the actual.
4. Not less than actual.
5. Existence and possession.
6. Ownership and title.
7. Without fraud or irregularity.
8. Arithmetical correctness.
9. Correct presentation in the balance sheet.

## Vouching of Purchases Book | Audit Procedure

Purchases Book is meant for recording transactions relating to credit purchases of goods. The other names of Purchases Ledger are **Purchases Day Book, Purchase Journal, Bought Book, Bought Daily Book** or **Invoice Book**.

The main objective of vouching of Purchases Book is to see that all purchase invoices are entered in the Purchases Book, and the goods entered in the Purchases Book are actually received by the business and the client pays money only for those goods that are delivered by the supplier to him.



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He must first examine the system of internal check in force in the business regarding credit purchases. He should specially investigate into the procedure followed in placing orders, receiving goods, examining invoices, and maintaining relevant records. If the system of internal check in operation is efficient and effective, he can immediately proceed to vouch the Purchases Book.

## Audit Procedure for Vouching of Purchases Book

While vouching credit purchases, the auditor should keep the following things in his mind:

1. The auditor should see that only credit purchases of goods are recorded in Purchases Book.
2. The invoice is prepared in the name of the client.
3. The date mentioned in the invoice relates to the period under audit.
4. The invoice relates to the business, which the concern carries on.
5. Responsible official who have checked the invoice should initial it.
6. The trade discount received is to be deducted from the purchase invoice and the net amount entered in the purchase invoice should agree with the entry in the Purchases Book.
7. The names of the supplier as entered in the purchase invoice agree with the entry in the Purchases Book.
8. The price mentioned in the purchase invoice should agree with the quotation given by the supplier.
9. The quantity mentioned in the purchase invoice should tally with the quantity recorded in the Purchases Book.
10. The Purchases Book should be verified with the help of purchase invoices, copies of orders placed, goods received note, goods inward book, and copies of challans from supplier.
11. It should be checked that a responsible officer sanctions the purchase of goods and the goods purchased are of similar to those, which the organization deals.
12. The supplier's bill must be in the name of the business and relate to period under audit.
13. The goods purchased must not be for the personal use of directors, officers, secretaries, etc.
14. Each voucher should be stamped or initialed after the examination is over, so that it could not be produced again.



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15. The totaling and casting of Purchases Book should be checked. The auditor should also see that all taxes, octroi, and freight are added to the purchases and trade discounts allowed are deducted.
16. The goods purchased should be actually received by the client.
17. Any purchase not meant for the purpose of business of the client should not be debited to the purchases account.
18. If original invoice has already been recorded care should be taken to see that duplicate invoice is not entered again in the purchases book.
19. Statement from the suppliers may be obtained to verify his purchases records.
20. Sometimes the purchases of the last year may be included in the purchases of first month of the current year or purchases of the last month of the current year may be recorded in the first month of the next year. So the auditor should be more careful while vouching the purchases made in the first month and the last month of the accounting period. Otherwise, the Profit and Loss Account of the current year will not present true and fair position of operating results.

## **Vouching of Credit Sales – Procedure, Guidelines to Auditor**

Sales Book records only credit sales. The auditor should examine the system of internal check in regard to credit sales, which includes the procedure beginning from receiving orders to the delivery of goods and making payments therefore. If internal check system in operation is sound and effective, the auditor should vouch credit sales in the following manner:

1. He should apply a few test checks.
2. He should compare certain details in the copy of the invoices such as the name, the demand, the amount, etc. with those given in the Sales Book.
3. He should see that the sales are not omitted from being entered in the Sales Book. He can do it by vouching Sales Book with the Orders Received Book and Goods Outward Book.
4. He should see that the sale of an asset is not considered as ordinary sale.
5. If there is a difference in rate of trade discount allowed to two different customers, the reason thereof should be enquired into.



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6. In order to confirm the accuracy of balance, the auditor can send Statements of Accounts to the customers.

7. He should check the castings and postings of the Sales Book and also examine the postings to the Ledger Accounts.

8. He should especially examine the sales relating to the periods in the beginning or at the close of the accounting year under audit to ensure that no manipulation has been made in accounts. He may check such sales with the Goods Outward Book.

9. If goods are supplied on “Sale or Return” basis or consignment basis, it should be seen that such goods are not treated as sales till the letters of acceptance have been received.

## **Vouching of Sales Returns – Procedure, Guidelines to Auditor**

Sometimes, the customers on account of their being defective or inferior in quality return goods. In such cases, goods returned should be entered in the Goods Inward Book and Gate Keeper’s Returns Inward Book, and Stock Register.

A credit note signed by a responsible official should be prepared, and sent to the customers. There are lot of chances of fraud in connection with the sales returns because goods might not have been returned but a credit note be sent to the customer. Therefore, the auditor should pay particular attention to such transactions. He should pay attention to heavy returns at the beginning or at the end of the business period.

Auditor should check the postings from the Sales Returns Book to the Sales Returns Accounts and Customer Ledger. The goods, which the customers return are included in the closing stock at cost price or market price whichever less is.

## **Vouching of Forward Purchases – Procedure, Guidelines to Auditor**

In certain businesses, forward contracts are made for future purchase of raw materials at a fixed price. Such deals are called “Forward Purchases”.

Forward purchase transactions are commonly found in cotton textiles, and oil seeds businesses. As these deals involve huge amounts and are subjected to losses, a provision for loss if any expected is to be made. A reference to the apprehended loss must also be



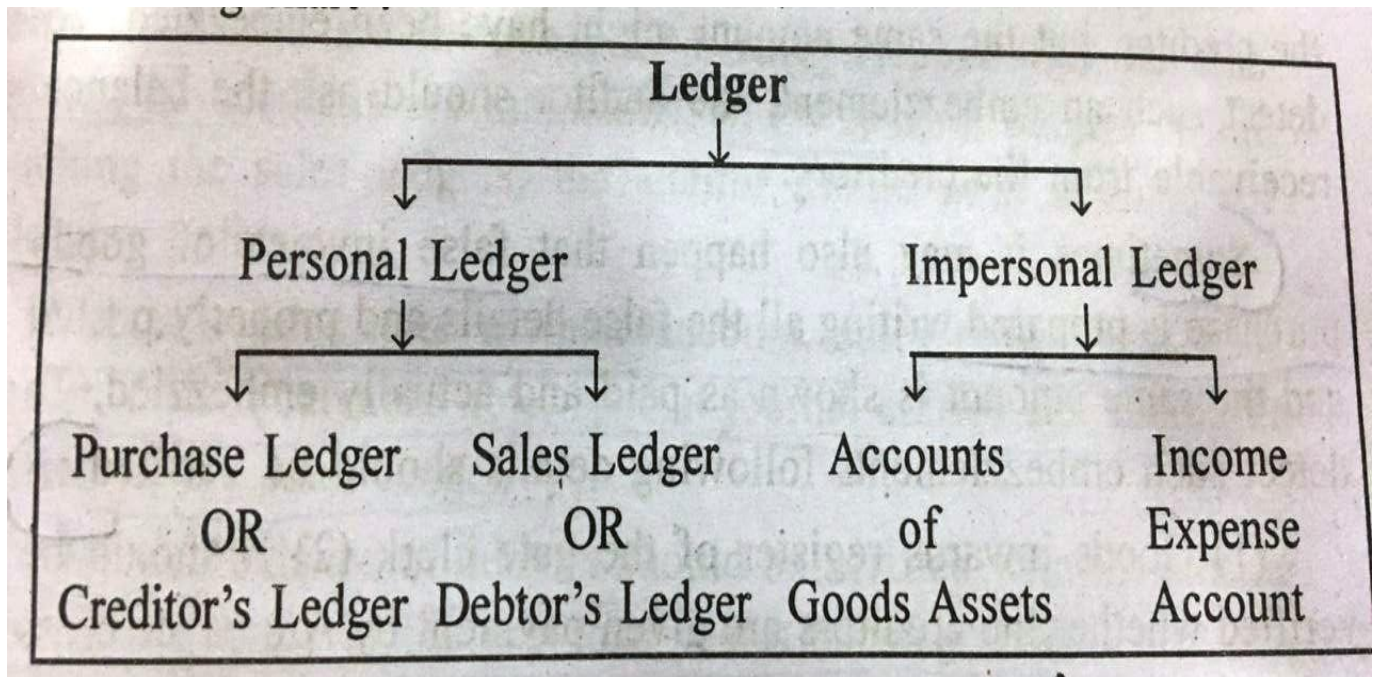
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made in a footnote to the Balance Sheet. However, if this is not done, the auditor should qualify his report accordingly.



## Personal Ledger Accounts

All personal accounts are opened under this category. In big organizations where the number of transactions is quite high, a personal ledger may further be split up into two more ledgers –

- Purchase ledger
- Sales ledger

## Purchase ledger

Purchase ledger is verified from the following –

- Creditor balances of last year
- Cash Book and Bank Book
- Purchase register





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- Purchase return book
- Bills payable book
- Journal and other relevant books

An Auditor should carefully verify the following –

- Posting of all vouchers in ledger account should be done without any omission.
- Verification of all opening balances should be properly checked with last year's balance sheet.
- If the creditor balance shows debit balance it may be due to advance payment made to him, the Auditor should confirm whether the material against advance is received or not.
- Periodical statements of creditor should be reconciled.
- Examination of internal control system.

## Sales ledger

Sales ledger will be verified from the following –

- Debtors' balances of last year
- Cash book and bank book
- Sales register
- Sales return book
- Bills Receivable book
- Journal and other relevant books

Auditor should carefully verify the following –

- Posting of all vouchers in ledger account from cash and bank book, sales register, bills receivable register, sales return register and journal should be verified.
- Verification of opening balances, castings, balances carried forward should be carefully examined.



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- Credit balance of the debtors' account may represent the advance received against the supply of goods; the Auditor should examine and confirm whether any material is supplied against it or not.
- Periodical reconciliation of account from debtors should be done without any fail.
- Provision for doubtful debts and bad debts should be done.
- Review and examination of credit policy should be made from time to time.
- Checking of posting in ledger account from subsidiary book.
- Checking of calculations.
- Reviewing truthfulness of debtor balances in customer account.
- Reviewing of Internal Control System.

## Impersonal Ledger Accounts

All the nominal account, real account and capital account fall under impersonal ledger accounts. Income and expenditure account (nominal accounts) transferred to profit and loss account.

Capital account, real accounts, debtors and creditors account are transferred to balance sheet. Following steps are involved in the audit of impersonal ledger account –

- Opening balances should be verified from last year's Balance Sheet.
- Timely posting of balances of subsidiary books (Sales Book, Purchase Book, Sales Return Book, Purchase Return Book) to ledger accounts.
- Checking of totals and castings.
- Checking of balances transferred to trial balances, debit and credit side of trial balance should be tallied.
- Checking of adequacy of internal control system in organization.



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## Outstanding Assets

It is necessary to include some expenses and income in current year though passing adjustment entries to show the correct profit or loss of the company. Therefore it is must for an Auditor to check each and every outstanding entries. Following are outstanding assets –

## Prepaid Expenses

These expenses are paid in advance for next coming year(s), hence should not be debited to profit and loss account of current year to arrive at true financial results.

For example; Insurance of Fixed assets is normally paid on annual basis and if we paid insurance premium in the month of October for one year, then insurance for this current year will be calculated from October to March and from April to September it will be treated as prepaid insurance. Prepaid insurance will be shown as prepaid expenses under the head of current assets in the balance sheet.

Auditor should vouch every nominal account to confirm whether correct amount of expenses is debited to profit and loss account or not. Other examples of prepaid expenses are –

- Rent Rates and Taxes
- Subscription
- Annual maintenance Contract, etc

## Income Receivable

Following are the examples of Income Receivable –

- Interest accrued but not due or received
- Taxation claims
- Commission
- Declared dividend by company yet to receive



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All the above income should be included in the Profit & Loss account of the year to arrive at a correct figure.

## Deferred Revenue Expenditure

The examples of deferred revenue expenditure have been described below –

### **Preliminary Expenditure**

Preliminary expenditure is incurred at the time of incorporation of a new company. These expenses are of heavy amount and are incurred mainly for promotional reasons. Nature of these expenses are capital but not actually represent any asset, hence should be written off from profit and loss account over a period of 3 to 10 years in equal installments.

### **Advertising and Sales Promotion**

These expenses are incurred at the time of establishing new business or at the time of introduction of any new product in the market. These expenses are shown as assets in Balance sheet and should be written off in profit and Loss account over a numbers of accounting periods.

### **Heavy Repairs**

Expenses of heavy repairs of fixed assets shall not be debited to profit and loss account of year in which these expenses incurred but it should be spread to number of years like other deferred revenue expenses. Heavy amount of expenses is incurred on repair of Plant & Machinery due to increased production capacity of the plant or to maintain current production capacity of machine which is very old and need some heavy overhauling or repairing to increase it life.

Other examples of deferred revenue expenses are –

- Discount allowed on debentures
- Experimental expenditure
- Research & development expenses
- Development expenses on mines



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## Outstanding Liabilities

There are some expenses and liabilities that come up in due course of business; these are due for payment but not paid till the end of accounting period in question. The Auditor should see all those expenses and liabilities and all these expenses should be included in profit and loss of the current year to arrive at the true profit or loss of the firm.

Following are the main examples of outstanding expenses and liabilities –

### **Audit Fees**

Audit fees are debited to profit and loss account of the same year for which audit is conducted. No doubt main audit work start after the close of financial year and finalization of financial statements are done in next financial year but it is a widely accepted practice to do so. It is also argued that audit fee should be debited to the profit and loss account in the next year in which the audit work is actually performed. In the first case, audit fees will be debited and the audit fees payable will be credited.

### **Purchases**

In case where the purchased goods are received in the current financial year and invoices for the same are received in next year, purchase should be debited and outstanding liabilities should be credited.

### **Rent**

Rent on factory premises, office building, godown, etc. is payable on monthly basis. The Auditor should confirm that any unpaid amount of rent for the last month of the financial year or any other month of financial year in question should be added to rent of the current year and the rent payable should be shown as current liabilities.

### **Commission on Sale**

Commission on sale is payable to agent, director or salesmen on the basis of sales. Auditor should check the following –

- Sale agreement



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- Rate of commission
- Calculation of commission
- Agent account to know advance payment to agent, commission due and commission payable.
- Applicability of TDS on it and to check whether TDS is deducted at due rate before making payment or not. Whether TDS is deposited in time or not.
- After adjusting all the above, if there is any amount that is payable to the agent, it will be shown in current liabilities as commission payable and if any excess amount is paid that will be shown as current asset representing the amount recoverable from the agent.

## Interest

The Auditor should carefully examine the interest on loan from bank, loan from outsider parties, unsecured loan, financial institutions, term loan and interest on debentures. He should see that the provision for interest payable should be duly provided in the books of accounts according to the applicable rate of interest.

## Salary and wages

Salary and wages for the last month of the accounting year is normally paid in the next financial year. The Auditor should confirm that the salary and wages for last month should be debited to salary and wages account and credited to salary & wages payable account.

## Cartage and Freight

Transporters normally provide bills for transportation charges after closing of financial year. It is a duty of an Auditor to take these expenses in the current financial year creating liabilities for the same.

## Contingent Liabilities

Contingent liability may be payable in future or may not be payable in future it depends on the event. For example, if any person filed a suit against company, possibilities are there, it



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may be in favor of company or it may be against the company, in case it will decide against the company, company has to pay such amount of suit as the court decides. Therefore, contingent liabilities are said to be possible liabilities.

In case of above, no actual provision is made in the books of account but as a footnote of Balance sheet, it is compulsory to show the probable amount of liabilities.

## Contingent Assets

Contingent assets are not shown as footnote of the balance sheet. Following are the examples of Contingent Assets –

- Claim for the refund of the Income Tax, Sales Tax, Excise Duty, etc.
- Uncalled share capital of the company.
- Claim for infringement of a copy right.
- Discuss whether it is internal control or internal check



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## UNIT: 3

### Company Audit -1 (Auditors Qualities, Appointment, Rights and Duties)

#### ❖ Statutory or Professional Qualifications of an Auditor:

- The Companies Act requires the annual accounts of every company registered under the Act to be audited by a qualified auditor, i.e., one who is a Chartered Accountant within the meaning of the Chartered Accountants Act with a few exceptions.
- In order to be a Chartered Accountant a person is usually required to serve a period of articled clerkship or audit clerkship under a practicing Chartered Accountant and to pass the Chartered Accountancy Examination as prescribed and conducted by the said Institute. An auditor must also possess a valid Certificate of Practice from the Institute. It is also necessary to have knowledge of relevant statutory rules, clarifications, modifications and circulars etc.
- According to Provisions of Section 141(1) of the Companies Act, 2013 “a person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant within the meaning of Chartered Accountants Act, 1949 and holds a valid Certificate of Practice.
- According to Provisions of Section 141(2) of the Companies Act, 2013, a firm including limited liability partnership who are chartered accountants shall be authorised to act as auditor and sign on behalf of the such limited liability partnership or firm.

#### • **Summary:**

A person shall appointed as an auditor if he is chartered accountant within the meaning of Chartered Accountants Act, 1949 and holding valid certificate of practice and acting in capacity as



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- a) Individual
- b) Partnership Firm
- c) Limited Liability partnership

It has been further provided that only partners who are Chartered Accountants will be authorised to sign on behalf of the firm.

### **Qualities of an Auditor:**

The Auditor must possess the following qualifications and qualities:

1. Only the qualified chartered accountant can be appointed as auditor of a limited company.
2. The auditor must have thorough knowledge of principles and practice of all aspects of accountancy. He must be familiar with all systems of accountancy in use.
3. He should have adequate knowledge of financial management, industrial administration and business organization.
4. He must have thorough knowledge of audit case laws as per the various cases decide by the courts in and outside India.
5. He should be able to understand the technical details of business whose accounts he is going to audit.
6. An auditor must be honest i.e. He must certify that he does not believe to be true and he must take reasonable care and skill before he believes what he certifies is true.
7. He must act impartially and not influenced by others, directly or indirectly while discharging his duties.
8. He should be hard working, systematic and methodical.
9. He must have capacity to hear arguments of others.
10. He should have adequate skills and courage to write audit report correctly clearly and concisely.
11. He should not disclose the secrets of his client.



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## Disqualification of Auditor

According to Provisions of Section 141(3) of the Companies Act, 2013 , following persons shall not be eligible as auditor of the company: -

- a) A body corporate other than LLP registered under the LLP Act, 2008
- b) An officer or employee of the company.
- c) A person who is partner or who in the employment, of an officer or employee of the company.
- d) A person who or his relative or partner
  - (i) is holding any security/interest in the company or its subsidiary or of its holding or associate company or subsidiary of such holding company. It has been further provided that an relative may hold security or interest in the company of face value not exceeding one lac rupees.
  - (ii) is indebted to the company or its subsidiary, or its holding or associate company or subsidiary of such holding company, in excess of Rs. 5 lacs rupees
  - (iii) has given guarantee or provide any security in connection with the indebtness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company for value in excess of Rs. 1 lacs.
- e) A person or a firm who (whether directly or indirectly) has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company.

Here the business relationship shall be construed as any transactions enter into for a commercial purpose except: -

  - a) Commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm by the professional bodies regulated such members
  - b) Commercial transactions which are in ordinary course of business of the company at arm's length price as customer.
- f) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel.



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**g) A person**

(i) who is in full time employment elsewhere or

(ii) a person or a partner holding appointment as its auditor is at the date of such appointment or reappointment holding appointment as auditor for more than 20 companies.

**h) A person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction.**

**i) Any person whose subsidiary or associate company or any other form of entity is engaged as on the date of appointment in consulting or specialised services in reference to the provision of Section 144 of the Companies Act, 2013.**

Further According to Provisions of Section 141(4) of the Companies Act, 2013, where a person appointed as auditor of the company incurs any of the disqualification mentioned in Section 141(3) of the Companies Act, 2013 after his appointment, he shall vacate his office as such auditor and such vacancy shall be deemed to be casual vacancy in the office of the auditor.

It must be noted that the aforesaid provisions are applicable to all types of auditors i.e. cost auditors, statutory auditors and secretarial auditors.

### ❖ Appointment of an Auditor

**Appointment of Auditor in case of Sole proprietor:** The appointment of Auditor in case of sole trader is done by the owner of the business. In case of sole traders the auditor generally acts as an accountant who also prepares accounts besides checking their accuracy. As He is appointed by an individual he must get clear instructions from his client in writing as to what he is expected to do. His work and its scope will depend upon the agreement with his client since the appointment of an auditor is not under any statute, therefore the rights and the duties will depend upon the agreement.

**Appointment of Auditor in case of partnership:** The Auditor of a partnership firm is made by the mutual consent of all the partners.

**Appointment of Companies Auditors:** The provisions regarding appointment of the auditor are contained in section 139 of Companies Act 2013



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## **1. Appointment of auditor by members [sec 139(1)]:**

- A company shall appoint an individual or a firm as an Auditor at the first annual general meeting and each subsequent sixth annual general meeting.
- Such auditors shall hold office till conclusion of sixth annual general meeting.
- Such appointment shall be placed before the members at each annual general meeting for ratification.

## **2. Period for which the appointment is made [sec 139(2)]:**

- An individual can be appointed for a term no more than five years.
- An audit firm can be appointed for a consecutive term not more than two terms of five years.
- An individual or a firm which has completed its term shall not be eligible for reappointment as auditor in the same company for five years from the completion of term.

**3. Appointment of auditor of Government companies (sec 139 (5)):** The comptroller and Auditor general shall in respect of financial year appoint an auditor duly qualified within 180 days from the commencement of financial year who shall hold office till conclusion of annual general meeting.

**4. Appointment of First Auditor by Board of Directors [sec139 (6)]:** The first auditor of a company other than government company shall be appointed by the board of directors within 30 days of registration of company. If the board fails to appoint first auditor it shall inform the members of company who shall appoint auditor within 90 days at extra ordinary general meeting who shall hold the office till conclusion of first annual general meeting.

**5. Appointment of First Auditor of Government Company [sec 139 (7)]:** The first Auditor of a Government Company shall be appointed by Comptroller and Auditor general within 60 days of registration of company. In case of its failure to appoint first auditor, then board of directors shall appoint auditor within next 30 days. The company shall inform the members if the board fails to appoint first auditor who shall appoint the auditor within 60 days at extra ordinary general meeting who shall hold the office till conclusion of the first general meeting.

## **6. Casual vacancy of an Auditor [sec 139 (8)]:**

- The casual vacancy of auditor, except in case of Government Company, shall be filled by the board of directors within 30 days but if it arises as a result of resignation of the auditor



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it shall be approved by company at general meeting convened within 3 months or recommendation of board. Such auditor shall hold office till conclusion of next annual general meeting.

b. Casual vacancy in case of Government Company shall be filled by Comptroller and Auditor General within 30 days if he fails to fill the vacancy, the board shall fill the vacancy within next 30 days.

## **7.Reappointment of a retiring auditor [sec 139 (9)]:**

Such an auditor can be reappointed at annual general meeting if.

- a. He is not disqualified for reappointment.
- b. He has not given notice to company of his unwillingness.
- c. A special resolution has not been passed at annual general meeting appointing some other person or providing expressly that he shall not be reappointed.

## **Remuneration of an Auditor (sec 142)**

1. The remuneration of the Auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein.
2. The Remuneration under sub section (1) shall, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the facility extended to him but does not include any remuneration paid to him by any other services rendered by him at the request of the company.

## **Removal, Resignation of an Auditor**

1. The Auditor appointed under section 139 may be removed from his office before expiry of his term only by a special resolution of the company after obtaining the previous approval of the central Government.
2. The Auditor who resigns from the company shall file within a period of thirty days from the date of resignation, a statement in a prescribed form with the company and registrar, the auditor shall also file such statement with the comptroller and auditor –general indicating the reasons and other facts as may be relevant with regard to his resignation.

## **Rights of an Auditor**

### **❖ AUDITOR'S RIGHTS**

Auditor has been given certain rights which will help to diligently and honestly discharge his duties, such rights are as follows:



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## **(1) Right to Inspect Books of Account and Documents :**

According to Section 227(1) of the Companies' Act, every auditor of a company shall have a right of access, at all times, to the books, accounts and vouchers of the company. The books may be kept at the head office of the company or elsewhere but the auditor can have access to them at any place. According to the above provisions the auditor has a right to go and examine books at the times i.e. at any time he likes during business hours. He can also conduct a surprise visit and verify the cash on hand and investments.

The books of accounts include all the accounting books like Cost Accounting records, accounting books, including memoranda, articles, minutes, stock registers or vouchers etc. They also include contracts, bills, vouchers, receipts etc.

The auditor should inspect all the accounting records, vouchers at any time during office hours on working days. According to law, auditor has a right to examine books, accounts and vouchers at any time, but he cannot get any help from the court, if he is refused by the directors to access the books. In the case of Cuff Ws. London and Count- Land Building Co., the directors refused to the auditor who was charged with negligence, an access to books, accounts etc. The auditor moved the court to order the directors to allow him to access books, accounts etc. The court refused to do so. On the ground that it was a matter of internal management for which the general meeting must be called to know their wishes.

## **(2) Right to obtain information and Explanation :**

The auditor can ask from the officers of the company such information and explanation as he may think necessary for performance of his duties as an auditor. If he refused to be provided with information and explanation, then he should clearly specify this fact in his report.

## **(3) Right related to General Meetings :**

Under Section 231, of the Companies Act, the auditor is entitled to receive all notices of general meetings of a company just like the other members. An auditor can also attend any general meeting. But it is not inevitable for the auditor to attend general meetings. It is



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desirable that the auditor attends the general meeting if he has mentioned his criticisms in the report so that he can make the shareholders aware and clarify the act. In certain circumstances, it would be in his interest to attend the meetings.

The auditor is not liable to answer any queries put in front of him unless and until he does not receive any instructions from the chairperson. The auditor has a right to express his views, statements in writing in front of the company regarding the procurement of notice, the appointment of new auditor in place of existing order. If the company is not able to said the written statement or if the written statement is received late, then the auditor is granted consent to read it in the general meeting. But such a statement should not be false and unfair.

#### **(4) Right to be heard at the meeting :**

The auditor has not only the right to attend the meeting, but he has a right to make any statement on any part of the business which concerns him as an auditor. He has a right to make classification on any point regarding accounts that he has examined. He is not bound to give replies to any question raised in the meeting, except when the chairman asks him to give reply to any question.

#### **(5) Right to get expert advice :**

The auditor has a right to Seek opinions of experts in various fields whenever he feels necessary as he is not an expert in all the areas. The auditor should provide his own views and statements. Case of London and General Bank Ltd.

#### **(6) Right to receive remuneration :**

Generally, the authority who has appointed the auditor has the .power to decide his remuneration. The auditor has a right to receive his remuneration. In the case of Homer V/s Kivalter, it was stated that the auditor is entitled to receive the full amount of annual remuneration decided in advance even if he relived from his duties from middle of year.





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## **(7) Right to be indemnified:**

For many purposes, an auditor is considered to be an officer the company. An officer has a right to be indemnified out of the assets of the company against any liability.

## **(8) Right to inspect books and asset at branches:**

The auditor is also entitled to visit the asset at branches and books of account of the company. However, if a qualified auditor audits the accounts of the branch, he can get copies of the accounts certified by the branch auditor, and always has access over such documents. The auditor has no statutory right to visit foreign branches.

## **(9) Auditor's right of lien (Right to keep possession of audit working papers, correspondence with client and correspondence with third party)**

The **auditor** can exercise his **lien** on client's books and records subject to the following conditions: (a) Document retained must belong to the client who owes the money. authority. (c) Some work must have been done and fees for work performed must be outstanding.

## **Duties of the Auditor**

The duties of an auditor have been laid down by the Companies Act, 2013, provided in Section 143. The Act explains the duties in a simplified manner, although the list given is not exhaustive.

### **1. Prepare an Audit Report**

An audit report, in simple terms, is an appraisal of a business's financial position. The auditor is responsible for preparing an audit report based on the financial statements of the company. The books of accounts so examined by him should be maintained in accordance with the relevant laws. He must ensure that the financial statements comply with the relevant provisions of the Companies Act 2013, relevant Accounting Standards etc. In addition to this, it is imperative that he ensures that the entity's financial statements depict a true and fair view of the company's financial position.



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## 2. Form a negative opinion, where necessary

The auditor's report has a high degree of assurance and reliability because it contains the auditor's opinion on the financial statements. Where the auditor feels that the statements do not depict a true and fair view of the financial position of the business, he is also entitled to form an adverse opinion on the same. Additionally, where he finds that he dissatisfied with the information provided and finds that he cannot express a proper opinion on the statements, he will issue a disclaimer of opinion. A disclaimer of opinion basically indicates that due to the lack of information available, the financial status of the entity cannot be determined. However, it is to be noted that the reasons for such negative opinion is also to be specified in the report.

## 3. Make inquiries

One of the auditor's important duties is to make inquiries, as and when he finds it necessary. A few of the inquiries include:-

- Whether loans and advances made on the basis of security are properly secured and the terms relating to the same are fair.
- Whether any personal expenses (expenses not associated with the business) are charged to the Revenue Account.
- Where loans and advances are made, they are shown as deposits.
- Whether the financial statements comply with the relevant accounting standards

## 4. Lend assistance in case of a branch audit

Where the auditor is the branch auditor and not the auditor of the company, he will lend assistance in the completion of the branch audit. He shall prepare a report based on the accounts of the branch as examined by him and then send it across to the company auditor. The company auditor will then incorporate this report into the main audit report of the company. In addition to this, on request, if he wishes to, he may provide excerpts of his working papers to the company auditor to aid in the audit.



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## 5. Comply with Auditing Standards

The Auditing Standards are issued by the Central Government in consultation with the National Financial Reporting Authority. These standards aid the auditor in performing his audit duties with relevant ease and accuracy.

It is the duty of the auditor to comply with the standards while performing his duties as this increases his efficiency comparatively.

## 6. Reporting of fraud

Generally, in the course of performing his duties, the auditor may have certain suspicions with regard to fraud that's taking place within the company, certain situations where the financial statements and the figures contained therein don't quite add up. When he finds himself to be in such situations, he will have to report the matter to the Central Government immediately and in the manner prescribed by the Act.

## 7. Adhere to the Code of Ethics and Code of Professional Conduct

The auditor, being a professional, must adhere to the Code of Ethics and the Code of Professional Conduct. Part of this involves confidentiality and due care in the performance of his duties. Another important requisite is professional scepticism. In simple words, the auditor must have a questioning mind, must be alert to possible mishaps, errors and frauds in the financial statements.

## 8. Assistance in an investigation

In the case where the company is under the scope of an investigation, it is the duty of the auditor to provide assistance to the officers as required for the same.

Hence, it can be seen that the duties of the auditor are pretty diverse, it has an all-round and far-reaching impact. The level of assurance provided by a set of audited financial statements is comparatively far higher as compared to regular unaudited financial statements.



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## Types and classes of Auditors

**(1) Joint auditor:** Joint audit is one of the means that creates an audit regime that better addresses the risk of overstated accounts or masked poor performance of organisations remaining undetected.

In India, joint audit is not as such mandatory. The Companies Act 2013 only provides liberty to the shareholders that they may choose to get the audit of their company conducted by joint auditors. It is often mandated for state-owned enterprises by the regulator or the office of the Comptroller and Auditor General of India or banks and insurance companies for that matter. The Indian Accounting Regulator, i.e., the Institute of Chartered Accountants (ICAI) has issued Standards on Auditing (SA) 299, Responsibility of Joint Auditors which deals with division of work, coordination, and relationship among joint auditors and reporting responsibilities.

The responsibilities of joint auditors vary depending upon the nature of the assignment. For example, with respect to the audit on Internal Financial Control over Financial Reporting, ICAI has reiterated the fact that the auditor needs to follow the requirements of SA 299 with respect to division of work, coordination, relationship among joint auditor and reporting responsibilities. Further, ICAI with respect to fraud reporting in case of joint audit has stated that in case of a suspected offence involving fraud against the company by its officers or employees is identified/noted by one of the joint auditors, such joint auditor should communicate the same to the other joint auditor(s) to enable them to consider and evaluate if the same could exist in the areas/account balances audited by them and each of the joint auditor should individually comply with the required procedures accordingly.

**(2) Branch Audit:** The Central Government may, by order, declare that in the case of any company, any establishment carrying on either the same or substantially the same activity as that carried on by the head office of the company, or any establishment engaged in any production, processing or manufacture, shall not be treated as a branch office of the company for all or any of the purposes of the Companies Act, 1956. [Section 8] Appointment of auditor for branch office in India: Where a company has a branch office, the accounts of that office shall be audited by the company's auditor appointed under



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section 224 or by a person qualified for appointment as auditor of the company under section 226.

**Appointment of auditor of branch office situated outside India:** In case a company has a branch office and branch office is situated outside India, the accounts of such office shall be audited by any of the following persons:— (a) company's auditor, or (b) a person qualified for appointment as auditor of the company under section 226, or (c) an accountant duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of the country.

**Right of company's auditor in relation to branch audit:** Where the accounts of any branch office are audited by a person other than the company's auditor, the company's auditor— (a) shall be entitled to visit the branch office, if he deems it necessary to do so for the performance of his duties as auditor; and (b) shall have a right of access at all times to the books and accounts and vouchers of the company maintained at the branch office.

### **(3) Cost Auditor:**

#### ***Rights and Powers of a Cost Auditor:***

According to Section 233B (4) of the Companies Act, 1956, the cost auditor 'shall have the same powers and duties in relation to an audit conducted by him under this section as an auditor of a company has under Section 227(1) and such auditor shall make his report to the Central Government in such form and within such time as may be prescribed and shall also at the same time forward a copy of the report to the company'.

Thus, the cost auditor has the same rights and powers as that of a financial auditor.

#### **The rights and powers of a cost auditor may be summarised as follows:**

1. A right of access at all times to the books of accounts and vouchers of the company, whether kept at the head office of the company or elsewhere.
2. A right to require and receive from the officers of the company such information and explanations as he may think necessary for the successful performance of his duties as a cost auditor of a company.
3. A right to visit branch offices and factories of a company, and to receive proper returns there from as may be necessary for the conduct of his cost audit.



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4. A right to receive such cost accounting records, cost statements and other books and papers as would be necessary for cost audit within 90 days of the financial year of the company.
5. A right to seek and enjoy assistance and facilities from the company so that he can successfully complete his audit.
6. A right to receive remuneration from the company for his function as a cost auditor.
7. A right to receive notice and to attend the general meeting of the company.
8. A right to have technical and legal advice whenever necessary in connection with his work of cost audit.
9. A right to sign on the cost audit report and a right to send his report to the Central Government as well as to the company.

### **Duties of a Cost Auditor:**

The provisions of the Companies Act, the Cost Audit (Report) Rules, the Cost and Works Accountants Act and Regulations, and the different laws that are applicable on a particular company or companies govern the duties of a Cost Auditor.

### **The duties may be described as follows:**

1. He should submit his Cost Audit Report to the Central Government within one hundred and eighty days from the end of the company's financial year to which such report relates, and a copy of the said report to the company.
2. He should clearly state, in his report, that:
  - (a) He has obtained all the information and explanations relating to the cost accounts which to the best of his knowledge and belief were necessary for the purposes of the cost audit.
  - (b) Proper cost accounting records as required under the relevant Cost Accounting (Records) Rules have been kept by the company.
  - (c) Proper returns adequate for the purpose of his cost audit have been received from the branches not visited by him.
  - (d) The books and records kept by the company give the information in the manner required by the Companies Act, and



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(e) In his opinion the company's cost accounting records have been properly kept so as to give a true and fair view of the cost of production, processing, manufacturing or mining activities, and marketing of the product.

3. He should also qualify his report to the extent it differs, where he is not satisfied with any of the provisions stated above.

4. He should, if he considers it necessary after submission of his report, submit a supplementary report, to the Central Government before the date fixed for folding the annual general meeting of the company, limited to the extent of reconciliation of the cost statements with the company's financial accounts.

5. He should assist the Government in the latter's investigation process being launched for the purpose of examining the affairs of the company.

6. He should keep records of various errors or omissions and commissions done by the client staff.

7. He should give necessary advice to the company about the irregularities in the maintenance and recording of cost accounts books and statements.

8. He should understand and appraise the company's policies and procedures and systems adopted for the purpose of controlling wastages and inefficiencies.

9. He should see and ensure what other exceptional duties are cast upon him by the Articles of the company.

10. He should owe his duty of care primarily to the company, act honestly and sincerely and maintain the secrecy and confidentiality of his client, and

11. Lastly, he has a continuing duty to maintain his professional knowledge and skill at a level conducive to act as a cost auditor competently.

**(4) Special Auditor:** Under Section 233A of the Companies Act, 1956 where the Central Government is of the opinion that the affairs of the company are not being managed in accordance with sound business principles or prudent commercial practices or that any company is being managed in a manner likely to cause serious injury or damage to the interests of the trade, industry or business to which it pertains or that the financial position of any company is such as to endanger its solvency, the Central Government might by the same or different order direct that a special audit of the company's accounts for such



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period or periods as may be prescribed in the order, shall be conducted and may by the same or by different order appoint either a Chartered Accountant as defined in clause (b) of sub section (1) of Section 2 of Chartered Accountants Act, 1949 or the company's auditor himself to conduct such special audit.

The special auditor appointed by the Central Government under Section 233A of the Companies Act, has the same power and duties in relation to special audit as an auditor of a company under Section 227 of the Companies Act. The only difference is that in spite of making his report to the members of the company the special auditor submits its report to the Central Government.

Section 233B of the Companies Act provides that where in the opinion of the Central Government it is necessary so to do in relation to any company required under Section 209 to include in its books of account the particulars referred to therein, the Central Government might by order direct that an audit of cost accounts of the company shall be conducted in such manner as may be specified in the order by an auditor who shall be a Cost Accountant within the meaning of the Cost and Works Accountants Act, 1959. If the Central Government in the opinion those sufficient numbers of Cost Accountants are not available for conducting the audit of cost accounts of companies then a Chartered Accountant may be directed to conduct the audit of the cost accounts of the company.





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## UNIT: 4 CORPORATE GOVERNANCE

### ❖ Corporate Governance

- Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.
- Conduct of business in accordance with shareholders desires (maximising wealth) while confirming to the basic rules of the society embodied in the Law and Local Customs
- Relationships among various participants in determining the direction and performance of a corporation.
- Effective management of relationships among
  1. Shareholders
  2. Managers
  3. Board of directors
  4. employees
  5. Customers
  6. Creditors
  7. Suppliers
  8. Community

### ❖ Corporate Governance in India

Concept of corporate Governance in India is not very old. For the first time, the CII had set up a task force under Rahul Bajaj in 1995. On the basis of this CII had released a voluntary code called “*Desirable Corporate Governance*” in 1998. SEBI had also established few committees towards corporate governance of which the notable are Kumarmanlagam Birla report (2000), Naresh Chandra Committee (2002) and Narayana Murthy Committee (2002). While Kumarmangalam Birla committee came up with mandatory and non-mandatory requirements, **Naresh Chandra committee** extensively covered the statutory auditor-company relationship, rotation of statutory audit firms/partners, procedure for appointment of auditors and



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determination of audit fees, true and fair statement of financial affairs of companies. Further, **Narayan Murthy Committee** focused on responsibilities of audit committee, quality of financial disclosure, requiring boards to assess and disclose business risks in the company's annual reports.

## What Is The Purpose Of Corporate Governance? What Are Its Benefits?

### Positive Impacts of Corporate Governance in Companies

A good corporate governance system:

- Ensures that the management of a company considers the best interests of everyone;
- Helps companies deliver long-term corporate success and economic growth;
- Maintains the confidence of investors and as consequence companies raise capital efficiently and effectively;
- Has a positive impact on the price of shares as it improves the trust in the market;
- Improves control over management and information systems (such as security or risk management)
- Gives guidance to the owners and managers about what are the goals strategy of the company;
- Minimizes wastages, corruption, risks, and mismanagement;
- Helps to create a strong brand reputation;
- Most importantly – it makes companies more resilient.

### ▪ Why Corporate Governance?

- ☐ Better access to external finance
- ☐ Lower costs of capital – interest rates on loans
- ☐ Improved company performance – sustainability
- ☐ Higher firm valuation and share performance
- ☐ Reduced risk of corporate crisis and scandals



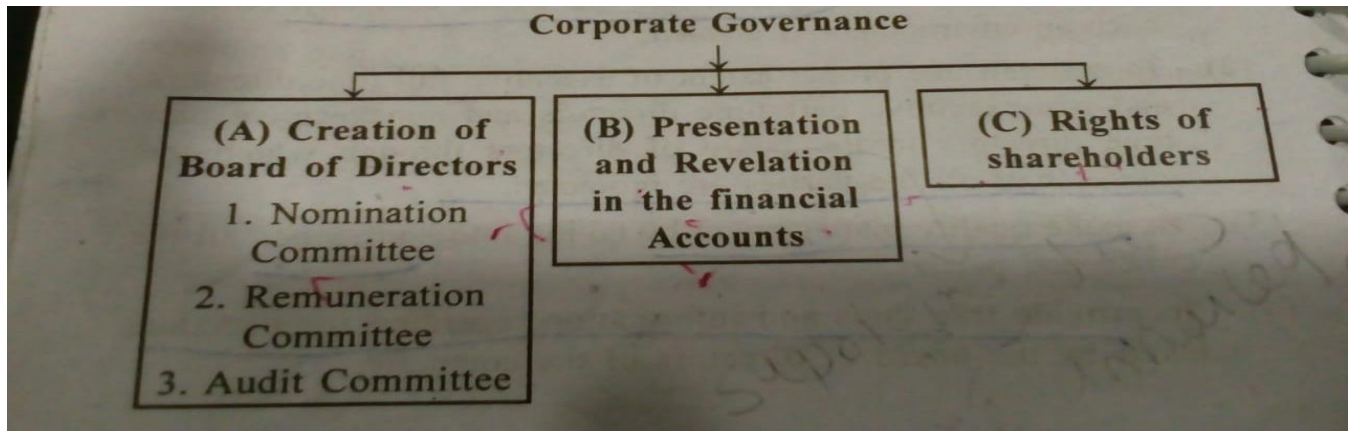
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## Matters included in corporate governance(M.IMP)



## What Is a Nomination Committee?

The term nomination committee refers to a committee that acts as part of an organization's corporate governance. A nomination committee evaluates a firm's board of directors and examines the skills and characteristics required of board candidates. Nomination committees may also have other duties, which vary from company to company.

### **KEY TAKEAWAYS**

- A nomination committee is a committee that acts as part of an organization's corporate governance.
- The committee evaluates a firm's board of directors and examines the skills and characteristics required of board candidates.
- They are often made up of the chairman of the board, the deputy chairman, and the company's CEO.

## Audit Committees

The key roles and responsibilities of the audit committee are to ensure, on behalf of the Board of Directors, that the external and internal auditors are qualified and independent; to review the company's financial statements and auditor's report; to review and monitor the effectiveness of the company's internal controls and of its internal control self-assessment process; and to coordinate internal control audits and other related matters. The audit



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committee also plays a key role in ensuring the board of directors is accountable to the company's stakeholders.

## **Audit Committee Structure**

In Mainland China, according to the Code of Corporate Governance for Listed Companies, listed companies' boards of directors should establish an audit committee. Audit committee members are composed of members of the company's board of directors and independent directors should account for the majority of the committee's members. Each audit committee should contain at least one independent director with relevant professional qualification in accounting.

## **The work of the Audit Committee**

According to the Code of Corporate Governance for Listed Companies, audit committees are responsible for the following activities:

1. Proposing to hire or replace the external auditor;
2. Monitoring the company's internal audit policies and their implementation;
3. Coordinating communication between internal and external auditors;
4. Reviewing the company's financial information and disclosure;
5. Reviewing the company's internal control policies.

## **Remuneration committee**

The main role of the Remuneration Committee is to assist and advise the Board on matters relating to the remuneration of the Board and senior management, in order to motivate and retain executives and ensure that the Company is able to attract the best talents in the market in order to maximise shareholder value.

## **Shareholder rights and takeover provisions**

Investors should consider shareholder rights as a key element of good governance as well. For example:

- Do all shareholders hold equal voting rights or is one share class advantaged over the other?



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Multiple shares/classes do not necessarily indicate poor governance, but they are a factor to consider. In the information technology sector, for example, it is common for company founders and insiders to hold shares that have greater voting rights than outside investors.

- Do shareholders have access to place proposals on proxy ballots or nominate directors?

A company's record of dealing with shareholder proposals that receive a majority of votes may also be an indicator of how a company deals with its shareholders.

- What actions can a board take without shareholder approval, such as amending company bylaws?
- **Are there plans in place, such as poison pills, that can make it difficult for a company to be acquired? How is management rewarded in the event of a takeover?**

Takeover provisions should be reviewed and shareholders should have adequate rights to vote on these provisions.

## Four Pillars of Corporate Governance

- ☐ Accountability
- ☐ Fairness
- ☐ Transparency
- ☐ Independence

### **Accountability**

- ☐ Ensure that management is accountable to the Board
- ☐ Ensure that the Board is accountable to shareholders
- ☐ Protect Shareholders rights
- ☐ Treat all shareholders including minorities, equitably
- ☐ Provide effective redress for violations

### **Transparency**

Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate governance.



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## **Independence**

- ☐ Procedures and structures are in place so as to minimize, or avoid completely conflicts of interest
- ☐ Independent Directors and Advisers i.e. free from the influence of others

## **Elements of Corporate Governance**

- ☐ Good Board practices
- ☐ Control Environment
- ☐ Transparent disclosure
- ☐ Well-defined shareholder rights
- ☐ Board commitment

## **The Objectives Of Corporate Governance**

Transparency in corporate governance is essential for the growth, profitability and stability of any business. The need for good corporate governance has intensified due to growing competition amongst businesses in all economic sectors at the national, as well as international level.

The **Indian Companies Act of 2013** introduced some progressive and transparent processes which benefit stakeholders, directors as well as the management of companies. Investment advisory services and proxy firms provide concise information to the shareholders about these newly introduced processes and regulations, which aim to improve the corporate governance in India.

Corporate advisory services are offered by advisory firms to efficiently manage the activities of companies to ensure stability and growth of the business, maintain the reputation and reliability for customers and clients. The top management that consists of the board of directors is responsible for governance. They must have effective control over affairs of the company in the interest of the company and minority shareholders. Corporate governance ensures strict and efficient application of management practices along with legal compliance in the continually changing business scenario in India.

## **Clause 49 of SEBI Listing Agreement**



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As a major step towards codifying the corporate governance norms, SEBI enshrined the Clause 49 in the Equity Listing Agreement (2000), which now serves as a standard of corporate governance in India. With clause 49 was born the requirement that half the directors on a listed company's board must be Independent Directors. In the same clause, the SEBI had put forward the responsibilities of the Audit Committee, which was to have a majority Independent Directors.

Clause 49 of the Listing Agreement is applicable to companies which wish to get themselves listed in the stock exchanges. This clause has both mandatory and non-mandatory provisions. Key Mandatory provisions are as follows:

- Composition of Board and its procedure – frequency of meeting, number of independent directors, code of conduct for Board of directors and senior management;
- Audit Committee, its composition, and role
- Provision relating to Subsidiary Companies
- Disclosure to Audit committee, Board and the Shareholders
- CEO/CFO certification
- Quarterly report on corporate governance
- Annual compliance certificate

Key Non-mandatory provisions include the following:

- Constitution of Remuneration Committee
- Training of Board members
- Peer evaluation of Board members
- Whistle Blower policy

In 2014, the clause 49 was amended to include Whistleblower policy as mandatory provision.

Corporate governance was guided by **Clause 49** of the Listing Agreement before introduction of the Companies Act of 2013. As per the new provision, SEBI has also



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approved certain amendments in the Listing Agreement so as to improve the transparency in transactions of listed companies and giving a bigger say to minority stakeholders in influencing the decisions of management. These amendments have become effective from 1st October 2014.

## A Few New Provision for Directors and Shareholders

- One or more women directors are recommended for certain classes of companies
- Every company in India must have a resident director
- The maximum permissible directors cannot exceed 15 in a public limited company. If more directors have to be appointed, it can be done only with approval of the shareholders after passing a Special Resolution
- The Independent Directors are a newly introduced concept under the Act. A code of conduct is prescribed and so are other functions and duties
- The Independent directors must attend at least one meeting a year
- Every company must appoint an individual or firm as an auditor. The responsibility of the Audit committee has increased
- Filing and disclosures with the Registrar of Companies has increased
- Top management recognizes the rights of the shareholders and ensures strong co-operation between the company and the stakeholders
- Every company has to make accurate disclosure of financial situations, performance, material matter, ownership and governance

## Additional Provisions

- **Related Party Transactions** – A Related Party Transaction (RPT) is the transfer of resources or facilities between a company and another specific party. The company devises policies which must be disclosed on the website and in the annual report. All these transactions must be approved by the shareholders by passing a Special Resolution as the Companies Act of 2013. Promoters of the company cannot vote on a resolution for a related party transaction.
- **Changes in Clause 35B** – The e-voting facility has to be provided to the shareholder for any resolution is a legal binding for the company.





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- **Corporate Social Responsibility** – The company has the responsibility to promote social development in order to return something that is beneficial for the society.
- **Whistle Blower Policy** – This is a mandatory provision by SEBI which is a vigil mechanism to report the wrong or unethical conduct of any director of the company.

## Why is Corporate Governance in India Important?

A company that has good corporate governance has a much higher level of confidence amongst the shareholders associated with that company. Active and independent directors contribute towards a positive outlook of the company in the financial market, positively influencing share prices. Corporate Governance is one of the important criteria for foreign institutional investors to decide on which company to invest in.

The corporate practices in India emphasize the functions of audit and finances that have legal, moral and ethical implications for the business and its impact on the shareholders. The Indian Companies Act of 2013 introduced innovative measures to appropriately balance legislative and regulatory reforms for the growth of the enterprise and to increase foreign investment, keeping in mind international practices. The rules and regulations are measures that increase the involvement of the shareholders in decision making and introduce transparency in corporate governance, which ultimately safeguards the interest of the society and shareholders.

Corporate governance safeguards not only the management but the interests of the stakeholders as well and fosters the economic progress of India in the roaring economies of the world.



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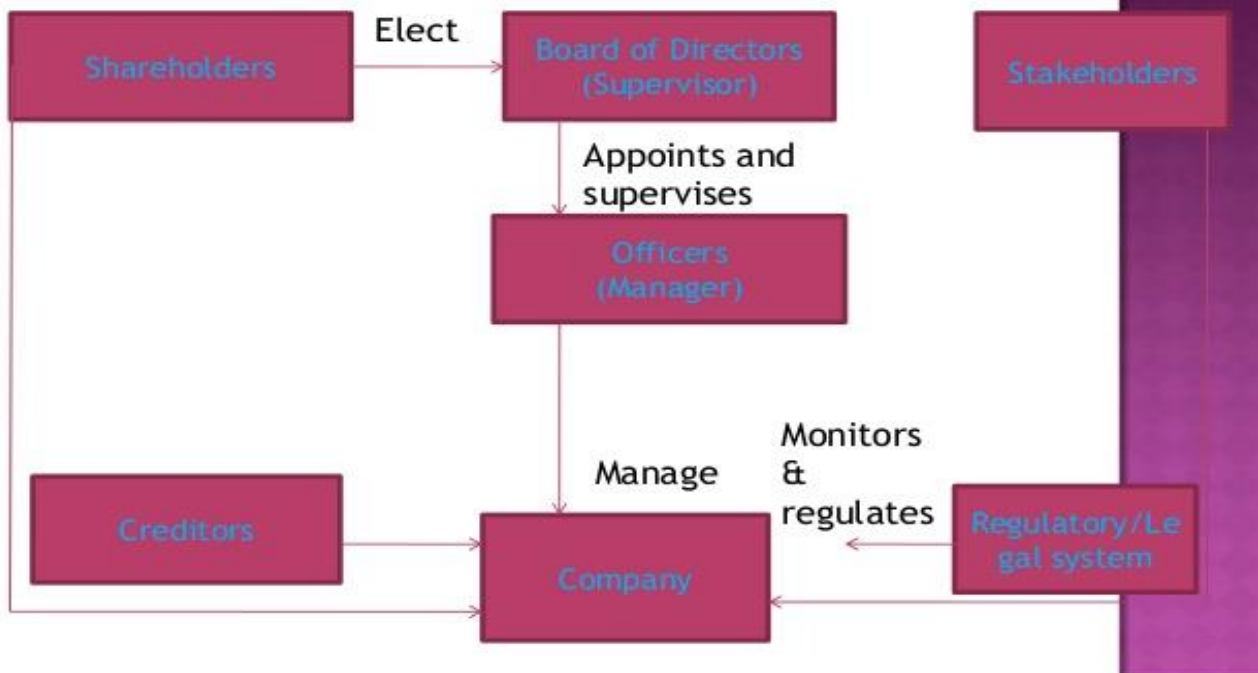
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## Corporate Governance Model:

### THE-ANGLO AMERICAN MODEL





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# B.COM. SEM – 5 INDIAN ECONOMY-1

UNIT NO.	UNIT NAME
1	INDIAN AND INTERNATIONAL BUSINESS ENVIRONMENT
2	THE DIFFERENT ECONOMIC INDICATORS
3	PROBLEMS OF ECONOMIC DEVELOPMENT IN THE CONTEXT OF INDIA
4	POVERTY



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## UNIT 1 INDIAN AND INTERNATIONAL BUSINESS ENVIRONMENT

**Topic: Traditional and modern concepts of business. Explain the objectives of business.**

### **(A) Business:**

- The word 'Business' literally means '**a state of being busy**'.
- All economic activities undertaken with a view to **earn profit** is business.
- Thus, the **satisfaction of human wants** can be term as business.

Business has got two concepts, they are:

- a) **Traditional concepts:** The traditional concepts explains that the business of business is to **earn profit through production and marketing** of products may be of different types for example physical goods, services, ideas and **maximize only profit** as per traditional concepts
- b) **Modern concepts: consumer satisfaction** is the central point of modern concepts of business. **Profit can be earned by maintaining social responsibility.** It strives to include every aspects of human civilization. It views the modern business as a **socio-economic institution** which always **responsible towards the society.**

### **(B)Detailing:**

#### **Business:**

In literal sense, business is that which keeps person busy. In economic sense, the meaning of business can be: **“The economic activity regarding Production and distribution of goods and services for the mutual welfare is called business.”**

The activity that is carried out for **earning money or income** is called business. From this point of view, all economic activities can be called business. This also means that non-economic activities like resting, entertainment, Sports cannot be called business.

#### **Traditional concept of business:**

According to traditional concept, business is an activity with a **purpose of profit making** through the services of the customers. Business activity is divided into two parts:



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- (1) The activity of **Production of goods and services** can be called '**industries**'.
- (2) **Distribution of produced goods and services**. It can be called '**trade**'.

The traditional concept of business was that the business of business is **Profit**. Thus, the main objective of business was to make **maximum profit**. Business itself was the end and profit was the only determinant of the success of business enterprise.

### **Modern concept of business:**

With the change of time and circumstances, the modern concept of business has changed. The modern business enterprise is a **social and economic institution**. Business itself is not considered an end. It is an important means of achievement of end. In modern time, **public interest and human welfare is the end** and the **business is a means of attaining these ends**.

Business touches every aspect of human life. That is the reason why it can be said that business means **all activities of human beings that involve Production, distribution and exchange of goods and services to satisfy individual customers and requirements of entire society**. The purpose of business is not merely to earn money but to secure customers. No business can earn profit for a long time at the cost of interest of society. Such business cannot sustain or last long.

### **The objectives of business:**

According to the modern concept of business, to **get customers and to maintain touch with them is the main objective** of business. Society provides factors and means to business enterprise that can create wealth for the entrepreneur. The business enterprise must prove that its existence is necessary and inevitable in the society. To do that it must have some objectives or purposes. They can be presented in the following points:

#### **(1) To provide essential things to people:**

A business enterprise has an objective of **providing essential things and services to the people at reasonable rates**. To sustain its existence, the business Unit must continuously Endeavour to perform this role.

#### **(2) Creation of employment opportunities:**

The objective of modern business enterprise is to create new employment opportunities. Along with providing opportunities for employment, it is **also expected that human relationships are maintained with all brokers and laborers who are involved in the**



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**business enterprise.** This provides encouragement to and motivation to the workers for more efficiency and Productivity. The **smooth and congenial relationship between employer and employees is very vital** in business enterprise.

### (3) Motivation to laborers/workers for work:

Motivation to laborers/workers for work is an important objective of a business enterprise. It is necessary that **employees and other workers are satisfied economically so that they are motivated to work sincerely.** For this, **proper wages, adequate opportunity for promotion, bonus, share in profit, security at work place, social security** are quite necessary.

### (4) The objective of profit:

Profit is a driving force behind all business enterprise. It is natural to expect reasonable profit for investment in business. Profit becomes **necessary for the existence and development of business.** The efficiency of a business unit whether it is in private sector, public sector or joint sector can be measured through profit only. In the same way, profit is an **important measuring rod of efficiency of unit.** A business venture must try to earn profit by saving the customers. **No business can ever earn profit if it is indifferent towards satisfaction of the customers.**

### (5) Social Purpose:

A business enterprise has certain social purpose also, e.g.

- (1) To **provide goods and services** to the people (society) at **reasonable rates**
- (2) To **provide quality** goods and services to the society.
- (3) To see that a business unit **does not pollute air, water** and whatever it functions. It must **not create noise pollution** also. It must also help people to improve the quality of their life.
- (4) To **provide financial assistance** for **social development** and other **welfare-oriented schemes and projects.**
- (5) To **pay local taxes, State taxes and Central government taxes** so that it can create an image of an honest and reputed business house.

### (C) One Word question answers:

Sr.No	Question	Answer
1	The word _____ literally means 'a state of being busy'.	Business
2	All _____ activity undertaking with a view to earn profit thus the	Economic



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	satisfaction of human wants can be term as a business.	
3	_____is the central point of modern concepts of business	consumer satisfaction
4	No business can earn profit for a long time at the cost of interest of _____.	Society
5	_____provides factors and means to business enterprise that can create wealth for the entrepreneur	Society
6	A business enterprise has an objective of providing essential things and services to the people at _____ rates.	Reasonable
7	The objective of modern business enterprise is to create new _____ opportunities.	Employment
8	It is necessary that employees and other workers are satisfied economically so that they are _____ to work sincerely.	Motivated
9	_____ becomes necessary for the existence and development of business.	Profit
10	_____ must also help people to improve the quality of their life.	Business

**Topic: Give definition of business and discuss the characteristics of Modern Business.**

**(OR)**

**Explain the concepts of modern business and discuss its characteristics.**

**(A) Business:**

- The word '**Business**' literally means '**a state of being busy**'.
- All economic activities undertaking with a view to earn profit and which satisfies human wants can be term as business.

**(B)Detailing:**

**Characteristics of Modern Business:**

The characteristics of modern business are as follows:

**(1) Business is an economic activity of human beings:**

Human activities can be divided into two parts - economic and non-economic activities. Business can be called **economic activity of human beings**. Non-economic activity is not included in business. Man earns income through business. He makes profit and therefore it becomes his economic activity.



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## (2) Business creates utility in goods:

To **create utility** in goods and services or **to add utility** in them can be called business.

Utility

Can be created or added by **changing form, color, size, place, usefulness etc.** to goods or Services. Sometimes the change of ownership also creates utility. Thus, business creates utility

in goods or services or increases utility in them.

## (3) Business is a system:

All activities of business are affected by business environment. Therefore, the business has to be organized as a **system or method which makes optimum co-ordination of all factors of Production, organizations, institutions and environment.** From this angle, it can be called business.

## (4) Business is connected with society:

Business satisfies the needs of society regarding goods and services. Business becomes **useful in improving the standard of living of the people of society.** Therefore modern business is called **socio-economic institution.** Business **cannot function out of the society or with complete isolation from society.**

## (5) In business, mutual interests are involved:

A **businessman earns money as profit** while **customers get satisfaction through commodities and services they buy.** Thus, both sellers and buyers have **mutual interests** in business.

## (6) Business creates demand:

Business places **new Products** in the market through **innovation** e.g. Color TV, flat TV, mobile phone instead of land line phones, digital TV etc. In the beginning, there is no demand for such things on account of lack of knowledge or information regarding these goods, then **demand is created through advertisements,** advertisements are made for their publicity. Thus, as time passes and consumers becomes aware, demand for such goods increases. Thus, modern business creates demand too.

## (7) Continuous Production or exchange of goods or services in business:

In business, there is continuous Production of goods and services. Thus, there is continuous exchange of goods or services. Thus, a business can be called **continuous economic activity.**





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### (8) There is element of risk in business:

In every business, there is an element of risk. **Uncertainty prevails in business due to risk.** In modern business, there is more risk and uncertainty. But the businessman is ready to **face uncertainty and risk in order to earn profit.**

### (9) Wider scope of business in modern time:

In modern time, business has become quite wide. It has become a widespread economic activity. It includes many commercial and financial activities starting from Production of goods to distribution. It include **activities like trade, transport, communication, banking, insurance, warehousing, packing, advertisement etc.** In modern business, **Research and Development (R&D) and computer services are also included.**

### (10) Modern business is capital-oriented and knowledge-oriented:

Modern business is capital-oriented and knowledge-oriented. It requires **capital on a large scale.** Modern business runs with the help of modern technology. The **knowledge of technology becomes useful** in it. Therefore **management skill, managerial knowledge and skilled labor are required** in it.

### (11) Modern business has other purposes in addition to profit:

Modern business is not merely confined to profit making motive. It has **several social objectives** also. For example, it has objectives like **improvement of the quality of life of the people; to provide financial aid for social development and social welfare.** It also provides 'social security schemes' for the laborers.

### (12) Characteristics of modern business:

- (1) In modern business, a **customer is supreme.** Thus, business has become **consumer-centered.**
- (2) In modern business, **optimization of opportunities** is more important than optimization of profit.
- (3) **Knowledge** is considered as a **special resource** for business.
- (4) **Marketing and innovation** in business are considered important functions of an entrepreneur
- (5) Modern business has become **pluralistic** institution.



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## (C)One Word question answers:

Sr.No	Question	Answer
1	In modern business, a customer is supreme. Thus, business has become _____centered.	Consumer
2	In modern business, optimization of _____is more important than optimization of profit.	Opportunities
3	Modern business is not merely confined to profit making motive, but it has several _____objectives also.	Social
4	Modern business is capital-oriented and _____oriented	Knowledge
5	A businessman earns money as profit while customers get _____through commodities and services they buy	Satisfaction
6	Business places new Products in the market through _____	Innovation
7	_____can be created or added by changing form, color, size, place, usefulness etc. to goods or Services	Utility
8	Marketing and innovation in business are considered important functions of an _____	Entrepreneur

## Topic: What is Business Environment? Discuss the Characteristics of Business Environment.

### (A) Business Environment:

- The term Business Environment is composed of two words “**Business**” and “**Environment**”.
- In simple terms, the state in which a person remains busy is known as Business. The word Business in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits.
- The **elements or factors outside a business organization which directly affect it**, such as the supply of raw materials and product demand are **Environmental factors**.
- Each business operates in its unique environment. For that matter, **businesses cannot function independently of the interacting and influencing forces outside its periphery**.
- Thus, the **study of Business Environment becomes important**.



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## (B)Detailing:

### Meaning of Business Environment:

A business environment includes **all external factors and forces which have a certain degree of impact on the business actions, decisions, and strategies of the firm.** Usually, the success of a business is dependent on its environment. Businesses are **expected to identify, appraise, and respond to all threats and opportunities in their environments.** In order to survive and grow, a business must constantly monitor its environment and adapt to it.

### Definitions of Business Environment:

“Business Environment encompasses the climate’ or set of conditions, economic, social, political or institutional in which business operations are Conducted.”

- **Arthur M. Weimer**

“Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions.”

- **William Gluck and Jauch**

“Business environment is the aggregate of all conditions, events and influences that surround and affect it.”

- **Keith Davis**

“The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly”.

-**Reinecke and Schoell**

“The total of all things external to firms and industries that affect the function of the organization is called business environment.”

-**Wheeler**

### Characteristic/Features of Business Environment:

To understand the macro level concept of business environment, it is necessary to examine the following characteristics. They are as follows:



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## (1)Prevalent situation:

Business environment is a **given or prevalent condition or situation**. Business enterprise **cannot make any changes** in it. Therefore a business firm has to adjust to the business environment around it and set up and manage the business accordingly

## (2)External factor:

Business environment is an external factor for business because it is not controlled by it in any way. A business firm has a control over the things like type of goods, proportion or quantity of Production, price of commodities, advertisement cost, technology, and system of distribution or sales. A firm can make changes in them according to circumstances. Therefore, these factors can be called internal factors of business. But **business environment is an external factor**. The **firm cannot change it in any way**.

## (3)Macro level concept:

Business environment is a macro level concept because it **affects entire economy and business sector**. **No business activity can remain unaffected by its good or bad effects**. Favorable effects of business play an important role in the development of business while its unfavorable or negative effects can create obstacles in the development of business

## (4)Dynamism:

Business environment is a dynamic factor as it **changes with time and Circumstances**, In India, for example, there was a different kind of business environment before independence and now in modern time, completely different kind of business environment prevails in India. Thus, business environment **goes on changing continuously**.

## (5) Diversity:

We find **diversity** in business environment in **different places on account of time, place and circumstances**. We cannot find exactly the same kind of environment in all countries of the world. Every country has different **natural, political, social and economic circumstance**. Therefore, there is diversity in forms of business in various countries e.g. in Arab countries, oil industries have developed and in India, industries related to farm produces and consumption and capital industries have developed quite remarkably.

## (6)Other functions:

In business environment, many **economic and non-economic factors** and constituents are included. In **economic factors, the demand for goods, competition, Technology, economic**



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institution, economic policy of the Government etc., can be included. In **non-economic factors, social, cultural, religious, legal, customs and traditions, educational and health related factors are included.** Thus, both economic and non-economic factors shape and mould business environment and change the nature of business.

### (7) Group of economic activities:

Business environment is a group of many economic activities. All these economic activities create business environment. **Agriculture, industries, trade and commerce, transport and communication, banking, insurance, research and development etc. and many other economic activities create and shape business environment.** Thus the group of such economic activities determines the form and nature of business environment.

### (8) Economic System:

The business environment of a country depends upon the economic system of a country also. We find different kind of business environment in capitalist countries from the business environment in communist countries. In a country like India, we find a different kind of business environment due to its mixed economy. In India, we have adopted mixed economy; therefore, we find the mixture of elements of capitalism and socialism. **Since 1991, new economic policy has been introduced and the process of liberalization and privatization has started. Therefore, in our economy at present, public sector began to lose its importance and private sector became more dominant.** Favorable circumstances have been created for the development of private sector .As a result, in our country we find that business environment is changing rapidly.

### (9)The role of the Government according to circumstances:

In the structure and shaping of business environment, the role of the Government changing according to circumstances is a very important factor in India, **the Government makes changes and reforms in industrial policy, financial policy, fiscal policy, labor policy, import-export policy, related trade and commerce according to the prevalent economic situations.** As a result, the business environment also goes on changing. Thus changing role of the Government in economic field plays an important role in giving expected shape to business environment.



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## (C)One Word question answers:

Sr.No	Question	Answer
1	“Business environment is the aggregate of all conditions, events and influences that surround and affect it.” , definition is given by_____	Keith Davis
2	“The total of all things external to firms and industries that affect the function of the organization is called business environment”, definition is given by_____	Wheeler
3	The elements or factors outside a business organization which directly affect it, such as the supply of raw materials and product demand are _____ factors.	Environmental
4	Business environment is a _____ factor as it changes with time and Circumstances.	Dynamic
5	Both economic and non-economic factors shape and mold business environment and change the _____ of business.	Nature
6	Business environment is a _____ level concept because it affects entire economy and business sector.	Macro
7	Business environment is a _____ factor for business because it is not controlled by it in any way.	External
8	Business _____ is a given or prevalent condition or situation.	environment

## Topic: What are the main constituents/elements of Business Environment? Explain these constituents

### (A)Elements/Constituents of Business Environment:

- In business environment, many economic and non-economic constituents can be included.
- We have to study about the following constituents of business environment:
  - Demand
  - Consumption
  - Competition
  - Economic Policy
  - Legal System
  - Technology
  - Economic Institution.



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## (B)Detailing:

### Demand:

Demand is the most important constituent of all because without the demand for goods or services, no business can work. The business firm must have information regarding the demand of goods and services which it wants to produce and distribute.

The business firm must also know what factors affect the demand of commodities and services. He can then be able to understand what changes might take place in demand if these factors change. In determining Factors of demand, following main factors are included: (1) the price of the goods (2) the price of substitute or supplementary goods (3) the income of an individual or family (4) Taste, choice, habit and fashion of the individual or a family (5) Distribution of income in the society (6) Advertising cost (7) Taxation (8) the climatic conditions. In addition to all these, the form and nature of goods and their types should also be taken into consideration.

It is also necessary for the firm to have information regarding the demand of Products of the firm itself. It must also have information and knowledge whether the Product is Productive or for consumption, durable or perishable. It must know in advance whether the demand is derived or independent; whether it is for a short period or for long period. The firm must have knowledge regarding all these things because different factors affect different types of demands.

### Consumption:

In economy consumption depends on propensity for consumption and real income. The direct relationship between real income and consumption cost is called consumption function. It indicates that consumption cost depends on income. This means that consumption is a function of income. In mathematical term it can be put as follows:

$$C = F(y),$$

Consumption = Function (y means income)

Psychological law of consumption can be presented as under:

- When total income increases, total consumption also increase
- Increase in consumption is less than the increase in income
- Consumption remains less as disparity in distribution of income exists in society.



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- Consumption of rich class is less than that of the poor.
- In short, consumption remains static

In Business Environment, the consumption cost is an important element and the rise or fall in consumption affects the proportion of employment and economic development of the country.

In short, consumption remains unchanged. But in the longer run, consumption can be increased and proportion of employment can also be increased by the steps like (1) Redistribution of income in favor of the poor people in the society. (2) Increase wages in such manner that price level does not increase. (3) Implement different social security schemes. (4) Credit and loan facilities should be increased for poor class (5) the process of urbanization should be advanced in a planned manner (6) People should be made aware about utility and specialty of the Product through publicity and advertisement (7) Disparity in income can be reduced by introducing progressive taxation.

### Competition:

Competition prevailing in the market is an important constituent of business environment. Therefore the business firm must get information what kind of competition prevails in the market, because business cannot remain unaffected by competition. The business firm must know, whether perfect competition, monopoly, monopolistic competition or oligopoly prevails in the market. If perfect competition prevails in the market, the firm cannot determine the price of the Product. Therefore, it must produce goods keeping in mind the demand in the market for a particular Product. In monopoly, it can determine both the price and the quantity of Production. In monopolistic competition, the firm has monopoly over Production and sale of its own Products but it must face the competition with the firms producing substitute goods. In oligopoly, there are two types of competitions - the price competition and non-price competition. In practice usually, non-price competition is adopted Non-price competition is made in three ways:

- (1) By changing the quality of goods.
- (2) By changing the conditions of sale of goods.
- (3) By changing selling cost of goods.

The business firm can take decisions regarding the policy of Production and sales on the basis of its knowledge regarding prevalent competition in the market.





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## **Economic policy:**

The economic policy of the country makes far-reaching influences on business firm. In economic policy, various government policies affecting different fields of economy are included such as (1) Finance policy (2) Fiscal policy (3) Industrial policy (4) Agricultural policy (5) Import-Export policy (6) Policy affecting service sector in which electricity, banking, insurance, transport, communication, education and health are included.

- (1) The changes in finance policy such as bank rate, open market policy, proportion of rescue etc. affect the trade and business and industries of the country.
- (2) Fiscal policy changes like taxation, public expenditure, public debt deficit etc. affect trade and business either favorably or unfavorably.
- (3) The industrial policy is connected with development of industries and structure of industries. Therefore it affects industrial development.
- (4) Agricultural policy affects the agricultural development of the country.
- (5) Import-export policy is necessary for management of foreign trade in the country. This policy affects balance of payments, the rate of foreign exchange and its supply.
- (6) Government policy regarding services affects the fields like electricity, banking, insurance, transport, communication, education, health etc. The changes in policy of the government in regard to these services affect the trade and business in favorable or unfavorable manner.

Therefore the business firm must keep watch on the policies of the government and their changes.

## **Legal System:**

The general laws and business laws of a nation affect the business enterprises of the country too. No business can function neglecting the legal system of the country concerned. The laws related to establishment of business and planning for development be carefully studied by the business firm. Therefore, the manager of a business enterprise must have knowledge of various law business, trade and industries. He must be well-versed in labor laws, pollution related laws, foreign exchange laws, Consumer Protection Act etc. The business firms have to follow and obey these laws faithfully for smooth functioning of their business.

## **Technology:**

Technology is an important constituent connected with the Production and distribution of goods and services. Business cannot sustain itself or develop, without the use of modern technology. Competition in business can be faced by changing technology in business. In



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modern time, modern technology is used in the Production and distribution of consumption. Productive goods and also in perishable or durable goods. In such circumstances, if a business firm sticks to old, outdated technology, it cannot sustain itself in modern competition. Certain technology saves on Production cost. Certain technology improves quality and utility of goods. The business firm should harmonize both types of technologies and reduce Production cost and improve quality and utility of the goods. Any business firm that keeps on making innovative changes according to changes in circumstances and time can develop more than other business firms, which do not make innovative according to time. Thus, competition regarding technology and the use of latest technology plays an important role in the development of business.

Scientific research brings changes in technology and improved technology affects the business enterprise as a part of business of environment. Technology is inevitably connected with the development of business. Therefore, technological environment and business inevitably affects the establishment, management and development of business and industries.

### **Economic institutions:**

Economic institutions also make influence on business environment. The main economic institutions are as follows:

(1) Private property (2) Inheritance (3) Individual initiative (4) Institution of competition (5) Purpose of profit

Now let us understand each of them separately.

(1) **Private property** is owned by an individual. The state accepts its ownership lawfully. Private institutions exchange savings and investment and thus helps in improving the rate of capital creation in a country.

(2) **Inheritance** is an institution created by man. This system continues the process of economic development because it also increases Savings and Investments.

(3) **Individual initiative** means the freedom of initiative. This can be called entrepreneurship. An individual may invest some of his money in a business venture. Individual initiatives have created great companies like Reliance or Nirma. Due to individual Enterprise, new technologies introduced and new production and distribution methods are implemented



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(4) **Economic situation** with competitive basis performs very useful in economy. Competitive Institutions affect the price determination, distribution of goods, distribution of factors, efficient use of production etc. Thus, such Institutions create the atmosphere of competition in the market and helps development of Business and industries.

(5) **The purpose of profit** is very important in economy because it takes all the economic decisions on the basis of profit only. The objective of profit is helpful in taking decisions like which good should be produced, how much, where and how they should be produced etc.

Thus, the above-mentioned economic institutions affect the business Enterprises as a part of business investment. Therefore, it is necessary for the business Enterprises to remain secure about all these institutions

## (C) One word answers

Sr.no	Question	Answer
1	_____ is the most important constituent of all because without the demand for goods or services, no business can work	Demand
2	The objective of _____ is helpful in taking decisions like which good should be produced, how much, where and how they should be produced etc.	Profit
3	Competing Institutions create the atmosphere of competition in the market and helps in _____ of Business and industries.	Development
4	Due to individual initiative (Enterprise), new technologies introduced and new production and _____ methods are implemented	Distribution
5	_____ continues the process of economic development because it also increases Savings and Investments.	Inheritance
6	Scientific _____ brings changes in technology and improved technology affects the business enterprise as a part of business of environment	Research
7	Business cannot sustain itself or develop, without the use of _____	modern technology
8	Government policy regarding _____ affects the fields like electricity, banking, insurance, transport, communication, education, health etc.	Services
9	_____ policy is necessary for management of foreign trade in the country which affects balance of payments, the rate of foreign	Import-export



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	exchange and its supply.	
10	_____policy affects the agricultural development of the country.	Agricultural
11	The _____policy is connected with development of industries and structure of industries.	Industrial
12	_____policy changes like taxation, public expenditure, public debt deficit etc. affect trade and business either favorably or unfavorably.	Fiscal

**Topic: Explain the importance of business environment in national policy related decisions.**

**(A) Importance of business environment:**

- The business firm must also know what factors affect the demand of commodity and services.
- If they are aware of the factors, then they will be able to understand what changes might take place in demand, if these factors change.
- Business environment plays determining role on the nature and form of business unit as it provides necessary infrastructural facilities.

**(B)Detailing:**

**Demand as the main component of business environment:**

Demand is the most important constituent of all because without the demand for goods or services, no business can work. The business firm must have information regarding the demand of goods and services which wants to produce and distribute.

The business firm must also know what factors affect the demand of commodity and services. He can then be able to understand what changes might take place in demand, if these factors change. In determining factors of demand, following main factors are included:

1. The price of the goods
2. The price of the substitute goods
3. The income of an individual or a family
4. Taste, choice, habit and fashion of the individual or the family
5. Distribution of income in the society



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### 6. Advertising cost

### 7. Taxation

### 8. The climatic conditions

In addition to all this, the form and nature of goods and that type should also be taken into consideration

It is also necessary for the firm to have information regarding the demand of products of the firm itself. It must also have information and knowledge whether the product is for further production or for consumption, durable or perishable. It must know in advance whether the demand is derived for independent, whether it is for a short period or for long period. The firm must have Knowledge regarding all this things because different factors affect different types of demands.

### **The importance of business environment in the decision related to national policy:**

In Decision regarding National policy, business environment has it importance from many points of view. Business environment plays determining role on the nature and form of business unit. It provides necessary infrastructural facilities. It creates structural changes in the economy. It adds element of dynamism. It changes the role of the government in the business field and causes changes in economic policy of the government. The following are the important points regarding business environment:

### **Business environment determining in the form of business unit:**

Business environment plays a determinant role in determining the form and type of business unit. It provides many opportunities for business and trades. The form of business units is determined on the context of available business opportunities. Business environment provides Useful information whether the business unit must be of single ownership, partnership for start a joint stock company. It also helps in determining whether it must be only production unit or production and distribution.

Availability of raw material, energy, related business and arrangement of skilled labor, arrangement for distribution of goods etc. Can also be determined on the basis of business environment.

### **Creates Structural changes in economy:**

Social, political, economic changes also create changes in business environment. Business environment changes causes changes in structure of economy too. In 1950-51, the share of agriculture, industry and services in GDP was 55.4%, 16.1% and 28.5%. As per latest



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estimates, the share of agriculture in income reached 17.27% that of industrial sector 31.7% and service sector that of 51.17%, 20.01%, 23.4% and 56.06% respectively in 2013-14. It can be seen here that in 63 years the share of agriculture almost became one third while the share of industries and services increased in remarkable manner. These are important changes in structure of economy.

### **Infrastructural facilities of business enterprise:**

Business environment is a collection of various economic activities. These economic activities create infrastructural facilities which Nourish and encourage economic development. They also play important role in establishment, management and development of business Ventures, Road development, transport, telecommunication, increase in irrigation facilities, growth in energy, banking services etc., nourish and encourage business Enterprises.

### **The element of dynamism in business:**

Business environment makes the business dynamic. Diversity of goods, use of new technology, quality of a product, improvement in utility, discovery of substitute etc. bring dynamism in business. The forms of business change. The means of transport, telecommunication tools and the evolution in these fields are due to business environment. ATM facility in banking, data transfer through email, online banking, computerized services in medical fields etc., are the examples of dynamism in business.

### **The role of government in business:**

Business environment creates changes in the role of the government in business. Due to new economic policy of 1991, economic liberalization, privatization and globalization gathered momentum. As a result, business environment changed and the role of the government also changed. Government interference in economy decreased. Economic reforms took place facilitating Rapid and easy economic development. Development oriented changes took place in financial policy, fiscal policy, industrial policy, agricultural policy, import export policy, banking policy etc. Tax structures also changed. Government interference in industries reduced and development rate in industrial sector went up. Necessary changes in import export policy took place and several steps were taken to rise Exports. As Exports increased foreign exchange income grew. Thus, business environment made great impact on government economic policy too.



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## Conclusion:

In the Development of business there are many components which plays an active role. There was a Lack of these components business in the first stage of development. But in the last few decades, where is substantial development of these components. Hence, business environment has been proved narration for the development of business. Consequently, the business development has been strengthened in our country.

## (C)One word answer:

Sr.No	Question	Answer
1	business environment has been proved important for the development of _____	Business
2	Diversity of goods, use of new technology, quality of a product, improvement in utility, discovery of substitute etc. bring _____ in business.	Dynamism
3	_____ play important role in establishment, management and development of business Ventures, Road development, transport, telecommunication, increase in irrigation facilities, growth in energy, banking services etc., nourish and encourage business Enterprises.	Business environment
4	_____ environment provides Useful information whether the business unit must be of single ownership, partnership for start a joint stock company.	Business
5	Business environment plays determining role in determining the _____ of business unit.	nature and form
6		

**Topic: Evaluate and examine the current / prevailing business trends on international / global level**

**(A) Current / prevailing business trends on international / global level:**

## Introduction:

At global level, prevalent business environment many important changes have taken place. The protectionary policy in foreign trade has gone and free trade is in vogue now. All countries are moving towards free trade. This process is due to globalization. The



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economics of the world are becoming open in place of closed economy. The time has come when it has become invertible to find shelter in liberalization, privatization and globalization in more or less proportion if the country wants to progress economically. No developing country can ignore the current business trends prevailing at the global level.

## **Current Business Environment on global level:**

Prevalent business environment on global level can be explained as follows:

### **(1) Revolutionary changes in political fields:**

Revolutionary changes took place at international level in Russia and East European countries. In China also, Communist forces are not as die-hard as before. Communist school of thought has become quite ineffective. Due to new political scenario, capitalist economy became more dominant and prevalent. As a result, the government restrictions in trade and business became quite liberal. Even in Communist countries, these changes, in business environment are becoming clearly palpable.

### **(2) Market mechanism became dominant:**

Due to free trade and its benefits and the efforts of World Trade Organization(WTO), in most of the countries of the world, liberalization, privatization and globalization were encouraged and monopolistic tendencies were on the competition was encouraged. Government restrictions and controls became liberal and market system became more effective and transparent. Economy became consumer centered. Thus, market mechanism began to dominate.

### **(3)Global Companies:**

Certain multinational companies became world level companies. These companies extended their operation. Management did not remain limited only to Production and marketing in country, but it became global in Production, management and marketing. Day-by-day global Level companies could make progress rapidly. Their number also grew. Automobile companies like Toyato, Hyundai, Honda etc. became world level companies.

### **(4) Expert services in management of global level companies:**

In global level companies, the services of experts are hired from all over the world. The experts in different fields are drawn and recruited for such companies. They are given the best training to face international challenges. Modern business techniques and know-how are shared all over the world. Researches are made and new techniques of management are developed. The Indian software engineers are trained abroad while foreign experts come to Bangalore and Hyderabad for jobs.





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### **(5)Raw material and spare parts purchase at international level:**

Multinational companies purchase raw material and spare-parts in international market at minimum price. As international trade has become free, this has become possible. It results in operating margin at Production level and sales. As the volume of business increases, the benefits of Volume are also available to these companies. Therefore, these companies are tempted to undertake Production and sales in different countries.

### **(6)Outsourcing by multi-nationals:**

The USA and other developed countries bring down the prices of their products by outsourcing. In developing countries like India, the services are cheaper in comparison to developed countries. Thus, developed countries and multi nationals companies raise their operating margin through outsourcing. Some companies outsource business processing(BPO) in India while their business is in USA, UK etc. but their bills are made , collection is made or inquiries are responded by Indian Software Companies. These changes have become possible because of technological revolutions and business environment has undergone complete changes.

### **(7)Collaboration with foreign companies:**

As the process of globalization developed in business, collaboration with foreign companies become possible. Such joint ventures were encouraged. Maruti Suzuki, Hero Honda can be cited as examples. Many developed companies join hands with the companies of other countries for expansion of their business. Earlier when protectionary policy was in existence, such joint ventures rarely took place. But now due to free trade business units in banking, insurance, transport, telecommunication etc. in collaboration with foreign companies are coming up. Thus, companies are becoming global in real sense.

### **(8) Strategic agreements in business sector:**

Due to strategic agreements in business sector. Companies are economically benefitted. Their Productivity and profitability are increased. Strategic contracts are made where research and development are undertaken on huge scale in business units like pharmaceuticals and computers. As competition increases in business environment, strategic agreements become more important. Strategic agreements, between the US and Japanese, pharmaceutical companies are often found.



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## (9)The process of co-ordination and inclusion:

Among the companies of same type of trade co-ordination, amalgamation and takeover processes are undertaken. Due to this process, the business units acquire the benefits of new technology, marketing and other market related advantages. At global level, in business environment, the process of co-ordination and inclusion is quite important.

## (C)One word answer:

Sr.No	Question	Answer
1	_____contracts are made where research and development are undertaken on huge scale in business units like pharmaceuticals and computers	Strategic
2	The USA and other developed countries bring down the prices of their products by_____.	Outsourcing
3	Some companies outsource _____ (BPO) in India while their business is in USA, UK etc. but their bills are made, collection is made or inquiries are responded by Indian Software Companies.	business processing
4	Multinational companies purchase raw material and spare-parts in international market at _____price	Minimum
5	Due to free trade business units in banking, insurance, transport, telecommunication etc. in collaboration with foreign companies are coming up as a result companies are becoming _____in real sense.	Global
6	The time has come when it has become invertible to find shelter in liberalization, privatization and globalization in more or less proportion if the country wants to progress_____.	Economically



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## UNIT 2 THE DIFFERENT ECONOMIC INDICATORS NATIONAL INCOME

**Topic: What is National Income? What are the methods to calculate the National Income? Explain the difficulties in the calculation National Income.**

### Introduction:

The concept of National Income is very important for the study of economy of any country. The economic achievement / growth may be ascertained from the concept of its National Income. It may be said that the higher the National Income is, the happier and the developed the country and-its people are. The National Income is a barometer of economic development of any country.

### The Concept of National Income (N.I.) :

The following points should be considered to understand the concept of National Income

#### A. Gross Domestic Production (GDP):

GDP is the total volume of final goods and services produced in the country.

#### B. Gross National Product (GNP):

The earning of national resources in the foreign countries is added to and payment to foreign resource is deducted from GDP. Such a figure is called GNP.

#### C. Net National Product (NNP) (Generally known as N.I.):

The depreciation of capital resource is deducted from GNP and the remaining figure is NNP. Generally, NNP itself is known as National Income (NI).

#### D. Monetary/ Financial National Income / Money Income (MNI)

MIN is obtained by multiplying the production of final / finished goods and services during a certain year by the current prices. (GDP X Current price)

#### E. Real National Income (RNI):

RNI is expressed in the terms of current prices and the base year prices to compare the figures of National Income of different years in the country.



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## **F. Per-Capita (National) Income (PCI):**

PCI is obtained by dividing the total National Income of a country, during a given year, by the total population of the country. We can say:

$$\text{Per capita income} = \frac{\text{Gross National Prpduct}}{\text{Totalpopulationofcountry}}$$

Per capita income gives the general idea of the economic condition of the people. It shows an average income of people of the country.

## **Methods to Calculate the National Income:**

### **(1) Calculation of N.I. Based on Production:**

In this method, first of all the sum total goods and services produced in the country is found out. Then, their monetary value is put up. Thereafter, a profit from foreign trade is added to this figure and production cost, debt and other such expenditures are deducted from this figure. Thus, the remaining figure is known as "Net National Income". Only the final goods are considered in this method. Raw material and semi-finished goods are not included in this method. Moreover, free services are not taken into consideration. There is a possibility of double calculation in this method.

### **(2) Calculation of N.I. Based on Individual Income:**

The information of the income of the people, who are the tax payers, is collected from the government department. Then, estimation is put up for the income of the people who don't pay taxes. The profit, the unshared profit, is considered. The credit to the General P.F. is also considered. They all are totaled and it becomes the national income.

There is a possibility that only rough estimation may be taken as figures. The more reliable figures are, the more reliable the concept of National Income will be.

### **(3) Calculation of N.I. Based on Expenditure:**

Here, the total expenditure and total savings of the people are added and it is tried to know the N.I. Here the information about the income and savings of individual is important, but practically, it becomes very difficult to get such information.



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## Difficulties in Calculation of National Income:

- One has to face many difficulties while calculating National Income.
- Sometimes, it happens that the production has not increased but only the prices have gone up. At such a time, the figures of National Income would be, unnecessarily bigger.
- Moreover/ some people have compound, multiple or more than one income. At such a time, there is a possibility of misleading calculation.
- Moreover, it is difficult to have an exact idea about debt and profit from foreign trade.
- It is remarkable here that there is differed income, national resources, national wealth and National Income. Moreover, we may not have the idea about the property of people from the concept of national resources. There may be a lot of natural resources in developing and under developed country, but if they are inactive, non-productive, the National Income would be less.

## Conclusion:

Thus, a country may be wealthy from the view point of national resources but its National Income may be less. In this context, it is rightly said, “There are poor people in rich India”. Thus, not the National resources but the National Income gives the idea of economic condition and progress of the country. The concept of the National Income is always at the center to show the difference among developed, developing and under-developed nation.

## **National Income: Evaluate / Analyses the trend of National Income India.**

### Introduction:

The concept of National Income is very important for the study of economy of any country. The economic achievement / growth may be ascertained from the concept of its National Income. It may be said that the higher the National Income is, the happier and the developed the country and-its people are. The National Income is a barometer of economic development of any country.



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## The trends of National Income in India:

Net National product when calculated at factor cost is called national income. To examine the trends of national income, the calculation national income is made as fixed costs of some years

Year	Current prices		Constant Prices	
	Net National Product [NNP]	Per Capita Income	Net National Product [NNP]	Per Capita Income
1950-51	9,464	264	2,55,405	7,114
2011-12	72,84,523	60,603	45,49,652	37,851
2012-13	87,66,345	70,983	80,94001	65,538
2017-18	1,47,10,563	1,11,782	1,14,04,413	86,660

On the basis of the figures given in the above table, following conclusions can be drawn for the national income and per capita income.

According to Prof. Dutt and Sundharam Net National Product is at current price Rs.65,03,394 Crores at current price and Rs.7,42,59,782 Crores at 2004-°05 prices, while per capita income at current price Rs.54,835 Crores and at 2004-05 prices Rs.35,917 Crores.

### **(A)TRENDS OF NATIONAL INCOME:**

#### **(1) Trends of National income at current prices (1950 -'51 to 2011 -'12):**

The Net National income at the current prices in 950-51 was Rs. 9,464 crores, which increased to Rs. 7,284,523 crores in 2011- 12.

But the rise in the national income cannot be called real because it does not give the real picture of growth in the national income, because this substantial rise found in the national income is due to Price rise and inflation. So, it becomes essential to remove the effects of price rise and then get the real estimate of national income. So, now let us try



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to find out, actually how much rise in national income has taken place at the constant prices of 2004-'05.

### **(2) Trends of National Income (1950-'51 to 2011-'12) on the basis of 2004-05 Prices:**

At the prices of 1950-51, the net national income was Rs. 2,55,405 Crores in 1950 - '51, which increased to Rs. 74,549,652 Crores in 2011- 12. So, it gives the real picture of rise in net national income.

### **(3) Comparison of net national income at current prices with the prices at 2004 -'05:**

In relation to the 1950-51 current prices, the net national income increased to Rs. 7,284,523 crores in 2011-'12, while at the prices of 2004-05, in relation to 1950 -'51 prices the net national income increased to Rs. 4,549,652 crores.

Thus, at a first glance if seen the net national income was of Rs.74.549.652 crores at the 2004-05 prices, while at the current prices the net national income derived is of Rs.7,284,523 crores which seems very high. From another point of view, the net national income derived at the prices of 2004-05, seems less than the national income derived at the current prices.

But when it is examined bit deeply, it can be found out that the high rise in the national income based on current prices is inflated because the effects of price rise in it is not taken into consideration. So, the extent of national income derived at current prices does not indicate the real progress of the nation. The national income derived on the basis of 2004-05 seems bit less but it is actual, because the rise is derived after eliminating the effect of price rise. So, the extent of Net National income derived at the 2004-05 prices shows the real progress of the nation.

Along with the national income if we take into consideration the per capita income of any country, then only the financial well-being of that country can be fathomed. So, it becomes inevitable to study the trends of per capita income of current prices and at the prices of 2004-05.

### **(4) Trends of Net National Income at current prices (From 2012 - '13 to 2017-'18):**

In 2012-13 the net national income at current prices in 2012 – '13 was Rs. 87,66,345 crores, which increased to Rs. 1,47,10,563 crores.

Thus, during this period there was substantial increase in the net national income.



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## **(5) Trends of Net National Income at the prices of 2011-'12 (constant prices) (from 2012-'13 to 2017-'18):**

The net national income was Rs. 80,94,001 crores in 2012-'13 at the 2011- 12 prices, which increased to Rs. 1,14,04,413 crores in 2017-'18, which indicates less increase in the net national income.

Thus, the increase in the net national income at 2011-'12 prices is less than the increase in net national income at the current prices, but the effects of price-rise are not taken into consideration. So, the extent of net national income obtained at current prices is not the indicator of correct progress of the nation, while the rise in the net national income on the basis of 2011-'12 prices may seem less, but is solid, because it is obtained after deducting the effects of price rise.

## **(B)Trends of per capita Income**

### **(1) Trends of per capita income at current prices (1950 - '51 to 2011-12)**

At the prices of 1950-'51 average per capita income of people of the country was Rs. 264 which increased to Rs. 60,603 in 2011-'12.

But the rise in the per capita income cannot be called the real one, because the real picture of the rise in per capita income is not made clear correctly. This price rise in the per capita income can be the out- come of price rise and inflation. So, it is essential to find out the actual estimate in the rise in per capita income by eliminating the effects of price rise. So, now let us try to find out how much was the rise in per capita income at the 2004-'05 prices.

### **(2)Trends of per capita income at the prices of 2004- 05 (1950-51 to 2011-12):**

At the prices of 2004-05 the per capita income was Rs. 7,17,114 in 1950-51 which increased to Rs. 37,851 in 2011-'12, in which the effects of price rise has been eliminated to some extent. So, it gives the net per capita income.

### **(3) Comparison of Net per capita income at current prices and net per capita income at 2004-05 prices:**

At the current prices, the net per capita income increased to Rs. 60,603 in 2011-'12 in relation to 1950 -'51, while at the 2004- 05 prices the net per capita income increased to Rs.37,851 in relation to 1950 -'51.





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Thus, at a first glance, the net per capita income derived at 2004- 05 prices is of Rs.73,851 but compared to it the net per capita income derived on the basis of current price is of Rs. 60,603 which is seemingly much more. In other words, the net per capita income derived on the basis of 2004-'05 prices is substantially less than the net per capita income derived on the basis of current prices.

But if considered deeply, it can be found that the big rise in the net per capita income derived on the basis of current prices is not solid, because the effect of price rise in it is not taken into consideration. So, the net per capita income derived on the basis of current prices does not indicate the real picture of the people's standard of living while the rise in the net per capita income derived on the basis of 2004-05 prices is not so big but is solid, because it is made available after eliminating the effect of price rise. So, the extent of net per capita income derived on the basis of the prices of 2004-05 indicates actual progress made by the country and its people.

#### **(4) Trends of Net National Income at current prices (from 2012- 13 to 2017-°18):**

The net per capita income in 2012-'13 at current prices was Rs. 70,983, which increased to Rs. 1, 11,782 in 2017-'18. Thus, there was substantial increase in per capita income during this period.

#### **(5) Trends of Net per capita income at 2011-'12 (from 2011-'12 to 2017-'18):**

The net per capita income was Rs. 65,538 in, 2012- 13 at the 2011- 12 prices, which increased to Rs. 86,660 in 2017- 18. Thus, there was less increase in net per capita income at the current prices during this period.

During this period there was less increase in the per capita income with current prices than at the constant prices, but the reason for Substantial increase in per capita income at the current prices is that the effects of price rise have not been taken into consideration. So, the increase in the per capita income at current prices is not the true indicator of the net per capita income, while there seems less increase per capita income at constant prices is solid, because it is obtained for deducting the effects of price-rise. Now, let us examine the causes for the low national income growth rate in India.

#### **CONCLUSION:**

The above discussion shows that there was an increase in N.I and per-capita income over the years but the growth rate was far less than expected.



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**TOPIC: Explain the relationship between National Income, Per Capita Income, Distribution of Income and Business Environment**

## **RELATIONSHIP BETWEEN INCOME AND BUSINESS ENVIRONMENT**

It is necessary to understand the changes in business environment with changes in national income and per capita income. Moreover, how the distribution of income affects economy and business environment can be known. Now, let us discuss this in detail.

### **(a) National income and business environment:**

While discussing the analysis of trends of national income, we could see that national income has grown. Increase in national income shows the level of development of economy. It reflects the development in the field of agriculture, industries and service sectors. This means that many economic activities connected with agriculture, industries and service sector have expanded. As a result, all of them have added to production. Goods and services are produced on larger scale.

With the increase in national income, people have more money to spend. This adds to the demands of goods and services. As demand goes up, production has to be increased. This adds to the demand for means of production, raw material, infrastructure services etc. Consequently, employment increases and as a reaction and response business environment changes are required.

For example, when the national income increases, consumer, durable goods of highly advanced technology are demanded such as computers, mobile phones, motor cars, bikes and scooters etc. More investment takes place in production of these goods and services. As a result, production, employment and incomes go up. Means of production from these sectors may turn towards production of such goods with advanced technology. In this manner, business environment changes according to the demands. This process of changes goes on continuously.

If national income decreases, purchasing power of the people decreases. Effective demand decreases. The slowdown condition in my may occur as it did in the countries like USA, UK and Germany. As production, employment and incomes decrease, business environment changes inevitably. Thus, national incomes bring about changes in business environment.



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### **(B)Per capita income and business environment:**

Per capita income is the average income of a person in a country, the increase shows that people have more capacity of spending money. As a result, people can buy more goods and services. Economic welfare increases and people are happier than before.

In India, both national income and per capita income have gone up. It shows the development of economy. In our country, production of many new goods has gone up due to modern technology. Transport and communication have become equipped with modern technology. Many more substitutes of consumer goods are now available in the market. In many parts of country, computerization has taken place.

Therefore, people get required services without any delays. Due to technological changes services in education and health have also become highly qualitative. Various inputs in agriculture have added to the production of high quality yields. In industrial sector too, durable and perishable consumer goods as well as capital goods have become diverse and full of variety. They are now available in abundance. Distribution system has improved a lot. In service sector, railway, roads, water and air transport have become faster and consumer-oriented. Mobile phones, e-mails have reduced the distance and gap between places and time. Exchange of information is possible at any place and any time from any part of the world. Banking, insurance, entertainment tourism, hotel-services have become consumer-centered.

Due to competition on business environment, their services have become quite faster, easily available and reasonable. But these services are often not available to all. In market dominated economy, the condition occurs that those who have money can avail of all such goods and services. Due to lack of adequate purchasing power, all people cannot avail of the services and goods mentioned above.

Even if national income and per capita income increase, there is no guarantee that all people will get required goods or services. Only those who have adequate amount of money and purchasing power can buy such goods and services.

Here, the question arises why do all people not get require goods or services? The answer for this is that it is not enough that only income increases that just and equitable distribution of these goods and services must take place. Then only true estimate of welfare of the people can be made.



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All people in the society do not have adequate means of income. Some people have land, houses and factories. Some have nothing. Some are educated, skilled and trained. They are experienced and expert. Some are quite untrained, unskilled and uneducated. Income depends on the means of income people have.

If the means of income are not equally distributed, the income is also not equal for many people. The changes in business environment depends on how the per capita income is distributed in society.

## (C) DISTRIBUTION OF INCOME AND BUSINESS ENVIRONMENT:

There have been many studies regarding distribution of income in India. Let us examine these conclusions.

### (A) Estimates of the World Bank:

- (1) According to the World Bank estimates, in India during 1975-76, 20% people with the least income possessed 7% share in the total income.
- (2) The 20% people with the maximum income formed 49.4% share in the total income of the country.

### (B) The study by NCAER:

- 1) **NCAER** (National Council of Applied Economic Research) in its study has noted down that in India, in **1975-76, the 20% poorest possessed the 5.77% share** of the total income of the country.
- (2) **20% richest people possessed 49.34%** share in total income of the country.
- (3) The **10% richest people of the country possessed 33.9%** share in the total income of the country.
- (4) As shown above, the **10% richest people of the country possessed one-third of the total income** of the country.

### (C) Estimates of 1983 and 1997 by the World Bank:

The World Bank has presented the figures of expenditure of 1983 and 1997. The expenditure of the families depend on their income, and therefore, the figures of these incomes can be compared.



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(1) **20%** families with the least income in **1983** spent **8.1%** of the total family expenses. In 1997, it was unchanged, that is, it was 8.1%.

(2) The **20%** families with maximum income spent **41.4%** of the total family expenses. It went up to 46.1% in 1997.

As per the latest estimates in 1973 –'74, 52.13 crore people lived below poverty line, which increased to 26.93 crore in 2011-'12 .That means, the percentage of **people living below poverty line in 2009- 10 was 21.9%**. Thus, due to the disparity in distribution of income, there has been high number of people living below poverty line.

From the point of view of income, in India, there is disparate distribution of income. Thus, in India, there are changes in business environment which have favored the rich and have been adverse to the poor.

The rich people of the country can get abundant goods and services. Such goods and services are produced in large amount, such as expensive cars, air-conditioners, heaters, computers, TV sets, mobile phones, costly luxurious furniture and other luxury goods) Therefore, the rich people can use expensive transport vehicles, means of communication, education and health services, 5-star hotels, entertainment media etc.

The poor people are unable to get such goods and services. Such goods and services are not produced in enough amount such as housing units, water supply, electricity, education, health services etc.)

Thus, increase in national income and per capita income and distribution of income create changes in business environment. In free market system goods and services are produced according to the requirement and will of those who have purchasing power and money. In India, due to the effect of globalization, privatization and liberalization have become dominant. As a result, market system becomes favorable for foreign trade from internal as well as external point of view. In such circumstances the business environment is favorable to the rich people. It changes according to the will of the rich and prosperous people.

### **(d) Business enterprises according to changing business environment:**

Increase in national income and per capita income and distribution of the income in favor of the rich can bring about changes in business environment due to their purchasing power. They get services and goods as required. This means that not all customers but rich customers are the sovereign kings of market. In these circumstances, business enterprises change and business environment changes accordingly. The following are the topics that can be presented in this context:



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(1) The **form and nature** of business should be changed keeping in mind the business environment.

(2) Business firms should **make necessary changes in size, proportion and kinds of produced goods** according to changing demands of environment. The quality of the goods should change according to demands of the business environment.

(3) Business environment changes as a result of **changes in distribution of income** in society.

Keeping this in mind, the business firms have to make estimates regarding demand and create system of production and sale accordingly.

(4) Business units should consider the **constitution of the population** whose income changes. The constitution of population means the proportion of men, women, children, youths and old people. e.g. In population if the number of children increases, the demand for consumer goods and services increases, such as toys, milk, milk powder, readymade clothes etc. Therefore, the system for such production and sale should be set up.

(5) When there is increase in national income and per capita income, the process of development goes on. In these circumstances, **infrastructural services like transport, communication, banking, insurance, electricity, water supply, irrigation, education and health services are demanded**. Therefore, the infrastructural services should be developed. Business units of production and distribution of infrastructural services should be set up.

(6) Along with economic development, **technological advancement takes place**. In every field, modern technology is used. Therefore, production and distribution of goods and services have to be upgraded technologically. New business units should use and upgrade new technology. They should use new and modern technology in management and development of business. They can sustain in competition in competitive business environment-with the use of latest modern technology only.

Thus, to adapt to changing business environment, business units should be constantly aware of changing trends in establishing business, in management and development.

## CONCLUSION

In the present answer, we have discussed in detail the co-relation between income and per capita income with business environment. It is derived from the complete discussion that



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for any country, the study of national income and per capita income holds much importance, because it gives clear picture about the prosperity of the country, financial condition of the people and progress made in different fields.

The developing countries can get the idea as to on which sector more emphasis can be laid and which remedies should be undertaken to increase national income.

Thus, national income is the parameter to find out the economic prosperity of any country. Not only that, it also indicates the specific direction for achieving economic progress. So, its study is very important.

## SAVING AND INVESTMENT

**Topic: Clarify the meaning of saving. Discuss the sources and trends of saving**

### **MEANING:**

Saving is a difference between present income and expenditure. It becomes necessary that investment is made in different sectors to attained economic development. For investment saving is necessary. However, saving and investment are not always equal. Investment is equal to addition of savings and foreign capital from other countries. If the country is to be made self-independence, it is necessary to increase savings. If savings are increased, investment rate can be raised and dependence on foreign capital can be reduced. Thus, if economic development is to be attained without resorting to foreign capital savings within the country must be increased. This becomes the precondition for economic growth.

### **SOURCES OF SAVINGS:**

There are three sources of savings. This means that savings can be obtained through three sources:

- (1) Family savings is made by the families. It is the difference between net income after taxes paid and expenses incurred.
  - (2) Private sector savings which is made by private companies. It is the remaining amount after payment of taxes and dividends.
  - (3) Public sector saving which is made by public sector units. It is difference between the income of the Government and expenditure by the Government
- Public Sector savings and Government savings are called Public Savings while the savings by families and private companies are private savings.



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## Savings are in two forms:

(1) In material or physical forms such as irrigation instruments of agriculture, machines and tools used in agriculture, fixed capital in industries, the inventory stock, rural and urban roads, bridges, and building etc.

(2) Liquid money and other liquid deposits such as bank deposits, amount deposited in insurance companies, provident fund, small savings, Government securities investment in shares and debentures etc.

## (1) Family sector savings:

Majority in India, of savings in tot is savings, the savings of family sector is the largest is made by these sectors 1950-51 it was of the total GDP. In 2010-11, it has gone up among total savings.

In 22.8%.' From another point of view, the share of family sector saving of total savings was 66.3% in 1950-'51, which has increased to 70.6% in 2010-11.

The higher savings by two sectors is due to-following reasons:

- People in India are motivated to save for wedding ceremonies to be arranged, building, house, old age etc.
- There have been increase in banking services, reasonable rates of interest for savings, small saving campaign, contributory provident fund scheme for employees, public provident fund for general public, interest on units of Unit Trust of India etc.
- Certain schemes of savings have been connected with tax relief too. Thus, the savings of family sector have gone up.

## (2) Private sector savings:

In total savings of India, private sector savings have the least share. In 1950-51, the private sector savings were only 0.9% of the GDP.

In 2010-11, its share went up to 7.9% of the GDP.' From the other point of view, out of total saving, the share of private savings was of 10.5% in 1950- 51, which has reached to 24.2% in 2010-'11.





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In comparison to developed countries, private sector has not developed as much as it should in developing countries. Therefore, the savings of this sector is also very small. For this following reasons can be cited:

- In developing countries **public sector is given more importance** than private sector.
- Consequently **public sector is more advanced and expanded** than private sector.
- As **private sector** is limited and small, there are **few opportunities** for it.
- Private companies **provide more perquisites** to their employees on the basis of their performance.
- The **cost of production remains higher** than public sector and the rate of profit is lower. Thus, few savings are available from this sector.
- Very often there are **old and outdated technology, old method of controls on material and stock, inadequate production capacity, shortage of coal, electricity and raw materials** etc.
- Naturally, savings by private sector is very small. **Improper tax policy** is also detrimental in the development of private companies.

### (3) Public sector savings:

The savings of this type comes from the profit of industrial and commercial unit, of the public sector. It is the difference between public sector savings and expenditure. In 1950-51, it was only 20% of the GDP. In 2010-11, it went up to 1.7%."

From another point of View, out of total savings, the share of public sector savings was 23.2% in 1950-'51, which is reduced to 5.2% in 2010-'11. Its lower rates are due to the following reasons:

- As **non-development expenditure has risen**, administrative expenses have also gone up.
- **Due to population increase**, economic activities of the Government have increased and some departments have expanded subsidies and economic financial assistance have **increased public expenditure**.



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- Public sectors are **unable to provide adequate returns on investment**. Their **inefficient management, unutilized productive capacity, lack of reasonable pricing policy, industrial unrest** etc. cause higher cost of production.

Thus, all these causes are responsible for lower rate of savings by this sector.

## TRENDS IN SAVINGS

YEAR	Saving rate (Percentages of GDP)
1950-51	8.9%
2000-01	23.7%
2010-11	32.3%
2015-16	32.3%

In the above mentioned table, Gross Domestic Saving (GDS) is given as the percentages of GDP. GDP has been calculated at current market rate.

### **Analysis:**

During the planning period (1950-51 to 2015-2016) the figures of saving rate has been presented as given above. On examining these figures, we can present the conclusions based on them as follows:

#### **(1) Slow increase in saving rate:**

During the period 1950-51 to 2015-2016 (65 years), the figures indicate that there has been nominal increase in saving rate. In 1950-51 saving rate was 8.6% of the GDP

On point-to-point basis it went up to 32.5% of GDP in 2015-16. This means that there was increase of 23.4 points in it during this period. Average annual rise was less than 1% on point-to-point basis.

#### **(2) Saving rate was variable:**

During 1950-51, saving rate was 8.9%. Gradually it went up to 32.3% in 2010-11. But even then it was not consistent. In 2000-01 it was 23.7% and in the next year, 2001-02 it reduced to 23.5%.



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As per latest estimates the saving rate has increased to 32.3% in 2010 - '11.

In India saving is not always converted into investment. Out of these savings some is invested in land, buildings, gold-silver etc. Government also wastes money on building large offices and luxurious buildings. Some savings are wasted on imported goods of luxury and comforts.

**In India there are three problems regarding savings:**

- Firstly, to raise the proportion of savings.
- Secondly, to divert these savings towards investment.
- Thirdly, to create a pattern of savings into such an investment that rate of capital creation is accelerated and rapid economic development is attained.

**TOPIC: EXAMINE THE CAUSES OF LOW SAVING RATES AND DISCUSS THE RELATIONSHIP BETWEEN SAVINGS AND BUSINESS ENVIRONMENT:**

**INTRODUCTION:**

In India, there are many causes for lower rates of saving like low income, rich class dominating the markets, demonstrative effect, savings in foreign countries, public sector's adverse condition. Let us discuss each one in detail.

**LOWER PER CAPITA INCOME:**

In developing country like India, national income is quite low. Population increases at a high rate. Therefore, **per capita income is low**. Most of the people have low income. They are unable to satisfy their primary needs. Therefore, it is natural that they cannot save from their income.

This argument is not wholly true. In fact, people from developed as well as developing countries save from their income to some extent.

But all their **savings do not turn into investment**. In India, there is disparity of income and wealth. Therefore, among rich people also, some people have remarkably high capacity to



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save. Therefore, only lower per capita income is not the only cause of less amount of savings.

### LUXURIES AND COMFORTS OF THE RICH AND WEALTHY:

In India, there is disparity of income, some people are very rich and prosperous. These rich people **spend large part of their income for luxurious life**. They invest their income in purchasing precious metals like gold and silver, jewelry etc. They also spend their money on expensive tours abroad. Therefore, the rich people do not save as much as expected.

### DEMONSTRATIVE EFFECT:

It has been found that wealthy people spend more due to demonstrative effect. They **travel abroad and see high standard of people's lives**. They feel dissatisfied about their own lives. They spend more to raise the standard of their living. There is less saving due to such a life style. New needs and desire for high standard of living lead them to consume more. Thus, in spite of more income, they are unable to save more.

In developing countries like India, thousands of people visit developed countries every year. As a result, the people of the third world become aware of the high standard of living of the people of developed countries. Now people of developing countries have been interested in electronics, computers, TV sets and other luxury goods. They also want to purchase such goods. Therefore, in spite of the rise in per capita income, savings have not increased much.

### SAVINGS IN FOREIGN COUNTRIES:

In developing countries, **inflation is a routine phenomenon**. Purchasing power of the people decreases and the value of money goes down. In ordinary circumstances, if money remains, within the country, its value goes down.

Therefore, certain amount of savings are deposited in foreign banks. Some **rich people deposit their money in foreign banks secretly**. Sometimes, some savings thus move into foreign securities. Thus, in a country, **domestic savings remain low**.



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## **ADVERSE CONDITION FOR GROWTH OF SAVINGS IN PUBLIC SECTOR:**

In developing countries, people oppose levying of new taxes or rise current rates of taxes to obtain finance for new development projects. We know that farmers oppose taxes in agriculture sector in different states.

During planning periods, big farmers have received many advantages of process of economic development. In agriculture sector surplus has gone up. But it has not been used in productive manner. Major part is spent in consumption.

The people of rural areas spend money on consumer durables. Thus, in developing countries like India in public sector, adverse conditions prevail for growth of savings.

## **RELATIONSHIP BETWEEN SAVING AND BUSINESS ENVIRONMENT**

There is definite relationship between savings and business environment. If the proportion of savings changes, business environment also changes. The proportion of savings depends on income. If incomes increase, savings may increase.

The rate of interest is also an important factor affecting savings. Generally, At lower rates of interest, the supply of savings is less and as rates of interest go up, the supply of savings also goes up. Thus, the increase in rates of interest plays in important part in changes in proportion of savings.

### **(1) Increase in savings:**

If savings increase, investment in an economy also increases which results into more production, employment and income. Economic development rate also goes up.

Business environment becomes development-oriented. Prevalent business and industries develop. Along this, many new businesses and industries also start. Thus, increase in savings boost up the development in business environment.

As economic development of a country takes place, income of the people increases. From additional income some part of the income is spent on consumption. Some becomes savings. How much will become savings and how much will go into consumption depends on people's propensity to consume.



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In a country like India, we find disparity of income, and therefore, the propensity to consume remains quite low. When there is disparity of income, it happens that those who are already wealthy receive more income but majority of their needs have already been fulfilled. Therefore, there may be relatively lower consumption.

On the other hand, the people whose incomes are low but they have to spend majority of their income to satisfy their unfulfilled Wants. But as they have no money to spend much, their purchasing power is low. Their consumption also remains low. Thus, in short the consumption cost of the developing countries with disparate incomes remains low.

Therefore, it is said that if total consumption cost of the people has to be increased, disparity of income must be reduced.

The above mentioned analysis shows that in India as a whole some part of income is spent on consumption and some turns into savings. This is quite appropriate in the context of economic development.

If all the parts of additional income go into saving, in the long run, there would be recession in place of economic development because saving is an individual or private virtue but a public vice. The statement can be explained as follows:

**“If an individual saves from his income, it is a virtue because he or she can meet all future expenses from his or her savings”.**

These savings can be useful to him or her in the time of need but if all people save or increase their savings, consumption cost goes down. If consumption cost goes down, effective demand or total demand goes down.

In comparison to supply if demand decreases, prices would go down. If prices decrease, recession takes place. If demand decreases, production has to be reduced and as a result employment rate goes down. Consequently incomes decrease and with the decrease of income, demand decreases again. Prices would go down and the condition of recession becomes intensive.



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Thus, if the savings continue to increase up to certain level, it is good for business environment but too much savings would create obstacles in development and the business environment would become adverse to development.

## (2) Reduction on savings:

If incomes decrease, savings may decrease. Moreover, if the rates of interest go down, savings decrease. As savings decrease investment is reduced. Consequently, production, employment and income decrease.

Effective demand decreases and new business and industries are not set up. Some already existing business and industries may cease.

All these things cause recessionary changes. In such circumstances, the Government may increase public cost to bring the economy out of such stagnation.

Through public cost, employment and income may rise in economy and necessary changes are made in economic policy by the Government. Such changes help in rejuvenating business environment.

## (3) Savings in dormant form:

When the Government does not take suitable actions to transform savings into investment, savings remain inactive and dormant.

Savings become stagnant in form of land, housing, jewelry etc. To divert savings into investment, the Government provides certain incentives. To activate savings, in India, there is no favorable business environment.

For small savings, there are lower rates of interest, lack of information regarding investment, difficulties faced by small investors etc. are the causes, for inactive savings.

In such circumstances, it is necessary to make development-oriented business environment.



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## TOPIC: WHAT IS INVESTMENT? DISCUSS ITS TRENDS AND ITS IMPACT ON BUSINESS ENVIRONMENT

### INTRODUCTION:

If economic development rate is to be raised, efforts must be made to increase investment. If investment increases, capital increases and that is necessary for economic development. This economic development is an important means.

Capital is manmade means of production. It is not natural. For the purpose of production, buildings, machines, tools, raw materials etc. are useful. It can be called capital.

When some part of present income is saved and invested in production and income, the process of capital creation takes place. As a result, new factories, machines etc. come into existence which adds to the stock of capital.

Thus, through capital creation, new capital means are produced and productivity of current capital means increases. Increase in production is an important determinant of economic development. Thus, capital creation is closely connected with economic development.

There are two types of capital creations:

- gross capital creation and
- Net capital creation.

Gross capital creation shows total or overall efforts for capital creation. Some efforts are made to maintain the prevalent capital supply. For this, provision of depreciation becomes necessary.

If depreciation is deducted from gross capital creation, we can find out the amount of addition in already existing capital. This addition in existing supply of capital shows the net capital creation. It indicates the addition in productivity of the economy.

### Capital creation has two components.

- One, creation of constant fixed capital such as machines, tools etc.
- The other is creation of inventories which includes raw material etc.





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In developing countries, the creation of constant capital is more important. Let us discuss the trends of investment.

YEAR	CAPITAL CREATION (PERCENTAGE OF GDP)
1950-51	8.7%
2007-08	38.1%
2011-12	39.6%
2013-14	34.0%
2015-16	32.9%

In the above mentioned table, gross economic capital creation has been given. Calculation of GDP has been made at the current market rate. Capital creation rate has been shown as the percentages of GDP.

## Analysis:

During the plan period, that is from 1950-51 to 2012-'13, the abovementioned figures show the rate of capital creation. The following conclusions can be drawn from the figures given above:

### (1) Uncertain increase in capital Creation rate:

From 1950 - 51 to 2015 -'16, that is during 66 years, by examining the rates of capital creation, we find that there have been increase during some years and decrease during some other years.

From 1950-51 to 1990-91, there has been consistent increase, but there after in the years 2005-06, there was sequential decrease. Till the year 2007-08, there has been consistent increase. But in 2011-12 it decreased and from 2012-13 to 2013-14, in 2014-15, there was little increase, which decreased in 2015-16.

As an overall picture, the capital creation rate was 8.7% of GDP, which increased up to 32.9% in 2015-16.

According to Prof. Datt and Sundhram the growth rate of investment in India in 2009-10 has reached to 35%. AS per the latest estimates, the growth rate of investment has reached to 39% in Japan, in Australia 30% and in Great Britain 24%, while in India it has been 36.5%.



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## EFFECTS OF CHANGES IN INVESTMENT ON BUSINESS SECTOR:

In total investment of a country, investment of private as well as public sector is included. Private sector investment depends on the pattern of industrial development determined by the Government.

Moreover, investment of private sector also depends on profitability of industries and business. Profitability depends on the rates of interest and on marginal efficiency of capital. If marginal efficiency of capital is more than the rates of interest, investment becomes profitable.

Investment in public sector takes place according to the industrial policy of the Government. The Government policy gives more importance to public utility than profitability. Here, changes in investment are discussed in the context of total investment. Changes in investment affects business sector inevitably. Now let us discuss the effects of changes in investment on business sector.

### (1) Increase in investment:

If investment increases in economy, production, employment and income go up. With the increase in income, expenses by the people also increase. Therefore, effective demand and total demand also increase.

If demand is more than supply, price may go up. Price rise brings about the increase in investment in business environment. They motivate business environment and rejuvenate it. New industries are developed and existing industries implement new schemes and strategies for development. Rate of economic development also goes up.

### (2) Decrease in investment:

If there is decrease or reduction in Economy, production, employment and income decrease. With the reduction in income, expenses by the people decrease. Effective demand also decreases. If there is more reduction in demand than Supply, prices also go down.



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Demand reduction and price-fall create reduction in investment. In business environment, such changes take place that new industries and business enterprises are not set up. Loss making units are closed down. Recessive trends in business take place development rate of the country also goes down.

### (3) Changes in pattern of investment:

In an economy pattern of investment brings about changes in investment. When the pattern changes, business environment also changes, if investment in public Sector is given prominence, the industries and business of public sector develop.

In second five year plan, out of total investment, 54.6% investment was made in public sector. It went up to 63.7% in third plan, in fourth five year plan, it went down to 60.3%. As a result, in public sector, there were changes that accelerated business. In fifth five year plan, in public sector, investment was reduced. Then in sixth, seventh and eighth plans, they were reduced to 54.9%, 47.8% and 45.2% respectively and in the eleventh plan, it has reduced to 23%. As a result, the investment was almost changed.

From fifth five year plan, private investment increased. In fifth year plan, private investment was 42.4%. In 6th, 7th and 8th, it went to 47.1%, 52.2% and 54.8% respectively. In the 8th plan (1992-97), new Economic Policy of 1991 was implemented and private industries and business were encouraged. As a result, private investment went up remarkably. Favorable tendencies took place for private industries and business enterprises. Thus, change in investment pattern certainly brings about changes in business environment.

### (4) Changes in proportion of investment in various sectors in economy:

In economy, changes in proportion of investment in various sectors also bring about changes. For this look at the tables given below:

Index	Details	Sector wise share in Public Investment			
		9 <sup>th</sup> Plan	10 <sup>th</sup> Plan	11 <sup>th</sup> Plan	12 <sup>th</sup> Plan
1	Agriculture, Irrigation, Rural development	19.8%	20.1%	18.5%	16.2%
2	Energy	25.1%	26.5%	23.4%	18.8%
3	Transport and Communication	19.6%	21.3%	18.3%	16.8%



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4	Economic and Social Services	23.0%	25.3%	33.2%	38.7%
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## Analysis:

In 9<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup> and 12<sup>th</sup> five year plans, we find changes in pattern of investment in various sectors. Examining these figures, we can make following conclusions:

(1) In agriculture, irrigation and rural development, public investment in 9<sup>th</sup> plan was 19.8%. It went up to 20.1% in 10<sup>th</sup> plan but it reduced to 18.5% in the 11<sup>th</sup> plan and 16.2% in 12<sup>th</sup> Plan.

(2) In 9<sup>th</sup> plan public investment in energy was 25.1% which went up to 26.5% in 10<sup>th</sup> plan, but it reduced to 23.4% in the 11<sup>th</sup> Plan and 18.8% in 12<sup>th</sup> Plan.

(3) In transport and communication, the public investment was 19.6% which went up to 21.3% in 10<sup>th</sup> plan, but it reduced to 18.3% in 11<sup>th</sup> plan and 16.8% in 12<sup>th</sup> Plan.

(4) In 9<sup>th</sup> plan, investment in economic and social services was 23% which went up to 25.3% in 10<sup>th</sup> plan and in the 11<sup>th</sup> plan it increased to 33.2% and 38.7% in 12<sup>th</sup> Plan.

From the above analysis, it can be said that in 10<sup>th</sup> plan there would be more public investment in all the sectors than in 9<sup>th</sup> plan. Therefore, during 10<sup>th</sup> plan, agriculture, irrigation and rural development will boost up and expand. Industries and trades related to agriculture and rural sector will develop rapidly. In business environment, there will be positive changes in agriculture and rural development.

Moreover, energy sector will also develop. Industries related to energy sector will develop. The Government believes that to reduce the electricity charges, huge investment in this sector is necessary.

In this context, N.K. Singh Committee has recommended that relief (exemption) for new investment in energy sector till 2012 and reduction in custom duty on imports of coal and neptha. In the 9<sup>th</sup> plan, it increased to 71% and in the 11<sup>th</sup> plan it reached 77%. Thus, in comparison to 9<sup>th</sup> plan, there was increase in percentage investment in the economic sector.



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But in the 11<sup>th</sup> plan. In transport and communication sectors, industries and trades related to such technology, machines, tools etc. will develop. Economic and social services include education, training, health, water supply etc. They will be developed in these plans. In 10<sup>th</sup> plan, for economic and social services 25.3% has been earmarked for public investment. In energy, 26.5% has been earmarked for public investment. These will develop all existing business units and help establish new units.

All these efforts will change business environment in such a way that private sector will flourish. In economy, various sectors will develop as more public investment will be made in them. These changes will affect business environment and revolutionize it completely.



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## UNIT 3 PROBLEMS OF ECONOMIC DEVELOPMENT IN THE CONTEXT OF INDIA

### INDIA AS A DEVELOPING COUNTRY

#### TOPIC: EXAMINE THE CHARACTERISTICS OF INDIAN ECONOMY AS A DEVELOPING COUNTRY

#### INTRODUCTION:

Developing economy is such where there are suitable structural changes for economic development and as a result, the process of economic development is accelerated. This means that there is increase in national income and per capita income. Let us now discuss Indian economy keeping in mind the factors that contributed to its development.

#### CHARACTERISTICS OF INDIAN ECONOMY AS A DEVELOPING NATION:

It becomes essential to study the characteristics of nature of economy as a developing economy. Though characteristics of developing countries are not similar, because the factors nourishing the developing economies are not similar in every country. Even then, developing countries have certain common characteristics.

#### The following are the characteristics of Indian economy as developing nation:

- (1) Increase in national income.
- (2) Increase in per capita income.
- (3) Development-oriented structural changes:
  - (i) Development-oriented changes in sector wise share of GDP
  - (ii) Agriculture sector revolution.
  - (iii) Remarkable development of basic capital industries.
  - (iv) Development of economic infrastructure.
  - (v) Development of social infrastructure.
- (4) Dual economy
- (5) Economic development through mixed economy
- (6) Changing industrial policy.
- (7) Private ownership of means of production.
- (8) Profit-oriented production of goods.
- (9) Determining performance of market system.



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- (10) Development encouraging performance of public sector.
- (11) Development through economic planning.
- (12) Foreign trade and increase in foreign exchange reserve.
- (13) Gradual improvement in standard of life.

**Now let us discuss each characteristic in detail:**

## **(1) Increase in National Income:**

Central Statistical Organization (C.S.O.) had introduced new Services of National Income, keeping in view the prices of 2004-'05, that means 2004- 05 = 100. Accordingly, the National Income in India was 2,55,405 crores in 1951, which increased to 47,66,754 crores in 2012-'13.

That means in the 62 years from 1950-51 to 2011-1 the national income increased to 17.81 times. During this period, the Compound Annual Rate of Growth (C.A.R.G) reached 5.8%.

Later on the national income reached the figure of 91,71,04 crores in 2013-'14 at the current prices and as per 2004- 05 prices it reached 49,20,183 crores. As per latest estimates, the net national income has reached upto 7 14,710,563 crores in 2017-'18 at the current prices.

National income has been growing. Its growth rate has been higher than the growth rate of population. Capital accumulation and investment have also gone up. There has been remarkable increase in per capita its consumption. This shows that the standard of living in India has improved.

## **(2) Increase in per capita Income:**

Here per capita income has been calculated in consonance with the concept of Net National Product. It has been calculated as per capital Net National Product at factor cost. At the (1999-2000 prices), the per capita income in 1950-51 was 7,114 which has gone up 739,904 in 2013 -14. This means that during 64 years period from 1950-51 to 2013-14, it has become more than fourfold. Compounded growth rate of per capita income is 5.6 %



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Later on the per capita income in 2013-14 has reached 74,380 at current prices and 39,904 at the 2004-05 prices. As per latest estimates, the net per capita income at the current prices has reached 1,07,11,178 and 86,660 at 2011-12 prices.

Per capita income rise is more appropriate for economic development than national income. Therefore, it is more relevant to evaluate economic development of India in this context. In India, agriculture still dominates economy. Adverse weather affects farm produces and it affects national income and per capita income adversely.

Though there has been remarkable increase in national income, per capita income increase is not satisfactory due to high growth rate of population. In any country, higher growth rate of population in proportion to growth of income becomes an obstacle in economic development.

However, the analysis of per capita income indicates that there has been steady rise in per capita income also. It indicates the improved condition of economy in India after independence. It indicates positively that India is moving in the direction of economic development.

### (3) Development-oriented structural changes in economy:

As the process of economic development goes on, there are structural changes in economy that motivate economic development of the country. Let us now discuss what these structural changes are and how they help in accelerating economic development.

#### (i) Sectoral Share in GDP:

Agriculture, industries and service Sectors contribute to GDP. To find out their proportion, we must add up the value of all agriculture produces, industrial products and Services. Let us take a look at the figures of sectoral share in 1950-51 and 2007 - 08.

Sectoral share in GDP (in percentages)				
YEAR	AGRICULTURE	INDUSTRIES	SERVICE	TOTAL
1950-51	55.4%	16.1%	28.5%	100%
2011-12	13.9%	27.1%	59.0%	100%





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### Analysis:

(1) In 1950-51, the GDP share of agriculture was 4%, it went down to 13.9% in 2011-12. On point to point basis, it down to 41.5%.

(2) In 1950-51 industrial share in GDP was 16.1% which went up to 27.1%.

(3) In 1950-51, service sector share in GDP was 28.5% which went up to 59.0%. Its increase was 30.5 points

Here it can be seen that during this 61 years period from 1950-51 to 2011-12, GDP share of agriculture went down while the GDP share of industries and service sector is the highest during 2007-08.

The changes in GDP share shows that the economic development is gradually increasing. In 1950-51, there was less development of industries and service sector and as a result their GDP share was relatively lower while agriculture share was higher.

But the trend changed during 2011-12 which shows that industrialization has gone up in India. There have been dramatic changes in service sector and their services like transport, communication, electricity, irrigation and trade and commerce related services.

The share of GDP and service sector was increased remarkably. The figures related to developed countries indicate that in these countries also, GDP share of agriculture has been reducing and the share of industries and service sector has been increasing. In 2005, in Japan the share of agriculture in GDP was only 2%, the share of industries was 30% and that of service sector was 68%.

In developed countries, the share of industries and service sector in GDP is very high and the share of agriculture is very little. As per latest estimates of 2011-12, the share of agriculture was of 13.9% that of industries 27.1% and service sector 59.0%.



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### (ii) Revolution in agriculture sector:

In India, around 70% people depend on agriculture directly or indirectly. They get their living either directly from agriculture or from agriculture related trades and business. In India, the agricultural revolution is now known as rainbow revolution. The entire approach towards agriculture has undergone a change.

Now it is not considered a method of living but it is known as agri-business. Now people began to calculate the profit from agriculture instead of merely taking it as an occupation. Efforts are now made to make it more profitable. Institutional and technological reforms have been introduced in agriculture. As a result, there was a Green revolution in Indian agricultural produces like grains and other crops.

White revolution associated with marine products. Efforts are made to re improve is Blue revolution connected with milk and milk products. Now there their production. Green, white and blue revolutions combined together is known as rainbow revolution. World Bank publications have noted that during 1998-2017, India has stood second in the entire world in wheat and rice production.

### (iii) Development of basic capital industries:

During the initial period of planning the share of basic capital industries in total industrial production was about 25%. From employment point of view, it was not important at all. Out of 1.5 crore industrial workers, only 1/4 of them could be employed by them but during the Second Five Year Plan industrialization began. In this plan, heavy and basic industries were given priority.

As a result, transport, textile, cement, paper, oil mill machineries, agricultural tools manufacturing industries etc. developed remarkably. That is the reason why the Second Five Year Plan (1956-1961) is known as the period of industrial revolution in India.

After that under various plans large scale capital industries like steel and iron, heavy chemicals, fertilizers, heavy machinery, machine tools, locomotives, heavy electrical equipment, aluminum and petroleum industries developed. The share of basic capital industries in total industrial production went up to more than 50%.



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Industrial production index calculating at 2004 -05 = 100 was 8.8% in 1950-51. It went up to 172.7% in 2013-14 compound growth rate went up by 4.8%. This fact indicates that in India, the process of industrial development is developing quite rapidly.

### **(iv) Development-oriented performance of public sector:**

The units under State and Central governments are considered as public sector units. The number of public sector units under the Central Government was 5 and there was investment of 29 crores. In 2011, its number increased to 248 and out of it, 220 public sector units were working and in 2010-11, the investment in them was that of 9,50,449 crores. Its net profit reached to 92,077 crores.

### **(vi) Development of economic infrastructure:**

Infrastructure is the internal structure that provides basic facilities for economic structure. It includes transport, communication, electricity, irrigation, roads, railways, aviation, waterways, banking, insurance etc. Economic infrastructure helps the development of industries and agriculture. In 1950-51, the total production of electricity in India was 5.1 billion Kwh.

It went up to 962.5 billion Kwh in 2013-14. In 1950-51 total area under irrigation was 21 million hectares. In 2011-12 it has gone up to 65.3 million hectares. Thus, there is 3 times increase in area under irrigation.

### **(vi) Social infrastructural development:**

In social infrastructure institutions of education and health like schools, colleges, universities, health centers, child welfare centers, mother welfare centers, family planning etc. are included.

The development of social infrastructure plays a very important role in the development of human resource development. They accelerate the efficiency of the people and contribute to improvement of quality of life.

In India, educational institutions have increased and education has also spread. In 1950-51 there were 2,23,300 primary schools. In 2013-14 they have gone up 7,48,500.



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During 1950-51, the number of colleges were 578 which went to 22,126 in 2011-12. The number of universities during 1950-51 were 27 which went up to 621. As a result, literacy rate which was 18.3% in 1950-51 went up to 74.04% in 2013-14.

Due to better and improved health services, average life span increased. In 2013-14 in India, the average longevity was 66.1 years. In comparison to developed countries, in India Human Development Index (HDI) is lower. In HDI prepared by the United Nations Development Programme, the Human Development Index in 2013 was 0.586 among 187 countries of the world, India stood at 135 in number

The HDI of Pakistan, Bangladesh, Nigeria were 146, 142, 152 respectively. India fared a little better than these countries in this respect.

#### **(4) Dual Economy:**

Dual economy means the type of economy where both traditional and modern trends are at work. For example, in India, in agriculture, we still find both modern as well as traditional methods of production being employed. In industries also, we find ultra-modern machinery, computers and electronic devices being used but at the same time still in rural areas, we find traditional methods of production being employed by the people. This diametrical tendencies indicate that Indian economy is dual.

In dual Economy in certain sectors, the process of development is limited and slow, in certain sectors, we can see development in a limited part or vision only. Some divisions remain undeveloped or underdeveloped. In dual economy development-oriented changes are slow. However, in some sectors, Indian economic development is quite remarkable.

#### **(5) Economic development through mixed economy:**

To avoid the evils of socialism and communism and to take advantages of them, India adopted mixed economy for economic development. The economy where both public and private sectors exist and their function is to make equal distribution, it is called mixed economy. Public sector and private sector have their separate functions. Profit is not made at the cost of social welfare. In mixed economy control and regulation are changed as required.



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Plans are adopted in mixed economy to determine certain targets and achieve them. In private sector, prices are determined by market system. In public sector, it is determined keeping public welfare in mind. Social welfare is given more importance than profit. In India, remarkable achievements could be made under mixed economic system. Some major steps were taken as follows:

- (1) Efforts were made to denationalize banks.
- (2) All industries except 18 were exempted from license and registration.
- (3) Tax structure was restructured.
- (4) Process of privatization was accelerated. Process of disinvestment took place. E.g. ONGC, GAIL, IPCL, CMC, IBP, DLI, NTPC.
- (5) Competition in industries was encouraged. Industrial units had to face competition with companies of foreign countries.
- (6) Controls on foreign equipment was liberalized. As a consequence, economic development was accelerated.

### **(6) Liberal Industrial Policy:**

In India Industrial policy is changed as required. In July 1991, new industrial policy was implemented. Some major measures were undertaken under the new industrial policy such as

- (1) All industries except 18 were exempted from licenses and registration. License Raj was removed.
- (2) Provision for compulsory registration was removed.
- (3) The process of disinvestment was started in public enterprise
- (4) In monopoly and restrictive trade practices, certain exemptions were made.
- (5) Foreign investment was encouraged.
- (6) Imports of capital goods were sanctioned automatically under certain conditions.
- (7) Special provision was made for the development of small industries
- (8) Liberal policy about place/location was announced e.g. It is not necessary to get permission to get up industries in area with less than 10 lakh population.

As a result of implementation of New Industrial Policy, the concepts of Liberalization, Privatization and Globalization (LPG) were implemented. They were instrumental in bringing about rapid economic development. Let us discuss them in details



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### (A) Liberalization:

In context of the New Industrial policy of the Government, following points regarding liberalization can be noted

(1) All except 18 industries were exempted from license. Since 1997, decision was taken that only 5 industries would require licenses. All others were exempted from licenses.

(2) Compulsory registration system for industries was also removed.

(3) In reserved sectors also some preferential sectors were opened for private sector. E.g. recently production of garment was also made open for private sector.

(4) Wider administrative powers were given to public sector managers and administrators. They were vested with more freedom to manage.

(5) To rejuvenate sick units of industries, Board of Industrial Finance and Reconstruction was given powers and responsibility.

(6) The limit of assets for private company and MRTP Act were totally removed and Competition Act in place of MRTP Act was introduced. Its objective was to remove monopoly in free market economy.

(7) Need for sanction to set up industry in an area with population less than 10 lakhs by the Central Government was also removed.

(8) In an area with less than 10 lakhs population, industries could be set up without the permission of the Central Government with the only condition that it must not cause pollution.

(9) Industries in rural and backward areas were to be encouraged.

(10) Private traders were allowed to purchase grains from the farmers directly for exports. Until now, traders had to purchase grains from Food Corporation of India (FCI) for exports.



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### **(B) Privatization:**

The following points throw light on the process of privatization in India.

- (1) All except 18 industries were exempted from license. They were opened for private sector. Private investment was allowed in these industries. The last decision taken in 2002 stipulated that only 3 industries required license. Only three industries were now reserved.
- (2) Compulsory registration was waived, and therefore, private sector development became very speedy.
- (3) Some share from Government invest in public sector was offered to mutual funds, financial institutions, and public.
- (4) Maruti Udyog Limited was sold to private sector.
- (5) In Government purchase priorities were given to things produced by small industries.
- (6) Women entrepreneurs were encouraged with special training and financial assistance.
- (7) Small industries were given priorities in providing land, credit facilities, electricity, raw material etc.

### **(C) Globalization:**

The following points indicate that Indian economy has moved towards globalization

- (1) Foreign exchange regulation was made liberal. Instead of FERA, FEMA was introduced which was quite liberal.
- (2) Foreign investment limit in priority industries was 40%. Now it was increased to 51%.
- (3) In 51% foreign investment industries totally 34 industries were included. Foreign companies across the world were allowed to invest in them.
- (4) Foreign investors were allowed to take their dividends their home countries.
- (5) If foreign exchange can be availed through foreign equity, capital department gave sanction without any hindrance. Such investment got automatic sanction.



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(6) Partnership in native marketing with foreign companies was welcomed.

(7) 75% foreign capital in banking and 100% foreign capita in tourism were welcomed. This announcement opened new doors for global banking and tourism.

(8) In priority areas, direct investment was encouraged. To sanction such investment a special board was set up to negotiate with foreign companies.

(9) Foreign companies can get money for the development of their business from Indian Capital market through IDR (Indian Depository Receipt).

### **(7) Private ownership of means of production:**

According to provisions of Constitution of India, means of production could be private. Therefore, in India, private sector is quite dominant. In total national product, private sector share is quite remarkable. At present, major part of industrial sector is privately owned.

New economy policy and Industrial policy indicate that private sector will be still more dominant in future. In India, agriculture is privately owned. Textile cloth, jute, sugar, cement, vegetable oil, leather industries are also privately owned and they have developed as private sector.

In socialism and communism, means of production are state-owned or collectively owned. Possessive instinct is natural in all animal world but in communism, it is negated. As a result, anybody's work becomes nobody's work. Therefore, investment and accumulation of capital are obstructed. Economic development suffers. Therefore, in the world at present, communism and socialism are on the wane. They are losing their grip and glamour.

In private sector, we find that personal possessions and competition are encouraged. Thus, natural instincts of mankind are satisfied. Private ownership encourages accumulation of wealth and capital also. It satisfies initiative in business and entrepreneurship. India is moving forward economic independence and economic development rapidly.





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## **(8) Profit-oriented production of commodities/things:**

Profit is the soul of trade and business. No economic activity can be sustained without profit. In India, private sector is governed by profit motive. Price of commodity suggests in what quantity goods must be produced.

Market mechanism plays a very important role in this process. However, sometimes when production is profit-motivated, production of things is not made at all. In mixed economy this type of conditions can be avoided by Government interference. Goods and services can be produced by public sector also. Because in public sector profit is secondary and public welfare is paramount.

In Indian economy now more and more things are produced with a view to getting profit. New sectors are now opened for investment with a purpose of setting profit. New technology, new marketing strategy, new management techniques are now applied in business, the entrepreneurs thus make efforts to make more profit.

In India, foreign companies also plunge into Indian market with foreign investment with a view to making profit. Due to all these various economic developments in India, it has become quite strong and rapid.

## **(9) Determining performance of market system:**

In India in all trades, business and industries market mechanism plays a very important role in economic development except in public sector. Market mechanism determines the proportion of goods to be produced and also what goods to be produced. It also determines the means of production and how they should to be employed. Prices of goods and means are determined by interaction of demand and supply.

Prices of means determine the method of production. The proportion of investment and the nature of investment are determined by the prevalent rates in money market.

However, earlier market mechanism was not completely free from the State control. In 1951, Industrial Act (Development and Regulation) was passed in India to control and regulate industries. Its objective was to plan industrial development in the country. But



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control and license method was a great failure. Now under structural reforms, controls and licenses have been removed.

Market mechanism has become more liberal and free. Now commodity market, market for resources and means and money market work more effectively and direct economy of the country is in the desired direction.

### **(10) Development-motivated performance of public sector:**

In public sector, certain public enterprises, under the Central Government and State Governments are included. Certain public enterprises are managed by the departments of the Government such as railways. Some public enterprises are managed by boards or corporations set up by the Government such as State Electricity Boards, Telephone Nigam or Corporations etc.

In Gujarat, public transport is managed by Gujarat State Transport. In Gujarat, there are electricity companies at present. Due to public sector, certain infrastructural facilities like roads, transport, communication, electricity, water supply, railway, irrigation, banking, insurance etc. could also be achieved.

Moreover, other services like education, health could also be achieved due to infrastructural development. These economic and social infrastructural facilities play a very important role in accelerating economic development of the country.

In 1950-51, there were five public sector enterprises owned by the Central Government. Its total investment was Rs. 29 crores. In 2005- 06 it went up to 239 and the investment went up to 7 3,93,057 crores. Net profit was 70,288 crores. Profit before interest and tax (PBIT) on invested capital was 18.5%.

After independence in 1947, creation of public sector was a historical necessity. The country required a huge push in economy. The Government made about 95% investment in public sector keeping this need in mind. As a result, the economy received an impression that it has a socialist economy. In fact, even for the development of private sector, development of public sector was necessary. In capitalist countries also, the State had to play important role in the initial phase.



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Government's initiative only could develop certain basic infrastructure without which development of private sector industries and trades is obstructed. From this point of view, it must be noted that public sector in India had played a very pivotal role in the development of economy and raising basic infrastructure required for economic development.

## (11) Development through economic planning:

In India, economic planning has been made that suits capitalist economic structure. There is no element of compulsion in it as in communist or socialist countries. E.g. in India, agriculture is privately owned.

The Government decides targets for the development of agriculture and provides incentives and facilities for achievement of these targets, but there is no compulsion or force of any kind there. Thus, economic planning is made with democratic values that respect freedom and non-interference.

In economic planning, the basic structure of economy is that of mixed economy. Public sector is controlled by the Government but private sector is free from Government interference. There is no direct interference in it but whenever necessary, the Government certainly intervenes. In India, due to economic planning stable economic development has become possible.

The ability of a national economy to achieve sustained high rates of economic growth is called competitiveness. The index of this ability is prepared in the global competitiveness report 2007-08 which include 131 countries.

According to this report the competitiveness ability of Indian economy stands 48th number among all the countries of the world. The USA stays at No.1 and Singapore at 7th. Indian economy has more potential for development than many other countries but still economy disparity has not reduced as required. For economically weaker sections of society, certain welfare schemes are implemented and efforts are made to improve their condition.

Remarkable improvement has been achieved in raising the standard of living of the people. Now planning has become inseparable organ of Indian economy.



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### (12) Foreign Trade and Foreign Exchange Reserves:

Growth in foreign trades indicates economic development. Therefore, it is necessary to examine exports and imports during plan periods. In 1950-51, exports was worth 606 crores which went up to 1,892,892 crores in 2013-14. Cumulative compound annual rate of growth (CARG) of exports during 1950-51 to 2006-07 was 8.5%. In 1950-51 imports was of 608 crores which rose to 23,42,217 crores in 2011-12. The CARG of imports was 9.3%. As per latest estimates the exports in 2016-17 reached to 18,41,314 crores and imports increased to 25,50,926 crores in 2016-17. Thus, from 1951 to 2010-11 there was rise in exports 1885 times and 2768 times imports. The foreign trade which was of 1,214 crores in 1951 increased to 28,26,116 crores in 2010-11.

Here, it can be seen that imports have increased more than exports. As a result, there is deficit in balance of payment. As industrialism progressed in India, imports in large quantity were required. Some these imports were inevitable. Therefore, it is natural that imports are more than exports. Exports are less but the reason for this is that level of income has risen in the country due to economic development a consumption has increased. Import surplus is less and therefore exports remain low.

However, India stands at 26th number in exports commodities among the countries of the world in 2007 and from the point of new commercial service, it stood at 9th number among the countries of the world. Here, it is quite clear that in India foreign trade has increased quite remarkably. It is the testimony of growth of Indian economy.

In India, foreign exchange reserves in 1980-81 was 585 crore US dollars. It went up to more than 300 billion US dollars (30000 crore US dollars) in May, 2013-14 and on 17-11-2017, the reserves of foreign exchange increased to 399.53 U.S. Dollars. This increase in foreign exchange reserves indicates the development and growth of Indian economy.

### (13) Improvement in the standard of living of the people:

The improvement in the standard of living of the people is also an indicator for economic development. Standard of living is connected with availability of goods and services. In proportion to the availability of goods and services, and rise in consumption, the standard of living can be said to have gone higher.



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Moreover, the easy access to goods and services at reasonable rates also affects the standard of living of the people. Thus, standard of living shows the welfare of people or economic welfare of the society and it is realistic to estimate the economic growth from this point of view. Now, let us look at the determinants that indicate the standard of living.

### (1) Food grains:

In India in 1950-51 daily per head food grain available was only 394.9 grams. In 2013-14, it has gone up to 532.5 grams. In 57 years, the increase is quite negligible.

### (2) Cotton cloth:

In 1990-91, annual per head cotton cloth available was 19.8 meters. In 2013-14, it went up to 19.8 meters.

### 3) Synthetic cloth:

In 1990-91, annual per head synthetic cloth available was 9.0 meters. It went up to 16.4 meters in 2013-14.

### (4) Domestic use of electricity:

In 1990-91 annual per head electricity available was 38.2 Kwh. It went up to 150.9 Kwh in 2012-13.

The abovementioned determinants are average figures. Thus, however, if we examine any determinant like food grains, cloth, electricity for domestic use etc. there has been some increase which indicates that standard of living of people in India has certainly improved.

### CONCLUSION:

Indian economy, on the whole, has been developing steadily and effectively. It is true that during plan periods, during the last 58 years, there has been fluctuations in economic growth rate but both national income and per capita income have increased quite remarkably. As a consequence, the standard of living of the people has certainly improved which is quite evident



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## TOPIC: DISCUSS THE ACHIEVEMENTS OF INDIA AS A DEVELOPING NATION

### INTRODUCTION:

India is a developing nation and yet it has made certain remarkable achievements. These achievements are as follows

#### 1) Increase in growth rate:

The growth rate during the decade 1950-51 to 1960-61 remained at 3.9%, which increased to 5.62- in 2004- 05 and 7.6% in 2013-14.' After that it is estimated to have reached to 7.6 % in 2015-16, 7.1% in 2016-17 and 6.75% to 7.5% in 2017-18.

#### (2) Increase in foreign exchange surplus:

There has been gradual increase in foreign exchange surplus. In 1951, the foreign exchange reserves were only 2 billion U.S.dollars, which increased to 300 billion U.S.dollars in March, 2011 and 399.53 billion dollars in November, 2017.

#### (3) Payments of foreign debt:

India has paid the debts of about 18 countries. Certain loans of IMF and World Bank have also been paid up. The debts were paid to Canada which matured after 20 years. Around 5 billion dollars have been paid as foreign debts.

#### (4) Share in credit fund:

The credit fund has been set up by IMF to provide loans to backward countries. India has contributed 100 million dollars in it. Now India is no longer loanee but loan provider.

#### (5) 4th in global economy:

According to World Development Index reports. Indian economy stands at the 4th number in the entire world. The USA stands first and China stands at the second rank.

#### (6) Infrastructural projects:

India started infrastructural projects without the help of foreign aid or loans during the last 2 or 3 years. E.g. At the cost of 55,000 Golden Quadrilateral National Highway Project has been started. At the cost of 40,000 crores all capitals of the country will be connected. At the cost of 60,000 crores 1 lakh and 86 thousand villages will be connected by Pucca roads. At the cost of 20,000 crores, remote places will be connected by railway lines.



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There has been the projects to raise infrastructural facilities in the rural areas at the cost of 15000 crores. In the 2013-'14 budget, allocation has been made for infrastructural development as follows:

- (1) For the development of infrastructure, it has been decided to issue tax free bonds for 50,000 crores.
- (2) It has been decided to develop 2 new ports in West Bengal and Andhra Pradesh as well as raise additional 1200 million tones capacity.
- (3) 500 inland waterways have been declared as national waterways.
- (4) 14,000 crores have been allocated to Indian National Highway Authority.

### **Provisions made in 2014-15 budget for infrastructural facility development:**

The development of complete economy depends on the development of infrastructural facilities. So, its development holds the fundamental importance. **Following provisions have been made in the budget:**

- (1) Provision of 14,389 crores have been made for Prime Minister Rural Road Plan.
- (2) Provision of 37,000 crores have been made for National highways.
- (3) In order to make easily available bank loans for public transport, solid waste and clean water, a provision of 50,000 crores has been made.
- (4) A provision of 79.5 thousand crores has been made for electricity.
- (5) A provision of 500 crores has been made for solar energy.
- (6) Provision of 9,474 crores has been made for civil aviation.
- (7) Provision of 500 crores has been made for solar power project.

### **Provisions made for infrastructural facilities in 2015-16 budget:**

- (1) It has been decided to make an investment of 70,000 crores in the infrastructural facility sector, in order to give momentum to economic development.
- (2) The government will establish National Investment Fund and Infrastructure Company and for it tax-free infrastructure bonds will be issued for its funds to obtain 20,000 crores.
- (3) 25,000 crores have been allocated for Rural Infrastructure Development Fund.
- (4) Five ultra-Mega projects will be established and 1 lakh crores will be invested in it.



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- (5) 5,900 crores have been allocated for production of atomic energy and its research.
- (6) A target has been fixed to generate 1,75,000 megawatt electricity by 2020. Out of it, solar energy for 1,00,000 megawatt, for wind energy 60,000 megawatt, for bio gas 10,000 megawatt and by small hydro project 5,000 megawatt electricity will be generated

### **Different Provisions for the development of infrastructural facilities in 2016-17 budget:**

- (1) Total 2.21,246 crores have been allocated for the infrastructural development, which is 8,000 crore more than the previous budget.
- (2) For highways 97 crores have been allocated.
- (3) For Prime Minister's Rural Roads Plan, 7 19,000 crores have been allocated.
- (4) For the development of roads 97,000 crores have been allocated.
- (5) 160 airports will be developed.
- (6) 100 crores will be allocated for the closed down airports.
- (7) For energy sector 2,05,879 crores have been allocated.
- (8) An extensive plan will be formed for next 15 years for increasing the investment in the atomic energy generation.
- (9) Within next three years. i.e. by 2019, all the rural areas will be connected to highways.
- (10) New 10,000 k.m. highways will be constructed.
- (11) For Road-railway, total expense plan has been formed to the tune of 218 lakh crores.

### **Provisions made for infrastructural facilities development in 2017-'18 budget:**

- (1) The highest allocation of 3,96,135 crores has been made in this budget for the development of infrastructural facilities.
- (2) 3,96,135 crores have been allocated in the budget for the development of infrastructural facilities.
- (3) 1,31,000 crores have been allocated for railway protection. This amount will be spent for the protection, facilities, cleanliness and development.
- (4) 64,000 crores have been allocated in the budget for the development of overall national highways.
- (5) By 2020 all the railway crossings without human guards will be eliminated.
- (6) 7,000 stations will be connected with the solar energy.
- (7) 1,000 crores have been allocated for providing internet connections in villages, keeping in view the schemes like net, online shopping, digitization in India.
- (8) Real estate is given the status of infrastructure, so it will have much encouragement to its development.





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### Provisions made in 2018-19 budget for the development infrastructural facilities:

- 5.97 crores have been allocated for the development of infrastructural facilities in the budget. 70,544 crores have been allocated for National Highway Authority 19,000 crores for Prime Minister Rural Road Plan and 10,000 crores for Telecom Infrastructure Expansion have been allocated.
- It has been decided that renovation of 36,000 k.m. track will be done, 18,000 k.m. railway lines will be doubled up as well as 4,000 k.m. track will have three to four lanes. Besides it, it has been decided to modernize 6,000 stations.
- In this manner, sufficient focus is placed on the development of infrastructural facilities. It will have potential of quantitative and qualitative improvement.
- All these projects will help in raising the economic growth rate of the country.
- According to a well-known American economist Dominique Wilson, India will emerge as the third front economy of the world by 2050. According to him, China will stand first, the US at second and India will be at rank three.
- According to his estimate, average increase in the GDP during the next 5 decades will be 6% in India, 4.7% in China. 3.8% in Brazil, 3.4% in Russia, 1.7% in the USA. In future.
- The USA will not remain the only economic big power. However, it will be benefited by obtaining trade relations with developing countries.

### Moreover, the study says that India must focus on two main things

- (1) To improve the standard of living of the people
- (2) To reduce Government interference in various economic sectors.

### CONCLUSION:

The efforts made during 61 years for making the country prosperous has seen mixed outcomes of success and failure. Even then, there has been tremendous success in making sea-change in the country in last 20 years. Due to it, the country has come out of the clutches of under-development and can boast of becoming a developed one. Not only that, several circumstances have taken place to bring in the line of developed country. So, there is no doubt that very soon our country will become developed country.



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## UNEMPLOYMENT

**TOPIC: GIVE MEANING OF UNEMPLOYMENT AND DISCUSS ITS NATURE AND FACTORS RESPONSIBLE FOR UNEMPLOYMENT IN INDIA.**

### **INTRODUCTION:**

Unemployment is a term referring to individuals who are employable and actively seeking a job but are unable to find a job. Included in this group are those people in the workforce who are working but do not have an appropriate job.

Usually measured by the unemployment rate, which is dividing the number of unemployed people by the total number of people in the workforce, unemployment serves as one of the indicators of a country's economic status.

### **MEANING OF UNEMPLOYMENT:**

#### **(1) Voluntary unemployment:**

Voluntary unemployment happens when a worker decides to leave a job because it is no longer financially compelling. An example is a worker whose take-home pay is less than his or her cost of living.

#### **(2) Transitional unemployment:**

During economic development, some old trades and business die out and capital dominated trades may replace labor- dominated trades. In such cases, the laborers have to remain unemployed for some time. These unemployed workers are unable to get jobs in new trades or industries because they are not trained or skilled. Such unemployment is called transitional unemployment.

Transitional unemployment is for short term only because once these work forces are trained, they get employment again.

#### **(3) Compulsory unemployment:**

Those who are ready to work and have capacity to work at the current rates of wages but they do not get work and they remain unemployed compulsorily are compulsorily unemployed. This unemployment is the real unemployment because it is



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against the wish of the individual who is capable of working and is ready to work at the current available wages.

## Types of Unemployment in India:

In India unemployment is divided into 2 major types:

### (A) Rural Unemployment:

Unemployment which exist in Villages is termed as Rural Unemployment. In Villages special type of unemployment prevails as it mainly depends on Agriculture. Let us discuss them in detail

#### (1) Seasonal Unemployment:

That situation of unemployment when people do not have work during certain seasons of the year such as laborers in India rarely have occupation throughout the year

#### (2) Disguised Unemployment:

This is a type of unemployment where people employed are more than actually needed. Disguised unemployment is generally traced in unorganized sectors or the agricultural sectors

### (B) Urban Unemployment:

Unemployment which exist in Cities is termed as Urban Unemployment. There are 2 types of Urban Unemployment. Let us discuss them in detail:

#### (1) Industrial Unemployment

There is no uniform unemployment among industrial workers too. Therefore it is further divided into 2 parts:

##### (a) Cyclical Unemployment:

Unemployment caused due to the business cycle, where the number of unemployed heads rises during recessions and declines with the growth of the economy. Cyclical unemployment figures in India are negligible

##### (b) Technological Unemployment:

The situation when people lose their jobs due to advancement in technologies. In 2016, the data of the World Bank predicted that the proportion of jobs threatened by automation in India is 69% year-on-year



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## (2) Educated Unemployment:

When educated and trained people do not get jobs according to their qualifications, it is called educated unemployment. In our country, in the beginning of planning.

The Government has been spending crores of rupees on education. The colleges and universities often churn out millions of educated job-seekers. But in our country, there is no appropriate planning of manpower, the system of education is defective and basically strategies of Planning have been faulty and therefore, millions of young men and women become victims of unemployment instead of getting suitable jobs.

## CAUSES/ FACTORS RESPONSIBLE FOR UNEMPLOYMENT IN INDIA

### 1. Defective investment system:

Defective investment system is the most serious mistake of our economic policy. This mistake has been repeated again and again. That is the reason why unemployment has been increasing.

When we consider only production as an end and neglect human factor, such mistakes take place. The investment creates employment opportunities but the number of employment created by it depends on the investment pattern.

If we have adopted labor dominated production system, investment would have certainly created many jobs. But our planners with a view to achieve economic-development adopted capital-oriented production method. That is the reason that after huge investment, negligible opportunities for employment have been generated. This clearly means that our gigantic plans of industrialization has proved quite futile as far as employment generation is concerned.

### 2. Rapid increase in population:

During the 67 years of planning, efforts have been made to control population but these efforts have been half-hearted and immature. They have failed utterly. In 1951, population growth rate was around 2%. It went up to 2.2% in 1971 and in 1981 it reached 2.23%. According to the Census of 1991, the population growth rate was 2.07%. Now 2001 Census, it has gone down to 1.54% growth rate. While, 2014-15, the growth rate in population is at 1.33%.



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This means that every year, 1.70 crores are added to our present population. It can be said that the population of Australia is added to Indian population every year

It is natural that if such big increases in net addition to our population, what can be expected except unemployment? During 1951 to 1991, 48.28 crores more people have been added.

In 2012-13, the total population of India has exceeded 121.8 crores.

The resources for employment are very small in comparison to the every growing population. It is natural that unemployment rises day-by-day and becomes a threatening menace.

### 3. Defective system of education and lack of manpower planning:

Our system of education is nothing but rote learning. It fails in shaping the mental and physical aspects of a human being. That is the reason why educated unemployed are increasing day-by-day. They are unemployed because very often they are unemployable. Our educated people are not so well-equipped that they can create self-employment. On the other hand, everyone wants white collar jobs. It is not possible to provide all with such jobs. That is also the reason why educated unemployment has risen.

### 4. Underdevelopment of agriculture:

India is an agricultural country. 70% of the population of India live in rural areas. Therefore, more employment should be created in agriculture sector. But we have not succeeded in bringing about radical changes in agriculture to create full employment to more and more people. Even supplementary sector has not been created in rural areas that can give employment to the people of rural areas. Seasonal and disguised unemployment are serious problems of agriculture sector.

### 5. Underdevelopment of non-agriculture sector:

In developed countries, we find development of non-agriculture sector like industries, trade and service, like transport, communication etc. But in our country, non-agriculture sector has not developed as much as it should. Therefore, these sectors are not able to create opportunities for employment. The rate of unemployment, therefore, goes on increasing. In developed countries like the USA, UK, Mexico, 25.29%, 19% and 18% are occupied in industries. In India, this proportion is only 7%. Naturally, the problem of unemployment cannot be solved on such circumstances.



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## 6. Lack of harmony between objective of planning and reality:

On one hand, our Government has put the removal of unemployment on agenda of planning but it has also considered employment as the side product of economic development. Thus, there is lack of harmony between the objective and reality, how can we achieve the desired objective? It is natural that the number of unemployed people are increasing day-by-day.

## 7. Poverty:

Poverty and unemployment are like twins. It is difficult to distinguish them completely. A person is poor, because he is unemployed and if he is unemployed, poverty is natural for him. He is poor because he has no resources to join employment. This fact can be known through the effects of unemployment on poverty. NSSO (National Sample Survey Organisation-32 Rounds) says that people who spend less than Rs. 11 per month are 22.2% in rural areas and 29.2% in urban areas.

## 8. Slow progress of economic development:

Employment increase is deeply connected with growth rate of economic development. But during the first three decades of planning, economic growth rate in India was very slow. It was 3.5% on the average. Of course, after two decades after that during 1980 to 2002, there has been some improvement. But during the 10th Plan, there has been average economic growth rate at 7.6% and in the last year 2006-07, it was 9.2%. This is quite heartening.

However, in our country various national resources are undeveloped. They have not been used properly. The process of transformation in agriculture is very slow. The third sector of economy has not developed much. Industrial sector has also remained slow on growth. Therefore, the economic growth rate has been quite slow. As a result, new opportunities, for employment in accordance with labor resources have not been created. As per latest estimates, from 2004-05 to 2010-11 period the average growth of economic development has reached to 28.4%.

## 9. Want of National Employment policy:

In our country, in planning there is a want of National Employment Policy. In various plans, schemes are mentioned but a special policy is never framed. In fact during the first three decades of planning, it was believed that employment is a by-product of economic development and no special programmes were initiated for creation of employment



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opportunities. In a democratic country, the problem of unemployment has become quite serious. It is not possible to tackle it in a haphazard manner. For this special policy was required from the beginning. But nothing was seriously undertaken. Therefore, unemployment has been rising continuously, and we have not succeeded in tackling it.

## 10. The inadequate use of productive capacity:

To remove unemployment, it is necessary to make full use of productive capacity. But in our country during 1967 to 2011, it has not been used adequately. There have been various causes for this, such as power shortage, transport problems, inadequate supply of raw materials, industrial unrest etc. Thus, industries fail to use productive Capacity adequately. This has affected employment adversely and unemployment has been rising.

## 11. Recent worldwide recession has increased the unemployment

In the middle of the eleventh plan, there has been worldwide recession. The effects of this recession are seen on our industries, agriculture, service sector etc. Hence, there has been great reduction in the demand of the products, at the domestic and international levels.

The export orders to the Indian companies have reduced considerably as well as at the domestic level also. Hence, the industrialists are compelled to reduce production and thousands of people are rendered jobless. This was one more reason of increasing unemployment from the year 2007-08 to 2014-15.

## CONCLUSION:

Thus, the problem of unemployment in India is not solved but it is becoming more and more aggravated. There is no single cause but many causes combined together have made it difficult to solve.

## TOPIC: DISCUSS THE EFFECTS OF UNEMPLOYMENT ON VARIOUS ECONOMIC SECTORS.

### INTRODUCTION:

Unemployment creates various types of hindrances from the point of view of business environment. So, from the view of business environment, let us divide the adverse impacts of unemployment mainly into two sections:

(1) Overall adverse impact of unemployment,



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(2) From the View of trade-business adverse impact of unemployment on different economic sectors.

**Now, let us examine both the adverse impacts.**

## **(A) Overall adverse impact of unemployment:**

From the point of view of business environment, unemployment in a given country is like a curse, because along with the unemployed person, the country is also compelled to face many difficulties. So, we divide the overall adverse impact or unemployment into four sections as below:

### **(1) From the view of a person:**

From individual point of view, unemployment is a great problem for a laborer, because due to unemployment, his family life gets dismantled. Unemployment leads to reduced efficiency, skill and character of a person. Moreover, unemployment becomes the cause for constant tension and despair. It makes a person's intellect negative and pessimistic. Hence, it is said, "An idle mind is devil's workshop." Thus, unemployment becomes a great problem for a person.

### **(2) From view of national production:**

Unemployment is the waste of important source of production. Due to unemployment, natural sources of the country cannot be completely utilized. This leads to reduction in total material production and economic progress of the country is hindered. So, it is not desirable even for the country also.

### **(3) From view of distribution and consumption:**

Due to unemployment the extent of production is limited and hence, the distribution is also done among limited people, so unemployed people do not get any share from the production. Due to this, rich become richer and poor poorer, which nourishes economic disparity, which becomes the hindrance, ultimately in the health of national development.





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## **(4) From view of society and political view:**

The large scale unemployment creates evil in the social and political sectors. Unemployed person becomes despaired and turn on the path of evilness. He may adopt dishonesty, lies, corruption and immorality. Unemployed people give up their responsibility towards society the state. So, there is disturbance in social and political systems. This leads to unrest, people's movement, destructive activities and revolution, which leads to the destruction of the society and the nation.

## **(B) Adverse impact of unemployment on different economic fields from view of business-trade:**

Unemployment creates overall adverse impact on the whole economy. It becomes essential to examine its adverse impact in the context of business environment.

The nature of unemployment is not of one type only, but having different types, like permanent unemployment, disguised unemployment, seasonal unemployment, machine-oriented unemployment, educated unemployment etc. These various types of unemployment has adverse impact individually on different economic fields like agriculture, trade- business, industries, transportation connected with the trade and industry. So, now let us examine in detail how different types of unemployment has on different fields of economy.

### **(I) Effect on Agriculture profession:**

In a developing country like India, in the initial stage of development, its main profession is of agriculture and it is the life line for 60% to 70% of the population. But due to certain limitations of the agriculture sector, generally, two types of unemployment is found:

- (1) Seasonal unemployment and**
- (2) Disguised unemployment.**

First of all, let us examine the effects on agriculture of seasonal unemployment.



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## **(1) Effects of seasonal unemployment on agriculture:**

India is an agricultural country and even today 60% of the population is connected with the agriculture. But as there is limited use of modern production techniques in agriculture, as well as agriculture sector is dependent on nature, only once the crop is yielded from 70% of the land.

So, majority of the farmers and farm-hands get 4 to 6 months of employment in a year and during the remaining period, they have to compulsorily seat idle. Thus, they have to remain unemployed in a year for certain period, which is called seasonal unemployment. Now, let us see, how the adverse impact of seasonal unemployment on the agricultural profession is.

Due to seasonal unemployment, the average per capita income of rural people goes very low. So, savings cannot be made for investment necessary for agricultural development. It is not possible to increase agricultural production or productivity. Consequently, the agricultural production and productivity constantly remain at very low level. Thus, Seasonal unemployment creates adverse impact on agriculture produce and productivity, hindering the development of agriculture.

## **(2) Effects of disguised unemployment on agriculture:**

Agriculture is the main profession in our country. So, with the population rise in the rural area, they have to turn towards agriculture as there is lack of employment opportunities in other professions. Consequently, more laborers are seen working on limited employment opportunities. Such labors do not have in fact, any share in the material production. That means, the marginal productivity is almost zero.

As the span of non-agricultural sector being limited, new population is compelled to turn towards agriculture. So, along with the economic development, the extent of disguised unemployment is increasing day-by-day, whose number runs into crores.

Now, let us see, how the effect of the disguised unemployment on the agricultural profession. Due to disguised unemployment, the per capita income of rural families get reduced. So, the savings essential for the agricultural development is not possible. Consequently, the new implements required for increasing agricultural produce are not possible. So, the agricultural produce and productivity remain at low level. Thus, disguised unemployment adversely affects agricultural development.



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### **(B) Effects on trade and commerce:**

Unemployment has adverse impact on trade and commerce also, because people do not get incomes due to unemployment. So the effective demand of day-to-day necessities and luxury items, get reduced, so people related with such business find their incomes reduced. The required economic growth is not achieved. Consequently trade and commerce are adversely affected due to unemployment.

### **(C) Effects on industry:**

Due to unemployment people are not able to get income. So, they do not demand goods in the market. So the people related with trade and commerce do not demand the required goods from the manufacturers and hence, production is reduced. With the reduced production, the profit of the manufacturers get reduced. Consequently, the encouragement to manufacturers more is also reduced, leading to hindrance in the industrial growth.

On the other hand, every industrial unit manufactures less than its actual production capacity. So, the valuable sources of the nation, energy and time are wasted. Moreover, with the reduction in the production, the people get unemployed which leads to yet more reduction in the demand of manufactured goods.

Thus, the vicious circle continues. So, with the passage of time complete economy falls victim to recession and industries run into loss instead of making profit. Ultimately, industries are closed down. Thus, unemployment has much adverse impact on industries in the long run.

### **(D) Effects on the business of transportation:**

The unemployment creates adverse impact on the business of transportation, because transportation development depends on agriculture, industry and trade-business, but the development of these sectors is hindered due to unemployment. So, the transportation business based on it also gets hindered. Thus, unemployment creates adverse impact on the transportation profession.

### **CONCLUSION:**

Thus, we have seen that unemployment has adverse impact on the different aspects of economy in the context of business environment. So, economic development is hindered.



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## UNIT 4 POVERTY

**TOPIC: What is poverty? What are the causes of poverty?**

### **INTRODUCTION:**

Poverty is that condition of life when a person is unable to meet any of his needs, both physical and basic needs. Such people find it difficult to pay for or fulfill their necessities. They lack the necessary means to accomplish this task. There are two ways in which one can measure poverty. One is the absolute poverty technique, and the other is a relative poverty technique.

### **Relative poverty:**

- In this type of poverty, a person may be above Below Poverty Line but happens to be poor in comparison with the other person whose income is above his income/consumption.
- In this type of poverty calculation, income/consumption distribution of the population in different percentile groups is estimated and compares them.
- It provides inequality present among the total population. Quintile ratio is one of the measures of inequality.
- Quintile Income Ratio= Average income of richest 20 Percent/ Average income of poorest 20 persons

### **Absolute poverty:**

- Absolute poverty refers to total number of people living below the poverty line.
- In this, we calculate an aggregate value (a figure expressing per capita consumer expenditure) of the minimum quantity of commodities which are necessities of life.
- The population whose level of income (or expenditure) is below this aggregate value is Below Poverty Line (BPL). Example: 13 Percent of People are BPL.
- Why we prefer consumption expenditure method instead of income in per capita income we cannot separate dependent people (children, senior citizen etc.) who are consuming but not earning. So, for correct data calculation, we prefer consumption expenditure method instead of income.



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## **Absolute poverty is measured on the basis of two criteria:-**

1. Minimum Calories Consumption Criteria
2. Minimum Consumption Expenditure Criteria

### **1. Minimum Calories Consumption:-**

People who are not getting 2400 calories per person per day in rural areas and 2100 calories in urban area is considered to be living below poverty line.

### **2. Minimum Consumption Expenditure Criteria:-**

The new poverty line, thus, translates to a monthly per capita consumption expenditure of Rs 972 in rural areas and Rs 1,407 in urban areas in 2011-12. Or, Rs 32 in rural areas and Rs 47 in urban areas on a per capita daily basis.

## **Causes of Poverty:**

There are several causes of poverty, and these can be explained in a nutshell. Population explosion is a major cause of poverty as is a high rate of unemployment. Even unequal wage distribution is counted among the causes of poverty. A high illiteracy rate can also result in a high percentage of unemployment as the population is not qualified to hold good jobs. Lastly, political factors are the primary cause of unemployment. The government of any country is responsible for creating jobs and encouraging the economy to grow. There is not a single cause, but a number of causes for prevalent poverty in India, which are as follows:

### **(1) Backward Agriculture Sector:**

In India, agriculture sector is still backward. Agriculture is still dependent on nature. Agricultural

production depends on the proportion of rain because there are not sufficient facilities for irrigation. Therefore, there is constant uncertainty about agricultural production.

### **(2) Excessive Dependence on Nature:**

The main base of Indian agriculture is on nature, and nature has uncertainties. That's why it is said that agriculture in India is a gamble against nature. In such a situation, the uncertainties of nature lead to uncertainties in agricultural yield and except poverty, what can be there under uncertain situation?



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### **(3) Old-fashioned production system:**

India is an agricultural country and main source of sustenance for 70% of the population is dependent on agriculture, but old and traditional methods of agriculture still continue. The use of chemical fertilizer, pesticides, high yield seeds, modern machines and tools etc. are not as much as required. Units of farming are also small and therefore mechanization is not affordable. All these factors keep agriculture backward. Thus, the income of the farmers and farm workers does not increase as expected and they become the victim of poverty.

### **(4) Large scale landless rural families:**

In India, farmers and farm workers depend completely on farm labor. They have no other alternative source of income except agriculture related labor. They suffer from seasonal and disguised unemployment. They get work for few months of the year. They do not have other skills. As a result, their income is very low and they spend their life in poverty.

### **(5) Joint family system:**

In joint family system in India, one person earns, while the remaining 10 in the family sit idle. In such a situation, there cannot be anything but poverty.

### **(6) Rate of population growth:**

The main reason of poverty in our country is high rate of population growth. In 1951, India's population was that of 36.11 crores which increased to 68.3 crores in 1981 and in 1991, it reached to 93.42 crores and the estimates are available that in 2001 it reached 101.5 crores and 2013-14 123.3 crores.' Despite the efforts made under the family welfare programmes, the total population of the country has reached 120.2 crores in 2011-12 as per 2011 census. The rate of population growth in 1951 was 1.26% which has increased to 1.93%, in 1991-2001 and in the period from 2001 to 2011, it little reduced to 1.64%.

The main reason for high rate of population growth, on the one hand, is the reduction in death rate due to medical services being easily available, and on the other, there has not been substantial decrease in the birth rate. Shri Gyanchand has properly said, "High birth rate is one of the components of our culture, once the values of people gets changed either voluntarily or involuntarily, only then, the rate of birth will get reduced. Thus, till the reduction in the birth rate is achieved, the rate of population growth will remain high.



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Due to the high rate of population growth presently. Every year 1.72 crore people are increasing, that means every year the population equivalent of Australia is increased in India."

The special painful fact is that the rise in population is mainly among poor families. The World Development Report of 1984 gives the reason for such a situation that "Poor parents desire more children because the financial cost of children is low, while their financial returns are high." As the number of members in a family being high due to high population growth rate, the low income of the family is distributed among more numbers of a family, leading to poverty.

### **(7) Low marginal productivity of labor:**

The productivity of laborers in India, both in industries and agricultural sector is lower than the productivity of laborers in other countries. Due to poverty they are not able to acquire high business skills. Due to low productivity, their income is very low. As a result, they have to spend life below poverty line. The low productivity of laborers is also the cause of poverty.

### **(8) Less utilization of human source in industrial sector:**

India is a country, where capital is in short supply and labor is in abundance. So, we should have adopted labor-oriented production methods instead of capital-oriented method, but in reality, we adopted the method of more capital and less labor, blindly following the western pattern.

So, we have not been able to provide sufficient work to human resource. Prof. Mayer and Baldwin have rightly said, As the social value of labor being negligible in poor countries in comparison to capital value, the high extent of labor in the context of capital should have been welcomed." We have not accepted this valued advice. Thus, the selection of defective production method has compelled people to remain unemployed, so where people are unemployed, obviously, there would be poverty.

### **(9) Economic Disparity:**

In India, the benefits of economic development do not reach all the classes of society equally. As a result, economic disparity increases. The distribution of factors of income is unequal in society. Moreover, from regional view also there is large disparity of income. For



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example, as per the estimate, at the current market price, average per capita income of people of India was 74.380 in 2013-14, while per capita income of people of Punjab was [1.32,710](#)

and for the people of Assam, the per capita income was just [46.354](#). Thus, due to individual and regional disparity rich has become richer and poor has become poorer. In the study related to poor of Asia, Montek S. Ahluwalia has said, "The top 20% rich people have their contribution in national income that of 52%, while bottom 40% poor people have just 16% share in the national income." Prof. Gunnar Myrdal says, "Except Sri Lanka, in all the countries of South Asia, economic disparity is on the rise. Thus, centralization of money in the hands of few people in India, can lead only to more poverty."

### (10) Lack of unity of dalits:

In our country, the lower rung of people, be it agriculture sector, industry or trade or for that matter service sector. Individually, those people continue to bear it, because they do not have strength of their unity to fight against the organized exploitation. Pandit Nehru has rightly said, "Actually poor people neither go of strike, nor they have Sources and strength to protest." In the words of Prof. Gunnar Myrdal, "The poor masses are mostly inactive, despaired and mute."

### (11) Little use of natural resources:

India is endowed by nature, but these natural resources are not utilized properly as they should have been. For example, the potential of hydroelectric generation is 76,200 megawatts, while [13,000](#) megawatts are generated. Similarly, every year, [3,700](#) billion cubic meter rain water is made available, out of which only [660](#) billion cubic meter rain water is utilized for irrigation.

So, on the one hand, there are large scale unused natural resources, while on the other hand is the contradicting picture of unused human labor. Mayer and Baldwin have properly said, "Several types of vicious circles prevail in under-developed economy, one of them is important vicious circle - backward and under-developed researches." So, India is not able to come out of the vicious circle. That's why it is said that, poor people reside in rich India."

### (12) Constantly rising prices :

The increase in price level is a great problem for people with low and fixed income. As prices go up, the value of money decreases. That is the reason why, in the same





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income as earlier, they can buy less and therefore people living above poverty line go down below poverty line. The increase in price level decreases the purchasing capacity of the people. They can buy less and have to live without certain essential commodities. This condition

of want can be called poverty. Thus, the increases in price also increases poverty.

### **(13) Defective Distribution System:**

Public distribution system means the arrangement to supply essential commodities of 1life to the people through fair price shops. They are supplied grains, kerosene, sugar etc. through the Government system. This system in India is faulty. Very often people do not get required supply of goods. Very often it is of inferior quality. People sometimes are forced to buy these things from the open market at higher prices. Some people have to live without certain essential commodities as they cannot afford them. Thus, public distribution system becomes the cause of poverty.

### **(14) Traditional Social Structure:**

In a developing country like India, people belonging to lower strata suffer from old traditional customs, superstitions and they possess anti-development mind. Therefore, it can be said that thinking and behavioral patterns of people play a very negative role in the path of development. Negative attitudes of a person can be great obstacles for economic development Thus, until social structure changes, man is unable to come out of the vicious circle of poverty.

### **(15) Lack of man-power planning:**

For poverty, lack of planning in man-power is responsible. In man-power planning, the estimate of skilled people for different sectors is made and skilled personnel are prepared through such planning. For that required training, education, skill are imported. Thus, lack of planning in man-power is responsible factor Due to such lack of planning, the problem of low income and poverty arises.

### **(16) Vicious circle of poverty:**

In India, national income and per capita income are lower than that of developed countries. As a result, savings remain low and investment is also low. This creates lower per capita income. That is the reason why it is said that India is poor because it is poor. The vicious circle of poverty creates more poverty. Till this circle is broken, it is difficult to eradicate poverty completely. That's why it is said that, \*A country is poor because it is poor."



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## CONCLUSION:

Poverty in India does not allow poor people to obtain even their daily necessities, as they do not have the purchasing power. This leads to lack of effective demand of goods consequently, production activity does not get the required momentum. Obviously in this situation, how can new employment opportunities be created? Thus, constant vicious circle of poverty has proved to be one of the strongest factors increasing poverty in India.

## TOPIC: What is the poverty line? Discuss various indicators of poverty

The line of cut off on the line of distribution that divides the country into poor and non-poor is known as the poverty line. Those whose income falls below that line are called poor, and those whose income is above the line are called non-poor. When the planning commission decides on the line, it takes into consideration the food consumption. Using this definition, economists can easily denote who is below the line and who falls upon the line. Poverty line refers to that line which expresses per capita average monthly expenditure that is essentially required by the people to satisfy their minimum needs. As per Tendulkar committee, poverty line is estimated in monthly basis as Rs. 816 in rural areas and Rs. 1000 in urban areas. People who are not able to earn even such amount in a month are considered below poverty line. According to a survey, approx. 22% population in India is below poverty line.

### Estimation of poverty line:

#### Calories based estimation—

For rural area intake calorie was estimated at 2,400 calories and for urban area it is 2,100 calories, In 1999-2000 new ways of measuring started i.e. monthly per capita expenditure— it

estimates for rural area as consumption worth Rs. 816 per persons and for urban areas it is Rs. 1000 Presently as per Tendulkar committee.

## INDICATORS OF POVERTY IN INDIA

Poverty is the curse for any country. So, it is not essential, but inevitable to eradicate poverty. But before taking up the remedies to remove it, it is essential to recognize it specifically. For recognizing the poverty properly, its specific indicators are taken into consideration. These indicators are the barometers for measuring poverty through which



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specific nature

and extent of poverty in a given nation can be measured. To find out whether there is poverty in India or not and if yes, to find out its nature and extent, study of its indicators is undertaken.

Following are the indicators establishing poverty in India.

## 1. Low per capita income:

The first test of determining whether there is poverty in a country or not, is the extent of their per capita income and at what rate it is increasing. Keeping in view the prices of 2004-05, the per capita net income in 1951 was 7,114 which has increased to 14,330 in 1990-91 and reached to 7,39,904 in 2013-'14. Thus, within the period of 67 years there has been increase in per capita income very slowly. In the context of 1951 while examining the extent of per capita income in 2017-18 as well as its growth rate, the fact is revealed that even today the per capita income is very low, compared to the developed countries and even the rise in the percentage terms is also negligible.

## 2. Slow Economic rate of development:

The second indicator to the poverty is the extent of economic development. In a given country, if the extent of per capita income is less, but if its rate of economic development is rapid, then that country can easily be freed from poverty, but in India, due to backward condition of agriculture and slow development in the industrial sector, there has been only rise on an average at 3% to 4% in the national income in last 62 years. On the other hand, the population growth rate has always been high. As per the census of 2001, during the 1991-2001 period, the population growth rate was at 1.95% and during the period 2001 it was at 1.64%, which engulfs majority of the rise in national income. So, in reality, the development rate has remained at just 1.5%.

Now, if the rate of economic development is so low, then it is obvious that poor people's income cannot increase and it income cannot be increased, then poverty be eliminated. Thus, slow economic development rate in India is the indicator of poverty.

## 3. Less utilization of natural' resources:

Vast use of natural resources can enrich a nation, but India is poor and one of its parameters is that its natural resources like land, water, rain, minerals, weather etc. could



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not be utilized properly during the plan periods. Total area of land in India is of 30.61 crore hectares,

out of which the total tilled land is just 14.12 crore hectares. Thus, only 46% of the total land is utilized.' Annually 13,560 lakh acre feet water flows away in Indian rivers. Out of it, only 4,500 lakh acre feet water is utilized for irrigation. So, it is a saying about India that poor people reside in rich India.

#### 4. High rate of population growth:

Along with the economic development, if the population growth remains constant, only then prosperity can be achieved, but parents in India consider children right from their childhood as source of income, that's why family planning activity has not achieved much success

and high birth rate has always been encouraged. Consequently, population growth rate has been increasing along with economic development, instead of decreasing. In 1951 the population growth rate was that of 1.26% which has reached up to 1.77% as per 2001 census and by 2012-13, it has gone to 1.33%. In the developed countries like U.S.A, U.K., France and Japan it has been 1.1%, 0.4%, 0.7% and 0.2% respectively.

In comparison to the developed countries, the population growth rate in India has been very high. In 1951, the population was that or 36.11 crores, which increased to 84.42 crores in 1991 and it was estimated to be 117 crores in 2009-10. After that, as per 2011 census in India the population increased to 121.02 crores. As per latest estimates, population reached to 130 crores in March, 2016. The country in which the rate of Economic development, on the one hand, has a slow, and on the other, every year 1.72 core new people are included in its population then there cannot be anything but poverty. Thus, high rate of population growth and extent indicate that India is a poor country, where poor people reside.

#### 5. Low standard of living:

The standard of living of a given country indicates its poverty or prosperity. Standard of living of majority of people in India is very low and poor. Hence, the extent of poverty in India is very high. Though, after [1974](#), much activities were implemented under the "Garibi Hatao" programme after [1974](#). Even then, in [1996-97 29.2%](#) people lived below poverty line. In [1999-2000](#), the percentage of people living below poverty line was [26.1%](#) and



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in [2007](#) it would be [19.7%](#). But as per the latest estimates, the percentage of people living below poverty line reached up to [21.9%](#) in [2011-12](#). The standard of living of those people living below poverty line is very low and due to it, they are unable to get the required calorie or protein from their daily food and no health services are available. Thus, in comparison to the developed countries, very few facilities necessary for sustaining life are available to the people of India, which is an indicator of low standard of living.

## 6. Low rate of investment:

Rate of investment is an indicator of any country's poverty non-poverty. The economic prosperity of people of any country depends on its economic growth rate and the economic growth rate depends on the rate of investment, but as the average per capita income of people of India being low, savings are less and due to less savings, investment is less, which leads to less production and less production tends to slow rate of employment. In developed countries, 30% to 32% of national income is invested, while in India, the percentage was [27.5%](#) in [2012-13](#).

## 7. Economic disparity:

The big economic gap between the rich and poor is also an indicator of prevailing poverty in India. Property and income are centralized in very few in India, while on the other hand, 40% to 50% people live below poverty line. As per the study carried out by Simon Kooznets, rich people, who are 20% of the population, take away 55% of share of the total income in India and remaining 80% of the population has just 45% of the total income. Out of these, 60% of the poor people get just 28% of the national income. Even after implementation of economic planning, instead of decreasing, the economic disparity is increasing. Rich has become richer and poor has become poorer.



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**TOPIC: DISCUSS THE EFFECTS OF POVERTY ON TRADE-BUSINESS. STATE THE REMEDIES TO PREVENT POVERTY.**

## **INTRODUCTION:**

Effects of poverty on different economic sectors:

Basic aim of economic development is to improve people's standards of living, but due to defective economic development programmes, we have neither been able to bring up people's standards

of living nor eradicate 'poverty. So, the adverse impact of poverty vis-a-vis economic development has gained gigantic nature, which has its effect on different economic sectors connected with the trade and business as follows

### **(1) Effect on agriculture sector:**

In our developing country, agriculture is the main profession and even after 54 years of economic development, it has remained the main profession of 60% of the population. Agriculture development has become inevitable and new investment in it is a must, but the farmers are mostly poor and the income generated from agriculture is very limited. So, they are unable

to do much saving. So, it is obvious that new investment cannot be made possible for increasing agricultural production and productivity. Thus, there is adverse effect of poverty on agriculture.

Moreover, the farmers are not able to make arrangement of water required for irrigation. Our agriculture mostly relies on nature and the nature being uncertain, the required constant growth in production and productivity to agriculture is not possible.

### **(2) Effects on trade-business:**

Poverty is such a curse, because regular income is not available, so they are unable to purchase their daily necessities and luxuries. This leads to decrease in effective demand in the market, leading to decrease in the income of those people connected with the business of such goods and services. The required growth through economic development does not become possible.

Consequently, poverty has the adverse effect on the income of people connected with trade and business and on the economic development.



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### (3) Effect on industries:

Despite the need, poor are unable to fulfill their day-to-day necessities due to lack of money. So, the goods available with the traders - businessmen remain unsold.

- (i) They do not demand goods from the manufacturers. To that extent the production is made less.
- (ii) The reduction in production, the production cost increases, which reduces the manufacturer's profit. This obstructs the industrial development.
- (iii) All the production units do not utilize their maximum production capacity due to limited demands of goods, hence, the valuable limited sources, energy and time are wasted.
- (iv) With reduction in production, the employed people get unemployed. So, demand of finished goods gets further reduced. Consequently, the economy gets into the clutches of recession and manufacturers are compelled to close down their units with the passage of time. Thus, in the long run, poverty brings adverse impact on the development of industries.

### (4) Effect on the profession of transportation:

Due to poverty, people's purchasing power gets reduced and recession sets in industries. This leads to less transportation of agricultural produce raw material, finished goods etc. So, the transportation business is gripped by recession. Thus, poverty has adverse effect on transportation business. So, when the under-developed countries start development, they are already inherited with poverty. But with the passage of time, instead of decrease in poverty, there is rise in it due to defective economic development strategy. Now, for any country's economic development is connected with agriculture and industries. But the problem of poverty has adverse impact on all the professions and ultimately the development is obstructed and dream of achieving prosperity at the national level goes far away.

### REMEDIES TO PREVENT POVERTY IN THE CONTEXT OF BUSINESS OPPORTUNITIES

We have seen above in detail how the poverty adversely affects the trade and business in India. The essence of the above discussion is that despite the efforts of the government, the country cannot be freed from the grip of poverty. Now, we cannot bear any delay in its prevention. American author Alvin Toffler had written a book, "Third Wave" in 1981 and forecasting made in it have started the ball rolling for new thinking. The problem of poverty



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is a challenge not only for India, but also for the whole world.

Before formulating the programmes, it is essential to take into consideration the responsible causes and its outcomes. Less income and less assets are the causes of poverty. So, such a policy should be adopted which increases poor people's incomes and assets are distributed in their favor.

An individual is poor in India, the main reason is that he does not have education, skill, income, as well as capital necessary for doing business. So, he neither gets employment, self-employment or business opportunities. Correct and final remedy for poverty in India is to make sincere efforts for providing business opportunities to the poor. So, if the government really wishes that the poor should not remain poor after getting so many aids, then it should give priority to such efforts by which business opportunities are created for him. Following remedies can be undertaken for its removal:

## **(1) Increase in opportunities for employment:**

In a developing country like India, the supply of labor is bigger than the demand. Therefore, the method of production must be labor-oriented. In labor-oriented method of production labor is used more and capital is used less. The strategy should be arranged so that more and more opportunities for employment are created in different fields of economy. Agriculture, small scale industries, cottage industries and handicrafts, service sector etc., use labor-oriented method of production. Therefore, more employment opportunities, can be created. They should be given priority in the plan of development and they should be developed more

## **(2) Facilities for self-employment:**

For eradication of poverty, facilities for self-employment must be provided. The poor people can also start some business according to their capacity and get self-employment. Some poor people have business skill, knowledge and capacity but they cannot start business Owing to the lack of proper guidance, Government and non-Government institutions can provide certain facilities for self-employment can provide them necessary training according to their occupation

- (i) **Arrangement for training:** Poor people very often possess different kinds of skills. Therefore, arrangement should be made to Carpenters, masons, tailors,





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ironsmiths, sculptors and architects, jewelers can be trained to create self-employment.

- (ii) **Professional guidance:** Mere training is not enough to start business and create self-employment. After training, guidance must be provided for the choice of business, place of business, volume of business. Availability of raw materials, arrangement for sale etc. All practical knowledge and information, regarding business must be provided.
- (iii) **Financial facilities:** After proper training and guidance, financial assistance is necessary to start business. Capital is required both for long term as well as for short term. Working capital is also necessary for day to day management of business. Therefore, it is necessary to know which banks and financial institutions can provide credit, for how much period etc.
- (iv) **Knowledge regarding market:** It is necessary to get all information regarding market by the self-employment seeker. Provision should be made to provide all necessary information regarding the level of competition in the market, the price of goods, the price of substitute and supplementary goods, the distribution system etc.
- (v) **Difficulties regarding management:** If there are difficulties in management, the arrangement should be made to remove managerial problems. The business must not be closed down due to lack of managerial solutions. It is necessary for a business unit to get necessary services and guidance by the experts.

### (3) Poverty eradication in rural areas:

To remove poverty in the rural areas

- (a) Creation of opportunities for employment and
- (b) Creation of opportunities for self-employment are important remedies.

#### (b) Creation of self-employment opportunities:

In rural areas, the following self-employment opportunities can be created.

##### (i) Distribution of land availed through Land Ceiling Act:

The Government should distribute land availed through Land Ceiling Act and provide the opportunities for self-employment. Poverty cannot be removed merely by providing land. Therefore, provisions should be made to provide the farmers tools and equipment's for



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farming & fertilizers, seeds, pesticides at relief rates so that they can get good crops and their economic condition might improve.

### **(ii) Land-ownership right for the Bhoodan Movement Land:**

In Bhoodan Movement a lot of land was acquired. The land thus acquired must be distributed and its ownership right must be given to land less farmers. This is necessary because then only they would work with the sense of belonging. Moreover, they should be provided agricultural equipment's, seeds, fertilizers etc. at reasonable rates

### **(iii) Community co-operative agriculture:**

Due to the implementation of Land Ceiling Act and land acquired through Bhoodan Movement, if poor farmers cannot farm on individual basis, they can do it on co-operative basis as a community. They can get more benefits of production through less resources.

### **(iv) Regain government unused land:**

The land owned by the Government is often arid and unused. It can be made plough able. Employment can be provided to poor farmers by distributing such land and self-employment opportunities can be created.

### **(v) Animal husbandry and dairy:**

Animal husbandry and dairies are associated with agriculture in rural areas. Self-employment opportunities can be created through animal husbandry and dairies on a large scale.

### **(vi) Implementation of special programmes:**

Small Farmers Development Agency. Marginal Farmers and Farm Workers Agency etc. should create development oriented and sustainable productive deposits and means that can provide employment to rural poor and the rural development might also continue. More financial means should be allotted for Rural Development Plans.

### **(4) Service of voluntary organizations should be sought for rural programmes:**

Generally, professional people are given contract for the rural employment-oriented programmes. Instead of them, the selfless Voluntary organizations should be entrusted the responsibility of rural

employment-oriented programmes by the government. By doing so every penny of the government should have been properly spent, co-operation of voluntary organizations is a



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new approach, but likely to prove very useful one. The government should seriously consider this point.

### **(5) Development centers:**

In small cities and towns, growth centers can be established and new opportunities for employment can be created. Small industries and cottage industries suited to local conditions can be set up with the help of local laborers and employment opportunities can be created in such growth centers. Diamond-Cutting, polishing, readymade clothes, food processing etc. can be developed. Besides these, poultry, fisheries, mini-oil, ginning and pressing etc. can be set up to create employment and self-employment opportunities.

### **(6) Labor-oriented activities should be adopted:**

Certain activities like plantation-drive, poultry center, fish industry mini-oil mill etc. should be encouraged at the district and taluka levels, that self-employment opportunities can be created.

### **(7) Public awareness programme should be adopted:**

Poor people live in despair. So, they are pessimistic. So, to remove pessimism from them, public awareness programmes should be prepared for economic progress with the help of such programme. Adisheshiah of UNESCO has rightly said, "For emancipation of poor people, first of all, they are made to understand that poverty is not an action of God. It is 100% man-made tragedy." So, with sincere efforts poverty can be eradicated.



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## **B.COM SEM -5** **HUMAN RESOURCE MANAGEMENT**

SR NO.	UNIT NAME
UNIT-1	HRM INTRODUCTION
UNIT-2	HUMAN RESOURCE PLANNING
UNIT-3	JOB ANALYSIS AND DISCRIPTION, RECRUITMENT AND SELECTION
UNIT -4	PERFORMANCE AND INCENTIVE BASED WAGE PLAN AND HRM MORAL



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## UNIT 1: INTRODUCTION TO HRM:

### UNIT 1: INTRODUCTION TO HRM:

- Introduction
- Meaning and Concept and Perspectives of HRM
- Characteristics of human resource management
- Components / essential elements of HRM
- Scope and Functions of HRM
- Qualifications, Qualities of human manager
- Role, Status and Competencies of HR Manager
- HR Policies and Principles of HRM
- Evolution of HRM

### HUMAN RESOURCE MANAGEMENT- INTRODUCTION

Human Resource management is the most happening function as of now. This is so because people offer competitive advantage to a firm and managing people is the domain of HRM. An organization enjoys competitive advantage when it is the only one which can offer a product at a price and at quality while its competitors cannot do so.

Fast changes are taking place in the business environment. An organization must have the ability to absorb these changes at a fast rate than in the past, not simply to prove its competency alone but to justify its existence in the dynamic business world as well. All organizations, whether large or small must ensure themselves that they have the competent people capable of accepting this challenge.

Human resource management is a relatively modern concept, which involves arrange of ideas and practices in managing people. Human resource is the most valuable resource in any organization because it can function only through people.

Human Resource Management has come to be recognized as an inherent part of management, which is concerned with the human resources of an organization. Its objective is the maintenance of better human relations in the organization by the development, application and evaluation of policies, procedures and programs relating to human resources to optimize their contribution towards the realization of organizational objectives. .

In other words, HRM is concerned with getting better results with the collaboration of people. It is an integral but distinctive part of management, concerned with people at work and their relationships within the enterprise. HRM helps in attaining maximum individual development, desirable working relationship between employees and employers,



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employees and employees, and effective modeling of human resources as contrasted with physical resources. It is the recruitment, selection, development, utilization, compensation and motivation of human resources by the organization.

## CONCEPT OF HUMAN RESOURCE MANAGEMENT

What exactly is human resource management? Many people find HRM to be an unclear and strange concept. This is not simply because of having variety of meanings to this term. This confusion is mainly due to the different interpretations found in articles and books about human resource management.

HRM is the philosophy of people management based on the belief that human resources are extremely important for sustained business success. An organization acquires competitive advantage by using its people effectively and utilizing their expertise to meet clearly defined objectives. HRM is aimed at recruiting capable, flexible and committed people. Managing and rewarding their performance and developing key competencies.

## Meaning and Definition

**Human Resource Management** is the process of recruitment, selection of employee, providing proper orientation and induction, providing proper training and the developing skills, assessment of employee (performance of appraisal), providing proper compensation and benefits, motivating, maintaining proper relations with labor and with trade unions, maintaining employee's safety, welfare and health by complying with labor laws of concern state or country.

Many great scholars had defined human resource management in different ways and with different words, but the core meaning of the human resource management deals with how to manage people or employees in the organization. .

**Edwin Flippo** defines- HRM as “planning, organizing, directing, controlling of procurement, development, compensation, integration, maintenance and separation of human resources to the end that individual, organizational and social objectives are achieved.”

**The National Institute of Personal Management (NIPM)** of India has defined human resources – personal management as “that part of management which is concerned with people at work and with their relationship within an enterprise. Its aim is to bring together and develop into an effective organization of the men and women who make up



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enterprise and having regard for the well – being of the individuals and of working groups, to enable them to make their best contribution to its success”.

## Characteristics of human resource management :-

### 1. Part of management :-

HRM is the part of management. It is adopted for achieving managerial objectives as well as optimal efficient use of human element.

### 2. Related with the functions of management :-

HRM is closely related with all the functions of management employees’ organization is its part as well as the importance functions of the management. The function of management are inter-connected. So, it is also connected with the management process.

### 3. Permanent process :-

HR is the constantly running permanent process. It being part of the management and its characteristic, has its obviously its place in HRM.

### 4. Combination of art & science :-

A part of management process HRM holds the characteristic of combination of both art & science. The principles of psychology, sociology, economics, and management are utilized along with HRM which depends on the element of art for carrying internal strength of people, recognize human feelings, give guidelines, develop individual relation and give encouragement. Hence there is balanced combination of art & science in it .

### 5. Related with personnel managements :-

Personnel managements part of HRM. The concepts of personnel management, which was having limited scope, is presented in the broad sense in the HRM.

### 6. People oriented process :-

HRM is a people oriented process. It is concerned with personnel on individually as well as collectively.

### 7. Development oriented :-

HRM has a process through which employees get maximum satisfaction and strive to do the hard work with excellence by bringing out the potential efficiency in them.

### 8. Challenging work :-

Keeping in view the changeable natures of human being, HRM is a challenging work. A human being has his own thoughts, desires and sensibilities.

### 9. Like a nervous system :-

Like nervous system or bring being internal part of body, HRM is the inherent part of any organization. Like nervous system being inseparable from human body, HRM is inseparable from organization.



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## 10. Extensively spread functioning :-

HRM is not limited only industries, its necessity and utility are found in various sectors like government, armed forces, sports etc. religious sector can also not remain as an exception.

## 11. All extensive process :-

Where there are personnel related functioning, functioning of human resource management becomes relevant. As employees are connected in every department, level or tasks, of the organization HRM is seen to be functioning.

## 12. Importance to human elements :-

The functioning of HRM is undertaken in order to recognize the human element in the management and give it a special significance.

## Components / essential elements of HRM

### 1. Part of managements :-

It is an indisputable fact that personnel managements is the part of managements. The five function of managements, given by Henry fayole include planning, organization, co-ordination, order & control. Peter F. Drucker has also laid emphasis on personnel managements as a part of management. Through his well known POSDCORB.

### 2. Relation with other functions of management :-

According to urvik, “personnel managements can’t be separated from other function of management. Personnel management is closely related with other function of managements. So, the American managements association president, Lawrence appley states, “management and personnel management are one & same, they can never be separated management means personnel management.”

### 3. Permanent process :-

Personnel management is the permanent management and constant process. It would always be there, till the human element stays in the industrial units.

### 4. More art & science :-

Personnel management is closer to art then science. Even if we accept the fact that the function of management can be better carried out scientifically, then also certain function like controlling personnel and given them guidance can’t be done with any specific working system.

### 5. Development of special skill :-

Special skills of personnel are developed by the job evaluation in personnel management.

### 6. Not only labour welfare activity :-

Though it is true that personnel management carrier out labour welfare activities but, it dose not mean that its main function is that of labour welfare only.





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## 7. Group satisfaction :-

Personnel management constantly tries to satisfy every employees individual as well as collectively and if one consider the total of individual satisfaction.

## 8. Human approach :-

It is true that, specials skills are developed in the personnel management as shown above, but there is also a new human approach .

## 9. All extensive universal :-

In any section of unit or at any level of management, the component of personnel management exists. Personnel management is the inherent, inseparable part of collective activity of human being.

## Scope of Human Resource Management

### 1. Personnel Aspect

Human Resource Planning – It is the process by which the organization identifies the number of jobs vacant.

Job Analysis and Job Design – Job analysis is the systematic process for gathering, documenting, and analyzing data about the work required for a job. Job analysis is the procedure for identifying those duties or behavior that defines a job.

Recruitment and Selection – Recruitment is the process of preparing advertisements on the basis of information collected from job analysis and publishing it in newspaper. Selection is the process of choosing the best candidate among the candidates applied for the job.

Orientation and Induction – Making the selected candidate informed about the organization’s background, culture, values, and work ethics.

Training and Development – Training is provided to both new and existing employees to improve their performance.

Performance Appraisal – Performance check is done of every employee by Human Resource Management. Promotions, transfers, incentives, and salary increments are decided on the basis of employee performance appraisal.

Compensation Planning and Remuneration – It is the job of Human Resource Management to plan compensation and remunerate.

Motivation – Human Resource Management tries to keep employees motivated so that employees put their maximum efforts in work.



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**Welfare Aspect** – Human Resource Management have to follow certain health and safety regulations for the benefit of employees. It deals with working conditions, and amenities like - canteens, crèches, rest and lunch rooms, housing, transport, medical assistance, education, health and safety, recreation facilities, etc.

**3. Industrial Relation Aspect** – HRM works to maintain co-ordinal relation with the union members to avoid strikes or lockouts to ensure smooth functioning of the organisation. It also covers - joint consultation, collective bargaining, grievance and disciplinary procedures, and dispute settlement.

## IMPORTANCE OF HUMAN RESOURCE MANAGEMENT

Human Resource Management is related with effective utilization of human resources. The importance of HRM can be discussed as:

### 1. Importance concerned with individual organization

Human Resource Management can help an organization to achieve to its objective more efficiently and effectively in the following ways:

- (a) Procurement of required talents through recruitment, selection, placement, inducting, training, compensation and promotion policies.
- (b) Secures co-operation of all employee of the organization for achieving goals.
- (c) Proper utilization of human resources for the success of the enterprise.
- (d) Ensure a future team of efficient and competent workers required for the organization.

### 2. Professional Importance

Professional competency among employees can be achieved through the following ways.

- (a) Human resource management provides maximum opportunities to employees for their personnel development.
- (b) Providing healthy relationship among employees
- (c) Proper allocation of work among employees.
- (d) Providing training facilities for the individual development of employees.

### 3. Social Importance

HRM is important in social perspective also. It includes the following aspects:

- (a) Human resource management enhances the dignity of labour.
- (b) Provides suitable job to suitable person and it will help to satisfy the psychological and social satisfaction of employees.
- (c) Helps to provide reasonable compensation to workers, which leads them to have a good standard of living.



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(d) Helps to maintain a balance between jobs and job seekers in terms of numbers, qualification, aptitude etc.

(e) Takes health and safety measures which ensures physical and mental health of the employees.

#### 4. National Importance

Effective management of human resources will speed up the economic growth of nation. This in turn leads to better standard of living and more job opportunities.

#### Human Resource Management: Objectives

- To help the organization reach its goals.
- To ensure effective utilization and maximum development of human resources.
- To ensure respect for human beings. To identify and satisfy the needs of individuals.
- To ensure reconciliation of individual goals with those of the organization.
- To achieve and maintain high morale among employees.
- To provide the organization with well-trained and well-motivated employees.
- To increase to the fullest the employee's job satisfaction and self-actualization.
- To develop and maintain a quality of work life.
- To be ethically and socially responsive to the needs of society.
- To develop overall personality of each employee in its multidimensional aspect.
- To enhance employee's capabilities to perform the present job.
- To equip the employees with precision and clarity in transactions of business.
- To inculcate the sense of team spirit, team work and inter-team collaboration.

#### Human Resource Activities

In order to achieve the above objectives, Human Resource Management undertakes the following activities:

1. Human resource or manpower planning.
2. Recruitment, selection and placement of personnel.
3. Training and development of employees.
4. Appraisal of performance of employees.
5. Taking corrective steps such as transfer from one job to another.
6. Remuneration of employees.
7. Social security and welfare of employees.
8. Setting general and specific management policy for organizational relationship.
9. Collective bargaining, contract negotiation and grievance handling.



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10. Staffing the organization.
11. Aiding in the self-development of employees at all levels.
12. Developing and maintaining motivation for workers by providing incentives.
13. Reviewing and auditing manpower management in the organization
14. Potential Appraisal Feedback Counseling.
15. Role Analysis for job occupants.
16. Job Rotation.
17. Quality Circle, Organization development and Quality of Working Life

## Functions

### Human Resource Management Functions:

#### Managerial, Operative and Advisory Function

Some of the major functions of human resource management are as follows:

1. Managerial Functions
2. Operative Functions
3. Advisory Functions.

Human Resource or Personnel Department is established in most of the organizations, under the charge of an executive known as Human Resource/Personnel Manager. This department plays an important role in the efficient management of human resources. The personnel department gives assistance and provides service to all other departments on personnel matters. Though personnel or human resource manager is a staff officer in relation to other departments of the enterprise, he has a line authority to get orders executed within his department.

- (i) Managerial,
- (ii) Operative and
- (iii) Advisory functions.

#### 1. Managerial Functions:

The Human Resource Manager is a part of the organisational management. So he must perform the basic managerial functions of planning, organising, directing and controlling in relation to his department.

#### These functions are briefly discussed below:

##### 1. Planning:

To get things done through the subordinates, a manager must plan ahead. Planning is necessary to determine the goals of the organisation and lay down policies and procedures to reach the goals. For a human resource manager, planning means the determination of



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personnel programs that will contribute to the goals of the enterprise, i.e., anticipating vacancies, planning job requirements, job descriptions and determination of the sources of recruitment.

The process of personnel planning involves three essential steps.

Firstly, a supply and demand forecast for each job category is made. This step requires knowledge to both labour market conditions and the strategic posture and goals of the organisation.

Secondly, net shortage and excess of personnel by job category are projected for a specific time horizon.

Finally, plans are developed to eliminate the forecast shortages and excess of particular categories of human resources.

## 2. Organizing:

Once the human resource manager has established objectives and developed plans and programs to reach them, he must design and develop organisation structure to carry out the various operations.

**The organization structure basically includes the following:**

- (i) Grouping of personnel activity logically into functions or positions;
- (ii) Assignment of different functions to different individuals;
- (iii) Delegation of authority according to the tasks assigned and responsibilities involved;
- (iv) Co-ordination of activities of different individuals.

## 3. Directing:

The plans are to be put into effect by people. But how smoothly the plans are implemented depends on the motivation of people. The direction function of the personnel manager involves encouraging people to work willingly and effectively for the goals of the enterprise.

In other words, the direction function is meant to guide and motivate the people to accomplish the personnel programs. The personnel manager can motivate the employees in an organisation through career planning, salary administration, ensuring employee morale, developing cordial relationships and provision of safety requirements and welfare of employees.

The motivational function poses a great challenge for any manager. The personnel manager must have the ability to identify the needs of employees and the means and methods of satisfy those needs. Motivation is a continuous process as new needs and expectations emerge among employees when old ones are satisfied.



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## 4. Controlling:

Controlling is concerned with the regulation of activities in accordance with the plans, which in turn have been formulated on the basis of the objectives of the organisation. Thus, controlling completes the cycle and leads back to planning. It involves the observation and comparison of results with the standards and correction of deviations that may occur. Controlling helps the personnel manager to evaluate the control the performance of the personnel department in terms of various operative functions. It involves performance appraisal, critical examination of personnel records and statistics and personnel audit.

## 2. Operative Functions:

The operative functions are those tasks or duties which are specifically entrusted to the human resource or personnel department. These are concerned with employment, development, compensation, integration and maintenance of personnel of the organisation.

### **The operative functions of human resource or personnel department are discussed below:**

#### 1. Employment:

The first operative function of the human resource or personnel department is the employment of proper kind and number of persons necessary to achieve the objectives of the organisation. This involves recruitment, selection, placement, etc. of the personnel. Before these processes are performed, it is better to determine the manpower requirements both in terms of number and quality of the personnel. Recruitment and selection cover the sources of supply of labour and the devices designed to select the right type of people for various jobs. Induction and placement of personnel for their better performance also come under the employment or procurement function.

#### 2. Development:

Training and development of personnel is a follow up of the employment function. It is a duty of management to train each employee properly to develop technical skills for the job for which he has been employed and also to develop him for the higher jobs in the organisation. Proper development of personnel is necessary to increase their skills in doing their jobs and in satisfying their growth need.

For this purpose, the personnel departments will device appropriate training programs. There are several on- the-job and off-the-job methods available for training purposes. A good training program should include a mixture of both types of methods. It is important to



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point out that personnel department arranges for training not only of new employees but also of old employees to update their knowledge in the use of latest techniques.

### 3.Compensation:

This function is concerned with the determination of adequate and equitable remuneration of the employees in the organisation of their contribution to the organisational goals. The personnel can be compensated both in terms of monetary as well as non-monetary rewards.

Factors which must be borne in mind while fixing the remuneration of personnel are their basic needs, requirements of jobs, legal provisions regarding minimum wages, capacity of the organization to pay, wage level afforded by competitors etc. For fixing the wage levels, the personnel department can make use of certain techniques like job evaluation and performance appraisal.

### 4.Maintenance (Working Conditions and Welfare):

Merely appointment and training of people is not sufficient; they must be provided with good working, conditions so that they may like their work and workplace and maintain their efficiency.

Working conditions certainly influence the motivation and morale of the employees. These include measures taken for health, safety, and comfort of the workforce. The personnel department also provides for various welfare services which relate to the physical and social wellbeing of the employees. These may include provision of cafeteria, rest rooms, counseling, group insurance, education for children of employees, recreational facilities, etc.

### 5. Motivation:

Employees work in the organisation for the satisfaction of their needs. In many of the cases, it is found that they do not contribute towards the organisational goals as much as they can. This happens because employees are not adequately motivated. The human resource manager helps the various departmental managers to design a system of financial and non-financial rewards to motivate the employees.

### 6.Personnel Records:

The human resource or personnel department maintains the records of the employees working in the enterprise. It keeps full records of their training, achievements, transfer, promotion, etc. It also preserves many other records relating to the behaviour of personnel



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like absenteeism and labour turnover and the personnel programs and policies of the organisation.

## 7. Industrial Relations:

These days, the responsibility of maintaining good industrial relations is mainly discharged by the human resource manager. The human resource manager can help in collective bargaining, joint consultation and settlement of disputes, if the need arises. This is because of the fact that he is in possession of full information relating to personnel and has the working knowledge of various labour enactments.

The human resource manager can do a great deal in maintaining industrial peace in the organization as he is deeply associated with various committees on discipline, labour welfare, safety, grievance etc. He helps in laying down the grievance procedure to redress the grievances of the employees. He also gives authentic information to the trade union leaders and conveys their views on various labour problems to the top management.

## 8. Separation:

Since the first function of human resource management is to procure the employees, it is logical that the last should be the separation and return of that person to society. Most people do not die on the job. The organisation is responsible for meeting certain requirements of due process in separation, as well as assuring that the returned person is in as good shape as possible. The personnel manager has to ensure the release of retirement benefits to the retiring personnel in time.

## 3. Advisory Functions:

Human resource manager has specialized education and training in managing human resources. He is an expert in his area and so can give advice on matters relating to human resources of the organization.

### He offers his advice to:

#### 1. Advised to Top Management:

Personnel manager advises the top management in formulation and evaluation of personnel programs, policies and procedures. He also gives advice for achieving and maintaining good human relations and high employee morale.





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## 2. Advised to Departmental Heads:

Personnel manager offers advice to the heads of various departments on matters such as manpower planning, job analysis and design, recruitment and selection, placement, training, performance appraisal, etc.

### Hr policy

Definition: “A policy may be defined as statement or general understanding which provides as guidance to decision-making to members of an organization in respect of any course of action.”

“Policies are general statement or understanding which guide the performance or channel thinking in decision making of subordinates.”

### Objectives of HR policies: -

- **Sound industrial relations**
- **Maximum and productive use of human resources**
- **Maximum individual development:**
- **Other objectives:**
  - a. Safeguarding the interest of labor and the management.
  - b. Proper functioning of the organization.
  - c. Proper recognition to the workforce and the protection of their prestige.

### Areas covered under HR policy

- Acquisition
- Compensation
- Appraisal
- Training and development
- HR Mobility
- Working conditions



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- Industrial Relation
- Human Resource Manager
- Just by establishing human resource management department, all the problem of the unit do not automatically get solved. It requires an efficient, expert human resource manager.
- According to Pigors and Myres, the successful personnel manager should have patience, understanding, sympathy, observation power of past and present events, professional knowledge about his own sector.

Qualification, qualities of a good Human Resource manager

- Insight in human nature
- Communication skills
- Leadership and organizational skills

Role of a HR manager

- Advisory role
- Executive role
- Informational role
- Exemplar and father figure
- Scapegoat(somebody who is made to take the blame for others)

Human Resource Management in changing environment

Today's organizations are facing challenges upon following levels:

- i. Environmental Challenges
- ii. Organizational Challenges
- iii. Individual Challenge



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## Environmental challenges

- a) Rapid change,
- b) Work force diversity,
- c) Globalization,
- d) Legislation,
- e) Technology
- f) Skill shortages and the rise of the service sector

## Organizational challenges

- a)Controlling costs,
- b) Improving quality, and
- c) Creating distinctive capabilities
- d) Restructuring

## Individual challenges

1. productivity,
2. ethics and social responsibility,
3. empowerment,
4. job security and
5. matching people and organizations

## Personnel Management vs. Human Resource Management

Both the terms refer to the one and the same function of the management and that is managing the people at work. However, Human Resource Management is mainly focused on best utilizing the man power by understanding their strength and weaknesses and engaging them in different occupations so that their productivity can be increased.

Therefore, training and development and employee engagements are part of it. Personnel Management, on the other hand, is mainly concerned with maintaining good employee-employer relationship and activities connected with it. Therefore,

Personnel Management mainly works around Industrial/ Employee/ Labour Relations and activities connected with grievance handling, negotiations, enforcement of labour statute, looking after welfare of employees and so on.

Personnel Management is thus basically an administrative record-keeping function, at the operational level. Personnel Management attempts to maintain fair terms and conditions of employment, while at the same time, efficiently managing personnel activities for individual



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departments etc. It is assumed that the outcomes from providing justice and achieving efficiency in the management of personnel

Human resource management is the new version of personnel management. There is no any watertight difference between human resource management and personnel management. However, there are some differences in the following matters.

1. Personnel management is a traditional approach of managing people in the organization. Human resource management is a modern approach of managing people and their strengths in the organization.
2. Personnel management focuses on personnel administration, employee welfare and labor relation. Human resource management focuses on acquisition, development, motivation and maintenance of human resources in the organization.
3. Personnel management assumes people as a input for achieving desired output. Human resource management assumes people as an important and valuable resource for achieving desired output.
4. Under personnel management, personnel function is undertaken for employee's satisfaction. Under human resource management, administrative function is undertaken for goal achievement.
5. Under personnel management, job design is done on the basis of division of labor. Under human resource management, job design function is done on the basis of group work/team work.
6. Under personnel management, employees are provided with less training and development opportunities. Under human resource management, employees are provided with more training and development opportunities.

<u>Personnel Management</u>	<u>Human Resources Management</u>
1) Personnel means persons employed. Personnel management is the management of people, skills employed	Human Resources management is the management of employees' knowledge, abilities, talents, aptitudes, creative abilities etc.
2) Employee in personnel management is mostly treated as an economic man as his services are exchanged for wage / salary.	Employee in human resource management is treated not only as economic man but also as social and psychological man. Thus, the complete



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	man is viewed under this approach.
3) Employee is viewed as a commodity or tool or equipment which can be purchased.	Employee is treated as a resource
4) Employees are treated as cost centre and therefore management controls the cost of labour	Employees are treated as profit center and therefore, invests capital for human resource development and future utility.
5) Employees are used mostly for the organizational benefit.	Employees are used for the multiple benefits of the organisation, employees and their family members
6) Personnel function is treated as only an Auxiliary function.	Human resources management is a Strategic Management function
7) PM is reactive	HRM is Proactive
8)The Scope of PM is Relatively Narrow with a focus on administrating people	The Scope of HRM is broad
9) PM is Primarily Concern with Recruitment, Selection & Administration	HRM takes efforts to satisfy Human needs.

## Human Resource Development

The American Society for Training and Development defines HRD as follows: ‘human resource development is the process of increasing the capacity of the human resource through development. It is thus the process of adding value to individuals, teams or an organization as a human system’.

### Scope of HRD:

1. Recruitment and selection of employees for meeting the present and future requirements of an organization.
2. Performance appraisal of the employees in order to understand their capabilities and improving them through additional training.
3. Offering the employees’ performance counselling and performance interviews from the superiors.
4. Career planning and development programmes for the employees.
5. Development of employees through succession planning.



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6. Workers' participation and formation of quality circles.
7. Employee learning through group dynamics and empowerment.
8. Learning through job rotation and job enrichment.
9. Learning through social and religious interactions and programmes.
10. Development of employees through managerial and behavioural skills.

Parameters of comparison	HRM	HRD
Definition	It stands for human resource management.	It stands for human resource development.
Function	It is a management department that ensures that a particular organization's employees give their best to achieve the result.	It manages the training and development of the employees.
Process	It is an occasional process.	It is a continuous process.
Department type	Management	Development

**At last:**

**“If you want 10 days of happiness, grow grain.**

**If you want 10 years of happiness, grow a tree.**

**If you want 100 years of happiness, grow people**



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## UNIT - 2 : HUMAN RESOURCE PLANNING

### Structure of Unit:

- 2.1 Objectives
- 2.2 Introduction
- 2.3 Human Resource Planning (HRP)
- 2.4 Definition of Human Resource Planning
- 2.5 Nature of HRP
- 2.6 Objectives of Human Resource Planning
- 2.7 Need for HRP in Organizations
- 2.8 Importance of HRP
- 2.9 Factors Affecting HRP
- 2.10 HRP Process
- 2.11 Requisites for Successful HRP
- 2.12 Barriers to Human HRP
- 2.13 Human resource information system - HRM

### 2.1 Objectives

After studying this unit, you will be able to:

- ☑ Understand the nature and need of HRP
- ☑ Able to gain information about different factors that affect HRP
- ☑ Realize the importance of human resource planning in current organizational scenario
- ☑ Understand the HRP process and the pre requisites for successful HRP process

### 2.2 Introduction

As told in the last chapter Human resource management has started to play a significant role in the overall strategic development of the organization. At present HR strategies are designed in tune with the overall business strategy of the organization. HR strategy should sub serve the interest of the organization, translating firm's goals and objectives into a consistent, integrated and complimentary set of programmes and policies for managing people.

First part of Human resource strategy is HRP – Human Resource Planning. All other HR activities like employee hiring, training and development, remuneration, appraisal and labour relations are derived from HRP.



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HR planning is important in a wide variety of industries and firms. HR planning affects what employers do when recruiting, selecting, and retaining people, and of course these actions affect organizational results and success. The challenges caused by changing economic conditions during recent year's show why HR workforce planning should occur.

Staffing an organization is an HR activity that is both strategic and operational in nature. As the HR

Headline indicates, HR planning is important in a wide variety of industries and firms. HR planning affects what employers do when recruiting, selecting, and retaining people, and, of course these actions affect organizational results and success. Human Resources planning mean different means to different organizations. To some companies, human resources planning mean management development. It involve helping executives to make better decisions, communicate more effectively, and know more about the firm. The purpose of HRP is to make the manager a better equipped for facing the present and future.

### 2.3 Human Resource Planning (HRP)

Human resource planning is important for helping both organizations and employees to prepare for the future. The basic goal of human resource planning is to predict the future and based on these predictions, implement programmes to avoid anticipated problems. Very briefly humans resource planning is the process of examining an organization's or individual's future human resource needs for instance, what types of skills will be needed for jobs of the future compared to future human resource capabilities (such as the types of skilled employees you already have) and developing human resource policies and practices to address potential problems for example, implementing training programmes to avoid skill deficiencies.

### 2.4 Definition of Human Resource Planning

**According to Vetter**, "HRP is the process by which management determines how the organization should move from its current man power position to desired manpower position. Through planning, management strives to have the right time, doing things which result in both the organization and individual receiving maximum long run benefits".

**According to Gordon Mc Beath**, "HRP is concerned with two things: Planning of manpower requirements and Planning of Manpower supplies".

**According to Beach**, "HRP is a process of determining and assuming that the organization will have an adequate number of qualified persons, available at proper times, performing





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jobs which meet the needs of the enterprise and which provides satisfaction for the individuals involved”

Simply HRP can be understood as the process of forecasting an organization’s future demands for and supply of the right type of people in the right number. In other words HRP is the process of determining manpower needs and formulating plans to meet these needs.

## HRP is a Four-Phased Process.

☐ **The first phase** involves the gathering and analysis of data through manpower inventories and forecasts,

☐ **The second phase** consists of establishing manpower objectives and policies and gaining top management approval of these.

☐ **The third phase** involves designing and implementing plans and promotions to enable the organization to achieve its manpower objectives.

☐ **The fourth phase** is concerned with control and evaluation of manpower plans to facilitate progress in order to benefit both the organization and the individual. The long run view means that gains may be sacrificed in the short run for the future grounds. The planning process enables the organization to identify what its manpower needs is and what potential manpower problems required current action. This leads to more effective and efficient performance.

## 2.5 Nature of HRP

Human resource planning is the process of analyzing and identifying the availability and the need for human resources so that the organization can meet its objectives.

The focus of HR planning is to ensure that the organization has the right number of human resources, with the right capabilities, at the right times, and the right places. In HR planning, an organization must consider the availability and allocation of peOple tojobs over long periods of time, not just for the next month or the next year.

HRP is a sub system in the total organizational planning. Actions may include shifting employees to other jobs in the organization, laying off employees or otherwise cutting back the number of employees, developing present employees, and/or increasing the number of employees in certain areas.

Factors to consider include the current employees’ knowledge, skills, and abilities and the expected vacancies resulting from retirements, promotions, transfers, and discharges. To



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do this, HR planning requires efforts by HR professionals working with executives and managers.

## 2.6 Objectives of Human Resource Planning

1. To ensure optimum utilization of human resources currently available in the organization.
2. To assess or forecast the future skill requirement of the organization.
3. To provide control measures to ensure that necessary resources are available as and when required.
4. A series of specified reasons are there that attaches importance to manpower planning and

forecasting exercises. They are elaborated below:

- ☐ To link manpower planning with the organizational planning
- ☐ To determine recruitment levels.
- ☐ To anticipate redundancies.
- ☐ To determine optimum training levels.
- ☐ To provide a basis for management development programs.
- ☐ To cost the manpower.
- ☐ To assist productivity bargaining.
- ☐ To assess future accommodation requirement.
- ☐ To study the cost of overheads and value of service functions.
- ☐ To decide whether certain activity needs to be subcontracted, etc.

HRP exists as a part of planning process of business. This is the activity that aims to coordinate the requirements for the availability of the different types of employers. The major activities are the forecasting, (future requirements), inventorying (present strength), anticipating (comparison of present and future requirements) and planning (necessary program to meet the requirements).

The HR forecasts are responsible for estimating the number of people and the jobs needed by an organization to achieve its objectives and realize its plans in the most efficient and effective manner.

HR needs are computed by subtracting HR supplies or number of the employees available from expected



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**HR demands or number of people required to produce a desired level of outcome.** The objective of HR is to provide right personnel for the right work and optimum utilization of the existing human resources.

The objectives of human resource planning may be summarized as below:

☐ **Forecasting Human Resources Requirements:** HRP is essential to determine the future needs

of HR in an organization. In the absence of this plan it is very difficult to provide the right kind of

people at the right time.

☐ **Effective Management of Change:** Proper planning is required to cope with changes in the

different aspects which affect the organization. These changes need continuation of allocation/

reallocation and effective utilization of HR in organization.

☐ **Realizing the Organizational Goals:** In order to meet the expansion and other organizational

activities the organizational HR planning is essential.

☐ **Promoting Employees:** HRP gives the feedback in the form of employee data which can be

used in decision-making in promotional opportunities to be made available for the organization.

☐ **Effective Utilization of HR:** The data base will provide the useful information in identifying surplus and deficiency in human resources. The objective of HRP is to maintain and improve the

organizational capacity to reach its goals by developing appropriate strategies that will result in the

maximum contribution of HR.

## 2.7 Need for HRP in Organizations

Major reasons for the emphasis on HRP at the Macro level:

**1) Employment-Unemployment Situation:** Though in general the number of educated unemployment is on the rise, there is acute shortage for a variety of skills. This emphasizes on the need for more effective recruitment and employee retention.

**2) Technological Change:** The changes in production technologies, marketing methods and management techniques have been extensive and rapid. Their effect has been profound on the job contents and job contexts. These changes have caused problems relating to



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redundancies, retention and redeployment. All these suggest the need to plan manpower needs intensively and systematically.

**3) Demographic Change:** The changing profile of the work force in terms of age, sex, literacy, technical inputs and social background has implications for HRP.

**4) Skill Shortage:** Unemployment does not mean that the labour market is a buyer's market. Organizations generally become more complex and require a wide range of specialist skills that are rare and scarce. A problem arises in an organization when employees with such specialized skills leave.

**5) Governmental Influences:** Government control and changes in legislation with regard to affirmative action for disadvantaged groups, working conditions and hours of work, restrictions on women and child employment, casual and contract labour, etc. have stimulated the organizations to become involved in systematic HRP.

**6) Legislative Control:** The policies of "hire and fire" have gone. Now the legislation makes it difficult to reduce the size of an organization quickly and cheaply. It is easy to increase but difficult to shed the fat in terms of the numbers employed because of recent changes in labour law relating to lay-offs and closures. Those responsible for managing manpower must look far ahead and thus attempt to foresee manpower problems.

**7) Impact of the Pressure Group:** Pressure groups such as unions, politicians and persons displaced from land by location of giant enterprises have been raising contradictory pressure on enterprise management such as internal recruitment and promotion, preference to employees' children, displace person, sons of soil etc.

**8) Systems Approach:** The spread of system thinking and advent of the macro computer as the part of the on-going revolution in information technology which emphasis planning and newer ways of handling voluminous personnel records.

**9) Lead Time:** The log lead time is necessary in the selection process and training and deployment of the employee to handle new knowledge and skills successfully.

## 2.8 Importance of HRP

HRP is the subsystem in the total organizational planning. Organizational planning includes managerial activities that set the company's objective for the future and determines the appropriate means for achieving those objectives. The importance of HRP is elaborated on the basis of the key roles that it is playing in the organization.

**1. Future Personnel Needs:** Human resource planning is significant because it helps to determine the future personnel needs of the organization. If an organization is facing the



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problem of either surplus or deficiency in staff strength, then it is the result of the absence of effecting HR planning.

All public sector enterprises find themselves overstaffed now as they never had any planning for personnel requirement and went of recruitment spree till late 1980's. The problem of excess staff has become such a prominent problem that many private sector units are resorting to VRS 'voluntary retirement scheme'. The excess of labor problem would have been there if the organization had good HRP system. Effective HRP system will also enable the organization to have good succession planning.

**2. Part of Strategic Planning:** HRP has become an integral part of strategic planning of strategic planning. HRP provides inputs in strategy formulation process in terms of deciding whether the organization has got the right kind of human resources to carry out the given strategy. HRP is also necessary during the implementation stage in the form of deciding to make resource allocation decisions related to organization structure, process and human resources. In some organizations HRP play as significant role as strategic planning and HR issues are perceived as inherent in business management.

**3. Creating Highly Talented Personnel:** Even though India has a great pool of educated unemployed, it is the discretion of HR manager that will enable the company to recruit the right person with right skills to the organization. Even the existing staff hope the job so frequently that organization face frequent shortage of manpower. Manpower planning in the form of skill development is required to help the organization in dealing with this problem of skilled manpower shortage

**4. International Strategies:** An international expansion strategy of an organization is facilitated to a great extent by HR planning. The HR department's ability to fill key jobs with foreign nationals and reassignment of employees from within or across national borders is a major challenge that is being faced by international business. With the growing trend towards global operation, the need for HRP will as well will be the need to integrate HRP more closely with the organizations strategic plans. Without effective HRP and subsequent attention to employee recruitment, selection, placement, development, and career planning, the growing competition for foreign executives may lead to expensive and strategically descriptive turnover among key decision makers.



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**5. Foundation for Personnel Functions:** HRP provides essential information for designing and implementing personnel functions, such as recruitment, selection, training and development, personnel movement like transfers, promotions and layoffs.

**6. Increasing Investments in Human Resources:** Organizations are making increasing investments in human resource development compelling the increased need for HRP. Organizations are realizing that human assets can increase in value more than the physical assets. An employee who gradually develops his/ her skills and abilities become a valuable asset for the organization. Organizations can make investments in its personnel either through direct training or job assignment and the rupee value of such a trained, flexible, motivated productive workforce is difficult to determine.

Top officials have started acknowledging that quality of work force is responsible for both short term and long term performance of the organization.

**7. Resistance to Change:** Employees are always reluctant whenever they hear about change and even about job rotation. Organizations cannot shift one employee from one department to another without any specific planning. Even for carrying out job rotation (shifting one employee from one department to another) there is a need to plan well ahead and match the skills required and existing skills of the employees.

**8. Uniting the Viewpoint of Line and Staff Managers:** HRP helps to unite the viewpoints of line and staff managers. Though HRP is initiated and executed by the corporate staff, it requires the input and cooperation of all managers within an organization. Each department manager knows about the issues faced by his department more than anyone else. So communication between HR staff and line managers is essential for the success of HR Planning and development.

**9. Succession Planning:** Human Resource Planning prepares people for future challenges. The 'stars' are picked up, trained, assessed and assisted continuously so that when the time comes such trained employees can quickly take the responsibilities and position of their boss or seniors as and when situation arrives.

## **10. Other Benefits:**

(a) HRP helps in judging the effectiveness of manpower policies and programmes of management. (b) It develops awareness on effective utilization of human resources for the overall development of organization.



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(c) It facilitates selection and training of employees with adequate knowledge, experience and aptitudes so as to carry on and achieve the organizational objectives

(d) HRP encourages the company to review and modify its human resource policies and practices and to examine the way of utilizing the human resources for better utilization.

## 2.9 Factors Affecting HRP

HRP is influenced by several factors. The most important of the factors that affect HRP are

1. type and strategy of organization
2. organizational growth cycles and planning
3. environmental uncertainties
4. time horizons
5. type and quality of forecasting information
6. nature of jobs being filled and
7. off loading the work.

**1. Type and Strategy of the Organization:** Type of the organization determines the production processes involve, number and type of staff needed and the supervisory and managerial personnel required. HR need is also defined by the strategic plan of organization. If the organization has a plan for organic growth then organization need to hire additional employees. On the other hand If the organization is going for mergers and acquisition, then organization need to plan for layoffs, as mergers can create, duplicate or overlap positions that can be handled more efficiently with fewer employees. Organization first decides whether to be reactive or proactive in HRP. Organizations either carefully anticipate the needs and systematically plan to fill the need in advance (proactive) or can simply react to the needs as they arise (reactive). Likewise, the organization must determine the width of the HR plan.

Organization can choose a narrow focus by planning in only one or two HR areas like recruitment and selection or can have a broad perspective by planning in all areas including training and remuneration.

The nature of HR plan is also decides upon the formality of the plan. It can decides to have an informal plan that lies mostly in the minds of the managers and personnel staff or can have a formal plan which is properly documented in writing The nature of HR plan is also depended upon the flexibility that is practiced in the organization. HR plan should have the ability to anticipate and deal with contingencies. Organizations frame HRP in such a way



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that it can contain many contingencies, which reflect different scenarios thereby assuring that the plan is flexible and adaptable.

## Figure 2.1 : Factors Affecting HRP.

Figure 2.1 summarizes the five factors that influence an organization while framing its strategic HRP.

**2. Organizational Growth Cycles and Planning:** All organizations pass through different stages of growth from the day of its inception. The stage of growth in which an organization is determines the nature and extends of HRP. Small organizations in the earlier stages of growth may not have well defined personnel planning. But as the organization enters the growth stage they feel the need to plan its human resource. At this stage organization gives emphasis upon employee development. But as the organization reaches the mature stage it experience less flexibility and variability resulting in low growth rate. HR planning becomes more formalized and less flexible and less innovative and problem like retirement and possible retrenchment dominate planning. During the declining stage of the organization HRP takes a different focus like planning to do the layoff, retrenchment and retirement. In declining situation planning always becomes reactive in nature towards the financial and sales distress faced by the company.

**3. Environmental Uncertainties:** Political, social and economic changes affect all organizations and the fluctuations that are happening in these environments affect organizations drastically. Personnel planners deal with such environmental uncertainties by carefully formulating recruitment, selection, training and development.

## Table 2.2 : Levels of HRP Information

Strategic Information General Organizational

Information

Specific Information

Necessary for HRP

Product mix

Customer mix

Organizational structure

Information flows

Job analysis

Skills inventories

Competitive emphasis Operating and capital





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budgets

Functional area objectives

Management inventories

Geographic limits of  
market

Production schedules

Distribution channels

Available training and  
development programmes

Sales territories

Production processes

Recruitment sources

Level of technology

Planning horizons

Labour market analysis

Compensation programmes

Constitutional provisions  
and labour laws

Retirement plans

Turnover data.

development policies and programmes. The balance in the organization is achieved through careful succession

planning, promotion channels, layoffs, flexi time, job sharing, retirement, VRS and other personnel related arrangements.

**4. Time Horizons:** HR plans can be short term or long term. Short term plans spans from six months to one year, while long term plans spread over three to twenty years. The extent of time period depends upon the degree of uncertainty that is prevailing in an organizations environment. Greater the uncertainty, shorter the plan time horizon and vice versa.

Source: Elmer. Burack and Nicholas J. Mathis, *Human Resource Planning- A Pragmatic approach*

*to manpower Staffing and development*, Illinois, Brace- Park Press, 1987, p. 129.

**5. Type and Quality of information:** The information used to forecast personnel needs originates from a multitude of sources. The forecast depends to a large extent upon the



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type of information and the quality of data that is available to personnel planners. The quality and accuracy of information depend upon the clarity with which the organizational decision makers have defined their strategy, structure, budgets, production schedule and so on.

Source: Leap& Crino, *Personnel/ Human Resource Management*, p. 161.

**6. Nature of Jobs Being Filled:** Personnel planners need to be really careful with respect to the nature of the jobs being filled in the organization. Employees belonging to lower level who need very limited skills can be recruited hastily but, while hiring employees for higher posts, selection and recruitment need to be carried out with high discretion. Organization need to anticipate vacancies far in advance as possible, to provide sufficient time to recruit suitable candidate.

**7. Outsourcing:** Several organizations outsource part of their work to outside parties in the form of subcontract. Outsourcing is a regular feature both in the public sector as well as in the private sector companies. Many of the organizations have surplus labour and hence instead of hiring more people they go for outsourcing. Outsourcing is usually done for non critical activities. Outsourcing of non- critical activities through subcontracting determines HRP.

## 2.10 HRP Process

HRP effectively involves forecasting personnel needs, assessing personnel supply and matching demand –supply factors through personnel related programmes. The HR planning process is influenced by overall organizational objectives and environment of business.

### Figure 2.2 : The HRP Process

#### Environmental Scanning:

It refers to the systematic monitoring of the external forces influencing the organization. The following

forces are essential for pertinent HRP.

- ☒ Economic factors, including general and regional conditions.
- ☒ Technological changes
- ☒ Demographic changes including age, composition and literacy,
- ☒ Political and legislative issues, including laws and administrative rulings
- ☒ Social concerns, including child care, educational facilities and priorities.

By scanning the environment for changes that will affect an organization, managers can anticipate their



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impact and make adjustments early.

**Organizational Objectives and Policies:** HR plan is usually derived from the organizational objectives. Specific requirements in terms of number and characteristics of employees should be derived from organizational objectives. Once the organizational objectives are specified, communicated and understood by all concerned, the HR department must specify its objective with regard to HR utilization in the organization.

### HR Demand Forecast:

Demand forecasting is the process of estimating the future quantity and quality of people required to meet the future needs of the organization. Annual budget and long-term corporate plan when translated into activity into activity form the basis for HR forecast. For eg: in the case of a manufacturing company, the sales budget will form the basis for production plan giving the number and type of products to be produced in each period. This will form the basis upon which the organization will decide the number of hours to be worked by each skilled category of workers. Once the number hours required is available organization can determine the quality and quantity of personnel required for the task. Demand forecasting is influenced by both internal factors and external factors: external factors include competition, economic climate, laws and regulatory bodies, changes in technology and social factors whereas internal factors are budget constraints, production level, new products and services, organizational structure and employee separations. Demand forecasting is essential because it helps the organization to

1. Quantify the jobs, necessary for producing a given number of goods,
2. To determine the nature of staff mix required in the future,
3. To assess appropriate levels in different parts of organization so as to avoid unnecessary costs to the organization,
4. To prevent shortages of personnel where and when, they are needed by the organization.
5. To monitor compliances with legal requirements with regard to reservation of jobs.

Techniques like managerial judgment, ratio- trend analysis, regression analysis, work study techniques, Delphi techniques are some of the major methods used by the organization for demand forecasting.

### HR Supply Forecast:

Supply forecast determines whether the HR department will be able to procure the required number of workers. Supply forecast measures the number of people likely to be



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available from within and outside an organization, after making allowance for absenteeism, internal movements and promotions, wastage and changes in hours, and other conditions of work. Supply forecast is required because it is needed as it

1. Helps to quantify the number of people and positions expected to be available in future to help the organization realize its plans and meet its objectives
  2. Helps to clarify the staff mixes that will arise in future
  3. It assesses existing staffing in different parts of the organization.
  4. It will enable the organization to prevent shortage of people where and when they are most needed.
  5. It also helps to monitor future compliance with legal requirements of job reservations.
- Supply analysis covers the existing human resources, internal sources of supply and external sources of supply.

## HR Programming:

Once an organization's personnel demand and supply are forecasted the demand and supply need to be balanced in order that the vacancies can be filled by the right employees at the right time.

## HR Plan Implementation:

HR implementation requires converting an HR plan into action. A series of action are initiated as a part of HR plan implementation. Programmes such as recruitment, selection and placement, training and development, retraining and redeployment, retention plan, succession plan etc when clubbed together form the implementation part of the HR plan.

## Control and Evaluation:

Control and evaluation represent the final phase of the HRP process. All HR plan include budgets, targets and standards. The achievement of the organization will be evaluated and monitored against the plan. During this final phase organization will be evaluating on the number of people employed against the established (both those who are in the post and those who are in pipe line) and on the number recruited against the recruitment targets. Evaluation is also done with respect to employment cost against the budget and wastage accrued so that corrective action can be taken in future.

## 2.11 Requisites for Successful HRP

1. HRP must be recognized as an integral part of corporate planning
2. Support of top management is essential



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3. There should be some centralization with respect to HRP responsibilities in order to have co-ordination between different levels of management.
4. Organization records must be complete, up to date and readily available.
5. Techniques used for HR planning should be those best suited to the data available and degree of accuracy required.
6. Data collection, analysis, techniques of planning and the plan themselves need to be constantly revised and improved in the light of experience.

## 2.12 Barriers to HRP

Human Resource Planners face significant barriers while formulating an HRP. The major barriers are elaborated below:

- 1) HR practitioners are perceived as experts in handling personnel matters, but are not experts in managing business. The personnel plan conceived and formulated by the HR practitioners when enmeshed with organizational plan, might make the overall strategic plan of the organization ineffective.
- 2) HR information often is incompatible with other information used in strategy formulation. Strategic planning efforts have long been oriented towards financial forecasting, often to the exclusion of other types of information. Financial forecasting takes precedence over HRP.
- 3) Conflict may exist between short term and long term HR needs. For example, there can be a conflict between the pressure to get the work done on time and long term needs, such as preparing people for assuming greater responsibilities. Many managers are of the belief that HR needs can be met immediately because skills are available on the market as long as wages and salaries are competitive. Therefore, long times plans are not required, short planning are only needed.
- 4) There is conflict between quantitative and qualitative approaches to HRP. Some people view HRP as a number game designed to track the flow of people across the department. Others take a qualitative approach and focus on individual employee concerns such as promotion and career development. Best result can be achieved if there is a balance between the quantitative and qualitative approaches.
- 5) Non-involvement of operating managers renders HRP ineffective. HRP is not strictly an HR department function. Successful planning needs a co-ordinated effort on the part of operating managers and HR personnel.



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## 2.13 Human resources information system :-

Human resource information system is such an organisational system through which business units collect different details about its human resource – employees and as and when any concerned department needs information about its employee, the necessary is provided.

This use can be understood from two points of view :

1. Macro level
2. Micro level

### 1. Macro level :-

Keeping in view the overall population of the country, main power planning is carried out for making forecasts. Large scale collection, classification and analysis of information is done for the national economy. As per the national – oriented approach, the least of following agencies and institutes can be mentioned as information source HIRS.

- a. Planning commission
- b. Ministry of labour
- c. National sample survey organisation
- d. Institute of applied main power research
- e. National labour institute
- f. University cities
- g. State level other institutions

### 2. Micro levels :-

For main power and human research planning of prevailing different business organisation and enterprises, their employees' information provided as per the local requirement of the units, is called micro-level information.

## 2.14 Summary

Today, human resource planning is viewed as the way management comes to grasp the ill-defined and tough-to-solve human resource problems facing an organization. Human resource planning is the process of determining the human resources required by the organization to achieve its goals. Human resource planning also looks at broader issues relating to the ways in which people are employed and developed, in order to improve organizational effectiveness. HRP is a decision making process that combines activities such as identifying and acquiring the right number of people with the proper skills, motivating them to achieve high performance and creating interactive links between business objectives and resource planning activities. HRP sets out requirements in both quantitative and qualitative terms. An accurate manpower plan is a dream. A common error of many



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managers is to focus on the organization's short term replacement needs. Any human resource plan, if it is to be effective, must be derived from the long term plans and strategies of the organization. The various approaches to human resource planning under which a number of major issues and trends in today's work plan that will affect organization and employees are

- (1) Examine external and internal issues,
- (2) Determining future organizations capabilities,
- (3) Determining future organizational needs, and
- (4) Implementing human resources programmes to address anticipated problems.

Although change is occurring very rapidly in the work world it is important for both organizations and

employees to monitor issues and events continuously and consider their potential effect



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## UNIT - 3 : JOB ANALYSIS AND PERFORMANCE APPRAISAL

- Introduction
- Job Analysis
- Job Description
- Job Specification
- Job Evaluation
- Performance Appraisal
- Summary

### **JOB ANALYSIS - DEFINITIONS OF JOB ANALYSIS - IMPORTANCE OF JOB ANALYSIS**

- Job analysis is a systematic process of collecting the information on nature of a job, qualities and qualifications required to a job, physical and mental capabilities to required to a job, duties and responsibilities, physical and mental effort required to perform a job, necessary skills required to perform a job, working conditions and environment for a job, in order to describe job description and job specification, for recruitment and selection of employee, improve job satisfaction, employee safety and to build up employee motivation etc

- There are also some outside resources that provide useful information about job searching and resume writing, everyone can read essay writing service reviews to choose the best services to write an application essay or resume.

- What is a Job?

- A group of homogeneous tasks related by similarity of functions. When performed by an employee in an exchange for pay, a job consists of duties, responsibilities, and tasks (performance elements) that are  
(1) defined and specific, and

(2) can be accomplished, quantified, measured, and rated. From a wider perspective, a job is synonymous with a role and includes the physical and social aspects of a work environment. Often, individuals identify themselves with their job or role (foreman, supervisor, engineer, etc.) and derive motivation from its uniqueness or usefulness.

### **Job Analysis**

- Job analysis, contains a simple term called "analysis", which means detailed study or examination of something (job) in order to understand more about it (job). therefore job





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analysis is to understand more about a specific job in order to optimise it. Job analysis is a systematic process of collecting complete information pertaining to a job. Job analysis is done by job analyst who is an officer have been trained for it.

- Job analysis is a procedure through which you determine the duties and responsibilities, nature of the jobs and finally to decide qualifications, skills and knowledge to be required for an employee to perform particular job. Job analysis helps to understand what tasks are important and how they are carried on. Job analysis forms basis for later HR activities such as developing effective training program, selection of employees, setting up of performance standards and assessment of employees ( performance appraisal)and employee remuneration system or compensation plan.

## Job Analysis

Job Descriptions and Job Specifications

Job Analysis and HR Activities

Job Analysis Methods

Stages in the Job Analysis Process

Job Design

Methods or Techniques of Job Design

Job Rotation

Job Enrichment

Job Enlargement

Job Evaluation

## Qualitative Methods of Job Evaluation

### Quantitative Methods of Job Evaluation

One of the first industrial-organizational psychologists to introduce job analysis was Morris Viteles. In 1922, he used job analysis in order to select employees for a trolley car company.

The intention behind job analysis is to answer questions such as:

What is the need of the job to exist?

What physical and mental activities does the worker undertake?

When is the job to be performed?

Where is the job to be performed?

How does the job performed by an employee?



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What qualities and qualifications are required to perform the job?

**Job analysis is a detailed examination of**

- (1) tasks that make up a job (employee role),**
- (2) conditions under which an employee performing his/her job, and**
- (3) what exactly a job requires in terms of aptitudes (potential for achievement), attitudes (behavior characteristics), knowledge, skills, educational qualifications and the physical working condition of the employee.**

Its objectives include

- (a) to determine most effective methods for performing a job.
- (b) to increase employee job satisfaction.
- (c) to identify core areas for giving training to employees and to find out best methods of training.
- (d) development of performance measurement systems, and
- (e) to match job-specifications with employee specifications while selection of an employee.

## Definitions of Job Analysis

Some important definitions of job-analysis are as under :

- **Harry L. Wylie.** "Job analysis deals with the anatomy of the job.....This is the complete study of the job embodying every known and determinable factor, including the duties and responsibilities involved in its performance; the conditions under which performance is carried on; the nature of the task; the qualifications required in the worker; and the conditions of employment such as pay, hours, opportunities and privileges"
- In the words of **Dale Yoder.** "A Job is a collection of duties, tasks and responsibilities which are assigned to an individual and which is different from other assignment"
- According to **Michael J. Jucius,** "Job analysis refers to the process of studying the operations, duties and organisational aspects of jobs in order to derive specification or, as they are called by some job description"
- In the words of Edwin B. Flippo, "Job analysis is the process of studying and collecting information relating to the operations and responsibilities of a specific job"
- According to **Blum,** "A job analysis is an accurate study of the various components of a job. It is concerned not only with an analysis of the duties and conditions of work, but also with the individual qualifications of the worker."



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- According to **John A Shubin** "Job analysis is the methodical compilation and study of work data in order to define and characterise each occupation in such a manner as to distinguish it from all others."

- In the words of **Scott, Clothier and Spriegel**, "Job analysis is the process of critically evaluating the operations, duties and relationship of the job."

- In simple words Job analysis is a formal programme which examines the tasks, duties and responsibilities contained in an individual unit of work.

## **Process of job analysis :-**

There are two approaches for doing job analysis out of which one is work oriented approach and second one is employee oriented approach.

- 1. WORK ORIENTED APPROACH**
- 2. EMPLOYEE ORIENTED APPROACH**

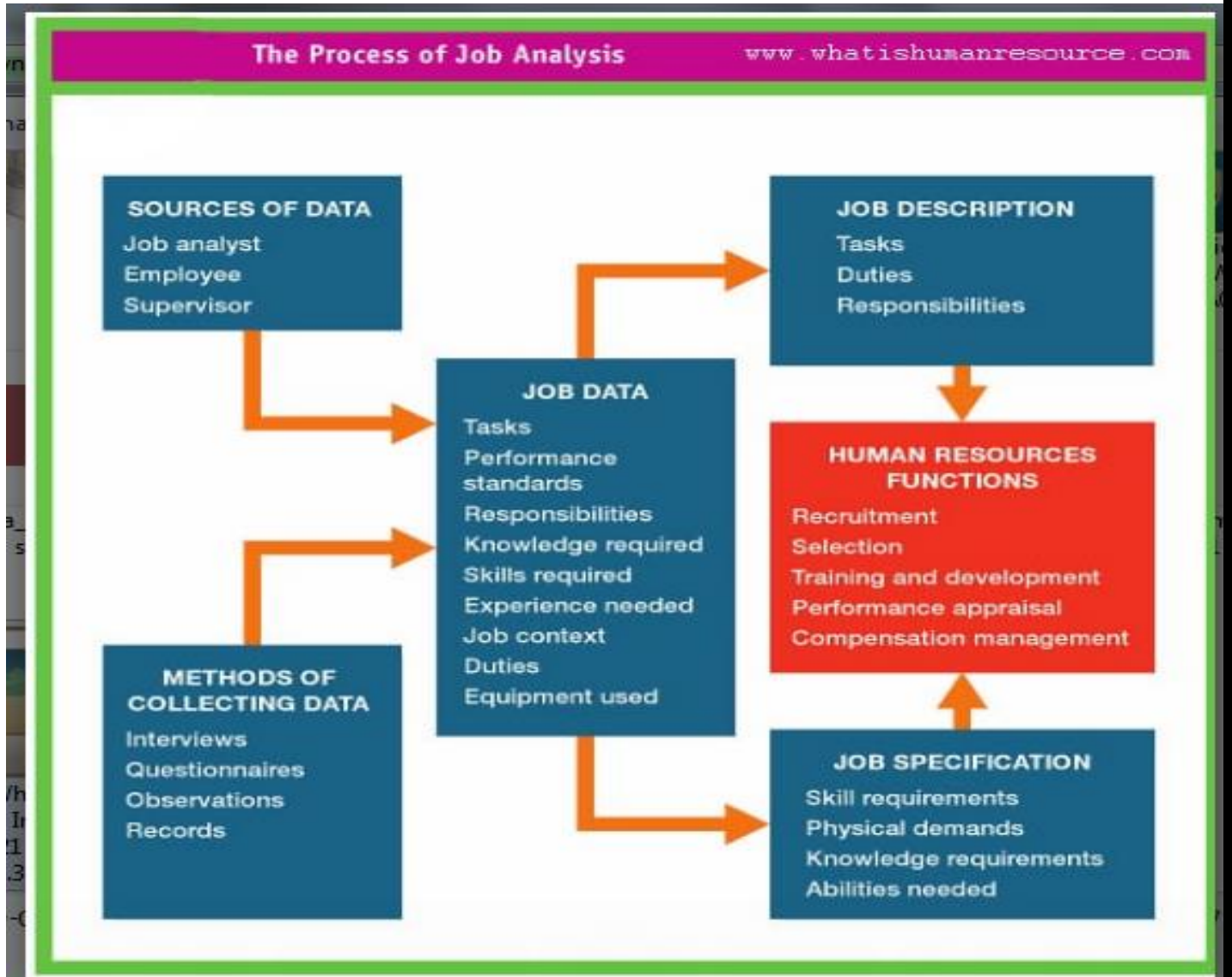


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## 1. WORK ORIENTED APPROACH

- This approach focus on the actual task involved in a Job. this approach mainly concentrate on duties, functions and responsibilities involved in a job.
- Example
- Job of court manager in Courts (judiciary), task oriented approach of job analysis statement include
- The Court Manager shall function under the control and guidance of the Chief Justice in the High Court, and the District Judge in the respective district Courts.



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- He shall work on policies and standards, based on applicable directives of superior Courts, establish the performance standards applicable to the Court (including on timeliness, efficiency; quality of Court performance; infrastructure; and human resources; access to justice; as well as for systems for Court management and case management.
- He will carry out an evaluation of the compliance of the directives of the Court with such standards; identify deficiencies and deviations; identify steps required to achieve compliance, maintain such an evaluation on a current basis through annual updates.
- He will in consonance with the rules and policies of the court and in consultation with the stakeholders of the Court including litigants, the Bar, ministerial staff, Executive Agencies supporting judicial functions such as prosecutors/police/ process service agencies prepare, submit and update annually a 5-year court-wise Court Development Plan (CDP), for approval of the court.
- He will monitor the implementation of the approved CDP and report to the District Judge and the High Court with the progress.
- He will ensure that statistics on all aspects of the functioning of the Court are compiled and reported accurately and promptly in accordance with systems established by the High Court.
- He will ensure that reports on statistics are duly completed and provided as required.
- He will ensure that the processes, procedures, policies and standards established by the High Court for Court Management are complied with and that they safeguard quality, ensure efficiency and timeliness and minimize costs to litigants and to the State; and enhance access to justice.
- He will ensure that case management systems are fully compliant with the policies and standards established by the High Court for case management and that they address the legitimate needs of litigants in terms of quality, efficiency and timeliness, costs to litigants and to the State. Standard systems for case management shall be developed by the High Court time to time.
- He will ensure that the Court meets standards established by the High Court on access to justice, legal aid, alternative dispute mechanisms and are user friendly.
- He will ensure that the Court meets quality of adjudication standards established by the High Court.
- He will ensure that Human Resource Management of ministerial staff in the court comply with the Human Resource Management standards established by the High Court.
- He will ensure that the core systems of the court are established and function effectively (documentation management; utilities management; infrastructure and facilities management; financial systems management (audits, accounts, payments);



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- He will ensure that the IT systems of the court comply with standards established by the High Court and are fully functional.
- He will feed the proposed National Arrears Grid to be set up to monitor the disposal of cases in all the Courts, as and when it is set up.
- The Court Manager shall be responsible in implementation, managing data entry initiation, services roll-out and monitoring of the e-Court Project in the respective Districts/High Court.
- He shall perform all other administrative functions and duties as may be assigned by the Chief Justice in the High Court and the District Judge in the District Court from time to time.
- He shall report to the Chief Justice/ District Judge or any other Judge/ officer nominated by the Chief Justice/ District Judge and shall perform the duties as assigned to him from time to time.

## 2. Employee oriented approach

- This approach focus on examining of human attributes needed to perform the job perfectly. human attributes have been classified into knowledge, skills, attitude and other characteristics.
- Knowledge is the information people need in order to perform the job. Skills are the proficiencies needed to perform each task.
- Abilities are the attributes that are relatively stable over time.
- Other characteristics are all other attributes, usually personality factors.
- Example
- The Court Manager shall have M.B.A. Degree or Advanced Diploma in General Management from a recognised University/institution of India.
- He shall have minimum 10 years experience in the field of management, experience/training in I.T Systems Management, H.R. Management, Financial Systems Management.
- He shall not be more than 40 years of age.
- He should have excellent communication skills.
- He should have excellent Computer application skills



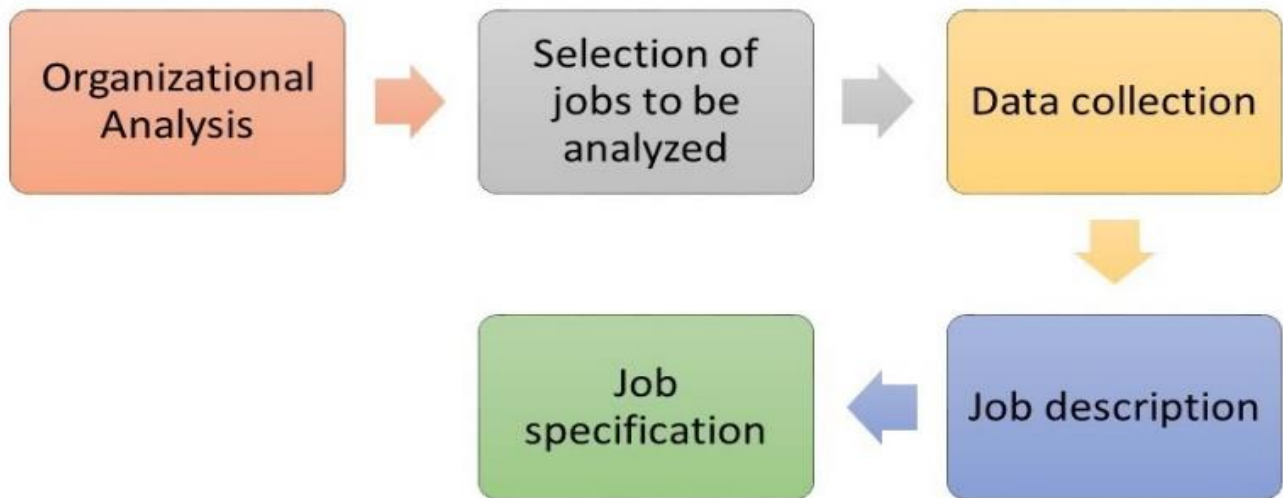
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## Process of Job analysis



### Importance of Job Analysis :-

- Job analysis helps in analyzing the resources and establishing the strategies to accomplish the business goals and strategic objectives. Effectively developed, employee job descriptions are communication tools that are significant in an organization's success.
- The main purpose of conducting job analysis is to prepare job description and job specification which would help to hire skilled workforce. Job description is a statement of information about duties and responsibilities of a particular job. whereas job specifications is a statement of information about qualifications, special qualities, skills and knowledge required for an employee to fit for a job. Therefore job analysis enables recruiter/employer to have a deep insight of a job, with that, recruiter can easily track candidates who have required qualifications and qualities to perform a job.
- Job Analysis can be used to identify areas where an employee needs training, since job analysis make it clear to understand about core duties and responsibilities of a job. Besides, it provides information to develop suitable training material for a job to be performed by an employee after completion of his training.
- Compensation management/salary administration is one of core HR functions. salary for a job is decided on skill level required, duties and responsibilities, qualification and experience level/seniority, altogether, called as compensable factors, which could be



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known by job analysis only. But there is a separate method to determine value of job that is called as job evaluation which is part of job analysis.

- Job evaluation is process of valuing or determining how much is to be paid for a job. Job evaluation is mainly used when a specific job or a single job is to be evaluated or when there are different jobs in same Cadre, or when there jobs based on projects or piecework. However job analysis has its own importance in concluding compensation/remuneration/salary of an employee.
- No organisation exists without goals and objectives to achieve, performance standards to be maintained by every employee and reviewing performance of employees. These could be cross checked with outcome of job analysis of a job, whether outcome of job analysis of a job is in tune with goals and objectives of an organisation or not, performance standards are being maintained or not and reviewing employee performance based on performance standards or not.
- Job Analysis can be used in performance review to identify or develop goals and objectives, performance standards, evaluation criteria, length of probationary periods, and duties to be evaluated
- An ideal job analysis should include
- below listed are areas where job analyst should focus to bring out facts about a job.
- Duties and Tasks:
- The basic unit of a job is the performance of specific tasks and duties. This segment should include frequency, duration, effort, skill, complexity, equipment, standards, etc.

### **Environment :-**

- This segment identifies the working environment of a particular job. This may have a significant impact on the physical requirements to be able to perform a job.

### **Tools and Equipment :-**

- Some duties and tasks are performed using specific equipment and tools. These items need to be specified in a Job Analysis.





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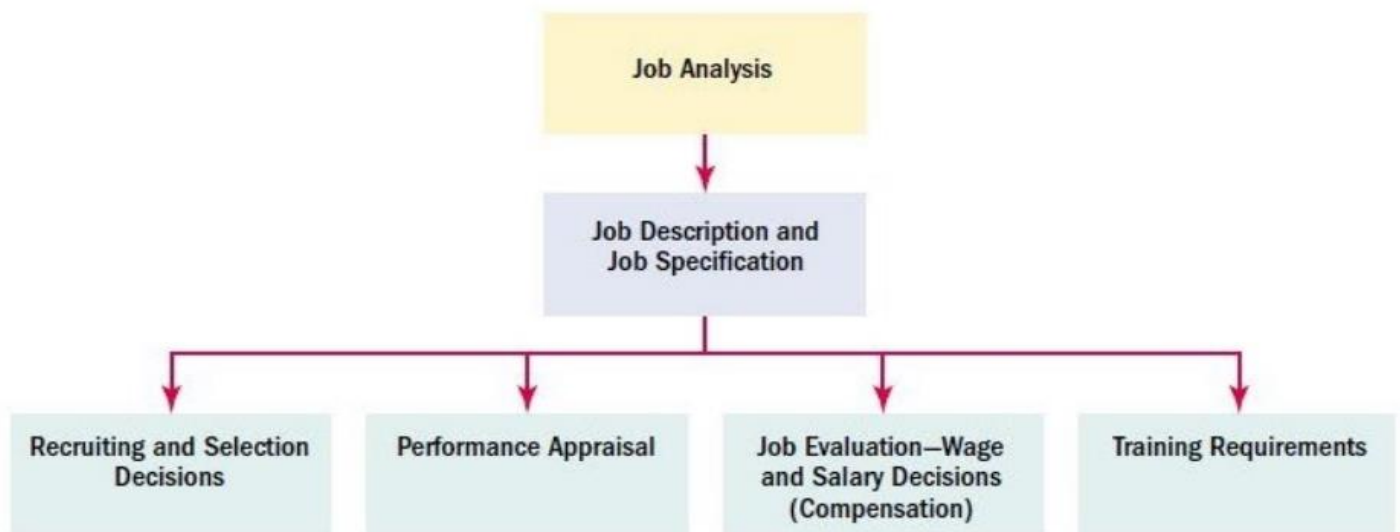
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## Relationships :-

- The hierarchy of the organization must be clearly laid out. The employees should know who is under them and who they have to report to.

## Requirements :-

- The knowledge, skills, and abilities required to perform the job should be clearly listed.
- There are several ways to conduct a job analysis, including: interviews with incumbents and supervisors, questionnaires (structured, open-ended, or both), observation, critical incident investigations, and gathering background information such as duty statements or classification specifications.
- The following are the benefits of job analysis.



## Organizational structure and design :-

- Job analysis helps the organization to make suitable changes in the organizational structure, so that it matches the needs and requirements of the organization. Duties are either added or deleted from the job.

## Recruitment and selection :-

- Job analysis provides information about what the job entails and what human characteristics are required to perform these activities. This information, in the form of job descriptions and specifications, helps management decide what sort of people to recruit and hire.



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### **Performance appraisal and training/development :-**

- Based on the job requirements identified in the job analysis, the company decides a training program. Training is given in those areas which will help to improve the performance on the job. Similarly when appraisal is conducted we check whether the employee is able to work in a manner in which we require him to do the job.

### **Job evaluation :-**

- Job evaluation refers to studying in detail the job performance by all individual. The difficulty levels, skills required and on that basis the salary is fixed. Information regarding qualities required, skilled levels, difficulty levels are obtained from job analysis.

### **Promotions and transfer :-**

- When we give a promotion to an employee we need to promote him on the basis of the skill and talent required for the future job. Similarly when we transfer an employee to another branch the job must be very similar to what he has done before. To take these decisions we collect information from job analysis.

### **Career path planning :-**

- Many companies have not taken up career planning for their employees. This is done to prevent the employee from leaving the company. When we plan the future career of the employee, information will be collected from job analysis. Hence job analysis becomes important or advantageous.

### **Labour relations :-**

- When companies plan to add extra duties or delete certain duties from a job, they require the help of job analysis, when this activity is systematically done using job analysis the number of problems with union members reduce and labour relations will improve.



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## Health and safety :-

- Most companies prepare their own health and safety, plans and programs based on job analysis. From the job analysis company identifies the risk factor on the job and based on the risk factor safety equipments are provided.

## Acceptance of job offer :-

- When a person is given an offer/appointment letter the duties to be performed by him are clearly mentioned in it, this information is collected from job analysis, which is why job analysis becomes important.

## Guidelines for Job Analysis :-

- Before actually analyzing the job, using one or more of the tools we turn to in the following section, keep four practical guidelines in mind.
- Make the job analysis a joint effort by a human resources specialist, the worker, and the supervisor. The human resource manager might observe the worker doing the job and have both the supervisor and worker fill out job questionnaires. Based on all that, the specialist lists the job duties and required human traits. The supervisor and worker then review and verify the HR manager's list of the job's activities and duties.
- If several employees are doing the same job in different departments, collect job analysis information from employees in different departments, not just one. The way someone with a particular job title spends his time is not necessarily the same from department to department. Make sure the questions and processes are clear to the employees. (For example, some might not know what we mean when we ask about the job's "mental demands.") Catch problems early.
- Use several different tools for job analysis. Generally, try not to rely on a questionnaire but perhaps supplement the survey results with a short follow-up interview. The problem is that each tool has potential drawbacks.

## Importance of Job Analysis :-

- Job analysis is a process. The importance of job analysis are;
- Planning and organizing of program.
- Obtaining current information.
- Conducting needs research.
- Establishing priorities.
- Collecting job data.



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- Preparing job description.
- Developing job specifications.
- Maintaining and updating the job description and job specification.
- Planning and organizing of program
- The first step is to plan and organize the job analysis program. Planning is done before gathering data from the employees. It is important to identify the objectives of the job analysis.
- Top management support is needed to make job analysis a success. A person is designated as in charge of the program, and required authority and responsibility are assigned. The schedule of the program and budget estimation is prepared.

### **Obtaining current information :-**

- Current job design information is collected, and the analyst does the study of job description, job specification, processes used, manuals, and organization flow charts.

### **Conducting needs research :-**

- The analyst determines which manager, the department requires the job analysis. Research is conducted to determine the purpose of the job analysis and the method used to gather relevant information.

### **Establishing priorities :-**

- With the help of various managers of the related department, an HR manager will identify and prioritize the jobs to be analyzed.

### **Collecting job data :-**

- The next step is collecting the data related to the job selected for the analysis as they are being performed in the organization.



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## Preparing job description :-

- Using job information obtained from job analysis, a job description is being prepared. It states the full information about the job, including the working conditions, nature of the job, processes, machines, and materials used.

## Developing job specification :-

- Job specifications are developed using the information given in the job description.
- A job specification is a statement regarding human qualities that are required to perform a particular job. Such information is used to select the person matching the requirements of the job.

## Maintaining and updating the job description and job specification. :-

- Once a job description and job specification have been completed and reviewed, a system must be developed to keep them current.
- Job requirements and employee requirements may be changed over time, and accordingly, job descriptions and specifications need to be adapted.

## Conclusion :-

- Employee turnover is a severe problem in most industries.
- Turnover is harmful because it causes serious inconveniences, high costs, wastage of trained workforce, reduces morale and motivation. It occurs mainly due to frustration for the following reasons:
  - A mismatch between expectation and reality like work,
  - A mismatch between requirements of the job and capabilities,
  - A mismatch between responsibility and compensation.
- This mismatch has arisen because the actual work has not been properly defined, designed, and disclosed.
- This leads to the concept of job analysis. F.W. Taylor, the father of Scientific Management, also emphasized conducting and studying each part of the job scientifically to develop one best way of doing a task.



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## Let us now define a job. :-

- Organizations consist of positions that have to be staffed by the right person.
- A job is defined as a collection of duties and responsibilities given to an individual employee. Jobs are important to individuals.
- They help determine living standards, places of residence, status, and even one's sense of self-worth. Jobs are important because they are the vehicles through which works are accomplished.
- Job analysis is an essential prerequisite for the effective management of the human resources of an organization. It is the process of gathering relevant information about a job. It specifies the tasks involved in a job and the factors that influence the performance of that job.
- As a process, it is capable of producing results with great practical relevance for human resource management.
- Job analysis has applications in almost all the HR activities of an organization.
- It acts as the basis for decisions involving human resource planning, recruitment and selection, training and development, compensation fixation, job evaluation, performance evaluation, career management, and the health and safety of employees.

## Concept of Recruitment:-

- Recruitment might be defined as follows:
- Recruitment might be defined as the process of searching for prospective candidates for various posts lying vacant in the organisation from out of personnel supply sources, known or developed; stimulating such personnel to apply for jobs and the preparation of Recruitment Lists of interested applicants, according to data collected.

Some popular definitions of recruitment are given below:

- (1) "Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation." – Edwin B. Flippo
- (2) "The term recruitment applies to the process of attracting potential employees to the company." – Dalton E. McFarland

## Analysis of the above definitions :-

- (i) The term recruitment has two dimensions:
  - (1) Recruitment sources
  - (2) Recruitment lists



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(ii) Recruitment sources refer to the sources from where labour supplies could be extracted. Such sources might be already known to the personnel management; or might be developed – through a process of researching into new and better sources of recruitment.

(iii) On the basis of data collected from recruitment sources, recruitment lists are prepared. Recruitment lists contain the names of interested applicants; who are to be considered for selection after making such persons undergo the procedure of selection; and finally selecting the ‘most suitable’ out of them.

### Points of comment :-

- The following observations could be made, on the concept of recruitment:

(i) In a country, like ours, where there is substantial unemployment of various categories of persons; to get the required number of personnel by organisations, is not difficult, at all. However, to find personnel of the type suitable for organisational purposes is not so easy. As such, recruitment process aims at stimulating good quality personnel, to apply for various jobs in the organisation.

(ii) Recruitment process is one of the most significant aspects of the operative personnel management. It provides the initial supply of manpower. If, people obtained from recruitment sources are initially defective or sub-standard; no amount of subsequent training or development howsoever excellent can turn them into good personnel.

- If, on the other hand, initially the recruited personnel are of superior quality; subsequent training or development can mould them into outstanding personalities. Hence, the significance of proper recruitment.

### Sources of Recruitment – Internal and External :-

- We can identify two basic sources of recruitment, viz.

#### 1. Internal sources :-

#### 2. External sources :-

##### (i) Internal sources :-

- Internal sources of recruitment are those through which, the manpower supplies are obtained, out of the personnel, already working in the organisation or out of the ex-employees of the organization.



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## Selection Process: Definition, Steps in Selection Process

Selection is the process of choosing the most suitable candidates from those who apply for the job. It is a process of offering jobs to desired candidates.

Once the potential applicants are identified, the next step is to evaluate their qualification, qualities, experience, capabilities, etc. & make the selection. It is the process of offering jobs to the desired applicants.

Selection means choosing a few from those who apply. It is picking up of applicants or candidates with requisite qualifications and qualities to fill jobs in the organization.

### *Definition of Selection :-*

**According to Harold Koontz**, “Selection is the process of choosing from the candidates, from within the organization or from outside, the most suitable person for the current position or for the future positions.”

**Dale Yoder said**, “Selection is the process by which candidates for employment are divided into classes those who will be offered employment and those who will not.”

**David and Robbins said**, “Selection process is a managerial decision-making process as to predict which job applicants will be successful if hired.”

- Selection is the process of choosing from a group of applicants those individuals best suited for a particular position.

-Most managers recognize that employee selection is one of their most difficult, and most important, business decisions.

- This process involves making a judgment -not about the applicant, but about the fit between the applicant and the job by considering knowledge, skills and abilities and other characteristics required to perform the job Selection procedures are not carried out through standard pattern and steps in this.

-The selection process typically begins with the preliminary interview; next, candidates complete the application for employment.





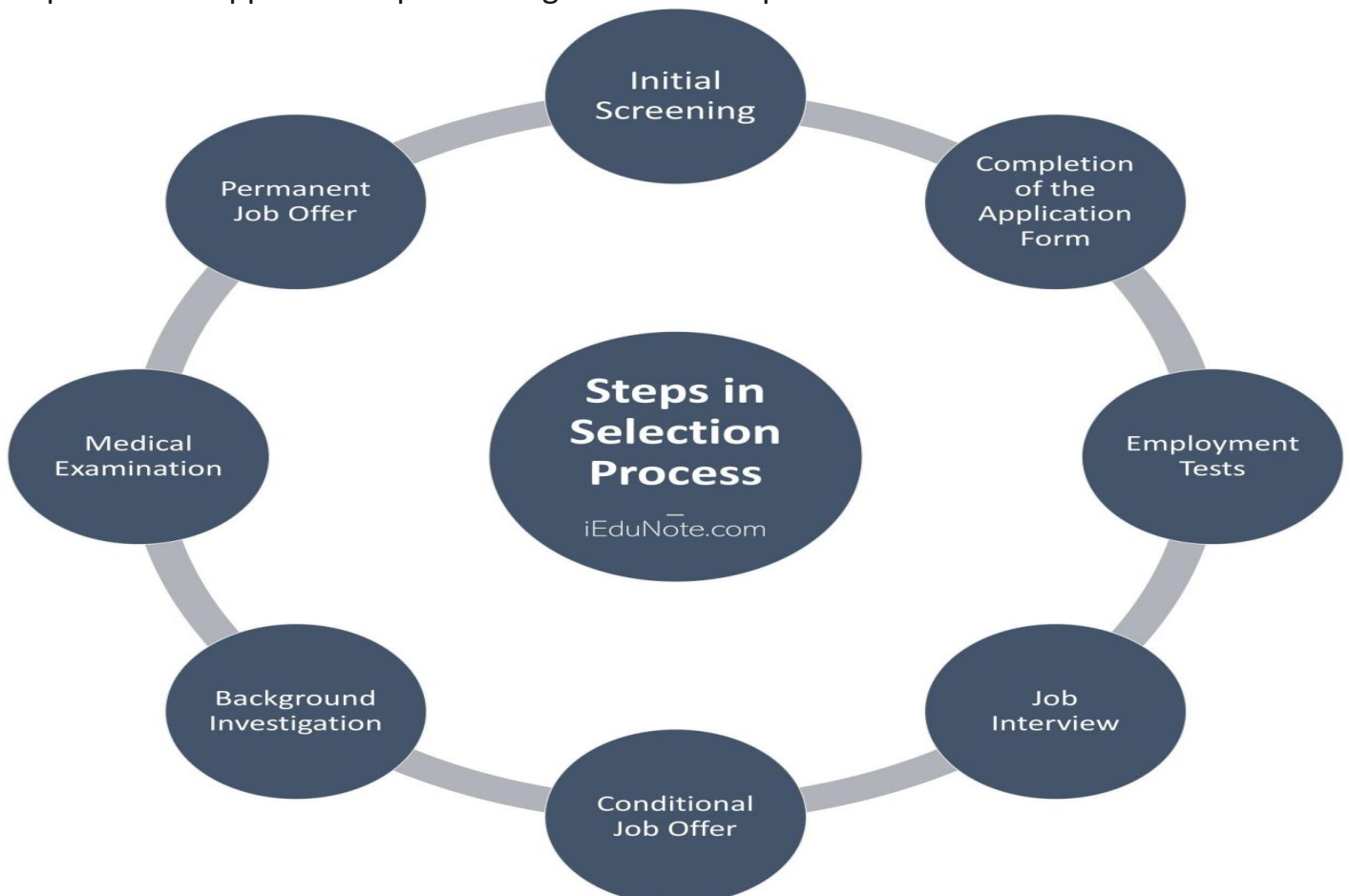
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- They progress through a series of selection tests, the employment interview, and reference and background checks. The successful applicant receives a company physical examination and is employed if the results are satisfactory.
- Several external and internal factors impact the selection process, and the manager must take them into account in making selection decisions.
- Typically selection process consists of the following steps but it is not necessary that all organization go through all these steps as per the requirement of the organization some steps can be skipped while performing the selection process.



## PROCESS OF SELACTION :-

- Initial Screening.
- Completion of the Application Form.
- Employment Tests.
- Job Interview.



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- E. Conditional Job Offer.
- F. Background Investigation.
- G. Medical Examination.
- H. Permanent Job Offer

**Initial Screening:-** The selection process often begins with an initial screening of applicants to remove individuals who obviously do not meet the position requirements. At this stage, a few straight forward questions are asked. An applicant may obviously be unqualified to fill the advertised position, but be well qualified to work in other open positions. The Purpose of Screening is to decrease the number of applicants being considered for selection.

**Sources utilized in the screening effort:-** Personal Resume presented with the job application is considered a source of information that can be used for the initial screening process. It mainly includes information in the following areas:

- Employment & education history.
- Evaluation of character.
- Evaluation of job performance.

**Advantages of Successful Screening:** If the screening effort is successful, those applicants that do not meet the minimum required qualifications will not move to the next stage in the selection process. Companies utilizing expensive selection procedures put more effort into screening to reduce costs.

**Completion of the Application Form:** Application Blank is a formal record of an individual's application for employment. The next step in the selection process may involve having the prospective employee complete an application for employment. This may be as brief as requiring only an applicant's name, address, and telephone number. In general terms, the application form gives a job-performance-related synopsis of applicants' life, skills and accomplishments. The specific type of information may vary from firm to firm and even by job type within an organization. Application forms are a good way to quickly collect verifiable and fairly accurate historical data from the candidate.

**Employment Tests:** Personnel testing is a valuable way to measure individual characteristics. Hundreds of tests have been developed to measure various dimensions of



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behavior. The tests measure mental abilities, knowledge, physical abilities, personality, interest, temperament, and other attitudes and behaviors. Evidence suggests that the use of tests is becoming more prevalent for assessing an applicant's qualifications and potential for success. Tests are used more in the public sector than in the private sector and in medium-sized and large companies than in small companies. Large organizations are likely to have trained specialists to run their testing programs.

**Advantages of using tests:** Selection testing can be a reliable and accurate means of selecting qualified candidates from a pool of applicants. As with all selection procedures, it is important to identify the essential functions of each job and determine the skills needed to perform them.

**Potential Problems using Selection tests:** Selection tests may accurately predict an applicant's ability to perform the job, but they are less successful in indicating the extent to which the individual will want to perform it. Another potential problem, related primarily to personality tests and interest inventories, has to do with applicants honesty. Also, there is the problem of test anxiety. Applicants often become quite anxious when confronting yet another hurdle that might eliminate them from consideration.

### **Job Interview**

An interview is a goal-oriented conversation in which the interviewer and applicant exchange information. The employment interview is especially significant because the applicants who reach this stage are considered to be the most promising candidates.

**Interview Planning :** Interview planning is essential to effective employment interviews. The physical location of the interview should be both pleasant and private, providing for a minimum of interruptions. The interviewer should possess a pleasant personality, empathy and the ability to listen and communicate effectively. He or she should become familiar with the applicant's qualifications by reviewing the data collected from other selection tools. In preparing for the interview, a job profile should be developed based on the job description.

**Content of the Interview:** The specific content of employment interviews varies greatly by an organization and the level of the job concerned. As with all selection procedures, it is important to identify the essential functions of each job and determine the skills needed to perform them.



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### **Background Investigation**

Background Investigation is intended to verify that information on the application form is correct and accurate. This step is used to check the accuracy of application form through former employers and references. Verification of education and legal status to work, credit history and criminal record are also made. Personal reference checks may provide additional insight into the information furnished by the applicant and allow verification of its accuracy. Past behavior is the best predictor of future behavior. It is important to gain as much information as possible about past behavior to understand what kinds of behavior one can expect in the future. Knowledge about attendance problems, insubordination issues, theft, or other behavioral problems can certainly help one avoid hiring someone who is likely to repeat those behaviors. Background investigations primarily seek data from references supplied by the applicant including his or her previous employers. The intensity of background investigations depends on the level of responsibility inherent in the position to be filled.



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### Common sources of background information include:

- References are provided by the applicant and are usually very positive.
- Former employers should be called to confirm the candidate’s work record and to obtain their performance appraisal.
- Educational accomplishments can be verified by asking for transcripts.
- Legal status to work.
- Credit references, if job-related.
- Criminal records can be checked by third-party investigators.
- Background checks are conducted by third-party investigators.
- Online searches as simple as “Google” search of a candidate can turn up information on press releases or news items about a candidate that was left off the application or resume.

**Medical/Physical Examination:**After the decision has been made to extend a job offer, the next phase of the selection process involves the completion of a medical/physical examination.This is an examination to determine an applicant’s physical fitness for essential job performance.Typically, a job offer is contingent on successfully passing this examination.For example, firefighters must perform activities that require a certain physical condition. Whether it is climbing a ladder, lugging a water-filled four-inch hose or carrying an injured victim, these individuals must demonstrate that they are fit for the job.

**Permanent Job Offer:**Individuals who perform successfully in the preceding steps are now considered eligible to receive the employment offer. The actual hiring decision should be made by the manager in the department where the vacancy exists.

**Notification to Candidates;**The selection process results should be made known to candidates—successful and unsuccessful—as soon as possible.

Any delay may result in the firm losing a prime candidate, as top prospects often have other employment options. As a matter of courtesy and good public relations, the unsuccessful candidates should also be promptly notified.



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## UNIT – 4:- PERFORMANCE AND INCENTIVE BASED WAGE PLANS HR MORALE AND DISCIPLINE

- Introduction
- Methods of Wage Payments to Employees | Human Resource Management
  1. Time rates system
  2. Piece rate system
  3. Combination time and piece rate system
- Halsey plan
- Rowan plan
- Bedaux Plan
- Taylor’s Differential Piece-Rate System
- Group Incentive Plans: Suitability, Methods and Types
- Employee Morale
- Employee Discipline

### Introduction :-

Wages are the biggest incentive for employees to perform their jobs sincerely and error free. Several wage systems have been devised for fulfilling the requirements of both employees and employers.

-Thus, the wage system should be planned carefully. A system that reduces the labour cost per unit while increasing the output and giving a fair return to workers will be the most suitable one. The aim of the wage system should be the introduction of a fair wage. A good wage system should possess the following characteristics:

- (i) Simplicity: The wage system should be easy to understand and simple to operate. A complex system may lead to strikes and agitations and may be a hindrance to a harmonious employer-employee relationship.
- (ii) Fair to Employer and Employee: The system should be satisfactory from the point of view of both employer and employees.
- (iii) Guaranteed minimum wage: The system should guarantee a minimum wage to every worker irrespective of the work done by them.
- (iv) Incentive to work: Adequate incentives should be provided to the workers to work hard with great care. Efficient workers should be able to earn more wages as compared to the inefficient workers.



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(v) Quality output: The system should encourage the workers not only to increase the quantity of output but also to improve the quality of output.

(vi) Certainty: There shouldn't be any ambiguity in the wage distribution.

(vii) Conformity with local and national labour laws: The system should to conformity with various labour laws and regulations both local and national.

(viii) Minimization of labour turnover: The system should minimize la turnover, absenteeism and late attendance.

(ix) Adjustment to price changes: The system should invariably contain provision for automatic rise in wages as cost of living index increases.

(x) Flexibility: The system should incorporate flexibility to adjust with changing circumstances of the business.

## Methods of Wage Payments to Employees | Human Resource Management :-

Some of the systems of wage payments commonly used are:

1. Time Rate System
2. Piece Rate System
3. Combination of Time and Piece Rate System.

### Methods :-

#### 1. Time Rate System:

Time rate system is the simplest and oldest method of wage payment. According to this system, the workers are paid in accordance with the time spent on the job. The time may be on hourly, daily, weekly, fortnightly or monthly basis. The work or production done by an employee is not taken into consideration.

- For example, If the worker is paid at the rate of Rs.20 per hour and he spends 50 hours during a week, the weekly payment is:

- Weekly wages = (Number of hours worked during the week) x (Rate per hours) = 50 x 20 = Rs.1000 per week.

### Advantages:

a. This method of wage payment is very simple. The workers will not find any difficulty in calculating the wages.

b. This method is acceptable to trade unions because it does not distinguish between workers on the basis of their performance.



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- c. The quality of goods will be better as workers are assured of wages on time basis.
- d. This system is good for the beginners because they may not be able to reach a particular level of production in the beginning.
- e. There will be less wastage, as workers will not be in a hurry to push through production.

### **Disadvantages:**

- a. This method does not distinguish between efficient and inefficient workers. The payment of wages is related to time and not output. Thus, the method gives no incentive for producing more.
- b. There will be wastage of time, as the workers are not following a target of production.
- c. Because wages are not related to output, employees find it difficult in determining labour cost per unit.
- d. Work needs supervision. Thus, cost of supervision increases.

### **2. Piece Rate System:**

Piece rate system is a system in which wages are paid in accordance with the number of units of work produced. This is independent of time spent on the job. A fixed rate of wage is paid for each piece of unit produced.

-For example, If a worker produces 100 pieces per day and he is paid at the rate of Rs.1.2 per piece, the daily wage is  $100 \times 1.2 = \text{Rs.}120$ .

### **Advantages:**

- a. This system is simple in working and the workers can easily calculate their wages.
- b. This system helps in distinguishing efficient and inefficient workers.
- c. Strict supervision is not required in this system.
- d. This system is fair to employee and employer both.
- e. There will be no dispute for wages, as workers will be rewarded satisfactory for their work.

### **Disadvantages:**

- a. This system does not guarantee a fixed minimum wage to a worker.
- b. The quality of goods will be poor as workers try to speed up their work in order to produce more.
- c. There will be increase in wastage of materials.
- d. Workers intentionally ignore safety rules, inviting accidents.
- e. Workers neglect their health in order to put their maximum efforts.





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f. The wages of beginners will be less, as their output cannot be equal to the experienced workers.

### 3. Combination of Time and Piece Rate System:

In this system, both time and product are taken into consideration. The minimum weekly wages are fixed for every worker, which are to be paid irrespective of his output during the week, provided he has worked for full working hours required in a week. The wages for the period of his absence are deducted from the total amount of his wages. The piece rate system is also combined with time rate system as follows:

- A job card of each worker is maintained which clearly shows the number of jobs completed by the worker during a week. Payment for each job is fixed in advance. If the piece rate wages earned by the worker are more than time rate wages, the balance is paid to the worker. On the other hand, if piece rate wages are less than time rate wages, then the worker will have to compensate the same by making more pieces during next week.

#### Advantages:

- This system provides incentives to workers to produce more,
- It is simple in its working and the workers can easily calculate their wages.

#### Disadvantages:

- It needs check on quality.
- It needs careful piece rate fixing.
- The entire benefit of extra payment goes to worker.

#### Halsey Plan :-

##### Definition:

- Under Halsey Plan, the standard time for the completion of a job is fixed and the rate per hour is then determined. If the time taken by a worker is more than the standard time, then he shall be paid according to the time rate, i.e. time taken multiplied by the rate per hour.  
- In Halsey plan, the time wages are guaranteed even if the output of a worker is below the standard. In case, the worker completes the works in less than the standard time, then he/she will be paid according to the actual time, i.e. time-rate plus the bonus calculated at a specified percentage of the saved time. Generally, the bonus percentage varies from 30-



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70 percent. The usual bonus share paid to the worker is 50% of the time saved multiplied by the rate per hour (time-rate).

- This scheme can be further illustrated by the examples given below:

Standard Time: 8 hrs

Rate per Hour: Rs 2

Case (1): Time Taken = 8 hrs

Earnings =  $8 \times 2 = \text{Rs } 16$

Case (2): Time Taken = 10 hrs

Earnings =  $10 \times 2 = \text{Rs } 20$

Case (3): Time Taken = 6 hrs

Earnings:

Time wages =  $6 \times 2 = \text{Rs } 12$

Bonus =  $\frac{1}{2} \times 2 \times 2 = \text{Rs } 2$

- Thus, in the above example, the worker's total earnings are Rs 14 (time wages +bonus), if he has completed the work in 6 hrs, less than the standard time.

### Rowan plan :-

#### Definition:

- Under Rowan Plan, the standard time for the completion of a job and the rate per hour is fixed. If the time taken by the worker is more than the standard time, then he is paid according to the time rate, i.e. time taken multiplied by the rate per hour.

- In case, the worker completes the work in less than the standard time; then he is entitled to a bonus along with the time wages. A bonus is the percentage of worker's time rate. This means, the bonus/premium is calculated on the percentage of wages earned for working on a job and is not calculated for the time-saved, as in the case of Halsey Plan. This percentage is equivalent to the proportion of the time saved to the standard time.

Numerically,

Bonus =  $\frac{\text{Time Saved}}{\text{Standard Time}}$

The incentive scheme under Rowan Plan can be illustrated by the examples given below:

Standard Time = 8 hrs

Rate per hour = Rs 2

Case (1): Time Taken = 8 hrs

Earnings =  $8 \times 2 = \text{Rs } 16$

Case (2): Time Taken = 10 hrs

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Case (3): Time taken = 6 hrs



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### Earnings:

Time Wages =  $6 \times 2 = \text{Rs } 12$

Bonus =  $2/8 \times 6 = \text{Rs } 1.5$

- Thus, in the above example, the worker completing the work in 6 hrs, less than the standard time, the total earnings will be Rs 13.50 (time wages+bonus)

### Bedaux Plan

#### Definition:

- The Bedaux Plan is an incentive scheme in which the standard time for the completion of a job is fixed and the rate per hour is defined. Each minute of the standard time is called as point or B, such as in one hour there are 60 Bs.

-Under Bedaux plan, every job has a standard number of Bs. If the worker completes the job in more than standard hours, then he is paid according to the time-rate, i.e. time taken is multiplied by the hourly rate. In case, the work is completed in hours less than the standard time; then the worker is entitled to the bonus in addition to the hourly rate. A bonus is equal to the 75% of the earned/saved points (in excess of 60 per hour) multiplied by one-sixth of the hourly rate.

- Even if the worker does not reach the standard, then he is paid according to the time-rate.

This scheme can be illustrated by examples given below:

Standard Time = 8 hrs

Rate per Hour = Re 1

Case (1): Actual Time = 10 hrs

Earnings =  $10 \times 1 = \text{Rs } 10$

Case (2): Actual Time = 6 hrs

Earnings:

Time-wages =  $6 \times 1 = \text{Rs } 6$

Bonus:

Standard Bs =  $60 \times 8 = 480$

Actual Bs =  $60 \times 6 = 360$

Saved Bs =  $120 (480-360)$

Bedaux plan-final

Thus, total earnings =  $\text{Rs } 6 + 1.50 = 7.50$

### Taylor's Differential Piece-Rate System :-



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- **Definition:** Taylor’s Differential Piece-Rate System was introduced by F.W. Taylor, who believed that the workers should be paid on the basis of their degree of efficiencies. Under this method, with the help of Time and Motion Study, the standard time for the completion of a job is fixed on the basis of which the performance of the workers is evaluated.

- Taylor’s differential piece-rate system posits that the worker who exceeds the standard output within the stipulated time must be paid a high rate for high production. On the other hand, the worker is paid a low rate if he fails to reach the level of output within the standard time. Thus, there are two piece-rates, one who reach the standard output or exceeds it, is paid 120 percent of the piece rate. While the one who fails to reach the standard level of output, is paid 80 percent of the piece-rate. The minimum wages of the worker are not guaranteed.

-This system can be further understood through the example given below:

- Standard Output = 200 units

Rate per unit = Rs 10 paise

Case (1): Output = 220 units

Earnings =  $220 \times (120/200) \times 0.1 = \text{Rs } 13.20$

Case (2): Output = 180 units

Earnings =  $180 \times (80/200) \times 0.1 = \text{Rs } 7.20$

- It is clear from the above example that the worker is paid a higher rate (Rs 13.20) for high production (220 units) and low rate (Rs 7.20) for low production (180 units). Thus, Taylor’s differential piece rate system works on the principle that the inefficient worker must be paid at a low piece-rate for low production such that he is left with no other option but to leave the organization.

### **Group Incentive Plans: Suitability, Methods and Types!**

- Under individual incentive system workers are paid on the basis of their personal performance. Their wages will be directly linked to their efforts. A worker may improve his remuneration by raising the level of output.

- There may be circumstances when individual performance may not be measurable. A number of persons may be associated in completing a task. The work of one person may be influenced by the work of the other. Under such conditions, incentives may be offered for raising group performance.

- Suitability:

Group incentive schemes are suitable under the following situations:

1. When individual performance cannot be measured precisely.



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2. The workers comprising a group possess the same type of skill or ability.
3. The completion of the task is linked with the collective efforts of the group.
4. The aim is to provide incentive to indirect workers rather than direct workers.
5. The number or persons constituting a group is not large.

## Methods of Distributing Group Bonus:

- Many methods are used for distributing bonus some of the commonly used criterion are as follows:

1. If all the persons in the group possess the same type of ability or skill then bonus may be distributed equally among them.
2. When group members are paid wages according to same time scale, bonus may also be divided according to that time scale.
3. If workers earn different amounts of wages then bonus maybe distributed in proportion to wages earned by them.
4. Bonus may also be paid on the basis of certain percentage, fixed on the basis of the experience, skill and wages earned by worker.

## Type of Group Incentive Plans:

There may be different schemes for paying group bonus, some of these are discussed as follows:

### 1. Priest man's plan:

- A standard production is fixed for the whole enterprise under this plan. If productivity exceeds the standard then bonus is paid in accordance with the increase. In case production does not reach the standard then workers get minimum wages only. For example, a standard production of 200, 000 units is fixed for the year. Actual production during the year is 240,000 units since production has gone up by 20% workers will get 20% higher wages as bonus.

- The workers get sufficient incentive to raise their performance. A team spirit is visible among the workers because production will increase with the collective efforts of various limbs of the organization. This method does not offer incentive to individual workers. Inefficient workers share the efforts of efficient workers because increased production benefits all the manpower in the organization.

### 2. Scalon plan:

- This method is named after Joseph Scalon. There is a payment of one percent participating bonus for every one percent increase in productivity under this plan. The bonus is available to all workers except top management.



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- The entitle amount or bonus is not paid every month. A reserve fund of one-half of first fifteen percent is created for off-setting any change in labour cost. In case, this reserve remains unused at the end of the year then this amount is also distributed among workers in the last month of the year and a fresh reserve is created in the year.

### 3. Co-partnership:

- The employees are offered shares of the enterprise at reduced rates in this plan. The payment is also collected in installments. The employees share profits of the enterprise as its members. The underlying idea of this method is to make workers feel as a part of the organization and understand view point of the management. As co-partners they will behave in a responsible manner and will try to make the concern more and more profitable and successful.

### 4. Profit sharing:

- When shareholders share profits for contributing towards capital then workers should also get a part of profits for contributing their labour. The workers are an integral part of any organization and their contribution to its prosperity should also be rewarded by making them the recipients of profits.

- This realization that employees/workers contribute significantly to increase profit has encouraged the adoption of this system. Profit sharing is a method of remuneration under which an employer undertakes to pay his employees a share in the net profits of an enterprise, in addition to regular wages.

### Employee Morale :-

#### Definition:

-Employee morale is defined as the attitude, satisfaction and overall outlook of employees during their association with an organization or a business. An employee that is satisfied and motivated at workplace usually tend to have a higher morale than their counterparts. Employee engagement and employee satisfaction play an important role for employees to be happy in their workplace.

- On the contrary, employees who are not happy in their workplace, who constantly complain and crib about the various attributes in an organization, like employee policies, workplace culture, facilities at work etc. tend to have a low employee morale. This is quite evident in their behavior. Employee morale is a complex concept because it involves a lot of factors that affect their morale.



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- Employee morale is vital to organization culture- a positive collective attitude will create a positive working environment for everyone. If your organization has a poor morale or a culture of suffering then there is a possibility that in your organization employees have a low or negative morale that can adversely affect the productivity of the organization. It can most certainly lead to greater employee attrition, just to begin with.

- So how can you measure the morale of employees? It's easy! Here are a few tips that you can use to check if the employee morale is high or not:

1. Stay connected with your employees: A feedback is an effective mechanism to stay in touch with your employees. Deploy an employee engagement survey at timely intervals to get first-hand feedback about how engaged or motivated are your employees. The responses to the survey will help you determine their attitude and in turn their morale.
2. Your managers must be coaches: Over the last decade or so, the definition of a manager has slightly shifted from being a taskmaster to a coach. Your managers should be like coaches. They should be able to help employees learn and grow within the organization. A good manager or a supervisor will not only motivate an employee to perform better but also help them resolve problems and related issues.
3. A good workplace culture: Like you cannot simply induce employee engagement, you cannot expect that a negative work culture will help induce a high morale. A good work culture will help employees settle in faster especially the new employees. New employees are most susceptible to workplace gossips. One negative word can make them doubt their decision to be in the organization thus affecting your employee Net Promoter Score.

## 5 Factors Affecting Employee Morale

Employee morale is a complex phenomenon and depends on various factors. Here is the different criterion that affects employee morale:

1. Organization Itself: While it may sound surprising, but the organization itself is one of the biggest and most important factors that affect employee morale. An organization influences an employee's attitude towards his/her work. The reputation of an organization can certainly build up for better or worse, their attitude towards it.
2. Type of work: The nature of work an employee is performing at his/her workplace also is greatly responsible to determine the morale. If the employee is expected to perform the same task day in and out, there is going to be boredom associated with it sooner or later. It can make situations worse for an employee. Unorganized organization structure also



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affects employees, if the employee feels that he/she is just a cog machine in a factory line, instead of a real person, this too may adversely affect their morale.

3. Personal attributes: Mental and physical health play an important role in determining employee morale. If the employee is not physically or mentally fit, this can be a potential obstacle in their progress and learning at their workplace. There are also other important factors that concern their progress and in turn their morale: age, education qualification, years of experience, occupational levels, reward perception, and similar factors.

4. Supervision and feedback: The level of supervision received by an employee is a tremendous factor that affects the morale. If the employees feel they have no direction or don't understand the organizational goals and commitments, then it the job of the superiors and the leadership in the organization to get them on the same page. But there should not be too much interference too if the employees are given the freedom to work their morale will be high.

5. Work-Life balance: Most organization fail to recognize the importance of a healthy work-life balance. It is important that the employees have some activities to relax while they are at work. It's not just about the foosball culture or an inventory stuffed with food. It is important that proper guidance and counseling is given to the employees whenever needed.

## 4 Simple Ways to Boost Employee Morale

Employee morale is determined by how employees view their work environment and their overall level of satisfaction in their workplace. Employee morale has a direct effect on employee retention. A disinterested or unhappy employee will not stay for long in an organization that he/she cannot rationalize their goals and progress with.

- Here are the 4 simple ways of boosting employee morale in your workplace as mentioned by HR leaders across the globe:

1. Streamline work based on skills: It is important for the Human Resources to recruit and assign people based on their skillset. You cannot hire a lawyer and expect him/her to carry out tasks that you would expect an engineer to do. Allowing people to work based on their competency is a win-win situation for both employees and employers.

- Talent management is complex, yet necessary. If you cannot manage your employees and assign them tasks that they are hired to carry out then it's time to rethink your strategies because clearly, they will not yield the expected results. Therefore, make sure you invest in





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a competent human resources team, so the talent that is acquired performs well and stays happy.

2. Train them well for professional development: Most organizations fail to understand the importance of training their staff. Be it employee onboarding or any other formal training process, employees should be well-equipped to perform their tasks at work and achieve their goals. There should be a budget assigned at the start of the financial year that facilitates the training and development program.

- These training will help employees sharpen their skills, which will not only benefit them but also the organization. A well organized and self-sufficient workforce is every organization's dream, so pay for these courses that ignite imagination and spark curiosity, build confidence and leads to a high morale workforce.

3. Recognize and reward employees: Employee recognition and reward keeps your workforce motivated. When, as a leader, you create an environment where good work is appreciated, employees feel empowered and take a personal interest in the tasks they are assigned to them.

The purpose of employee recognition should be to reinforce what an organization wants an employee to do more. When an employee performs well to make sure to applaud his/her hard work and achievements. This will bring confidence to them to align their personal goals with that of the organization's goals.

4. Be open to feedback: Many organizations today, promote the open door policy, where an employee is free to express what they feel to their superiors or their reporting authority because they are open to feedback. If your employees know their voice is being heard and they are considered as an integral part of the organization, this will reflect in their confidence.

- If the employees feel they cannot share information with you, there are greater chances that the information will never be conveyed to you rather will just make rounds within the team and you will be alienated from whatever is happening in your own team. Instead be receptive to feedback, transparency is the need of the hour for most organizations and so it should be.

- Finally, employee morale is not just the employee's responsibility or attitude. It is a collective responsibility of the employees and the organization to provide a conducive working environment and a workplace culture that exudes positivity and goodwill. Work



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culture is because of the employees and they should know the importance of values and morale. To achieve the best, it is important to first be the best.

## 6 Simple Ways to Improve Employee morale

- Employee morale doesn't simply translate into how happy your people are; it's a direct reflection of how healthy your company culture is, how well you and other leaders are communicating with teams, and how effective your managers are.
- High morale only occurs when employees feel taken care of by their company. And because this year has been filled with stressful distractions, ensuring your people are getting the support they need to bring their best selves to work each day is more important than ever.
- Here are six ways you can contribute to a thriving culture and continually boost employee morale all year long.

### 1. Encourage ongoing one-on-ones

- One of the most powerful ways to improve employee morale is through frequent communication. In Workplace Report, we found that 82% of employees with at least weekly one-on-ones say they're getting the support they need during the pandemic from their managers, compared to 66% of those with less frequent one-on-ones. But regularly keeping up with your teams and ensuring managers are doing the same with their direct reports can feel impossible without the right tools and day-to-day practices.
- Giving your people leaders a structure for having better one-on-ones will help them make the most of every meeting. They'll spend less time catching up and more time at the heart of the conversation, which can lead to higher levels of trust, engagement, and productivity.

### 2. Give employees the tools to ask for feedback

Traditionally, the process of feedback has been led by managers as a means to help employees course correct and grow. But in reality, the best way to increase the free flow of feedback is by supporting people to seek it themselves.

“Asking for feedback is a surprisingly powerful approach to self-development, especially when it's part of basic performance management. It can even be considered a deliverable—the last step of a project. Regardless, requested feedback allows teams to demonstrate the care that everyone needs to feel engaged,” according to Gallup.

- Helping people ask for feedback in moments when they need it most allows them to take the reigns of their development so that they can master new skills and correct certain



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behaviors in a fraction of the time. And nothing motivates people more than witnessing their own progress.

### 3. Train your managers to become better coaches

- Teaching your managers to seek out the unique talents of their employees will foster an environment that builds on those attributes, which also helps businesses remain agile during challenging times. Managers can put this approach to practice by helping employees create job descriptions that align their passions with the company's why. This naturally increases employee morale, engagement, and productivity.

- Effective managers don't just push for high performance, they value helping people discover their natural talents and seek out opportunities to utilize those strengths. Not only does this tap into a deeper, more intrinsic type of motivation for employees, but it also allows managers to increase the capability of their teams.

### 4. Help your people develop—both personally and professionally

- Setting your employees up for success in their role starts with giving them all the tools and resources they need to do their job well. This includes professional training. You can practice this from an employee's first day and beyond by creating a knowledge base of critical information and best practices for new hires as you grow your team.

- For remote employees, they may not get the same opportunities to ask one-off questions at your desk, so creating a thorough training plan is especially important for getting them ramped up.

- But remember, your employees don't just exist in a professional capacity to serve your organization. For them to evolve both personally and professionally, employee development must be holistic. Help people lead more fulfilling lives by encouraging them to develop better soft skills, such as empathy, emotional intelligence, and communication. This will also prepare them for future leadership roles.

### 5. Show employees how much you appreciate them

Studies show that high performing teams are far more supportive and complimentary than low performing ones. And when leaders recognize the strengths and contributions of their people, they're far more engaged, productive, and creative.

- What makes appreciation so powerful is that when it's shared, it becomes contagious. By sending a quick thank you note or simply noticing someone's hard work you can help boost employee morale almost instantly. Plus, regular recognition can alleviate some of the day-to-day tension that employees may be experiencing today.



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## 6. Don't forget to have fun

- There are times to be serious and there are times when it just makes more sense to relax, laugh, and connect with your team.
- Find ways to bring more of your true self to work and look for ways to get to know your teams on a more personal level. When you bring more of your authentic self to the office, you become more relatable and approachable. And when you let your teams know that you're a human being, not just a leader, you also communicate that you see them as more than just employees.
- When your employees feel supported and encouraged to do their best work, they can do so with confidence. Take these tips and take the right course of action to keep employee morale high—all year long.
- Everything you need to know about employee discipline. Good discipline means that employees are willing to abide by company rules and executive orders and behave in the desired fashion.
- Discipline implies the absence of chaos, irregularity and confusion in the behaviour of a worker. According to Calhoun, 'Discipline is a force that prompts individuals or groups to observe rules, regulations and procedures which are deemed to be necessary for the effective functioning of an organisation'.

## Employee Discipline: Meaning, Concept, Objectives, Principles, Importance, Factors, Types and Other Details

### Contents:

- Introduction to Employee Discipline
- Meaning and Definition of Employee Discipline
- Concepts of Employee Discipline
- Nature and Characteristics of Employee Discipline
- Objectives of Employee Discipline
- Principles for Maintenance of Employee Discipline
- Importance of Employee Discipline
- Factors to Consider in Employee Discipline
- Types of Employee Discipline
- Causes of Indiscipline
- Kinds of Punishment
- Types of Disciplinary Actions for Employee Indiscipline
- Employee Discipline – Introduction



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Discipline is the backbone of healthy industrial relations. The promotion and maintenance of employee discipline is essential for smooth functioning of an organisation. Employee morale and industrial peace are definitely linked with a proper maintenance of discipline. Disciplinary action can also help the employee to become more effective. The actions of one person can affect others in the group.

- The aim is to examine what discipline is, what the various aspects of employee discipline are and how positive discipline can be achieved. We shall also examine the steps involved in the disciplinary process and how to deal with indiscipline.

-We all have different impressions of what is meant by the term discipline. As a child, you may have been punished by your parents for something you did wrong. You may have known better, but you did it anyway. Perhaps you thought that your act would go undetected. At other times, you may not have realised that what you did was wrong. On these occasions, disciplinary action may have taught you not to repeat those acts.

- In a similar way, in the Organization 'Discipline' refers to the State of employee's self-control and effectiveness in his work. It indicates the development of genuine team work. Discipline implies a state of order in an organisation. It means proper appreciation of the hierarchical superior subordinate relationship. The willing cooperation for and the observance of the rules of the organisation constitutes the essence of discipline.

- We have to consider discipline in its positive meaning i.e. 'Training of mind that develops self-control character, orderliness and efficiency'. It also means punishment. But there is a general impression that obedience to rules and punishment for their breach constitute the main aspects of discipline in an organisation. Rules and Laws are necessary for the existence of society. They are generally observed when their advantages are known and accepted.

- The real sanction behind laws and rules is, therefore, the consent of the people to whom they apply and no attempt to make good people by enforcing a particular behaviour will succeed if this consent is lacking. The large part of behaviour of employee and their interaction of subordinates is governed by informal and unwritten rules and norms. These informal rules and norms that support and legitimize practice are based on convention and culture of the organisation.

- Since discipline is a behaviour or a mode of life, the emphasis should be on training or educating the employees to acquire self-control and habit of obedience. Satisfactory results cannot be obtained if discipline is thought of in terms of control and punishment. Let us now distinguish the major aspects of discipline.



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## Employee Discipline – Meaning and Definitions

- Discipline is the orderly conduct by an employee in an expected manner. It is the force or fear of a force that deters an individual or a group from doing things that are detrimental to the accomplishment of group objectives. In other words, discipline is the orderly conduct by the members of an organisation who adhere to its rules and regulations because they desire to cooperate harmoniously in forwarding the end which the group has in view.

- Good discipline means that employees are willing to abide by company rules and executive orders and behave in the desired fashion. Discipline implies the absence of chaos, irregularity and confusion in the behaviour of a worker. According to Calhoun, 'Discipline is a force that prompts individuals or groups to observe rules, regulations and procedures which are deemed to be necessary for the effective functioning of an organisation'.

- Violation of rules, regulations, procedure and norms is considered as misconduct, that is, any act which is inconsistent with the fulfilment of the expressed and implied conditions of service—or is directly linked with the general relationship of the employer and the employee—has a direct effect on the contentment or comfort of men at work or has a material bearing on the smooth and efficient working of the organisation concerned.

- Every organisation wants its employees' behaviour to be in conformity with the required system which it has prescribed in order to achieve the organisational goals. Thus, in brief, discipline is orderly conduct by the employee in an expected manner. The purpose of discipline is to encourage employees to behave sensibly at work, that is, adhere to rules and regulations. Disciplinary action is called for when an employee violates one of the rules.

- Richard D. Calhoun- "Discipline is the force that prompts individuals or groups to observe rules, regulations, standards and procedures deemed necessary for an organization." Discipline means systematically conducting the business by the organizational members who strictly adhere to the essential rules and regulations.

- These employees/organizational members work together as a team so as to achieve organizational mission as well as vision and they truly understand that the individual and group aims and desires must be matched so as to ensure organizational success.

- A disciplined employee will be organized and an organized employee will be disciplined always. Employee behaviour is the base of discipline in an organization. Discipline implies confirming with the code of conduct established by the organization. Discipline in an organization ensures productivity and efficiency. It encourages harmony and co-operation among employees as well as acts as a morale booster for the employees.



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- In absence of discipline, there will be chaos, confusion, corruption and disobedience in an organization. In short, discipline implies obedience, orderliness and maintenance of proper subordination among employees. Work recognition, fair and equitable treatment of employees, appropriate salary structure, effective grievance handling and job-security all contribute to organizational discipline.

- Therefore discipline means securing consistent behaviour in accordance with the accepted norms of behaviour. Simply stated, discipline means orderliness. It implies the absence of chaos, irregularity and confusion in the behaviour of workers. According to Richard D Calhoun, discipline is defined as “a force that prompts individuals or groups to observe the rules, regulations and procedures which are deemed to be necessary for the effective functioning of an organization.”

- Employee Discipline – 2 Concepts: Positive and Negative Concepts of Employee Discipline  
There are two concepts of discipline-positive concepts and negative concepts. Positive discipline means a sense of duty to observe the rules and regulations. It can be achieved when management applies the principles of positive motivation along with appropriate leadership. It is also known as cooperative disciplines or determinative discipline.

- It involves creation of an atmosphere in the organisations whereby employees willingly can form to the established rules and regulations. According to Spriegel, “positive discipline does not replace reason but applies reason to the achievement of a common objective. Positive discipline does not restrict the individual, but enables him to have a greater freedom in that he enjoys a greater degree of self-expression in striving to achieve the group objective, which he identifies as his own.”

- Here, Peter Senge’s idea of personal mastery, systems thinking and mental model is applicable. System thinking is concerned with a shift of mind from seeing part, to seeing the whole, from seeing people as helpless reactors to seeing them as active participants in shaping their reality, from reacting to the present to creating the future, personal mastery, entails developing the self with commitment to truth.

- Mental models are our perception of the world. The positive concept of discipline assumes a creation degree of self-discipline. The concept of discipline is related to the idea of “self-actualization” at work which represents higher order need satisfaction of employees.”

- On the other hand, negative discipline is known as punitive or corrective discipline. Under it penalties or punishments are used to force workers to obey rules and regulations. The objective is to ensure that employees do not violate the rules and regulations. Negative disciplinary action involves techniques such as fines, reprimand, demotion, layoff, transfer etc.



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- Negative discipline requires regular monitoring causing wastage of valuable time. In the negative concept of discipline, disciplinary action implies punishment. Also punishment causes resentment and hostility. Satisfactory results cannot be obtained, however if discipline is perceived only in terms of control and punishment.

-While exercising negative discipline, management should proceed in a sequential manner, viz. an oral reprimand, a written reprimand, a warning, temporary suspension and dismissal or discharge.

## Employee Discipline – Nature and Characteristics

### Nature of Discipline:

According to Megginson; discipline involves the following three things:

1. Self-discipline implies that a person brings the discipline in himself with a determination to achieve the goals that he has set for himself in life.
2. Orderly behavior refers to discipline as a condition that must exist for an orderly behaviors in the organization.
3. Punishment is used to prevent indiscipline. When a worker goes astray in his conduct, he has to be punished for the same and the recurrences of it must be prevented.

### Characteristics:

Discipline should be imposed without generating resentment. McGregor propounded the “red hot stove rule” which says that a sound and effective disciplinary system in an organization should have the following characteristics-

1. Immediate- Just as when you touch a red hot stove, the burn is immediate, similarly the penalty for violation should be immediate/ immediate disciplinary action must be taken for violation of rules.
2. Consistent- Just as a red hot stove burns everyone in same manner; likewise, there should be high consistency in a sound disciplinary system.
3. Impersonal- Just as a person is burned because he touches the red hot stove and not because of any personal feelings, likewise, impersonality should be maintained by refraining from personal or subjective feelings.
4. Prior warning and notice- Just as an individual has a warning when he moves closer to the stove that he would be burned on touching it, likewise, a sound disciplinary system should give advance warning to the employees as to the implications of not conforming to the standards of behaviour/code of conduct in an organization.





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## Employee Discipline – 5 Important Objectives

- To obtain a willing acceptance of the rules and regulations or procedures of an organisation so that organisational goals may be attained.
- To develop among the employee a spirit of tolerance and a desire to make adjustments.
- To give direction or responsibility.
- To increase the working efficiency or morale of the employ-ees so that their productivity is stepped up and the cost of production brought down and the quality of production im-proved.
- To create an atmosphere of respect for the human personality or human relations.

- Discipline is essential for the smooth running of an organisation for the maintenance of industrial peace which is the foundation of industrial democracy. Without discipline, no enterprise would prosper.

- The success of any rules of discipline depends on the existence of a high degree of cooperation between the employers and the employees; on faith to believe in one another's motives; on the fulfillment of mutual obligation, on the management enlightened attitude towards its employ-ees and its over-all efficiency for the worker's trade unions.

## - Employee Discipline – 7 Important Principles for Maintenance of Discipline

Disciplinary measures have serious repercussions on employees; they should therefore, be based on certain principles so that they may be fair just and acceptable to employees or their unions.

- As far as is possible, all the rules should be formed in cooperation or collaboration with the representatives of employees.
- All the rules should be appraised at frequent or regular intervals to ensure that they are and continue to be, appropri-ate, sensible and useful.
- Rules should be uniformly enforced if they are to be effective. They must be applied without exception.
- Penalties for any violation of any rule should be clearly stated in advance.
- Extreme caution should be exercised to ensure that infringe-ments are not encouraged.
- If violations of a particular rule are fairly frequent; the circumstances surrounding them should be carefully investi-gated and studied in order to discover the cause or causes of such violation.
- Define or precise provisions for appeal or review of all disci-plinary actions should be expressly mentioned in the employee's handbook.



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- Employee Discipline – Importance of Employee Discipline from the Point of View of an Individual, a Work Group and an Organisation

Importance of discipline in organizations can hardly be overemphasized. Orderly behavior is necessary for achieving the organization's objective. In the absence of discipline, no enterprise would prosper. If discipline is necessary even in a nuclear family or in a homogeneous unit, how can an industrial organization with heterogeneous people, work smoothly without discipline.

- When an employee is at fault, the management has to take disciplinary action. Discipline is said to be good when employees follow willingly the instructions of their supervisors and the various rules of the company. Discipline is bad when employees either follow rules and regulations unwillingly or actually disobey them.

- Poor discipline advises the need of correction. The fundamental reason for taking disciplinary action is to correct situations that are unfavorable to the company. Basically, discipline is a form of training. When disciplinary problem emerges, it may be as much management's fault as the workers. Many disciplinary problems grow out of management's failure to inform employees what is expected of them.

- The term 'discipline' has unpleasant associations with punishment but with the addition of the "just cause" concept involving a limitation on the employer's right to discipline and discharge. The word has been extended to embrace a system of training and education of both employee and his supervisor, designed to achieve orderly conduct.

- The significance of discipline can be explained as under:

### 1. From the Point of View of an Individual:

- (i) Discipline provides self-safety to an individual.
- (ii) It enhances an individual's progress.
- (iii) An individual needs it for his own satisfaction.

### 2. From the Point of View of a Work Group:

- (i) Discipline ensures better teamwork and cohesive.
- (ii) A disciplined atmosphere is the key to the progress of the group.
- (iii) Discipline ensures higher productivity.
- (iv) Discipline enhances morale and motivation of employees.

### 3. From the Point of View of an Organization:

- (i) Discipline ensures higher productivity and quality.
- (ii) Discipline helps an organisation in attaining maximum profit.



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- (iii) It is essential better all-round benefits.
- (iv) It helps in keeping a check on wastage and costs.
- (v) It helps in developing a sense of belonging.

- Employee Discipline – 7 Major Factors to Consider in Discipline: Seriousness of the Problem, Duration of the Problem, Nature of the Problem and a Few Others  
When all the employees follow the rules and regulations of the company, the question of indiscipline does not arise. Some employees fail to accept the norms of responsible-employee behavior, thus calling for disciplinary action.  
- To be fair and equitable the following factors need to be analyzed:

## 1. Seriousness of the Problem:

- The manager must assess how serious is the indiscipline. For example, sexual harassment is more serious than late coming.

## 2. Duration of the Problem:

-It must be known for how long the problem continues or how often this happens. First time offence may be less serious than subsequent offences of longer duration.

## 3. Nature of the Problem:

- The pattern of the problem calls for more attention. It must be known whether it is a part of emerging problem or a continual problem. Continual problem is a serious one.

## 4. External Influence:

- Sometimes a disciplinary problem may arise which is external to the employee. For example, an employee may fail to appear for an important meeting or performance appraisal due to some accident.

## 5. Degree of Familiarity:

The organization with formal written rules governing the employee conduct is more justified in strictly enforcing disciplinary action taken than the organization where the rules of conduct are informal or vague.



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### 6. Disciplinary Practices:

- There must be well laid out procedure in assessing disciplinary problems. Equitable treatment must take into consideration the previous actions taken against the employees for similar type of disciplinary violations.

### 7. Management Support:

- When the affected employee takes the issue to higher authorities, the manager must be having adequate reasons/data to defend his actions. The disciplinary action is not likely to carry weight if the violators believe that they can challenge the manager's decisions.  
- Employee Discipline – 5 Major Types: Positive Discipline, Negative Discipline, Self Discipline and Control, Progressive Discipline and The Red Hot Stove Rule

#### Type # 1. Positive Discipline:

Positive discipline in a business is an atmosphere of mutual trust and common purpose in which all employees understand the company rules as well as the objectives and do everything possible to support them. Any disciplinary program has, as its base, that all of employees have a clear understanding of exactly what is expected of them. This is why a concise set of rules and standards must exist that is fair, clear, realistic and communicated.

- Discipline takes the form of positive support and reinforcement for approved actions and its aim is to help the individual in moulding his behaviour and developing him in a corrective and supportive manner. Once the standards and rules are known by all employees, discipline can be enforced equitably and fairly.

-A few guidelines for establishing a climate of positive discipline are given below:

- i. There must be rules and standards, which are communicated clearly and administered fairly.
- ii. Rules and standards must be reasonable and should be communicated so that they are known and understood by all employees. An employee manual can help with communicating rules.
- iii. While a rule or a standard is in force, employees are expected to adhere to it.
- iv. Even though rules exist, people should know that if a personal problem or a unique situation makes the rule exceptionally harsh, the rule may be modified or an exception be granted.
- v. There should no favourites and privileges be granted only when they can also be granted to other employees in similar circumstances.



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- vi. Employees must be aware that they can and should voice dissatisfaction with any rules or standards they consider unreasonable as well as with working conditions they feel hazardous, discomforting or burdensome.
- vii. Employees should understand the consequences of breaking a rule without permission.
- viii. Employees should be consulted when rules are set.
- ix. There should be recognition for good performance, reliability and loyalty. Negative comments, when they are necessary, will be accepted as helpful if employees also receive feedback when things go well.

## **Type # 2. Negative Discipline:**

- Generally, negative discipline is interpreted as a sort of check or restraint on the freedom of a person. Discipline is used to refer to the act of imposing penalties for wrong behaviour. If employees fail to observe rules, they are punished. The fear of punishment puts the employee back on track.
- “Discipline is the force that prompts an individual or a group to observe the rules, regulations and procedures which are deemed to be necessary to the attainment of an objective”.

## **- Type # 3. Self Discipline and Control:**

Behavioural scientists view discipline as self-control to meet organizational objectives. Megginson clarified the term thus- “By self-discipline we mean the training that corrects moulds and strengthens. It refers to one’s efforts at self-control for the purpose of adjusting oneself to certain needs and demands. This form of discipline is raised on two psychological principles. First, punishment seldom produces the desired results. Often, it produces undesirable results. Second, a self-respecting person tends to be a better worker than one who is not”.

## **Type # 4. Progressive Discipline:**

- The concept of progressive discipline states that penalties must be appropriate to the violation. If inappropriate behaviour is minor in nature and has not previously occurred, an oral warning may be sufficient. If the violation requires a written warning, it must be done according to a procedure. After written warnings, if the conduct of the employee is still not along desired lines, serious punitive steps could be initiated.



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- In case of major violations such as hitting a supervisor may justify the termination of an employee immediately. In order to assist a manager to recognize the proper level of disciplinary action, some firms have formalized the procedure.

## **Type # 5. The Red Hot Stove Rule:**

Without the continual support of the subordinates, no manager can get things done. But, disciplinary action against a delinquent employee is painful and generates resentment on his part. Hence, a question arises as to how to impose discipline without generating resentment? This is possible through what Douglas McGregor called the “Red Hot Stove Rule”, which draws an analogy between touching a hot stove and undergoing discipline.

- According to the Red Hot Stove rule, disciplinary action should have the following consequences:

### **(i) Burns Immediately:**

If disciplinary action is to be taken, it must occur immediately so the individual will understand the reason for it. With the passage of time, people have the tendency to convince themselves that they are not at fault.

### **(ii) Provides Warning:**

It is very important to provide advance warning that punishment will follow unacceptable behaviour. As you move closer to hot stove, you are warned by its heat that you will be burned if you touch it.

### **(iii) Gives Consistent Punishment:**

Disciplinary action should also be consistent in that everyone who performs the same act will be punished accordingly. As with a hot stove, each person who touches it is burned the same way.

### **(iv) Burns Impersonally:**

Disciplinary action should be impersonal. There are no favourites when this approach is followed.

Employee Discipline – Causes of Indiscipline: Organizational, Individual and Environmental Factors

The important causes of indiscipline are analyzed under three heads:

1. Organizational Factors
2. Individual Factors
3. Environmental Factors.



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## 1. Organizational Factors:

- i. Where the organization, while hiring the employees, fail to assess the traits of individuals like attitude, obedience, tolerance and inquisitiveness, it may end up hiring employees who challenge any decision made by the management. This may breed indiscipline.
- ii. Lack of code of conduct for employees has potential to disorient them thereby sowing seeds of indiscipline.
- iii. Where an employee hired for a job for which he has neither aptitude nor attitude, he is sure to develop ill-feelings. He may find the job uninteresting and do everything to evade responsibility.
- iv. Ineffective leadership characterised by authoritarianism and incompetency, and distrustful relations with employees fuel indiscipline among the employees.
- v. Indiscriminate use of penal provisions triggers reactionary group indiscipline.
- vi. Favouritism and nepotism practiced by supervisors vitiate discipline.
- vii. Divisive policies pursued by management and instituting unofficial spy network spoils the work atmosphere thereby engendering indiscipline.
- viii. Biased performance evaluation on considerations of caste, creed, colour, gender, religion and region promotes ill-feeling and a sense of injustice among employees which culminate in indiscipline.
- ix. Absence of grievance redressal mechanism frustrates employees thereby breeding indiscipline among them.

## 2. Individual Factors:

Individual differences caused by education, experience, values, attitudes, beliefs, intelligence, personality, etc., cause employees to behave differently in an organization. Therefore some individuals conform to rules and standards of behaviour in much wider context than others.

- Individual features that lead to indiscipline behaviour are as follows:

- i. Individuals with non-conformist values tend to engage in indisciplined behaviour.
- ii. Every individual perceives reward and punishment differently and react to it accordingly. When the reward is not commensurate with his expectation, he may feel frustrated and indulge in indiscipline.
- iii. Individuals differ in work ethics. Those with high ethical values tend to be committed and involved in the jobs while those with low ethical values show alienation to their jobs and exhibit negative behaviour.



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### 3. Environmental Factors:

Since an organization is also one of the members of the society, discipline observed by the society manifests in organizations. Indiscipline prevailing in family, educational institutions, political system, religious institutions, break down of social control mechanism, etc., casts its ugly shadow on the organizational climate.

Employee Discipline – 2 Kinds of Punishment: Minor and Major Punishment

#### I. Minor Punishment:

1. Oral Reprimand – When a superior officer verbally warns the employee committing the offence, he expresses that he does not approve of his behaviour. For example, employee sleeping during working hours or found smoking in the workplace.
2. Written Reprimand – Manager writes up the warnings and mails it to the employee concerned. The employee is called for explanation. A copy of his reply is sent to HR Department.
3. Punitive Suspension – It is awarded for minor offenses. It may extend for a few days. Employee gets subsistence allowance during the suspension period.
4. Loss of Privilege – Some of the privileges like assigning interesting work, shift preferences, leave, flexi hours, choice of machine etc., may be withdrawn for a given period.
5. Fine – A deduction may be made from the pay for certain offences like damage to the goods, machines and property of the company or for loss of money he has to account for.
6. Transfer – An employee may be transferred to a far off place or to a different department for the offence committed. It is usually awarded by companies or institutions operating with a network of branches. Government institutions practise this type of punishment.

#### II. Major Punishment:

1. Pay cut – Cutting employee's pay for offences relating to damage or loss of property. The loss is recovered from the pay of the employee.
2. Demotion – When the employee proves himself to be unfit for the present job he is holding, he is downgraded to a lower job carrying lower pay and responsibilities. It has a serious implication on the employee's morale and motivation.
3. Suspension pending enquiry – It is awarded for serious offence. His regular wages are withheld during the period. The punitive suspension may extend for a longer period say





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several months till the enquiry is completed. Employee gets subsistence allowance during the suspension period.

4. Discharge – It is awarded for the gravest offence involving integrity, moral turpitude, etc. There is a stigma attached to the dismissal and he may find it difficult to get employment elsewhere.

Employee Discipline – 4 General Types of Disciplinary Actions Available when Employees Fail to Meet Expected Levels of Performance

The purpose of discipline is to assist employees in changing their performance, attendance, or behaviour. This requires that the employees have adequate information about their current performance, attendance, or behaviour versus the desired performance, attendance, or behaviour.

- When disciplining or terminating an employee, a manager can decrease his/her legal risk if he/she can show that the erring employee had been previously warned and/or counseled without any improvement in behaviour or performance, making clear to the employee what he/she was doing wrong and what was being required to do in order to meet the company's expectations were not done.

- This is a good employment practice, and the legal system will generally give great weight to such evidence when an employee claims that he/she was improperly discharged.

- There are four general types of disciplinary actions available when employees fail to meet expected levels of performance or conduct:

## 1. Verbal Counseling:

- This is generally the first step of the disciplinary actions taken against an erring employee. An employee might receive several verbal warnings before progressing to the next step of the disciplinary procedure. However, for a serious problem, managers might skip this step. Verbal warnings should always be done calmly, objectively and privately.

- It is a good idea to have a second manager or officer present during the verbal counseling as a witness. Verbal counseling sessions should be documented by a formal memo or informal note in the employee's personnel file.

## 2. Written Warning:

- This step is generally preceded by a verbal warning. The manager or supervisor should meet with the employee and his representative (if applicable) as in a verbal counseling session, but the employee should be given and allowed to review a formal written warning. As with verbal counseling, a second manager can be present as a witness.



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- The written warning should have a place for the employee to sign, acknowledging that he or she has received the warning, regardless of whether he or she agrees with the contents of the warning. If the employee refuses to sign, another manager or supervisor should be called as a witness to observe that the employee has been presented with the warning and refused to sign it, and that witness should sign the warning.

- An adequate written warning should include, at a minimum, the following elements:

1. The date of the warning
  2. The employee's name
  3. The name of the manager or supervisor administering the warning
  4. A statement depicting the details of the misconduct or inadequate performance of the employee
  5. The date of the misconduct or poor performance (if appropriate)
  6. A signature line for the manager or supervisor
  7. A signature line for the employee
  8. A signature line for a witness, if the employee refuses to sign
  9. A formal "action plan," depending upon the nature and severity of the offense.
- A formal disciplinary action plan may include the following additional elements, namely:
- i. A statement of the policy, rule, or practice that was violated.
  - ii. The steps which the employee agrees to follow in order to correct the problem or meet the desired level of performance, attendance, or behaviour.
  - iii. Any commitments of assistance or support that the manager or supervisor has made.
  - iv. The time frame to be followed in achieving the goal of improved performance, attendance, or behaviour.
  - v. The consequences that will occur if the performance, attendance, or behaviour is not improved within the specified time frame.

### 3. Suspension:

- This may range from one day to two weeks or more, depending upon the circumstances, and is almost always unpaid. In unusual circumstances, some employers will place employees on one day of paid "decision-making" leave, as a way of encouraging the employee to think about the future of his employment.

Paid suspensions, however, can be perceived as a "reward" for poor behaviour, and may therefore have an adverse effect. For this reason, most employers prefer unpaid suspensions.



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Some employers will progress immediately from the first suspension to termination for the next offense, while others will attempt to correct the employee's performance or behaviour with multiple suspensions of increasing length (e.g., 1-day, 3-day, 5-day, 10-day, etc.). As a general rule, each suspension should be longer than the last, with termination as the final result.

#### 4. Termination:

Before terminating an employee, a manager should review the personnel file and all relevant documents in order to determine if the termination is appropriate — and defensible in a subsequent lawsuit — given the facts and circumstances. In addition, he should also ensure that similarly situated employees have been treated similarly in the past. Some behaviour warrants automatic dismissal.

These include those of:

- i. Violent behaviour or threats of violence
- ii. Drug and alcohol use on duty
- iii. Carrying a weapon on company property
- iv. Disregarding safety rules and regulations
- v. Theft, destruction of company property, or falsifying documents
- vi. Insubordination
- vii. Abandonment of job (no call, no show for three consecutive days).

Other Forms of Discipline:

- In addition to the steps outlined above, it is worthwhile to explore other forms of discipline, such as demotion, transfer, and reduced raises or bonuses. Many employees can be very satisfactorily managed by economic concerns, such as bonuses and raises.