



# Institute of Open and Distance Education

Faculty of Commerce



Business Organization & Communication

## Business Organization & Communication



2BCOM3



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Chhattisgarh, Bilaspur

A STATUTORY UNIVERSITY UNDER SECTION 2(F) OF THE UGC ACT

**2BCOM3**

**Business Organisation & Communication**

2BCOM3, Business Organization & Communication

Edition: March 2024

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Published by:

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# UNIT I

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# LESSON

# 1

## AN INTRODUCTION TO BUSINESS ORGANISATION

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### 1.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- State what a business is and learn the Concept of Business as a System
- Understand the Meaning, Scope, Significance, Facets and Objectives of Business Organisation

- Know the Characteristics and Components of Business Organisation
- Understand the various Functions of Business Organisation
- Study the Ethics and Social Responsibility of Entrepreneurs
- Explain the Division of Business, Industry and Commerce

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## 1.1 INTRODUCTION

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A business is always owned by someone. This can just be one person, or thousands. So a business can have a numerous type of different ownership depending on the aims and objectives of the owners. Most businesses aim to make profit for their owners. Profits may not be the major objective, but in order to survive a business will need to make profit in the long term. Some organisations however will be 'not-for-profit', such as charities or government-run corporations. Business is all about reaping profits from the opportunities available in the environment. Opportunities can manifest themselves in the form of short supply, excess demand, latent need or new, better and economical sources of supply or manufacturing. We are in 21st century; the outlook for business appears to be a blend of high prospects for growth on the one hand and serious concerns about the impact of business on society and the environment on the other.

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## 1.2 DEFINITION AND CONCEPT OF BUSINESS

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Around us, we see some or the other activity or happening, at all times. Whether it is the activity of office workers working in the office or of construction of buildings and roads, or supermarkets selling goods, or even restaurants doing business, it is something that surrounds all aspects of our life. All activities can be broadly classified into two categories:

- Economic activity
- Non-economic activity

Economic activities are done with the objective of earning a profit or at least a livelihood. The economic activity must therefore have some element of production, distribution and exchange of either a product or a service. The work done by people in the office, that in the college or university, in the shopping malls, in the banks, and in the industry are all representative of economic activity.

Non-economic activity is that which is not done with the objective of profit or earning, but with much loftier ideals. These ideals may include love, patriotism, philanthropy, social or humanitarian service, etc. Here, when a person works to help the people affected by floods, there is no profit motive but a genuine need and desire to save some lives. Similarly, when the soldier fights for the country, it is not for money but for the defence of the country (patriotism).

A simple way to see the difference between the two, is to ask the question "Is the activity being done for a profit or livelihood?." If the answer is 'yes', then it is most likely an economic activity.

There exists no business that does not have a profit motive. Hence, business is definitely an economic activity. It is an activity that actively tries to put together effort, money and people in order to create wealth. Any business has to satisfy some human need or want and also in the process make some money or profit. However, this is not something that is done on an intermittent basis, like a person writing a song and getting paid for it, but on a continuous basis.

Business would therefore mean the production, distribution and exchange of goods (or products) and services on a continuous basis. Since business is doing all of the above, to a considerable extent there is also an element of risk, in case the goods produced are not sold or in case they are made against a firm order but rejected by customer due to quality reasons or because the delivery was delayed.

In simple words, business can be defined as:

*"A commercial or industrial enterprise and the people who constitute it."*

The WordNet dictionary, defines it as:

*"The activity of providing goods and services involving financial, commercial and industrial aspects."*

Some other relevant definitions given by prominent authors include:

*"Business is a form of activity pursued primarily with the objective of earning profit, for the benefit of those, on whose behalf the activity is conducted."*

– L R Dicksee

*"Business may be defined as an activity in which different persons exchange something for value, whether goods or services, for mutual gain or profit."*

– Peterson & Plowman

According to F.C. Hopper *"The whole complex field of commerce and industry which includes the basic industries, processing and manufacturing industries, and the network of ancillary services: distribution, banking, insurance transport and so on, which serve and inter penetrate the world of business as a whole are called business activities."*

A business is a group of people involved in the trade of goods, services, or both to consumers. Businesses are leading in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned. A business owned by numerous individuals may be referred to as a company, even though that term also has a more defined meaning. The term "business" has at least three usages, depending on the scope — the singular usage to mean a particular organisation; the generalized usage refer to a particular market sector, "the music business" and compound forms such as agribusiness; and the broadest meaning, which encompasses all action by the group of people from suppliers of goods and services.

For example, look at a shopkeeper nearby. What does he do? He purchases products in bulk and sells in small quantities. He also earns some profit in the process. Similarly, the cable TV operator provides us a connection at a price so that we watch various channels on our television set. In this process the cable TV operator earns a profit. All of them are said to be engaged in business and are called businessmen. They all perform their activities regularly to earn profit. Thus, the term 'business' refers to human activities which involve production or exchange of goods and services regularly with the objective of earning profit.

### **1.2.1 Concept of Business as a System**

A system can be defined as a collection of process that has input and produces output. For example, Computer is the main system which has sub-systems like keyboard, C.P.U, internal software, etc. All these sub systems are related to each other. In case of failure of one sub-system the main system stops working. Hence, we may understand



the term 'Business' as the main system and it refers to the set of activities of an organisation involved in some activities like manufacturing that result in the production of an economic output with the intention of producing a profitable gain. The sub-systems of business are production system, marketing system, distribution system, etc. Even if one sub-system fails the entire main system can fail. Therefore, success of business depends on the efficiency of all the sub-systems.

Business as a system is considered to be a related set of business processes which produces the output of the organisation.

System approaches may be of two types:

- Closed system and
- Open system

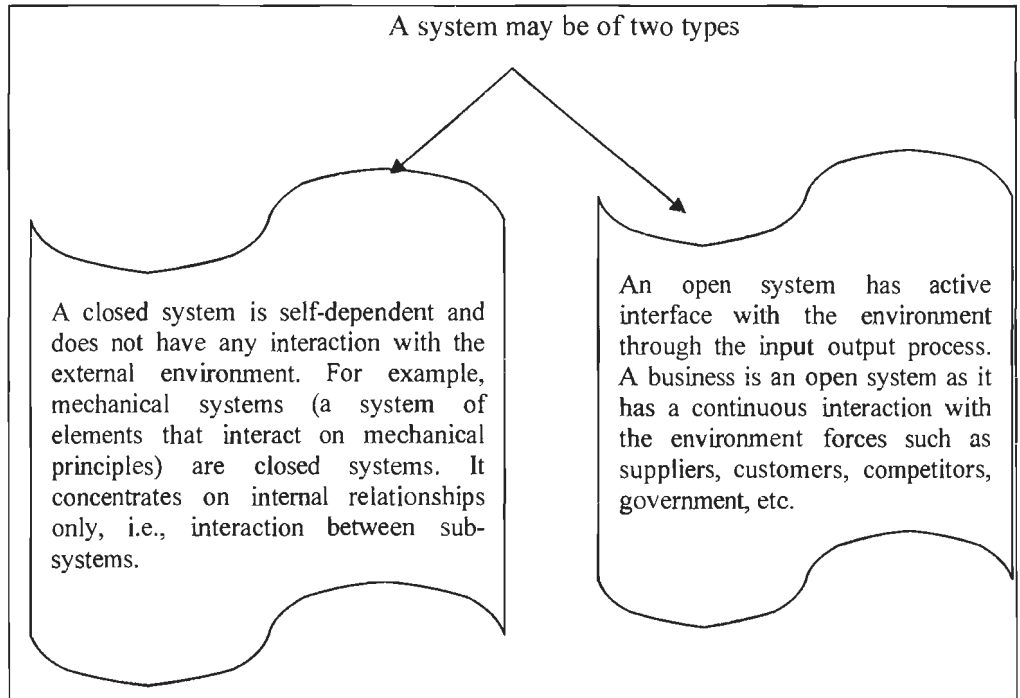


Figure 1.1: Two Types of Business System

According to Alfred P. Solan, "The strategic aim of business is to earn a return on capital and if in any particular case the return in the long run is not satisfactory, the deficiency should be corrected or the activity should be abandoned for a more favourable one".

**For example**, in an organisation the raw material is an input, manufacturing is a process and product is an output.

The Figure 1.2 explains the process of manufacturing:

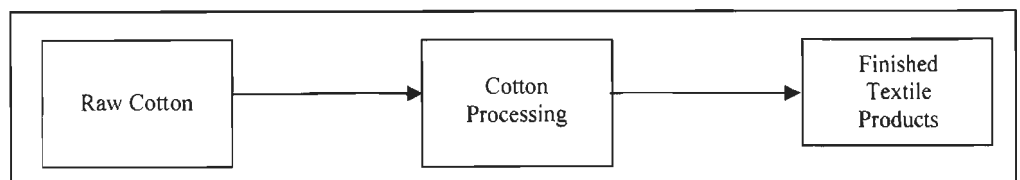


Figure 1.2: Process of Manufacturing

### 1.3 MEANING OF BUSINESS ORGANISATION

Business Organisation is the combination business and organisation. In order to understand the nature and importance of business organisation, it is necessary that the meaning of these two words should be clear to everyone.

**Business:** Business is a human activity, which is undertaken to provide goods and services to the people with a view to earn profit.

#### Organisation

The words organisation is generally divided into two parts.

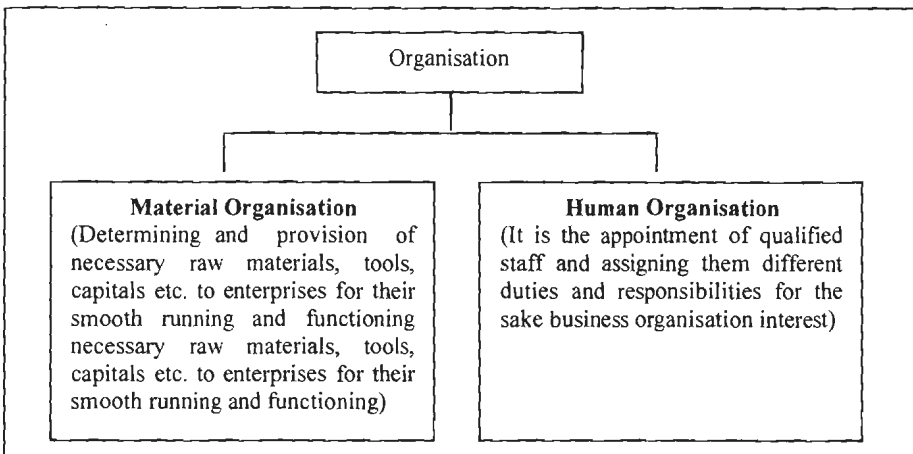


Figure 1.3: Two Parts of Organisation

Now business organisation can be defined as the process of establishing effective cooperation among different people to achieve certain goals to earn profit. Business organisation can also be formed to serve people and is known as non-profit organisation.

In the present age, production and distribution activities are increasing day by day with the rise in world population standard of living is also improving due to the business activities. Today a human is enjoying all the facilities of life due to the efficiency of business. But without business organisation we cannot solve the business problems. Business organisation consists of the skillful activities of the business man which are helpful for promoting the trade commerce and industry. Business organisation plays very effective role for the business development.

### 1.4 SCOPE OF BUSINESS ORGANISATION

In the day to day life, you may have come across the words like ‘commerce’, industry, trade, manufacturing, services, etc., whenever the term ‘business’ is mentioned. Thus, the scope of business is very wide and can be broadly classified into the above mentioned terms. These are related words and if you are clear about them you will understand the term ‘business’ much better. Let us understand them.

#### 1.4.1 Industry

Industry primarily refers to all such business activities concerned with production or processing of goods and services. It processes raw materials or semi-finished goods into finished goods. For example: Manufacturing goods and commodities, producing crops, constructing buildings, dams, roads, etc.

Industry can be classified into following types:

**Primary industry**

- Extractive industry like coal-mines, iron-ore mines, etc. and
- Genetic industry like dairy farming, poultry farming, etc.

**Secondary industry**

- Manufacturing industry and
- Constructive industry

**Tertiary/service industry**

- Transport
- Banking
- Insurance
- Warehousing

As we shall deal with them in subsequent units, we have avoided further explanation of them.

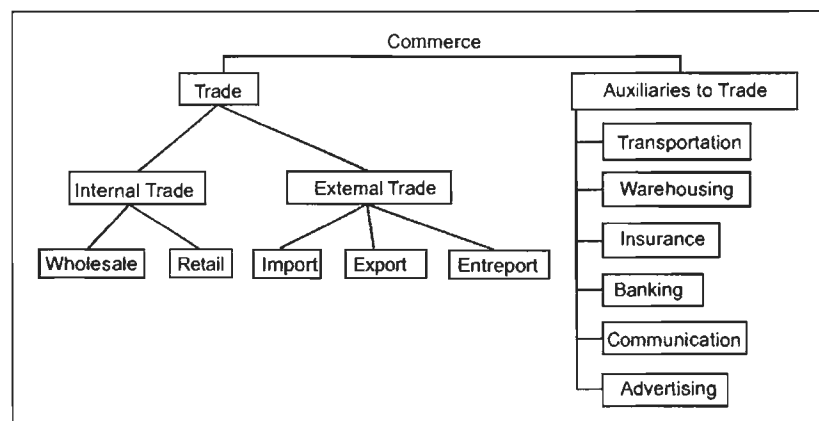
**1.4.2 Commerce**

Commerce is the sum total of all the activities connected with the placing of the product before the ultimate consumer. It provides the necessary link between the producer and the consumer of goods. For example: when somebody produces bread, he has to make it available for them at convenient locations at right time. This involves activities like making people aware about the product, storing the product at right places, arranging retail outlets, packaging the product, transportation of the product, selling the product and so on. All these activities combined together are known as commerce.

The components of commerce are given below:

- **Trade:** Trade is an integral part of commerce. It simply refers to sale, transfer or exchange of goods and services. It helps in making the goods and services available to ultimate consumers. For example, the local grocery shop owner sells grocery items to the consumers after buying it from the manufactures. Sometimes, he buys it from the wholesalers who buy goods in bulk from the manufactures and sell it to him. In this process the wholesalers as well as the grocery shop owners are said to be engaged in trading.

The Figure 1.4 shows the relation between the trade and commerce:



**Figure 1.4: Classification of Commerce**

You may learn about the terms mentioned in the Figure 1.3 in the following units.

- **Manufacturing:** Manufacturing means the conversion of raw materials or semi-finished products into finished product. It is a secondary industry. Industries engaged in the conversion of one or more type of material into another or other types are called manufacturing industries. For example, Cotton is converted into textiles. Textiles are converted into garments and thus called garment industry. Therefore we may understand business as 'business = industry + commerce'.

## 1.5 SIGNIFICANCE OF BUSINESS ORGANISATION

Following are the significances of business:

- **Product Growth:** All business activities are directed towards the production of goods and services for betterment of every business.
- **Satisfaction of Wants:** For any business to function, it understands the needs of the customers. Measuring customer satisfaction provides an induction of how successful the organisation is at providing and organising services to the marketplace. The wants of people are growing day by day.
- **Technological Improvements:** A good organisation provides for the optimum use of technologies improvements.
- **Production of Goods:** Business organisation is very useful for the production process of goods and services. It increases the efficiency of various sections.
- **Fixes Responsibility:** It fixes the responsibility of every individual in a different manner. It also introduces the scheme or internal check with works automatically.
- **Decision Making:** Decision making is a very important factor for the success of business. The business organisation is very useful in making the decisions in time.
- **Provides Skill:** Business organisation provides the skilled people like salesman to satisfy the customers.
- **Supply according the Demand:** It guides the producer that he should produce the goods according the demand of the market. Facts about market are collected and demand is produced accordingly.

## 1.6 FACETS OF BUSINESS ORGANISATION

Following features play a vital role in every kind of business organisation. Each and every aspect has its own importance in the business organisation.

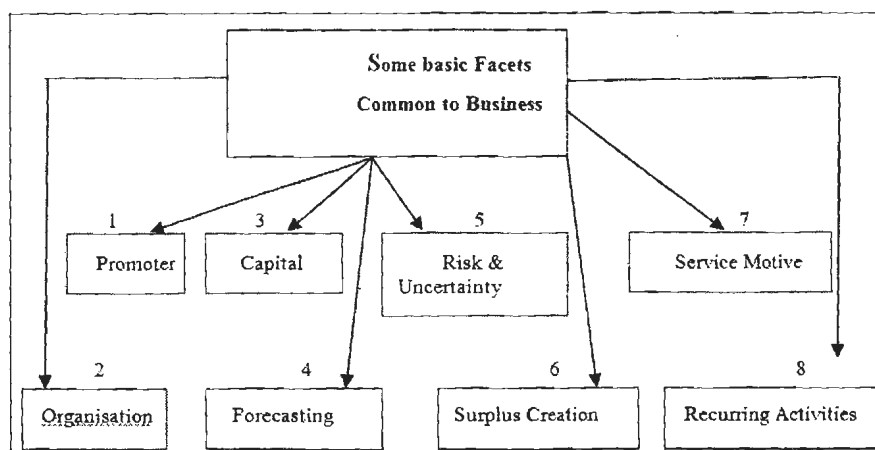


Figure 1.5: Features of Business

- **Promoter:** Every business must have a promoter to take the initiative for establishing a business and to shoulder the responsibility of management.
- **Organisation:** Every business must have its own organisation. It refers to the arrangement of separate functioning, but mutually dependent parts.
- **Capital:** It is the life of every organisation and is an indispensable factor. The amount of capital required in a business depends on its nature and size.
- **Forecasting:** Forecasting is the process of making statements about events whose actual outcomes (typically) have not yet been observed.
- **Risk & Uncertainty:** Risk is the potential that a chosen action or activity (including the choice of inaction) will lead to a loss (an undesirable outcome). Uncertainty applies to predictions of future events, to physical measurements already made, or to the unknown.
- **Surplus Creation:** Profit motive is the basic characteristics of all business enterprise. Profit is the surplus that remains for distribution amongst proprietors, partners or shareholders. Higher the profit, higher the surplus. Higher the surplus, higher the rate of growth.
- **Service Motive:** More profit motive without social responsibilities and obligations would lead to a gradual erosion of social power of business. Hence profit through service is the modern slogan of business. Business enterprises must have twin objectives of profit and service.
- **Recurring Activities:** The activities concerned with production and acquisition of wealth, to come under business, should be of a recurring nature.

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## 1.7 OBJECTIVES OF BUSINESS ORGANISATION

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Business objectives are something, which a business organisation wants to achieve or accomplish over a specified period of time. It is generally believed that a business has a single objective, that is, to make profit and safeguard the interests of its owners. However, no business can ignore the interests of its employees, customers as well as the interest of the society as a whole. Business objectives also need to be aimed at contributing towards the national goals and aspirations as well as towards international well-being.

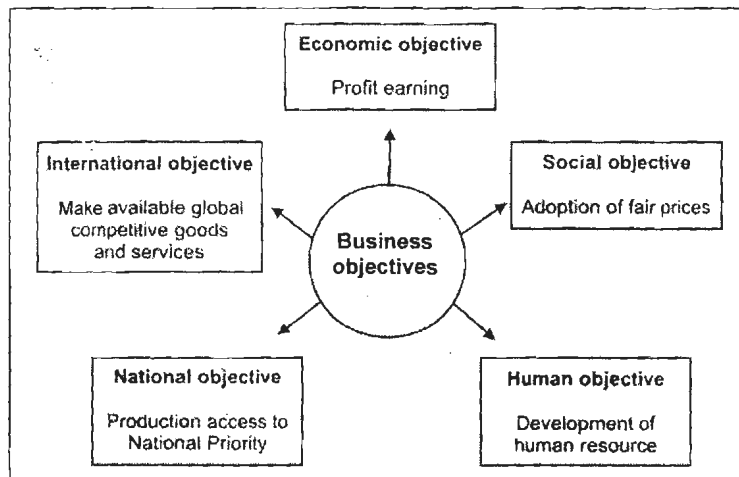
Business is an economic institution operating in a socio-economic and political environment. Therefore, its objectives should be defined keeping in view its prevailing environment and the needs for survival and growth. The business objectives should have the following characteristics:

- **Precise:** Objectives should be specific and exact. For example, target to produce 10,000 cars.
- **Assessable:** The business objective should be quantifiable. So that it can set value to business objectives. For example, ₹1,00,000 sales in the next half year of business.
- **Acceptable:** The objectives should be clear and specific, so that employees in the organisation accept and try to achieve them.
- **Achievable:** The objective should be realistic and it should also be able to be achieved by the resources available. For example, a company manufacturing batteries has a market share of 20% in 2016 and sets its objective as being number 1 in 2016 with 60% share.

- **Time specific:** Objectives should have time limit of when it should be achieved. For example, the project should be completed within 1<sup>st</sup> Nov 2018.

The various objectives of business may broadly be classified as follows:

- **Economic Objective:** It refers to the objectives of earning revenue and the objectives that are significant to achieve the revenue purpose, such as formation of customers, regular innovations and best possible use of available resources.



**Figure 1.6: Classification of Business Objectives**

- ❖ **Formation of customer segment:** Customer segment refers to a specific group of customers having similar characteristics, such as same age group, same income group, etc. Industry should provide quality merchandise and services at a reasonable price for their endurance and also increase their consumers. Business needs to attract more customers for its existing goods as well as new products. This can be done by using different marketing methods, for example, advertisement.
- ❖ **Innovations:** Innovation refers to the modification of products and processes. Constant modification can improve process of manufacturing products and distribution of goods. Business through innovation, are able to bring new products in the market, reduce cost and make new offers.
- ❖ **Optimum use of resources:** The resources refer to men, machine, money, etc. To run any industry you must have adequate resources. The performance of a business depends upon the availability of men, machine, material and money and the efficient use of the resources. The objective may be achieved by employing multi skill workers, new machines, by reducing wastage of raw materials, etc.
- **Social Objective:** Social objectives are preferred to be achieved for the benefit of the society, since business operates in a society by utilizing its inadequate resources. Social objectives of business should consist of manufacture and supply of quality goods and services, acceptance of fair trade practices, contribution to the general welfare of society, etc. The social objectives are explained as:
  - ❖ **Production and supply of quality goods and services:** The intention of business should be to manufacture enhanced quality goods and supply them at the exact time and at an accurate price. They should provide quality goods to the society at reasonable prices. Business should supply quality goods and services to customers on simple basis.

- ❖ *Acceptance of fair trade practices:* The intention of business should be to charge fair price for the quality goods and services which they provide to customers. They should accept fair trade practice for welfare of the patrons as well as the society.
- ❖ *Contribution to the general welfare of the society:* Company should work for the common welfare and upliftment of the society for example, library, hospitals, schools, etc.
- **Human Objective:** The business may have objectives to serve special types of workers such as those who are physically disabled, handicapped and those who are underprivileged. The human objectives can be classified as:
  - ❖ *Economic well-being of the employees:* Business provides fair remuneration and incentive to employees for their performance and involvement in business.
  - ❖ *Social and psychological satisfaction of employees:* Business should provide social and psychological contentment to their employees. They should also provide opportunities for and advancement in career to the employees. If employees are happy and satisfied they can put their best efforts in work.
  - ❖ *Development of human resources:* The growth of employees requires proper training as well as development. Business can flourish if the people employed can improve their skills, increase their abilities and competencies in course of time. Commerce should arrange training and development programmes for its employees.
- **National Objective:** This refers to the national goals and aspirations such as creation of employment opportunities, promotion of social justice, payment of taxes and other dues honestly and regularly, etc. The national objectives can be classified as:
  - ❖ *Formation of employment:* The national objectives of business are to generate opportunities for employment of people. It can be achieved by establishing new business units, escalating their customers, development of product, intensifying markets, widening distribution channels, etc.
  - ❖ *Promotion of social justice:* Employers are also expected to provide equal opportunities to all employees. To accomplish this objective, special consideration must be paid to weaker and backward sections of the society.
  - ❖ *Production according to national priority:* Organisation should produce and supply goods in accordance with the priorities which are mentioned in the plans and policies of the Government. One of the national objectives of business in our country should be to enhance the production and supply of essential goods at reasonable prices.
  - ❖ *Contribution in the revenue of the country:* Organisation owners should reimburse their taxes and dues honestly and regularly. This will increase the proceeds of the government, which can be used for the enlargement of the nation.
  - ❖ *Self-sufficiency and export promotion:* Business should try to enhance exports and add to the foreign exchange reserves of the country. It helps in development of the nation.
- **International Objective:** These refer to the objectives of facing the challenges of global market. The objectives will raise common standard of living, condense

disparities among nations and make goods and services available for worldwide competitive standards. The international objectives can be classified as:

- ❖ *Raise general standard of living:* Today trade is done worldwide. And the growth of business due to globalization makes availability of quality goods at sensible prices all over the world. The people of one country are able to use similar types of goods that people are using in other country. It will improve people's standard of living.
- ❖ *Reduce disparities among nations:* Business can diminish disparities among the rich and poor nations of the world by its development. By the way of capital investment in developing, underdeveloped countries can promote their industrial and economic growth.
- ❖ *Make availability of competitive goods and services globally:* Business should create goods and services which are worldwide competitive and have large stipulation in foreign markets. This will improve the image of the exporting country and will also bring more foreign exchange to the nation.

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## 1.8 CHARACTERISTICS OF BUSINESS ORGANISATION

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The nature of business must consider the following characteristics that are important to any business:

- It must cover an economic activity.
- It is an activity through which the owner of the business earns a livelihood.
- It must create something that is desired by somebody else.
- It must have a profit motive to it.
- There must be some production and distribution of goods or services.
- There must be a fair exchange between the buyer and the seller.
- It must happen on a continuous basis over a reasonable period of time.
- There must be an element of risk or uncertainty.
- Some social purpose must be also served. This can be in the form of supplying something that is not available or in short supply, or is in terms of generating jobs, or bringing development to some rural area.

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## 1.9 COMPONENTS OF BUSINESS ORGANISATION

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Key components are present in effective businesses of all sizes and types which are explained below:

- **Task:** This component can be defined as a mission or purpose of the existence of organisation. Every organisation has a purpose of existence that is accomplished by organisation's basic systems view producing certain goods and services as an output, which is termed as task.
- **People:** The workforce or human part of an organisation that performs different operations in the organisation. Effective businesses manage their human resources efficiently. This includes hiring the right workers, expanding the workforce as needed and providing pay and benefits that find a balance between adequate compensation and reasonable cost to the business.
- **Structure:** Structure is the basic arrangement of people in an organisation.



- **Technology:** The intellectual and mechanical processes used by an organisation to transform inputs into products or services.
- **Profitability:** One of the most essential and common traits among effective businesses is the ability to make a profit in the face of competition. Profitability allows businesses not only to expand and grow, but to remain fiscally stable and earn money for their owners.

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## 1.10 FUNCTIONS OF BUSINESS ORGANISATION

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The main function of any business can be classified as:

- Serving or satisfying a market
- Making profit (for survival and growth)
- Following ethical practices of business

### 1.10.1 Serving or Satisfying a Market

Any business has to identify what it will produce (or procure) and which markets it will cater to. The business therefore has to decide the product, the target segment, the price and how it will ensure that the product reaches the end customer. Thus, it must identify certain segments for business. A business may not be able to cater to all segments and therefore may decide to restrict its operations and focus to a smaller segment of the entire market.

### 1.10.2 Making a Profit (for Survival and Growth)

Any commercial business must aim at making profits, in both the short term and the long term. The business needs to make short term profits in order to keep itself going and long term profits, in order to be able to grow. The very nature of any commercial business demands that there should be some profits. The extent of profits may be guided by a variety of factors, which are beyond the scope of discussion here.

### 1.10.3 Following Ethical Practices of Business

A business must follow certain practices to run its operations and to grow. These are the usually expected to be ethical practices, which are in tune with the needs to the society and the business. Many businesses today are keen to make super profits in the shortest time possible. This may create profits for the business, but will not be sustainable in the long run.

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## 1.11 ETHICS AND SOCIAL RESPONSIBILITY OF BUSINESS ORGANISATION

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Every business organisation is an integral part of the society. It uses the scarce resources of the society to continue and grow. Hence, it is important that no activity of the business should be injurious to the long run interests of society. Ethics and social responsibility of entrepreneurs are discussed as follows:

### 1.11.1 Business Ethics

Business ethics are the moral principles, which guide the behaviour of businessmen or business activities in relation to the society. It provides certain code of conduct to carry on the business in a morally justified manner. The ethics of a particular business can be diverse. They apply not only to how the business interacts with the world at large, but also to their one-on-one dealings with a single customer.

Although most people have different standards of what is morally justifiable, society generally feels that there are certain values that should be set as the minimum ethical behaviour. Most people believe that in order to meet the minimum ethical standards, a business must be honest, obey the law, and not directly violate the rights that our society holds as inalienable human rights. This, however, does not exhaust the definition of business ethics that many believe in. Some other ethical issues involve compensation of employees, job security for employees, hiring practices, waste management issues, pollution, and conflicts of interest. Sometimes companies face situations where ethical choices are in opposition to their interests.

Good business ethics should be a part of every business. There are many factors to be considered. When a company does business with another company that is considered unethical, does this make the first company unethical by association? Some people would say yes, the first business has a responsibility and it is now a link in the chain of unethical businesses.

Many global businesses, including most of the major brands that the public use, can be seen as not thinking too highly of good business ethics. Many major brands have been fined millions for breaking ethical business laws. Money is the major deciding factor.

### 1.11.2 Social Responsibility

Social responsibility of business refers to the obligation of business enterprises to adopt the policies and plans of actions that are desirable in terms of the expectation, values and interest of the society. It ensures that the interests of different groups of the public are not adversely affected by the decisions and policies of the business.

Let us now look at the responsibilities of the business towards different groups:

- **Responsibility towards the shareholders or owners:** The shareholders or owners are those who invest their money in the business. They should be provided with a fair return on their investment.
- **Responsibility towards the employees:** A business enterprise must ensure a fair wage or salary to the workers based on the nature of work involved and the prevailing rates in the market. The working conditions must be good in respect of safety, medical facilities, canteen, housing, leave and retirement benefits, etc.
- **Responsibility towards the consumers:** A business enterprise must supply quality goods and services to the consumers at reasonable prices. It should avoid poor packaging, misleading and dishonest advertising.
- **Responsibility towards the government:** A business enterprise must follow the guidelines of the government while setting up the business. It should conduct the business in a lawful manner, pay taxes honestly and on time. It should not indulge in any corrupt practices or unlawful activities.
- **Responsibility towards the community:** Every business is a part of our community. So it should contribute towards the general welfare of the community.

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## 1.13 DIVISION OF BUSINESS, INDUSTRY AND COMMERCE

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**Business** is inter-related to Industry, Commerce and Trade. Figure 1.7 will explain the nature and other business activities classification.

**Industry** refers to the production, commerce to distribution and exchange and trade to mediation in the exchange of goods.

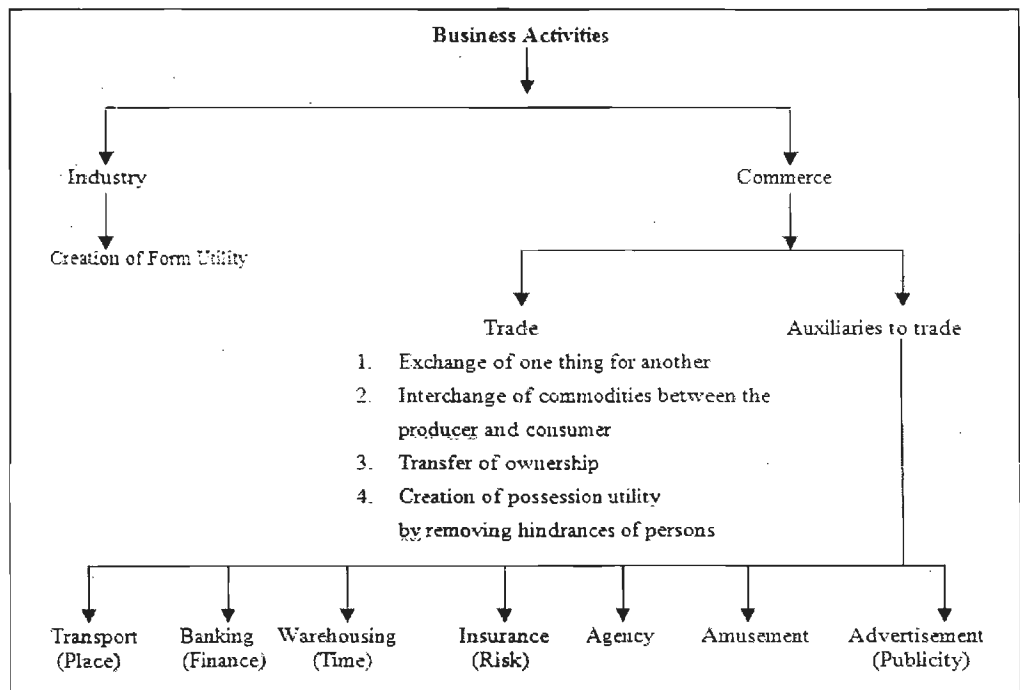
Industry, Commerce and Trade are interrelated to one another.

**Commerce** means the whole system of an economy that constitutes an environment for business. The system includes legal, economic, political, social, cultural and technological systems that are in operation in any country. Thus, commerce is a system or an environment that affects the business prospects of an economy or a nation-state. We can also define it as a second component of business which includes all activities, functions and institutions involved in transferring goods from producers to consumers.

Trade is the final stage of business activity and involves transfer of ownership. It creates possession utility by removing the hindrances of persons.

So, business includes all those activities coming within the scope of Industry, Trade and Commerce. Figure 1.7 will explain the meaning of business activities and the purpose of such business activities.

From Figure 1.7 it can be concluded that all lawful economic activities for the purpose of acquiring wealth in the society can be described as business. Business has the main function of creating utilities for the satisfaction of wants. It makes available goods and services to society by removing hindrances due to persons, place, time, risk, finance and publicity in the channels of distribution.



**Figure 1.7: Business Activities**

### 1.13.1 Difference between Trade, Commerce and Industry

Difference between Trade, Commerce and Industry is given in below Table 1.1.

**Table 1.1: Difference between Trade, Commerce and Industry**

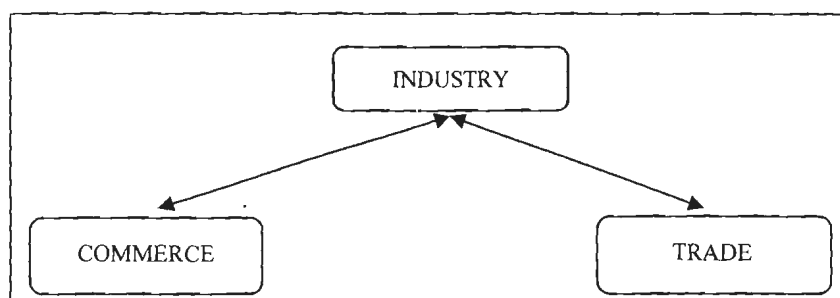
Industry	Commerce	Trade
1. It means production of goods and services.	It means distribution of goods and services supplied by industry.	It means actual exchange or process of purchase and sale of goods.
2. It represents supply side of goods and services.	It represents demand side of goods and services.	It represents exchange of goods and services.
3. It requires huge fixed and working capital in production.	It requires limited fixed capital, but huge working capital.	It requires limited fixed capital. Limited working capital is enough if turnover is quick.

*Contd...*

4. It includes genetic, extractive, manufacturing and construction industries.	It includes trade and auxiliaries to trade.	It includes inland and international trade.
5. It may be carried on at home, workshop, factory or mine.	It involves movement of goods from the place of production to the place of consumption.	It is carried on where buyers and sellers exist.
6. It creates form utility by changing the form or shape of materials.	It creates place utility and time utility through preservation of goods and their movement from one place to another.	It creates possession utility through exchange of goods and services.

### 1.13.2 Interrelationship between Trade, Commerce and Industry

There is a great need of coordination between trade, commerce and industry for the economic development of any nation. Trade, commerce and industry are important segments of the business system. They are interdependent and inter related as shown in Figure 1.8. If any of these is weak, the whole business system will be adversely affected.



**Figure 1.8: Interrelationship between Trade, Commerce and Industry**

Industry is the backbone of trade and commerce. The problem of distribution of goods and services will arise only when the goods are produced by the industry. Thus, if industry is well developed, there will be a greater need of trading and commercial activities like transport, banking, insurance, storage, packaging, etc. At the same time, it should also be noted that industry depends upon trade and commerce to a great extent. Raw materials, capital and services like transport, banking and storage are almost indispensable for the survival and growth of industry. The goods and services produced by industry are distributed among the customers only with the help of trade and commerce.

#### **Check Your Progress**

Fill in the blanks:

- \_\_\_\_\_ activities are done with the objective of earning a profit or atleast a livelihood.
- \_\_\_\_\_ is the sum total of all the activities connected with the placing of the product before the ultimate consumer.
- \_\_\_\_\_ means the conversion of raw materials or semi-finished products into finished product.
- \_\_\_\_\_ is the basic arrangement of people in the organisation.
- \_\_\_\_\_ are the moral principles, which guide the behaviour of businessmen or business activities in relation to the society.
- \_\_\_\_\_ is the backbone of trade and commerce.

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## 1.14 LET US SUM UP

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- Business is as old as civilization itself. It undertakes productive utilization of wealth-producing resources of the society. It also leads to innovation and improvements in production process and thus enriches the life of people by enhancing the functional capacity of the available resources.
- Business as a system is considered to be a related set of business processes that produces the output of the organisation.
- Business organisation can be defined as the process of establishing effective cooperation among different people to achieve certain goals to earn profit.
- Business objectives need to be aimed at contributing to national goals and aspirations as well as towards international well-being.
- Every business organisation is an integral part of the society. It uses the scarce resources of the society to continue and grow.

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## 1.15 LESSON END ACTIVITY

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Find out from a shop-keeper or any other businessman of your locality about what their objectives of running the business are. Classify these objectives on the basis of the different types of objectives that you have learnt about in this unit.

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## 1.16 KEYWORDS

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**Organisation:** Every business must have its own organisation. It refers to the arrangement of separately functioning, but mutually dependent parts.

**Business:** It refers to those human activities that involve production or exchange of goods and services regularly with the objective of earning profit.

**Economic Activity:** Those activities when a person works and gets something in return.

**Non-economic Activities:** A number of activities not for any material reward or gain but for personal satisfaction.

**Ethics:** It involves the study of the general nature of morals and of the specific moral choices to be made by a person.

**Social Responsibility:** It involves the idea that businesses should not function amorally, but instead should contribute to the welfare of their communities.

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## 1.17 QUESTIONS FOR DISCUSSION

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1. Define business. Explain the concept of business as a system.
2. Compare the social and national objectives of business.
3. Explain the importance of national objectives of business.
4. Explain the essential elements of business.
5. Give an idea on the nature of business activities.
6. Distinguish between business activities and non-business activities.
7. Distinguish among Trade, Commerce and Industry.
8. Describe some features of business.

9. What are the ethics of business enterprise?
10. Explain the concept of social responsibility in concern with your business enterprise.
11. Discuss the scope of business organisation.
12. Highlight the components of business organisation.
13. Highlight the functions of Business.
14. Discuss the interrelationship between Trade, Commerce and Industry.

**Check Your Progress: Model Answers**

1. Economic
2. Commerce
3. Manufacturing
4. Structure
5. Business ethics
6. Industry

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**1.18 SUGGESTED READINGS**

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S Prabhakaran, *Business Perspectives*, First Edition, Excel Books, New Delhi.

K Janardhanam, S Ramesh and Vivek Mittal, *Business Perspectives*, First Edition, Excel Books, New Delhi.

T.N. Chhabra, *Business Organisation & Management*, Third Edition, Sun India Publications, New Delhi.

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# LESSON

## 2

### BUSINESS PROMOTION

#### CONTENTS

- 2.0 Aims and Objectives
- 2.1 Introduction
- 2.2 Concept of Entrepreneurship
- 2.3 Meaning of Promotion of Business
  - 2.3.1 Business Promoters
  - 2.3.2 Distinction between Entrepreneur and Promoter
  - 2.3.3 Facilities for Promotion of Industrial Enterprises in India
- 2.4 Functions of Promoters in Business
- 2.5 Stages of Promotion
- 2.6 Let Us Sum Up
- 2.7 Lesson End Activity
- 2.8 Keywords
- 2.9 Questions for Discussion
- 2.10 Suggested Readings

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#### 2.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand the Concept of Entrepreneurship
- Discuss the Meaning of Promotion of Business
- Know about the Functions of Promoters in a Business
- Study the Stages of Promotion

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#### 2.1 INTRODUCTION

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You know in business field a variety of goods and services are dealt with in small shops, large stores, small workshops and large factories. Have you ever enquired how these business activities were started? Who started them and what kind of ideas they had while taking their decision to set up a business? Certainly, some individuals or group of individuals must have thought about those businesses to start with. If your family is running a business, it is possible that your father or grandfather thought about it and then took steps to set it up. If it is a manufacturing business, a factory building must have been constructed, machinery, supply of raw-materials must have been arranged, workers recruited and availability of power, water, etc., also assured. For all these purposes, those who started the business must have arranged capital to meet the necessary expenditure. In other words, every business is the brain child of

someone. That someone is called 'entrepreneur'. In this lesson, you will learn who an entrepreneur is, what are the characteristics and functions of an entrepreneur, the role of an entrepreneur in business promotion, difference between entrepreneur and promoter and various types of promoters. Promotion is the primary stage in any business in which an individual or a group of people conceive an idea is put into practice with the help of his or their own resources, influence and skill.

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## 2.2 CONCEPT OF ENTREPRENEURSHIP

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The meaning of entrepreneurship relates to entrepreneurs who undertake to establish his/her enterprise and have the potential to contribute much to the society.

The concept of entrepreneurship can be broadly explained as under:

- **Role in development:** Entrepreneurship plays an important role in the development process and contributes to the economic growth of the country. In the phase of development, market opportunities widen and entrepreneurs acquire money, purchasing ability, motives, skills, etc. As a result the economic environment tend to become conducive to the growth and expansion of entrepreneurship.
- **Leadership in the market:** Entrepreneurship cares about introduction of something new. He assumes the role of an innovator. The importance of entrepreneurship is to utilize the enterprise's capability to pursue a goal oriented change for something, may be a reward. He requires leadership to direct effective use of the available resources. For example, pocket calculators, power steering, air conditioning, etc.

Development of entrepreneurship is dependent on the entrepreneurial attitude. It is the mind with an independent energetic spirit to assume risk and courage to undertake something new. Researchers have tried to analyse their personalities, skills and attitudes, as well as the conditions that foster their development. Research has shown that certain psychological and sociological factors are the characteristics of entrepreneurs.

Like most individuals, entrepreneurs are complex, and not one theory can explain all of their behaviour. The most important theory of entrepreneurship's psychological roots was put forward in the early 1960's by David McClelland, who found that people, who pursued entrepreneur like careers, were high in the psychological need to achieve. People with high need achievement, have a strong inclination to take risks, but only reasonable ones. These calculated risks, stimulate them to greater effort. Thomas Begley and David Boyd, in the mid 1980's identified five dimensions unique to entrepreneurs.

- Entrepreneurs are high in need-achievement.
- Entrepreneurs like to think, they pull their own strings (they control their own lives, not luck or fate).
- Entrepreneurs are willing to take moderate risks. This enables them to earn higher returns on assets.
- Entrepreneurs have the ability to handle difficult situations.
- Entrepreneurs have the drive to get more done in less time and if necessary, despite the objections of others.

Clearly, the entrepreneur needs self-confidence, drive, optimism and courage to launch and operate a business. In certain instances, entrepreneurs decide to launch a



new venture, because they cannot ignore their vision and their dream. They are willing to risk security for financial gain.

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## **2.3 MEANING OF PROMOTION OF BUSINESS**

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A business enterprise does not come into existence on its own. It is the result of the efforts of an entrepreneur who conceives the idea based on his knowledge of business opportunities and takes necessary steps to launch the business venture. He is also known as promoter. As a promoter, he assembles the required funds and people, and serves both as a mother and mid-wife to the enterprise. Thus, the promoter is the Kingpin of business as he/she undertakes the risk and gives a concrete shape to business propositions. Promotion may be undertaken for the purpose of setting up a new business, for the expansion of an existing business, or for combining two or more business firms.

### **2.3.1 Business Promoters**

A promoter is a generic term associated with the person who starts a business. This person is also referred to as the founder of the business.

Following definitions of a promoter clarify his status and role:

*“A promoter is the one, who undertakes to form a company with reference to a given object and sets it going and takes the necessary steps to accomplish that purpose.”*

*– Justice C.J. Cokburn*

*“A promoter is the person conscious of the possibility of transforming an idea into a business capable of yielding a profit; who brings together various persons concerned and who finally, superintends the various steps necessary to bring the new business into existence.”*

*– Arthur Dewing*

### **2.3.2 Distinction between Entrepreneur and Promoter**

Sometimes a distinction is made between 'entrepreneurs' and 'promoters' of business. Those who are innovators and risk-bearers are strictly known as 'entrepreneurs' while those who take steps to set up the business and make it operational are known as 'promoters'. In actual practice, however, this distinction does not hold good. Entrepreneurship (act of entrepreneurs) does not remain confined only to recognition of business opportunities and preparedness to do something new. It does not end with the entrepreneur undertaking to bear the risks of business. It includes planning for the business and taking necessary steps to put it into operation. After all, a business becomes a business only when it gets going. Thus, in a wider sense we cannot make a difference between the role of an entrepreneur and the role of promoter.

### **2.3.3 Facilities for Promotion of Industrial Enterprises in India**

Many entrepreneurs in our country are unaware of what incentives and facilities are made available by the government – both Central and State for doing business in India. These people get into the business world with their limited personal means of some help from friends and existing businessman. As a result, in setting up an establishment, they are deprived of many advantages in various forms of incentives and facilities for Industrial promotion in India. To avoid such a mistake, the entrepreneur should find out what financial and non-financial aid is given by the State for starting a new business.

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## 2.4 FUNCTIONS OF PROMOTERS IN BUSINESS

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The Promoter performs the following main functions:

- To conceive an idea of forming a company and explore its possibilities.
- To conduct the necessary negotiation for the purchase of business in case it is intended to purchase as existing business. In this context, the help of experts may be taken, if considered necessary.
- To collect the requisite number of persons (i.e., seven in case of a public company and two in case of a private company) who can sign the 'Memorandum of Association' and 'Articles of Association' of the company and also agree to act as the first directors of the company.
- To decide about the following:
  - ❖ The name of the Company,
  - ❖ The location of its registered office,
  - ❖ The amount and form of its share capital,
  - ❖ The brokers or underwriters for capital issue, if necessary,
  - ❖ The bankers,
  - ❖ The auditors,
  - ❖ The legal advisers.
- To get the Memorandum of Association (M/A) and Articles of Association (A/A) drafted and printed.
- To make preliminary contracts with vendors, underwriters, etc.
- To make arrangement for the preparation of prospectus, its filing, advertisement and issue of capital.
- To arrange for the registration of company and obtain the certificate of incorporation.
- To defray preliminary expenses.
- To arrange the minimum subscription.

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## 2.5 STAGES OF PROMOTION

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The important steps taken by promoters in the promotion of a company are as follows:

1. Identification of business opportunity
  2. Generation of business idea
  3. Feasibility study
  4. Preparation of business plan
  5. Launching the enterprise to implement the business plan
1. **Identification of business opportunity:** Before establishing an enterprise, an entrepreneur has to study all the possible factors which may influence the business he has decided to taken up. Factors which may interfere and cause problems to the enterprise in future should be studied carefully before selecting the type of an enterprise. The entrepreneur has to make the right selection of industry and product with the help of relevant information collected. For example, selection of

an enterprise is the major decision for an entrepreneur for all his future decisions are based on this specific decision. If he takes a wrong decision in selecting an enterprise then all other subsequent decisions will be fruitless. Hence, the entrepreneur has to identify, select and explore various/business opportunities properly.

An entrepreneur is better known as an opportunity seeker, and to make his unit economically profitable, he has to select an attractive business opportunity.

2. **Idea generation:** An entrepreneur needs to generate new and innovative ideas that appear to be useful in the future. This involves a lot of creativity on the part of the entrepreneur. The business idea either arises from an opportunity in the market or from real demand for any product or service. An entrepreneur should have a keen and open mind to look for the opportunities and generate business ideas.

While selecting a business idea, the following points should be kept in mind:

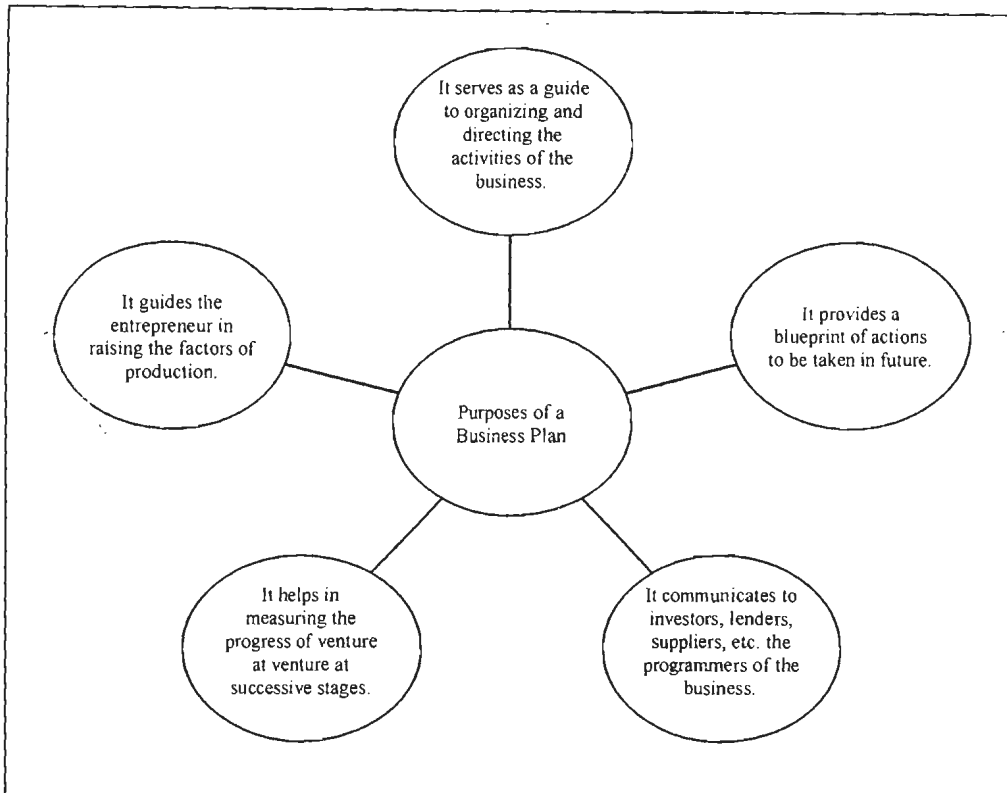
- ❖ The business idea should enable the entrepreneur to utilize his technical and professional skill. If an entrepreneur has knowledge of some special manufacturing techniques, from his previous experience or otherwise, it would be easier for the entrepreneur to manage such techniques effectively.
- ❖ The business idea should enable the use of locally available raw materials for product or service. As compared to imported material/local materials are easy to acquire.

For example, manufacturing products that have a demand, but are not freely available in the market. It is potentially a good idea for the entrepreneur to introduce new product that could be sold in the market.

- ❖ It should enable the entrepreneur to solve a current problem existing in the market – for example, when products are available in the market but they do not meet the demand of the customers fully or in a satisfactory manner. Here, the entrepreneur attempts to solve such type of market problem. Thus, his ability to overcome this problem will give rise to new business ideas.
3. **Feasibility study:** The feasibility study provides a basis for investment decision to start a new project – a project related to the production capacity at a selected location, using a particular technology or technologies in relation to raw materials and inputs for investment. It helps to reduce the production costs. Therefore, sales revenues yielding a defined return on investment may be obtained. The purpose of feasibility study is to examine the growth of a project.

Besides this, a project report should also contain general information, including description of the project, the status of the project in the national priority and the government policies supporting the project, information about the promoters of the project, etc.

4. **Preparation of business plan:** ‘Business plan’ is an important document, prepared by the entrepreneur. It describes various elements involved in starting a new enterprise. It is, in fact an integration of plans in various functional areas like production, human resource, marketing, finance, etc.
5. **Launching the business:** Once the business plan is ready, the entrepreneur proceeds to launch/set up the business. He prepares a statement that describes some specific requirement. For example, he places an order for equipment and machinery, and then appoints the employees. He handles the employees, the construction work, which involves electrical installations, piping, instrumentation, testing, etc. for equipment and machinery.



**Figure 2.1: Purposes of a Business Plan**

After the project has been ruled, operational stage starts. In the short-run, the operational stage concerns itself with smooth and uninterrupted operation of project machinery and equipment, developing suitable norms of productivity, maintaining quality specifications and satisfactory work progress. In the long span, this operational stage concerns itself on the realization of project aims and objectives in concern with the expenses incurred, time measurement and its performance.

### **Check Your Progress**

Fill in the blanks:

1. The most important theory of entrepreneurship's psychological roots was put forward in the early 1960's by \_\_\_\_\_.
2. \_\_\_\_\_ is the Kingpin of business as he/she undertakes the risk and gives a concrete shape to business propositions.
3. Those who are innovators and risk-bearers are strictly known as \_\_\_\_\_.
4. The purpose of \_\_\_\_\_ study is to examine the growth of a project.
5. \_\_\_\_\_ describes the various elements involved in starting a new enterprise.
6. \_\_\_\_\_ stage concerns itself with smooth and uninterrupted operation of project machinery and equipment.

## **2.6 LET US SUM UP**

- Entrepreneurship plays an important role in the development process and contributes to the economic growth of the country. Development of entrepreneurship is dependent on the entrepreneurial attitude.

- Promotion may be undertaken for the purpose of setting up a new business, for the expansion of an existing business, or for combining two or more business firms.
- Sometimes a distinction is made between 'entrepreneurs' and 'promoters' of business. Those who are innovators and risk-bearers are strictly known as 'entrepreneurs' while those who take steps to set up the business and make it operational are known as 'promoters'.
- The essential steps involved in the process are as follows: Identification of business opportunity, Generation of business idea, Feasibility study, Preparation of business plan and Launching the enterprise to implement the business plan.

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## 2.7 LESSON END ACTIVITY

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Critically analyse the most challenging scenario a promoter is facing. Examine the situation and suggest measures how to overcome it.

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## 2.8 KEYWORDS

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**Entrepreneurship:** The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses.

**Leadership:** Leadership is the ability of a company's management to set and achieve challenging goals, take swift and decisive action, outperform the competition, and inspire others to perform well.

**Promoters:** A promoter is an individual or organisation that helps to raise money for some type of investment activity.

**Idea Generation:** The process of creating, developing and communicating ideas which are abstract, concrete or visual.

**Feasibility Study:** Feasibility study is the initial design stage of any project, which brings together the elements of knowledge that indicate if a project is possible or not.

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## 2.9 QUESTIONS FOR DISCUSSION

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1. Discuss the concept of Entrepreneurship.
2. What are the five dimensions identified by the Thomas Begley and David Boyd.
3. Define Promoters.
4. Compare and contrast between Entrepreneur and Promoter.
5. What are the facilities for promotion provided to Industrial Enterprises in India?
6. Explain the various functions of promoters in business.
7. Describe important steps taken by promoters in the promotion of a company.

### Check Your Progress: Model Answers

1. David McClelland
2. Promoter
3. Entrepreneurs
4. Feasibility
5. Business plan
6. Operational

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## 2.10 SUGGESTED READINGS

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S Prabhakaran, *Business Perspectives*, First Edition, Excel Books, New Delhi.

K Janardhanam, S Ramesh and Vivek Mittal, *Business Perspectives*, First Edition, Excel Books, New Delhi.

T.N. Chabbra, *Business Organisation & Management*, Third Edition, Sun India Publications, New Delhi.

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# LESSON

## 3

### FORMS OF BUSINESS ORGANISATIONS

#### CONTENTS

- 3.0 Aims and Objectives
- 3.1 Introduction
- 3.2 Sole Proprietorship
  - 3.2.1 Features of Sole Proprietorship
  - 3.2.2 Appropriateness of Sole Proprietorship
- 3.3 Advantages of Sole Proprietorship
- 3.4 Disadvantages of Sole Proprietorship
- 3.5 Joint Hindu Family Firm
  - 3.5.1 Characteristics
  - 3.5.2 Suitability of Joint Hindu Family Business
- 3.6 Advantages of Joint Hindu Family Business
- 3.7 Disadvantages of Joint Hindu Family Business
- 3.8 Partnership Firm
  - 3.8.1 Partnership Agreement
  - 3.8.2 Characteristics of a Partnership Firm
  - 3.8.3 Appropriateness of Partnership Firm
  - 3.8.4 Types of Partners
- 3.9 Advantages of Partnership Firm
- 3.10 Disadvantages of Partnership Firm
- 3.11 Partnership Deed and Evaluation
  - 3.11.1 Contents of Partnership Deed
  - 3.11.2 Need for Partnership Deed
- 3.12 Joint Stock Company
  - 3.12.1 Characteristics of Joint Stock Company
  - 3.12.2 Appropriateness of Joint Stock Company
- 3.13 Advantages of Joint Stock Company
- 3.14 Disadvantages of Joint Stock Company
- 3.15 Characteristics of an Ideal Form of Organisation
- 3.16 Let Us Sum Up
- 3.17 Lesson End Activity
- 3.18 Keywords
- 3.19 Questions for Discussion
- 3.20 Suggested Readings

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## 3.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand the Features, Advantages, Disadvantages and Appropriateness of Sole Proprietorship
- Discuss the Characteristics, Advantages, Disadvantages and Appropriateness of Joint Hindu Family Firm
- Describe Characteristics, Appropriateness Advantages and Disadvantages of Partnership Firm
- Know the Need for Partnership Deed
- Understand the Features, Advantages, Disadvantages and Appropriateness of Joint Stock Company
- Study the characteristics of an Ideal Form of Organisation

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## 3.1 INTRODUCTION

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Some entrepreneurs start the business single-handedly, under an individual ownership such as the grocery store at the corner of your street. Some of the entrepreneurs may like to start the business along with two or more owners (partners) as the business may require greater initial investment and size of place, etc. You would notice here that the number of owner/s may decide the form of the organisation. Thus an enterprise with single owner may be called a 'sole proprietorship form of organisation', whereas one with two or more partners can be called 'a partnership form of organisation'. There are other forms as well.

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## 3.2 SOLE PROPRIETORSHIP

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A sole proprietorship (or one-man business or sole trader or individual proprietorship or individual entrepreneurship) is a form of business organisation in which an individual introduces his own capital, uses his own skills and intelligence in the management of its affairs and is entitled to receive all the profits and assumes all the risks of ownership.

### 3.2.1 Features of Sole Proprietorship

The essential features of a sole proprietorship are:

- The business is owned solely by an individual.
- The business is controlled by a single person.
- The individual assumes all the risks to which the business is exposed.
- The individual's liability is unlimited, i.e., his personal assets can be used for the payment of business liabilities.
- The business has no separate legal entity as distinction from the sole proprietor.
- No legal formalities are necessary to set up the business as such, but there may be legal restrictions on a particular type of business. For example, no individual can start or run a banking or insurance business. If a man wishes to open a photo studio or a book-shop, he may do so without any legal formalities. But in some cases a license may be necessary, e.g., if he wants to start a restaurant, license from the health department of the municipal corporation will be required.
- The individual derives the total benefit as he bears the entire risk.



- He has almost unlimited freedom of action and decides everything for the business without fear of any opposition, but of course, at his own risk. The proprietor is his own master in this form of organisation.
- The employees' presence makes no difference. He may instead take the help of the members of his family.

The sole proprietorship is most suitable where capital requirement is small, risk involved is relatively not high, nature of business affairs is simple in character and requires quick decision. Personal contact with the customers has great importance, where special regards has to be shown to the taste and fashion of customers. Therefore, the retail shops, professional firms, household and personal services concerns are mostly started by individual proprietors.

### 3.2.2 Appropriateness of Sole Proprietorship

Sole proprietorship business is suitable where the marketplace is limited, localized and where consumers confer significance to delicate concentration. This form of organisation is appropriate where the conduct of business is straightforward and requires fast judgment, where investment required is less and risk is not heavy. It is also considered appropriate for merchandising manufacturers which involve personal expertise e.g. handicrafts, jewellery, tailoring, haircutting, etc.

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## 3.3 ADVANTAGES OF SOLE PROPRIETORSHIP

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The advantages of sole proprietorship are:

- **Easy formation and dissolution:** Easy formation is the biggest advantage of a sole tradership business. Anyone who wants to start such a business can do so in various cases without any legal formalities. Similarly, the business can be wound up any time if the proprietor so decides.
- **Better control:** The proprietor has full power over his business. He organises and co-ordinates the various actions and tricks. Since he has full power, there is always an effective control.
- **Prompt decision making:** The sole dealer takes all the decisions by himself. So the decision making is fast, and this enables the owner to take care of obtainable opportunities without delay and provide quick solutions to troubles.
- **Flexibility in operations:** Solitary possession and direct control makes it achievable for revolution in operations to be brought as and when necessary.
- **Retention of business secrets:** Retention of business secrets is an important advantage of a sole proprietorship business. The owner is in a situation to retain complete secrecy regarding his dealing activities.

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## 3.4 DISADVANTAGES OF SOLE PROPRIETORSHIP

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The disadvantages of sole proprietorship are:

- **Unlimited liability:** In sole proprietorship, in case the owner is unable to pay some debts which the business has taken, the same may be payable from the owner's private property also. The word 'unlimited' means, it is not only the property of the business which will be used to pay any debt payable to others, the responsibility to pay will extend to the private property of the owner. This is an important characteristic. This could be a distinguishing feature when other forms of organisation are concerned.

- **Limited financial resources:** The capability to increase and have access to funds by individual is always inadequate. The insufficiency of investment is the most important handicapped backdrop for the increasing the size of sole proprietorship.
- **Limited capacity of individual:** An individual has limited capacity to organize, manage and take risks. The bigger the size of the enterprise, the greater the quantity of resources required.
- **Uncertainty of duration:** The continuation of sole tradership dealing is associated with the existence of the proprietor. **Sickness, casualty or collapse of the proprietor brings an end to the enterprise.**

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### 3.5 JOINT HINDU FAMILY FIRM

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The Joint Hindu Family (JHF) business is a type of business organisation initiated only in India. In this form of business, all the members of an undivided Hindu Family own the business/trade and conduct the business dealing together. The associations and dealings of trade are headed by the leader of the family, who is recognised as the "KARTA".

A Joint Hindu Family business comes into reality as per the Hindu legacy Laws of India. In a Joint Hindu Family business only the male members get a hold or a share in the enterprise. The membership is restricted up to three consecutive generations. As a consequence, an individual, his sons(s), and his grandson(s) become the members of a Joint Hindu Family by birth. They are also called "Co-parceners". The term co-parceners imply that such an individual has got the right to ask for a detachment and separation of the Joint Hindu Family business and to have his separate share. A daughter has no right to ask for a partition and is, hence, not co-parcener.

#### 3.5.1 Characteristics

The characteristics of Joint Hindu Family firm are:

- **Legal status:** The Joint Hindu Family business is a jointly owned business just like a jointly owned property. It is governed by Hindu Law. It can penetrate into partnership agreement with others.
- **Membership:** There is no association or membership other than the members of the joint family. Within the family also, it is limited only to male members who are co-parceners by birth.
- **Profit sharing:** Each co-parcener has equal allocation in the profits of the business. In the confrontation of death of any of the co-parceners, his wife can claim share of profit.
- **Management:** The management of a joint Hindu family business is in the control of the head of the family member who is known as the karta. He has the right to manage the dealing and his way of managing cannot be questioned by the co-parceners.
- **Liability:** The accountability and legal responsibility of each member of the Joint Hindu Family business is not sufficient to the extent of his share in the business however the liability of the karta is unlimited as, it extends to his private property.
- **Fluctuating share:** The share of all co-parceners keeps on fluctuating. This is for the reason that, every birth of a male child in the family increases the number of co-parceners and every death of a co-parceners decrease the same.
- **Continued existence:** A Joint Hindu Family business continues to survive on the death of any co-parceners. Even on the death of the karta, it continues to exist as

the next senior-most family member becomes karta. However, a Joint Hindu Family business can be dissolved any time either through shared agreement between members or by partition.

### 3.5.2 Suitability of Joint Hindu Family Business

The success of Joint Hindu Family business is generally dependent upon the competence and effectiveness of the *karta* and the reciprocated and shared appreciative involving the co-parceners. On the other hand, this type of business is losing its position with the steady decline in the Joint Hindu family system. The main reasons for decline in Joint Hindu family system are:

- Industrial revolution forced men and women to move out of their family home to earn the living.
- The nuclear family (a family unit consisting of a mother and a father and their children) gave immense freedom from the traditions and ways of life.

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## 3.6 ADVANTAGES OF JOINT HINDU FAMILY BUSINESS

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The advantages of Joint Hindu Family firm are:

- **Assured share in profits:** Each co-parcener is guaranteed a split in the profits irrespective of his involvement in the successively flourishing business. In this way it safeguards the interests of some members of the family like minors, sick, disabled and widows.
- **Freedom in managing:** The karta enjoys full liberty and free will in conducting the family business. It enables him to take immediate decisions without a large amount of intervention.
- **Sharing of knowledge and experience:** A Joint Hindu Family business provides prospect and chance for the young members of the family to get the gain of acquaintance and understanding of the elder members and also helps in inculcating basic value and worth like authority, self-sacrifice, tolerance, etc.
- **Unlimited liability of the karta:** The accountability of the co-parceners is not sufficient, except for that of the karta. It makes the karta supervise the business in the most well-organized and resourceful manner.
- **Continued existence:** A Joint Hindu Family business is not affected by the collapse or casualty of any affiliate together with that of karta. Thus it can carry on for a long period of time.

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## 3.7 DISADVANTAGES OF JOINT HINDU FAMILY BUSINESS

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The disadvantages of Joint Hindu Family Business are:

- **Limited resources:** Joint Hindu Family business usually does not have sufficient monetary and administrative resource. As a result, it cannot carry an out large, unstable and risky business.
- **Lack of motivation:** There is constantly a lack of enthusiasm and inspiration among the members to work hard. Reason being that the benefit of hard work does not go exclusively to any individual person but shared by all the co-parceners.
- **Scope for misuse of power by the karta:** In view of the fact that the karta has complete autonomy to manage the business, there is scope for him to use it

wrongly for his delicate gains. An unskilled karta can also do impairment to the business.

- **Scope for conflict:** In a Joint Hindu Family business the members of three consecutive generations are concerned. It constantly leads to conflict and clash between generations.
- **Instability:** The stability of business is until the end of time under stress. It may be due to an undersized opening within the family and if co-parceners ask for a detachment, the business is closed.

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## 3.8 PARTNERSHIP FIRM

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A partnership firm of an organisation is an association of two or more persons who carry on a business together for the purpose of earning profits. Persons from similar surroundings or persons of different capability and skills may join together to carry on a business. Persons who have entered into partnership with one another are called individually “Partners” and collectively “a firm” or “Partnership firm” and the name under which their business is carried on is called “the firm name” These firms are governed by the Indian Partnership Act, 1932. [Section 4]

Meaning of partnership according to the Partnership Act, 1932, defines ‘Partnership Firm’ as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.”

### 3.8.1 Partnership Agreement

Partnership agreement is a written agreement between all the partners of a firm. It is termed as ‘Partnership Deed’, which lays down certain terms and conditions for starting and running the partnership firm. The partnership agreement may be oral or written. It is always better to insist on a written agreement among partners in order to avoid future controversies.

The partnership agreement contains:

- the amount of capital contributed by each partner
- profit or loss sharing ratio
- salary or commission payable to the partner, if any
- duration of business, if any
- name and address of the partners and the firm
- duties and powers of each partner
- nature and place of business; and
- any other terms and conditions to run the business.

### 3.8.2 Characteristics of a Partnership Firm

The characteristics of a partnership firm are:

- **Number of partners:** Atleast two persons are required to establish a partnership business. The utmost membership limit is 10 in case of a banking business, and 20 in case of all other types of businesses.
- **Contractual relationship:** The relation of partnership is created by contract. The two or more persons who enter into an agreement of partnership must be competent to enter into contract. Such an agreement may be oral, written or implied. If the agreement is in writing it is recognised as a ‘Partnership Deed’.

- **Competence of partners:** In view of the fact that individuals have to enter into an agreement to become partners, they must be knowledgeable enough to do so. Therefore minors, lunatics and insolvent persons are incompetent to enter into a valid contract. However, a minor can be admitted to the benefits of partnership i.e., he can have a share in the profits.
- **Sharing of profit and loss:** The partners can divide the profit in any fraction is agreed in the contract. In the absence of a contract, they may share it equally.
- **Unlimited liability:** The associates have unconstrained liability. They are liable together and individually for the debts and obligations of the firm. Creditors can lay claim on the private properties of any individual partner or all the partners together. The creditors may realize the whole of their dues from one of the partners of the firm. Certainly, he can get back the money due from other partners. The accountability of a minor is, though, limited to the extent of his share in the profits, in case of termination of a firm.
- **Principal-agent relationship:** The dealing in a partnership firm may be carried on by all the partners or any one of them acting for all. This means that every partner is an agent when he is acting on behalf of others.
- **Transfer of interest:** No partner can sell or transfer his significance or interests in the firm to anyone without the approval of other partners.
- **No separate legal existence:** Like sole proprietorship, partnership firms also have no separate legal status. The firm means partners and the partners mean the firm. Law does not recognize the firm as a detached entity different from the partners.
- **Voluntary registration:** Registration of partnership is not necessary. However given that registration entitles the firm to numerous benefits, it is considered desirable. For example, if the partnership firm is registered, any partner can file a case against other partners to settle the disputes, or a firm can file a suit against outsiders, for settlement of claims, disagreements, etc.
- **Dissolution of partnership:** Termination of partnership implies not only an entire closure or execution of partnership business, but it also includes any change in the existing contract among the partners due to an alteration in the number of partners. *For example*, if A, B and C are partners in a firm and C retires from the partnership then the partnership is dissolved.

### 3.8.3 Appropriateness of Partnership Firm

In a partnership firm, persons from different fields of life having different capabilities, supervisory talent and expertise join collectively to carry on a business. These increase the directorial and managerial strength of the organisation, the financial and economic resources, the proficiency and expertise and condense risk. These types of firms are mainly appropriate for moderately small businesses such as retail and comprehensive trade, trained services, medium sized commercial houses and undersized manufacturing units. Commonly it is seen that various organisations are originally started as partnership firms and later, when it is efficiently feasible and economically attractive for the investors, it is transformed into a company.

### 3.8.4 Types of Partners

The partners of a firm are broadly divided into three main categories:

- **General Partners:** Basically all the partners of a firm are general partners. General partners are those whose liability is unlimited in the firm. General partners are of two types (a) Active partner, and (b) Sleeping partner.

- ❖ **Active Partner:** A partner who takes active part in the day to day management of the business is referred as an active partner. An active partner (also called working partner) may work in different capacities such as manager, organizer, adviser, controller of all the affairs of the firm. The active partner is rewarded as per agreement between the partners.
- ❖ **Sleeping Partner:** A sleeping partner is one who contributes capital, shares profits and losses of the firm but takes no part in the day to day management of the affairs of the firm. A person, who has money to invest but cannot spare time for the business, may become sleeping partner. A sleeping partner is liable for the liabilities of the business like other partners.
- **Special Partners:** Special partners are partners whose liability is limited to the extent of their capital contributed in the firm. They are only found in limited partnership. The special partners cannot take part in the management of the business of the firm. In Pakistan limited partnership is not recognized.
- **Other Partners:** The other types of partners sometimes found in a firm are as follows:
  - ❖ **Secret Partner:** A partner who takes active part in the affairs of a business but is not known to the public as a partner is called "Secret partner". He, like other partners, is liable to the creditors of the firm to an unlimited extent. He shares profits according to the agreement signed.
  - ❖ **Nominal Partner:** Nominal partner lends his name for the goodwill and credit worthiness to the firm. He neither contributes capital nor takes active part in the management of business. Such partners are called nominal partners. Nominal partners are liable for the debts of the firm.
  - ❖ **Minor Partner:** Partnership is a contract and a contract with minor is void. Under Section 30 of Partnership Act, a minor is not able to enter into a contract and so he cannot become a partner of a firm. He can, however be admitted to the benefits of a firm with the consent of other members and that too in a business which is already operating. His liability remains limited to the extent of his share in the capital. On attaining majority, he has to choose whether he has to continue as a partner or not.
  - ❖ **Partner at Will:** Type of partner will continue so long the partners have mutual faith, trust and confidence among them.
  - ❖ **Partners in Profit Only:** If a partner is entitled to receive a certain share of profit and is not held liable for the losses, he is known as partner in profit only. He is not allowed to take part in the management of the business.
  - ❖ **Partner by Estoppel:** There is another minor type of partner which is called partner by estoppel. If person styles the character of a partner in a business before a third party (outsiders) by words or in writing or by his act, he is called a partner by estoppel. The third party mistaking him as a partner in the business advances loans on his creditability, that person would be personally responsible for the liability attaching to the position of a partner. The partner by estoppel would, however, not be entitled to any right like other partners in the business. For example, Mr. Hamid is a rich man and is not a partner in a firm named Three Star Carpets. Mr. Hamid makes a false statement to Mr. Rauf, that he is a partner of the firm Three Star Carpets. On this impression Mr. Rauf sells carpets worth ₹ one million to "Three Star Carpets" on credit. The firm is not able to pay the amount of ₹ one million. Mr. Rauf can recover the amount of ₹ one crores from Mr. Hamid, Mr. Hamid here is a partner by Estoppel.

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### 3.9 ADVANTAGES OF PARTNERSHIP FIRM

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The advantages of partnership firm are:

- **Easy formation:** A partnership firm can be formed without any compulsory legal formalities and operating expenses. It is not necessary to get the firm registered.
- **Larger resources:** Since two or more partners join hand to start partnership business it may be possible to pool more resources as compared to sole proprietorship. The partners can contribute more capital, more effort and also more time for the business.
- **Flexibility in operation:** There is an elasticity of operation in partnership business due to an insufficient number of partners. At any time the partners can decide to change the size or nature of business or area of its operation. There is no need to follow any legal procedure. Only the consent of all the partners is required.
- **Better management:** Partners pay more attention in the affairs of business since there is a direct relationship between possession, control and profit. They regularly meet to discuss the affairs of business and can take prompt decision.
- **Sharing of risk:** In partnership, threat of failure is easier to bear by entity partners as it is shared by all the partners equally.
- **Protection of minority interest:** Every partner has an equivalent articulation in decision making. A partner can prevent a decision being taken if it unfavourably affects his welfare and interests.

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### 3.10 DISADVANTAGES OF PARTNERSHIP FIRM

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The disadvantages of partnership firm are:

- **Instability:** Every partnership firm has uncertain life. The casualty, insolvency or mental illness of any partner brings the firm to an end.
- **Unlimited liability:** Since the liability of partners is combined and to an unlimited extent, any one of the partners can be called upon to pay all the amount overdue and debts even from his private properties.
- **Lack of harmony:** In view of the fact that every partner has equal rights, there is greater potential of friction and quarrel among the partners. Differences of opinion may lead to distrust and dissonance which may finally result in disturbances and ultimately ends with closure of the firm.
- **Limited capital:** Since there is a limitation on the maximum number of partners, the resources and investment which can be raised is limited.

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### 3.11 PARTNERSHIP DEED AND EVALUATION

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A partnership deed is a document which contains the terms and conditions of the partnership. A partnership can be created only through an agreement. And such agreement may be oral or in writing. However, to avoid future disputes, it is always better to have the agreement in writing. Such an agreement in writing is called a 'partnership deed'.

The Partnership Act does not provide for any specific format of a partnership deed. It can be written in any form and it should be signed by each partner personally or through their agent. The partnership deed should also be stamped properly, as per the Stamp Act if the firm is registered, the deed must be registered with the registrar of

firms. The deed may be modified or altered from time to time through the consent of all the partners.

### **3.11.1 Contents of Partnership Deed**

Though a partnership deed differs from business to business depending upon its nature, its main contents are listed below:

1. Name and address of the firm.
2. Name and addresses of the partners.
3. Scope and nature of the partnership business.
4. Share of each partner in the capital contribution of the firm.
5. Duration of partnership.
6. Ratio to divide profits and losses among the partners.
7. Lending's to the firms by the partners and rate of interest, thereon along with other terms and conditions.
8. Borrowings by the partners from the firm and relevant terms and conditions along with the rate of interest.
9. Drawing rights and interest thereon.
10. Salary if admissible to the partners.
11. Interest on capital if admissible.
12. Accounts and their audit.
13. Rights of partners to access the accounts, to check them and take their copies.
14. Duties of partners in the conduct of the business of the firm.
15. Rules regarding retirement of partners and valuation of goodwill thereon.
16. Admission of a new partner.
17. Death of a partner and the rights of his legal representative.
18. Relinquishment of a partner from the firm.
19. Agreement for the payment of the share of property and profits to a retiring partner.
20. Partner's insurance and its distribution among them.
21. Arbitration clause.
22. Dissolution of the firm.

### **3.11.2 Need for Partnership Deed**

Partnership deed is required to avoid future disputes between partners. It is prepared only with the object of resolving the mutual differences among the partners. If the firm applies for its registration to the Registrar of Firms, a copy of the partnership deed should also be sent with other information. The partnership so registered is more authentic and also valid in the court. The court accepts the terms and conditions as contained in the deed while setting the matters/disputes between the partners.



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## 3.12 JOINT STOCK COMPANY

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The term 'joint stock' means the stock or capital funds of company held jointly or in common by its owners. A Joint Stock Company or simply a company is a voluntary association of persons generally formed for undertaking some business activity. It is established by law and can be dissolved by law. The company has a separate legal existence so that even if its members die, the company remains in existence. Its members contribute money for some common purpose. The money so contributed constitutes the capital of the company. The capital of the company is divided into small units called shares. Since members invest their money by purchasing the shares of the company, they are known as shareholders and the capital of the company is known as share capital.

For example, Joint Stock companies like Tata Iron & Steel Co. Limited, Hindustan Lever Limited, Reliance Industries Limited, Steel Authority of India Limited, Ponds India Limited, etc.

In India the companies are governed by the Indian Companies Act, 1956. This Act defines a company as an artificial person created by law, having separate entity, with perpetual succession and a common seal.

### 3.12.1 Characteristics of Joint Stock Company

The characteristics of Joint Stock Company are:

- **Artificial person:** A Joint Stock Company is an artificial person in the sense that it is created by law and does not have any physical attributes of a natural person. But, it has a legal status.
- **Separate legal entity:** Being an artificial person, a company has a continuation independence of its members. It can own property, enter into contract and conduct any lawful business in its own name. It can take legal action and can be sued in the court of law. An investor cannot be held accountable for the acts of the company.
- **Common seal:** Each company has a common seal by which it is represented while doing business with outsiders. Any document with the common seal and duly signed by an officer of the company is binding on the company.
- **Perpetual existence:** A company once created continues to survive as long as it fulfills the requirements of law. It is not affected by death, lunacy, insolvency or retirement of any of its members.
- **Limited liability:** The legal responsibility of a member of a Joint Stock Company is limited by guarantee or the shares he owns. In other words, in case of payment of debts and unpaid sum by the company, a shareholder is held liable only to the extent of his share.
- **Transferability of shares:** The associates of a company are free to relocate the shares held by them to anyone else.
- **Formation:** A corporation comes into continuation only when it has been registered after completing the rules and regulations prescribed under the Indian Companies Act, 1956. A company is formed by the initiative of a group of persons known as promoters.
- **Membership:** A company having atleast membership of two persons and maximum fifty is known as a Private Limited Company. But in case of a Public Limited Company, the minimum is seven and the maximum membership is unlimited.

- **Management:** Joint Stock Companies have self-governing management and control. Even though the shareholders are the owners of the company, all of them cannot participate in the management process. The company is managed by the nominated representatives of shareholders known as Directors.
- **Capital:** A Joint Stock Company commonly raises a huge amount of capital through issue of shares.

### 3.12.2 Appropriateness of Joint Stock Company

A joint stock company is appropriate where the level of business is quite large, the area of operation is extensive, the risk involved is intense and there is a need for vast financial resources and manpower. It is also preferred when there is need for professional management and elasticity of operations. In certain businesses like banking and insurance, business can only be undertaken by joint stock companies.

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## 3.13 ADVANTAGES OF JOINT STOCK COMPANY

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The advantages of Joint Stock Company:

- **Limited liability:** In a Joint Stock Company the legal responsibility and accountability of its members is inadequate to the extent of shares held by them. This attracts a huge number of small investors to invest in the company. It helps the company to raise enormous capital. Because of limited liability, a company is also willing to take larger risks.
- **Continuity of existence:** A company is an artificial person created by law and possesses self-regulating legal status. It is not affected by death, insolvency, etc. of its members. Thus it has a perpetual existence.
- **Benefits of large scale operation:** It is the only form of organisation which can endow capital for large scale operations. It results in large scale construction accordingly leading to increase in effectiveness and decrease in the cost of business. It further opens the scope for extension.
- **Professional management:** Since, an organisation has a complex nature of actions and operations, large level of business requires professional managers at every level of the organisation. Due to their financial strength, they can meet the expense to appoint such managers. This leads to effectiveness and good organisations.
- **Social benefit:** A Joint Stock Company offers service to a large number of citizens. It facilitates various supplementary industries, employment and auxiliaries to trade. Occasionally it also donates money for education, health, community service and renders help to charitable and social welfare.
- **Research and development:** A company usually invests a lot of money on research and development for enhanced processes of manufacture, designing and innovating new products, improving quality of product, new ways of training its staff, etc.

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## 3.14 DISADVANTAGES OF JOINT STOCK COMPANY

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The disadvantages of Joint Stock Company:

- **Creation is not easy:** The creation of a company involves agreement with a number of legal rules and regulations under the companies act and compliance with several other laws.

- **Control by a group:** Companies are restricted by a group of persons known as the Board of Directors. This may be due to lack of attention on the part of the shareholders who are extensively detached, unaware, unresponsive and lack appropriate and suitable information. Hence, the independent merits of a company do not really subsist in practice.
- **Speculation and manipulation:** The shares of a corporation are purchased and sold in the stock exchanges. The worth or price of a share is decided in terms of the dividend expected and the status of the company. These can be manipulated. Further, there is an excessive assumption which is regarded as a social evil.
- **Excessive government control:** A corporation is anticipated to comply with the requirements of several Acts. Non-compliance towards these invites heavy consequences. It affects the smooth functioning of the companies.
- **Delay in policy decisions:** A business has to accomplish certain procedural rules and regulations before making a policy decision. These formalities are time consuming and, consequently, policy decisions may be delayed.
- **Social abuses:** A Joint Stock Business is a large scale business organisation that has enormous resources. This provides a lot of power to them. Any mishandling of such power creates detrimental and unwholesome conditions in the society e.g. having domination of a particular trade, manufacturing or merchandise, influencing politicians and government in getting their work done; exploiting workers, consumers and investors.

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### 3.15 CHARACTERISTICS OF AN IDEAL FORM OF ORGANISATION

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In choosing a particular form of organisation an entrepreneur will try to find out how far his requirements will be met by a particular form of organisation. The following factors will be taken into consideration:

- **Ease of formation:** An ideal form of organisation is one which can be brought into existence with the least difficulty, i.e., in the form of least expenses in formation and minimum legal formalities.
- **Ease of financing:** Another important feature of a good form of organisation is the facility of raising the required amount of capital.
- **Limited liability:** From the view point of risk, the entrepreneurs will naturally prefer limited liability. In case of insolvency or winding up owner or owners must be in a position to lose only to the extent of their investment in the business.
- **Direct relationship between ownership and control of management:** As a rule, the control should lie where the ownership lies. It will ensure that the management takes active interest in running the business efficiently and effectively. If the control is not with the owners, the management may not show required interest in maximizing profits through increase in efficiency.
- **Flexibility of operations:** The organisation should lend itself to change and adjustment without much difficulty as and when the need arises. A good form of organisation offers the maximum flexibility and adaptability.
- **Continuity and stability:** An ideal form of organisation enjoys uninterrupted existence over a long period of time. According to L.H. Haney "The organisation should be both effective and, when undisturbed to last through a long period of time and also resist temporary disturbing influences, that is, be stable."

- **Maintenance of business secrets:** The organizer will also have to be careful to ensure that the form of organisation chosen by him will allow the vital business secrets to be retained without being leaked out to the other competitors.
- **Free from state regulation and control:** Various forms of organisation are exposed to varying degrees of control and regulation by the state. If the regulation is too much, the organisation may have to spend more time, money and energy in complying with legal formalities. It is better to see that the form of organisation selected does not attract the eyes of law at every step.
- **Tax liability:** Different bases are used to assess the income tax for different organisations. The ideal form of organisation is that, which attracts the minimum amount of tax liability.

The various characteristics of an ideal form of organisation are taken into consideration. The most important consideration in choosing a form of organisation for business in actual practice is dictated by the peculiar requirements of the enterprise proposed to be started.

### Check Your Progress

Fill in the blanks:

1. An individual, his sons(s), and his grandson(s) become the members of a Joint Hindu Family by birth which is also called \_\_\_\_\_.
2. A \_\_\_\_\_ of an organisation is an association of two or more persons who carry on a business together for the purpose of earning profits.
3. A \_\_\_\_\_ partner is one who contributes capital, shares profits and losses of the firm but takes no part in the day to day management of the affairs of the firm.
4. The term \_\_\_\_\_ means the stock or capital funds of company held jointly or in common by its owners.
5. \_\_\_\_\_ partner lends his name for the goodwill and credit worthiness to the firm.
6. Registration of a partnership firm is \_\_\_\_\_.

### 3.16 LET US SUM UP

- Sole proprietorship business is suitable where the marketplace is limited, localized and where consumers give significance to delicate concentration. It is also considered appropriate for the manufacturer of merchandise which involves instruction manual expertise e.g. handicrafts, jewellery, tailoring, haircutting, etc.
- The Joint Hindu Family (JHF) business is a type of the form of business organisation initiated only in India. The success of Joint Hindu Family business is generally dependent upon the competence and effectiveness of the karta and the reciprocated and shared appreciative involving the co-partners.
- Each member of such a group is individually known as 'partner' and together the members are known as a 'partnership firm'. In a partnership firm, persons from unusual walks of life having capability, supervisory talent and expertise join collectively to carry on a business.
- A Joint Stock Company form of business organisation is a voluntary association of persons to carry on a business through assistance from financial institutions and

government. Normally it seems that a co-operative society is appropriate for small and medium size operations.

- There are a number of factors to be measured while selecting a suitable form of business organisation. These factors are inter-related and inter-dependent as well.

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### 3.17 LESSON END ACTIVITY

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Find out a sole proprietor in your locality. Discuss the success story and benefits of his/her sole proprietorship business.

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### 3.18 KEYWORDS

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**Joint Stock Company:** A company, defined as an artificial person created by law, having separate legal entity.

**A Partnership Firm:** It comes into continuation when two or more persons enter into contractual conformity as per some governing statutes.

**Joint Hindu Family Firm:** The members of a Hindu joint family own the business together. Only the male members of the family up to three succeeding generations become members by virtue of their birth.

**Sole Proprietorship:** It is a form of business organisation in which an individual invest his own capital, uses his own skill and intelligence in the management of its affairs.

**Business Organisation:** It is a unit that involves an arrangement to conduct a business.

**General Partners:** Basically all the partners of a firm are general partners. General partners are those whose liability is unlimited in the firm. General partners are of two types (a) Active partner, and (b) Sleeping partner.

**Partners in Profit Only:** If a partner is entitled to receive certain share of profit and is not held liable for the losses, he is known as partner in profit only.

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### 3.19 QUESTIONS FOR DISCUSSION

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1. What are the key advantages and disadvantages of a sole trading business?
2. What are the disadvantages of Joint Hindu Family firm?
3. What are the characteristics of a partnership firm?
4. Explain about Limited Liability Partnership.
5. What are the disadvantages of Partnership?
6. Explain the advantages of partnership firm.
7. Discuss the concept of Partnership Agreement.
8. Explain the appropriateness or usefulness of Partnership from owner as well as shareholders point of view.
9. What is a sole trading firm? What are its features? Discuss in details.
10. What is meant by Joint Stock Company?
11. What are the contents of Partnership Deed?
12. Discuss the characteristics of an ideal form of organisation.
13. What is Partnership Agreement?

14. Discuss the appropriateness of sole proprietorship.
15. Highlight the essential features of a sole proprietorship.

**Check Your Progress: Model Answers**

1. Co-partners
2. Partnership firm
3. Sleeping
4. Joint stock
5. Nominal
6. Voluntary

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**3.20 SUGGESTED READINGS**

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S Prabhak S Prabhakaran, *Business Perspectives*, First Edition, Excel Books, New Delhi.

K Janardhanam, S Ramesh and Vivek Mittal, *Business Perspectives*, First Edition, Excel Books, New Delhi.

T.N. Chhabra, *Business Organisation & Management*, Third Edition, Sun India Publications, New Delhi.



## **UNIT II**





# LESSON

## 4

### COMPANY ORGANISATION

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4.14	Keywords
4.15	Questions for Discussion
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## 4.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand the Meaning and Concept of Companies
- Discuss the Advantages and Disadvantages of a Public and Private Company
- Describe Basic Company Documents and their Evaluation
- Know the Concept, Objectives, Characteristics, Advantages, Disadvantages Role and Significance Co-operative Organisation
- Understand the Concept, significance and forms of Public Enterprises
- Study the Difference between Private and Public Sector Enterprises

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## 4.1 INTRODUCTION

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There are various types of companies in our country. The formations, legal responsibility, management and possession of all companies differ from each other. There are different types of companies distributed on the basis of their possession and nationality. Accordingly, there are three types of companies – Private Limited, Public Limited and Government companies on the basis of possession. Business activities were left mainly to individual and private organisations, and the government was taking care of only the essential services such as railways, electricity supply, postal services, etc. But, it was observed that private sector did not take interest in areas where the gestation period was long, investment was heavy and the profit margin was low; such as machine building, infrastructure, oil exploration, etc. Not only that, industries were also concentrated in some regions that had certain natural advantages like availability of raw materials, skilled labour, nearness to market. This led to regional imbalances. Hence, the government while regulating the business activities of private enterprises went in for direct participation in business and set up public enterprises in areas like coal industry, oil industry, machine building, steel manufacturing, finance and banking, insurance, etc. These units are not only owned by central, state or local government but are also managed and controlled by them and are termed as Public Sector Enterprises.

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## 4.2 MEANING OF COMPANIES

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Entrepreneurs may form private companies, if they want to operate on a small scale and have close control over their business. Public companies are suitable for ventures requiring huge capital. On the basis of liability of members, companies may be 'limited by shares' or limited by guarantee. Companies limited by guarantee are generally formed for social and charitable purposes.

### Company Definition

A legal entity, allowed by legislation, which permits a group of people, as shareholders, to apply to the government for an independent organisation to be created, which can then focus on pursuing set objectives, and empowered with legal rights which are usually only reserved for individuals, such as to sue and be sued, own property, hire employees or loan and borrow money.

Every company has certain basic elements:

- A name which has been reserved by the Registrar of Companies.
- Atleast one share, one shareholder and one director.
- A registered office where the company records are kept.
- An address for service where legal documents can be served.
- The Registrar will also ask for an address for communication.

**Table 4.1: Types of Companies**

On the basis of Possession and Ownership	On the basis of Nationality
1. Private Limited	1. Indian
2. Public Limited	2. Foreign
3. Government	

In addition to the companies incorporated in India, there are foreign or multinational companies operating in India having their registered offices in the foreign countries. A company may also be owned by another company. The former is known as ‘holding company’ and the later as ‘subsidiary company’. Thus, companies may be classified on the basis of mode of incorporation, public interest, liability, company to company relationship and nationality:

#### 4.2.1 On the Basis of Possession and Ownership (Formation of Private, Public and Government Companies)

##### *Private Limited Company*

These companies can be created by atleast two individuals having smallest paid-up capital, not less than Rupees 1 lakh. As per the Companies Act, 1956 the entire membership of these companies cannot surpass 50. The shares allotted to its members are also not liberally manageable between them. These companies are not permissible to raise funds from the public through open invitation. They are mandatory to use “Private Limited” after their names. For example, companies are Combined Marketing Services Private Limited, Indian Publishers and Distributors Private Limited, etc.

**Exemptions and Privileges of Private Companies:** The following exemptions and privileges are available to a private company:

1. **Minimum Number of Members:** Only two persons (instead of 7 are required for a public company) may form a private company.
2. **Minimum Number of Directors:** It is allowed to work with only two directors while atleast three are required in the case of public company.
3. **Commencement of Business:** It can commence business immediately on incorporation. It does not have to wait to obtain the certificate for commencement of business as is required in the case of a public company.

4. **Directors' Consent:** Directors are not required to file with the Registrar, within 30 days of their first appointment, their consent in writing to act as Directors and their undertaking to take up qualification shares, whereas in case of public company they are required to do so.
5. **Prospectus:** A private company need not prepare and file a prospectus or a statement in lieu of prospectus with the Registrar of Companies.
6. **Minimum Subscription:** It can proceed to allot shares without having raised 'minimum subscription' by the way of application money.
7. **Statutory Meeting:** It is exempted from the requirements of holding statutory meeting and filing statutory report. A public company must hold such a meeting after 1 month and before 6 months from the date of obtaining the certificate to commence business in order to acquaint the shareholders about the details of the company's working till that date.

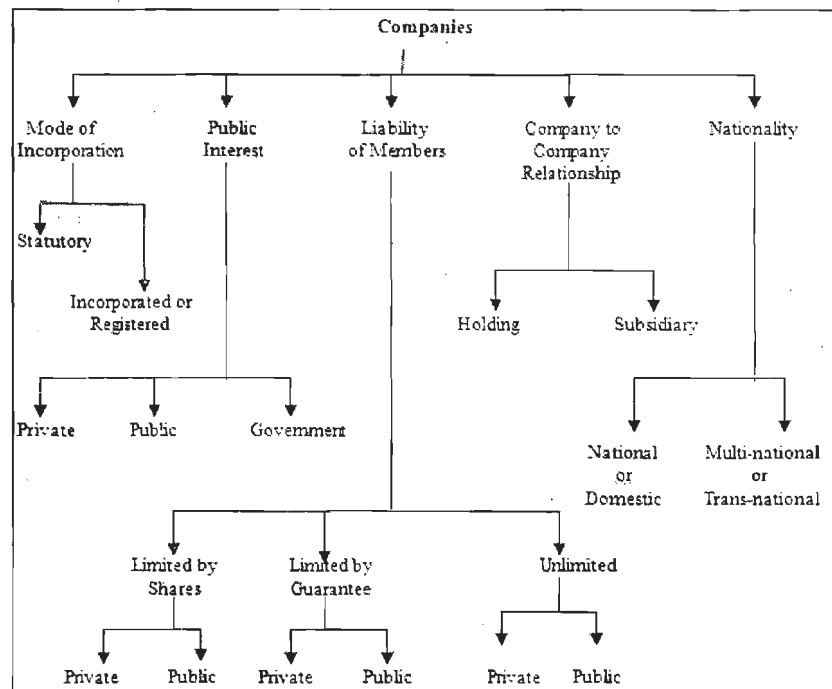


Figure 4.1: Classification of Companies

8. **Right Issue:** A private company is under no legal obligation to offer its issues of shares to the existing shareholders on a pro-rata basis (i.e., in proportion to their present share holdings) in the first instance, as is the case with a public company.
9. **Quorum:** Quorum required for the general meeting of shareholders in case of a private company, the Quorum is when two persons are personally present, unless a higher number is provided in the Articles of Association, whereas in the case of a public company the minimum quorum required is five persons personally present.
10. **Index of Members:** Private companies need not keep an index of members whereas a public company is required to maintain such an index.
11. **Exemptions Regarding Directors:** Private companies are free from restrictions imposed by the Act on the directors of public companies as to:
  - (a) Age limit of directors
  - (b) The number of companies of which a single person can act as managing director

- (c) Limit as to the period of appointment of managing director
- (d) Qualification shares
- (e) Consent of Central Government for the appointment of a whole time director or managing director
- (f) Limit as to the remuneration of directors

### **Public Limited Company**

A minimum of seven members are required to form a public limited company. It must have a paid-up capital of ₹ 5 lakh. There is no constraint on maximum number of members. The shares chosen to the members are freely transferable. These companies can increase capital from general public through open invitations by advertising its shares or accepting fixed deposits. These companies are required to write either 'public limited' or 'limited' after their names, for example, Hyundai Motors India Limited, Steel Authority of India Limited, and Zandu Pharmaceuticals Limited, etc.

*Conversion of Private Company into a Public Company:* Section 44 provides for the conversion of a private company into a public company. The procedure is:

1. The company in general meeting must pass a special resolution altering its articles in such a manner that they no longer include the provisions of section 3(1) (iii) which are required to be included in the articles of a private company. On the date of passing of the resolution, the company ceases to be a private company and becomes a public company.
2. Within thirty days of the passing of the special resolution altering the articles, the company shall file with the registrar (i) a printed or type-written copy of the special resolution; and (ii) either a prospectus or a statement in lieu of prospectus.  
  
If default is made in filing the resolution and the prospectus or the statement in lieu of prospectus, the company and every officer in default shall be liable to a fine upto ₹ 5,000 for every day default.
3. If the number of members is below seven, steps should be taken to increase it into atleast seven whilst the number of directors should be increased to atleast three, if there are only two directors.
4. The word 'Private' has to be deleted before the word 'Limited' is added in the name.

The following are some of the main points of distinction between a private company and a public company.

**Table 4.2: Distinction between a Private Company and a Public Company**

S. No.	Basis of Distinction	Private Company	Public Company
1.	Minimum number of members	A minimum of two members is required for a private company.	A minimum of seven members is required for a public company.
2.	Maximum number of members	The maximum number of members in a private company is 50.	There is no limit on maximum number of members in public company.
3.	Minimum paid up capital	A private company must have a minimum paid up capital of ₹ One lakh.	It must have a minimum paid up capital of ₹ Five lakh.
4.	Identification	A private company must suffix 'Private Limited' to its name.	A public company must suffix words 'Limited' to its name.

*Contd...*

5.	Transfer of shares	The shareholders of a private limited company cannot transfer their shares.	The shareholders of a public company can freely sell their shares to others.
6.	Invitation to the public to purchase shares and debentures	A private limited company cannot give open invitation to the public to subscribe to its shares and debentures.	A public company can invite the public to purchase its shares and debentures through the issue of prospectus.
7.	Commencement of business	A private limited company can start its business immediately upon its incorporation.	A public limited company cannot start its business immediately after its incorporation. It has to obtain a certificate for starting or commencing its business.

**Consequences of Alteration of Articles under Section 44:** Thus when a private company becomes a public company under section 44, then it must now, like all other public companies, either issue a prospectus or file a statement in lieu of prospectus within 30 days after the date of the alteration of articles. If the new public company does not approach the public for additional funds, and it submits a statement in lieu of prospectus with the registrar, then he will make necessary changes in the certificate of incorporation once he is satisfied with the documents submitted with him.

**Conversion of Public Company into a Private Company:** There is no direct or express provision in the Act for conversion of a public company into a private company except a reference in the proviso to section 31 (1). A public company having a share capital and membership within the limits imposed upon private companies by section 3 (1) (iii), may become a private company by following the procedure as given below:

1. The company in general meeting has to pass a special resolution for altering the articles so as to include therein the necessary restrictions, limitations and prohibitions and to delete any provision inconsistent with the restrictions. For instance, a private company has to put certain restrictions on the right of members to transfer their shares.
2. The word 'Private' should be added before 'Limited'.
3. The approval of the Central Government to the alteration in the articles for converting a public company into a private company should be obtained.
4. Within one month from the date of the receipt of the order of approval, a printed copy of the altered articles must be filed with the registrar.
5. Within thirty days of the passing from special resolution, a printed or type-written copy thereof should be filed with the registrar.

**Example:** Fortune Traders Ltd. was registered as a public company. There are 64 members in the company as stated below:

i. Directors and their relatives	34
ii. Employees	10
iii. Ex-employees (shares were allotted when they were employees)	5
iv. Five couples holding shares jointly in the names of husband and wife (5 x 2)	10
v. Others	5
Total number of members	64

The BOD of the company decides to convert it into a private company by following the procedure given in the Act, including reducing the membership to 50. There is no need to reduce the number of members. In fact, the total number of members are 44

only, after excluding the following from the number 64; (i) employees being 10 in number (ii) ex-employee members - being 5 in number, (iii) five couples holding share jointly, being treated singly, and therefore, 5 shares are being held by them, not 10 as shown in the statement.

### ***Government Company***

In these companies the Government holds a preponderance share capital i.e., not less than 51%. Though, companies having less than 51% shares holding by the government can also be called Government companies provided control and supervision lies with the government. For example, government companies are: Mahanagar Telephone Nigam Limited (MTNL).

Government companies are as much governed by the provisions of the Companies Act as, any other company; but by virtue of section 620, the Central Government may direct that any of the provisions of the Act will not apply to them or shall apply only with such exceptions, modifications and adaptations as may be notified by the Government. However, the Central Government cannot exempt the Government Companies from the provisions of Sections 6110 and 6110A, which specifically deal with such companies.

Section 6110 provides that the auditor of a Government Company shall be appointed or re-appointed by the Central Government on the advice of the Comptroller and Auditor General of India. The ceilings on the number of audits to be undertaken by an auditor under section 224 are equally applicable to audit of Government companies. The Comptroller and Auditor General of India have the power, to direct the manner in which the accounts are to be audited and give instructions to the auditor in regard to any matter relating to the performance of his functions. He is also empowered to get a supplementary test audit of accounts conducted by persons authorised by him. The auditor of the Government company has to submit a copy of his audit report to the C.&A.G.I., who has the right to comment upon, or supplement the audit report in such manner as he thinks fit. Such comments or supplementary audit reports must be placed before the annual general meeting of the company at the same time and in the same manner as the auditor's report.

Section 6110A provides that the Central Government must place both Houses of Parliament before an annual report on the working and affairs of each Government Company, which has to be prepared within three months of its annual general meetings, together with a copy of the audit report and any comments upon or supplement to, such audit report, made by the C.& A.G.I. Where a State Government is a participant in a Government company, this report has to be placed before the State Legislature.

Section 6110B provides that the provisions of section 6110 as stated above also apply to a company in which the Central Government or any State Government or any Government Corporation hold either singly or jointly not less than 51% of the paid-up share capital.

### **4.2.2 On the Basis of Nationality**

***Indian company:*** A company having dealing operation in India and which is registered under the Indian Companies Act, 1956 is called Indian Company. An Indian company may be shaped as a public limited, private limited or a government company.

***Foreign company:*** A foreign company is a company created and registered outside India having presence of its business operations in India. However, where not less than 50% of the paid up share capital (whether equity or preference or partly equity



and partly preference), of a company incorporated outside India and having an established place of business in India, is held by one or more citizens of India, or by one or more Indian bodies corporate, such company shall comply with such provisions of the Act as may be prescribed with regard to the business carried on by it in India.

Section 5102 says that each foreign company, which establishes a place of business in India, must file with the registrar at New Delhi within 30 days of the establishment of such place of business and also with the registrar of the State in which such place of business is situated: (a) a certified copy of the memorandum and articles of the company and, if they are not in English, then a certified translation thereof; (b) the full address of the registered office of the company; (c) a list of the directors of the company and its secretary, with full particulars of their nationality, address and business or occupation; (d) the names and addresses of one or more persons resident in India who are authorized to accept service of process or notice or other documents to be served on the company; and (e) the address of the principal place of business in India.

Section 5103 provides that, in case of any alteration in any of the above particulars, the company has to file with the registrar a return of such alteration within the prescribed time.

Section 5104 makes the application of the provisions regarding books of account to be kept by a company under section 2010 for a foreign company, so far as it concerns its business in India. The book of account must be kept at the principal office in India and three copies of the balance sheet, profit and loss account and other documents must be delivered to the registrar with a list in triplicate of all places of business in India.

Section 5105 requires a foreign company to exhibit, conspicuously on the outside of every office or a place of business in India, the name of the company and 'limited' or 'private limited,' if it is a limited company and the country in which it is incorporated, in English as well as, in the local languages in general use in the locality in which the office is situated. Also the prospectus issued in India must contain this information.

Section 5106 provides the procedure for service of any process, notice or other documents on a foreign company and it shall be deemed to have been served, if addressed to any person whose name has been delivered to the registrar under section 5102.

### 4.2.3 On the Basis of Liability

On the basis of liability the companies can be classified as:

1. **Company Limited by Shares:** The liability of the member of such company is limited to the face value of its shares. Face Value of a share is the value which is decided by the company issuing it, at the time of initial offering.
2. **Company Limited by the Guarantee:** The liability of each member of such company is limited to the extent of guarantee undertaken by the member. It may arise at the closing of the company.
3. **Unlimited Company:** The company not having any limit on the liability of its members, is called an unlimited company. Liability in such a case extends to the personal property of its shareholders. Such companies do not use the word 'limited' at the end of their name.

### 4.2.4 On the Basis of Control: Holding and Subsidiary Companies

If a company controls another company, the controlling company is termed as 'Holding Company' and the company so controlled is called a 'Subsidiary Company'.

For example: Reliance Dairy Foods Ltd. is a subsidiary company of Reliance Retail Ltd.

A company may become a subsidiary company of another in the following circumstances:

1. When more than 50% of the nominal value of its equity share capital is under the control of another company.
2. When another company has control over the appointment of its Board of Directors.
3. When it is subsidiary of a company which itself is a subsidiary of another company.

For example, Company 'B' is a subsidiary of company 'A' and company 'C' is a subsidiary of Company 'B'. Then company C also becomes the subsidiary of Company A.

#### 4.2.5 On the Basis of Registration

On the basis of incorporation or registration, the companies can be classified as:

1. **Chartered Company:** A company created under a special charter granted by the king or queen, for example, East India Company.
2. **Statutory Company:** A company created by a special Act of Parliament or state legislature is termed as statutory company. For example, Life Insurance Corporation of India (LIC), Securities and Exchange Board of India (SEBI), etc.
3. **Registered Companies:** These are the companies which are formed and registered under the Companies Act, 1956. For Example: Associated Cement Company (ACC), Tata Iron and Steel Company (TISCO), etc.

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### 4.3 ADVANTAGES AND DISADVANTAGES OF A PUBLIC COMPANY

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The advantages and disadvantages of a public company are given below:

#### 4.3.1 Advantages of a Public Company

- The liability of shareholders is limited.
- The large capital can be raised through issuing of debentures and shares due to their extension in number of shareholders.
- One of the advantages of public limited company is that it is a separate legal entity, the business will always continue even if any of the member die.
- Shareholders have free will to transfer and sell their share leads more freely.

#### 4.3.2 Disadvantages of a Public Company

- One of the disadvantages of a public company is that during its formation a lot of legal requirements are needed which is too much time consuming and costly.
- Loss of control may happen in the business.
- Decisions usually take too much time leading to disagreement between the members.
- In formation of a company, many significant expenses are also incurred.

- As there are a great number of member involved in public company, therefore the profits are shared among these members is very minimum.
- Accounts which are required to be published should have been prepared up to date.

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## **4.4 ADVANTAGES AND DISADVANTAGES OF A PRIVATE COMPANY**

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The advantages and disadvantages of a private company are given below:

### **4.4.1 Advantages of a Private Company**

The major advantages of a private limited company are given as under:-

- One of the advantages of a private limited company is that members are well known to each other; however control is in the hands of owners of capital.
- In the management of affairs and conduct of business, there is a greater flexibility.
- Statuary meeting is not required as well as submitting of a statuary report.
- The number of directors in a private limited company is to atleast two.
- One of the advantages of a private limited company is its limited liability, due to which every member enjoy this facility. It has the advantage of a public company and a partnership firm.
- A private company after receiving the certificate of incorporation can start business immediately.

### **4.4.2 Disadvantages of a Private Company**

The disadvantages of these companies under section 2 (25) of the Company Ordinance 1984 are as under:

- One of the disadvantages of a private limited company is that it restricts transferability of shares by its articles.
- In a private limited company the number of members in any case cannot exceed 50.
- Another disadvantage of a private limited company is that it cannot issue prospectus to general public.
- In stock exchange shares cannot be quoted.

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## **4.5 OTHER COMPANIES**

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Some of the companies are given below:

### **4.5.1 One-man Company**

A member may hold virtually the entire share capital of a company. Such a company is known as a 'One-man Company'. This can happen both in a private company and a public company. The other member/members of the company may be holding just one share each. Such other members may be just dummies for the purpose of fulfilling the requirements of law as regards with minimum membership [Salomon vs. Salomon & Co. Ltd. supra].

### **4.5.2 Non-trading Company or Association not for Profit**

The name of a limited company must end with the word 'limited' in the case of a public company and, with 'private limited' in the case of a private limited company

(S-13). But, S-25 permits the registration, under a license granted by the Central Government, of associations not for profit with limited liability without using the word 'limited' or 'private limited' to their names subjecting to certain conditions. Such a company must have the objects of promoting commerce, arts, science, religion, charity or any other useful object and must apply its profits, if any or other income in promoting its object and must prohibit payment of any dividend to its members. As soon as it obtains a license and is registered accordingly, it will have the same privileges and obligations that a limited company has under the Act. This license is revocable by the Central Government and on revocation; the registrar will put 'Limited' or 'Private Ltd.' against the company's name in the register maintained by him. But before taking such a step, the Central Government has to give a written notice of its intention to revoke the license and also, an opportunity to be heard in the matter.

It is worth noting that even a partnership firm can be a member of such a company, in its own name. But on dissolution of the partnership, its membership of the company will come to an end [S-25 (4)].

Further, a company registered under S-25 is not required to fulfill the requirement of 'minimum paid-up capital', i.e., Rupees 1 lakh and Rupees 5 lakh in the case of private and public companies respectively.

#### 4.5.3 Investment Company

Section 372(10) defines an investment company, "as a company whose principal business is the acquisition of shares, stock, debentures or other securities".

#### 4.5.4 Producer Company

The Companies (Amendment) Act 2002, through insertion of 46 new sections (Part IX A), incorporated cooperative societies as producer companies. Thus the cooperative societies can be made companies under the Companies Act, 1956.

A company formed and registered under these provisions shall be known as Producer Company, which is to be a private limited company. The producer company shall operate on the cooperative principles of mutual assistance and patronage. Every producer company shall have to deal primarily with the products of its members for carrying out any of its objects as specified.

Section 581A provides that unless the context otherwise requires:

"Producer Company" means a body corporate having objects or activities specified in section 581 B and registered as a producer company under this Act.

"Producer" means any person engaged in any activity connected with or related to any primary produce.

"Primary Produce" means: (i) produce of farmers, arising from agriculture (including animal husbandry, horticulture, floriculture, pisciculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products), or from any other primary activity or service which promotes the interest of the farmers or consumers; or (ii) produce of persons engaged in handloom, handicraft and other cottage industries; (iii) any product resulting from any of the above activities, including by-products of such products; (iv) any product resulting from an ancillary activity that would assist or promote any of the aforesaid activities or anything ancillary thereto; (v) any activity which is intended to increase the production of anything referred to in sub-clauses (i) to (iv) or improve the quality thereof.

“Producer Institution” means a producer company or any other institution having only producer(s)/producer company(ies) as its members whether incorporated or not having any of the objects referred to in Section 581B and which agrees to make use of the services of the producer company(ies) as provided in its articles.

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## 4.6 BASIC COMPANY DOCUMENTS AND THEIR EVALUATION

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When you register a company there is a number of vital documents that a company will receive following the incorporation process. The primary documents are the incorporation certificate, the company register, and the memorandum & articles of association. Each of the documents has its own relative importance and uses throughout the company’s life.

The company’s memorandum quite simply records the details of all the members of a company. By signing the memorandum, the members are agreeing to set up the company and obtain the number of shares that are outlined. Before 1<sup>st</sup> October 2010, the memorandum had a more prominent role in the running of the company, for example through delegating rights to members. However, this information is now restricted to the company’s articles of association.

The articles of association are now the primary document for guiding the behaviour and governance of the company. The form of the articles can be changed in order to suitably fit the requirements of the company; however there is also the option of a standard set. This is known as the Model Articles, and simply sets out established regulations to guide the administration of companies.

This basic document differs slightly depending on the type of limited company that has been formed. The Model Articles replaced the previous standard, known as “Table A”, following Companies’ Act 2006. Any company that has been formed with the unaltered version of the articles of association since 1<sup>st</sup> October 2010 will have done so using the Model Articles.

A company may choose to alter its articles of association, and can do so in-line with certain conditions. Any changes to the articles are done so by a special resolution, and filed with Companies House within fifteen days of the decision regarding the alteration. Failure to follow the correct guidelines when altering the articles of association is a criminal offence, leading to a fine for the directors of the company. One such requirement is to ensure that all issued copies of the articles are correct; whether this means producing new copies, or simply attaching amendments as fit.

The significance that the memorandum and articles of association have upon setting up of a company is in detailing the history of the company, as well as guiding future actions. Many people find that a bound copy of the memorandum and articles of association will prove helpful if they are looking to bring in a shareholder at a later date. These documents help to evidence current shareholdings, and therefore can prove important in a transfer. However absolute proof of ownership will require a share certificate.

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## 4.7 CO-OPERATIVE ORGANISATION

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The term cooperation is derived from the Latin word ‘co-operari’, where the word ‘Co’ means ‘with’ and ‘operari’ mean ‘to work’. Thus, the term cooperation means working together. So those who want to work together with some common economic objectives can form a society, which is termed as cooperative society.

The International Labour Organisation has defined cooperative organisation as follows:

*“A cooperative organisation is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled organisation, making equitable distributions to the capital required, and accepting a fair share of risk and benefits of the undertaking.”*

The Section 4 of the Indian Cooperative Societies Act, 1912, defines Cooperative Society as “a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles.”

Co-operative organisation is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help and mutual help.

The main objectives of co-operative society are providing service rather than earning revenue, mutual help instead of antagonism and self-help in place of dependence.

Any ten personnel can shape a co-operative society. It functions under the Co-operative Societies Act, 1912 and other State Co-operative Societies Acts. A co-operative society is completely different from all other forms of organisation in terms of its intention. The co-operatives are created first and foremost to provide services to its members. Normally it also provides some service to the society.

The Section 4 of the Indian Cooperative Societies Act 1912 defines Cooperative Society as “a society, which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles.”

#### 4.7.1 Objectives of Co-operative Society

The main objectives of co-operative society are:

- Providing service rather than earning revenue,
- The membership is open to all those who have a common economic interest. Any person can become a member irrespective of his/her caste, creed, religion, colour, sex, etc.
- Self-help in place of dependence.

#### 4.7.2 Types of Co-operatives Formed

Types of co-operative organisation formed are:

- **Consumer co-operatives:** These are shaped to protect the interests of normal consumers of society by making consumer goods obtainable at reasonable prices. Kendriya Bhandar in Delhi, Alaka in Bhubaneswar are some of the examples of consumer co-operatives.
- **Producers co-operatives:** These societies are set up to profit small producers who have problems in collecting inputs and advertising their goods. For example, the handloom owners are small producers, of such co-operatives.
- **Marketing co-operatives:** These Marketing co-operatives are created by producers and manufactures to reduce utilization by the middlemen while marketing their product. Kashmir Arts, J&K Handicrafts, etc. are such examples for marketing co-operatives.

- **Housing co-operatives:** To provide residential houses to the members, housing cooperative societies are formed generally in urban areas. They are called as co-operative group housing societies.
- **Credit co-operatives:** These societies are shaped to make finance available for its members. For example, the credit co-operatives are the rural credit societies, the credit and thrift societies, the urban co-operative banks, etc.

These are created by small farmers to work together and thereby divide the benefits of large scale farming.

#### 4.7.3 Characteristics of Co-operative Organisations

The characteristics of co-operative organisations are:

- **Voluntary association:** Persons having common interest can come together to form a co-operative society. Anyone can become a member of such corporation.
- **Membership:** The smallest number for membership required to shape a co-operative society is ten and the maximum number is unlimited.
- **Body corporate:** Registration of a society under the Co-operative Societies Act 1912 is a necessity. Once it is registered, it becomes a body corporate and enjoys certain constitutional rights just like a joint stock company. Some of the constitutional rights are:
  - ❖ The society enjoys everlasting succession.
  - ❖ It has its own common seal.
  - ❖ It can own belongings in its name.
  - ❖ It can enter into agreement with others.
  - ❖ It can sue others in court of law.
- **Service motive:** The main purpose of any co-operative organisation is to provide services to its members in exacting and to the society in general.
- **Democratic set up:** Each member has the right to participate in management of the society. Each member has a single vote. Normally the members select a committee known as the Executive Committee.
- **Sources of finances:** A co-operative organisation starts with a grant contributed by its members in the form of units called shares. It can also raise funds and secure grants from the government easily.
- **Return on capital:** The return on capital subscribed by the members is in the form of an unchanging rate of dividend after presumption from the profit.

#### 4.7.4 Advantages of Co-operative Society

The advantages of co-operative organisations are:

- **Easy formation:** Creation of a co-operative society is easy as compared to a company. Any 10 personnel can willingly shape an association and get themselves registered with the Registrar of co-operative societies.
- **Limited liability:** The legal responsibility of the members is limited to the extent of funds contributed by them.
- **Open membership:** There is no constraint on any individual to be a member of any co-operative.

- **State assistance:** Co-operatives get an assortment of benefaction in the form of exemptions and concessions in taxes and financial assistance from the state governments which no other organisation gets.
- **Middleman's profit eliminated:** From side to side the co-operative and the consumers control their own supplies and by this means the middleman's profit decreases.
- **Management:** A co-operative functions in a self-governing manner. Each member has an individual vote.
- **Winding up:** The closure of a co-operative firm is quite tricky. It does not cease to survive in case of casualty, or collapse or resignation of a member. It has thus a fairly stable life.

#### 4.7.5 Disadvantages of Co-operatives

The disadvantages of a co-operative organisation are:

- **Limited capital:** The amount of investment that a co-operative can generate is inadequate because of the membership remaining restricted to a locality or region or a particular section of people.
- **Problems in management:** Normally it is seen that co-operatives do not function professionally due to lack of supervisory talent.
- **Lack of motivation:** Co-operatives are shaped to render service to its members rather than to earn profit.
- **Lack of co-operation:** Co-operatives are created with the incredible idea of co-operation. But, it is frequently seen that there is a lot of friction and power struggle among the members due to individuality differences, ego clash, etc.
- **Lack of secrecy:** Continuation of business secrecy is one of the important factors for the success of venture which the co-operatives always lack.
- **Dependence on government:** The insufficiency of a capital and various other boundaries make co-operatives dependent relatively on the government for support and benefaction in terms of grants loans and subject themselves to interference.

#### 4.7.6 Role and Significance of Co-operative Society

Cooperatives are established with a view to improve the social economic condition of a poor section of society. In developing countries majority of the people are deprived economically and socially. In such a situation cooperatives are very important to uplift their condition.

##### **Economic Role**

Cooperatives are important for improvement of economic condition of the members.

**Provide Financial Assistance:** A credit cooperative society provides credit to the members at reasonable interest rate. Banks are limited in urban areas and banks available in the rural areas don't want to grant small amount to the poor community. Cooperatives protect the members from the exploitation by local money lenders and others.

- **Fulfills various needs of members:** A multi purposed cooperative society fulfills the various needs of the members by providing loans, supplying improved seeds, fertilizers, agricultural tools and other necessary goods and services. The members of the society can avail these services under the suitable terms and condition.



- ***Increase saving habit:*** Cooperative societies develop the habit of saving among members. They encourage saving among members. They provide the interest on their saving and educate them to reduce unproductive expenditure.
- ***Employment opportunities:*** Cooperatives provide the credit to conduct various productive activities. The members of the societies can start different productive activities in accordance with their skill and ability. It facilitates to solve the problems of unemployment to some extent.

In addition cooperatives help to improve the living standard of the members by providing employment opportunities and distributing quality goods at reasonable price. It promotes the concept of self-employment.

### ***Social Role***

Like economic importance, cooperatives have social importance as well. They are based on the principle of mutual help. Thus, the feeling of mutual cooperation is enhanced. They educate the members and create the social awareness.

### ***Political Role***

In addition to the economic and social importance, cooperative have some political importance. They are based on the principle of equality and equal distribution of income. Cooperatives are based on democratic norms and values. They promote individual freedom.

In this way cooperatives have economic, social and political importance. Because of this reason, cooperatives have been proved as a suitable form of business organisation to uplift the social economic status of the poor people in developing countries.

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## **4.8 CONCEPT OF PUBLIC ENTERPRISES**

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The business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings.

A public sector enterprise may be defined as any commercial or industrial undertaking owned and managed by the government with a view to maximise social welfare and uphold the public interest.

Public enterprises consist of nationalised private sector enterprises such as banks, Life Insurance Corporation of India and the new enterprises set up by the government such as Hindustan Machine Tools (HMT), Gas Authority of India (GAIL), State Trading Corporation (STC), etc.

### **4.8.1 Characteristics of Public Enterprises**

Observing at the nature of the public enterprises, their basic characteristics can be summarised as follows:

- ***Government Ownership and Management:*** The public enterprises are owned and managed by the central or state government, or by the local authority. The government may either wholly own the public enterprises or the ownership may partly be with the government and partly with the private industrialists and the public. In any case the control, management and ownership primarily remains with the government. For example, National Thermal Power Corporation (NTPC) is an industrial organisation established by the Central Government and part of its share capital is provided by the public. So is the case with Oil and Natural Gas Corporation Ltd. (ONGC).

- **Financed from Government Funds:** The public enterprises get their capital from Government Funds and the government has to make provision for their capital in its budget.
- **Public Welfare:** Public enterprises are not guided by profit motive. Their major focus is on providing the service or commodity at reasonable prices. Consider the case of Indian Oil Corporation or Gas Authority of India Limited (GAIL) - they provide petroleum and gas at subsidised prices to the public.
- **Public Utility Services:** Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication, etc.
- **Public Accountability:** Public enterprises are governed by public policies formulated by the government and are accountable to the legislature.
- **Excessive Formalities:** The government rules and regulations force the public enterprises to observe excessive formalities in their operations. This makes the task of management very sensitive and cumbersome.

## 4.9 DIFFERENCE BETWEEN PRIVATE AND PUBLIC SECTOR ENTERPRISES

By private sector, we mean, economic and social activities undertaken privately by a single individual or group of individuals. They prefer to do business in private sector basically to earn profit.

On the other hand public sector refers to economic and social activities undertaken by public authorities. The enterprises in public sector are set up with the main aim of protecting public interest. Profit earning comes next. Besides the difference in the objective, the enterprises in both these sectors also differ in many other aspects. In this section let us know about the differences between the enterprises of public sector and private sector.

**Table 4.3: Differences between Public Sector and Private Sector Enterprises**

Basis of difference	Private sector enterprises	Public sector enterprises
<b>Objective</b>	Maximisation of profit.	Maximise social welfare and ensure balanced economic development.
<b>Ownership</b>	Owned by individuals.	Owned by Government.
<b>Management</b>	Managed by owner and professional managers.	Managed by Government.
<b>Capital</b>	Raised by owners through loans, private sources and public issues.	Raised from Government funds and sometimes through public issues.
<b>Area of operation</b>	Operates in all areas with adequate return on investment.	Operates in basic and public utility sectors.

## 4.10 FORMS OF ORGANISATION OF PUBLIC ENTERPRISES

There are three different forms of organisation used for the public sector enterprises in India. These are (1) Departmental Undertaking; (2) Statutory (or Public) Corporation, and (3) Government Company.

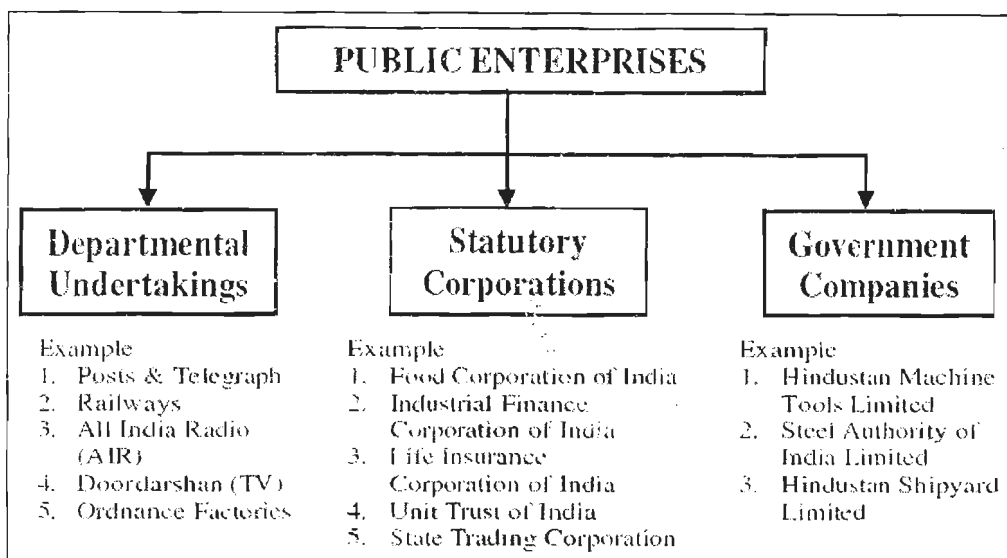


Figure 4.2: Three Forms of Public Enterprises

#### 4.10.1 Departmental Undertaking

Departmental Undertaking form of organisation is primarily used for provision of essential services such as railways, postal services, broadcasting, etc. Such organisations function under the overall control of a ministry of the Government and are financed and controlled in the same way as any other government department. This form is considered suitable for activities where the government desires to have control over them in view of the public interest.

Departmental undertakings are the oldest among the public enterprises. A departmental undertaking is organised, managed and financed by the Government. It is controlled by a specific department of the government. Each such department is headed by a minister. All policy matters and other important decisions are taken by the controlling ministry. The Parliament lays down the general policy for such undertakings.

##### *Features of Departmental Undertakings*

The main features of departmental undertakings are as follows:

- It is established by the government and its overall control rests with the minister.
- It is a part of the government and is managed like any other government department.
- It is financed through government funds.
- It is subject to budgetary, accounting and audit control.
- Its policy is laid down by the government and it is accountable to the legislature.

##### *Merits of Departmental Undertakings*

The following are the merits of departmental undertakings:-

- **Fulfillment of Social Objectives:** The government has total control over these undertakings. As such it can fulfill its social and economic objectives. For example, opening of post offices in far off places, broadcasting and telecasting programmes, which may lead to the social, economic and intellectual development of the people, are the social objectives that the departmental undertakings try to fulfill.

- **Responsible to Legislature:** Questions may be asked about the working of departmental undertaking in the parliament and the concerned minister has to satisfy the public with his replies. As such they cannot take any step, which may harm the interest of any particular group of public. These undertakings are responsible to the public through the parliament.
- **Control over Economic Activities:** It helps the government to exercise control over the specialised economic activities and can act as an instrument of making social and economic policy.
- **Contribution to Government Revenue:** The surplus, if any, of the departmental undertakings belong to the government. This leads to increase in government income. Similarly, if there is deficiency, it is to be met by the government.
- **Little Scope for Misuse of Funds:** Since such undertakings are subject to budgetary accounting and audit control, the possibilities of misuse of their funds are considerably reduced.

### **Limitations of Departmental Undertakings**

Departmental undertakings suffer from the following limitations:

- **The Influence of Bureaucracy:** On account of government control, a departmental undertaking suffers from all the ills of bureaucratic functioning. For instance, government permission is required for each expenditure, observance of government decisions regarding appointment and promotion of the employees and so on. Because of these reasons important decisions get delayed, employees cannot be given instant promotion or punishment. On account of these reasons some difficulties come in the way of working of departmental undertakings.
- **Excessive Parliamentary Control:** On account of the Parliamentary control difficulties come in the way of day-to-day administration. This is also because questions are repeatedly asked in the parliament about the working of the undertaking.
- **Lack of Professional Expertise:** The administrative officers who manage the affairs of the departmental undertakings do not generally have the business experience as well as the expertise. Hence, these undertakings are not managed in a professional manner and suffer from deficiency leading to excessive drainage of public funds.
- **Lack of Flexibility:** Flexibility is necessary for a successful business so that the demand of the changing times may be fulfilled. But departmental undertakings lack flexibility because its policies cannot be changed instantly.
- **Inefficient Functioning:** Such organisations suffer from inefficiency on the account of incompetent staff and lack of adequate incentives to improve efficiency of the employees.

It may be noted that departmental form of organisation for public enterprises is on its way to oblivion. Most undertakings such as those providing telephone, electricity services are now being converted into government companies, e.g., MTNL, BSNL, and so on.

### **4.10.2 Statutory Corporation or Public Corporation**

Statutory Corporation refers to a corporate body created by the Parliament or State Legislature by a special Act which defines its powers, functions and pattern of management. Statutory Corporation is also known as Public Corporation. Its capital is

wholly provided by the government. Examples of such organisations are Life Insurance Corporation of India, State Trading Corporation, etc.

Its management pattern, its powers and functions, the area of activity, rules and regulations for its employees and its relationship with government departments, etc. are specified in the concerned Act. Examples of statutory corporations are State Bank of India, Life Insurance Corporation of India, Industrial Finance Corporation of India, etc. It may be noted that more than one corporation can also be established under the same Act. State Electricity Boards and State Financial Corporation fall in this category.

### *Features of Statutory Corporations*

The main features of Statutory Corporations are as follows:

- It is incorporated under a special Act of Parliament or State Legislative Assembly.
- It is an autonomous body and is free from government control in respect of its internal management. However, it is accountable to parliament and state legislature.
- It has a separate legal existence. Its capital is wholly provided by the government.
- It is managed by the Board of Directors, which is composed of individuals who are trained and experienced in business management. The members of the board of Directors are nominated by the government.
- It is supposed to be self-sufficient in financial matters. However, in case of necessity it may take loan and/or seek assistance from the government.
- The employees of these enterprises are recruited as per their own requirement by following the terms and conditions of recruitment decided by the Board.

### *Merits of Statutory Corporations*

Statutory Corporation as a form of organisation for public enterprises has certain advantages that can be summarised as follows:

- **Expert Management:** It has the advantages of both the departmental and private undertakings. These enterprises are run on business principles under the guidance

### *Limitations of Statutory Corporations*

Having studied the merits of statutory corporations we may now look at its limitations also. The following limitations are observed in statutory corporations:

- **Government Interference:** It is true that the greatest advantage of statutory corporation is its independence and flexibility, but it is found only on paper. In reality, there is excessive government interference in most of the matters.
- **Rigidity:** The amendments to their activities and rights can be made only by the Parliament. This results in several impediments in business of the corporations to respond to the changing conditions and take bold decisions.
- **Ignoring Commercial Approach:** The statutory corporations usually face little competition and lack motivation for good performance. Hence, they suffer from ignorance of commercial principles in managing their affairs.

### **4.10.3 Government Company**

As per the provisions of the Indian Companies Act, a company in which 51% or more of its capital is held by central and/or state government is regarded as a Government Company. These companies are registered under Indian Companies Act, 1956 and follow all those rules and regulations as are applicable to any other registered company. The Government of India has organised and registered a number of its undertakings as government companies for ensuring managerial autonomy, operational efficiency and provide competition to private sector.

#### *Features of Government Companies*

The main features of Government companies are as follows:

- It is registered under the Companies Act, 1956.
- It has a separate legal entity. It can sue and be sued, and can acquire property in its own name.
- The annual reports of the government companies are required to be presented in parliament.
- The capital is wholly or partially provided by the government. In case of a partially owned company the capital is provided both by the government and private investors. But in such a case the central or state government must own at least 51% shares of the company.
- It is managed by the Board of Directors. All the Directors or the majority of Directors are appointed by the government, depending upon the extent of private participation.
- Its accounting and audit practices are more like those of private enterprises and its auditors are Chartered Accountants appointed by the government.
- Its employees are not civil servants and they regulate the companies personnel policies according to its articles of associations.

#### *Merits of Government Companies*

The merits of government company form of organising a public enterprise are as follows:

- **Simple Procedure of Establishment:** A government company, as compared to other public enterprises, can be easily formed as there is no need to get a bill passed by the parliament or state legislature. It can be formed simply by following the procedure laid down by the Companies Act.

- **Efficient Working on Business Lines:** The government company can be run on business principles. It is fully independent in financial and administrative matters. Its Board of Directors usually consists of some professionals and independent persons of repute.
- **Efficient Management:** As the Annual Report of the government company is placed before both the house of Parliament for discussion, its management is cautious in carrying out its activities and ensures efficiency in managing the business.
- **Healthy Competition:** These companies usually offer a healthy competition to private sector and thus, ensures availability of goods and services at reasonable prices without compromising the quality.

#### ***Limitations of Government Companies***

The government companies suffer from the following limitations:

- **Lack of Initiative:** The management of government companies always have the fear of public accountability. As a result, they lack initiative in taking right decisions at the right time. Moreover, some directors may not take real interest in business for fear of public criticism.
- **Lack of Business Experience:** In practice, the management of these companies is generally put into the hands of administrative service officers who often lack experience in managing the business organisation on professional front. So, in most cases, they fail to achieve the required efficiency levels.
- **Change in Policies and Management:** The policies and management of these companies generally keep on changing with the change of government. Frequent change of rules, policies and procedures leads to an unhealthy situation of the business enterprises.

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### **4.11 SIGNIFICANCE OF PUBLIC SECTOR ENTERPRISES**

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You know that all enterprises in our country are not public enterprises. There is a mixed economy in our country and the private as well as the public sector contribute to the development of our economy. However, there are only some selected areas in which the government establishes its enterprises for balanced development of the economy and promote public welfare. There are several areas where huge investment of capital is necessary but the margin of profit is either meager or it can be obtained only after a long period as in case of generation and supply of electricity, machine building, construction of dams, etc. The private businessmen hesitate to establish their enterprises in these areas but they cannot be neglected in public interest. As such these enterprises are established and run by the government. Similarly the public enterprises also help in balanced regional development by promoting industries in every part of the country. For example, with the establishment of Bhilai Steel Plant in Madhya Pradesh, several new small industries have come up in that state.

Industrial progress is of utmost importance for the development of the country and for this, it is necessary that some basic industries like oil, coal, gas, iron, steel, production of heavy electrical goods, etc., are to be fully developed. Public enterprises give impetus to the development of these basic industries and also help in the development of the private sector with their products and services. There are some industries which require heavy capital investment on account of technical reasons. Electricity, power, production of gas, heavy machinery tools, production of telephone, etc. are such industries.

The development of public enterprises also prevents concentration of economic power in the hands of an individual, or a group of individuals. Not only that but also in our country the economic inequalities are increasing. Poor are becoming poorer and the rich more rich. The public enterprises can help in reducing inequalities with the help of various policies like utilising the earned profits in public welfare activities and by selling raw material to the small scale industries at lower prices.

It is also necessary for the economic progress of the country that industries which can decrease imports and increase exports should be only promoted. Public enterprises also ensure promotion of such industries.

There is an old belief that the benefits derived from the nature should be made available to all without any distinction. The public enterprises ensures that land, oil, coal, gas, water, electricity and other necessary resources are made available to all at fair prices. The security of the country is supreme. There should be no compromise in ensuring this. The production of fighter aeroplanes, arms and ammunition, etc. connected with the security of the country is put under the domain of Public Enterprises for the purpose. Thus, public welfare, planned economic development of the country, regional balance, import substitution and checking concentration of economic powers are the major goals achieved through public enterprises.

#### Check Your Progress

Fill in the blanks:

1. As per the Companies Act, 1956 the entire membership of these companies cannot surpass\_\_\_\_\_.
2. The word 'Private' should be added before\_\_\_\_\_.
3. The number of directors in a private limited company is atleast\_\_\_\_\_.
4. A member may hold virtually the entire share capital of a company. Such a company is known as a\_\_\_\_\_.
5. \_\_\_\_\_ means any person engaged in any activity connected with or related to any primary produce.
6. The \_\_\_\_\_ enterprises are owned and managed by the central or state government, or by the local authority.

## 4.12 LET US SUM UP

- There are three types of companies – Private Limited, Public Limited and Government companies on the basis of possession and two types of companies – Indian and Foreign, on the basis of nationality.
- When you register a company there is a number of vital documents that a company will receive following the incorporation process. The primary documents are the incorporation certificate, the company register, and the memorandum and articles of association. Each of the document has its own relative importance and uses throughout the company's life.
- Co-operatives are also preferred as it is easier to increase resources through assistance from financial institutions and government. Normally it seems that a co-operative society is appropriate for small and medium size operations.
- A cooperative (also co-operative or co-op) is a business organisation owned and operated by a group of individuals for their mutual benefit. A cooperative is defined by the International Cooperative Alliance's Statement on the Cooperative



Identity as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through jointly owned and democratically controlled enterprise”. A cooperative may also be defined as a business owned and controlled equally by the people who use its services or by the people who work there. Various aspects regarding cooperative enterprise are the focus of study in the field of cooperative economics.

- Business units owned, managed and controlled by the central, state or local government are termed as public sector enterprises or public enterprises. These are also known as public sector undertakings.
- There are three different forms of organisation used for the public sector enterprises. These are (1) Departmental Undertaking; (2) Statutory (or Public) Corporation and (3) Government Company.

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### 4.13 LESSON END ACTIVITY

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Critically examine how the public sector enterprises are helping in the balanced development of the Indian Economy and promoting public welfare in the country?

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### 4.14 KEYWORDS

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**Public Limited Company:** A minimum of seven members are required to form a public limited company. It must have a Paid-up capital of ₹ 5 lakh. There is no constraint on the maximum number of members.

**Producer Company:** Producer Company means a body corporate having objects or activities specified in section 581 B and registered as a producer company under this Act.

**One-man Company:** A member may hold virtually the entire share capital of a company. Such a company is known as a “One-man Company”.

**Investment Company:** A company whose principal business is the acquisition of shares, stock, debentures or other securities.

**Indian Company:** A company having dealing operation in India and which is registered under the Indian Companies Act, 1956 is called Indian Company. An Indian company may be shaped as a public limited, private limited or a government company.

**Foreign Company:** A foreign company is a company created and registered outside India having business operations in India.

**Government Company:** In these companies the Government holds a preponderance share capital i.e., not less than 51%.

**Co-operative Society:** It is created particularly to provide services to its members and to the society in general.

**Membership:** The smallest number for membership required to shape a co-operative society is ten and the maximum number is unlimited.

**Body Corporate:** Registration of a society under the Co-operative Societies Act 1912 is a necessity. Once it is registered, it becomes a body corporate and enjoys certain constitutional rights just like a joint stock company.

**Producer’s Co-operatives:** These societies are set up to profit small producers who have problems in collecting inputs and advertising their goods. For example, the Handloom owners are small producers, of such co-operatives.

**Housing Co-operatives:** To provide residential houses to the members, housing cooperative societies are formed generally in urban areas. They are called as co-operative group housing societies.

**Public Enterprises:** Public enterprise, a business organisation wholly or partly owned by the state and controlled through a public authority.

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#### 4.15 QUESTIONS FOR DISCUSSION

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1. State the minimum and maximum number of members of private limited company.
2. "Private company organisation is a compromise between partnership and private company". Critically examine this statement.
3. "A Private Ltd. Company contains advantages of Public Ltd. Company and partnership firm, but is free of their disadvantages." Explain the statement.
4. "A private Ltd. company has all the advantages but none of the disadvantages of a partnership firm." Do you agree with this view? Give reasons for your answer.
5. Discuss the types of companies on the basis of Nationality.
6. What are the disadvantages of co-operative societies?
7. Discuss the concept of co-operative societies.
8. What do you mean by co-operative organisation? Elaborate the concept.
9. Give the various types of co-operative organisation.
10. Define Public Sector Enterprise.
11. What is meant by a Public Corporation?
12. State the meaning of Departmental Undertaking.
13. What is a Government Company?
14. Name any two important goals to be achieved through public enterprises.
15. Give any four features of Departmental Undertakings.
16. Distinguish between private sector and public sector enterprises (by giving any two points of distinction).
17. Explain (a) Fulfillment of social objectives, and (b) Control over economic activities as merits of Departmental Undertakings.
18. Explain any two limitations of Statutory Corporations.
19. What is a Government Company? How is it different from Statutory Corporation? Give any five such distinctions.
20. Explain the merits of a Statutory Corporation over a Departmental Undertaking.

#### Check Your Progress: Model Answers

1. 50
2. Limited
3. Two
4. One-man Company
5. Producer
6. Public

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## 4.16 SUGGESTED READINGS

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S Prabhakaran, *Business Perspectives*, First Edition, Excel Books, New Delhi.

K Janardhanam, S Ramesh and Vivek Mittal, *Business Perspectives*, First Edition, Excel Books, New Delhi.

T.N. Chhabra, *Business Organisation & Management*, Third Edition, Sun India Publications, New Delhi.

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# LESSON

# 5

## SIZE AND LOCATION OF BUSINESS

### CONTENTS

- 5.0 Aims and Objectives
- 5.1 Introduction
- 5.2 Size of a Business
  - 5.2.1 Qualitative Criteria
- 5.3 Factors Affecting the Size of Business
  - 5.3.1 Legal Issues Affecting the Size
- 5.4 Factors Affecting the Location of Business
- 5.5 Let Us Sum Up
- 5.6 Lesson End Activity
- 5.7 Keywords
- 5.8 Questions for Discussion
- 5.9 Suggested Readings

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### 5.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Explain the Meaning of 'Size of a Business'
- State the Factors affecting Size of a Business
- Discuss the Legal Issues related to Size of a Business
- Describe the Factors affecting the Location of a Business

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### 5.1 INTRODUCTION

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The present lesson discusses about the size and location of business. The lesson discusses the meaning, factors affecting size of a business, legal issues affecting size and factors affecting location of a business. The size of a business is defined as the 'scale of production' i.e., output and operations. The operations of a business may be carried out on a small scale or a large scale. The size and selection of location are two important decisions which have to be taken in consideration while setting up a business enterprise. There is no specific criterion to differentiate between a small and big business. A small business depends on the character of economic activity. The definition of small business has changed over time and the concept has been defined by different countries in different ways. However, two standards have been used to define small business. In view of the potential of small business, the Government of India is committed towards the growth of small scale sector in the country.

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## 5.2 SIZE OF A BUSINESS

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Small business has very often been defined in terms of size. All firms which have not grown beyond a certain size are classified as small. The criteria used to measure the size of small business include;

1. The number of persons employed
2. The amount of capital invested
3. The value of annual sales turnover.

Many countries of the world have defined small business either on the basis of employees or capital investment. Some countries have used a combination of both the measures. For instance, the department of commerce in U.S.A classifies a small business as any plant employing less than 200 workers. On the other hand, India and Pakistan have used fixed investment as the basis of defining a small business. Japan has used the criterion of total employment and capital investment in the firm. Small business sectors in Japan consist of business units not employing more than 300 regular persons or with a capital investment of not more than 15 million Yens.

### 5.2.1 Qualitative Criteria

Size is not a very good criteria of small business because the employment and investment vary widely with the nature of industry. Complexity of management may be a better option or measure. In addition to the compact size, small business is characterized by following:

- Ownership is in the hands of one individual. Proprietary form of ownership is dominant in a small scale sector.
- Management is independent and personalized i.e. managers are usually the owners of the business.
- The area of operation is mainly local though the goods might be exported.
- Technology employed is labour-intensive and, therefore capital output ratio is low.
- The business enterprise is relatively small in comparison with the largest units in the field in which it operates. Thus, a small business is independently owned and operated. It is not dominating in its field of activity and has limited employment or investment.

An attempt should be made to achieve the size at which the average cost per unit is minimum. In other words, the entrepreneur should aim at the maximum size keeping in view the extent of the market, technique of production, nature of product, availability of finance and competence of management, etc. Large scale operations offer several economies of scale but require huge capital investment and expert managerial skills where the risks involved are high or a new idea is to be tried. It is often preferable to start with a small size and to expand the firm gradually. According to Shubin, "The initial size of the establishment must be based on judicious sales estimates". With accurate sales estimates the firm can avoid investing in an establishment that is too large and expensive to be profitable at the outset but can select a size sufficiently large to take care of initial sales and their expected increase during the years immediately ahead. However, the initial size of the enterprise can be large provided the entrepreneur is able and willing to afford the capital required and the risks involved. A careful analysis of technical, managerial, financials, market and other factors should be made to determine the size of a firm.

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## 5.3 FACTORS AFFECTING THE SIZE OF BUSINESS

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There are multiple factors that decide the size of a business such as location, type of trade, etc. Financial resources will certainly affect the options available for startup size and owner's knowledge and understanding. If they are starting a business with years of experience as compared to a newbie, it will have an effect on potential client base.

Given below are the key factors which operate to expand and affect the size of the business.

- **Technical factors:** The uses of different techniques affect the size of the business. In a large scale unit more technical advantages are possible since the labour & machinery can be divided to maximum & effective use.
- **Managerial factors:** A large unit can afford to divide the managerial functions into various sections and departments like production, purchase, sale, financing, accounting, legal, etc. which ensures proper handling of resources & lesser wastage.
- **Financial factors:** Larger units have more financial advantages than smaller ones. They have a better credit standing and they can raise funds easily & economically. They have huge assets due to which they are better financially positioned and banks can support them by providing working capital.
- **Marketing factors:** Larger firms can tap certain economic areas which are attached to bulk buying and selling. They are at an advantage because they have more resources regarding transportation, employing, advertising and marketing firms for more exposure.
- **Risk factors:** There will always be a risk of demand fluctuation depending on the state of the economy. There will be periods of boom and recession. This business risk is bigger in larger firms. Since they involve huge investment in assets and long term commitments, the risk is always bigger.

### 5.3.1 Legal Issues Affecting the Size

Small scale enterprises were defined for the first time after independence under the Industries Act, 1951. Under this Act, a small scale unit was that which employed not more than 50 persons when using power and 100 when not using power and capital assets not exceeding ₹5 lacs. According to modified definition, all undertakings employ less than 50 persons with power and less than 100 persons without power. It was felt necessary to change the definition so as to increase employment in the small scale sector.

In 1960, all industrial units with a capital investment of not more than ₹5 lacs, irrespective of the number of persons employed were classified as small industries. In 1966, the small scale units were defined as undertakings having a capital investment of not more than ₹7.5 lacs. The government of India again revised the definition of small business in May, 1975. Any undertaking with a capital investment of not more than ₹10 lacs and ancillary (subsidiary) unit with investment of not more than ₹15 lacs were to be considered as small enterprise.

The industrial policy resolution announced on July 23, 1980 gave a new definition of small enterprise. Small scale units with investments of not more than ₹25 lacs, secondary units having investment of not more than ₹35 lacs; and tiny units with an investment not exceeding ₹5 lacs.

The key legal requirements depending on the form of organisation are as follows:

- **Sole proprietorship:** There is no legal formality necessary to set up a sole proprietorship business.
- **Partnership:** An agreement between the persons who want to form a partnership firm is necessary. If possible it should be in writing. A partnership firm should be registered with the Registrar of firms.
- **Joint Hindu Family:** No legal formality is required. A Joint Hindu Family business is run as per Hindu Law.
- **Joint Stock Company:** It must be registered under the Indian Companies Act. It may be a Private Limited Company or a Public Limited Company.
- **Cooperative society:** If the business is organised as a cooperative society, it is required to be registered with the Registrar of Co-operative Societies of the State in which societies registered office are to be situated.

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## 5.4 FACTORS AFFECTING THE LOCATION OF BUSINESS

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The location of a business firm is an important decision as it influences the costs, profitability and growth of the enterprise. Moreover, once the site is selected, it is very difficult to change it. An unfavourable location may restrict the growth of the firm in addition to higher costs. The objective of the location-decision is to find out the best location so that per unit costs of production and distribution are lowest as possible. Location is a three stage process as it involves more than just the selection of the site. Region is selected on the basis of accessibility to raw material and markets, availability of labour or community is governed by local factors. The other important things include managerial preferences, public facilities, climate, availability of site, financial inducements, etc. Selection of the site depends on the cost of land, soil and surface and development costs.

In general an industry will look to locate its activities where the costs of production are minimised. The nature of the business will heavily influence location decisions. Type and nature of market, type of business – production of goods or services, retail, wholesale, sector – primary, secondary, tertiary, quaternary are the other factors.

The various factors which should be taken into accounts in deciding the location of a plant are given below:

- **Raw materials:** The availability of required quantity and quality of raw materials at an economical cost is a very important factor in the location decision. On an average, about half of the cost of finished product is made of raw material cost. The influence of raw material on a location depends upon the nature of the materials. Raw materials, which are localised at few places e.g., cotton, iron, etc. and which are perishable, e.g., fruits, eggs, etc. exercise a great influence on plant location.
- **Markets:** Nearness and easy access to market is an important consideration because the promptness and cost of service to customer depends upon it. Jute, cotton and sugar mills have tend to come closer to the markets.

An industry is likely to be located near the market when the finished product is very expensive to carry due to its bulk, weight, fragility and perish ability. This explains the concentration of automobile, textile, dairy, fruit canning and ice industries near the market. Industries located near the market not only affect saving in transport charges but can also maintain a close contact with the customers and can provide after-sale service effectively. In industries having

national and international demand, plants may be spread over wide geographical areas to have close proximity to all markets. In case of regional demand, plants are located near the market. For instance, a press printing Marathi books is likely to be located in Maharashtra.

- **Labour supply:** Availability of adequate supply of labour with appropriate skills is another important factor influencing a location. Besides quantity and quality, the cost and productivity of labour, attitudes of trade unions and state of industrial relations in a particular region are also important. Abundant supply of skilled labour explains the concentration of industries in Mumbai, Ahmedabad, Jamshedpur, Kanpur, etc. Jagadhari, Firozabad and Aligarh have become centres of brassware, glassware and Jock industries respectively due to similar reason. The pull of labour on location has, however, been reduced by mechanisation of production, increasing mobility of labour, widespread unemployment, national wage agreements and uniform labour laws.
- **Transportation and communication:** Adequate, reliable and economical facilities for the storage, handling and carrying of materials and finished products are essential for every factory. Transport facilities are especially important in industries having heavy, perishable and weight-losing raw materials or finished products. This explains the location of jute industry on the banks of Hoogly river in India. In addition to transportation, business firms require efficient means of communication to remain in close touch with their environment. From the transport point of view, the ideal location is one that is directly served by water, rail, road and air transport and where the total cost of transport per unit of finished product are the lowest possible one. The junction points of railways, roadways and waterways tend to become important industrial centres. Industrialists are hesitant to locate their plants in rural areas due to the absence of improved means of transport and communication in such areas.
- **Power and fuel:** With increasing mechanisation, regular and sufficient supply of power and fuel has become an important factor in a location. Industries like iron and steel that require large amounts of coal tend to be located near coal mines because coal is a bulky and weight-losing material. This is illustrated by the localisation of iron and steel plants in Bihar and West Bengal. However, with the development of new sources of power like electricity, oil, gas, etc. industries tend to be scattered. Frequent breakdown of power in certain parts of India has caused a shift in industrial location.
- **Climate and topography:** Soil and topography (hilly and rocky surface) influence the cost of transportation. Climate influences the capacity to work on the part of workers. Particular temperature and humidity are required in certain industries. For example, flour mills require a dry climate while cotton textile mills need a humid climate. Development of artificial humidification and air-conditioning has reduced the importance of climate to some extent. Therefore, the cotton textile industry originally developed in Mumbai and Ahmedabad has gradually spread up in South India. Regions which are subject to frequent floods, earthquakes, droughts and extreme temperature do not attract industries. Natural factors are particularly important in extractive industries like plantations, fishing, agriculture, etc.
- **Supply of capital:** Even though capital is a very mobile factor of production, the availability of adequate finance at cheap rates is an important consideration in an industrial location. New and technocrat entrepreneurs who have limited funds are attracted towards the areas where they can procure cheap supply of finance. In some states, state financial or industrial development corporations offer loans at low rates of interest to the entrepreneurs who set up plants in the specified areas.



- **Government policy:** In planned economies, the state regulates the location of industries. For instance, in India the government offers several incentives to industrialists for the location of plants in backward areas. The purpose of this policy is to achieve balanced regional development of the country which is essential from the point of view of defence and social problems like slum, economic disparities and optimum use of local resources. Incentives offered by the government include tax concessions and non-tax incentives like subsidised loans, factory sheds, etc. Moreover, the government has announced that in future no licenses will be given to industries which are to be set up in metropolitan cities with a population of more than 10 lacs and urban areas with more than 5 lacs population as per the 1971 census. No industrialist can afford to ignore national and strategic considerations while selecting the location for a plant.
- **Strategic considerations:** Like law and order, political stability, local rates and taxes, state patronage, etc. should also be taken into consideration. Naturally, every entrepreneur likes to locate his unit in those areas which are not subject to riots and political disturbances.

### Check Your Progress

Fill in the blanks:

1. Small business has very often been defined in terms of \_\_\_\_\_.
2. Small scale enterprises were defined for the first time after independence under the \_\_\_\_\_ Act, 1951.
3. The industrial policy resolution announced on \_\_\_\_\_ gave a new definition of small enterprise.
4. Availability of adequate supply of labour with appropriate skills is another important factor influencing a \_\_\_\_\_.
5. Location is a \_\_\_\_\_ stage process as it involves more than just the selection of the site.
6. In planned economies, the \_\_\_\_\_ regulates the location of industries.

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## 5.5 LET US SUM UP

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- Large scale operations offer several economies of scale but require huge capital investment and expert managerial skills. Where the risks involved are high or a new idea is to be tried. It is often preferable to start with a small size and to expand the firm gradually. According to Shubin, "The initial size of the establishment must be based on judicious sales estimates."
- Location is a three stage process as it doesn't just involve the selection of the site. Region is selected on the basis of access to raw material and markets. Availability of labour or community is governed by local attitudes, managerial preferences, public facilities, climate, availability of site, financial inducements, etc. Selection of the site depends on the cost of land, soil and surface and development costs.
- An MNC can be viewed as an interorganisational network that is inlaid in a web of external networks. Such complex industry networks are similar to the concepts of relational and structural cluster.

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## 5.6 LESSON END ACTIVITY

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Try to identify a small scale enterprise in your locality and discuss the various aspects related to the size of that enterprise.

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## 5.7 KEYWORDS

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**Sales Turnover:** Sales turnover is the total amount of revenue generated by a business during the calculation period.

**Markets:** A market is a medium which allows buyers and sellers of a specific good or service to interact in order to facilitate an exchange.

**Labour Supply:** Availability of suitable human resources in a particular labour market.

**Topography:** Topography is a detailed map of the surface features of land.

**Government Policy:** A government policy statement is a declaration of a government's political activities, plans and intentions relating to a concrete cause or at the assumption of office, an entire legislative session.

**Multinational Corporations:** An entity managed from one home country and in business in several countries.

**Small Scale Industries:** A small-scale industry is a project or firm created on a small budget or for a small group of people.

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## 5.8 QUESTIONS FOR DISCUSSION

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1. What are the criteria used to measure the size of small business?
2. Highlight some of the characteristics of small business to compact the size.
3. Discuss the factors which operate to expand and affect the size of the business.
4. Examine the legal issues affecting the size of Small scale enterprises.
5. Describe the legal requirements depending on the form of organisation.
6. Discuss the factors which should be taken into accounts in deciding the location of a plant.

### Check Your Progress: Model Answers

1. Size
2. Industries
3. July 23, 1980
4. Location
5. Three
6. State

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## 5.9 SUGGESTED READINGS

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S Prabhakaran, *Business Perspectives*, First Edition, Excel Books, New Delhi.

K Janardhanam, S Ramesh and Vivek Mittal, *Business Perspectives*, First Edition, Excel Books, New Delhi.

T.N. Chhabra, *Business Organisation & Management*, Third Edition, Sun India Publications, New Delhi.

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# LESSON

## 6

### PLANT LAYOUT AND BUSINESS COMBINATION

#### CONTENTS

- 6.0 Aims and Objectives
- 6.1 Introduction
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  - 6.2.1 Objectives of a Plant Layout
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- 6.9 Lesson End Activity
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- 6.11 Questions for Discussion
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#### 6.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand the Meaning, Objectives, Principles, Factors and Importance of Plant Layout
- Know the Various Types of Plant Layout
- Explain the Reasons of Combination
- Describe the Features of Business Combinations
- State the Advantages and Disadvantages of Business Combinations
- Distinguish between the Different Types of Business

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## 6.1 INTRODUCTION

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The efficiency of production depends on how well the various machines; production facilities and employee's amenities are located in a plant. Only the properly laid out plant can ensure the smooth and rapid movement of material, from the raw material stage to the end product stage. Plant layout encompasses new layout as well as improvement in the existing layout. One way by which a business grows is by expansion. This may require additional capacity of production, or new plants and equipment or a new factory. Growth may also be possible if two business enterprises come together. A business may also like to protect its interest by keeping competition away. One of the ways of doing so is to join hand with the competitor. The term combination has been derived from 'combine', means joining together. A business combination occurs when two or more business firms co-operate with one another formally or informally for the purpose of attaining some common objectives.

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## 6.2 PLANT LAYOUT

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Plant layout is a mechanism which involves knowledge of the space requirements for the facilities and also involves their proper arrangement so that continuous and steady movement of the production cycle takes place.

According to Moore "*Plant layout is a plan of an optimum arrangement of facilities including personnel, operating equipment, storage space, material handling equipment and all other supporting services along with the design of best structure to contain all these facilities*".

According to Morris E. Hurley "*Plan layout involves the development of physical relationship among building, equipment and production operations, which will enable the manufacturing process to be carried on efficiently*".

According to James Lundy, "*Layout identically involves the allocation of space and the arrangement of equipment in such a manner that overall operating costs are minimized.*"

The primary goal of the plant layout is to maximise the profit by arrangement of all the plant facilities to the best advantage of total manufacturing of the product. A good layout minimises the handling time and efforts, saves the floor space, shortens the travel of materials, increases production and reduces cost by utilising labour more efficiently. If the layout is haphazardous, the products will not be economical and cost may be very high resulting in losses.

The problems related to plant layout are generally observed because of the various developments that occur. These developments generally include adoption of the new standards of safety, changes in the design of the product, decision to set up a new plant, introducing a new product, withdrawing the various obsolete facilities, etc.

### 6.2.1 Objectives of a Plant Layout

Objectives of a good plant layout are:

- Providing comfort to the workers and catering to worker's taste and liking.
- Giving good and improved working conditions.
- Minimising delays in production and making efficient use of the space that is available.
- Having better control over the production cycle by having greater flexibility for changes in the design of the product.

### 6.2.2 Principles of a Plant Layout

Principles of a good plant layout are:

- A good plant layout is the one which is able to integrate its workmen, materials, machines in the best possible way.
- A good plant layout is the one which sees very little or minimum possible movement of the materials during the operations.
- A good layout is the one that is able to make effective and proper use of the space that is available for use.
- A good layout is the one which involves unidirectional flow of the materials during operations without involving any back tracking.
- A good plant layout is the one which ensures proper security with maximum flexibility.
- Maximum visibility, minimum handling and maximum accessibility, all form other important features of a good plant layout.

### 6.2.3 Factors Considered for Plant Layout

Layout for a factory must be decided by considering the following factors:

- Organisation.
- Location of departments.
- Type of product, method of production, production process.
- Production capacity.
- Type of industry like synthetic, analytic, conditioning or extractive.
- Grouping of machines.
- Material flow pattern.
- Space requirement for machines, work area, material handling, storage, and other facilities.
- Safety factors.
- Health and other factors like ventilation, natural light, removal of smoke, and fumes, etc.
- Provision for future expansion.
- Flexibility for future modifications due to diversification, technology, or product design changes.
- Storage system i.e., centralised or decentralised or a combination of both.

### 6.2.4 Importance of Plant Layout

The layout of a plant is quite important in view of the above definition but the importance of a layout may greatly vary from industry to industry. Plant layout is an important decision as it represents long-term commitment. An ideal plant layout should provide the optimum relationship among output, floor area and manufacturing process. It facilitates the production process, minimizes material handling, time and cost, and allows flexibility of operations, easy production flow, makes economic use of the building, promotes effective utilization of manpower, and provides for employee's convenience, safety, comfort at work, maximum exposure to natural light and ventilation. It is also important because it affects the flow of material and

processes, labour efficiency, supervision and control, use of space and expansion possibilities, etc.

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## 6.3 TYPES OF PLANT LAYOUT

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The various types of plant layouts are:

### 6.3.1 Process Layout

These layouts are also called the functional layouts and are very suitable in the conditions, when the products being prepared are non-standard or involve wide variations in times of processing of the individual operations. Such layouts are able to make better utilization of the equipment that is available, with greater flexibility in allocation of work to the equipment and also to the workers. Imbalance caused in one section is not allowed to affect the working of the other sections.

#### *Advantages of Process layout*

- Lower initial capital investment is required.
- There is high degree of machine utilization, as a machine is not blocked for a single product.
- The overhead costs are relatively low.
- Breakdown of one machine does not disturb the production process.
- Supervision can be more effective and specialized.
- Greater flexibility of resources.

#### *Disadvantages of Process layout*

- Material handling costs are high due to backtracking.
- More skilled labour is required resulting in higher cost.
- Work in progress inventory is high needing greater storage space.
- More frequent inspection is needed which results in costly supervision.

### 6.3.2 Product Layout

These layouts are also known as the line layouts or the layout by sequence. In such layouts, the manufacturing cycle is small with minimum material handling. The space required is small and quality control is easy to exercise.

#### *Advantages of Product layout*

- Low cost of material handling, due to straight and short route and absence of backtracking.
- Smooth and continuous operations.
- Continuous flow of work.
- Lesser inventory and work in progress.
- Optimum use of floor space.
- Simple and effective inspection of work and simplified production control.
- Lower manufacturing cost per unit.

### *Disadvantages of Product layout*

- Higher initial capital investment in special purpose machine (SPM).
- High overhead charges.
- Breakdown of one machine will disturb the production process.
- Lesser flexibility of physical resources.

### **6.3.3 Fixed Position or Project Layout**

Such layouts are also referred as fixed position layouts. In these layouts, the components, heavy materials, sub-assemblies – all remain fixed at one place and the job is completed by movement of machines, men and tools to the location of the operations.

#### *Advantages of Fixed position layout*

- The investment on layout is very small.
- The layout is flexible as change in job design and operation sequence can be easily incorporated.
- Adjustments can be made to meet shortage of materials or absence of workers by changing the sequence of operations.

#### *Disadvantages of Fixed position layout*

- As the production period being very long so the capital investment is very high.
- Very large space is required for storage of material and equipment near the product.
- As several operations are often carried out simultaneously so there is a possibility of confusion and conflicts among different workgroups.

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## **6.4 CONCEPT OF BUSINESS COMBINATIONS**

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A business combination occurs when two or more business firms co-operate with one another formally or informally for the purpose of attaining some common objectives, e.g., to stabilize prices and increase profits. A business combination is a compound combination against partnerships, companies and corporations which are simple combinations of natural persons.

A business combination may possibly be friendly or unfriendly. In a friendly combination, the boards of directors of the prospective combining companies discuss mutually agreeable terms of an anticipated combination. If it is a combination of companies, there are legal and other procedures to be followed. This is an entirely different subject area and is called as Mergers and Acquisitions or M&A.

An unfriendly (hostile) combination results when a company targeted for acquisition resists the combination. An official tender offer enables the acquiring firm to deal straightforwardly with individual shareholders.

The forces which give rise to combinations have been classified by Haney into:

- Driving or impelling forces consisting of cut-throat competition and opportunity for speculative gains.
- Opportunity for profits, tariffs and gains of over-capitalisation.
- Facilitating forces such as influence of tariffs.

## 6.5 CAUSE OF COMBINATIONS

The basic motive behind the formation of business combinations is to maintain and increase profits by eliminating competition and increasing the scale of operations. However, the reasons leading to business combination are complex and varied.

- ***Cut-throat competition:*** Destructive and wasteful competition has been the most common cause of combinations in industry. Large scale production in anticipation of demand led to an intense competition. Combinations came in existence to check ruinous competition. Firms come together and agree that they shall compete in the same market. Each firm may do their business in a specific territory or territories.
- ***Economies of large scale:*** You have studied in economic theory how large scale production and distribution brings a number of internal and external economies. Small and uneconomical business firms, therefore, join hands to secure these economies.
- ***Protective tariffs:*** When heavy custom duties are levied on imports, to protect domestic industries, severe competition arises in the domestic market due to mushroom growth of business enterprises. Several firms then come together to eliminate price war.
- ***Business cycles:*** In almost every business, booms and depressions occur one after another. During booms, firms combine and expand to take maximum advantage of rising demand and to eliminate competition.
- ***Desire to control the market:*** Desire to secure monopoly power in the market is another cause of business combinations. Monopoly enables maximization of profits through restriction of output and increase in prices.
- ***Cult of the colossal:*** The tendency to consider big firms more efficient and the fancy for everything big has also encouraged combinations in industry. The managing agency system in India created Business Empire partly because of this reason.
- ***Scarcity of entrepreneurial talent:*** Shortage of promoters and managers in India has led to the growth of big business. A few business leaders have promoted enterprises in diverse fields of industry.
- ***Government policy:*** Frequent changes in the economic policies of the government create instability and business firms therefore, combine to reduce risks.
- ***Rationalization:*** Measures for modernization, replacement, etc. require large finances and organized efforts. Combinations in the jute and cotton textile industries in India have resulted mainly due to this reason.
- ***Miscellaneous:*** Besides the above, several minors factors have also been held responsible for the growth of business combination:
  - ❖ ***Joint stock companies:*** Free transferability of shares in a public company enables acquisition of control in several enterprises.
  - ❖ ***Patents right:*** A patent right is the legal right to use an invention exclusively for a certain period of time. For e.g., someone could have invented a local medicine which can be commercially used. He/she may take a right under the Patents Law so that no one can use the method for commercial purpose for a certain period. Firms in industry sometimes join to avail of the patent rights of one firm which alone cannot make commercial use of its rights as it may require large investment to do so.



- ❖ *Inertia*: Combinations of a similar industry have sometimes led to combinations in other industries because of human inertia.
- ❖ *International trade*: Firms engaged in exports combine to gain better bargaining power and to realize increasing share of the foreign market.

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## 6.6 ADVANTAGES AND DISADVANTAGES OF COMBINATIONS

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The given below are the key advantages and disadvantages of business combinations:

### 6.6.1 Advantages of Business Combinations

The main advantages of combinations are:

- ***Economies of large scale operations***: Combinations by increasing the scale of operations lead to a number of internal and external economies in:
  - ❖ *Production*: Specialization, use of waste and by-products, automation, standardization and uniformity of quality, saving in transport, pooling of patents, arrangement for repairs and maintenance, research and development, and rationalization.
  - ❖ *Selling*: Collective advertising, elimination of middlemen, expert salesmen, better after sales service, greater variety, savings in cross freights, marketing research.
  - ❖ *Buying*: Better and steady materials, bulk buying, better purchase terms, lower freight, and standard quality.
  - ❖ *Financing*: Higher goodwill and better security resulting in more economical financing, ploughing back of profits, internal adjustment of funds, proper utilization of capital, greater strength and stability during economic crisis.
  - ❖ *Management*: Functional specialization, combined judgments, lower overheads, comparative accounting and office mechanism.
- ***Benefits of monopoly***: Through combinations, businessmen may secure the following:
  - ❖ Elimination of wasteful competition enabling optimum utilization of available resources.
  - ❖ Reduced costs of production and distribution due to control over market and steady demand and elimination of cross freight.
- Full use of abilities and ambition of entrepreneurs.
- Greater strength to withstand depression and other economic crisis resulting in greater stability and growth.
- Spirit of co-operation and mutual understanding among competing business firms and united action against common problem.
- United control enables economical use of resources and improvement in the efficiency in management.
- Better adjustment between demand and supply reducing trade cycles. Combinations facilitate foreign trade. It is easier for the government to control a few combinations than a large number of small firms.

## 6.6.2 Disadvantages of Business Combinations

The key disadvantages of business combinations are:

- **Inefficiency and stagnation:** Due to restriction of output below optimum size, protection of inefficient units and inflexibility of organisation.
- **Exploitation of consumers:** By restricting output, a combination tends to raise prices to consumers. Due to its monopoly power, it may operate in a conspiracy against the consumers.
- **Exploitation of investors and suppliers:** Monopoly concerns lure investors by presenting rosy picture of their proposal and exploit genuine investors.
- **Killing of small business:** Monopolistic combination forces small competitors to go out of business. By adopting price cutting and other unfair means, it squeezes every possible competitor and roots out all opposition.
- **Over capitalization:** Combination of a permanent and long-term nature tend to be over capitalized.
- **Greater risk:** Due to concentration of resources, risks are increased after combination. There are risks also due to the public distrust, danger of legal action, possibility of inefficient and dishonest management.
- **Instability:** A combination creates instability by not adjusting the output and prices to changing market conditions.
- **Bar to economic progress:** Monopolies do not care for the development of new methods and process. They tend to discourage innovation and creativity because of guaranteed profits. They try to block new inventions that involves dislocation of existing conditions.
- **Maldistribution of national resources:** By operating at less than the optimum size, a monopoly combine misdirects the productive resources of the society and thereby operates against public interest.
- **Concentration of economic power and political corruption:** Combinations lead to concentration of wealth in fewer hands. Monopolists try to gain special favour from the government through political corruption and pose a danger to democracy.

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## 6.7 TYPES OF COMBINATIONS

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The different types of combinations are as follows:

- **Horizontal:** It is a combination of two competing firms which are engaged in the production of similar products or are providing similar kind of services. The acquiring firm belongs to the same industry as the target company. The main purpose of such mergers is to obtain economies of scale in production by eliminating duplication of facilities, widening the product line, reduction in investment, elimination of competition in product market, increase market share, reduction in advertising costs, etc.

Examples are:

- ❖ Phoenix Electric (India) merged with Phoenix Lamps (India).
- ❖ Videocon Narmada Electronics merged with Videocon International Ltd.
- ❖ Bank of Madura merged with ICICI.
- ❖ Acquisition of Blue Dart by DHL Worldwide.

- ❖ Acquisition of Thomson SA of France by Videocon India. Deal was worth \$ 290 million.
- ❖ Indian Airlines merged with Air India.
- **Vertical:** When two or more companies involved in different stages of activities like production or distribution combine with each other the combination is called Vertical Combination.

An example can be the combination of a car manufacturing company and the company manufacturing a major component like piston (that is generally bought from others and used by the car manufacturing company). The acquiring company through merger of another company attempts to reduce of inventories of raw material and finished goods, implements its production plans as per the objectives and economizes on working capital requirements.

There are two types of vertical combinations:

- ❖ **Forward Integration:** In this kind of vertical combination a manufacturer combines with its customer. For example, when a TV manufacturer combines with a TV marketing company this is called forward integration.
- ❖ **Backward Integration:** In this kind of vertical combination a manufacturer combines with the supplier of the raw material. For example, the combination of a car manufacturing company with piston manufacturing firm would be a backward combination.

In other words, in vertical combinations, the merging undertaking would be either be a supplier or a buyer using its product as intermediary material for final production.

The following are some of the benefits which accrue from the vertical combination to the acquirer company:

- ❖ Company can safeguard the source of supplies of raw materials or intermediary product.
- ❖ Company is able to procure the benefits of savings in transportation costs, overhead costs in buying department, etc.
- ❖ Company has control over product specifications.
- **Circular combination:** Companies engaged in the production of different products seek combination to share common distribution and research facilities in order to obtain economies by elimination of duplication of cost. The acquiring company obtains benefits in the form of economies of resources sharing. Another major advantage is to achieve diversification. Examples are:
  - ❖ Standard Equity Fund merged with Dr. Reddy's laboratories.
  - ❖ Karnataka Scooters merged with Brooke Bond (India) Ltd.
- **Conglomerate:** It is the combination of companies engaged in unrelated businesses. The basic purpose of such a combination is lowering of cost of capital, optimum utilisation of financial resources and enlarging debt capacity.

Conglomerates are used to smooth out fluctuation in the earning from different businesses. The main idea is to diversify and as we all know diversification is done in order to minimise the risk associated with the different activities.

A typical example would be the merging of a cement company, an electronics company, a finance company and a garment manufacturing company. A real life example is Voltas Ltd.

**Check Your Progress**

Fill in the blanks:

1. An ideal \_\_\_\_\_ should provide the optimum relationship among output, floor area and manufacturing process.
2. Process layouts are also called the \_\_\_\_\_ layouts.
3. A \_\_\_\_\_ occurs when two or more business firms co-operate with one another formally or informally for the purpose of attaining some common objectives, e.g., to stabilize prices and increase profits.
4. United control enables economical use of resources and \_\_\_\_\_ in the efficiency in management.
5. Combination of two or more companies involved in different stages of activities is called \_\_\_\_\_.
6. Combinations of companies engaged in the production of different products are called \_\_\_\_\_.

**6.8 LET US SUM UP**

- Plant layout refers to the arrangement of physical facilities such as machines, equipment, tools, furniture, etc. in such a manner so as to have quickest flow of material at the lowest cost and with the least amount of handling in processing the product from the receipt of raw material to the delivery of the final product.
- A well designed plant layout is one that can be beneficial in achieving its objectives. There are mainly four types of plant layout: Product or line layout, Process or functional layout, and Fixed position or location layout.
- Horizontal integration concerning the combination of companies within the same commerce was popular from 1880 to 1904. Vertical integration concerning the combination of a corporation with its customers or suppliers became more ubiquitous from 1905 through 1930. The period commencement after World War II has been called merger mania.
- Firms combine to accomplish growth goals or mandates, to obtain commission synergies, to compete more successfully in the intercontinental marketplace, to take advantage of tax laws in some cases, and to expand or alternatively eliminate competition.
- Managers should be conscious of unrecorded liabilities; take care in interpreting percentages quoted by the selling company; examine the impact on earnings from allocated expenses, changes in LIFO reserves and record levels, and by product sales; note any non-recurring items, changes in estimates, accruals or methods, and be careful of CEO egos.

**6.9 LESSON END ACTIVITY**

Visit a restaurant that you can classify as being in the small sector. Comment upon how has the layout of facilities added to or detracted from the ease of movement? Could you suggest some alternative layout?

**6.10 KEYWORDS**

**Plant Layout:** Plant layout refers to the arrangement of physical facilities such as machines, equipment, tools, furniture, etc. in such a manner so as to have the quickest

flow of material at the lowest cost and with the least amount of handling in processing the product from the receipt of raw material to the delivery of the final product.

**Business Combination:** A business combination occurs when two or more business firms co-operate with one another formally or informally for the purpose of attaining some common objectives.

**Statutory Consolidation:** When a new conglomerate is formed to acquire two or more other corporation through a swap over of voting stock.

**Stock Acquisition:** When one corporation pays hard cash or issues stock or debt for all or part of the voting stock of another corporation, and the acquired corporation remains intact as a separate legal entity.

**Statutory Merger:** Statutory merger means when one company acquires all the net assets of one or more other companies.

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## 6.11 QUESTIONS FOR DISCUSSION

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1. Define Plant Layout.
2. Explain the objectives and importance of Plant Layout.
3. What are the principles of a Plant Layout?
4. Describe Process layout and Product layout. Explain its advantages and disadvantages.
5. Explain the concept of business combination.
6. What are the different causes of business combinations?
7. What are the advantages and disadvantages of business combination?
8. Explain the different types of business combinations.

### Check Your Progress: Model Answers

1. Plant layout
2. Functional
3. Business combination
4. Improvement
5. Vertical merger
6. Circular combination

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## 6.12 SUGGESTED READINGS

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S Prabhakaran, *Business Perspectives*, First Edition, Excel Books, New Delhi.

K Janardhanam, S Ramesh and Vivek Mittal, *Business Perspectives*, First Edition, Excel Books, New Delhi.

T.N. Chabbra, *Business Organisation & Management*, Third Edition, Sun India Publications, New Delhi.

## **UNIT III**



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# LESSON

# 7

## COMMUNICATION IN BUSINESS

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- 7.0 Aims and Objectives
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### 7.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand the Meaning of Communication
- Know the Concept, Role and Factors of Communication in Business
- Discuss the Nature, Objectives and Scope of Communication
- Describe the Importance and Functions of Managerial Communication
- Understand the Evaluation of Communication Effectiveness
- Understand the Concept of Organisational Communication



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## 7.1 INTRODUCTION

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Communication means to create a common understanding. Communication is an important aspect of human behaviour. It stands for natural activity of all human beings to convey opinions, feelings, information and ideas to others through words (written or spoken), body language, or signs. Communication is an integral part of life. From birth till death every living being is communicating in his or her own way, be it birds, animals, trees or human beings.

The word Business stands for any economic activity undertaken with a view to earn profit. The communication undertaken in the process of this activity is termed as business communication. From the very inception of the idea of the Business, to run the day to day activities of the Business, communication is involved. It includes oral, written, formal, informal, upward, downward, lateral, diagonal, inward outwards as well as non-verbal communication.

Whether an organisation is large, small or virtual, sharing information among its parts and with the outside world is the glue that binds the organisation together. When you join a company, you become a link in its information chain. Whether you are a top manager or an entry-level employee, you have information that others need in order to perform their jobs, and others have information that is crucial to you. In fact, communication is the lifeblood of an organisation. It is communication which gives life to the organisation; so, it is rightly known as the life blood of an organisation.

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## 7.2 DEFINING COMMUNICATION

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The term communication has been derived from the Latin word 'communis' that means 'common' and thus, if a person effects communication, he establishes a common ground of understanding. Literally, communication means to inform, to tell, to show, or to spread information. Thus, it may be interpreted as an interchange of thought or information to bring about understanding and confidence for good industrial relations. It brings about unity of purpose, interest and efforts in an organisation.

There are a number of definitions of the term communication. A few of them are being reproduced below:

*"Communication is the sum of all things, one person does when he wants to create understanding in the minds of another. It involves a systematic and continuous process of telling, listening and understanding."*

**– Allen Louis**

*Communication has been defined "As the transfer of information from one person to another whether or not it elicits confidence."*

**– Koontz and O' Donell**

*"Communication is an exchange of facts, ideas, opinions or emotions by two or more persons."*

**– George Terry**

*Communication is defined as "the process of passing information and understanding from one person to another, it is essentially a bridge of meaning between people. By using the bridge of meaning a person can safely cross the river of misunderstanding."*

**– Keith Davis**

*Effective communication is “purposive interchange, resulting in workable understanding and agreement between the sender and receiver of a message”.*

– **George Vardman**

*“Communication is interchange of thoughts, opinions, or information, by speech, writing, or signs”.*

– **Robert Anderson**

*“Communication is the process by which information is passed between individuals and/or organisations by means of previously agreed symbols.”*

– **Peter Little**

*“Communication is any behaviour that results in an exchange of meaning.”*

– **The American Management Association**

*“Communication may be broadly defined as the process of meaningful interaction among human beings. More specifically, it is the process by which meanings are perceived and understandings are reached among human beings.”*

– **D.E. McFarland**

## **7.3 BUSINESS COMMUNICATION**

The word ‘Business’ stands for any economic activity undertaken with a view to earn profit. The communication undertaken in the process of this activity is termed as business communication. From the very inception of the idea of the Business, to run the day to day activities of the Business, communication is involved. It includes oral, written, formal, informal, upward, downward, lateral, diagonal, inward, outward as well as non-verbal communication.

Communication is the most vital ingredient for an organisation. In fact, an organisation cannot be conceived without communication. An organisation is a group of persons constituted to achieve certain specific objectives. The achievement of these objectives largely depends upon a proper co-ordination and integration of human effort in an organisation. The people working in an organisation are interrelated; their activities are also interrelated because all activities are performed only to achieve the organisational objectives. Co-ordination and integration of various human activities are possible only if there is an effective system of communication in the organisation which provides for exchange of information and sharing of various ideas. The more effective the system of communication, the better is the relation between workers and the management.

It is communication which gives life to the organisation; so, it is rightly known as the life blood of an organisation.

*“For communication to be effective has to be both information and meaning. And meaning requires communication.”*

– **Peter F Drucker**

### **7.3.1 The Role of Communication in Business**

In business organisations, communication performs several roles that include:

- **Information sharing:** The main purpose of communication is to transmit information for a source to target individuals or groups. Various types of information are transmitted in the organisation: policies and rules, and changes and development in the organisation, etc. There may be need for fast diffusion of

some information in the organisation, e.g., special rewards and awards given, settlements with the union, and major changes in the organisation.

- **Feedback:** There is a need to provide feedback to the employees on their achievements, to the department on their performance, and to the higher management on the fulfillment of goals and, difficulties encountered in the communication of feedback helps in taking corrective measures and making necessary adjustments, and it motivates people in developing challenging and realistic plans.
- **Influence:** Information is power. One purpose of communication is to influence people. The manager communicates to create a good environment, right attitudes, and congenial working relationship. All these are examples of influencing.
- **Problem-solving:** In many cases communication aims at solving problems. Communication between the management and the unions on some issues (negotiation) is aimed at finding solutions for a problem and to evolve a consensus.
- **Assists in decision-making:** The most important function of every manager is decision-making. In order to make accurate and appropriate decision, a manager needs to obtain information available in various channels of communication. Here the way in which decision is communicated will have an impact upon the outcomes of the organisation in terms of cooperation and support of the people to achieve organisational goals. For arriving at a decision several kinds of communication are needed, e.g., exchange of information, views, and available alternative, etc., communication helps a great deal in decision-making.
- **Facilitating change:** The effectiveness of a change introduced in an organisation depends to a large extent on the clarity and spontaneity of the communication. Communication between the managers and employees helps in recognising the difficulties in the planned change, and in taking corrective action.
- **Group building:** Communication helps in building relationships. If communication breaks down, the group may disintegrate. Communication provides the necessary lubrication for proper functioning of a group.
- **Gate keeping:** Communication helps to build linkages of the organisation with the outside world. The organisation can use its environment to increase its effectiveness. It can also influence the environment, the government, its clients, its resource systems, etc. Communication plays a critical role in this respect.
- **Conveying the right message:** The main objective of communication is to convey the right message to the right person, i.e., to the person for whom it is meant. The message conveyed should be well understood and accepted by the receiver in the right perspective. In other words, it should carry the same meaning, which has been conveyed so that it may be translated into action effectively.
- **Helps in Co-ordination of effort:** Communication is an effective tool for coordinating the activities of different persons engaged in running a business. Coordination without communication is a remote possibility. In organisations, there exist a lot of differences, which are many a times formally created by an organisation through departments, divisions, delegation, decentralisation, authority and power. Through various effective communication mechanisms like letters, circulars, meetings conferences, telephone, cellular phones, etc. these differences are minimised and activities are properly coordinated to achieve organisational goals. The individuals or groups come to know what others are doing and what is expected from only through communication.

- **Good industrial relations:** Communication develops good industrial relations as it conveys the feelings, ideas, opinions and viewpoints of one party to the other parties. The two parties – the management and the subordinates come closer through communication. They understand each other and dispel any misunderstanding. Thus, it promotes cooperation and good industrial relations.
- **Development of managerial skills:** Communication helps managers to understand human behaviour at work. Communication of facts, ideas, opinions, information, feelings, etc., add value to the knowledge of managers about various happenings, in the organisation and behaviour of people. Thus, communication is a process of learning.
- **Ensuring effectiveness of policies:** The organisation formulates policies and programmes to guide the work force. This should be conveyed properly to those who are really responsible for the execution of work to achieve the organisation objectives. Only effective communication can translate the policies into action. Effectiveness of the policies can be judged from the success, which surely depends upon an effective communication system.
- **Motivating people:** If people working in organisations are not regularly informed about their management's expectations, plans and policies with respect to their future career and growth, promotion and welfare measures, they feel frustrated and de-motivated. Through various communication devices, managers declare rewards and incentives to motivate employees.
- **Performance feedback:** People working in an organisation need to know how well they are performing and what needs to be done to achieve and exceed the standards set by management? Through measures like letter of appreciation or suggestion, the subordinates are given a feedback about the performance status.
- **Job instruction:** Managers need to communicate with their subordinates for job instructions in terms of requirements of the job from time-to-time. Failure on the part of managers in communicating these instructions may lead to confusion, wastage and inefficiency in an organisation.
- **Controlling people:** Every organisation has its own rules, regulations and procedures framed by the management in order to perform various activities to regulate the behaviour of people. Therefore an organisation issues notices, circulars, letters, etc. to communicate the existing or changed rules, regulations and procedures. The management information system is well-known as a control mechanism. Information is transmitted to ensure that plans are being carried out according to the original design. Communication helps in ensuring such control.
- **Useful as a grapevine:** Informal communication or grapevine in organisations, sometimes leading to rumours, is often used by employees to create misunderstanding. But sometimes management also takes the help of this route to assess the impact and reaction of employee before introducing proposed policy changes in the organisation.
- **Emotive function:** Communication facilitates the expression of feelings and satisfaction. It also enables the people to express their dissatisfaction and unhappiness through words or in writing to release their tension and frustration. That is why in organisations there exist grievance resolution machinery and often managers and supervisors are trained how to handle employees' emotional problems and grievances.

### 7.3.2 Factors Determining Quantum of Communication

Just how much communication a business organisation needs, depends on a number of factors.

- **The nature of the business:** Some businesses such as insurance companies have a much greater need to communicate than others such as janitorial services.
- **The volume of communication:** It generates much of the information flow.
- **The people who make up the organisation:** The people who make up the organisation affect the extent of communication. As every human being is different, each one has unique communication needs and abilities. Thus, varying combinations of people produce varying needs for communication.

### 7.3.3 Success of Communication is the Success of Business

*Business communication may make relations or may break relations.* Business communication maintains, sustains and animates business relations. It can solve the problems of the organisation and it can create problems if the executives are not perfect in communication with employees, suppliers and customers.

Business communication can lead to industrial unrest and at the same time can bring industrial peace. In a nutshell, the following points further justify the need or significance of communication.

- Basis of planning
- Basis of decision making
- Create coordination and cooperation
- Establishment of effective leadership
- Development of human relations
- Build image
- Helps in achieving peace and effective control
- It leads to high morale and motivation
- Unseen infrastructure of an organisation
- Communication is helpful in delegation of authority

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## 7.4 NATURE OF COMMUNICATION

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The analysis of the above definitions implies that communication has the following characteristics, which define the nature of communication.

- **It is a process:** The term process has been defined as an identifiable flow of interrelated events moving over time towards some goal or an end. Accordingly, communication is a process in which there are some identifiable inter-related events which starts with the sender. Then it moves by encoding messages, through some channel till the receiver receives the message and ends with the feedback.
- **It is inevitable:** Communication is essential physically, socially and psychologically. If an individual is provided with all physical comforts but is not allowed to read, write, speak and listen, he will become mentally retarded.
- **Meaning Based:** Communication is meaning-based. As has been very succinctly said by a specialist, "The most immediate need for communication is to be able to refer to things in the real world, that is, to be able to name things, states, events,

attributes, using words". In addition, we must be able to link words together so as to make meaningful sentences and language. Hence, there is a need to be clear-headed about what we want to say.

- **Communication is intentional as well as unintentional:** While some communication is intended, that is, it is purposely done, much of the communication may be unintentional, that is, we might convey, in many ways, even what we don't wish to communicate.
- **Communication is systematic:** Every component of communication is affected by the other. The one who sends the message, the message itself as well as the receiver of the message; all are interrelated and affected by each other.
- **A two-way traffic:** A significant aspect of communication is involvement of at least two people, i.e., a sender and a receiver. In fact, one person cannot communicate to himself. A receiver must complete the communication act. There is no communication, until the message sent by the sender is being received by the receiver. A personnel director may send hundreds of memos and warning letters to an employee, but communication is not complete unless it is received and read by them. Since communication is an exchange of views, opinions, directions, etc., it is a two-way traffic. The "two way" can be understood in many ways. It is not just the sender is involved in communication, but the receiver, is also equally involved in the process. In another way, Communication is both ways, upward as well as downward, in an organisation. Messages, directives, opinions, etc., are sent to lower levels in the hierarchy of management. Likewise grievances, complaints, opinions feelings, points of view, etc., are communicated upward along the line, i.e., from workers (lower level) to management (higher level). *George Terry has rightly remarked, "Simply talking or writing, without regard to the recipients' response, is conducive to misunderstanding."* Thus, communication should be both ways.
- **Communication is a social process:** Human being is a social animal. He cannot live in isolation. Communication is a process which helps the human being to interact and socialize. Hence, it is a social process.
- **Dynamic process:** Dynamic means "ever changing". Communication is not a constant, one-time event. It is a dynamic process, which is changing all the time.
- **Continuous process:** Communication is a continuous process. More often than not, it is repeated to achieve the desired results. It is an ongoing process, in which one interaction is followed by the other.
- **Communication is both interaction and transaction:** The participants of communication exchange ideas and information and also influence each other in the process. They share and exchange both thoughts and meanings.
- **It is spiraling process:** Communication between the receiver and the sender usually does not start at the same level or grow at the same rate. It is due to difference of abilities of the sender as well as the receiver. Moreover, noise and time have an impact on it. As a result, communication takes a spiral shape before it is completed and reaches the receiver the same level and space.
- **It is contextual:** Communication happens with reference to a context. The same words would mean different things if they are said in different contexts. Hence, meaning may differ in different situations.
- **Needs proper understanding:** There may be numerous media of communication but the main purpose of conveying the message is to create a proper understanding

of the message in the mind of the other party. For this purpose, it should be clearly and concisely worded.

- **Leads achievement of the organisational objective:** Effective communication does this by creating the sense of object orientation in the organisation.
- **Dispels misunderstanding:** In this sense, it facilitates clear understanding between persons and thus builds a bridge of camaraderie among people.
- **It has four specific skills:** Communication has four specific skills. They are reading, writing, speaking and listening. Their brief sketch is shown in the following Table 7.1.

**Table 7.1: Communication Skills**

Skills	Activeness	Related to	Sender/Receiver Mode
Reading	Passive	Written	Receiver
Writing	Active	Written	Sender
Speaking	Active	Oral	Sender
Listening	Passive	Oral	Receiver

- **It is all pervasive:** Irrespective of the type and size of the organisation, communication is inevitable. It is important at all levels. It exists everywhere in an organisation. With communication, it is possible to delegate authority, to coordinate activities, and to take managerial decisions.
- **It shares thoughts and ideas, which produce response:** Thoughts and ideas, which do not produce response, do not fall under the preview of communication.
- **It is the lifeblood of the business:** No business organisation and no civilized society can exist, survive and grow without the existence of an effective communication network. Through communication, people working in an organisation get activated and involved in performing a variety of roles for achieving organisational goals. Various modes of communication are used for people outside the organisation to know the existence, products, profit and progress of the organisation.

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## **7.5 OBJECTIVES/PURPOSE OF COMMUNICATION**

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An objective is something that we want to attain or accomplish through our efforts; it is the purpose with which we undertake an activity. When we speak or write to our friends, we may not have a specific purpose, except to keep in touch, to be friendly; when we chat with a group of friends, we simply want to socialize, be friendly, or express ourselves. But in an official or business situation, when we speak, listen or write to customers, or to our subordinates or our superiors, we have a specific purpose or objective; we want to accomplish something. Communication could have many objectives depending on the context and persons involved. Communication within a family, in a classroom, in a theatre, in a seminar, in a boardroom and in the organisation has different objectives. The objectives depend upon the purpose to be achieved.

The objectives of business communication would include the following:

- **To inform:** This is the foremost objective of communication. Information is power. The information needs within and outside the organisation can be met through communication.

- **To persuade:** Businesses work through persuasion. It is important to persuade employees to work efficiently, to persuade customers to buy our product and so on. The objective of communication may be to persuade.
- **To educate:** To disseminate knowledge and develop skills and attitudes among people working in the organisation may be another objective of communication.
- **To train:** Communication is an integral part of any training programme. Training is required to achieve proficiency in specific skills. Instruction, demonstration, practice and discussion during training require communication as an integral part.
- **To motivate:** High level of morale and motivation are a must to ensure high levels of productivity and efficiency on a sustainable basis. Communication provides a means to keep the motivation levels high.
- **To integrate:** Large business organisations have different business units, departments and territorial divisions, pursuing different targets. Communication provides the means for an integrated approach in pursuing organisational goals.
- **To relate:** Good business relations are a must for continued success of any business organisation. Communication provides the means for building and nurturing mutually beneficial relationships.
- **To entertain:** Whatever be the nature of business, there is always a time for entertainment. Communication facilitates social bonding and brings lighter moments that help in entertainment and relieving tension.

The objectives of communication are dynamic and ever-changing. Some of the common objectives of official communication are to get or give information, to ask for or give instructions or advice or suggestions, to make requests, to persuade other people to agree with us. Sometimes, we communicate with the intention of complaining, or warning; but unfortunately, we do this angrily and get into arguments. If we learn to complain and warn in an acceptable and constructive manner, our serious intention can be conveyed quite effectively without damaging relationships. In order to caution, counsel, clarify, apprise, evaluate, reprimand, organize and numerous such objectives, we make use of communication.

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## 7.6 SCOPE OF COMMUNICATION

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Communication has unlimited scope. The scope of communication can be understood under two headings:

- External Dimension
- Internal Dimension

**External Dimension:** External dimension regarding communication has a bigger arena. It includes building relations with external agencies and stakeholders. Effective communication can establish a healthy external organisational climate in which there is trust, cooperation, collaboration, innovation and commitment. Self-involvement of people in various activities is inculcated to create vibrant and congenial atmosphere. Likewise, depending upon how an organisation looks after its advertisements, publicity and public relations function, public image and goodwill of the organisation is created through effective communication.

**Internal Dimension:** A lot of communication takes place within the organisation. In an organisation, starting from formulating corporate vision, mission policy objectives, taking goals to their implementation, communication plays a significant role. For formulating policies, top management needs to obtain information and views of the middle and lower level management through various forms. Especially for the



appropriate implementation of the top management policies and plans, it is only communication which facilitates proper understanding of the policies in the right spirit. Public relations, as a management function, solely depend on right communication. There are different functions to be performed by various functional departments to keep the organisation running. Within each department and across different departments, functional heads have to communicate to their subordinates by giving job-related instructions, suggestions, advice and orders. For obtaining and giving cooperation to other departments, exchange of information plays a key role.

When we look at each functional department, the scope of communication becomes further clear. For example, in the case of human resources department, the HR manager needs to take care of communication to avoid grievance, dissatisfaction and industrial unrest in the entire organisation. Communication skill is essential for manager to design the right advertisement copies, conducting effective interviews, arranging better training programmes, etc.

In addition to external and internal dimensions, the scope of communication may be looked into as follows:

- Includes oral and non-verbal communication.
- Interpersonal, intrapersonal and mass communication.
- Covers only human communication.
- Covers four skills – reading, writing, speaking and listening.

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## 7.7 IMPORTANCE AND FUNCTIONS OF MANAGERIAL COMMUNICATION

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Communication plays a vital role in every walk of life. According to Luthans, some estimates of the extent of its use to go up to about three-fourths of an active human being's life, and even higher proportions of a typical manager's time. The world is changing fast and with it, every organisation is becoming more and more sophisticated. So, communication has first of all to be given due recognition as an integral part of process change. Whenever a change in the direction of technology, structures or objectives takes place, it becomes easier with the help of communication.

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## 7.8 EVALUATION OF COMMUNICATION EFFECTIVENESS

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Communication is not an end in itself; rather it is a means to attain other ends or goals. Hence, it has to be effective to be able to attain these goals or objectives. Communication effectiveness can be examined in relation to the following criteria:

- **Fidelity of communication:** The distortion free quality of a message is called fidelity. An effective person gets the message across to others with minimal possibilities of misunderstanding.
- **Economy:** In an effective communication a minimum of energy time, symbols and cues are used to encode message without losing its fidelity and impact.
- **Congruence:** An effective communication integrates both verbal and non-verbal cues.
- **Influence:** The most important criterion of effectiveness is the influence that the communicator is able to exercise over the receiver of the communication. Influence to the communicator means to achieve the results he intended.

- **Relationship Building:** An effective communication contributes to the building of trust and better relationship between the source and the target.

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## 7.9 ORGANISATIONAL COMMUNICATION

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Communication is the passing of information and understanding from one person to another at the same level or at different levels. It is the process by which the management reaches others in managing its work. Since managers work through others, all of their managerial functions pass through the bottleneck of communication. One person can initiate the process but he alone cannot complete it. It is completed only when it is received by others. The effectiveness of management largely depends upon the effectiveness of communication. It is the communication which gives life to the organisation; so, it can be said as the life blood of an organisation. The communication system serves as the vehicle by which an organisation is embedded in its environment. It not only integrates the various sub-units of an organisation but also, in a systematic sense, serves as an elaborate set of interconnected channels designed to sift and analyse information important from the environment. It also exports processed information to the environment.

The roles of communication become more critical as the organisation grows in its size, complexity and sophistication. So, the system should be adjusted according to the needs of the organisation from time to time.

Communication is the nervous system of an organisation. It keeps the members of the organisation informed about the internal and external happenings relevant to a task and of interest to the organisation. It co-ordinates the efforts of the members towards achieving organisational objectives. It is the process of influencing the action of a person or a group. It is the process of meaningful interaction among human beings to initiate, execute, accomplish, or prevent certain actions. Communication is, thus, the life blood of an organisation. Without communication, an organisation is lifeless and its very existence is in danger.

### 7.9.1 Information to be communicated in an Organisation

To reduce the chances of disinformation by the grapevine, an organisation keeps all its employees informed about a number of facts of the organisation. The content of the information is generally a mixture of fact, opinion, attitudes and interpretation.

Broadly, all business communications can be divided into five types of information:

- **Statutory information:** The information such as terms and conditions of service is to be communicated to all employees as a statutory requirement.
- **Regular work-situation:** The information regarding normal work situation has to be regularly communicated through routine formal briefing sessions or through informal chat sessions between the manager and the group members (his/her colleagues).
- **Major policy or operational change information:** Any major change in the organisation policy or work, which is going to affect everyone or a large number of employees, has to be communicated to all by calling special meetings or by issuing notices to be read by all.
- **Information bulletin:** To keep people informed about events and happenings taking place in the organisation, periodic information in the form of a newsletter is communicated to all employees of the company. This information creates a sense for involvement in employees in the working of the organisation.

- **Communication by expectancy:** Information of critical changes should be carefully and gradually communicated with those who are going to be directly affected by the decision. Before the decision is taken and implemented, the people concerned must be mentally prepared for the event. Involving their representative or head in the very process of decision making can do this. This process is to create expectancy in the receivers who would be less shocked by negative communication and its eventuality.

### 7.9.2 Importance of Communication in Management

Communication skills constitute an important aspect of effective management. Managing is a complex process. In simple terms, it can be described as the organisation of capital, labour and material to achieve production and distribution of particular goods or services.

First, the management fixes its objectives - what to do and form its policy on how to do it. Then there has to be a system through which the production and distribution processes can be guided, coordinated and controlled to ensure that the management operations are led and coordinated and the results are provided with feedback.

Managing is a unified, organized and cooperative system committed to the achievement of common goals. The sense of unity of purpose and commitment to a single organisational goal can be developed only through the inspiring and persuasive power of communication. To be able to do so, a manager needs to have communication skills of higher order to structure the information, according to its negative/affirmative nature and to sue words and tones according to purpose of the communication. The manager should be able to create a desired relationship with audience/workers to produce the needed response.

For training and development programmes, communication also plays a vital role. For appraising employees, performance standard also require to be properly and clearly communicated so that employee understands what he needs to do, and subsequently employees also need feedback about their performance. In case the HR manager fails to properly communicate the performance outcome result, it will cause emotional problems, dissatisfaction, and low morale among employees. Communications is also essential for explaining disciplinary rules and procedures and their proper implementation. A human resources manager needs to have good negotiation skills to arrive at an agreement during the collective bargaining process to overcome obstacles, which may arise in the negotiation process. It is also required for fostering effective participative and collaborative work culture in the organisation. Problems, suggestions opinions and recommendations of employees are transmitted through communication in an organisation. Communication has direct link with motivation, morale, absenteeism and productivity of the employees. A leader's failure or success depends upon how well he communicates his plans, vision and ideas with his followers.

Thus, a whole lot of strategies, verbal, of effective communication form an important part of management as a discipline.

### 7.9.3 Some Important Functions of Managing

The functions of managing which includes planning, organising, instructing, coordinating and controlling require the support/action of communication.

- **Forecasting and Planning:** Each function depends on effective communication for its success. For example, if the management fails to communicate its objectives, polices, programmes, procedures and budgetary provisions to the concerned people at the proper time, an organisation would fail to run in an organized and targeted manner.

- **Organising:** Organising as a management function determines the formal and informal relationships within the organisation and outside it. These relationships are developed and maintained through inter-personal communication.
- **Instructing:** The function of instructing wholly depends upon interpersonal exchange of information regarding products, processes and targets for its success.
- **Coordinating:** Coordinating as a manager's function is perhaps the most demanding of all functions. It requires excellent communication skills to ensure that all efforts are directed towards the achievement of a single organisational goal. To see that diverse activities are unified into single whole, the manager should be able to relate with all people formally and socially.
- **Controlling:** Finally for controlling, the manager should have competence to receive information and respond quickly.

Hence, an active communication system is vital for the good health of an organisation. If there is continuous sharing of ideas and interactive meetings between the management and workers, the overall atmosphere of understanding and goodwill would prevail in the workplace. If decision-making is transparent, employees would understand the reasons for those decisions and accept and implement them even if they affect them adversely.

#### ***Why Managers need Communication Skills?***

To a large extent, the success of an organisation depends upon the atmosphere in which there is a free flow of information upward, downward and horizontal. At the workplace, we primarily think of getting things done. For this, instructions and guidelines, supervision and monitoring and periodic reporting are usually, considered enough. But, if we wish to achieve more than the set task, a real involvement of all the employees from the highest to the lowest levels is to be secured by allowing every level of worker/employee to suggest/offer ideas, views and experiences. Such a system of communication can be evolved and established within the organisation only by the manager. In fact, the manager functions as a point of intersection for all communication channels. One of the important concerns of the manager is to organise and ensure an effective information system across the organisation.

As analysed by Henry Mintzberg of Michigan Institute of Technology, managers need effective communication skills to perform the following inter-related roles:

- Interpersonal
- Informational
- Decisional

The interpersonal role makes the manager act as a figurehead leader, and liaison officer. The informational role makes the manager monitor, disseminator, and spokesperson. In the decisional role the manager functions as entrepreneur, trouble shooter, resource allocator and negotiator.

- **Interpersonal role:** It is necessary to ensure effective operation of the organisation's system and to maintain proper relationships within the organisation and with the outside client suppliers, and other functions. If interpersonal communications are effective, internal systems run smoothly. For example, personnel functions within the organisation require that as a manager one should inspire confidence, win support and guide the workers. He/she should be a role-model for others, develop the skill of patient listening, act subordinates, creates an atmosphere of mutual understanding and goodwill within the organisation by transparent sharing of its objectives, missions and problems.

- **Informational role:** If the internal information system is effective, systems such as stock control, personnel functions financial systems, and quality control operate smoothly. Shortcomings and problems can be quickly identified and remedial action taken immediately. Proper maintenance of product and service standards can be ensured through timely monitoring and instructing. Through effective, interactive and informational communication, and a strong feedback system, the high morale and satisfaction of workers can be secured.
- **Decisional role:** Decision-making is based upon receiving and interpreting all relevant and necessary information. Without having necessary information, decisions may turn out to be unrealistic and based on guesswork. Managers need to possess the skill of receiving relevant and latest information correctly and accurately to be able to take decisions and act rationally, fairly and to the satisfaction of everyone concerned.

All these functions require the manager to handle people and situations with the knowledge of human needs.

**Table 7.2: Communication Needs in Different Jobs**

Job Title	Communication Skills
Secretary	Must be proficient and have flair writing skills
Finance Associate/Finance	Must be able to communicate clearly to client and others
Product Manager	Develop and communicate Product Strategies
Sales Representative	Excellent oral communication and follow up skills, ability to draft proposals
Personal Manager	General knowledge of proposal preparation: good oral/written communication skills
Production Manager	Ability to write, ability to read, listening to grievance, ability to conduct interviews.
Contracts Administrator	Ability to communicate precisely with employees working under his supervision

**Check Your Progress**

Fill in the blanks:

1. Coordination without \_\_\_\_\_ is a remote possibility.
2. Communication is derived from Latin word \_\_\_\_\_.
3. Communication is the \_\_\_\_\_ of business.
4. A significant aspect of communication is involvement of atleast \_\_\_\_\_ people.
5. \_\_\_\_\_ dimensions include building relations with external agencies and stakeholders.
6. \_\_\_\_\_, as a management function, determines the formal and informal relationships within the organisation and outside it.

**7.10 LET US SUM UP**

- Communication is defined as “the process of passing information and understanding from one person to another, it is essentially a bridge of meaning between people”. All communication is essentially sharing of information or some message. Communication is the most important part of our social activities.

- The objective of communication is to inform, to persuade, to train, to motivate, to educate, to relate, to reprimand, to rectify and so on. The scope of communication covers the internal and external dimensions of communication.
- The importance of communication can be gauged from the functions it performs. Communication is the lifeblood of an organisation. Communication facilitates all the functions of management including **planning**, organising, instructing, coordinating and controlling.
- Communication is the most vital ingredient of an organisation. In fact, an organisation cannot be conceived without communication. An organisation is a group of persons constituted to achieve **certain** specific objectives. The achievement of these objectives largely depends upon a proper co-ordination and integration of human effort in an organisation.
- The people working in an organisation are **interrelated**; their activities are also interrelated because all activities are performed **only** to achieve the organisational objectives. Co-ordination and integration of **various human** activities are possible only if there is an effective system of communication in the organisation which provides for exchange of information and sharing of various ideas. The more effective the system of communication, the better is the relation between workers and the management.

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### 7.11 LESSON END ACTIVITY

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Analyse the type of communication that you follow or have followed as a student while communicating with your friends, seniors and principal. Is there any difference?

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### 7.12 KEYWORDS

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**Communication:** Communication is the sum of all **things**, one person does when he wants to create understanding in the minds of **another**. It involves a systematic and continuous process of telling, listening and understanding.

**Business Communication:** Business communication is information sharing between people within and outside an organisation that is performed for the commercial benefit of the organisation.

**Decision making:** Decision making process is a continuous and indispensable component of managing any **organisation** or business activities.

**External Dimension:** External dimension means **building** relations with external agencies and stakeholders.

**Internal Dimension:** Internal dimension means **building** relations within the organisation.

**Group building:** Group building is the process of **turning** a group of individual employees into a cohesive team, a group of people **organised** to work together interdependently and cooperatively to meet the needs of their customers by accomplishing their purpose and goals.

**Congruence:** It is a quality or state of agreeing or corresponding.

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### 7.13 QUESTIONS FOR DISCUSSION

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1. Define communication.
2. How can you **classify** communication?

3. What are the four communication skills? Which one is the most important? Why?
4. What are the functions of communication?
5. Give the distinct features of communication.
6. "Management is the art of getting things done through others." What role does communication play in this?
7. Give the importance of business communication.
8. "Communication is the lifeblood of an organisation." Elaborate the statement with suitable examples.
9. What is the scope of business communication?
10. Write a note on the nature and scope of communication.
11. Briefly explain the objectives/purpose of communication.

**Check Your Progress: Model Answers**

1. Communication
2. Communis
3. Lifeblood
4. Two
5. External
6. Organising

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## **7.14 SUGGESTED READINGS**

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Sehgal M.K., Khetarpal Vandana, *Business Communication*, Excel Books

P.D. Chaturvedi, Mukesh Chaturvedi, *Business Communication, Concepts, Cases and Applications*, Pearson Education

Bowman, Joel and Branchaw, *Business Communication: From Process to Product*, Dryden Press

Courtland Bovee and John Thill, *Business Communication Today*, Random House, New York

Urmila Rai and S.M. Rai, *Business Communication*, Himalaya Publishing House

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# LESSON

# 8

## DIMENSIONS OF COMMUNICATION

### CONTENTS

- 8.0 Aims and Objectives
- 8.1 Introduction
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- 8.3 Sequencing of Communication Process
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- 8.10 Let Us Sum Up
- 8.11 Lesson End Activity
- 8.12 Keywords
- 8.13 Questions for Discussion
- 8.14 Suggested Readings



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## 8.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand the communication process and its sequencing
- Explain dimensions of communication
- Discuss the main forms and elements of communication in business
- Describe the various patterns of communication

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## 8.1 INTRODUCTION

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Communication is regarded as the nervous system of an organisation as it keeps the members of the organisation well informed about the internal and external activities of the organisation. Communication is two-way traffic, a continuous process, a short lived process and needs proper understanding. The scope of communication is wide and it includes information sharing, feedback, control, group building, decision making and gatekeeping. The main objectives of communication are conveying the right message, coordinating the activities of different persons engaged in running a business and to promote persons good industrial relations and effectiveness of policies.

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## 8.2 THE COMMUNICATION PROCESS

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It has been explained in the previous chapter and in the previous sections of this chapter that communication is a process, generally a two-way process. The process is a concept that is dynamic and ever-changing. The process in fact, is both time dimensional as well as space dimensional in which action unfolds in a continual manner towards some goal. In other words, communication being a process attempts to provide information to the receiver and also to persuade the concerned person according to the sender of the message.

Communication process is not logical in case of one-way communication as in this case feedback is absent. Here, the sender communicates without expecting or getting feedback from the receiver. For example, a policy statement from the chief executive is an example of one-way communication. It is only in certain situations that one-way communication is more effective to get the work done from the subordinates:

The two-way communication process is superior to one way communication in the following aspects:

- Two-way communication is more effective than one-way communication. The feedback allows the sender to refine his communication so that it becomes more precise and accurate.
- Receivers' self-confidence is higher in case of two-way communication as they are permitted to ask questions and seek clarification from the senders.

However, in case of two-way communication, the sender may feel embarrassed when the receiver draws his attention to sender's mistakes and ambiguities. It is therefore, essential to discuss the communication process in a comprehensive manner.

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## 8.3 SEQUENCING OF COMMUNICATION PROCESS

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The sender or source conceives the idea, gives it a shape, decides the mode of communication which may be used to convey the idea, and conveys it. The receiver receives it, tries to understand it, and finally takes an action which may be either to store the information or to send the message to the original source or take any other

line of action as required by the source. The sequencing of communication process, thus, may be depicted as follows:

**Table 8.1: The Sequencing of Process of Communication**

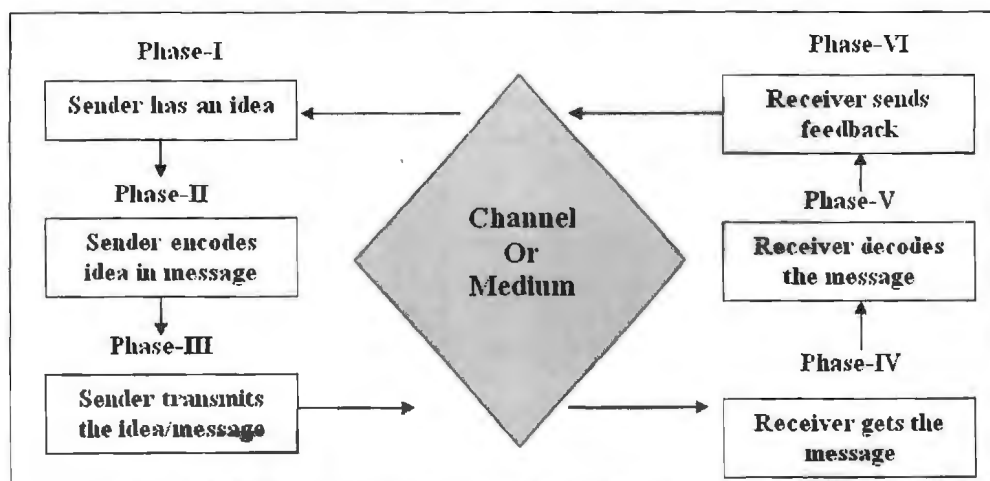
Ideation	Encoding	Transmission	Receiving	Decoding	Action
Conceiving of the idea by the sender or source	Encoding the message	Transmission of the message	Receiving of the message by the receiver	Decoding the message	Behaviour or action on the message

When the communication is undertaken by a business firm to buyer or to employees or shareholders, it is known as business communication. In business, a company (sender) communicates to its employees, customers, to shareholders, to the intermediaries, to public, media or to government regulators.

Basic forms of business communication are:

- Face-to-face meeting with clients
- Through large formal business meetings
- Production of clear message through letters, faxes, e-mail, etc.

Business communication thus, is defined as the process of transmitting information or idea and understanding between the different parts and people of a business organisation. The process of communication is further refined is evident from Figure 8.1.



**Figure 8.1: The Communication Process**

Figure 8.1 show that there are six phases in the entire communication process. At phase I, the sender has an idea or information. At phase II, the sender encodes the idea for transmission and at phase III, the encoded idea is transmitted by the sender through the strategically selected channel or medium of transmission.

At phase IV, the receiver gets the message, at phase V, the receiver decodes the message and finally at phase VI, the feedback is sent by the receiver.

Mary Ellen Guffey says that, “we cannot just glance at another person and transfer meaning directly from mind to mind, we engage in a sensitive process of communication that involves five steps”. These steps are depicted in Figure 8.2.

Who says?	Or	Control Analysis
What says?	Or	Composition Analysis
On what channel?	Or	Channel Analysis
To whom?	Or	Receiving Analysis
With what effect?	Or	Impact Analysis

Figure 8.2: Five Steps

This shows that communication was considered as a one way process. Now communication is incomplete if feedback is missing. We discussed in this section two categories of models of process of business communication.

- The Linear Model – one-way communication process
- The Non-linear Model – two-way communication process

### 8.3.1 The Linear Model – One-way Communication Process

This comprises of two models, the Sender Receiver Model and Shannon-Weaver Model.

#### *Sender Receiver Model (SR Model)*

According to this model, communication was considered one way process involving flow of information from sender to a receiver. According to the Linear view, a receiver passively receives the message and acts as directed or desired by sender. The receiver receives the message without any distortion or change. Figure 8.3 clearly demonstrates this fact.

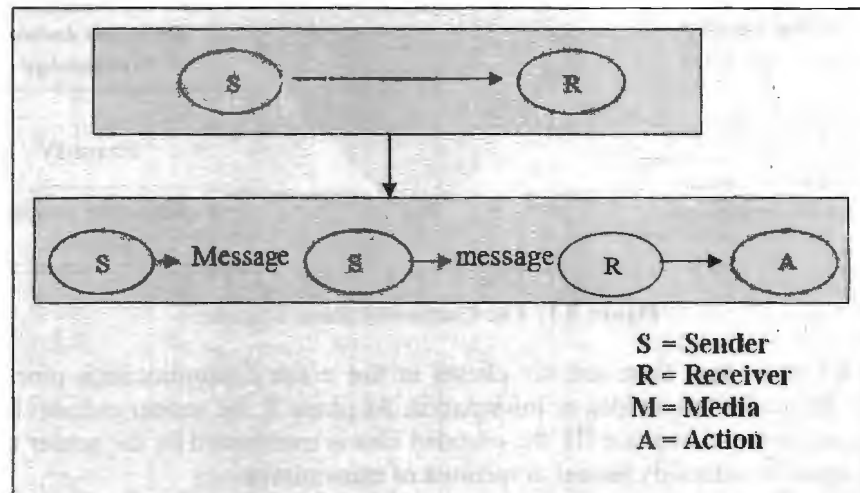


Figure 8.3: S-R Model

#### *The General Communication Model or Shannon-Weaver Model*

In this form, the receiver receives the message which is affected by noise. This view was expressed by CE Shannon and W. Weaver. These were the first to point out that in actual practice; message can be changed or blocked. Shannon's model was first published in the Bell System Technical Journal. According to this model, message received is not the message sent.

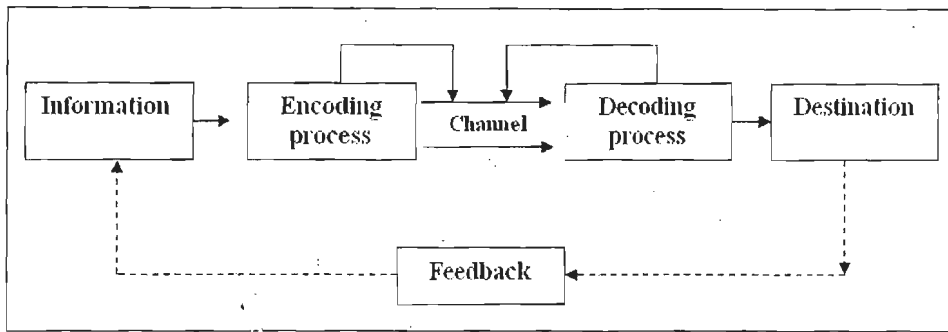


Figure 8.4: Shannon-Weaver Model

- **Information source:** The communication process begins with the information source. The sender has some raw information. His intention changes that information into a message to be communicated. The source of a message therefore, is the information source of the communication process.
- **Encoding:** Having thought over the message, the sender puts it into words (verbal symbols or any other symbolic form of expression). This process is called encoding.
- **Channel (transmission):** An appropriate medium/channel — oral, written, electronic, in code, or a signaling system — chosen to send the message is known as channel.
- **Decoding:** The receiver gets the message through decoding by receiving, understanding, and interpreting the message.
- **Acting:** The communication process ends with the receiver putting the interpreted message into action, as intended by the sender.

The communication thus completes a full circle, bringing together the sender and the receiver to become two aspects of a single purpose. It is this unifying process and role of communication that has made modern management organisations and systems consider communication as an essential skill for successful managers. According to Davis, “The only way that management can be achieved in an organisation is through the process of communication”.

**How does communication take place?**

According to Shannon Weaver model, this process of communication that takes place is shown in Figure 8.5.

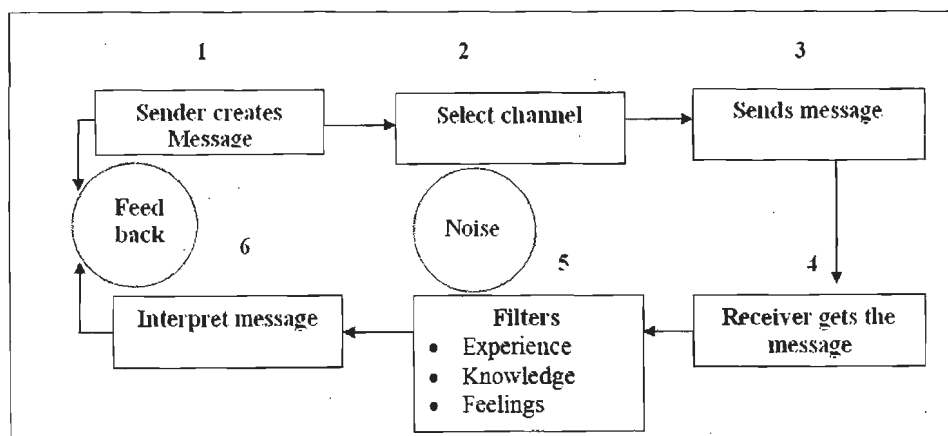


Figure 8.5: How Communication Takes Place

Figure 8.5 reveals the two factors which need serious consideration.

- **Noise:** This process is open to noise which prevents or distorts communication. Noise may be described as any distortion or hindrance, preventing transmission of the message from the (mind of) sender to the (mind of) receiver. For some communication theorists, noise basically stands for external disturbance in the physical environment surrounding the act of communication, or noise in the machine used for communicating the message such as telephone, or poor printout, or bad handwriting. Communication distortion caused by subjective factors such as mind sets of the sender and receiver are attributed to what is called filters.
- **Filters:** These are mental in nature. They include attitudes, beliefs, experiences, consciousness of personal status, and the ability to think clearly. Misunderstanding and different problems may arise as the sender's message passes through the filters of the receiver, which comprise of the sender filters plus others such as low interest or involvement in the message or distortion and fatigue causing loss of concentration.

It is to be noted that in this model feedback was not considered as an integral component because the model conceived the communication process as a linear act and feedback another new act of communication. That is why feedback is shown in dotted lines.

### 8.3.2 The Non-linear Models – Two-way Communication Process

Recent conceptualisation of the communication process looks at communication as a two-way process. A group of people are involved to complete the cycle of communication, in which the receiver acts as the sender of the feedback to transmitter (sender). Thus, both the sender and the receiver play reciprocal and reversible roles, as in telemarketing, or call centre communication. Consider the following two-way flow of communication.

The two-way concept is more contemporary or a reciprocal process. It considers communication essentially to be a reciprocal process and a mutual exchange of message. It makes no sharp distinction between the roles of sender and receiver, because the same person plays both roles, often simultaneously.

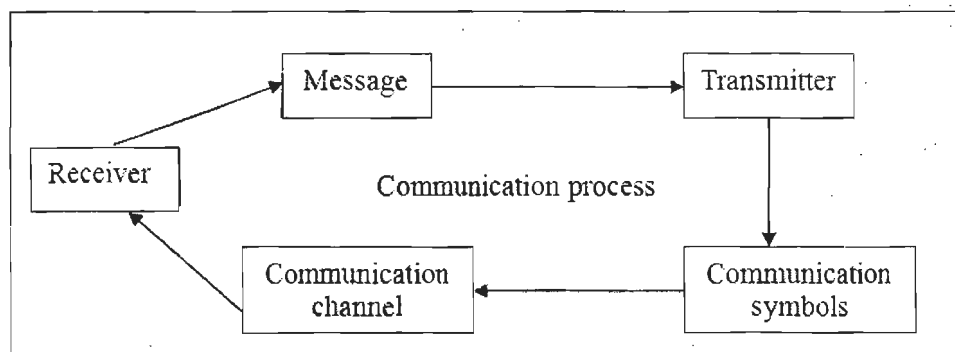
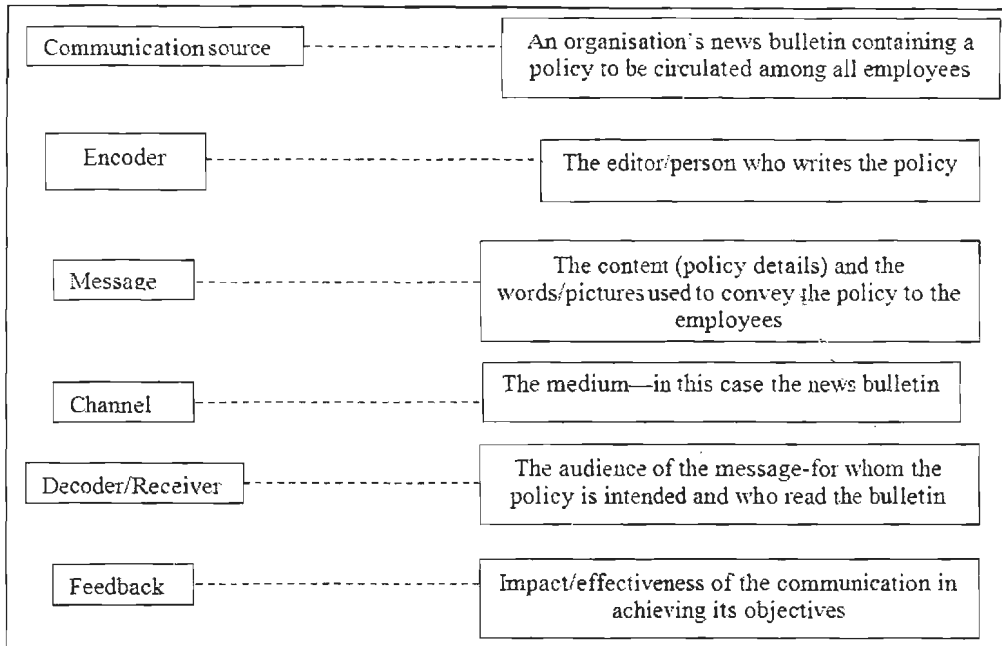


Figure 8.6: Flow of Communication

The receiver is an active agent in creating meaning to the message. The earlier linear view treated the sender as the determiner of message and its meaning. The two-way concept involves the receiver as an agent in the construction of meaning of the message. The communication is purposive in nature. It achieves success by manipulating the target audience through information and persuasion. The two-way communication is explained in Figure 8.6 and its practical implication is demonstrated in Figure 8.7 that comprises of an example.



**Figure 8.7: Two-way Communication Process Through a Concrete Example**

## 8.4 DIMENSIONS OF COMMUNICATION

Communication may be classified or categorized on the several bases:

- On the Basis of Expression/Medium Used
  - ❖ Written
  - ❖ Oral
  - ❖ Non-verbal
- On the Basis of Organisational Structure
  - ❖ Formal
  - ❖ Informal
- On the Basis of the Number of Persons (Receivers)
  - ❖ Intrapersonal Communication
  - ❖ Interpersonal Communication
  - ❖ Group Communication
  - ❖ Mass Communication
- On the Basis of Direction/Flow of Communication
  - ❖ Upward
  - ❖ Downward
  - ❖ Lateral
  - ❖ Diagonal
  - ❖ Inward
  - ❖ Outward

### 8.4.1 On the Basis of Expression/Medium Used

Communication can be verbal or non-verbal. Verbal communication may be oral or written. It depends upon the manner in which the message is expressed. If, it is expressed through the mouth, it is oral communication. This also includes face-to-face conversation, dialogue, interviews, meetings, conferences, telephonic conversation and so on. When the message is expressed through written language symbols, it is written communication and it includes reports, letters, mails, telegrams, orders and memos. When no words are used and only symbols, colours, signs, sounds or expressions help in expressing a message, it is termed as non-verbal communication.

These forms of communication are described further as follows:

- **Verbal Communication:** It means communicating with words, written or spoken. Verbal communication consists of speaking, listening, writing, reading and thinking. It may further be classified as Oral or Written Communication.

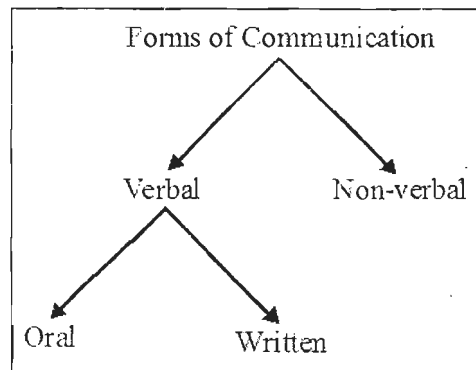


Figure 8.8: Forms of Communication

- **Non-verbal communication:** It includes usage of pictures, signs, gestures, and facial expressions for exchanging information between persons. It is done through sign language, action language, or object language. Non-verbal communication flows through all acts of speaking or writing. It is a wordless message conveyed through gestures (sign), movements (action language), and object language (pictures/clothes) and so on. Further non-verbal communication can be identified by personal space (proxemics), sense of smell (olfactics) and time (chronemics).

### 8.4.2 On the Basis of Organisational Structure

- **Formal Communication:** A formal channel of communication can be defined as a means of communication that is formally controlled by managers or people occupying positions in an organisation. The communication flows through formal channels, that is, officially recognized positions along the line in the organisation. This ensures that the information flows orderly, timely and accurately. Any information, decision, memo, reminder, etc. will follow this path.
- **Informal Communication:** Side by side with the formal channel of communication every organisation has an equally effective channel of communication that is the informal channel. It is not officially sanctioned, and quite often it is even discouraged or looked down upon. But, then, it is very much there, and has been given the name 'grapevine' precisely because it runs in all directions-horizontal, vertical, diagonal. As management experts have put it, "it flows around water coolers, down hallways, through lunch rooms, and wherever people get together in groups".

### 8.4.3 On the Basis of the Number of Persons/Receivers (to whom the message is addressed)

- **Intrapersonal communication:** It is talking to oneself in one's own mind. Examples are soliloquies or asides in dramatic works.
- **Interpersonal communication:** It is the exchange of messages between two persons. For example, a conversation, dialogue or an interview in which two persons interact (others may also be present as audience). An author communicates interpersonally with his reader, who is always present as a silent audience in the author's mind while he writes. A letter too is an example of interpersonal communication between the writer and the person to whom it is written.
- **Group communication:** It can be among small or large groups, like an organisation, club or classroom, in which all individuals retain their individual identity.
- **Mass communication:** It occurs when the message is sent to large groups of people, for example, by newspaper, radio or television. In this process, each person becomes a faceless individual with almost no opportunity for personal response or feedback.

### 8.4.4 On the Basis of Direction/Flow of Communication

- **Downward Communication:** The communication which flows from Top to Bottom is known as downward communication. Any organisation has an inbuilt hierarchical system, and in that, in the first instance, communication invariably flows downwards.
- **Upward Communication:** The communication which flows from bottom to top, that is from lower hierarchical level to higher level, is called upward communication. The main function of upward communication is to supply information to the upper levels about what is happening at the lower levels. It is just the reverse of the previous dimension.
- **Lateral Communication:** When communication takes place between two or more persons who are subordinates working under the same person, or those who are working on the same level, it is called lateral or horizontal communication. A good example for this kind of communication is that between functional managers. It is necessary for reviewing activities assigned to various subordinates having identical positions.
- **Diagonal Communication:** Diagonal or crosswise communication includes flow of information among different persons at different levels who have no direct reporting relationships. As an example, the communication between the Training Supervisor and Marketing Manager, regarding training of a few employees of Marketing Department, is Diagonal Communication. This kind of communication is used to speed up information flow, to improve understanding, and to coordinate efforts for the achievement of organisational objectives.
- **Inward Communication:** Inward communication includes all the information received by the organisation from external agencies such as suppliers, customers, government and media among others.
- **Outward Communication:** The communication which the organisation maintains with the outside world by various means, mode and media such as ads and tenders published in the newspapers and magazines, mails and telephonic conversations is called outward communication.



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## 8.5 MAIN FORMS OF COMMUNICATION IN BUSINESS

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The main forms of communication in business are three -- internal-operational, external-operational and personal communication. Let us discuss each of these forms for better understanding.

### 8.5.1 Internal-operational Communication

All the communication that occurs in conducting work within a business is classified as internal operational. This is the communication among the business's workers that is done to implement the business's operating plan. By operating plan we mean the procedure that the business has developed to do, for whatever it was formed to do -- for example, to manufacture products, provide a service, or sell goods.

Internal-operational communication takes many forms. It includes the orders and instructions that supervisors give to the workers, as well as oral exchanges among workers about work matters. It includes reports that workers prepare concerning sales, production, inventories, finance, maintenance, and so on. It includes the e-mail messages that workers write in carrying out their assignments.

In large businesses, much of the work done involves internal operational communication. You must be surprised to know that much of this internal-operational communication is performed on computer networks. Workers send electronic mail and post information on company intranets or portals for others throughout the business, whether located down the hall, across the street, or around the world.

In the typical company, for example, most of the internal-operational information is entered into the company's computer from executive workstations to become part of typical database. From the database, programmed reports are developed to give each operations department the information, it needs. Then the reports are communicated back to specific workstations; for example, sales reports and inventory records combine to communicate production needs to the production planning department. Finally, the production planning department communicates these needs to various production departments through a strategically planned work schedule.

Within each production unit and among production units, of course, additional communication must go on. Superiors make decisions and transmit them to subordinates. Departments exchange information, and workers communicate working information with one another. Memorandums are written, reports are prepared, and conversations are held-all in the process of coordinating efforts and supplying the information needed for achieving the organisation's goals. In every company division and in every activity, similar internal-operational communication occurs.

### 8.5.2 External-operational Communication

External-operational communication is that part of an organisation's structured communication which is concerned with achieving the organisation's work goals that are conducted with people and groups outside the organisation. It is the organisation's communication with its publics-suppliers, service companies, customers, and the general public.

In this category, remember all of the organisation's efforts at direct selling-sales representative's sales talks, descriptive brochures, telephone call-backs, follow-up service calls, and the like. Also included are all of the organisation's advertising efforts -- for what is advertising but a deliberate, structured communication with an organisation's public? Radio and television messages, newspapers and magazines space advertising, and point-of-purchase display material obviously play a role in the

organisation's plan for achieving its work objective. Also in this category everything the organisation does is to enhance its public relations. These activities include the organisation's planned publicity, and the condition of its physical plant. All these and many more communication efforts combine to make up the organisation's external-operational communication.

The extreme importance of an organisation's external communication hardly requires supporting comment. Certainly it is obvious that any business organisation depends on outside people and groups for its success. It is an elementary principle of business that because a business organisation's success depends on its ability to satisfy customers' needs, the organisation must communicate effectively with these customers. It is equally elementary that in today's complex business society, organisations depend on one another in manufacturing, distributing and services. This interdependence necessarily creates needs for communication. Like internal communication, these outside communications are vital for an organisation's operations. Both internal and external communications are vital for business success. In today's complex business society, business depends on each other in the production and distribution of goods and services. This interdependence requires communication.

### **8.5.3 Personal Communication**

You will be surprised to know that not all the communication that goes in an organisation is operational. In fact, much of it is without purpose as far as the organisation is concerned. Such communication may be classified as personal.

Personal communication is the entire incidental exchanges of information and feelings in which human beings engage whenever they come together. Human beings are social animals. They have a need to communicate, and they would communicate even when they have little or nothing to say. In fact, they communicate even when they do not communicate anything.

Much of the time that you spend with your friends is devoted to communication, for it is simply the thing to do when you get together. Even total strangers are likely to communicate when they are placed together, such as on a plane trip, in a waiting room, or at a ball game. Such personal communication also takes place in the work situation, and it is a vital part of the communication activity for any business organisation. Although not a component of an organisation's plan of operations, personal communication can have a significant effect on its success. This effect stems from the influence personal communication can have on the viewpoints (opinion, attitude and beliefs) of the organisation's members.

Organisation members' work viewpoint also affects the extent of personal communication permitted to them. Outright denial of the communication privilege can lead to emotional upset, for people hold their right to communicate. On the other hand, excessive personal communication can interfere directly with their work effort. Probably somewhere in the middle ground lies the optimal policy towards personal communication.

You must be aware that personal communication can also help form viewpoints (opinions, attitudes, beliefs). It is a process that determines much of what you think about their organisation, communication-workers and work situation in general. Whatever you think can affect your relationship with the organisation and can have a direct influence on your productivity.

Personal communication, its impact on attitude and performance of the employee and organisation and the reasonable degree of permissible personal communication is shown in Figure 8.9.

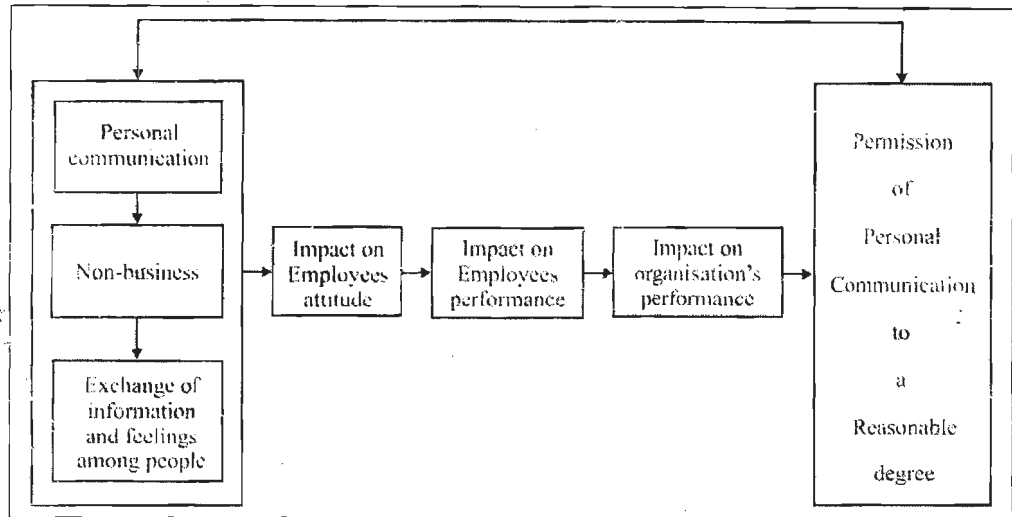


Figure 8.9: Personal Communication

## 8.6 ELEMENTS OF COMMUNICATION

As you know, communication is a process of transmitting and receiving verbal and non-verbal messages. It is considered effective when it achieves the desired reaction or response from the receiver. Simply stated, communication is a two-way process of exchanging ideas or information.

Communication includes six elements: context, sender-encoder, message, medium, receiver-decoder, and feedback. Figure 8.10 illustrates in part how these factors interact in the communication processes, affected by various contextual conditions and decisions.

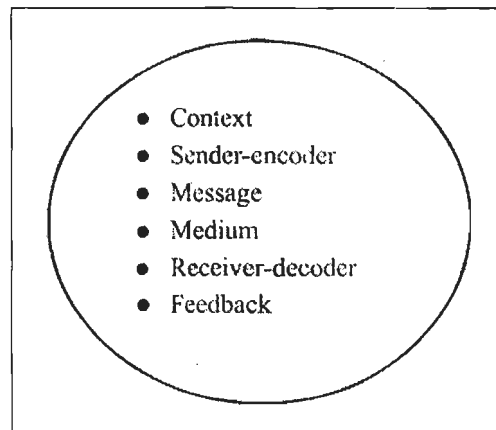


Figure 8.10: Elements of Communication

### 8.6.1 Context

You will find that every message, whether oral or written, begins with a context. The Context is a broad field that includes country, culture, organisation, and external and internal stimuli. Every country, every culture, and every company or organisation has its own conventions for processing and communicating information.

This aspect of context is the playing field on which you must plan, design and communicate your message successfully.

Another aspect of context is the external stimulus that prompts you to send a message. The source of this prompt may be a letter, memo, note, electronic mail, fax, telex,

telephone call, a meeting, or even a casual conversation. Your response to this prompt may be oral or written.

Next, internal stimuli have a complex influence on how you translate ideas into a message. When you encode, your own view of the world affects the choices you make in language. Your attitude, opinions, emotions, past experiences, likes and dislikes, education, job status, and confidence in your communication skills all influence the way you communicate your ideas. Especially important is your ability to analyse your receiver's culture, viewpoint, needs, skills, status, mental ability, experience and expectations. You must consider all these aspects of context in order to communicate a message effectively.

### 8.6.2 Sender-Encoder

When you send a message, you are the 'encoder,' the writer or speaker, depending on whether your message is written or oral. You try to choose symbols — usually words (and sometimes also graphics or picture) — that expresses your message so that the receiver(s) will understand it and react with the response you desire. After considering all the factors mentioned above, you decide what symbols best convey your message and which message channel will be the most effective among the oral and written media.

### 8.6.3 Message

The message is the core idea which you wish to communicate; it consists of both verbal (written or spoken) symbols and non-verbal (unspoken) symbols. You must first decide what the main point of your message is and what other information should be included.

### 8.6.4 Medium

Your message channel depends on all the contextual factors discussed above and the nature of the message itself. Your medium can be the printed word, electronic mail, or sound.

Like message content, the choice of medium is influenced by the relationship between the sender and the receiver. Some research suggests that the urgency of a message is a primary factor in whether to use the written or spoken medium. You may also consider factors such as importance, number of receivers, costs and amount of information.

If the message goes to an international audience, you must also consider which medium is preferred in the receiver's culture.

The written channel is often preferred when the message is long, technical, or formal in nature, and when the message must be documented. The oral channel is effective when the message is urgent or personal or when immediate feedback is important. These guidelines can change when your receiver is from another country. For example, in Europe and Asia, complex messages are often dealt with written documents provided only later, if necessary.

- **Inside your organisation:** Internal communication consists of sending messages inside your organisation; external communication consists of sending messages outside your organisation.
- **Outside your organisation:** External written communication media may be letters, reports, proposals, faxes, postcards, contracts, ads, brochures, catalogues, news, releases, and a host of other things. You may also communicate orally in face-to-face discussions, by telephone, or by presentation in solo or panel situations. You

may speak to groups in live presentations or through teleconferences, video conferences, or television.

### 8.6.5 Receiver-Decoder

The message receiver is your reader or listener, also known as the decoder. Many of your messages may have more than one decoder. The receiver-decoder is influenced by context and by his or her mental filter.

### 8.6.6 Feedback

The components described above represent what happens in communication. A context exists in which a sender chooses a message to communicate; the sender must also choose the medium for the message; a receiver decodes the message and provides feedback. Feedback can be oral or written. Sometimes silence is used as feedback, though it is almost always ineffective. Senders need feedback in order to determine the success or failure of the communication.

A communication model is shown in Figure 8.11.

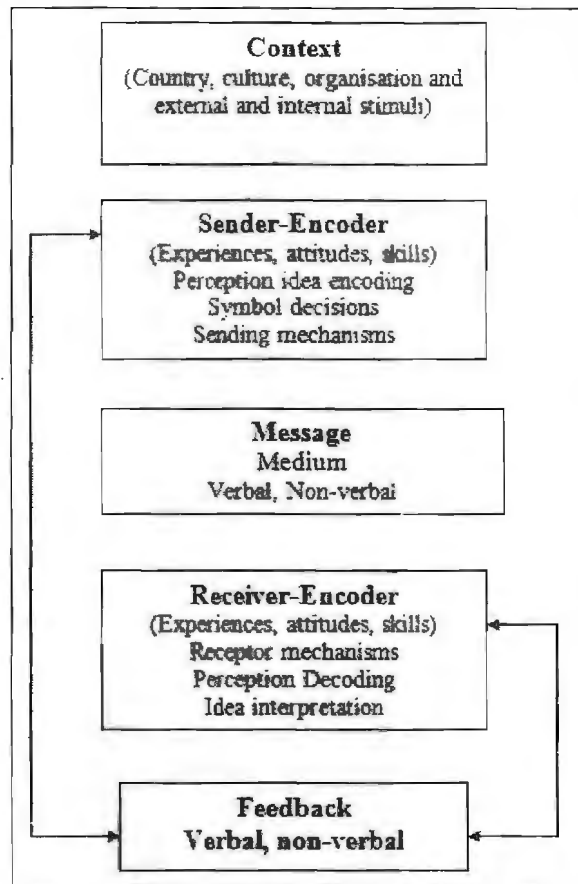


Figure 8.11: A Communication Model

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## 8.7 COMMUNICATION PATTERNS

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You will be surprised to find that the formal and informal channels of communication work side by side or, in other words, run parallel to each other. Quite often they get mixed up or cast their influence on each other, making it difficult for the manager to get to the actual position and take a decision. While on the one hand there are clear orders, directives or memos sent along vertical lines of communication, on the other hand the rumour mill or grapevine is doing its own job of diluting, or distorting giving

edge to the information which is meant to be sent across. It shows that communication is a complex process indeed.

It is, therefore, of paramount importance that an organisation develops a pattern of communication, so as to improve its effectiveness. Developing such a pattern cannot compensate for poor management ideas. But it must be noted, and indeed all managers must realise, that poor communication, or inability to develop an effective and fruitful system of communication, may lead to a dismal failure of management. The only way to make sure that the management succeeds in implementing its ideas and in achieving its goals, is to carefully consider the 'what' and 'how' of communication and evolve a system for carrying this out. This is primarily a question of human relationship, as they develop and are encouraged to develop in an organisation.

Modern communication experts and management specialists have been seriously studying these relationships and communication patterns in different types of organisations.

### 8.7.1 Types of Communication Patterns

Now we will learn that communication has several forms such as intrapersonal, interpersonal, group and mass communication. When it comes to group communication, it has certain patterns in its own. These different patterns or networks of communication have their own characteristics. The structure of the network influences speed and accuracy of message handling, and performance and motivation of the participants. Some of the most common structures are shown in Figure 8.12.

Following are the types of communication patterns:

- (a) **Wheel:** In this type, all communication flows through one person who generally happens to be the group leader.
- (b) **Y-Pattern:** This pattern is slightly less centralised – two persons are closer to the centre of the network.
- (c) **Chain:** The chain gives a flow of information among members, although the people are at the end of the chain.

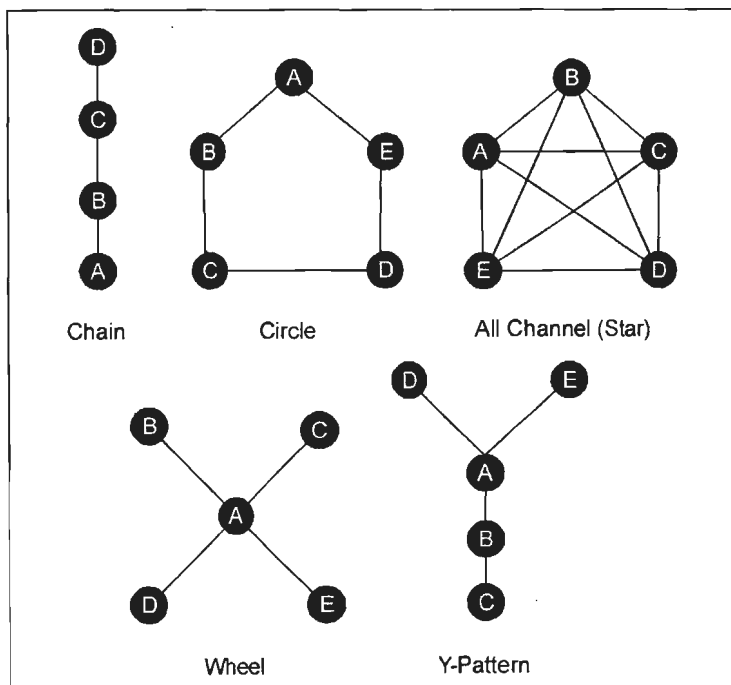


Figure 8.12: Communication Networks

- (d) **Circle:** Here, each person can communicate with two others located on both of his sides.
- (e) **All-Channel (Star):** This pattern is more decentralised and allows a free flow of information among all group members.

The most common of these patterns are discussed below:

In Circle, Chain and Y patterns all group members cannot directly communicate with the group leader. They can communicate to leader only through group members. In Wheel, all the group members can communicate directly with the group leader.

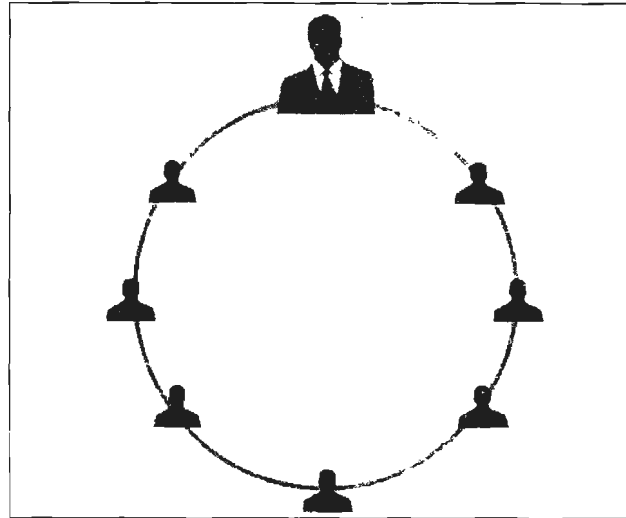


Figure 8.13: Circle Pattern

In Circle pattern, the sender (Group Leader) can communicate with the receivers (group members) who are present next to him/her. No other group members can receive the sender's message directly and they receive messages from the other group members who share the message from the sender. In this pattern of communication, the sender messages travel all over the group through sharing by its members, it will take time to reach sender again.

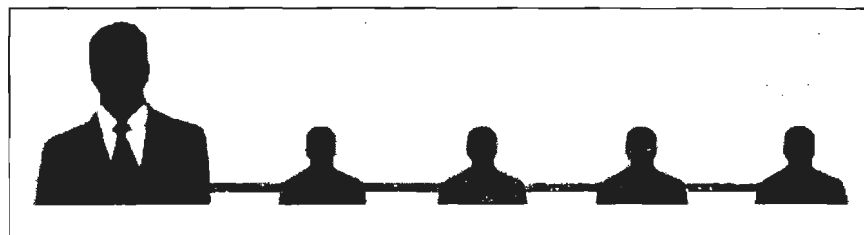
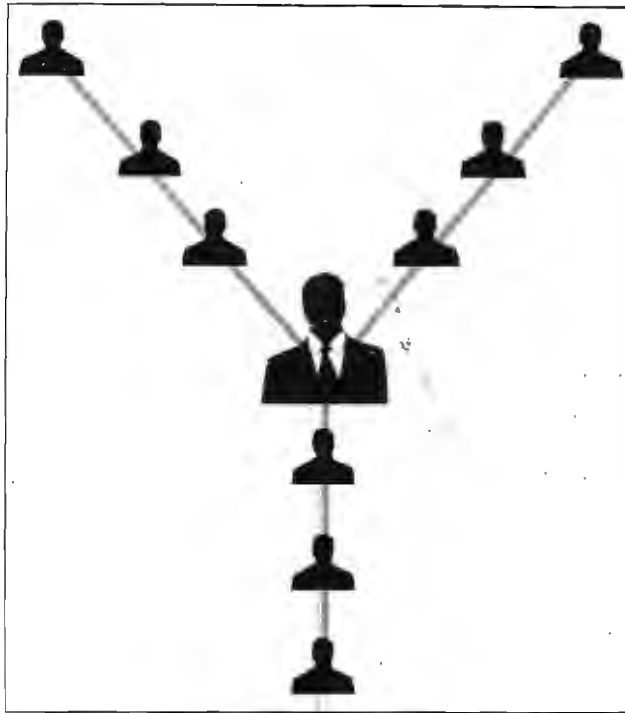


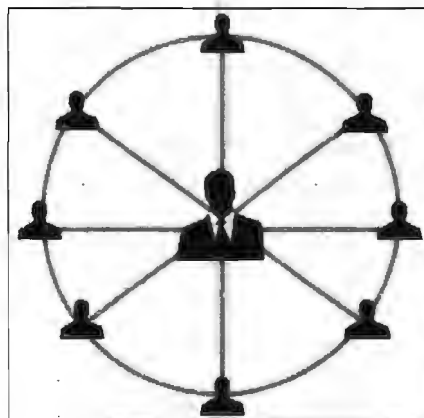
Figure 8.14: Chain Pattern

In Chain pattern, the same problems were appearing as like a circle pattern. The worst part in the pattern is that the last member receives the modified messages from the leader. In this case the leader cannot find whether the last member receives the correct information or not because there is no feedback to identify the message distortion.



**Figure 8.15: Y Pattern**

Y Pattern — It is more complicated pattern and also has the communication problem which appears in both circle and chain pattern. The group is divided into three and the group members can communicate with the other members of the group through the leader only.



**Figure 8.16: Wheel Pattern**

Wheel pattern is one of the best patterns as compared to the other three. Here, the leader has a direct contact with all the group members and there are no communication problems, time issue and feedback from the group members. However, all the group members cannot connect with one another.

### **8.7.2 Limitations of Communication Patterns**

We must remember that these communication patterns have emerged from researches and experiments that have, after all, a limited value. When we look at them from the practical organisational point of view, we realise that their findings cannot be adopted immediately. The final decision lies with the management itself, who has to be dynamic enough to evolve its own strategies. Behavioural scientists have conducted their experiments mostly on closely guarded or controlled groups. And the behaviour



of groups in the laboratory is very different from that in real life situations. Moreover, human nature being whatever it is the behaviour of the people changes with the change in the size of the groups. Anyway, it cannot be denied that these experiments have provided us with useful information about structural effect in communication networks. The main achievement of these experiments is that they have highlighted the potential of any variable, the introduction of which brings about some kind of change in the communication pattern.

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## 8.8 COMMUNICATION NETWORK OF THE ORGANISATION

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In every business organisation, information is a complex network. The flow of information by enlarge is mainly downward and follows the formal lines of organisation i.e. from the top executives down to the workers. However, in good companies, the value of open upward communication is well recognised.

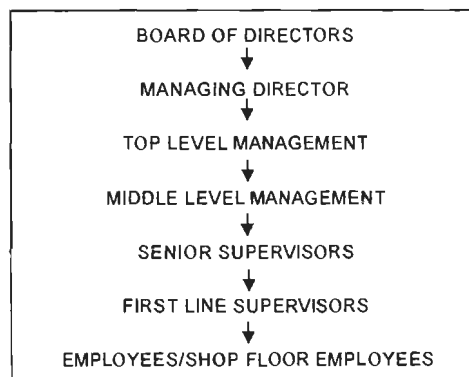
The communication network of the organisation comprises of the formal network and the informal network.

### 8.8.1 The Formal Network

The formal network in a modern business is just like the network of arteries in the body. Just as the body has arteries, the business has major, well-established channels of information flow which may be upward, lateral downward. Such a network is within the organisation. These main channels should be carefully thought out and changed as the needs of the business change.

Communication flows through formal channels, in that it is the officially recognised positions along the line in the organisation. This ensures that the information flows orderly, in a timely and accurate manner. Any information, decision, memo or reminder, etc., will also follow this path.

The efficiency of an organisation depends on a regular flow of messages which needs to be organised into a well ordered network, to ensure that communication flows easily and that executives are kept informed of what is going on.



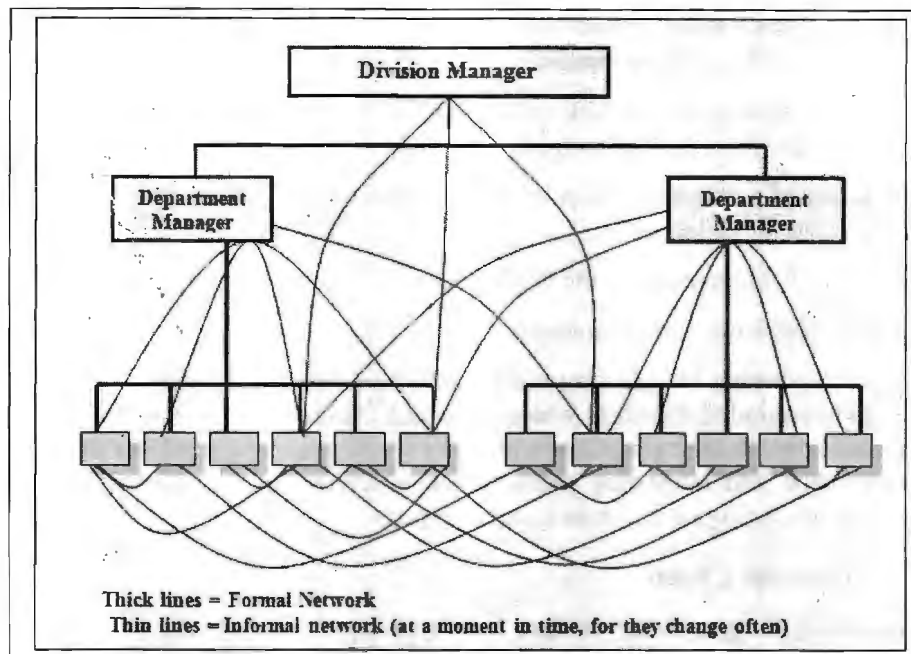
**Figure 8.17: Organisational Pyramid/Structure**

*Example:* Executive 'A' occupying a top position, passes an order to his immediate subordinate 'B' who, after retaining the useful information, passes the desired order to the next man 'C' for necessary action and so on. In this way the channel is a formal one.

In the same way, as said in the above example, communication may travel from below and pass through stages or points, again reinforcing the formal structure or character of the organisation.

## 8.8.2 The Informal Network

It is a secondary network consisting primarily of personal communication. This is evident in Figure 8.18.



**Figure 8.18: Formal and Informal Communication Networks in a division of a small business**

Just as the formal network is like arteries, the informal network is like the veins. It comprises thousands of thousands of personal communication that support the formal communication network of the business. Such communication follows no set pattern. In fact, they form an ever-changing and infinitely complex structure linking all the members of the organisation. The complexity of this informal network, especially in larger organisation cannot be over-emphasized. As a matter of fact, the relationship involved is more complex and it is a continuously changing. The informal communication system is certainly more effective in comparison to formal communication system. Wise managers use this network effectively.

You must remember that by his very nature, man cannot always have a highly formalised or regimented living. Logically he cannot and will not always communicate through formal channels alone. Side by side with the formal channel of communication every organisation has an equally effective channel of communication namely that is the informal channel. It is not officially sanctioned, and quite often it is even discouraged or looked down upon. But, then, it is very much there, and has been given the name '**grapevine**' precisely because it runs in horizontal, vertical and diagonal directions. As the management experts put it, "it flows around water coolers, down hallways, through lunch rooms, and wherever people get together in groups".

It shows that people are almost always looking forward for an opportunity to get together. Man is essentially sociable by nature. The lower we go down the pyramid of an organisation, the more manifest this sociability becomes. There are strong socio-psychological reasons for it. The most important reason is the intense, irrepressible desire to communicate, talk, share one's feelings and thoughts, or gossip and indulge in small talk. This gossip or small talk may carry some important information. It may even 'manufacture' some piece of information and get the rumour mill working. Every organisation has a rumour mill and every worker, office goer and manager have to get used to it.

### ***Factors Responsible for the Grapevine Phenomenon***

Did you know that the grapevine becomes hyperactive when the following factors prevail? Let us know about the factors:

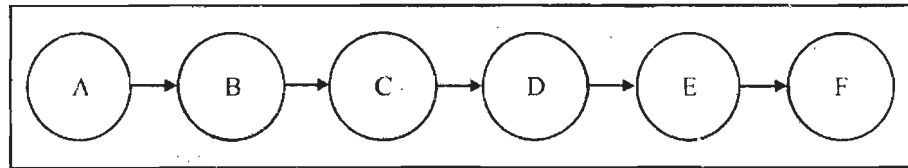
- Feeling of uncertainty or lack of a sense of direction when the organisation is passing through a difficult period.
- Feeling of inadequacy or lack of self-confidence on the part of the employees, leading to the formation of groups.
- Formation of a favoured group by the manager, giving other employees a feeling of insecurity or isolation.
- Some unusual happening in the organisation.
- Personal problems of the employees.

Any worker operating in such circumstances will be filled with ideas and will at least whisper to like-minded friends at whatever level he finds them. Mostly they find them at their own level, though groupings with other levels cannot be ruled out altogether. It is a very subtle and interesting phenomenon which is being seriously studied and analysed by psychologists and management experts.

### ***Types of Grapevine Chains***

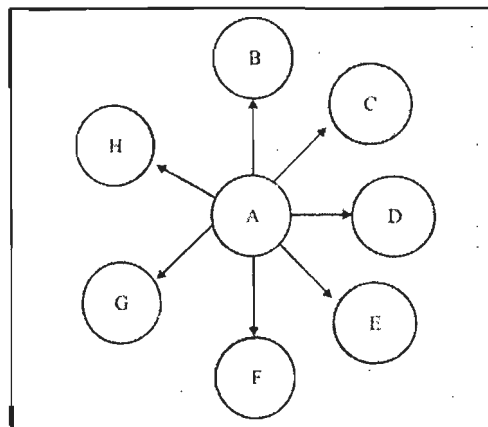
We can classify the grapevine into four basic types:

- ***The single strand chain:*** This is a simple concept to follow, A tells B, who tells C, who tells D and so on. Each person passes the information on to the next person. The longer the strand the more distortion and filtering affects the information, unrecognisable from the original message. Most inaccuracies occur in this chain.



**Figure 8.19: Single Strand Chain**

- ***The gossip chain:*** In this type of chain, A simply tells everyone who come in contact. This pattern is considered to be somewhat slow in moving the information. This chain is just like a wheel, where A is the axis and information passes along the spokes of the wheel to others stationed on the firm.



**Figure 8.20: Gossip Chain**

- **The probability chain:** In this case, A makes a random contact with say B, E and F and passes on the information. They, in turn, randomly contact others in accordance with laws of probability. Some hear the information and some don't. In this structure, there is no definite pattern of communication. Information is randomly passed along to anyone willing to listen.

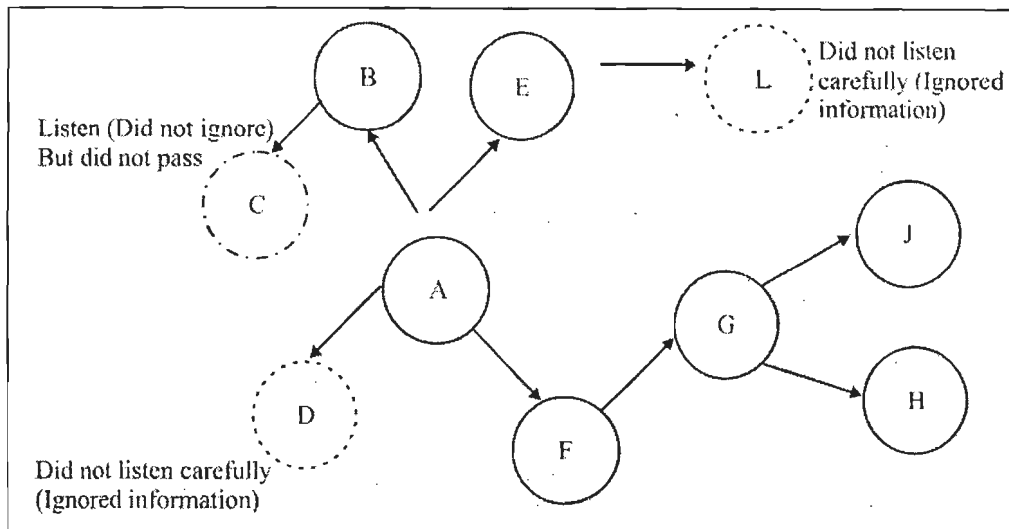


Figure 8.21: Probability Chain

- **The cluster chain:** In this case, A tells selected persons, who may in turn relay information to other selected individuals. Here A contacts B and F, who may be working with A. They may tell two or three other persons with whom they usually have closed contact with. The most predominant pattern is the cluster pattern. Selectivity is the basis for this pattern. In any organisation, individuals will generally feel more comfortable with some fellow employees than with others and therefore only relay information to those on their informal social groups. This flow pattern results in information missing some individuals completely.

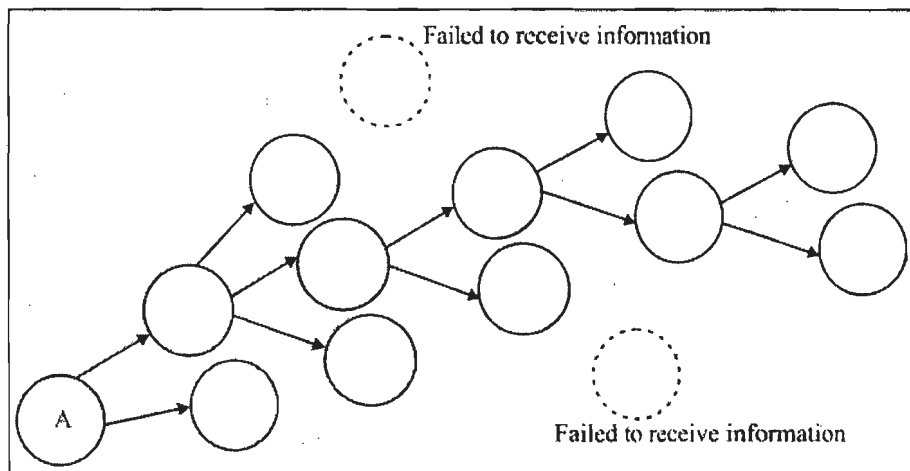


Figure 8.22: Cluster Chain

## 8.9 METHODS FOR AN EFFECTIVE COMMUNICATION SYSTEM

Methods or techniques for improving communication are as follows:

- **To strengthen the communication network:** In order to improve the communication network, the communication procedure should be made simple.

Layers in the communication channel should be minimized. Go for delegation of authority and decentralization, frequent meeting, conferences and discussions should be arranged to have full participation of the workers.

- **To allow two-way communication:** A good communication should flow frequently from top to bottom to top. There must be a sound feedback system, so that the manager could know whether his order or instructions are being followed or not.
- **To select the right media of communication:** The success of communication depends upon the selection of right media. The right message must reach at the right time. For those types of communication for which permanent record has to be kept a formal written channel of communication should be adopted like written agreement and books of accounts, etc. In case of personal type of communication, informal light mode of communication should be adopted.
- **To encourage participation of communication:** The management should promote the participative approach in managing the affairs. Subordinates should be invited to participate in the decision-making process. Good communication is based on mutual trust, full workers participation, collective bargaining, cooperation and team spirit. It will bring communication-ordination and reduce many communication barriers.
- **To give proper emphasis on proper listening:** Most of the people are very selective listener. Listening only comes when there is an interest of the listener. Talk in the language of the listener and of their level. For that communication must be clear, complete, concrete concise and correct. This will lead to proper interest of the listener and it would be interpreted in the sense in which the sender wants to convey.
- **To avoid pre-mature evaluation:** It is seen that some people have the tendency to form a judgement before listening to the entire message which is due to premature evaluation. It should be avoided as it may lead wrong decision and judgement. It distorts understanding and acts as a major barrier in an effective communication. Listen to your people with full patience and attention. A problem properly listened leads to solving it in a better manner.
- **To give due importance to gestures and tones:** Gestures and tones are known as 'Body Language' which is a non-verbal communication. People communicate meanings to others with their bodies during inter-personal interaction. It is the technique to communicate a message with the movement of the whole body or part of it. Facial expressions, movement of hands are the usual symbols which must be used to make the communication effective. Gestures like eye movement, smiles, frowns, touching, closeness, breathing and odour can add colour to the communication and it will become lively.
- **Communication to express not to impress:** It is golden rule for an effective communication. Always communicate to express, not to impress, it means while communicating simply and only concentrate on your expressions and delivery of words, selection of ideas and subject matter. Do not bother about impression. Do not bring any type of artificial touch in the communication. If your expression is good, impression is bound to come. Be original in communication.

### Check Your Progress

Fill in the blanks:

1. The \_\_\_\_\_ allows the sender to refine his communication so that it becomes more precise and accurate.
2. \_\_\_\_\_ may be described as any distortion or hindrance, preventing transmission of the message from the (mind of) sender to the (mind of) receiver.
3. The \_\_\_\_\_ is an active agent in creating meaning to the message.
4. The communication that flows from bottom to top, which is from lower hierarchical level to higher level, is called \_\_\_\_\_.
5. \_\_\_\_\_ communication includes the flow of information among persons at different levels who have no direct reporting relationships.
6. \_\_\_\_\_ pattern is more decentralised and allows a free flow of information among all group members.

## 8.10 LET US SUM UP

- The main communication functions are the information functions, the command functions, the motivation functions and the integration functions. Communication process is always a two-way communication. It is complete when the sender succeeds in his mission of conveying what he wants to say to the receiver and when the receiver has given the positive feedback that he/she has fully understood the message. The sequencing of the communication process involves ideation, encoding, transmission, receiving, decoding and action.
- The main elements or the components of the process of communication are the message, sender, encoding, medium and channel, receiver, decoding and feedback. It is the receiver that is the most important because it is the receiver who lends the meaning to the message.
- We can classify communication as interpersonal, intrapersonal, group communication, meta communication, upward, downward, lateral, diagonal, formal, informal, oral, written or non-verbal communication. Reading, writing, speaking and listening are the four skills of communication.
- Forms of communication in business are internal-operational, external-operational and personal communication. Internal-operational refers to communication within the organisation and external-operational involves interaction with outsiders such as suppliers, customers, etc. Informal exchange of information is called personal communication.
- The fundamental components of communication are the Context, Sender-encoder, Message, Medium and Receiver-decoder. The communication network of the organisation is complex. It comprises of the formal network and the informal network. The formal network in a modern business is just like the network of arteries in the body.
- The business has major well established channels of information flow. The informal network is a secondary network consisting of primarily personal communication. It is like the veins.

- The communication network of the organisation is complex. It comprises of the formal network and the informal network. The formal network in a modern business is just like the network of arteries in the body.

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## 8.11 LESSON END ACTIVITY

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Do you agree that in its final form communication is a manifestation of the personalities of both the sender and the receiver? Discuss.

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## 8.12 KEYWORDS

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**Internal-operational Communication:** All the communication that occurs in conducting work within a business is classified as internal operational.

**External-operational Communication:** External-operational communication is that part of an organisation's structured communication which is concerned with achieving the organisation's work goals that are conducted with people and groups outside the organisation.

**Interpersonal Communication:** Communication between two people.

**Lateral Communication:** It takes place between two or more persons who are subordinates working under the same person or at same level.

**Diagonal Communication:** Includes the flow of information among persons at different levels who have no direct reporting relationships.

**Formal Communication:** A means of communication that is formally controlled by managers or people occupying positions in an organisation.

**Encoding:** It is how the communicator conveys information to your intended audience — a reader, a listener, a target customer, etc.

**Decoding:** The decoding of a message is how an audience member is able to understand, and interpret the message.

**Feedback:** Feedback is the receiver's basic response to the interpreted message.

**Intrapersonal Communication:** Intrapersonal communication is a communicator's internal use of language or thought.

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## 8.13 QUESTIONS FOR DISCUSSION

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1. How two-way communication process is superior to one way communication?
2. Elaborate the sequencing of process of communication.
3. Discuss the two categories of models of process of business communication.
4. Explain two-way communication process through a concrete example.
5. Describe the basis of expression or medium used in communication.
6. What are the various methods of improving communication?
7. Explain upward and downward communication.
8. Discuss the main forms of communication in business.
9. How does personal communication affect the performance of a business organisation?
10. List the types of external-operational and internal-operational communication that occur in an organisation with which you are familiar.

11. Explain the prominent elements of communication. Show the sequence through a figure/chart.
12. Distinguish between the formal network and informal network of an organisation with the help of chart/diagram.
13. Describe the network of communication in an organisation with which you are familiar. Discuss and explain.
14. Discuss the question of how much personal communication should be permitted in a business organisation. Defend your view.
15. Write notes on the following:
  - (i) Noise
  - (ii) Filters in communication
16. What are the methods or techniques of improving communication?

**Check Your Progress: Model Answers**

1. Feedback
2. Noise
3. Receiver
4. Upward Communication
5. Diagonal or Crosswise
6. All-Channel (Star)

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## 8.14 SUGGESTED READINGS

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Sehgal M.K., Khetarpal Vandana, *Business Communication*, Excel Books

P.D. Chaturvedi, Mukesh Chaturvedi, *Business Communication, Concepts, Cases and Applications*, Pearson Education

Bowman, Joel and Branchaw, *Business Communication: From Process to Product*, Dryden Press

Courtland Bovee and John Thill, *Business Communication Today*, Random House, New York

Urmila Rai and S.M. Rai, *Business Communication*, Himalaya Publishing House



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# LESSON

## 9

### VERBAL COMMUNICATION: ORAL

#### CONTENTS

- 9.0 Aims and Objectives
- 9.1 Introduction
- 9.2 Verbal Communication: Oral
  - 9.2.1 Oral Communication in an Organisation
  - 9.2.2 Characteristics/Salient Features of Oral Communication
  - 9.2.3 Methods of Oral Communication
- 9.3 Need for Learning Oral Communication Skills
  - 9.3.1 Advantages of Oral Communication
  - 9.3.2 Disadvantages of Oral Communication
- 9.4 Tips for Effective Oral Communication
- 9.5 Factors Inhibiting Effective Oral Communication
- 9.6 SWOT Analysis
  - 9.6.1 Limitations of SWOT Analysis
- 9.7 Let Us Sum Up
- 9.8 Lesson End Activity
- 9.9 Keywords
- 9.10 Questions for Discussion
- 9.11 Suggested Readings

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#### 9.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Appreciate the meaning, characteristics and methods of oral communication
- Understand the need for learning oral communication skills
- Know the tips for effective oral communication
- Explain the factors inhibiting effective oral communication
- Describe SWOT analysis

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#### 9.1 INTRODUCTION

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We communicate by exchanging symbols to describe our ideas and experience. Language is a common symbol system which we use for sharing our experiences with others. We can also use symbols like pictures, colours, signs and sounds to communicate. We do communicate a number of things, by our facial expressions, movements, clothing and so on, whether we speak or not. Communication may be

verbal or non-verbal. Verbal means "that includes words." Communication through words is called Verbal Communication and Communication without words is known as Non Verbal Communication. Verbal Communication may be oral or written. It is rightly said that if one does not understand someone's words, how he or she can understand the silence. Therefore, verbal communication, both oral and written is most important for both, the sender and the receiver.

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## 9.2 VERBAL COMMUNICATION: ORAL

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Anything that emanates from the mouth is referred to as ORAL. Within this component would fall words and the manner in which words are pronounced.

Man is the only species gifted with language and the use of language is primarily in the form of speech. Writing comes afterwards. In any organisation, as in everyday life, both formally and informally, we communicate more orally than in writing. It is primarily oral form of communication that brings the members of a family, neighbours and friends, and likewise, colleagues in an organisation together. Without oral communication any organisation will just become lifeless. Its importance, therefore, cannot be overemphasized.

"The man who can think and does not know how to express what he thinks is at the level of him, who cannot think".

### 9.2.1 Oral Communication in an Organisation

In an organisation, the time spent by the employees on oral communication, as per their level of hierarchy, is different. While supervisors spend 25% of their time in Oral Communication, an executive spends almost 65 to 75% of his time on oral communication. The figure rises up to 90% for the highest level of management.

Formal communication is the one which is done, observing the formal code of conduct and following the formal channels in the organisation. Informal communication is the one which overcomes the limitations or barriers of formal chain of command and is carried out in a casual manner.

In a business organisation there are a number of opportunities for both formal and informal oral communication. But, in fact, a lot more time is spent in informal oral communication. The simple reason is that all communication is essentially conversational in nature and has a social purpose. Whenever people get together, there is bound to be face-to-face communication in which they will share all sorts of ideas, feelings, etc. The origin of the grapevine lies here.

Along with, and in addition to, the informal oral communication, various kinds of formal oral communication take place in an organisation. Very often people in business have to make formal presentations before a group that may be large or small. At other times they have to participate in meetings and group discussions. Time to time they have to appear for or conduct interviews. Most of the letters and reports are largely dictated. All these are formal kinds of oral communication. In this way we see that both formal and informal types of oral communication thrive together.

### 9.2.2 Characteristics/Salient Features of Oral Communication

The Salient Features of Oral Communication are given below:

- **Instantaneous two way process:** Oral communication is a speedy two way process. The messages in oral communication travel back and forth instantaneously without any loss of time, making the process highly interactive.
- **One off exercise:** Oral communication is a one-off exercise, that is, it is not repeated and there is no written record of the same, which can be referred to.

- **Day to day language:** The use of common, unconventional, day to day conversational language is considered to be most effective in oral communication.
- **Presence of both sender and receiver:** The presence of both, the sender and receiver is required at the same time, for oral communication to take place.
- **Principles:** Accuracy, clarity and brevity are three principles of oral communication. This can be achieved by using the right language, which the listener will understand and by sequencing the speech in a logical manner.
- **Effect of body language and speech modulations:** Oral communication is highly effected by body language and voice modulations. A high or low pitch of voice or gestures made during the speech, greatly influence the quality of Oral Communication.
- **It cannot be erased or mended:** It is said, spoken words are like arrows shot from a bow, which cannot be taken back. While in written communication, it is possible to erase or rectify the language, it is not possible in Oral communication.

### 9.2.3 Methods of Oral Communication

Oral communication can be in between individuals or groups, depending upon the need of the situation. In this process, communication is kept as short as possible, the frequency and timings are carefully considered, the subject is put across carefully and consistently and opportunities are provided for asking questions and discussing things.

The common methods of Oral Communication are:

#### *Among Individuals*

- **Face to face conversation:** Oral Communication is best when it is face to face. A face to face setting is possible between two individuals or among a small group of persons at an interview, or in a small meeting. Communication can flow both ways in these situations. There is immediate feedback, which makes clarification possible.
- **Interviews:** An interview is a meeting at which one person or panel of persons, who are the interviewers, ask questions to another person, who is the interviewee. These are more formal conversations, in which, the purpose may be to assess the knowledge of the interviewee, for selection for job or otherwise.
- **Telephone conversations:** Telephone talk is dependent on the voice, in the absence of close physical presence. Clarity of speech and skilful use of voice are important in this as sounds may be quite similar and confusing over the phone. It is difficult to make out the difference between similar sounding words like “kite” and “night”, “life” and “wife”.
- **Grapevine:** Discussions among employees in an informal manner, on various aspects and matters concerning the organisation and its affairs and other matters of interest among individuals. It may also be termed as Gossip or Chat.

#### *Among Groups*

- **Negotiations:** Settling over an issue by mutual understanding is called negotiation. Sometimes, negotiation may be on a one to one basis, like settling over the salary, by a perspective employer and employee or on a group basis, like the Trade Union negotiating over terms of work and pay scale, with the management.

- **Meetings:** Meeting is usually a formal gathering to resolve and discuss various issues. There is a fixed agenda of a meeting. Meeting may be a small one of two to three persons or a large one, like meeting of shareholders, etc.
- **Lecture/Speech:** Lecture or speech is a formal conversation, in which one person usually speaks and the others are the listeners or audience. It may be on a particular subject or topic.
- **Presentations:** A presentation has a face to face setting, in which a well prepared talk is given on a specific topic, delivered to an interested audience. Visual aids are used to enhance the presentation.
- **Conferences/Seminars/Workshops:** A group deliberation on various topics, issues are held in Conferences, Seminars and Workshops.

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### 9.3 NEED FOR LEARNING ORAL COMMUNICATION SKILLS

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In business transactions that involve face to face interaction between individuals or groups of individuals, it is not enough to be able to talk, speak, discuss, argue or negotiate an issue. A manager should be able to converse or discuss persuasively, effectively and convincingly. To do so, he must know the skills of oral communication. Oral communication skills should include abilities:

- To help in problem solving
- To resolve conflict
- To influence people to work together
- To persuade others to be involved in organisational goals
- To be assertive without being aggressive
- To develop listening skills
- To be an effective negotiator

These skills will develop the necessary tact to work effectively for mutual satisfaction in the above situations.

It is said that it does not matter what you say, what matters is how you say it. Your way of saying includes your choice of words, and your confidence and sincerity.

#### 9.3.1 Advantages of Oral Communication

Oral Communication is the most frequently used means of sending messages because it has certain distinct advantages. Some of these advantages are given below:

- **Immediate Feedback:** The greatest advantage of Oral Communication is that it provides immediate feedback and clarification. People listening to the speaker can ask questions, make comments, add points to the information provided and so on. Both the speaker and the listener/listeners by turn can enter into a kind of short dialogue and make the whole communication event purposeful.
- **Better Relationships:** Oral Communication builds up a healthy climate in the organisation by bringing the superior and the subordinate together and also building close informal relations among the employees, who indulge in oral conversations with each other. This gives the subordinate a feeling of importance and the superior a better understanding of his mind. Informal or planned meetings can greatly contribute to the understanding of problems/issues in which they become partners.

- **Time Saving:** Oral Communication is a time-saving device. While a letter, dictated and typed, entered in the diary, put in the envelope and carried to the person addressed will take a long time, oral transmission of the message makes the communication immediately effective. That is why many skilful managers cut down on paper work and save time by calling up their juniors or walking up to their superiors.
- **Effective tool of persuasion:** Oral Communication is the most effective tool of persuasion as it lends a personal touch to the whole business. Resolving a conflict will not be possible in the absence of oral communication. Unless a manager/supervisor 'talks' to the workers in a persuasive tone, the conflict will remain there. No exchange of letters can achieve what a meeting can.
- **Effective tool of Group Communication:** Oral Communication is very effective in interacting with groups. The speaker can immediately understand the group's reaction and arrive at a satisfactory conclusion by putting his views across and exchanging points. It would be difficult to achieve this through written communication.
- **Economical:** Oral Communication is also very economical, both in terms of money and time. It saves the money spent on stationery in organisations in which the managers insist on every instruction, every message in writing.
- **Allows to measure effectiveness immediately:** Oral Communication allows measuring its effectiveness immediately and conveniently. The communicator can determine instantaneously whether the receiver is following him or not.
- **It is the only way out during emergency:** At the time of exigencies, where immediate action is required, it is not possible to rely on written communication. Only Oral Communication can serve the purpose at such times.

### 9.3.2 Disadvantages of Oral Communication

Oral Communication also has some disadvantages as discussed below:

- **Lack of retention/documentation:** There is no documentary proof of Oral Communication, so its impact is temporary. Human memory being what it is; oral messages cannot be retained for a long time. It means that they must be acted upon immediately. They cannot be found in record books and we cannot refer back to them. This is a serious limitation of oral communication.
- **Distortion in passing the message:** While oral messages are transmitted from one person to another, or in a chain, there is a possibility of distortion in the message, as the hearing capability and perception level of different individuals may vary.

**Example:** The manager of a Company told the Supervisor that the Company is going through a financial crunch and we need to save on costs, so the wastage of raw material should be strictly dealt with and inefficient workers should be punished severely. The Supervisor translated this message in his own words and told the workers that the Company is in a serious condition, might shut down soon. We are not even buying more raw material and many workers might be shunned out. This may lead to an unrest among the workers, which is difficult to handle. Such distortions in the oral messages can cause serious problems.

- **No legal validity:** In the absence of a tape or a written record, oral messages do not have any legal validity.
- **Possibility of misunderstanding:** Oral messages also can lead to misunderstanding if the speaker has not carefully organized his thought or the listener misses the message on account of his inattentiveness. While in written

message, he can read it again if he has missed something, it is not possible in case of oral messages.

- **Unsuitable for long messages:** Much depends upon the length of the message. If it is long, it is not suitable for oral transmission. There are chances of something vital getting dropped or misconstrued.
- **Difficulty in assigning responsibility:** It is difficult to assign responsibility for anything going to be missed or any mistake by omission or commission in Oral Communication.
- **It is constrained by physical barriers:** Physical barriers like noise, environment, seating arrangement, technical faults of mike, telephone, etc. negatively affect the flow of Oral Communication.
- **Not effective when the target group is spread out:** In case the target receivers of the message are spread out to a large geographical area, usually it is not possible to address all of them together through Oral Communication.

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## 9.4 TIPS FOR EFFECTIVE ORAL COMMUNICATION

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According to Francis J Bergin, Oral Communication is characterized by seven C's: Candidness, Clarity, Completeness, Conciseness, Concreteness, Correctness and Courtesy.

These act as principles for choosing the form and content of Oral Communication. Oral Communication should provide a platform for fair and candid exchange of ideas.

While the main principles for effective communication and gateways to communication have been discussed elaborately in different chapters, here are some useful tips, which the Communicator should follow the following to make his Oral Communication more effective:

- Consider the objective
- Be confident
- Think about the interest level of the receiver
- Be sincere and honest
- Use simple language, familiar words
- Be brief and precise
- Avoid vagueness and generalities
- Give full facts
- Use polite words and tone
- Leave out the insulting messages
- Say something interesting and pleasing to the recipient
- Allow time to respond
- Avoid disagreement
- Avoid use of slang words
- Be sensitive and courteous to the listener
- Develop new areas of conversation
- Maintain eye contact
- Exhibit positive gestures and body language

- Be descriptive but not evaluative
- Avoid making the speech monotonous and boring

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## 9.5 FACTORS INHIBITING EFFECTIVE ORAL COMMUNICATION

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There are several factors which impede proper Oral Communication between speaker and the listener. Some of these are as follows:

- ***Experience and backgrounds differ between speaker and listener:*** Everyone correlates what he hears or sees with his own experience. To some people risk taking is a way of life. They thrive on it. However, risk taking may be against the sense of security of a person who has perhaps burnt his fingers once. Speaker might have been born in a very affluent family with high social standing. The listener might belong to a middle class family with conservative attitudes. Their backgrounds differ. Therefore, understanding differs. Both of them might be speaking English, but their wavelengths are altogether different and the two do not understand each other. Instead of hearing what people tell us, we hear only what our minds tell us.
- ***We fail to convey the information the listener needs and can understand:*** For example, a manager may feed a subordinate's mind with information he is not ready to grasp. For example, if suddenly a manager instructs a subordinate about detailed techniques of planning, he will not be able to understand anything unless he already knows the basics of the planning process. Similarly, if someone spoke of computers to a person who had no knowledge whatsoever of computers, the result will be a blank look.
- ***Our stereotypes and beliefs influence what we hear:*** For example, a man with a strong prejudice gets some information which contradicts it. His tendency will be to twist the information so that it supports rather than negates his prejudice. To cite a case: 'A' is a good office worker but hates outdoor work. For his career progression, his manager makes him a salesman. 'A' sees this benevolent act to be a punishment for him. He hates the work, so he is sure he will fail there. He thinks the manager knows this and is acting to purposefully ruin his career.
- ***Our emotional state of mind colours what we hear:*** A worried, fearful employee finds a threat in everything he hears. Fear filters quite a lot of communication. We attach meanings which just do not exist. Similarly, other emotions like hatred or love colour information that we receive.
- ***Often we discredit a speaker's message because we suspect his motive:*** The classic example of this barrier is to be found in labour-management relations. Many union members are convinced that the management is anti-labour, and refuse to believe anything that the management tells them. Similarly, the management feels that grievances are political manoeuvres designed to win union votes. Because of such close-minded attitudes, it is impossible for each side to make itself properly understood.
- ***We fail to evaluate the meaning behind what we hear:*** Sometimes, we go to the opposite extreme – instead of judging what we hear by the speaker's imagined motive, we completely ignore the possible latent meanings of his words. We often tend to forget that most statements are a combination of facts and feelings. For example, a worker who often complains that his machine has broken down perhaps doesn't like his work. Letting his machine break-down, is perhaps a good way to communicate his feelings.

- ***Often, what we say has symbolic meanings for others:*** What we say often has far greater meaning than what appears on the surface. That is why one often gets surprisingly strong reactions to what one considers a very mild statement. For example, a management announces the introduction of Electronic Bank Ledger Posting but it is understood by the bank union as a prelude to declaring people surplus, or the blocking of promotion avenues and so on.
- ***Words have different meanings for different people:*** The speaker and listener interpret words differently. In fact, as years progress; words themselves have come to different meanings. To cite an example, “automobile” means a “self-propelled vehicle” but we know it does not include a scooter or a farm tractor. If one says: “moral,” another may ask if dancing, drinking, smoking, or eating beef is moral. Catholics feel birth control is not moral. Is the breaking of a prohibition law moral? If we look at a dictionary we would be amazed at the many meanings common words have. For example, the word “cat” has nine meanings - all different.
- ***Our reference group often dictates the way we hear a message:*** We often identify ourselves as a group and this tends to shape our opinions on many matters. For example, maintenance men generally think that the machine workers do not handle machines properly and this causes more breakdowns. The workers think that breakdowns occur because of sloppy maintenance. Many strong feelings are generated because of imagined slights.
- ***Tendency to evaluate:*** The major barrier to mutual interpersonal communication is our natural tendency to judge, to evaluate, to approve (or disapprove) the statement of the other person. Although the tendency to make evaluation is common in almost all interchange of language, it is very much heightened in those situations where feelings and emotions are deeply involved. So, the stronger our feelings, the more likely it is that there will be no common element in the communication. There will be just two ideas, two feelings, two judgements, bypassing each other due to emotional barriers. This tendency to react to any emotionally charged statement by forming an evaluation of it from our own point of view is a major barrier to interpersonal communication.

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## 9.6 SWOT ANALYSIS

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You need to know that this method is attributed to Albert Humphrey, who directed a convention at the Stanford Research Institute (at present SRI International) in the 1960's as well as 1970's utilising data from Fortune 500 companies. SWOT is a short form for Strengths, Weaknesses, Opportunities and Threats. By meaning, Strengths (S) and Weaknesses (W) are regarded to be internal factors on which you have a little bit measure of control. Also, by definition, Opportunities (O) and Threats (T) are regarded to be external factors over which you have fundamentally no control.

SWOT Analysis is the most well-known tool for audit and analysis of the complete strategic place of the business and its environment. Its chief purpose is to recognise the strategies that will develop a firm related business model which will best line up an organisation's resources and abilities to the needs of the environment in which the firm functions.

A general idea of the four factors (Strengths, Weaknesses, Opportunities and Threats) is offered below:

1. ***Strengths:*** Strengths are the qualities that facilitate us to attain the organisation's mission. These are the foundation on which constant success can be made and continued/sustained. Strengths can be either intangible or tangible. These are what



you are knowledgeable in or what you have skills in, the traits and qualities your employees own (individually and as a team) and the unique characteristics that offer your organisation its uniformity. Strengths are the advantageous features of the organisation or the abilities of an organisation, which involve financial resources, human competencies, products and services, process capabilities, customer goodwill and brand loyalty.

**Example:** Organisational strengths are huge financial resources, broad product line, no debt, committed employees, etc.

2. **Weaknesses:** Weaknesses are the qualities that stop us from acquiring our mission and acquiring our maximum potential. Such weaknesses worsen influences on the organisational success and growth. Weaknesses are the factors which do not meet the standards we feel they should meet. Weaknesses in an organisation may be depreciating machinery, poor decision-making, inadequate research and development amenities, narrow product range, etc. Weaknesses are controllable. They must be reduced and removed.

**Example:** To overcome obsolete machinery, new machinery can be purchased. Other examples of organisational weaknesses are huge debts, high employee turnover, complex decision making process, narrow product range, large wastage of raw materials, etc.

3. **Opportunities:** Opportunities are offered by the environment inside which our organisation functions. These occur when an organisation can take advantage of situations in its environment to plan and implement strategies that facilitate it to turn more profitable. Organisations can attain competitive advantage by utilising opportunities. Organisation should be cautious and identify the opportunities and grab them whenever they occur. Choosing the targets that will best attend the clients at the same time attain desired results is a tough task. Opportunities may result from competition, market, industry/government and technology. Rising demand for telecommunications escorted by deregulation is a huge opportunity for novice firms to enter telecom sector and contest with prevailing firms for revenue.
4. **Threats:** Threats occur when situations in external environment risk the profitability and reliability of the organisation's business. They heighten the vulnerability when they associate with the weaknesses. Threats are unmanageable. When a threat arrives, the survival and stability can beat risk.

**Example:** Unrest among employees; ever changing technology; increasing competition leading to excess capacity, price wars and reducing industry profits, etc.

### 9.6.1 Limitations of SWOT Analysis

There are certain limitations of SWOT Analysis which are not in control of management. These include:

- Price increase
- Inputs/raw materials
- Government legislation
- Economic environment
- Searching a new market for the product which is not having overseas market due to import restrictions, etc.

Internal limitations may include:

- Insufficient research and development facilities

- Faulty products due to poor quality control
- Poor industrial relations
- Lack of skilled and efficient labour, etc.

### Check Your Progress

Fill in the blanks:

1. Anything that emanates from the mouth is referred as \_\_\_\_\_.
2. Oral communication is a speedy \_\_\_\_\_ way process.
3. Telephone talk is dependent on the \_\_\_\_\_, in the absence of close physical presence.
4. According to Francis J Bergin, Oral Communication is characterized by \_\_\_\_\_ C's.
5. \_\_\_\_\_ are the qualities that facilitate us to attain the organisation's mission.
6. \_\_\_\_\_ occur when situations in external environment risk the profitability and reliability of the organisation's business.

## 9.7 LET US SUM UP

- Communication may be verbal or non-verbal. Verbal means "that includes words." Communication through words is called Verbal Communication and Communication without words is known as Non-verbal Communication. Verbal Communication may be Oral or Written.
- Oral Communication may be in the form of face to face conversation, interviews, speech, presentation, seminar, conference, telephone conversation, chatting or gossip.
- Oral Communication needs the presence of the sender and the receiver of the message at the same time. Oral Communication is highly effected by body language and voice modulations. Immediate feedback, time saving, possibility of clarifications are some of the advantages of Oral Communication. Lack of documentation, distortions while transfer of message, lack of responsibility, no legal defense, are some of the disadvantages of Oral Communication.
- The method of SWOT is attributed to Albert Humphrey, who directed a convention at the Stanford Research Institute.
- SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. SWOT Analysis is the most well-known tool for audit and analysis of the complete strategic position of the business as well as its environment.
- SWOT Analysis is helpful in strategy selection and formulation. It is a strong tool; however, it includes a great subjective element. It is best when utilised as a guide, and not in the form of a prescription.

## 9.8 LESSON END ACTIVITY

On the one hand it is said that Oral Communication saves time and on the other it is said that it wastes time. How and why does it happen? Discuss with some examples known to you.

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## 9.9 KEYWORDS

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**Verbal Communication:** It means communicating with words, written or spoken.

**Formal Communication:** The Formal Communication is the exchange of official information that flows along the different levels of the organisational hierarchy and conforms to the prescribed professional rules, policy, standards, processes and regulations of the organisation.

**Interviews:** An interview is a conversation where questions are asked and answers are given.

**Telephone Conversations:** It is an exchange of information between two persons over telephone.

**Face to Face Conversation:** When one person discusses his views, opinion to another person and exchanges their views in the presence of both then it is called face to face conversation.

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## 9.10 QUESTIONS FOR DISCUSSION

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1. What is Oral Communication? Give its characteristics.
2. How is Oral Communication different from Written Communication?
3. Give the advantages and disadvantages of Oral Communication.
4. What does the acronym SWOT stand for? Explain.
5. How does SWOT analysis help in strategic planning?
6. Discuss the factors that inhibit Effective Oral Communication.

### Check Your Progress: Model Answers

1. ORAL
2. Two
3. Voice
4. Seven
5. Strengths
6. Threats

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## 9.11 SUGGESTED READINGS

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Sehgal M.K., Khetarpal Vandana, *Business Communication*, Excel Books

P.D. Chaturvedi, Mukesh Chaturvedi, *Business Communication, Concepts, Cases and Applications*, Pearson Education

Bowman, Joel and Branchaw, *Business Communication: From Process to Product*, Dryden Press

Courtland Bovee and John Thill, *Business Communication Today*, Random House, New York

Urmila Rai and S.M. Rai, *Business Communication*, Himalaya Publishing House

## **UNIT IV**



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## LESSON

# 10

## NON-VERBAL COMMUNICATION

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### 10.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand the Meaning, Characteristics and Classification of Non-verbal Communication
- Know the Relationship between Verbal and Non-verbal Communication

- Discuss the Audio and Visual Media of Communication
- Describe the Guidelines for the use of Visual Aids
- Explain the things to observe while creating Visual Aids

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## 10.1 INTRODUCTION

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The verbal and non-verbal messages together form the total meaning of the message communicated. There is something said and something implied with every message communicated. For a full understanding of the message, we should know what has been communicated through words and without them. You must have understood by now that communication is the process of transfer of ideas and expressions from one person to another. It is the way of self-expression. Non-verbal communication helps receiver in interpreting the message received. Frequently, non-verbal signals reflect the situation more accurately than verbal messages. Sometimes non-verbal response contradicts verbal communication and thus affects the effectiveness of message.

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## 10.2 NON-VERBAL COMMUNICATION

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The word “Non Verbal Communication” means Communication not involving speech or words. By non-verbal communication, we mean all communication that involves neither written nor spoken words but occurs without the use of words. Thus, this is the wordless message received through the medium of gestures, signs, body movements, facial expressions, tone of voice, colour, time, space, style of writing and choice of words. Non-verbal communication is the sending or receiving of wordless messages. We can say that communication other than oral and written, as gesture, body language, posture, tone of voice or facial expressions, is called non-verbal communication. Non-verbal communication is all about the body language of speaker.

Non-verbal communication refers to “all external stimuli other than spoken or written words and including body motion, characteristics of appearance, characteristics of voice and use of space and distancing.” All these non-verbal clues taken together are also known as body language. In day to day oral communication we keep on interpreting non-verbal clues without being aware that we are doing so. It is only very recently that a systematic study has been made to analyze non-verbal communication and kinesics is the name given to this branch of learning. Some scholars however prefer to call the use of space and distancing as proxemics whereas some include the study of voice quality as part of the vocal aspect of oral communication.

Body language plays a significant role in oral communication. Sigmund Freud’s observation may appear to be an exaggeration but it is the exaggeration of a vital truth: “He that has eyes to see and ears to hear may convince himself that no mortal can keep a secret. If his lips are silent he chats with his fingertips; betrayal oozes out of him at every pore.” It is believed that a charming person has a pleasant voice, a dynamic person has a vibrant voice and a confident person an assured voice.

Animals communicate their deepest feelings through gestures, cries, whistling, cooing and many other signals known to each other. It is we human beings, who have evolved the language of words to convey our thoughts in a structured manner. Still, many a times, we tend to convey many of our feelings by smiling, patting, frowning, shouting or other such wordless clues. At other times, we also lace our words with different tones, gestures and facial expressions, to give a deeper meaning to our words.

Non-verbal communication has the following three elements:

- **Appearance:** Speaker: clothing, hairstyle, neatness, use of cosmetics;  
Surrounding: room size, lighting, decorations, furnishings

- **Body Language:** Facial expressions, gestures, postures
- **Sounds:** Voice Tone, Volume, Speech rate

Non-verbal communication, or body language, is a critical form of communication—a natural, unconscious language that broadcasts our true feelings and purposes in any given moment, and clues us in to the feelings and intentions of those around us.

When we act with others, we ceaselessly give and receive wordless signals. All of our non-verbal behaviours—the gestures we make, the way we sit, how fast or how loud we talk, how close we stand, how much eye contact we make—send strong messages. These messages don't stop when you stop speaking either. Even when you're silent, you're still communicating non-verbally.

Frequently, what we say and what we communicate through body language are two totally different things. When faced with these mixed signals, the listener has to choose whether to believe your verbal or non-verbal message, and, in most cases, they're going to choose non-verbal.

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### 10.3 CHARACTERISTICS OF NON-VERBAL COMMUNICATION

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The characteristics of non-verbal communications are:

- **It is instinctive in nature:** Non Verbal Communication is quite instinctive in nature, that is, it indicates the attitude, instincts and feelings of the speaker.
- **It is less conscious:** Words are spoken after due thinking and with conscious effort. Depending on the situation we have to make a more or less conscious effort in these/choice of words. The nonverbal part of communication, on the other hand, is less deliberate and conscious as most of the expressions, gestures, etc. included in Non-Verbal Communication are mostly unconsciously expressed, as the speaker may not even be aware of these signs.
- **It is subtle in nature:** Spoken and written words are quite obvious and easy to see, listen and understand, whereas, Non-Verbal Communication is very subtle, and needs skill to be understood and expressed.
- **It is complimentary to Verbal Communication:** Non Verbal Communication does not stand alone on its own and neither does it completely substitute Communication with words; it complements Verbal Communication and makes it more effective. As an example, when we watch a movie, the dialogues are made more impressive by the way they are delivered, with the modulations in the voice, other gestures and signals.

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### 10.4 RELATIONSHIP BETWEEN VERBAL AND NON-VERBAL COMMUNICATION

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In our day to day communication, the verbal element and non-verbal element operate together in the construction of meaning. There are six primary ways in which non-verbal message may be related to verbal ones:

- **A non-verbal message can complement a verbal one:** Sometimes we twist our arms, change facial expressions, or bring a change in tone of voice. It may match the content of the words that we are speaking. Usually we don't even think about this non-verbal message, unless someone overuses them to the point that they become annoying. When we do not have face-to-face conversation, (on a telephone, mobile), we may feel uncomfortable with our interpretation or the words of other because we cannot see the facial expressions, movements, or



gestures that might accompany these words. When an individual wishes happy birthday to his friend with a big smile or expresses words of grief along with a sad face on the eve of any death in the family of his friend, non-verbal messages are complementing verbal messages.

- ***It can emphasize a verbal one:*** When we write, we often accent certain words or by putting them in italics or capital letters. When we speak, we do the same thing, using pauses, volume, tone, raised eyebrows, pointing fingers, and so on. Consider the sentence: "I really enjoy this movie." Try trading this sentence aloud and emphasizing the word really. Perhaps one will raise one's pitch when one says the word. Certainly one will say it more slowly than the others. What effect is created if one says the word more slowly than the others and also raises his eyebrows just for that word?
- ***It can repeat a verbal one:*** Words may suggest that some has to leave the room. Subsequently, the same individual may point to the door, and then the non-verbal message strongly repeats the meaning of the verbal message. This same repetition occurs if one says he is depressed and then has an enormous sigh.
- ***A non-verbal message can regulate a verbal one:*** Usually our non-verbal message control the flow of conversation. We often use tone of voice and speaking rate to indicate that we want to keep talking or to yield the floor to someone else. We also use them to subtly register approval or disapproval, understanding or misunderstanding of others.
- ***It can substitute for a verbal one:*** A friend asks, "what's going on?" One can reply by shrugging his shoulders. Other friends calls, "Hi," across the parking lot and his responds by waving his hands. Instead of giving reply in words, they have opted for non-verbal mode of communication. For example, when a student folds hands to convey his regards to his teacher, this *namaskar* is substituting to a verbal message. When the teacher replies with the same gesture, it is also a non-verbal message substituting a verbal one.
- ***A non-verbal message can contradict a verbal one:*** Research indicates that when we perceive inconsistencies between verbal messages a non-verbal one we must believe the contents of the latter message. Has one ever laughed while saying sorry to someone? Has one congratulated anyone on the eve of his successful completion of PhD degree in management by presenting a sad and depressed face? Your own experience will prove to you how much you value non-verbal communication and how it can even contradict the words that accompany it. These situations clearly tell us that contradictory situations regarding non-verbal message with verbal messages are rare.

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## 10.5 CLASSIFICATION OF NON-VERBAL COMMUNICATION

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Exchange of messages without words, which take place between two parties, fall within the category of non-verbal communication. It includes all wordless signs, symbols, gestures, facial expressions, colours, setting of the surroundings, time, and so on. The Non-verbal Communication can be classified into the following categories:

### 10.5.1 Kinesics or Body Language

'Kinesics' literally means 'body movements'. Bodily movements, gestures and body language are an important factor, especially in face-to-face communication. Body language is the reflection of thought, feelings and position. All bodily movements, postures and gestures are guided by our thought processes and emotions. By nodding

our head, blinking eyes, waving hands and shrugging shoulders we send out signals and messages, which are louder than words. This is why it is called 'body language'. Just as language uses sets of symbols to convey meaning, our body, consciously and unconsciously or instinctively, carries messages, attitudes, relationships and moods indicating warmth/indifference, positive/negative feelings and so on. We, however, infer these meanings from body symbols and seek them in the face and eyes, gestures, posture, and physical appearance where each has its own functions.

### ***Importance of Body Language***

Regarding the importance of body language, management consultant Nancy Austin says, "When people don't know whether to believe what they are hearing or what they are seeing, they try to follow the body language which often tells the truth. You can play fast and get loose with words, but it's much more difficult to lose with gestures." Psychologist Paul Ekman says, "We talk with our vocal cords, but we communicate with our facial expressions, tone of voice and our entire body."

Understanding body language has immense practical use. In this regard education psychologist Marilyn Maple says, "When you can consciously 'read' what others are saying unconsciously, you can deal with issues at work and at home before they turn into full blown problems." It has been observed that most of the non-verbal communication at the workplace centres on a single theme 'power', which alone gives one status consciousness. On careful observation, in a meeting, we can look around and see who has the highest status. In every species and society, those who are in control, try to appear large, strong and fearless.

Professor Albert Mehrabian has aptly illustrated this point by giving the example of the office-soldier relationship, in the army. The professor says, "Status manifests itself subtly in a relaxed posture and way of interacting. The classic example is the soldier standing at attention in the presence of a superior officer. His body is extremely tense and in perfect symmetry showing signs of subservience". Almost the same situation prevails in any other organisation when a junior worker has to appear in the presence of a senior executive/officer. It is their status and role-relationship that is reflected in this way.

Kinesics or body language includes the following:

1. Facial Expressions
2. Eye Contact
3. Gestures
4. Head, Body Shape and Posture
5. Voice

#### ***1. Facial Expressions***

A popular saying put it briefly, "The face is the index of the mind". Whatever we feel deep within ourselves is at once reflected in our face making facial expressions such an integral part of communication. We convey so much without speaking a word.

**Example:** Consider facial expressions which are generally associated with happiness, surprise, fear, anger, sadness, bewilderment, astonishment and contentment.

Let us also consider a smile, different kinds of smile, frown, corners of lips and the position of the eyebrows, the cheeks, whether drawn up back or dropping, the jaw, nose/nostrils and the chin. We can easily mark all the motion signals sent through these parts of the face by others and observe our own expressions by looking at

ourselves in a mirror. We will realise that every facial muscle is an instrument of communication with a significant role to play.

The face and eyes are the most expressive means of body communication. Dale Leather has found ten basic categories of meanings that can be communicated via facial expressions.

**Table 10.1: Ten Basic Categories in Facial Expressions**

1. Happiness	6. Disgust
2. Surprise	7. Contempt
3. Fear	8. Interest
4. Anger	9. Bewilderment
5. Sadness	10. Determination

Ekman and Friesen identified eight facial styles exhibited by most people. A summary of the eight styles is given below:

- **The Withholder–Inhibited:** Little facial movements are found in this style.
- **The Revealer–Uninhibited:** Great deal of facial movement is exhibited in this style.
- **The Unwitting Expresser:** Limited numbers of expressions are thought to be masked.
- **The Blank Expresser:** Blank face is shown instead of emotions.
- **The Substitute Expresser:** Emotion is shown but it is different from what the expresser thinks.
- **The Frozen–Affect Expresser:** Permanent display of a given emotion, for example, one always looks sad because that is the permanent feature of a facial configuration.
- **The Ever/Ready Expresser:** Initial emotion is displayed and has nothing to do with the stimulus.
- **The Flooded–Affect:** Express or overriding state (for example, anger) colours all other emotions.

**Table 10.2: Smiles**

	Type		Manner of Portrayal	Connotation
1.	Felt Smile	a.	Upturned mouth with lips closed.	Appreciative of the interaction and happy.
		b.	Upper set of teeth exposed with simultaneous eye contact.	
		c.	Broad smile which exposes both sets of teeth.	
2.	Miserable Smile		Only half the mouth is smiling	Disillusioned and dissatisfied.
3.	False Smile		Slight turn at the end of the mouth	Sarcastic/sardonic/dangerous which also does not reach the eyes.

## 2. Eye Contact

The eyes play an important role in face-to-face communication. Eye contact is one of the most powerful forms of non-verbal communication. When we look at somebody's face, we focus primarily on his eyes and try to understand what the individual means. The eyes, along with the eyebrows, eyelids and size of pupils convey our innermost

feelings. Authority relationships as well as intimate relationships are frequently initiated and maintained with eye contact which also builds emotional relationships between the listener and speaker.

- Eyebrows and eyelids raised and combined with dilated pupils tell us that the person is excited, surprised or frightened.
- Eyebrows with upper and lower eyelids closed and combined with constricted pupils tell us that the person is angry or in pain.
- Looking at somebody for a long time shows the intensity of our interest in him. If the eye contact is brief, or we take our eyes off the person very soon, it indicates nervousness or an embarrassment on our part. Prolonged eye contact can signal admiration.
- Direct eye contact of more than ten seconds can create discomfort and anxiety.
- Generally people's eyes approach what they like and avoid what they do not like. Eye contact between a speaker and audience increases the audience's assessment of the speaker as a credible source.
- People generally maintain more eye gaze and mutual eye gaze with those whose approval they want, those to whom they bring good news, and those whom they like. They also do so with people towards whom they feel positive and whom they know and trust.
- Averted eyes show anger, hurt feelings, and a hesitancy to reveal the inner self. They also reveal negativism and the need to increase psychological distance as in an elevator, waiting room, or other small space.

Eye behaviour communicates in many ways. It shows emotions and establishes conversational regulators. It also monitors feedback and serves as a reminder. The eyes not only supply information, they receive it as well. Major aspects of communication are covered through eyes. Of course, eye contact and eye movements convey their meaning in combination with other facial expressions.

Research into deception cues yields incomplete results; however, one finding seems to be consistent, "Obviously, failure to perform non-verbal acts which ordinarily accompany verbal acts is a sign where something is wrong."

**Table 10.3: Clues to Deception**

Shifting eyes	Looking at the ceiling	Scissoring legs
Passing hands over mouth.	Averted eyes	High-pitched at voice
More uncertain and shrugging of shoulders	Less nodding	More adaptors and longer to much open setup adaptor duration
Tearing at finger nails	Tense leg positions	More speech errors
Hand pressed into cheek	Drawn out smile	Frequent leg position shifts
		Hands holding onto knees.

### 3. Gestures

In addition to facial expressions and eye contact, another important element of kinesics is the use of gestures. Gestures are the physical movements of arms, legs, hands, torso and head, which help one to express thoughts and/to emphasise one's speech. They play a very important role in conveying meaning without using words.

Ekman and Friesen have identified five types of body gestures:

- **Emblems:** A large number of body movements have come to be identified as a substitute for verbal translations. They often replace verbal messages and take the shape of emblems. The list is long and comprehensive including about seventy emblems, namely:
  - ❖ Patting the stomach – "I'm full of food".
  - ❖ Nodding the head up and down – "Yes" or "I agree".
  - ❖ Patting the adjacent seat – "Sit beside me."
  - ❖ Shaking fist – "I'm angry."
  - ❖ Yawning – "I'm bored" or "I'm angry."
  - ❖ Cupping hand behind ear – "I can't hear you."
  - ❖ Clapping hands – "I approve."
  - ❖ Placing first finger on lips – "Be silent."
  - ❖ Circling the first finger parallel with the side of the head – "that person's crazy" or "that person's stupid."
  - ❖ Forming the first and second finger in the shape of a "V" – "Peace" or "Victory."
  - ❖ Shrugging shoulders and raising palms of hand upward – "I don't know."
  - ❖ Scratching the head – frustration.
  - ❖ Tapping finger against skull – "I'm thinking."
  - ❖ Tapping finger on own chest – "Me."
  - ❖ Standing on the side of the road and pointing a thumb in the direction of traffic – "I'd like a ride" (hitch hiking).
  - ❖ Waving – "Hello," "Good bye," "Come here," "Here I am."
- **Illustrators:** They are directly tied to verbal language. These gestures illustrate the words, which a speaker is saying. When a speaker says, "My third and final point is..." and holds up three fingers, this gesture is an illustrator.
- **Regulators:** Regulators control oral communication by alerting the sender to the need to hurry up, slow down, or repeat something. Examples are frequent glances at the watch or drumming finger on the table when someone is talking with another person. When someone is delivering a long speech and the other person wants to restrict him, then the individual may show his watch to regulate or moderate him.
- **Displays:** These indicate emotional states, such as anger or embarrassment, occurring usually in our facial expressions. The display differs from the three previous types, in that, people have less control over them. Many have felt their faces turning red, because they were angry or embarrassed. However, there is little, which they can do to control this display.
- **Adaptors:** They are the gestures over which people have little control over. Often people are not conscious of performing such gestures. Stifling a yawn and clasping the hands to the face in fear, are adaptor gestures. They are automatic and are usually not planned.

Gestures are not used individually but in relation to another person, and acquire meaning at particular times. Speech and gestures go together, and, therefore, have to

be properly co-ordinated. In the absence of speech-gesture-coordination, we experience confusion and discomfort. Although gestures are spontaneous, we can learn to monitor and use positive gestures and minimise the negative ones.

### *Positive Gestures*

Positive gestures are body signals which make us look relaxed, confident and polite.

- Positive listening gestures include the following:
  - ❖ Leaning a little towards the speaker.
  - ❖ Tilting the head.
  - ❖ Eye contact with the speaker.
  - ❖ Gently nodding the head in agreement.
- Good speaking gestures include keeping palms open and avoiding clutching or folding them across the chest.
- Walking with the head upright, hands swinging freely by the sides.

**Table 10.4: Positive Gestures**

Types	Significance
Open palms	Positive personality
Eye-to-eye confrontation	Honest and direct
Smile	Open personality
Equal handshake	Equal in behaviour and attitude with no complexes associated

### *Negative Gestures*

Negative gestures include body movements which give a negative impression about us. These are given below:

Signs of nervousness:

- Hands in the pocket
- Covering the mouth with the hand while speaking
- Scratching
- Biting nails
- Glancing sideways
- Drumming fingers
- Tapping feet
- Wringing hands
- Crossed arms or legs
- Setting the hair with hands
- Sitting on the edge of the chair
- Speaking too fast, or too slow
- Straightening the tie
- Clearing the throat too often
- Blinking the eyes a lot

- Clicking the pen
- Playing with the paper weight
- Adjusting the glasses up the nose

Gestures showing aggressiveness:

- Staring
- Pointing at someone
- Showing a fist
- Folding both arms
- Bending over someone
- Gestures showing rudeness:
  - Shake hands too hard
  - Give a very limp handshake
  - Stand too close
  - Whisper at a social gathering
  - Work while someone talks to you
  - Yawn
  - Smirk
  - Puff
- Start gathering or folding papers before a meeting is over

Gestures showing lack of good sense:

- Banging the table
- Chewing pens
- Waving hands around you while talking
- Wiping hands across the face
- Touching nose time and again
- Attending meetings with the cell phone on
- Staring pointedly at someone

#### 4. *Movements – Head, Body Shape and Posture*

These aspects are discussed below:

- **Head:** In any face-to-face communication, meeting or interview, the way we hold our head is very important. Everybody is aware of the age-old saying. "Hold your head high". It is nothing but a sign of honour and self-respect, confidence, integrity and interest in the person/persons before us. A head bent low, depending upon the situation, would show modesty, politeness or a sense of quietness. On the other extreme, a head drawn too far backwards or stiffly held straight up indicates pride or haughtiness. Head jerks indicate insolence, rejection or agreement, depending upon the context and personality of the person concerned. Nodding the head sideways or back and forth, conveys the intended meaning more eloquently than words.

- **Body Shape:** Behavioural scientists have studied the shapes of our bodies and have broadly put them in the following types:
  - ❖ Ectomorph: thin, youthful and tall,
  - ❖ Mesomorph: strong, athletic, muscular, and bony,
  - ❖ Endomorph: fat, round and soft.

We cannot do much about the shape of our body, but we can put it to effective use. Both our body shape and posture affect what we think about ourselves, how we relate to others and how others relate to us or respond to our moves. Generally, we act spontaneously in situations like when we meet a friend or participate in a meeting. But we do become self-conscious while appearing for an interview or making a presentation. On such an occasion we try to make the best possible impression.

- **Posture:** A person's general posture, even without specific gestures, communicates meaning. The body position of an individual conveys a variety of messages. For example, superiors usually take a more relaxed posture than their subordinates. Posture is also a way to demonstrate interest in another person. Several writers have concluded that when you lean forward to the person towards whom you are speaking with, you demonstrate interest in that person. Sitting back, on the other hand, may communicate a lack of interest. It is difficult to assess exactly the meaning or significance of postures. Warren Lamb says that a person's posture and gesture can tell much about how effectively the person will perform in an organisation.

Such expressions or gestures can denote cheerfulness, affection, pleasantness, joy, fear, anger, nervousness, caution, worry, and defensiveness. They also attempt to hide emotions. Knapp summarises various clues to deception.

- **Physical Appearance:** Appearance, in the context of body language would include clothing, hair, jewellery, cosmetics etc. All these may seem unrelated to body language, but on having a closer look we find that they are very meaningfully related to our facial expression and communication styles. A famous writer has said that a man is recognised by his "dress and address". "Dress" does not need any explanation and 'address' means the way a person speaks to another. Every occasion has its own particular type of dress which may be formal or informal. It is normally a part of an organisation's work rules to have a formal suit for the working hours. Certain organisations have a uniform for all levels of workers. If one changes from the formal dress to an informal or casual one the individual is easily noticed, and the dress speaks volumes about the individual's feelings and attitude towards life, work, colleagues.

### ***Effective Use of Body Language***

If Kinesics or body language is so important, the question is how to make effective use of it. Some useful tips in this regard are given below:

- **Mind the body-talk:** In our day-to-day communication, we should carefully notice details about the way we speak and move.
  - ❖ When standing we should keep our shoulder erect, body open and weight evenly balanced on both feet. We should guard against giving the appearance of a rigid straight posture. Such a still posture shows rigidity in thought.
  - ❖ We should carefully identify the little things that people do when they are tense. Some people play with a lock of hair or fiddle with the pen in their



hand. Such behaviour, according to psychologists, undermines the strength of what they might want to say.

- ❖ In order to look confident and in charge we should sit squarely in a chair, feet on the floor and shoulders straight. Austin says, "Rest your forearms on the table. This posture conveys the message" I will not move". If we slouch or jiggle our feet, we give the impression of being indifferent and uninterested.
- ***Be careful with the handshake:*** In the business world, handshakes are very important. They convey crucial messages about power, status and concern for the person we meet. A handshake that really conveys confidence is firm and dry, with strong but without an excessive pressure. Bending the wrist or gripping only the fingers would again give wrong and misleading signals.

**Table 10.5: Handshakes**

Type	Significance
Equal handshake	Equal in behaviour and attitude
Tight grasp	Superiority complex
Limp handshake	Inferiority complex and dejection
Politician's handshake	Deceptively subservient position
Informal handshakes	Informal behaviour and attitude

- ***Establish good eye contact:*** According to Austin, "Eye is the most remembered element in forming an impression of someone".
  - ❖ You must acquire the ability to sustain direct eye contact if you want to be taken seriously.
  - ❖ The dominant person always has the right to look and keep looking. The subordinate is supposed to look away. If you maintain eye contact so intently that your boss feels uncomfortable and will sense that you are challenging supreme authority, even though that is not what you intended.
- ***Communicate at the level of the person before you:*** The way we hold our body can show the person before us where we stand vis-à-vis that person. If we fold our arms across our chest and cross our legs while we talk, we are closing off communication. If we tap our foot/feet, it shows that we are impatient.
  - ❖ With young children we should kneel or bend down so that we are able to look into their eyes. With older people we should lean against a wall or counter, put our weight on our one foot and keep our arms at our side, so as to appear open to their needs. With people in higher position a straight posture shows respect.
  - ❖ We must be ourselves. Maple says, "Non-verbal messages come from deep inside you, from your sense of self-esteem. To improve your body language, you have to start from inside and work out. If you are comfortable with yourself, it shows. People who know, who they are, have a relaxed way of talking and moving. They always come across confident and sure of their position. "So, avoiding all tension, we must relax and be ourselves, not try to be, or show what we are not."

Graceful movements and confident posture improve the atmosphere at the workplace. With only a little care, we can look pleasant, send out right signals, enthuse workers and make others interested in us.

Table 10.6: Manner of Portrayal

Manner of Portrayal	Connotation
Hugging of the self	Uncertainty, lack of confidence
Arms folded with thumb pointing	Closed mind, superiority complex
Holding hands in front	
a. Left atop the right	Artistic bent of mind
b. Right atop the left	Logical bend of mind
Clasping of hands behind the neck	Aristocratic gesture, used by royalty
Hands resting lightly on the neck	Analyse the problem
Hands clasping the back of the neck	Danger signal
Scratching of head	Perplexity
Stroking of the chin	Ideas being given careful consideration
Lightly scratching or rubbing one side of neck	Insecurity
Both hands or one hand on hip	Signals authority
Clenching of Hands	Does not believe in what that person is saying
a. Speaker	Frustrated and irritated
b. Listener	
Hands down/fists clenched	Gearing for a showdown
Arms folded with thumbs pointing	Closed temperament upwards
Rubbing of hands	
Quick rubbing	Excitement/enthusiasm
Slow rubbing	Preoccupation/deception
As if hands were being washed	Over with the issue
Pressing of hands in front of oneself	Pleading
Stapling of fingertips with thumb fingers, eccentricity	Extreme confidence

## 5. Voice

The first signal we receive or use is that of our voice. Everybody knows how important voice is. It tells us so much about the speaker's sex, background, education, training and temperament. There are many kinds of voices—clear, musical, raucous, cultivated, pleasant, unpleasant, and so on. Unless damaged by some injury to the vocal cords or some neurological problem, the human voice normally does a satisfactory job. In other words, it conveys the meaning of the message. In certain jobs, it is absolutely necessary for the applicant or employee to have a clear and pleasant voice.

**Example:** Jobs involving the use of telephone, announcing, tape-recording, etc. again require clear and articulate tone/voice.

The message, however, may not be effectively conveyed if we do not take care of the following points in the use of our voice:

- **Pitch variation:** Most of us introduce wide variations in our pitch while speaking. It is necessary to catch the listener's attention and to keep him interested in us. Those who speak in monotonous (single tone, without variation) fail to keep the listener's attention. That is why the word 'monotonous' has come to be used as a

synonym for 'boring.' Many speakers are not aware of this weakness on their part. Once they become aware of it, the problem can be solved.

A high pitch may indicate nervousness, anxiety, tension, fear, surprise, dynamism, anger, joy, cheerfulness, or impatience. A low pitch may show affection, sadness, boredom, pleasantness, intimacy or empathy.

Most of us, when excited, speak in a high-pitched voice and express anger or anxiety in this manner. A situation like this sparks off a heated discussion in which we hear voices at different pitch levels. Quite often we hear, "Raising your voice is not going to convince me." Or "You can't convince me by your shouting." It is equally important to keep up a pitch at which the listener gets our point across comfortably.

- **Speaking speed:** Fluency in a language is not the same thing as the speed of speaking. We do, however, speak at different speeds on different occasions and while conveying different parts of the same message. As a general rule, we should present the easy parts of a message at a brisk pace, because it is likely to be understood easily and soon. On the other hand, the difficult, complicated and highly technical part of information should be conveyed at a slower pace. Easy information, if conveyed slowly, becomes irritating. Hard or complicated information presented rapidly will be difficult to understand. Similarly, an increase in rate could indicate impatience, urgency or anxiety from the person sending the message while decrease in rate can indicate thoughtfulness or a reflective attitude. When we are relaxed, we speak at a comfortable speed.
- **Pause:** The pace or speed of speaking is also accompanied by a pause. We cannot, and should not, go on speaking without pausing voluntarily or involuntarily. But the pauses have to be at the right moments. Incorrect use of pauses can create problems. A pause can be highly effective in emphasising the upcoming subject and in gaining the listener's attention. But, it must also be noted that frequent, arbitrary pauses spoil the speech and distract the listener's attention. It is, therefore, very important for a speaker to carefully monitor his pauses.
- **Non-fluencies:** Lack of fluency is called non-fluency. Speech is not always a continuous string of meaningful words. There are, as we have noted above, pauses scattered at intervals which may be inserted with sounds or utterances like 'ah', 'oh', 'uh', 'um', 'you know', 'ok', etc. They are also sometimes inserted with laughing, yawning or chuckling. Sometimes they may be effective in that they invite the listener's attention by giving a non-verbal edge to the verbal communication. They are called 'non-fluencies'. It is rather interesting to see that they are carefully and sparingly used, to add to the fluency of the speaker, give him time to breathe or relax, make him more alert and get the message conveyed overtly or covertly. But too frequent, an insertion of these non-fluencies could also irritate the listener.
- **Volume variation:** Volume is another voice quality that frequently conveys meanings, especially in conjunction with rate. We must speak loud enough for our audience to hear us, but also remember not to be too loud. The loudness of our voice should be adjusted according to the size of our audience. As somebody has very well said, "The contrast provides the emphasis; volume variation puts life into our speaking." If a supervisor says softly, "I would like to talk with you in my office," you might feel somewhat at ease, but if, the supervisor said loudly, "I would like to talk with you in my office!" you would feel disturbed and uncomfortable. Softness and loudness in volume alters meaning specifically. Voice volume tends to vary with emotional and personality characteristics. Loudness of voice seems to occur in conjunction with anger, cheerfulness, joy,

strength, fearlessness, activity, and high status. Softness in volume appears with affection, boredom, sadness, intimacy, empathy, fear, passivity, weakness, and low status.

**Table 10.7: Voice Modulations**

Manner of Portrayal	Connotation
Monotonous voice	Boredom
Slow speed, low pitch	Depression
High pitch	Enthusiasm
High pitch, long drawn out speech	Disbelief
Ascending tone	Astonishment
Abrupt speech	Defensive

- **Pronunciation:** People pronounce words differently. Their variations in pronunciation convey different meanings to different people.

### 10.5.2 Haptics

Haptics is the study of how individuals communicate by touch. This mode of communication is our earliest means of making contact with others. It has actually become essential to human development. Babies and children need to be touched in order to grow, flourish, and avoid numerous health problems. Touch even seems to improve a child's mental functioning as well as physical health. In our life touch plays an important role in how we respond to others and to our environment, and it can communicate many messages. When we appreciate someone, we pat on his back. Parents and elders bless their younger ones by touching their head. Younger people express respect by touching the feet of elderly people. By shaking hands, we show our warmth and affection to each other. When two friends after a long gap hug each other, it shows their warmth and affection.

Touching can show tenderness, affection, encouragement and the full range of emotions.

The infant begins its communicative life largely through the sense of touch. As the baby is hugged, kissed, cradled, cuddled and stroked, human exchange being to unfold. Psychologists contend that the denial of extensive touching can have untold negative impact upon the infant's development.

Touching actions serve as regulators. They act as both conveyors and elicitors of positive as well as negative feelings. Touching conveys the total range from highly impersonal to highly personal meanings. The touch will be of four types:

- **Intimate touch:** A child and mother usually touch to each other to shower affection. Two friends/brothers meet each other after a long gap is also an intimate touch.
- **Friendly touch:** When two people meet, they touch their shoulders and back to show their warmth and it is a friendly touch.
- **Professional touch:** Doctor examines their patients by touching. Surgeons operate their patients.
- **Social touch:** Handshake is one of the commonest forms of this kind of touch. When a teacher touches his student to encourage him, it is social touch. By touching the head of younger ones, blessings are bestowed by the elder ones.

### 10.5.3 Proxemics or Space Language

The space around its contents and us convey a definite meaning. Of course, it requires quite some effort on our part to arrange them meaningfully, and on the part of others

to understand or interpret the meaning. In other words, it tells that how people communicate with space. How close or far they stand in relation to another person, where they sit in a room, or how they arrange the office furniture which has a real impact on communication. One of the major writers on this type of communication is anthropologist Edward T. Hall. He has identified three major types of space: feature – fixed space, semi-fixed feature space, and personal space.

- **Feature-fixed space:** Feature-fixed space refers to buildings and other fairly permanent structure, such as walls. The manner in which buildings are laid out and the sequence of rooms and offices have a considerable influence on communication. The person will probably communicate more with those individuals whose offices are closer to his own rather than with those further from him. There are evidences which reveal that bigger the fixed place, the higher will be the status of the individual in an organisation.
- **Semi-fixed feature space:** The placement and arrangement of moveable objects, such as desk and chairs, is referred to as semi-fixed feature space. Currently, a great deal of emphasis is placed on how business offices are arranged. In addition, the quality of furniture has considerable influence on the status of the individuals and this is clearly communicated non-verbally. Frequently, the superior person will come from behind the desk and his face-to-face with the subordinate to make it easier to communicate.
- **Personal space:** Our interaction with the people around us has rather a well-defined or well-understood spatial dimension. Conversely we can say that the spatial dimension or distance between us and other people tells us something important about our relations and the nature of our communication with them. This branch of Proxemics has come to be regarded as “personal space language”. Edward T. Hall has done very useful and interesting work in this area. Placing ourselves in the centre we can present the space around us in the form of the following concentric circles:
  - ❖ **Intimate distance/zone** (physical contact/touch to 18 inches): This ranges from actual physical contact to about 18 inches from another person. Communication and interaction within this distance are intimate activities. Mostly, only our family members, closest friends and selected people enter this area. Those selected people are indeed ‘special’ people, whatever the reasons for their special status. It has special significance for our communication with these people. In the language used within this small, intimate, perhaps private circle, not many words are used. In organisations, confidential information is often communicated with in the intimate distance. When two friends meet each other after a long gap, they hug each other. Eye contact, handshake, pat on the back or shoulders is quite noticeable. The major form of intimate contact in business organisation is of course, the handshake. Most people respond positively to men who give a firm handshake.
  - ❖ **Personal distance/zone** (18 inches to 4 feet): This range from 18 inches to four feet. Interaction in this zone includes causes and friendly conversation including conversation with close friends, colleagues, associates and visitors. Here we rise above the closed circle of intimacy around us. Although communication in this circle is also mostly personal in nature, it is relaxed and casual for most of the time. It permits spontaneous unprogrammed talking or discussion. However, certain important decisions may be taken in this circle.
  - ❖ **Social distance/zone** (4 to 12 feet): It ranges from four feet to about twelve feet and has very aptly been called the social space. We use this space mostly

for formal purposes, and the relationships within this circle are more official. We do most of our business within this area. While feelings, emotions, shared likes and dislike may come up in the intimate and 'personal' space, more reason and planning are used in the 'social space. It is therefore, of paramount importance in business. Much of the communication in organisations is done in the social zone.

- ❖ **Public distance/zone** (12 feet to as far as we can see and hear): It ranges from 12 feet to the limits of visibility and hearing. Communication at public distance is considered in public speaking. A good deal of communication within and outside an organisation takes place at this range. We can very well imagine the nature of communications/speaking in this space becomes even more formal. The attachment of the 'intimate' and 'personal' space is substituted by the detachment of perception, objectivity of approach and formality of communication /speaking. We have to raise our voice so as to be heard by others whose group is almost always larger in this space. That is why it has been called 'public' space.

### **Space Use**

Proxemics is also concerned with the use of space by groups of people. The ways groups of people use the space assigned to them determines their respective places and inter action patterns. For example, people who begin conversation and those seated at the front are usually considered leaders of the group. If the same people are seated in a row their communication pattern will be of a different nature. People seated around /oval table they will most likely communicate in the form of a conference.

Everyone is aware of some of the ways space is used to communicate in business organisations. Experts have identified three basics principles about the use of space as it relates to status within the organisation:

- For higher status people in the organisation, more and better quality space is allotted. In many organisations, the president has the most attractive office, while the vice president, the department's heads, and lower level employees have smaller offices. The number of windows in the office and the way the office is furnished are also commensurate with rank of position. This is clearly evident that better the quality place, the higher will be position or status of the individual.
- The higher people in the organisation are being protected within their territory. Their territories are closed. Many times the more status a person has in the organisation, the more difficult it is to see that person. Outer offices and secretaries often are used to protect the high-status person. Even gates are manned with security people of such people.
- For higher people in the organisation, it is easier to invade the territory of lower status personnel. The superiors usually can enter the subordinate's office at will. The supervisor also has the ability to phone the subordinate at almost any time. This is the privilege. However, the subordinate usually does not have his access to the supervisor.

### **Surroundings**

Our surroundings or physical environment speak their own nonverbal language. It is a vast area. It is, therefore, worthwhile to cover only two important aspects of our physical context-colour and layout or design for the purpose of nonverbal communication. Through our sensory perception we get meaning from our surroundings, in the same way as through our choice of colour and design we send out definite signals to others.

## **Colours**

Most of us know that different colours are associated with different behaviour patterns, attitudes and cultural backgrounds. People make serious efforts to choose the right colour for any significant moment and indifference to choice of colour is regarded as lack of cultivation.

Some colours are universally known to be associated with gaiety, cheerfulness or pleasant circumstances. Pink, yellow, red, purple, blue, green are gay colours. Black and gray, on the other hand, are associated with negative feelings, melancholy or somber mood. White is generally associated with purity or peace. All this shows that there exists what we may call a 'colour language'.

For successful communication it is important to have the right choice of colour of our clothing, home and office interiors, upholstery and decoration pieces.

## **Layout and Design**

Like 'colour language', there is also a 'layout and design language' as a part of nonverbal communication. The space arrangement of an office, carpeting or its absence, the furniture and its design everything conveys a meaning. Everybody is impressed by a 'tastefully' furnished office, the layout of a lobby/dining hall/conference room/reception desk. It is for this very reason that so much attention is being paid to the architecture and furnishing of offices/ hotels/houses of executives in modern times. All this is aimed at conveying the mood/personality/outlook/vision of the organisation. Behind all this is the vision of the successful communicators.

## **10.5.4 Time Language**

Time language is another type of non-verbal communication. In it we communicate with others in terms of time by showing them, in our own cultural way, what time means to us. We do this mostly by symbolizing time, and by sending out signals regarding the importance of time and so on. In this connection, it is important to note that 'time management' is now one of the most important parts of the overall management. TMI (Time Managers International) is one of the most important American consultancy companies. It renders valuable advice to business organisations in respect of optimal use of time.

Business community all over the world knows the worth of time. It has been pointed out that "scientific managers of the late 1800's equated the worth of time with money." And then we are reminded repeatedly that "time is money". It is this consciousness of the worth or importance of time and its crucial role in productivity that has led to the invention of many time saving devices. In fact time pervades our thinking and dominates our communication. All communication is meant to be suitably timed. We get/send out/covert signals about whether anybody/anything is early or late. While people in the West are very much time conscious and attach highest importance to **punctuality**, people in the East have a more relaxed attitude to it.

The way we use and structure time can send intentional and unintentional message about what we value and whom we considered important. This is called **chromatics**.

## **10.5.5 Paralanguage**

Closer to actual verbal (oral) communication, and always accompanying body language, is **paralanguage**. It is nonverbal because it does not comprise words. But without it words do not convey their intended meaning, 'Para' means 'like'. Hence, 'paralanguage' literally means 'like language' and 'paralinguistic' is the systematic study of how a speaker verbalizes his words/speech. It is defined as "a type of non-verbal communication that includes articulation, pronunciation, rate, pitch, volume,

pauses and other vocal qualities. While verbal communication consists of the 'what' or the content of words, paralinguistics involves the 'how' of a speaker's voice or the way in which the speaker speaks. On careful observation and analysis we find that a speaker intentionally as well as unintentionally uses a vast range of hints and signals.

If someone asks his friend to go to movie or to a particular restaurant for dinner, one may respond, 'Yes, I would love to go' but let his tone of voice betrays his words and convey that he has little or no interest in going. The reaction of his friend to the response will communicate the message in right direction. At times people mean to communicate a particular message through the use of paralinguistics. For example, the phrase "I would like to help you" can convey several meanings, depending upon the paralinguistics employed. By changing emphasis on each of the words of this sentence, different meaning may be drawn.

### *Advantages of Paralinguistics*

The major function of paralinguistics is to express emotions. Several researchers have demonstrated that it is possible to communicate various emotions solely with paralinguistics. In a foundation study, actor who read even a small text made sure that the meaning communicated were solely the result of vocal cues rather than vocabulary.

- Paralinguistics is very closely allied to language. No oral message is complete without it.
- Paralinguistics is a sufficiently dependable indicator of the speaker's place in the organisation. On the basis of his voice-quality one can easily guess his position in the hierarchy.
- Paralinguistics tells us quite clearly about the speaker's educational background.
- Paralinguistics speaks volumes about the speaker's national and regional background. This information is of immense use to the receiver and organisation in dealing with him.
- Paralinguistics gives us useful clues regarding the speaker's mental state. His voice quality, intonation and speaking speed make it easy for the receiver of the message how best to deal with him.
- Paralinguistics has important educational value. A careful listener can learn from an effective speaker.

### *Limitations of Paralinguistics*

- Paralinguistics is 'like' language, but not language. It is non-verbal part of communication. It therefore, cannot be fully relied upon.
- What is said and how it is said must be blended. But very often it does not happen. It, therefore, requires extra care to get to the exact content of the message.
- The voice quality and pitch of the speaker may unnecessarily prejudice the receiver of the message. The listener/receiver of the message has, therefore, to be very open-minded and patient.
- Paralinguistics may sometimes misguide or mislead, as there may be difference in the speech and the intention behind the speech.
- As speakers belong to different speech communities it is difficult to achieve uniformity in oral communication.



### 10.5.6 Sign Language

Sign language, any means of communication through bodily movements, especially of the hands and arms, used when spoken communication is impossible or not desirable. The practice is probably older than speech. Sign language may be as coarsely expressed as mere grimaces, shrugs, or pointing; or it may employ a delicately nuanced combination of coded manual signals reinforced by facial expression and perhaps augmented by words spelled out in a manual alphabet. Wherever vocal communication is impossible, as between speakers of mutually unintelligible languages or when one or more would-be communicators is deaf, sign language can be used to bridge the gap.

Sign language includes all those forms of codification in which words, numbers, and punctuation signs have been supplanted by gestures; these vary from the 'monosyllabic' gesture of the hitchhiker to such complete systems as the language of the deaf language.

In linguistic terms, sign languages are as rich and complex as any oral language, but they are not "real languages". It is a conventional communication which is a part of non-verbal communication. This can involve simultaneously combining hand shapes, orientation and movement of the hands, arms or body, and facial expressions to fluidly express a speaker's thoughts. They share many similarities with spoken languages, which is why linguists consider both to be natural languages, but there are also some significant differences between signed and spoken languages.

#### *The Role of Sign Language Interpreters*

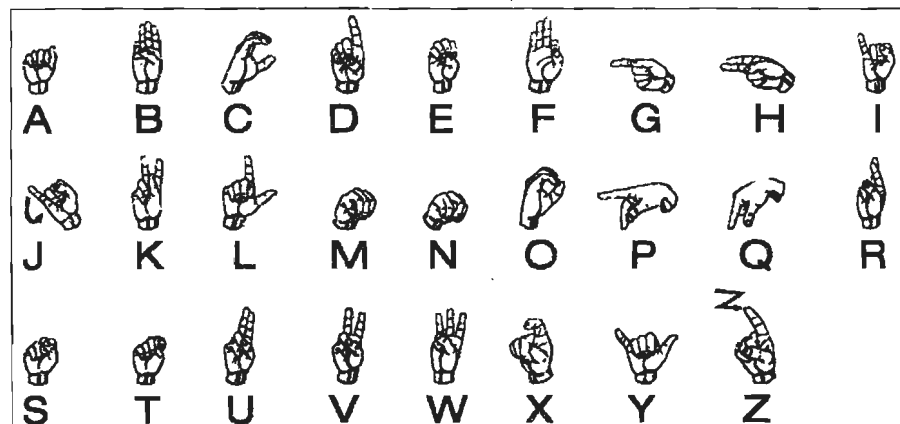


Figure 10.1: Alphabet Sign Language

- Converts spoken language into sign language
- Work for schools, hospitals or government agencies
- Listening carefully to, or watching, what is said or signed
- Interpreting everything that is said or signed

#### *Types of Sign Language*

- American Sign Language (ASL)
- British Sign Language (BSL)
- Signed English (SE)
- Sign Supported English (SSE)

- International Sign (IS)
- Finger Spelling

## **10.6 AUDIO AND VISUAL MEDIA OF COMMUNICATION**

Media is the channel of communication. It is a basic element in the process of communication. The channel of communication, in which voice can be heard as well as visuals can be seen are called Audio Visual media. Audio Visual media is a very effective media of communication, as it creates a good impression on the mind of the receiver. Audio Visual media holds the attention of the receivers and helps them to retain the matter effectively in the mind. It is said that a person remembers those things for a longer time, which they see as well as hear, more than those things which they only read or only hear.

Some Popular Audio Visual Media used for Communication are:

### **10.6.1 Teleconferencing**

Teleconferencing can be defined in several ways but most people agree that it can be defined simply as “bringing people together without having to spend time and money on travel.”

Teleconferencing is a rapidly developing technology that has changed the way companies do business.

There are three types of teleconferencing: (a) audio teleconferencing (b) audio graphics teleconferencing (c) video teleconferencing.

Audio teleconferencing provides the interactive element of the telephone; it is the most frequently used most productive and inexpensive medium. It is also called “phone meeting”; it does not need any special equipment other than the ordinary telephone.

The main factors for its wide spread acceptances are:

- Easy to use—everyone can use a telephone
- Easily available—telephones are available anywhere
- Easy to participate from any telephone line in the world
- Takes only a few minutes to set up a conference call
- Costs little

Audio graphics teleconferencing provides the facility to move text, computer – generated image, photographs and large files over ordinary telephone lines (like the Internet). It is not as expensive as video conferencing but still requires going to the location that has the equipment or investing in the equipment.

### **10.6.2 Internet**

The Internet is a world-wide collection of computer networks that co-operate with one another by using a common software standard. It conveys data through satellite links and telephone wires. There is no single owner or central authority that operates or controls the Internet. But the internet is bound by few rules and oversees the system and protocols involved. It does not answer to any single organisation.

The speed of the internet has changed the way people receive information. The size, scope and design of the Internet enable users to:

- Connect easily through an ordinary personal computer and local telephone line;

- Exchange electronic mail with friends, colleagues, customers (with internet accounts) and also attach files which are on their computer;
- Share business and research data among colleagues;
- Request and provide help with problem and questions;
- Post information for others to access, and update the information regularly;
- Publicize and market goods and services;
- Gather valuable feedback and suggestions from customers and business partners;
- Access multimedia information which includes photographic images, sounds, and video;
- Join group discussions on any subject;
- Subscribe to mail lists on topics of interest and receive views expressed by members of the group on the topic.

Since the Internet consists of not one but multiple data systems, which were developed independently, it allows users to access a variety of services. The most important and popular ones are:

- E-mail for exchange of electronic mail;
- Internet Relay Chat (IRC) for sending private and public messages to other users and real time (that is, your messages appears on the recipient's computer screen as soon as you type it);
- USENET newsgroups for posting and answering messages on public "bulletin board";
- File Transfer Protocol (FTP) for storing and retrieving data files on large computer systems;
- CU-SeeMe, a video conferencing system which allows users to send and receive sound and pictures simultaneously over the internet.

Over the following 20 years, the network developed and became useful for academic institutions, scientists, and government bodies for research. It enabled distant and unrelated organisations to share information and contact to one another's data bases and computing system.

The nature of the Internet changed dramatically in 1992. A new computer program called NCSA Mosaic was developed at the National Center for Supercomputing Applications (NCSA) at the University of Illinois. This was the first Web browser.

With the browser it was easier to access the different web site, and soon the Web sites began to include video files and sound files.

In India, VSNL began to give Internet connections in 1995. The growth in India has been astonishing in the last one year. The expansion of the Internet has coincided with the coming of powerful yet reasonably priced personal computers and easy to use graphical operating systems. For those who do not own a computer, there are cyber cafes and other commercial centers that rent internet facilities by the hour.

### **10.6.3 Computer Networks**

The computer is a versatile electronic instrument which can combine various media functions. The trend of technology is towards convergence of various technologies so that the computer will become the single multi-task equipment for all kinds of transmission.

Computer software development is rapidly making the computer takeover more and more tasks and functions both in business and at home. The word processor help in the preparation of letters, reports, meeting agenda, by guiding you through the steps of the layout. It ensures that the document is neatly laid out in a few commands. It enables you to prepare a circular and personalize it for several persons and addresses by mail merge.

Electronic mail voice mail Video conferencing, and multimedia facility allows are forms of communication to be transmitted. Fax and telex can also be sent through the computer. Accounting software is already use in many offices is that account books do not have to be written manually. Various financial reports can be prepared within a short time by using the accounting software packages.

Software programs are being written for almost all activities in business. You should keep a close watch on the advertisements that announce new programs. A computer technology is the fastest growing field; advances are made rapidly, and users can upgrade their equipment and buy the latest software for more advanced tasks.

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## 10.7 VISUAL AIDS

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Visual Aids are used in presentation and during speeches to make the presentation more effective and to attract the attention of the listeners. This makes the speaker more confident.

### 10.7.1 Tables

These are the simplest of the visual presentations and require a form in which there are both horizontal rows as well as verticals columns. These tables are mostly numerical but word tables are also used. In a survey concerning TV viewing habit of men, women and children the following result can be presented as follows:

**Table 10.8: TV Viewing Habits**

Category	Percentage of viewers	Percentage of non-viewers
Men	44	56
Women	70	30
Children	80	20

The tabular form of presentation, while simple for the report writer has both advantages and disadvantages. A lot of figure can be depicted. A number of combinations are possible in this tabular form, for example, numeric and non-numeric data can together be depicted. However, it also has certain disadvantages: while it is part of the visual depiction yet, visually the details are not evident at a glance. Occasionally the writer might, in the process of putting in too much data, make it too detailed and complicated. Finally the visual appeal in these charts is missing.

### 10.7.2 Flow Chart and Organisation Charts

Flow charts present a sequence of activities from start to finish. They are normally used when we wish to illustrate processes, procedures and relationships. The various elements in the chart can also be depicted either with figures or geometrical designs.

Organisation charts illustrate the various positions or function of the organisation. Most of the communication channels in an organisation are described with the usage of these kinds of charts.

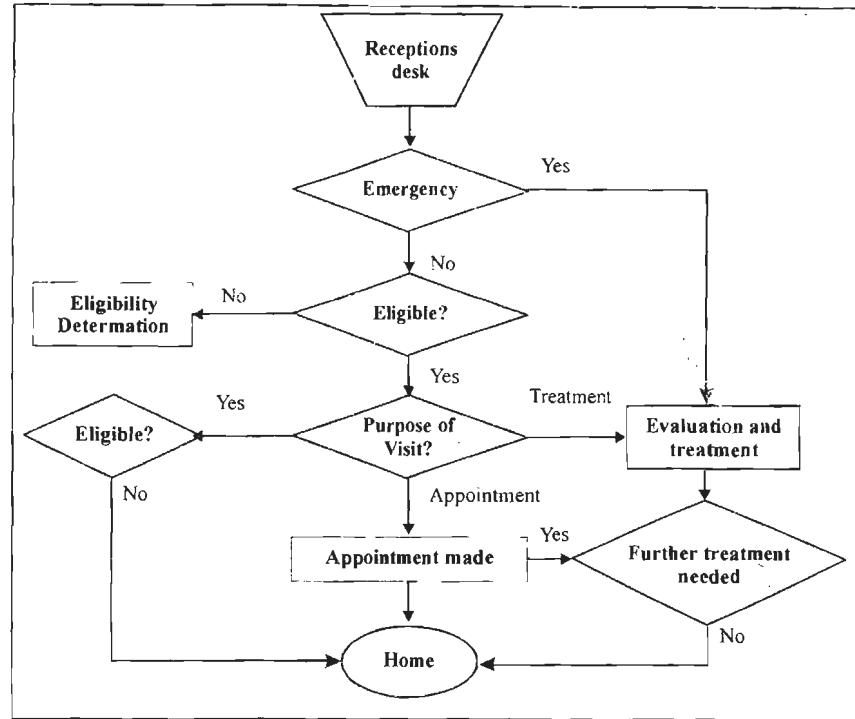


Figure 10.2: Flow Chart of Patients in a Hospital

## 10.8 GUIDELINES FOR THE USE OF VISUAL AIDS

Visual aids are meant to emphasize the most vital points of the presentation in a unique manner. A lot of effort should go into their preparation, so that they leave a positive impact in the minds of the listeners. One strategy could be to restrict yourself to the three B's: the BIG, the BOLD and the BEAUTIFUL. There are no hard and fast rules for the use of visual aids in all presentations. Much depends on the Individual's choice. However, some guidelines can be followed to make effective use of Visual Aids:

- The transparencies or slides should be prepared neatly with no over-writing or spelling errors.
- The material should be well spaced and written in capitals or block letters so that the listeners sitting at the back are also able to decipher the contents.
- The audience is concentrating on the spoken words plus the visual cues which are being provided, it is always better to pause for a short while as they absorb the contents of the visuals
- The written material on the transparency should be read out to the audience.
- Never turn your back to the audience, specially to read the contents of the presentation. Preferably, the points should be memorised so that you are able to perceive their reactions to your performance and the transparencies/slides. If it is favorable you can proceed, else stop on a particular point to elaborate and discuss.
- Everyone in the audience is able to see this visual aid clearly.
- The speaker must explain the visual aid if there is any likelihood that the audience may not immediately understand it.
- The visual aids must be fitted well into the presentation. They must be an essential part of the plan of the presentation.

- Proper emphasis must be laid on the visual aid. The speaker must point to it with bodily action and with words. Sometimes a long stick or pointer should be used to draw the audience's attention to a serial number or a chart, or a city/location on a map.
- The speaker must look at the audience more than at the visual aid.
- If the speaker is using slides he must make sure that they are clearly numbered in the correct sequence and are kept right way up. Any confusion in their order/arrangement will simply damage the presenter's image.
- No visual aid should be kept on for too long.
- The speaker should use pictures, drawings and colour for interest. One must remember "A picture is worth a thousand words".
- A slide should carry only essential information. The content of the information on the slide should be kept limited to twenty five words or the equivalent in figures.
- The speaker should feel that a visual aid is relevant and useful. If it is cleverly designed and attractively presented, it should be a part of the speech as whole, not something tacked on to it.
- The aid is large enough so that the smallest detail which his audience wants to see is visible in the room. If the message of the aid is not clear, then the aid is a distraction. If the transparencies prepared are not neat, it will lead to more distractions.
- The speaker must make the aids neat and attractive. It should be appealing enough to hold the attention of the audience, but not so attractive that it engages them to the point of distraction. He can use computer software to generate graphs and diagrams, for example, Clip Art. He should remember that the speaker needs pictures large enough to be seen by everyone in his audience. Small computerized pictures that cannot be seen do not facilitate the presentation.
- If the aid requires the use of special equipment, such as a slide projector or a videotape recorder, the speaker must make sure that he can operate the equipment. Just before his speech, he should check them to make sure that the equipments are working properly.
- He should indicate in his not cards where (in his speech) he will use each aid. He should also practice the use of the aids when he practices his speech.
- He should stand in such a way so that he is not blocking his audience's view of the aid. Audience should not be distracted in this regard.
- He should not keep looking at the aid continuously as he talks. He should point out each major feature in the aid briefly. At the same time, he must keep his eyes on the audience to see whether they understand his speech.
- He should be cautious about distributing materials to be looked at by listeners. Such activity will probably distract them from his speech instead of aiding communication. He may, however, wish to distribute such materials after his speech.

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## 10.9 THINGS TO OBSERVE WHILE CREATING VISUAL AIDS

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The raw material or data that the individual possesses has to be given a structured ordering. The steps that enable the writer to proceed at an easy pace are:

- **Confirm reader's needs and thought pattern:** This is the stage which should be adhered to before conceptualizing the use of visual aids. The reader may be

looking for the entire report either as a visual presentation or a verbal one or may be a combination of the two. Depending upon the requirement the report, its verbal and visual support can be balanced.

- **Clarify which ideas would be best represented in visual form:** It is difficult to present all ideas through graphics. Some ideas would definitely have a greater impact if presented through charts or table, e.g. comparison between the sales figures of two consecutive years. It is a judicious discretion on the part of the report writer as to which points he would like to present visually.
- **Visualise the presentation of the same point in graphic form:** Once the sorting out of the points or ideas is done the next stage happens to be the imaginary conceptualizing of the same points, i.e., which of the chart or table would be most suitable at this juncture, e.g. if one was to take up the comparison between the sales figure of two consecutive years, one could use both the tabular form and the comparative bar diagram. It is now for the report writer to decide what format he would like to incorporate in his report.
- **Establish balance between the verbal and the visual:** Too much of visual and too little of verbal or the other way round adds to the monotony of the text. There should be a happy balance between the two so that report reading procedure is not tedious.

While it may seem rather exciting entering the domain of visuals, care should be exercised from the point of view of presentation of the same. A badly presented visual can have a negative impact. Probably the following points, if kept in mind, can improve the quality of presentation:

- ❖ Thick line implies more power.
- ❖ More mass indicates solidity.
- ❖ Bold colour implies emphasis.

#### Check Your Progress

Fill in the blanks:

1. \_\_\_\_\_ literally means body movements.
2. \_\_\_\_\_ gestures are body signals which make us look relaxed, confident and polite.
3. \_\_\_\_\_ is the study of how individuals communicate by touch.
4. Closer to actual verbal (oral) communication, and always accompanying body language, is \_\_\_\_\_.
5. Teleconferencing is a rapidly developing \_\_\_\_\_ that has changed the way companies do business.
6. A new computer program called \_\_\_\_\_ was developed at the University of Illinois which was the first Web browser.

### 10.10 LET US SUM UP

- Non-verbal communication, or body language, is a vital form of communication. When we interact with others, we continuously give and receive countless wordless signals. All of our nonverbal behaviours—the gestures we make, the way we sit, how fast or how loud we talk, how close we stand, how much eye contact we make—send strong messages.

- ‘Kinesics’ is the systematic study of body language works through facial expression, eye contact, gestures, head position, body shape, posture and appearance. Body language accounts for more than half of all communication. All body language is a reflection our thoughts, feelings and our position in the organisation.
- ‘Proxemics’ is the study of space language. Any successful communicator makes effective use of it. Distance wise the space around us can be divided into four kinds—intimate, personal, social and public. Only very social or important people enter our intimate space. ‘Personal’ space is usually reserved for our close friends, colleagues and visitors. ‘Social’ space is best used for formal/ official purposes. ‘Public’ space is exclusively means for formal meetings/announcements.
- Paralanguage means ‘like’ language. It is concerned, with the manner in which a speaker conveys his meaning through words. Voice is the first and foremost component of speech. Pitch variation is necessary to make speech effective. On different occasions and for different purposes a communicator speaks at different speeds. Easy information is generally conveyed at a fast speed, and difficult information is conveyed slowly. One cannot go on speaking continuously. Pauses are very important for emphasis.

The channel of communication, in which voice can be heard as well as visuals can be seen are called Audio Visual media. Teleconferencing, Internet, Computer networks are some of the popular means of audio visual media. Visual Aids are used in presentation and during speeches to make the presentation more effective and to attract the attention of the listeners. Tables, flow charts and power point presentations are some of the popular visual aids used. Visual aids must be Big, Bold and Beautiful, in order to be effective. Visual aids must be used properly and in right order, in order to make best use of them.

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## 10.11 LESSON END ACTIVITY

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Ask someone to take a series of photos of you while you’re talking to someone else. As you look through the photos, focus on you and the other person’s body language, facial expressions, and gestures.

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## 10.12 KEYWORDS

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**Non-Verbal Communication:** Communication without the use of spoken or written words.

**Kinesics:** ‘Kinesics’ is the systematic study of body language works through facial expression, eye contact, gestures, head position, body shape, posture and appearance. Body language accounts for more than half of all communication.

**Proxemics:** Proxemics’ is the study of space language. Any successful communicator makes effective use of it. Distance wise the space around us can be divided into four kinds—intimate, personal, social and public. Only very social or important people enter our intimate space.

**Gestures:** Gestures are the physical movements of arms, legs, hands, torso and head, made to express or help to express thought or to emphasize speech. They play a very important role in conveying meaning without using words.

**Space Language:** The space around its contents and us convey a definite meaning. Of course, it requires quite some effort on our part to arrange them meaningfully, and on the part of others to understand or interpret the meaning. In other words, it tells that how people communicate with space.



**Time Language:** Time language is another type of nonverbal communication. In it we communicate with others in terms of time by showing them, in our own cultural way, what time means to us.

**Para Language:** 'Para' means 'like'. Hence, 'paralanguage' literally means 'like language' and 'paralinguistic' is the systematic study of how a speaker verbalizes his words/speech. It is defined as "a type of non-verbal communication that includes articulation, pronunciation, rate, pitch, volume, pauses and other vocal qualities.

**Visual Media:** The channel of communication, in which visual can be seen.

**Audio Visual Media:** The channel of communication in which voice can be heard and visual can be seen.

**Visual Aids:** The things like tables, charts, presentations, used in communication, which make the communication more effective.

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### 10.13 QUESTIONS FOR DISCUSSION

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1. "A cry of agony is more powerful than a tale of woe". Elaborate the statement in the context of Non-Verbal Communication.
2. "A picture is worth a thousand words". Comment.
3. What is Kinesics? What is the role of body language in Communication?
4. Define Proxemics. What is included in Proxemics?
5. Explain Space Language in detail.
6. Write short notes on: a) Gestures b) Touch
7. What is Time Language?
8. What is the use of Facial Expressions and Eye Contact in Communication? Explain with examples.
9. What are the Advantages and Limitations of Proxemics?
10. How does Body Shape and Posture affect communication?
11. What are negative gestures?
12. List the gestures that show rudeness.
13. How many types of handshakes are there? Explain.
14. What does pitch variation mean?
15. Why is pause important in communication?
16. What is the importance of Audio Visual Media?
17. Why should Visual Aids be used?
18. Give some guidelines for the use of Visual Aids.

#### Check Your Progress: Model Answers

1. Kinesics
2. Positive
3. Haptics
4. Paralanguage
5. Technology
6. NCSA Mosaic

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## 10.14 SUGGESTED READINGS

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Sehgal M.K., Khetarpal Vandana, *Business Communication*, Excel Books

P.D. Chaturvedi, Mukesh Chaturvedi, *Business Communication, Concepts, Cases and Applications*, Pearson Education

Bowman, Joel and Branchaw, *Business Communication: From Process to Product*, Dryden Press

Courtland Bovee and John Thill, *Business Communication Today*, Random House, New York

Urmila Rai and S.M. Rai, *Business Communication*, Himalaya Publishing House

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## LESSON

# 11

## CHANNELS AND NETWORKS OF COMMUNICATION

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- 11.0 Aims and Objectives
- 11.1 Introduction
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  - 11.2.2 Informal Channel of Communication
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- 11.8 Technical Aspects in Communication Barriers
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  - 11.8.2 Measures to Overcome Barriers in Communication
- 11.9 Let Us Sum Up
- 11.10 Lesson End Activity
- 11.11 Keywords
- 11.12 Questions for Discussion
- 11.13 Suggested Readings

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## 11.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand various Channels of Communication
- Discuss the Flow of Communication in an Organisation
- Know the Patterns of Flow of Communication or Networks and Factors Influencing Organisational Communication
- Understand the Concept of Barriers to Communication
- Describe Categorisation of Barriers
- Explain Technical aspects in Communication Barriers

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## 11.1 INTRODUCTION

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Communication is the nervous system of an organisation. It coordinates the efforts of the members towards achieving organisational objectives. It is the process of influencing the action of a person or a group. Communication in an organisation may take any form or direction, depending upon the structure of the organisation, or the manner of transmission of the message communicated. You must have understood by now that communication is the process of transfer of ideas and expressions from one person to another. It is the way of self-expression. The information you communicate should be clear and accurate. If you send the message, and the other one receives it and interprets it in the same way as you intended to express, the process of communication is said to be complete and successful. However, communication may not be successful as there are certain barriers in communication that affect the clarity, accuracy and effectiveness of your message. These barriers hamper the growth of communication and relegate it to the status of a conversation where feedback is not expected. If either you or the receiver to whom you have communicated the message has problems in adjusting the frequency, barriers would automatically be erected. Interpersonal perception is a particular region of psychology associated with how people observe one another. This theory of perception is regarded a vital portion of effective communication as it explores the several judgments that people make related to others founded on both verbal as well as non-verbal cues.

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## 11.2 CHANNELS OF COMMUNICATION

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All communication takes some way, or passage through some well-defined, easily identifiable stages. Everyone is familiar with the phrase “through proper channel”, that is used in almost all business letters/applications/representations. Here the sender of the written communication to passes it on to the addressee through somebody occupying an important position in the hierarchical system. The word ‘channel’ therefore, becomes synonymous with the position or point through which the communication passes. These positions or points exist at different levels in the pipeline.

Channels of communication may be classified into two categories:

- Formal
- Informal

### 11.2.1 Formal Channel of Communication

A formal channel of communication can be defined as a means of communication that is formally controlled by managers or people occupying positions in an organisation.

Communication flows through formal channels, in that; it is the officially recognized positions along the line in the organisation. This ensures that the information flows orderly, in a timely and accurate manner. Any information, decision, memo or reminder etc., will also follow this path.

The efficiency of an organisation depends on a regular flow of messages which the flow of need to be organized into a well ordered network, to ensure that communication flows easily and that executives are kept informed of what is going on.

### ***Advantages of Formal Communication***

Some of the advantages of formal communication are mentioned below:

- It helps in maintaining the authority structure of the organisation and becomes easier to fix responsibility of subordinates for activities carried out by them.
- An immediate superior has a direct contact with the subordinates so, a better understanding is developed between them and communication is made more effective.
- Better co-operation and coordination among employees are achieved in case of formal communication.

### ***Disadvantages of Formal Communication***

The following are the disadvantages of formal communication:

- Formal communication is time consuming. Even a small piece of information passes through long formal channels and hence takes a lot of time to reach every level in the organisation.
- Formal communication does not allow social and emotional bonds to be created, in the absence of which the organisational climate does not become very congenial and employees do not feel at ease and comfort.
- The formal channels of communication can actually inhibit or stand in the way of free flow of information between organisational levels. For example, in a big factory, an assembly-line worker will communicate a problem to a supervisor, rather than to the plant manager. Higher-level managers may sometimes not even come to know something of vital importance because of a weak communication network.

## **11.2.2 Informal Channel of Communication**

By his very nature, man cannot always have a highly formalized or regimented living. Logically he cannot and will not always communicate through formal channels alone. Side by side with the formal channel of communication every organisation has an equally effective channel of communication namely that is the informal channel. It is not officially sanctioned, and quite often it is even discouraged or looked down upon. But, then, it is very much there, and has been given the name 'grapevine' precisely because it runs in horizontal, vertical, and diagonal directions. As the management experts put it, "it flows around water coolers, down hallways, through lunch rooms, and wherever people get together in groups".

It shows that people are almost always looking forward to an opportunity to get together. Man is essentially sociable by nature. The lower we go down the pyramid of an organisation, the more manifest this sociability becomes. There are strong socio-psychological reasons for it. The most important reason is the intense, irrepressible desire to communicate, talk, share one's feelings and thoughts, or gossip and indulge

in small talk. This gossip or small talk may, carry some important information. It may even 'manufacture' some piece of information and get the rumour mill working. Every organisation has a rumour mill and every worker, office goer and manager have to get used to it.

### *Advantages of Informal Communication (Grapevine)*

The advantages of informal communication are as follows:

- **Speedy transmission:** The greatest feature of the grapevine is that it transmits information at a remarkably fast speed. Everyone knows that a rumour travels, or spreads like wild fire. The moment a worker comes to know that something is labelled as 'top secret' or 'confidential' he becomes curious to look into it or have a sniff of it before passing it on to his very first close friend. And then, from him to another, it spreads within minutes. Managers have been known to distribute information through planned "leaks" or carefully used "just-between-you-and-me" remarks.
- **Feedback value:** It is above all through the grapevine that the managers or top bosses of an organisation get feedback regarding their policies, decisions and memos. The feedback reaches them much faster through the informal channel than through the formal one. Through the grapevine, managers come to know the pulse of the organisation.
- **Support to other channels:** The grapevine functions as a supplementary or parallel channel of communication. The officially recognized, sacred or formal channel takes not only more time in carrying information, but also imposes certain constraints on the process of communication. So, whatever is deemed to be unsuitable for the official channel, can be successfully transmitted through the grapevine.

### *Disadvantages of Informal Communication (Grapevine)*

The disadvantages of informal communication are as follows:

- **Cannot be taken seriously:** There is something inbuilt in the very nature of the grapevine that makes it less credible than the formal channels of communication. Since it spreads or transmits information by word of mouth, it cannot always be taken seriously. On the other hand it is also very likely to be contradicted, making it highly undependable.
- **Does not carry complete information:** The grapevine does not always carry complete information. As it is often based on guess work or 'whispers' in the corridors it may not give the receiver the complete picture of the situation or the whole message.
- **Distorts information:** The grapevine may, and indeed often does, distort information. As it is entirely unofficial, informal and unauthenticated, it may cast aspersions on anybody or impute motives to the most well-meaning of people. As its origin lies in the rumour-mill, it may spread any kind of story about highly responsible people, even at the risk of spoiling the image of the organisation.

### *Effective Use of the Grapevine*

Keeping in view, its advantages and undeniable presence in every organisation, there is need to use the grapevine effectively for we have to learn to live with it. A tactful manager has to take positive measures to get the best out of this informal channel of communication. Given below are a few important points in this regard:

- In the first place a tactful manager will keep the employees well-informed about organisational policy matters, plans and prospects. This will check the tendency of speculation that can sometimes assume dangerous proportions because of fear and anxiety, on the part of employees.
- Fruitful group activities that enhance self-worth and update knowledge should be held as frequently as possible. This will not only boost the morale and self-confidence of the workers but also check their inclination to indulge in small talk.
- The managers should, as far as possible, have an open-door policy without indulging in an impression of cheap popularity or favouritism.

Unfortunately empathic listening is the least practised by managers. They are usually too busy to listen empathetically. This is a 'relief-seeking' conversation, and therefore important to build meaningful human relations. It does not require any regular training as a psychologist. But today's manager can always benefit from the insight of modern psycho-analytical research and learn to practice informal empathic listening.

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### **11.3 COMMUNICATION FLOW IN ORGANISATIONS: DIRECTIONS/DIMENSIONS OF COMMUNICATION**

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Communication is multidimensional or multidirectional. There are various directions in which it flows. Within the organisation, communication may flow inter scalar or intra scalar, upward or downward. Communication with the outside world may be inward or outward.

#### **11.3.1 Downward Communication**

The communication that flows from top to bottom is known as downward communication. Every organisation has an inbuilt hierarchical system, and in the first instance, communication invariably flows downwards. That is why traditionally downward communication was highlighted and emphasized. It originated in the assumption that the people operating at higher levels have the authority to communicate to people at the lower levels. Hence this kind of communication exists especially in organisations with an authoritarian atmosphere whether one likes this kind of atmosphere or not, it would be difficult to conceive of any organisation without downward communication.

#### **11.3.2 Upward Communication**

Communication that flows from bottom-to-top, or which is from lower hierarchical level to higher level, is called upward communication. The main function of upward communication is to supply information to the upper levels about what is happening at the lower levels. It is just the reverse of the previous dimension. It travels from the people at the bottom and reaches the upper levels of the organisation structure. It is essentially participative in nature and can flourish only in a democratic organisational environment where it can satisfy the need of the upper levels of management to know specifically about production performance, marketing information, financial data and what lower level employees are thinking and feeling about the whole or part of the business. Upward communication also includes reports, performance appraisals, suggestions, complaints, etc.

In the words of Koontz, "*Typical means for upward communication, besides the chain of command, are suggestion systems, Appeal and grievance procedures, complaint systems, counselling sessions, joint setting of objectives, grapevine, group meetings, practice of open-door policy, morale, questionnaires, exit interviews and ombudsperson.*"

### The Concept of Ombudsperson

Ombudsperson is that person in an organisation who acts as a liaison between the top management and the employees. He promotes upward communication by discussing the concerns of the employees with the management. Ombudsperson or Ombudsman is a Swedish word meaning a Commissioner appointed to investigate the complaints of private citizens against government officials or agencies. Till recent times this concept remained only in Sweden. But now many American companies are making generous use of it. They have established a position for a person who investigates employees' concerns. General Electric, McDonnell Douglas and AT&T are just a few companies that are using the Ombudsperson for promoting upward communication. It provides valuable upward communication link and prevents scandals and legal costs by timely action on the part of the appropriate persons.

### 11.3.3 Lateral or Horizontal Communication

When communication takes place between two or more persons who are subordinates working under the same person, or those who are working at the same level, it is called lateral or horizontal communication. A good example of this kind of communication is that between functional managers. It is necessary for reviewing activities assigned to various subordinates having identical positions. They are serving the organisation in different capacities but their goals are common and their interaction is necessary to maintain coordination. This kind of communication mostly takes place during committee meetings or conferences where all members of the group, (mostly peers) interact. During the course of interaction, views of each other are made known and decisions are arrived at. Here, there are no superior subordinate relationships.

The best example of lateral communication can be seen in the interaction of production and marketing departments. Strategies of marketing cannot be fruitful unless plans are communicated to the production department. The Marketing Manager has to be in constant touch with the Production Manager, in order to meet customer orders as per schedule.

Communication transferred through lateral means includes interdepartmental reports, requests, suggestions and informal communication among peers at the same level and so on.

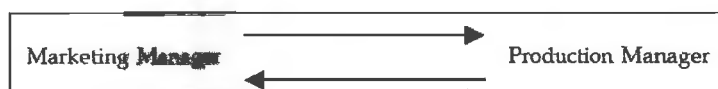


Figure 11.1: Lateral Communication

### 11.3.4 Diagonal or Crosswise Communication

Diagonal or crosswise communication includes flow of information among persons at different levels who have no direct reporting relationships. As an example, communication between training supervisor and marketing manager, regarding training of a few employees of marketing department, is diagonal communication. This is used to speed up the information flow, improve understanding, and coordinate efforts for the achievement of organisational objectives. It must be noted that a great deal of communication does not follow the organisational hierarchy but cuts across well drawn lines.

### 11.3.5 Inward Communication

Communication systems in an organisation may be internal or external. Internal communication includes communication within the organisation, which may be



horizontal, vertical or diagonal. External communication may be inward or outward. Inward communication includes all the information received by the organisation from external agencies, which may be:

- Other organisations
- Government
- Suppliers
- Customers
- Competitors
- Shareholders
- Media

These may be in the form of:

- Letters
- Emails
- Offers
- Orders
- Requests
- Suggestions
- Complaints
- Notices

### **11.3.6 Outward Communication**

Communication is an ongoing process which allows a company to survive in the competitive world, by helping it adopt the external communication in a skillful manner. The communication which the organisation maintains with the outside world is called outward communication. The image of the company is contingent upon the relationship that it maintains with people outside. This communication may be oral or written. Organisations cannot live in isolation. To solicit the help and co-operation of everyone involved in an external environment, outward communication is a must.

Outward communication may be in the form of:

- Advertisements
- Media interaction
- Public relations
- Negotiations
- Mails
- Telegrams
- Letters
- Tenders
- Notices
- Telephonic conversations and so on.

## 11.4 PATTERNS OF FLOW OF COMMUNICATION OR NETWORKS

In an organisation with several sources and targets (people at various levels), the message transmitted and received may adopt a consistent pattern. Such patterns are very useful and may be good indicators of organisational culture and ethos.

Extensive has been carried out on communication pattern. This has come to be known as communication network research. Most such studies have involved small groups under controlled conditions.

A network is a system of several points of communication for the purpose of decision-making. In most network research, a small group (usually of five people) is given a task to perform and the group functions under controlled conditions of communication. The direction of communication is variously controlled in different networks. The effect of each network on performance and satisfaction is then studied.

Keeping in mind the varying ways in which organisations communicate within their hierarchical systems, researchers like Leavitt and Shaw have undertaken interesting experimental studies and examined isolated patterns of communication. Given below are the most important patterns of communication or 'communication nets'.

- Wheel/Y
- ❖ Three-person wheel communication pattern.

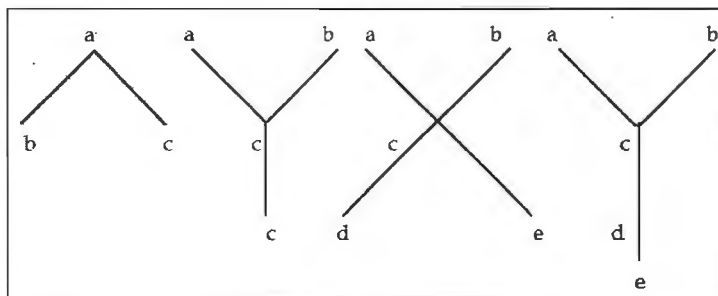


Figure 11.2: Three-person Wheel Communication Pattern

- ❖ Four-person wheel communication pattern.
- ❖ Five-person wheel communication pattern.
- ❖ Five-person 'Y' wheel communication pattern.

These are somewhat centralized patterns, which are suitable for simple tasks as they promote faster problem solution with fewer errors. They ensure the best job performance but, at the same time, they also show lowest job satisfaction and flexibility to change. There is a sort of inbuilt rigidity in this type of communication pattern which hinders the communication process.

- Circle
  - ❖ Four-person circle communication pattern.
  - ❖ Five-person circle communication pattern.
- All channel
  - ❖ Four-person all channel communication pattern.
  - ❖ Five-person all channel communication pattern.

When the task is complex, decentralized patterns—circle and all channel, have been found to be more efficient. They are more satisfying to group members in both simple

and complicated tasks as in these communication 'nets' or patterns they enjoy more freedom, acquire different angles of vision and are enthused to put in their best.

Certain other patterns have also been observed, formulated and experimental with, namely:

- Kite
- Chain
- Slash

It would be worthwhile to examine as to what lies at the back of all these patterns. It has been observed that in an organisation which has both simple and complex tasks to be performed, results are infinitely improved by using varying patterns and media of communication, rather than by depending on patterns and mediums. A successful organisation will, therefore, endeavour to incorporate all or most of these patterns of communication, as and when needed, or as the situation demands.

Let us take the example of an educational organisation. The head of the institution/organisation will find it more appropriate to adhere to a centralized pattern like a wheel while dealing with non-teaching/administrative staff. But, while dealing with professional/teaching staff, he will have to adopt a decentralized communication pattern, like a circle or all channels. The simple reason is that different types of activities or tasks, levels of motivation, accountability, commitment and willingness to assume responsibility, warrant different communication patterns.

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## 11.5 FACTORS INFLUENCING ORGANISATIONAL COMMUNICATION

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The communication system of an organisation is generally influenced by four factors, namely formal channels of communication authority structure of the organisation; job specialization; and what Lesikar calls, "information ownership."

- **Formal channels of communication:** The formal channel of communication is controlled by managers. It is mostly directive or restrictive in nature and does not leave much scope for free flow of information. Its advantages and disadvantages have been discussed earlier.
- **Authority structure:** The organisation's authority structure has a similar influence on its communication system. Status and power difference, play an important role in determining who will communicate with ease and with whom. The content and accuracy of the communication will also be influenced by the place of the people in the organisation. For example, conversation between a general manager and clerk will, in all probability, be strained by politeness and formality.
- **Job specialization ownership:** This means that individuals own or possess unique information about their specific jobs. For example, a plastic surgeon in a super speciality hospital may have found a particularly efficient way of cosmetic nose correction or a chef in a big hotel may have come upon a new recipe. Such information is a form of power for the person possessing it, as it gives him an edge over others. He may not like to share his knowledge or particular skill with others. As a result, completely free flow of information does not take place, although ownership can be shared.
- **Information ownership:** This means that individuals own or possess unique information about their specific jobs. For example, a marketing manager may have a special skill to motivate his employees in a specific manner or a chef in a hotel may have a special recipe. Such information is a form of power for the

person owning it, as it gives him an edge over others. Such information may not be shared freely because of individual insecurities, secrecy or plain non-cooperation.

## 11.6 THE CONCEPT OF BARRIERS TO COMMUNICATION

The barriers to communication refer to anything that interferes in the communication process as a result of which the message may not be received by the receiver as was intended by the sender. The barriers may also be defined as obstructions or blockades or hurdles, stoppages and bottlenecks in effective system of communication. Figure 11.3 shows the concept of barrier to communication.

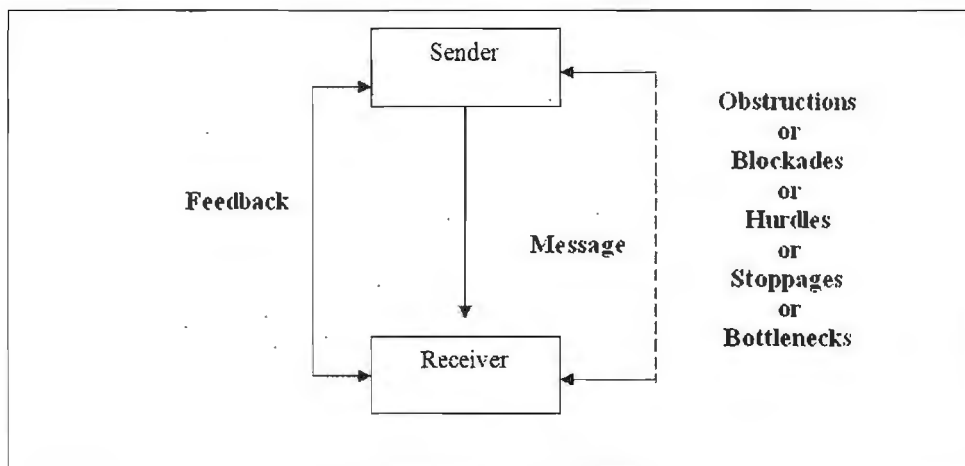


Figure 11.3: Concept of Barriers

### 11.6.1 Noise as a Barrier

“Noise” is the disruption or interference in communication process anywhere along the way as shown in Figure 11.4. It can occur at any point in the communication process. Noise can be the sound of someone coughing, a truck driving by, or two people talking close at hand. It can also include disruptions such as a letter being lost in the mail (either traditional or electronic), a telephone line going dead, or one of the participants in a conversation being called away before the communication process is completed.

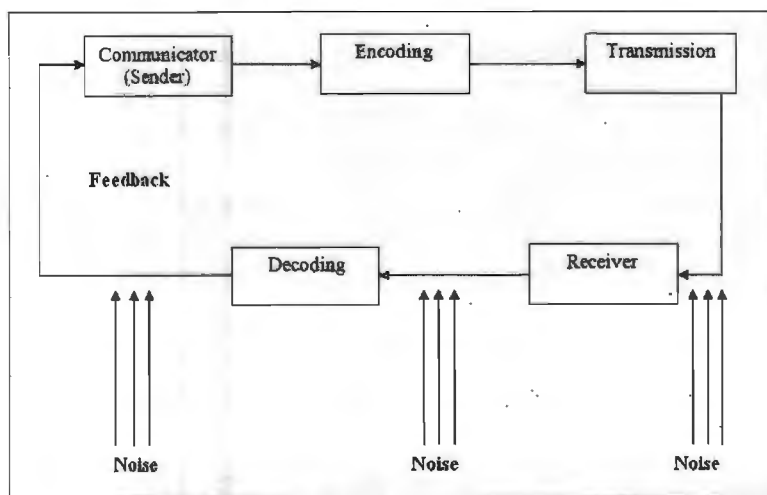


Figure 11.4: Noise as a Barrier

Noise may arise because a manager is not able to express himself well; attention of listener is not on the message: memos are poorly reproduced or written and thus are hard to read. However, if communication is two-way, the communicator may determine if the message has been received and if it has produced intended response.

### 11.6.2 Why Communication Barriers?

The barriers to communication arise on account of the following reasons:

#### *Reasons on account of the sender*

- When the sender is insensitive to receiver's needs, status and knowledge.
- When the sender lacks basic communication.
- When the sender lacks knowledge of the subject.
- When the supplier of information i.e. sender supplies too much information.
- When the sender is emotionally disturbed.
- When the sender selects wrong channel.
- When the sender has different perception of reality.

#### *Reasons on account of the receiver*

- When the receiver has poor listening.
- When the receiver has different perception of reality.
- When the receiver has biasness towards the sender.
- When the receiver has mistrust in sender.
- When the receiver is not attentive and careful.
- When the receiver goes in for premature evaluation.
- When the receiver has semantic difficulties.
- When the receiver has attitudinal clash with the sender.

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## 11.7 CATEGORISATION OF BARRIERS

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The barriers or negative forces may affect the effectiveness of your communication by acting upon any or all of the basic elements of communication process and sender/receiver/channel.

As the barriers to communication influence the major variables in the communication process, they may be categorised on various bases. Though the list of barriers is exhaustive and there are many ways in which barriers can be categorised, one of the oldest categorisations of barriers is stated below:

1. **Semantic barriers:** Different people assign different meanings to one specific message. This is due to the problems with meaning, significance, and the sending and reception of the meaning and content of the message.
2. **Organisational barriers:** This type of barrier develops due to the problems with physical distance between members with respect to their functional specialisation of tasks, power, authority and status relationship, values held, and ownership of information.
3. **Interpersonal barriers:** These barriers also develop in the process of communication. They are based upon the relationships, values held, and attitudes of the participants in the process of communication.

4. **Individual barriers:** These are also called **psycho-sociological** barriers. The problem of this barrier arises due to differences in individual competencies to think and act, which would include physical ailments or handicaps. It is also because of individual skills in receiving and transmitting information, which would include poor listening and improper reading skills and adverse psychological conditions.
5. **Cross-cultural (geographic) barriers:** Culture is a shared set of values and attributes of a group. The communication barriers are also seen because of time, geographic locations, and the effects of time upon reception of the message and other cross cultural factors.
6. **Physical barriers/Channel and media barriers:** The effectiveness and accuracy of communication is also affected by physical barriers like distance, noise or channel and the media used in the process. Here, problems that confront the media are used in the process. Problems that confront the issue of how best to communicate a message are also included. (For example, it is best to transmit a message face to face rather than in writing).
7. **Technological barriers:** They are barriers which arise due to technological advancements in the field of communication. Technology generates a lot of information, which is beyond the capacity of the recipient. Further, the media advancements on account of technological process increase barriers.

The ideas and messages have to reach from the transmitter to the receiver in the same sense. If it does not happen, it is on account of barriers in communication. Some of these barriers can be explained as follows:

### 11.7.1 Semantic Barriers

You will find it interesting to note that "Semantics" is the science of meaning. It is contrasted with phonetics, the science of sounds. This barrier is related to the process of coding and decoding the message. There are various disruptions in understanding the meaning of words and information exchanged in the communication process. Various types of semantic gaps found in day-to-day use of people are as follows:

- (a) **Words having similar pronunciation but multiple meanings:** Sometimes, in our conversation we use several words, which have the same pronunciation but have many meanings. The words may be homophones and thus there difficulties may arise in getting the right meaning of the message. For example: sight, site, cite.

In verbal communication, a particular word may have a variety of meanings.

**Example:** The English word 'round' has 110 different meanings. (As adjective 23, as noun 42, as verb 16, as preposition 13 and as adverb 16).

- (b) **Badly expressed message:** Lack of clarity and precision create a badly expressed message. Lack of coherence, awkward sentence structure and jargons are common faults, which lead to the creation of such messages.
- (c) **Wrong interpretation:** Whenever you interpret a symbol, one's own understanding may be different from that of others. The Hindi word 'kaka' means uncle in one part of the country but would denote small boy in another part of the country. As inferences can give a wrong signal, more information may be sought to clarify doubts.
- (d) **Unqualified assumptions:** Sometimes, the sender may send information which is not clarified to the receiver, as he does not understand the assumptions clearly.
- (e) **Technical language:** When technical language is used in the communication process, it creates barriers in understanding the message in the same sense and

spirit. When technical jargon or specialist language is used in the communication and conversation process, it creates tension, confusion and misunderstanding between the sender and receiver.

**Example:** Consider the new meaning given to ordinary words by computer technology or to people who are not familiar with computers. "Mouse" for example is only an animal, whereas in computer jargon, it is a device.

### 11.7.2 Organisational Barriers

You need to know that interference may arise from the relative status and power of the participants, the exercise of traditional roles, and incompatible needs and expectations. It may arise because of centralisation or decentralisation in an organisation. It may originate in contradictory management policies, too many levels of management or the clash between line and staff operations. The specialised nature of functions or even the special language of those functions may cause the situation which may have its source in formal, informal, or grapevine transactions. Following are the organisational barriers in communication:

- (a) **Organisation culture and climate:** In every organisation, there exists a unique culture and climate. The climate and culture of an organisation ultimately influences the freedom, thrust and interaction pattern among its people. As working people take time to adapt themselves, bottlenecks in communication are inevitable.
- (b) **Organisational rules and regulations:** The rules and regulations of the organisation vary. While some may be so rigid that they influence the flow of information in a wrong direction, there could play a cementing role.
- (c) **Status relationships:** The status, power and position act as a hurdle in the effectiveness of communications. Individuals may not be able to say what they wish to say because of their fear for the position and power of the other party in the communication process.
- (d) **Complexity in organisational structure:** The complex hierarchical structure of the organisation like too tall or too much of divisionalisation within the set up may not facilitate a free flow of communication.
- (e) **Inadequate facilities and opportunity:** The organisation may not have adequate communication facilities, equipment and mechanisms. Open door employment system, conferences, seminars and meetings being held there could play influencing role too.
- (f) **A lack of cooperation between superior and subordinate:** There may not be proper cooperation between the superior and subordinate for various personal or organisational reasons, which may lead to improper communication.

### 11.7.3 Interpersonal Barriers (Superior-Subordinate)

It will be interesting for you to note that effectiveness of communication depends a lot upon the interpersonal relationship between two people. If the sender and receiver are at the same economic, educational and status level and also share good rapport, there is lesser chance of encountering any barrier in communication. But, in case of a difference at any level, there is a greater chance of miscommunication, especially relating to superior and subordinates.

The subordinate must follow the order of the superior, carry out all work efficiently, and provide full information related to any matter, which arises in the organisation. Moreover, the superior should have full confidence on himself and his subordinate. In case, he wishes to give some important message to the subordinate, the barriers

existing between them in communication will be reduced. There are two types of superior-subordinate barriers which emanate from superiors and subordinates:

1. **Barriers emanating from superiors:** Following are the barriers with respect to superiors:
  - (a) *Shortage of time for employees:* The superior may not devote enough time for his employees due to their busy schedule or other preoccupations. As a result, a gap is created between the superior and subordinates. In the later stage, it acts as a hurdle in the communication process.
  - (b) *Lack of trust:* Sometimes, the supervisors may not trust their subordinates because of a variety of reasons, which can act as a hurdle in the free flow of communication.
  - (c) *Lack of consideration for employee's needs:* The employer may not devote enough time for his employees. As a result, they are unable to understand their needs and genuine problems, leading to miscommunication.
  - (d) *Wish to capture authority:* The superior may hide confidential and important information from an employee in view of capturing and retaining his own authority. This could act as a barrier to communication between the two.
  - (e) *Fear of losing power of control:* The supervisor may have a fear of losing power of control, if he freely expresses his ideas and view with his subordinates. Therefore, he may hide certain important information from the employees, which ultimately affects the communication process.
  - (f) *Bypassing:* Bypassing also affects communication and acts as a barrier. Due to bypassing inner feelings of employees are not freely expressed, creating bottlenecks, into free exchange of information. The employer also may not like bypassing as an effective means of communication.
  - (g) *Information overload:* Due to extra information provided to employees, they may miss certain important information, which can act as a barrier in communication.
2. **Barriers emanating from subordinates:** These include:
  - (a) *Lack of proper channel:* There may be complexity in the organisational structure, which may influence proper and effective communication from the side of the subordinate. He may not feel free to communicate because of pressure of position power and authority.
  - (b) *No interest to communicate:* There may not be any interest on the part of subordinates to have a dialogue, discussion and interaction with the superiors, which affects the communication process adversely.
  - (c) *Lack of cooperation:* Lack of cooperation and mutual understanding also leads to hiding of certain information between the superior and subordinates in the organisation.
  - (d) *Lack of trust:* There may be a lack of trust and coordination between the superior and subordinate, which may lead to ineffective communication.
  - (e) *Poor relationship between superior and subordinate:* A good relationship must develop between superiors and subordinates frequently and freely. They must interact to improve the upward and downward communication system. The superior must listen to the subordinates' suggestion, their problems, and have faith in them. In the absence of all this, it may so happen that what the superior speaks, the subordinate may not understand it, leading to a communication gap.



- (f) *Fear of penalty*: If a subordinate feels that because of free expression and upward communication, he will face some type of penalty, there is a possibility that he may not convey the complete message to the superior.

#### 11.7.4 Individual or Psycho-sociological Barriers

You need to know that individual or psycho-sociological barriers are the major bottlenecks in interpersonal communication. People have different styles of communication. They also have personal feelings, desires, fears, hopes, likes, dislikes, attitudes, views and opinions. The meaning assigned to a message depends upon the emotional or psychological status of both the parties involved in the process of communication.

1. **Style**: Style, the manner in which a person communicates, involves many elements, though style overlaps with several of the other factors in analysis and adds its own distinct flavour. A few barriers related to style are as follows:
  - (a) Linguistic accent in oral exchanges are stylistic in nature. They often affect people, for example, the accent of Bengalis may create a reaction in North India marring decipherability and clarity in comprehension.
  - (b) The form of expression (idiom) colours a transaction. Suppose you use an idiom which is familiar in Andhra Pradesh, but may find the same to be strange to someone from Shimla. The listener could be distracted by the style and the use of "strange" expressions.
  - (c) The level of drama greatly affects a situation. People do not react to highly dramatic situations as they do to subdued ones.
  - (d) Types of humour also play a part in style. People not only use varying styles of humour, they also react differently to different kinds of jokes sometimes failing to convey the proper message in the way it is intended.
  - (e) The choice of brevity as opposed to full detail in a presentation is also another element of style. Style can be reflected through the use of a direct approach rather than an indirect one.
  - (f) The choice of discriminatory or non-discriminatory communication modes is another element of style. Symbols can discriminate on the basis of sex, race, age, religion, handicap, or other characteristics.
  - (g) The qualities of credibility and charisma override many other aspects of style. Both the presence and the absence of these qualities can affect the flow of communication.
2. **Selective perception**: The receiver may make a world of his own around himself. He projects his interest and expectations as he decodes messages. He may only take that much information, which may suit his world of thinking. As a result, the person acquires incomplete and inappropriate information, which influence the communication process. Having a poor self-concept or self-understanding, or a poor understanding of the other person can cause perceptual distortions.
3. **Halo effect**: People do not listen carefully because of impressions based on earlier encounters. Even one of the parties having a halo effect will disrupt the flow of communication.
4. **Status relationship**: There may be a status and power relationship, which may hinder the communication process and affect the effectiveness of communication. Senior officers tend to indulge in monologues. By being poor listeners they block certain communication paths.

5. **Poor attention and retention:** About half of the information, if not properly retained, is lost. The sender may suffer from such a problem. It is also said that about 30% of the information is lost in each oral transmission. Human memory may not always retain what is told. This causes a communication breakdown and necessitates the repetition of the message using several channels.
6. **Inattention:** The preoccupied mind of the receiver and the reluctant non-listening is one of the major psychological barriers. It is because of it that people do not react to ideas/messages received in communication.
7. **Undue importance of written words:** The undue importance given to the written words may lead to loss of information. Successive information is not accurate and right. Written communication often tells what is to be done but, not why it should be done. It takes a persuasive quality.
8. **Defensiveness:** If one feels threatened by a message, one becomes defensive and responds in such ways that reduce understanding. Such defensive behaviour prevents understanding.
9. **Closed mind:** Limited intellectual background, limited reading and narrow interests can cause a person's mind to be narrow. This limits the ability to take in new ideas. People with closed minds do not take in any new information or suggestions to change.
10. **State of health:** Physical condition can affect the efficiency in all communication skills. In case of poor health condition, the communicating ability is reduced, as the mind is not alert and perception is low.
11. **Filtering:** Filtering is the process of reducing details or aspects of a message. Each person who receives the message reduces it according to his or her understanding of the situation. In this process, much of the important information may be lost or misinterpreted and the sender will fail to convey the complete message.

### 11.7.5 Cross-cultural/Geographic Barriers

Can you define culture? Well, culture is a shared set of values and attributes of a group. It is the sum total of the ways of living built up by a group which are transmitted from one generation to another. Culture is so much a part of an individual's manner of talking, behaving and thinking, that communication style and competence are influenced by it.

Some of the significant differences among cultures are:

- (a) National character/basic personality
- (b) Language
- (c) Values and norms of behaviour
- (d) Social relationships
- (e) Concept of time
- (f) Concept of space
- (g) Non-verbal communication
- (h) Perception

Words, colours and symbols have different meanings in different cultures.

**Examples:**

- (a) In England, an invitation for dinner at 8 pm would see most guests arriving at about 8.15. In Germany punctuality is king; in Greece, 9 to 9.30 might be the norm; in India even later if at all.
- (b) In most parts of the world nodding your head means agreement, shaking your head means no except in some parts of India, where the reverse is true.
- (c) When the Japanese say "Yes", they mean, "Yes, I am listening". The Americans may take it to mean, "Yes, I agree".
- (d) For some cultures, "time is money", while in other cultures, it may be subordinate to relationships.
- (e) Wearing white colour on an auspicious occasion like marriage may be forbidden in some cultures, whereas, in other cultures, the main wedding dress is white in colour.

Communication can therefore acquire different connotations and opposing meaning due to these cross cultural barriers.

### 11.7.6 Physical Barriers/Channel and Media Barriers

We all know that physical distractions cause a lot of noise, often literally: insufficiently insulated rooms with car noises filtering through, poor lighting or frequent movement of bodies twisting or twirling a pen in the hand, and even the arrival of coffee at a critical stage in the communication process could lead to communication barriers in organisations. Constant telephone interruptions are one of the commonest forms of physical distractions. These obstacles prevent a message from reaching the intended recipient in the manner it was intended.

The following obstacles are considered under this category:

1. **Noise:** Noise is any disturbance which occurs in the transmission process. In face-to-face conversation without a microphone, the air may be disturbed by noise in the environment such as traffic, factory work, and a typewriter clattering away in a nearby office and or people talking. Wider connotation of noise includes many other factors that are likely to hinder communication. Sometimes, the inner chatting going on in the mind of the listener, could distract the message received, which is why, the same is termed 'Noise'.
2. **Environment:** Interferences may also arise from external trans-receivers, number of links in the chain and circumstantial factors like:
  - (a) **External trans-receivers:** People often delegate to others tasks like typewriting, drawing, photographing, listening, reading and taping. By doing so, one is still responsible for controlling such external process. Evaluation has to be done for something which has been transmitted or received by someone else. Reliable people and equipment should be selected to accomplish communication-related tasks.
  - (b) **Number of links in the chain:** The major barriers to effective communication lie in the number of links in the chain between the sender and the ultimate receiver. Larger the chain less is the accuracy of the message towards the end of the chain. For example, when one person whispers, the whispered "chaining" continues until the message moves from one to another through all people in the circle. The last person to receive the message states it aloud, and the originator orally compares the final received message with the original message. The final message usually bears little resemblance to the original. Thus, efforts are made to reduce the number of intermediate links. With each

added station, the chances of a message accomplishing its purpose tend to diminish significantly.

- (c) *Circumstantial factors*: The same sort of differentiation in circumstances counts for the channels within each of the levels and in broader terms for the oral, written, and non-verbal communication. For example, a speech delivered before a small dinner gathering will be different from the same speech delivered before an auditorium full of people. Everyone is markedly different while sitting to watch a cricket match, rather than a legal hearing. Still another circumstantial feature is that of a listener who has to stand, because the seats are all taken, is generally not the same as he or she would be if seated comfortably.

Although many more circumstantial factors exist, these brief examples should serve as reminders that the setting contributes a great deal to the identification of the participants.

A few circumstantial factors are given below:

- **Temperature**
  - ❖ Lighting
  - ❖ Room size
  - ❖ Arrangement of seating
  - ❖ Equipment in a room
  - ❖ Political situation
  - ❖ Extent of participants
  - ❖ Distance between participants
  - ❖ Voice qualities
  - ❖ Visual qualities
- 3. **Defects in the medium**: Defects in the devices used for transmitting communication are external and usually not in the control of sender or receiver. The telephone, postal system, courier service or electronic media may fail or break down, leading to a break, delay or permanent disruption in the communication.

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## 11.8 TECHNICAL ASPECTS IN COMMUNICATION BARRIERS

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In the above section we have discussed some of the categories of barriers. Now let us see, what are the technical aspects in communication barrier? A few technical aspects in communication barriers are briefly narrated by Murphy's Law on communication:

- (a) **Communication usually fails**: Except by chance, it succeeds and on account of various barriers, the possibility of success in the flow of communication is rather rare.
- (b) **If the message can be understood**: In different ways, it will be understood in just the way that does the most harm. You receive the message in your own way. In most of the cases, the most harmful side of your communication is considered.
- (c) **Filtering**: It refers to the sender manipulating information so that the receiver will see it as more favourable. In organisations, information is condensed and synthesised. Objective information does not reach the concerned authority. The

more the vertical levels in the organisation's hierarchy, the more opportunities there are for filtering.

- (d) **Meta-communication:** In a communication apart from the message, there is a meta-message. Meta-communication is a secondary communication (including indirect cues) related to how information is depicted to be interpreted. It is founded on notion that the identical message escorted by varied meta-communication can depict something completely different, involving its contrary, as in irony.
- (e) **Noise in communication process:** Noise can enter the communication process because of situational factors. It is one of the factors influencing the communication process. Noise is mostly related to mechanical distractions.

**Example:** A few noise distractions are: (i) Human sounds, (ii) Traffic, (iii) Telephone instruments, (iv) Channel defects, (v) Birds, (vi) Trees, (vii) Fans, (viii) Chalk writing, (ix) Use of Duster, (x) Projector, and (xi) Nasal Voice.

### 11.8.1 Overcoming the Barriers in Communication

You will be interested to know that constant effort is required to overcome barriers which unconsciously creep up in the process of communication. Barriers can be overcome if sufficient effort is put into the communication process and it is desired that communication be effective and efficient.

One way of reducing the effects of these barriers is to check continuously during the communication process what the message really is. The actions to be taken by the sender, receiver and together the two of them, to achieve this are listed below:

<b>Guidelines for Sender</b>	
The sender should be clear about the following W's and H:	
WHO	: To whom should the message go?
WHY	: Why should I communicate? What are the motives?
WHAT	: Decide what to communicate and be clear about what one needs to communicate.
WHEN	: The best time for optimum reception is chosen.
HOW	: Use a language, which the receiver will understand and which is unambiguous.
WHERE	: Choose a location which will not interfere with the reception, understanding and acceptance of the message: Privately? Home or away? In a group? At work or outside?

**Receiver:** The receiver can be aware about the following to overcome the different barriers:

- Be fully attentive to sender.
- Listen actively to the message being sent.
- Ask for clarification and repetition wherever necessary.
- Keep checking the receipt of information with sender.

**Together:** Both, the receiver and sender can make the communication flawless if they:

- Realise that misunderstanding is bound to occur, and be alert for all cues to this effect.

- Listen, listen, listen, and listen again.
- Share opinions, feelings and perceptions generated by the message.

Thus, both parties separately as well as together have to work to remove the barriers and achieve the communication effectiveness.

**Example:** A manager tries to get things done through other people. The management of people can be called leadership, and all of us have our own preferred leadership styles, which affect the ways in which we communicate with others, especially our staff.

### 11.8.2 Measures to Overcome Barriers in Communication

Now let us see the other measures that we can take to overcome the barriers to communication:

1. **Fostering good relationships:** Strong relationships must be fostered between the employer and employee in order to avoid misunderstandings and accept each other's viewpoints in order to remove the barriers and to facilitate proper communication in the organisation.
2. **Purposeful and well-focused communication:** Your communication should be purposeful and directed to an individual. At the end of the communication, your receiver should not be left to feel that communication had been meaningless or useless.
3. **Coordination between superior and subordinates:** In case the superior thinks at a level, which is different from that of the subordinate and vice versa, it will affect the effectiveness of communication. Therefore, there should be good and proper coordination and cooperation between the superior and subordinate for effective communication.
4. **Avoid technical language:** You should avoid specialised language. Efforts should be made to use the language that is commonly understood by you and your receiver of the message. There should be least use of technical jargon in the communication process.
5. **Feedback:** The selective perception of receiver should be minimised through proper feedback. The drawback of the selective perception should be explained to minimise the barriers.
6. **Accuracy:** There should be accuracy in the message to be transmitted between both parties for the communication to improve its effectiveness.
7. **Clarity in message:** The message to be transferred should be clear, practical, accurate and without any ambiguity.
8. **Flat organisational structure:** The organisation should have clear cut and simple organisational structure. Tall hierarchical structures should be removed, and changed to flat structures to avoid excessive control of information. Wrong information to be transferred to anyone in the organisation can prove detrimental. Proper redesign of organisational structure will reduce the status gap.
9. **Division of labour:** There should be proper division of labour between people in order to reduce information overload and prevent delay in information transfer.
10. **Organisation policies:** The organisation should formulate its policies in such a way that it will give full advantage to all members of the organisation. It should be flexible and easy to implement. While the organisation's goal must be clear, everyone must know about his position, in the organisational communication process. The network has to be fully developed so that no such type of barriers

exists. Moreover, there should be consistency when messages are passed from a sender to a receiver. One should not introduce a personal view in the message. It must be clear and understood by everyone easily.

11. **Minimise semantic problem:** People use either the same word in different ways or different words in the same way. You will be surprised to know that there are 15 different meanings of the word 'charge' in the English language. They also occur when people use jargon or professional shorthand which they expect others to understand, or use language which is outside the other's vocabulary.
12. **Proper communication channels:** If you want immediate action from the receiver, there is no need to send a lengthy discussion report. You can pick up the telephone or go to his office to tell him what to do. Remember, also that one picture is worth a thousand words, and in this age of computer graphics, information can be produced more quickly in this way too.
13. **Right feedback:** Although one-way communication is quicker, two-way communication is more accurate. In complex situations, it helps both sender (you) and receiver to measure their understanding and improves their joint commitment towards the task. It enables both parties to identify and clear misunderstandings leading to a higher quality of reception and acceptance.

To communicate effectively, we need to overcome all barriers as also acquire skills to improve existing communication abilities.

#### Check Your Progress

Fill in the blanks:

1. The \_\_\_\_\_ channels of communication can actually inhibit or stand in the way of free flow of information between organisational levels.
2. The communication that flows from top to bottom is known as \_\_\_\_\_ communication.
3. \_\_\_\_\_ is that person in an organisation who acts as a liaison between the top management and the employees.
4. The communication which the organisation maintains with the outside world is called \_\_\_\_\_ communication.
5. The formal channel of communication is controlled by \_\_\_\_\_.
6. In \_\_\_\_\_, people do not listen carefully because of impressions based on earlier encounters.

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### 11.9 LET US SUM UP

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- All communication passes through some well-defined stages or channels.
- The channels of communication are 'formal' and 'informal'. The formal channel of communication is the most effective. The informal channel is also called the 'grapevine'. Both formal and informal channels have their own advantages and disadvantages.
- A resourceful manager can put the grapevine to great use. An organisation has many levels of hierarchy. Communication is a multi-directional activity. The directions or dimensions of communication could be downward, upward, horizontal or lateral, and diagonal or crosswise, inward or outward. All these directions or dimensions have their own uses and problems.

- Noise is the fundamental barrier in communication process. This distorts the meaning of the communication for the receiver. The communication barriers arise on account of reason pertaining to the sender and reasons pertain to the receiver. Although all communication is subject to misunderstanding, business communication is complex as both sender and receiver face distraction that diverts their attention. Further, the opportunities for feedback are often limited, which may also lead to creation of barriers.
- Barriers in communication affect the clarity, accuracy and effectiveness of your message.
- Semantics barrier is related to the process of coding and decoding the message.
- Effectiveness of communication depends a lot upon the interpersonal relationship between two people. Individual or psycho-sociological barriers are the major bottlenecks in interpersonal communication.

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## 11.10 LESSON END ACTIVITY

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Critically examine the barriers that you feel arising on part of your seniors that affect your productivity?

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## 11.11 KEYWORDS

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**Channel:** The position or point through which the communication passes.

**Formal Channel of Communication:** A means of communication that is formally controlled by managers or people occupying positions in an organisation.

**Informal Channel of Communication:** It is not officially sanctioned, and quite often it is even discouraged or looked down upon. It is also called 'grapevine' precisely because it runs in horizontal, vertical, and diagonal directions.

**Downward Communication:** The communication that flows from top to bottom is known as downward communication.

**Upward Communication:** Communication that flows from bottom to top, or which is from lower hierarchical level to higher level, is called upward communication.

**Barriers in Communication:** The negative forces that act upon the few elements of Communication process and make communication ineffective.

**Semantic Barriers:** Barriers related to the process of coding and decoding the message. Like words having similar pronunciation but different meanings.

**Cross-cultural Barriers:** Barriers arising because of the difference in values and attributes accepted by people of few cultures.

**Psycho Sociological Barriers:** Individual barriers arising due to personal features of the sender and receiver.

**External Barriers:** External barriers are those caused by factors other than organisational and personal factors.

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## 11.12 QUESTIONS FOR DISCUSSION

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1. What are the differences between formal and informal communication? Which one is more important for an organisation?
2. "There can be various patterns of communication within an organisation." Comment.



3. What are the factors that influence organisational communication?
4. Any type of communication alone is not sufficient for effective working of an organisation. Explain.
5. What is inward and outward communication?
6. Explain the concept of noise as a barrier in communication.
7. What do you understand by barriers to communication?
8. List the types of barriers to communication.
9. What are semantic barriers in communication?
10. Describe organisational barriers to communication.
11. Explain interpersonal barriers with the help of an example.
12. Describe the cross-cultural (geographic) barriers in communication.

**Check Your Progress: Model Answers**

1. Formal
2. Downward
3. Ombudsperson
4. Outward
5. Managers
6. Halo effect

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**11.13 SUGGESTED READINGS**

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Sehgal M.K., Khetarpal Vandana, *Business Communication*, Excel Books

P.D. Chaturvedi, Mukesh Chaturvedi, *Business Communication, Concepts, Cases and Applications*, Pearson Education

Bowman, Joel and Branchaw, *Business Communication: From Process to Product*, Dryden Press

Courtland Bovee and John Thill, *Business Communication Today*, Random House, New York

Urmila Rai and S.M. Rai, *Business Communication*, Himalaya Publishing House

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## LESSON

# 12

## WRITTEN BUSINESS COMMUNICATION

### CONTENTS

- 12.0 Aims and Objectives
- 12.1 Introduction
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  - 12.2.1 Written Communication in an Organisation
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### 12.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand the Concept of Written Communication in an Organisation and its Methods
- Discuss the Characteristics, Advantages and Disadvantages of Written Communication
- Know the Features of Effective Writing
- Understand four S's of Communication
- Describe the Difference between Oral and Written Communication

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### 12.1 INTRODUCTION

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Written communication has great significance in today's business world. It is an innovative activity of the mind. Effective written communication is essential for preparing worthy promotional materials for business development. Speech came before writing. But writing is more unique and formal than speech. Effective writing

involves careful choice of words, their organisation in correct order in sentences formation as well as cohesive composition of sentences. Also, writing is more valid and reliable than speech. But while speech is spontaneous, writing causes delay and takes time as feedback is not immediate.

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## 12.2 WRITTEN COMMUNICATION

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*True ease in writing comes from art, not chance,  
As those move easiest, who have learnt to dance.*

*—Alexander Pope*

A famous English writer Francis Bacon has said, “Reading maketh a full man, writing an exact man, conference a ready man. “ In order to make himself ‘exact’ i.e. to say effectively what he wants to say, the writer has to make considerable effort. *While speech comes to us very naturally and spontaneously, writing comes after serious practice and careful organisation of thought. The word ‘write’ has been derived from the old English word ‘writan’ that means to scratch, draw or inscribe. It shows that man learnt writing through a long process of drawing, scoring or incising symbols on rock faces, dried skins, tree barks and clay tablets.*

The Written Communication refers to the process of conveying a message through the written symbols. In other words, any message exchanged between two or more persons that make use of written words is called as written communication.

The alphabet of any language is, therefore, result of evolution. In the same way, the combination of the characters or letters of alphabet into words, words into sentences and sentences into paragraphs have gone through a long history of man’s attempt to communicate, and give some kind of permanence or preservation to his communication. For this purpose every language has evolved its own rules of grammar, though many languages grouped together have more or less similar rules. But, in writing these rules have to be rather strictly followed. Speech, on the other hand, is more flexible. It also does not have the permanence of writing. Unless there is a typescript or types or simultaneously taken down notes, the speech is heard and sooner or later forgotten.

The power of writing is eloquently expressed in the saying “**Pen is mightier than sword**”

### 12.2.1 Written Communication in an Organisation

Written communication has come to acquire great significance in the lives of individuals as well as business organisations. It reaches out vast geographic areas and target the readers around the world. Most businesses rely on records and written documents rather than verbal contracts and oral commitments.

It is impossible to think of business or an organisation without written communication. There are various reasons for it:

- In the first place, in an organisation, people are too many to have face-to-face communication. They are generally spread over wide geographical distances, and are sometimes not even connected by telephone. The situation is changing fast. But, even then, exchange of letters remains as important as ever.
- People have to function with defined limits of authority and responsibility. In the absence of written communication it becomes difficult to determine responsibility. It is an essential part of any manager’s responsibility to communicate on paper.

## 12.2.2 Methods of Written Communication

Written communication is an essential part of organisational life. Telephone, telex, fax machines have not in anyway affected the importance of letters. They have only changed the mode of transmission and made the exchange of letters or memos much faster. Methods of written communication in an organisation include:

- Letters
- Memoranda
- Notices
- Minutes
- Circulars
- Agenda
- Manuals
- Handbooks
- Reports
- Orders
- Enquiries
- Complaints
- Quotations
- contracts
- Forms

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## 12.3 CHARACTERISTICS OF WRITTEN COMMUNICATION

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Characteristics of written communication are given below:

- ***Most formal type of communication:*** Usually most of the informal or casual conversation or friendly conversation is done orally. Whenever there is need of formal communication, usually, the written mode is preferred.
- ***Used for documentation:*** Written communication is mostly used for documentation. In an organisation, documentation of records and decisions made from time to time is very important. Written communication is used for this purpose.
- ***Used for circulation of information:*** It is used for circulation of information in an organisation. It becomes easy to circulate any information, without distorting it, through written communication.
- ***Conventional by nature:*** It is most conventional by nature. There are not many rules of grammar for oral communication, as there are for written communication. Written communication is conventional in the sense that it has to follow definite pattern as per the rules laid down by the language.
- ***Presence of both sender and receiver is not necessary at the same time:*** It is an important feature of Written Communication that the presence of just the sender or the receiver is sufficient at one time, to continue the process of communication.

- **A creative activity:** Written communication is essentially a creative activity. It is an activity that requires conscious and creative effort. The creativity of this effort comes from the stimuli produced by the mind. The stimuli of oral communication are picked up from outside by the sensory receptors. In other words, written communication is more specifically, more carefully thought out than oral communication that is based on spontaneous reaction to signs picked up from outside.

As an example let us take up the writing out or production of a report that we want to present or that we have been asked to write. For this purpose, we gather all the necessary information or data. Then, we process it through our logical thought processes and encode our communication. This is not a face-to-face communication situation. There is no interchange of messages or external stimuli. This is almost entirely a creative activity of the mind.

- **Time factor:** Another salient feature of written communication is the time factor it involves. When in a face-to-face communication situation, the sender's encoded messages are instantaneously decided by the receiver; in written communication some delay necessarily takes place. And there is no fixed time limit to this delay. The sender or encoder takes his own time in formulating the message. Then it takes quite some time for the message to reach the receiver or decoder. The receiver will take his own time in filtering it through his mind and responding to it.
- **It has fewer cycles:** Written communication has fewer cycles than face-to-face oral communication. In oral communication there are multiple exchanges of symbols, leading to multiple cycles. Most written communication is a one-cycle event. Usually a message is sent and received, and that is the end of the event. Of course, letters do lead to repeated cycles or communication exchanges. But they cannot compare with the quick succession of cycles involved in a dialogue or informal meeting.

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## 12.4 ADVANTAGES OF WRITTEN COMMUNICATION

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Advantages of written communication are given below:

- **Ready reference:** First and foremost, written communication has the advantage of providing records, references, etc. In the absence of ready reference, great confusion may be created and the working of the organisation will virtually come to a halt.
- **Legal defense:** Maintenance of proper records, letters, reports and memos builds up legal defenses of the organisation. An organisation is like a living organism. And like any organism even an organisation is quite vulnerable to offence, both from within and from outside. Organisations usually have their legal advisors who cannot be of any help unless proper records are made available to them.
- **Promotes uniformity:** Written communication promotes uniformity in policy and procedure. It is the only means of laying down clear guidelines for the working of the organisation.
- **Mass access:** Written communication gives access to a large audience through mass mailings. It is common practice on the part of well-known organisations to reach out to people at large and win customers through wisely drafted 'mail shots' or unsolicited circulars. For example whenever a new brand of two-wheeler is introduced in the market or a bank comes forward with some attractive deposit/investment scheme it manages to get names and addresses of all the members of an institution/organisation offering them their services on easy terms.

- ***Suitable for distance communication:*** Written communication is most suitable when the receivers are spread over vast geographical distances and oral communication is either not possible or will cause the message to lose its effectiveness.
- ***Image building:*** Written communication builds up the organisation's image. It is not at all surprising, therefore, that the outgoing letters/messages of certain well-known companies are cited as examples to be emulated.
- ***Accurate and unambiguous:*** Written communication has the advantage of being accurate and unambiguous. Great care has to be taken in drafting any letter, memo or report so that the message is effectively conveyed. Oral communication may often give rise to confusion because every speaker has his own way of putting himself across. While speech is very personal; written communication rises above the person, especially in a business organisation where precision is the law.
- ***Permanent in nature:*** Written communication is permanent. The growth of an organisation is promoted, to a large extent, by reference to its old, well-maintained records and minutes of the meetings.
- ***Facilitates to assign responsibility:*** Written communication facilitates proper assignation of responsibilities. One may sometimes go back on words spoken, but not on his words, put on paper. Moreover, the lower staff behaves with more responsibility, and also feels secure, when communication is sent in writing.
- ***Permits substitution and revision:*** While spoken words cannot be taken back or erased, so they have to be instantaneously and thoughtfully planned out, the sender of a written message gets time to conceive the idea and formulate his message after due substitution and revision of his text.

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## 12.5 DISADVANTAGES OF WRITTEN COMMUNICATION

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Like oral communication, even written communication is not free from demerits. Some of the major disadvantages of written communication are as follows:

- ***Limited to literate world:*** Written communication is limited to the literate people, who have the capability to read and write. Though, with the literacy levels rising across the world, there is still a great chunk of people devoid of this skill.
- ***Time Consuming:*** Unlike oral communication, written communication takes time to reach the target. Both encoding and transmission of the message take time, resulting in delays. It is, therefore, a time-consuming process. Postal delays cause a lot of time to be elapsed between dispatch of written message and its receipt by the target.
- ***Lot of paper work:*** Written communication creates mountains of paper cluttered around the premises of the organisations. It is a common sight in offices, and the staff has tough time trying to handle it. Very often valuable papers get lost. The managers, therefore, have to be extra careful to keep sensitive material in his own custody.
- ***Needs expertise in expression:*** Written communication runs the risk of becoming ineffective in the hands of people otherwise good in their job, but poor in expression. That is why it is a serious concern of a modern organisation to recruit people who are very good in expression, especially in letter and report writing ability.

- **Lack of immediate feedback:** Written communication is mostly handicapped by its inability to get immediate feedback. The receiver of the message takes his time to understand and respond to the message.
- **Costly:** Written communication is also a costly process. It costs a lot in terms of stationery and the number of people involved in typing and sending out letters.
- **More man hours needed:** By the same logic it is costly in terms of the man-hours lost in taking dictation, typing, entering in the diary, dispatching etc. The same job can be done more efficiently and expeditiously by harnessing modern technology.
- **No immediate clarification:** Written communication has another disadvantage. If the receiver of a written message at a distance seeks some clarification, he cannot have it as quickly as he would like to. He will have to write back and wait for the reply to his query. Immediate clarification is not possible in exchange of written communication.

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## 12.6 IMPORTANCE OF WRITTEN BUSINESS COMMUNICATION

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There are different forms of communication in business, such as verbal, non-verbal and written. Each of these communication forms is significant. However, written communication usually requires more thought and effort. Writing must be concise, informative and easy to read as both an informative and instructional tool. The importance of written communication in business is evident by the plethora of forms, manuals and materials that companies publish each day.

### ***Significance***

Written communication can take the form of legal documents or manuals. For example, OSHA (Occupational Safety and Health Administration) outlines health and safety policies and procedures for industrial and commercial businesses. These documents ensure clarity among employees and minimize the chance for any misunderstanding.

### ***Identification***

Written communication is also important for instructing employees on certain tasks and projects. For example, a boss may meet with an employee about a special project. She may hand the employee a list of tasks she wants completed for the day. The written instructions may inform the employee whom to contact for certain information. The boss may also indicate which items are most important so the employee can prioritize his tasks.

### ***Function***

Company managers must use written communication in the form of reports or presentations. For example, a marketing research manager will often analyze results from a survey in a report. She may also recommend certain strategies for upper management, based on consumer needs and preferences. Additionally, department directors often create written presentation booklets for employees who attend their meetings. Written presentations are an effective means of providing key information to other departments.

### ***Email***

Email is an extremely important written communication tool used in business. Employees write multiple emails each day, setting up meetings or apprising bosses

about the status of projects. The email is often used as an information tool after a meeting. Managers can sum up the key points of a meeting, then confirm follow up assignments or tasks with email recipients.

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## 12.7 FEATURES OF EFFECTIVE WRITING

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Communication can be effective only if receiver receives the message on the same form and context as is sent by the sender. When there is no mistake in interpretation and the sender gets the correct feedback, then communication can be termed as effective. To compose effective Oral and Written messages, one must apply certain communication principles. These principles provide guidelines for choice of content and style of presentation, adapted to the purpose and receiver of the message. To some extent, the principles overlap because they are based on a common concern for the audience, whether that audience consists of listeners or readers.

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## 12.8 FOUR S'S OF COMMUNICATION

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Though seven C's of communication are sufficient as Principles of effective communication, but some authors also consider Four S's. Though these are overlapping to the seven C's, but an understanding of the 4 S's of communication is equally important:

- **Shortness (Brevity):** "Brevity is the soul of wit." The same can be said about communication. If the message can be made brief, and verbosity done away with, then the transmission and comprehension of messages is going to be faster and more effective. Flooding messages with high sounding words does not create a very lasting impact, as most of the time of the receiver will be lost in actually deciphering and comprehending the message.
- **Simplicity:** Simplicity both in the use of language and ideas reveals clarity in the thinking process. It is normally a tendency that when an individual is himself confused, he tries equally confusing strategies to try and explain his point of view to the receiver. Simplicity should be revealed in the communication by using simple terminology and equally simple concepts.
- **Strength:** The strength of the message emanates from the credibility of the sender. If the sender himself believes in a message that he is about to transmit, there is bound to be strength and conviction in whatever he tries to state. Half-hearted statements add a touch of falsehood to the communication process.
- **Sincerity:** If the sender is genuine and sincere, it will be reflected in the manner he communicates. Suppose there is a small element of deceit involved in the interaction and the receiver is a keen observant, he would be able to sense the make believe statement and no concrete relationship between the sender and receiver will materialize.

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## 12.9 DIFFERENCE BETWEEN ORAL AND WRITTEN COMMUNICATION

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Oral communication is the effective interpretation, composition, and presentation of information, ideas, and values to a specific audience. Whereas the written communication is communication by means of written symbols (either printed or handwritten). Writing is a fairly static form of transfer. Speaking is a dynamic transfer of information. To be an effective speaker, you must exploit the dynamism of oral communication, but also learn to work within its limitations. While there is a higher level of immediacy and a lower level of retention in the spoken word, a speaker has



more ability to engage the audience psychologically and to use complex forms of non-verbal communication.

The written language can be significantly more precise. Written words can be chosen with greater deliberation and thought, and a written argument can be extraordinarily sophisticated, intricate, and lengthy. These attributes of writing are possible because the pace of involvement is controlled by both the writer and the reader. The writer can write and rewrite at great length, a span of time which in some cases can be measured in years. Similarly, the reader can read quickly or slowly or even stop to think about what he or she has just read. More importantly, the reader always has the option of re-reading; even if that option is not exercised, its mere possibility has an effect upon a reader's understanding of a text. The written word appeals more to a contemplative, deliberative style. But precision in oral communication comes only with a great deal of preparation and compression. Once spoken, words cannot be retracted, although one can apologize for a mistake and improvise a clarification or qualification. One can read from a written text and achieve the same degree of verbal precision as written communication. But word-for-word reading from a text is not speech-making, and in most circumstances audiences find speech-reading boring and retain very little of the information transmitted.

On the other hand, oral communication can be significantly more effective in expressing meaning to an audience. This distinction between precision and effectiveness is due to the extensive repertoire of signals available to the speaker: gestures, intonation, inflection, volume, pitch, pauses, movement, visual cues such as appearance, and a whole host of other ways to communicate meaning. A speaker has significantly more control over what the listener will hear than the writer has over what the reader will read. For these techniques to be effective, however, the speaker needs to make sure that he or she has the audience's attention—audiences do not have the luxury of re-reading the words spoken. The speaker, therefore, must become a reader of the audience.

#### Check Your Progress

Fill in the blanks:

1. The word 'write' has been derived from the old English word \_\_\_\_\_ that means to scratch, draw or inscribe.
2. The Written Communication refers to the process of conveying a message through the written \_\_\_\_\_.
3. Telephone, telex, fax machines have not in anyway affected the importance of \_\_\_\_\_.
4. Maintenance of proper records, letters, reports and memos builds up \_\_\_\_\_ of the organisation.
5. The \_\_\_\_\_ of the message emanates from the credibility of the sender.
6. A \_\_\_\_\_ has significantly more control over what the listener will hear than the writer has over what the reader will read.

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## 12.9 LET US SUM UP

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- Written communication has come to acquire great significance in the lives of individuals as well as business organisations

- Written communication is most formal, used for documentation, conventional by nature and involves creative activity.
- Written communication serves as a ready reference, used for mass communication, serves as a legal defense and allows scope for change and modification of message before sending it.
- Written communication is essential for the work of any organisation.
- Effective Communication means that the receiver gets and understands the message in the same form and context as sent by the sender.
- Four S's of Communication are Sincerity, Simplicity, Shortness and Strength.

## 12.10 LESSON END ACTIVITY

You are a manager of Accounting Department in a medium-sized company. One of the accountants has been on leave for two weeks in two months and his work is not done timely. Would you like to speak to him or write to him or both? If both, then what would you like to do first?

## 12.11 KEYWORDS

**Written Communication:** Communication expressed through written words, using alphabet and rules of grammar.

**Documentation:** Preparation of important papers/documents by the use of written communication.

**Reference:** Reference is a relation between objects in which one object designates, or acts as a means by which to connect to or link to, another object.

**Image Building:** Appealing to an audience or promoting the business is called image-building

**Presentation:** An activity in which someone shows, describes, or explains something to a group of people — presentation in a sentence.

**Interpretation:** Interpretation is the act of explaining, reframing, or otherwise showing your own understanding of something.

## 12.12 QUESTIONS FOR DISCUSSION

1. How is Written Communication different from Oral communication?
2. Describe the importance of Written Communication in an organisation.
3. Give the advantages and disadvantages of Written Communication.
4. What are the distinct features of Written Communication?
5. "Pen is mightier than sword". Explain this statement, elaborating the strengths of written communication.
6. What is meant by "Effective Communication"?
7. Explain the Four S's of Communication.
8. 'It is easier to distort oral messages than written messages'. Justify with an example.
9. Which is more important in an organisation: oral communication or written communication?

**Check Your Progress: Model Answers**

1. Writan
2. Symbols
3. Letters
4. Legal Defenses
5. Strength
6. Speaker

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**12.13 SUGGESTED READINGS**

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Sehgal M.K., Khetarpal Vandana, *Business Communication*, Excel Books

P.D. Chaturvedi, Mukesh Chaturvedi, *Business Communication, Concepts, Cases and Applications*, Pearson Education

Bowman, Joel and Branchaw, *Business Communication: From Process to Product*, Dryden Press

Courtland Bovee and John Thill, *Business Communication Today*, Random House, New York

Urmila Rai and S.M. Rai, *Business Communication*, Himalaya Publishing House

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## LESSON

# 13

## BUSINESS LETTER

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## 13.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Discuss the Principles of Business Letters
- Explain the concepts of Memos, Emails, Agenda, Minutes and Sales Letters
- Discuss Letter of Complaint, Claims and Adjustment

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## 13.1 INTRODUCTION

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Business letters are the most important means of today's business relationships. This lesson provides a comprehensive review of various types of business letters, viz. request letters, response letters, thank you letters, collection letters, reminders, enquiries and employment letters. It also provides tips for effective business letter writing. The world of business is replete with various types of written communication. Written communication is so much a part of everyday business that one cannot think of a business without related correspondence. Think of any organisation or institution bank, electric company, hotel, college, library, etc. Dealing with people and there is obviously some written correspondence. It may be handwritten, typewritten, or printed. In the olden days, there were people who were specially assigned the job of taking care of correspondence, even in small businesses. Such persons were popularly referred to as 'writers.'

Managers of today have to be well versed with the skill of writing as they have to communicate with the outside world. Writing is skill which the managers have to acquaint in order to be successful. Written communication which the managers have to make include writing notices, letters, passing orders, writing e-mails and so on.

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## 13.2 MEANING OF BUSINESS LETTERS

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Business Letters are the most important form of business correspondence. There are various kinds of letters following in and out of a business organisation. The simple

reason is that the organisation has to keep in touch with the world outside that comprises its suppliers, customers, government departments, banks, insurance agencies, transporters, job-seekers and so on. Then there are different occasions/contexts for which suitable letters have to be written.

It is a form of written communication between a sender and a receiver used to transact business which cannot be easily relayed orally. It is usually a letter from one company to another, or between such organisations and their customers, clients and other external parties. It differs from the in substance, friendly letter language, and in tone. It is formal and direct and it avoids figurative language.

According to J. H. Hanson, *“The letters which are exchanged among business in connection with business affairs are called business letters.”*

L. Rahman says, *“Correspondence having commercial or business interest is known as commercial correspondence.”*

According to Prof. Taintor, *“All letters written for business purpose are business letters.”*

Business letter serves as the bridge to communicate with the various parties. The functions of business letters are multidimensional. The writers of the letters are in different departments of the organisation. In a way every letter is a unique piece of communication. And yet there are certain time-honoured conventions/ways of writing that are supposed to be followed. Over the years quite some changes in styles of writing have been introduced by imaginative writers. Even then the basic aims remain the same. A systematic study of the art of letter writing requires that we classify them according to their functions, stricture, tone and approach.

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### **13.3 PRINCIPLES OF A BUSINESS LETTER/ ESSENTIALS OF AN EFFECTIVE BUSINESS LETTER**

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You need to know that business letters, to be good and effective, must contain certain essentials. In other words, business letters should conform to certain minimum standards of letter writing. The language, content, style, context, length, structure, layout, tone and purpose of a letter, are some of the characteristics of a letter. A good business letter has to create, nurture and sustain a good business relationship.

Let us now briefly discuss the requisites or essentials of a good business letter:

#### **13.3.1 Clarity**

You must be aware that a letter must have clarity. The underlying message should be expressed in clear terms. Care should be taken to avoid ambiguity. The purpose of communication should be made clear. Whether it is to inform, invite, reiterate, emphasise, remind, announce, seek participation and correct the earlier message, the purpose should clearly be stated.

You will be surprised to know that if a letter writer is writing a letter on behalf of somebody else, it should be done after obtaining clear instructions. There are occasions when one may receive a letter informing the date and time of a meeting, without an accompanying invitation or request to attend the same. The reader or receiver of the communication, in such an instance, will be in a dilemma. Is the invitation intended and implied but not specifically stated? Or is the letter just meant to be informative and no invitation is being extended. One way or the other, the message should be clear. Just imagine the embarrassment that is caused when people not meant to be invited turned up at the venue and had to be turned back, or when the people who have to attend the meeting feel there is only intimation and no invitation

and hence fail to turn up. There are umpteen ways in which lack of clarity affects the intended purpose of the letter. A letter writer should be conscious of this and exercise due care. This could lead to misunderstandings, ambiguity and even chaos not to forget losing business altogether.

### 13.3.2 Impact

The letter should create the necessary impact. Behind every letter there is an objective and the letter should have a clear purpose stating that. To create the desired impact, it is often necessary to lay emphasis. Underlining or using a larger type or font can do it. The right person is the specific person who is the target of the communication, and whose action or response the business considers to be of value. Creating an impact also calls for establishing an appropriate wavelength. The letter writer should write keeping in view the skill, knowledge, status and comprehension ability of the addressee.

Yet another requisite of an impact creating letter is coherence. It is necessary to use words, phrases and clauses clearly, so as to form balanced sentences. Coherence seeks to establish a proper relationship and links sentences to make the intended message clear.

A letter succeeds in creating the desired impact when it ensures purpose orientation, lays the right emphasis, establishes an appropriate wavelength and is coherent. Some of the common questions asked for statements made in relation to these attributes are:

- **Purpose orientation:** What is one trying to convey?
- **Emphasis:** Which of these is really urgent?
- **Wavelength:** Is it too elementary or is it an overhead transmission?
- **Coherence:** What is the sequence?

It is necessary to give attention to these areas and build up skills so that the letters create maximum impact and desired effect.

### 13.3.3 Relevant Information

The letter should provide relevant details which go into forming part of the message. The principle of communication that we are referring to here is also known as adequacy or completeness. A communication can be said to be complete only when it contains all the facts and details which the receiver needs to know in order to respond or act on the basis of that communication. Not giving all the required details leads to protected correspondence, loss of customers or lack of response. Imagine a letter received from a departmental store announcing the opening of a new branch and seeking your patronage, that does not give details of the new address or timings. Another requirement of a business letter is concreteness. A communication is said to be concrete when it is specific, definite and to the point, and not vague and generalised. Often the letters are so rambling in nature that one can imagine the reader screaming, "Please come to the point and be specific." A concrete letter does not ramble and is sharp and focused. It is important to realise that you cannot afford to lose the attention of the person reading the letter.

### 13.3.4 Brevity

Any good communication oral or written should necessarily incorporate this essential feature. Brevity is an important attribute for any business letter. The receiver does not have unlimited time to spare towards reading, and re-reading letters is highly avoidable. On the contrary, any business letter competes with a huge mass of business

related and other communication targeted at the receiver waiting to catch attention and time.

The style of writing varies from person to person. There are people who can communicate very effectively even with a minimum of words. Here is a classic example. The briefest correspondence in history is reported to be a letter from the French writer Victor Hugo and the reply to it from his publisher.

Hugo's letter was just "?"

He wanted to know how his newly published novel, less miserable, was faring in the market.

The publisher's reply was just "!"

Understandably, it would be virtually impossible for anyone to communicate so effectively and yet be so brief. To be brief and yet convey effectively is indeed a very fine art of effective communication.

### 13.3.5 Simplicity

Simplicity is the hallmark of any good communication. It refers to the ease of understanding. Simple writing is the opposite of complex and involved writing. The art of simple writing is mastered through conscious effort and practice. A letter written in a simple, easy and informal style using easily understood words catches immediate attention and makes the desired impact. It takes tremendous insight and skill to express complex matter and complicated issue in a simple form.

The normal tendency on the part of the communicator is to resort to complex sentences, clichés, technical jargon and high sounding words to communicate not so simple thoughts and developments, resulting in confusion and bewilderment. Brevity and complicity are so essential for good communication that many writers refer to it with the acronym KISS – Keep It (the letter) Short and Simple.

### 13.3.6 Timeliness

Business letters, to be effective, should have proper timing. Letters should be written and despatched on time. Some messages carry a sense of urgency. Letters, which carry such messages, should reflect the associated urgency. It is not uncommon to see letters seeking some action by a specified date reaching the receiver after that date.

Some not-so-common examples of these are:

- A communication from a controlling office to a branch stating. "Please send us the statement without fail by 30<sup>th</sup> September, 2014" reaching on 2<sup>nd</sup> October, 2014.
- A letter from a committee secretariat asking a member to attend the meeting scheduled on the 10<sup>th</sup> of the month, reaching him that evening.
- A letter from a departmental store announcing "Clearance sale for three days" reaching after the sale.
- A letter for a personal department asking an officer to appear for promotional interview on 6<sup>th</sup> October 2014 at the regional office, reaching on 5<sup>th</sup> October 2014.

Apart from negating the purpose of communication, such letters reflect poorly both the organisation and the sender of the message.

### 13.3.7 Language

Language is an extremely important facet of business communication. First and foremost, it is necessary to ensure that the language used is appropriate, i.e., the language with which the reader is at ease. Apart from English, Hindi, various regional



languages are also in common use in business communication in different parts of the country. When organisations and businesses get global, the choice of appropriate language becomes highly relevant. Having chosen the right language, the next step is to ensure that the phrases, expressions, words, grammar, and spellings are correct.

Grammatical errors and spelling mistakes have no place in a good business letter. They create a poor impression on the reader.

Every business letter writer may or may not achieve grammatical perfection. A good letter writer should know his grammar well and seek appropriate reference when in doubt. A business letter with noticeable bad grammar creates a poor impression on the reader.

### **13.3.8 Vocabulary or Word Power**

For the language to be effective, an important prerequisite is abundant vocabulary or word power. Words are the very essence of written communication. Words translate thoughts and carry the message through to the reader.

"Building a vast repertoire of words is both an opportunity and challenge."

Words make the letter. A good letter writer should choose the words with care. Every person keen on becoming an effective communicator should delve deeply into words and their meaning. Most of the word or set of words depend on the context, tone, and gravity of the message and also the relationship with the person to whom it is addressed.

There are words whose meanings are similar and to that extent interchangeable. One should be clear about the fine difference that exists to be in a position to "Pick the right word" for not always one word substitutes another accurately.

#### ***Example***

Condition, State

Classic, Classical

Altogether, All together

### **13.3.9 Appeal**

A good letter should appeal to the reader's sensibilities. It should go beyond the message it conveys and make an overall good impression. It should have elegance, which means taste, beauty and decency. Mistakes and corrections, striking, overwriting, improper ink flow, unintended gaps and other such deficiencies rob an otherwise good letter, of all its elegance.

A letter is appealing when it shows consideration. Consideration means thoughtfulness. It means keeping in mind the reader and putting oneself in the reader's shoes while writing the letter. A good letter writer invariably makes it a point to think from the other person's point of view. A good letter uses 'you' more frequently than 'I'. It makes the reader feel important.

### **13.3.10 Style**

Style refers to the manner of writing. It constitutes the collective characteristics of the writing, impression or way of presenting things. Each person has an individual style. A simple informal, considerate and focused style of writing scores high in building a report with the reader. Developing a certain style of letter writing lends the letter distinctiveness.

Good writing style carries sincerity. Sincere writing is straightforward and there is no attempt at manipulation. The writer comes through as honest, genuine and frank. The words reflect feelings, concerns and expectations in a forthright manner. Good writing style should also encompass politeness or courtesy. It should respect the reader as an individual. The writer should not hesitate to apologise for omissions or errors.

### 13.3.11 Striving for Excellence

A good letter writer should try to achieve a significantly high standard of letter writing and endeavour to achieve excellence.

The essentials outlined above are relevant in building up skills of effective letter writing. They range from the routine, repetitive to the more complex and goal oriented ones. They may be as short as half a page or as long as eight to ten pages. The bigger and more complex the letter, greater the scope for skilful writing.

The essentials outlined above are not to be taken as a checklist against which every letter has to be evaluated. Some letters need to be just simple and straightforward and there may not be much scope for imagination or creativity.

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## 13.4 TYPES OF LETTERS

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Remember, as letter writing is a vast area of communication, it is not so easy to classify letters. Our task becomes easier, if we lay down certain criteria for classification.

- L. Gartside in *Modern Business Correspondence* classifies business letters as follows:
  - ❖ Information Letters:
    - ◆ Routine Letters: \* Enquiries \* Quotations \* Orders \* Payment Letters
    - ◆ Special Purpose Letters
  - ❖ Sales Letters: \* Offers
  - ❖ Problem Letters: \* Complaints \* Overdue Accounts
  - ❖ Goodwill Letters: \* Greetings \* Thanks

This is indeed a widely accepted classification of business letters. But there may a situation arise for which a suitable letter does not fall in any of these categories. For example, application letters and letters to the press do not easily fit in this classification.

- We may classify business letters on the basis of our approach:
  - ❖ *Direct*: All 'good news' letters, offers of appointment, enquiries, orders, promotion, intimation, etc. will fall in the category of direct approach letters.
  - ❖ *Indirect*: All 'bad news' letters like adjustment refusals, request refusals, rejecting a job applicant, etc. will fall in the category of indirect approach letters.
  - ❖ *Persuasive*: Offers of sales and services, job applications that have been regarded as similar to sales letters fall in the category of persuasive letters.

In this way we see that our approach to the letter problems/situation is an important criterion for classification.

- Letters can also be classified as:
  - ❖ *Official letters*: Official letters are the ones we write to government or semi-government departments/offices/bodies.
  - ❖ *D.O.'s (Demi-official Letters)*: D.O.'s or demi-official letters are essentially official in purpose but addressed to an official by name and not just sent to him by designation. We are advised to send a D.O. to guard the confidential nature of the matter concerned. Moreover, they invite personal attention of the addressee.
  - ❖ *Form Letters*: Form letters are used for correspondence of routine nature. Acknowledgement, reminders, interviews, notice, appointment, etc. fall in the category of form letters.
  - ❖ *Internal Letters*: Internal letters or memos are used in government offices as well as business organisations for the purpose of internal communication.
- Letters can easily be classified on the basis of their subject, viz., enquires, credit information, collection of dues, complaint, sales promotion, sales circulars, appointment of personnel, agencies, etc.
- Letters can also be classified on the basis of the correspondence of different departments of an organisation. For example, the personnel department of an organisation invites applications, calls candidates for written test/interview, sends interview letters, offers appointment letters, gives charge-sheet, etc. The purchase department sends requests for quotations/invites tenders, places orders, and sends letters of complaints. The sales department, on the other hand, sends sales circulars and advertisement. For the sake of convenience, therefore, we can divide various kinds of business letters on the basis of a particular department's needs, priorities and commitment.

Given below are some important kinds of letters:

- Enquiries, orders, complaints and responses to them;
- Sales letters, circulars memos;
- Job applications, résumé;
- Letters of personnel department;
- Letters from the accounts department like correspondence with customers, insurance agencies, banks, etc.;
- Letters from the administration department as in public notices, invitations, correspondence with central and state governments, etc.;
- Letters to the editor, press releases, etc.

#### 13.4.1 Need of Business Letter

In business, letter writing is a major thrust area of communication. The modern goal of nations for a free global trade and the need to cut across national, linguistic and cultural barriers to promote trade have made the letter an important business tool.

1. A business letter acts as a representative of the organization. It is an inexpensive substitute for a personal visit.
2. It seeks to provide information on subjects connected with business.
3. A business letter provides valuable evidence for a transaction and thus serves a legal purpose.

4. A business letter becomes a reference material to future transactions between organisations and individuals.
5. A business letter promotes and sustains goodwill.
6. A business letter motivates all the people involved in a business to a higher and better level of performance.
7. A business letter enlarges and enhances the business. We can elaborate each of the functions thus.

### 13.4.2 Functions of a Business Letter

Business letters in all situations should be written with politeness and respect for each other. The business/commercial letters may be good-news letters, routine letters, bad-news letters, etc. The fundamental functions of these letters are discussed as under:

1. **Sales Promotion Function:** Sales promotion is the primary function of business letters. Sales letters are often drafted, to create demand for new products or to expand sales of an existing product. Letters can play the role of salesmen in creating, maintaining and expanding the market for goods and services. Expanding sales in distant rural areas, correspondence is an efficient source to reach the customers and arouse interest and desire for the products of any firm. Sales letters bring to the notice of the select customers new articles and explain their novelty; uses, service available and other benefits of using the product. In short, business letters perform the sales function in the following ways:
  - ❖ Providing complete information to the prospective customers.
  - ❖ Emphasising merits of the products and the benefits accruing to them by using those products.
  - ❖ Periodically communicating to the potential buyers regarding the change in quality, design, size, and uses of the products.
  - ❖ Stressing the competitive edge of the firm in terms of price discount, credit and collection policies.
  - ❖ Handling the customer enquiries, order, complaints and suggestions.
2. **Goodwill Function:** Goodwill indicates the positive mental response of groups of potential customers to the suggestive appeals of producers and traders. Sales too, depend on the depth of goodwill generated by business letters, written with proper perspective. Goodwill adds a moral and human touch to business routine. Customer's order is the result of the goodwill or healthy atmosphere created by the letters written and communicated.
  - ❖ Goodwill can be built up by observing the following criteria:
    - ❖ Quick and prompt replies to customer's enquiries.
    - ❖ Willingness to solve the reasonable and justified consumer complaints.
    - ❖ Prompt execution of orders placed by the customers.
    - ❖ Proper wording of collection letters requesting the customers to pay their dues.
    - ❖ Appreciation of customer's interests in the firm and its products and assurance to serve them better.
    - ❖ Sending letters of greetings and good wishes to customers on occasions like New Year's Day, Diwali, other festivals, etc.

- ❖ Invitation to customers to attend the functions arranged by the firm on the occasion of inauguration of a new branch, special sales offers, etc.
- 3. **Reference Function:** Business letters are messages, communicated in writing and hence can serve as valid records for ready reference in the office routine. Verbal talks, though useful, may turn out to be vague or sometimes may be vitiated by wrong interpretations. Letters can put the readers in a mood of easiness, cool thinking and leisurely reflection, unlike the hectic effect produced by frequent telephone calls. Exchange of letters between sellers and buyers will serve as reference for each other's replies, in finalising any commercial transaction.
- 4. **Legal Function:** Letters containing offers and undertaking will be legally binding. The legal position of the parties, with regard to any transaction, can be clearly distinguished by the perusal of the correspondence concerned. In case of dispute, these business letters serve as evidence.

### 13.4.3 Formats of Business Letters

The language and subject matter of every commercial letter written to parties and clients may differ but the basic form and structure remains the same. A special feature of the business letter is that it must create an impression on the mind of receiver as from where, from whom the letter has come, and with what subjects.

The major parts of a business letter are discussed briefly as under:

1. **Heading:** Heading is the name of the firm printed in the letter pad in an attractive form. A good and beautiful heading attracts the receiver of the letter to go through thoroughly. Heading contains the name of the firm, nature of business, address of registered office, telephone number, telegraphic address, etc. The heading is usually printed in attracting colours. According to the view of experts, the heading portion should not cover more than 1/5th of the letter paper. Suitable measurement for heading is 2" to 2.5".
2. **Date:** Date is an important part of a letter. It should be written clearly with date, month and year. There are different ways of writing the date in a letter, like 1-8-2013 or 1/8/2013, etc. But this way of writing the date becomes very old-fashioned and at present the old forms are changed over in this way; for example, Sept. 1, 2013 or 1 Sept., 2013 and so on.
3. **Reference Number:** Reference number is the number and date of the previous correspondence held in this behalf. If the reference number and date are given, there will be no need to write the previous letter again or to send a copy of it. Only the letter number and date of the previous letter are sufficient for the receiver of the letter to refer to his file to understand the details of the previous letter. This is the reason that the letters received and the replies sent against each letter are maintained in a file. Reference number is given in continuation of a code number; as RAC/13-14/101 or 13-14/101.
4. **Inside Address:** Inside address is the name and address of the person or institution to which the letter is addressed. This is written at the left-hand side just below the reference number and in three lines. The first line is used to write the name of the person or institution, second for writing lanes, flat/plot no., etc., and the third line for city town. Semicolon is used at the end of the first and second lines and third line is closed with a full stop.

While writing the address respectful words like Shri or Mr. are used. While addressing woman, the word Mrs. or Miss. must be used; for company or organisations the word Messrs (M/s) is used.

5. **Salutation:** After writing inside address, salutation word is written below it. This is a word of respect to the receiver. In business correspondence, the words "Dear Sir", "Honourable Sir", or "Honourable Madam" is used. After the salutation, a semicolon is used.
6. **Subject Heading:** Subject heading is the brief statement of the main body of the letter. For the convenience of the reader, subject heading is written. This helps the reader to understand the contents of the letter and the department to which it is related, at the first sight. This will enable to direct the letter to the person or department concerned without any delay and initiate action immediately. A few examples of subject heading are given below:
  - ❖ *Subject:* Enquiry of prices
  - ❖ *Subject:* Regarding damages of goods
  - ❖ *Subject:* Payment of outstanding money, etc.
7. **Body of the Letter (Contents):** This is the major part of the letter. The subject matter is explained in this part. This part should be written very carefully using simple language in very effective manner. All the facts should be stated in order of priority so that the reader could understand every point clearly. The body of the letter has mainly three parts:
  - ❖ *Introductory part or opening paragraph:* In case a reply is being sent against a letter just received, the introductory part gives that letter number and date (reference). If a reply to some earlier letter or letters is being sent, the reference of that letter is also made in the introductory part.
  - ❖ *Main body of the letter:* The main body of the letter states the subject matter in detail. Every point is explained in different paragraphs. It is written legibly using good words and phrases to attract the attention of the reader, so that he may act upon immediately on the letter.
  - ❖ *Conclusion or closing paragraph:* The concluding part is the third and final part of a letter. In this part the writer of the letter makes it clear cleverly what he expects from the other party. The conclusion is usually expressed in any of the following ways:
    - ◆ I am confident that you will give me an opportunity to serve you better.
    - ◆ An early reply is much awaited.
    - ◆ Please oblige us by taking personal interest in executing our purchase order, etc.
8. **Complementary Close:** The way in which a letter begins with saluting, in the same manner a letter is closed with a complementary close. Complementary close is written at the right hand side below the body of the letter. The words like, "Yours sincerely", "Yours faithfully" are quite a common term.
9. **Signature:** After the complementary close, the writer of the letter puts his signature. One should sign personally not by affixing his specimen seal. Ball point pen or ink pen should be used for signature.  
Usually the name of the signatory is also written/typewritten below his signature, along with his designation.
10. **Enclosures:** The number of documents, if any, to be sent along with the letter is mentioned in the left hand side of the letter. Usually cheque, draft, bills or invoice, etc. are enclosed with the letter. This will bring to the notice of the reader about the number of documents enclosed with the letter and he can check whether the enclosures that have been duly received with the letter or not.

11. **Typist/Clerk's Initials:** The letter is initialled by the typist or the dealing clerk, who shall be made responsible for any mistake remaining unnoticed in the letter. In terms of name, his first spelling (initials) is written.
12. **Post Script or P.S.:** Sometimes, any matter of importance may be left out for including in the main body of the letter. In such a situation, that can be included in the letter by giving a footnote as P.S. After writing the post script, the writer of the letter should sign below it.
13. **Margin:** Margin is the space left out at the left hand side of the letter paper. Provision of margin increases the beauty of the letter. Moreover, if sufficient margin is provided, any written portion will not hide inside the filing portion.

**Format of a Business Letter**

	..... (Heading)
	..... (Nature of business)
	Address.....
Telegraphic	
	Address..... Place.....
	Telephone No..... Date.....
Reference No.....	
Inside Address.....	
.....	
.....	
Salutation,	
Subject.....	
Reference.....	
.....	
.....	
.....	
.....	
	Enclosure.....(Complimentary Close)
	Initials of typist or clerk ..... Signature.....
PS.....	
.....	

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## 13.5 MEMOS

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You will find it interesting to note that the memo is often described as the workhorse of business communication. It is a brief document of a page in length used for day-to-day exchange of information for internal and inter or intra-office communication among units of the same organisation. It is a medium of informal communication and the tone of familiarity between the writer and the recipient is evident. It is often conversational.

Memo is a form used by a person known to the receiver personally. Therefore, it is less formal in tone and salutation. It clearly states the subject after mentioning the following:

From \_\_\_\_\_ Subject \_\_\_\_\_

To \_\_\_\_\_ Date \_\_\_\_\_

Note: No Dear Sir, No Yours Sincerely, etc.

### 13.5.1 Techniques of Writing a Memo

A memo involves a straight beginning. It is short and is written in a friendly tone. A harsh or unfriendly tone will dishearten the reader of the memo and lower the morale of work for the organisation.

**Example:** Memo from a Works Manager to his supervisors.

"Every Saturday morning all supervisors in my plant must meet and report on the clean-up of their individual shop floors. All reports must be submitted by afternoon".

1. In this memo, the tone is of distrust and order. The works manager uses 'all' and 'must' twice. It shows he does not trust anyone of his supervisors as a responsible supervisor.
2. The use of 'must' indicates that he doubts the sense of duty of his supervisors. The manager can order his supervisors without doubting their sense of duty.
3. Further, the memo is vaguely worded. The reader will not know from which Saturday the meeting has to begin, and when it is to be held, morning is a long period of time, not a point of time.
4. Where do they meet? In fact, no reference of place is made. Again, 'afternoon' is a vague deadline.
5. The manager should indicate the specific time. Say for example, by 4.30 pm. Further, the phrase clean-up does not completely convey all that is to be considered while inspecting the work of shop-floor cleaning. Such vagueness should be avoided by observing the following principles of writing memos.

#### ***Principles of Writing Memos***

1. Give necessary and sufficient information.
2. Do not assume that everyone knows everything related to the issue discussed in the memo.
3. Explain the causes of problems or reasons for changes being suggested.
4. Be pleasant rather than order. Use "you-attitude".
5. Ask for feedback or suggestions.



### Sample of Memo Writing

September 13, 2008

To: Laboratory D-6 Personnel

From: Varinder Kumar, Supervisor

**Subject: Final Test Report Requirements**

I have received some request for changes in our test reports from the chemical engineers who use them. Therefore, beginning Monday, September 15, all final test reports must include the following:

1. Full test results at each stage of the testing process
2. Dimensions stated in metric terms
3. Photos in proper order and each identified on its reverse
4. The distribution list
5. Correctly spelled terms
6. Full formula

Please write your reports immediately after completing the test while the data are fresh in your mind. I am sure with these minor adjustments in report style we can give the engineers what they need.

#### *Essentials of Good Business Memos*

Business people do not have much time to read long letters and messages. They want facts, results and relevant details. The essentials of good business memos are the same as those of good business letters. These essentials are discussed in detail in an earlier section of this lesson. In a nutshell, these are reproduced as under:

1. Write clearly
2. Use short and simple words
3. Use positive language
4. Write concisely
5. Keep paragraphs unified and coherent
6. One idea in one paragraph
7. Use you-attitude
8. Right tone

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## **13.6 ELECTRONIC MAILS**

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Electronic Mail or Email is a system of e-correspondence by which users send and receive messages over a network of computer and telecommunication links. It can be termed as a modern or electronic post office. The main feature of email is its fast speed. It is the fastest and cheapest means of sending an official or formal correspondence.

For availing an email facility, one needs to have a computer (Laptop, Palmtop, Notebook or PC) and an internet connection through an Internet Service Provider (ISP) such as BSNL Broadband, Glide, MTNL, etc. Nowadays, email can even be operated through Cell Phones having the required software. The sender and receiver of email need to have a mail Id. One can open an email Id at any of the sites which provide this facility such as gmail.com, yahoo.com, live.in, rediffmail.com, etc.

Abbreviations and Acronyms used in email:

ASAP	As Soon As Possible
AFAIK	As Far As I Know
BFN	Bye For Now
BTW	By The Way
BBL	Be Back Later
FYI	For Your Information
IAE	In Any Event
IMO	In My Opinion
TC	Take Care
GN	Good Night
GM	Good Morning
IOW	In Other Words
LOL	Laughing Out Loud
NBD	No Big Deal
OTOH	On the Other Hand
WYSIWYG	What You See Is What You Get

### 13.6.1 Guidelines for Smart Email

1. Ensure correct email address
2. Keep business and personal emails separate
3. Manage your mailbox
4. Do not put confidential information
5. Invest in subject line
6. Keep your mail concise
7. Show a clear thought structure
8. Mind your tone
9. Mind your language

#### *Tips for Writing Email Messages*

1. Email messages are not private conversation. They can be checked by other persons, so be careful while framing the wordings.
2. All the principles of good writing like your attitude, positive emphasis, clarity, completeness, etc., should be applied to email messages as well.
3. Use spell check for correct spelling and ensure that the message is grammatically correct.
4. Re-read and proof read the messages before sending.
5. Do not write when you are angry. First balance your temperament and then draft the message. It is better to be careful than to regret later.
6. Use full caps only to emphasise one or two words. Putting the whole message in caps is considered as rude as shouting.

7. While writing a 'Reply', one may keep the essential parts of the original message and delete the rest.
8. Avoid adding too many attachments in a single mail.

Sample Email
To: satyavarthan@gmail.com
Cc: hr@nims.in
<b>Subject:</b> Résumé for the position of product specialist
Attachment: (attach your) résumé
Dear Madam,
As per my conversation with you yesterday, I (your name), would like to present my candidature for the position of product specialist at your esteemed organisation.
Please see my résumé attached hereby for your kind consideration.
I will be looking forward to have a formal discussion.
Regards
Signature
(Your Name)
Your contact No
Encl.: résumé

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## 13.7 AGENDA AND MINUTES

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You need to know that agenda is a list of items to be discussed at the meeting. It is also called business. It is usually sent with the notice of the meeting, but it may be sent later, if it takes time to prepare it. Items included in the agenda depend on the type of meeting being held. According to rules of conduct of a meeting, apologies for absence received from the member are taken up and recorded before the agenda is taken up.

The agenda begins with the item "Approval of Minutes" because the minutes of the previous meeting must be approved and signed before any matter can be taken up by the present meeting. This item may be written in the agenda as "Minutes" or in greater detail as "Approval of minutes of previous meeting."

The second item relates to matters arising out of the minutes. This may be indicated in the agenda as "Matters arising." However, it is not necessary to indicate this item in the agenda. The new items are set out after this. Some of the items are routine requirements, like payments to be passed and cheques to be signed, progress reports, review of activities, etc.

There are two ways of writing the points in the agenda:

- (i) In the form of nouns, for example,
  - ❖ Appointment of sub-committee to look into losses...
  - ❖ Proposal to open a branch in...
  - ❖ Membership drive
  - ❖ Fund collection
  - ❖ Review of the month's activities
- (ii) With an infinitive verb, for example,
  - ❖ To appoint a sub-committee to look into...

- ❖ To consider a proposal to open a branch ...
- ❖ To organise a membership drive
- ❖ To collect funds
- ❖ To review activities of the month

All the items in an agenda must be written in the same style.

Different organisations use different style of writing the items in the Agenda. Public limited companies and some organisations use a very formal and detailed style, while some use informal style and describe the items in brief.

When all the items on the agenda have been dealt with and decisions recorded, the chairman of the meeting may allow members to raise any items which are not on the agenda, time permitting. The chairman may himself raise a matter which is not included in the agenda. To allow for this, the item "Any other business with the permission of the chair" (also written as any other business) is included at the end of the scheduled business items. The final item is usually, "date of next meeting" (also written as next meeting). It is the usual practice to fix the date of the next meeting before the current meeting is ended.

The order of the items on the agenda cannot be changed during the course of the meeting except by consent of the members. The chairman of the meeting must take great care to decide the order in which the items are to be put on the agenda, especially if there are likely to be controversies over any of the items. It is desirable to have urgent items and non-controversial items first.

#### *Example of Sample Agenda*

<b>AGENDA</b>
1. To confirm the minutes of the meeting held on 25 May, 2013 (enclosed).
2. To approve the revised budget for the year 2013-2014 and the Budget Estimates for the year 2014-15, with or without modifications (will follow).
3. To consider applications for Life Membership (list enclosed).
4. To review the working of the Society and its Institutions.
5. Any other matter permitted by the Chair.
6. Next meeting.

#### **13.7.1 Minutes**

A record of the decisions taken at a formal meeting is called minutes. All companies, statutory bodies, social organisations, associations (whether registered or unregistered) and committees have to maintain a record of the meetings. Minutes are the official record of work done and decisions taken and the meeting of members. They must be precise and clear for the record what was decided and done. They are meant for future reference. The minutes are made available to all members on request. If the members are staying outside, a copy of the minutes is sent by post. The minutes of companies and statutory bodies are written in formal style. Minutes are a legal document and can be produced in a court of law as evidence.

At the next meeting, the minutes are read out by the secretary or may be taken as read if a copy was sent to members. The minutes are then approved and signed by the Chairman and Secretary as a correct report of the meeting.

### ***Essential Points in Minutes***

The details given below are an essential part of minutes, and must always be included:

- (a) Name of the body and nature of meeting.
- (b) Day and date of meeting.
- (c) Time and place of meeting.
- (d) Name of the chairperson of the meeting, names of other members present (list is attached if there are many names).
- (e) Names of persons "in attendance", that is, any invited officials like auditors, or solicitor, or others who are not members of the meeting.
- (f) Leave of absence to those who are not present.
- (g) Resolutions.
- (h) Thanks to the Chair.

The following points describe the order and procedure of taking minutes:

- The first item of the minutes is always the reading and confirming of the minutes of the previous meeting, except for first meetings. If minutes are circulated well in advance, they will not be read. If objections are not received to date, the minutes stand confirmed.
- However, if a Condolence Resolution is to be passed, it is to be put before confirmation of the minutes.
- Leave of absence is usually recorded before the minutes are confirmed.
- The last item of the minutes is usually a Vote of Thanks to the Chair.
- Other items in the minutes depend upon the agenda and items discussed during the meeting.
- The minutes will include only the resolutions passed at the meeting without giving details of the discussion which took place before the decision was taken.
- The minutes will also include a record of the proposals made, summary of discussion and voting on the proposals.
- The style and method of writing minutes is fixed by custom and is practiced by each organisation.

### ***Language of Minutes and Resolutions***

(i) Minutes are written in simple past tense; for example:

- ❖ The Secretary read out...
- ❖ The Chairman informed...
- ❖ The meeting ended...

(ii) Many of the items are written in passive voice; for example:

- ❖ The minutes – were taken as read, and confirmed and signed.
- ❖ The progress report for December was presented ...
- ❖ The secretary was authorised ...
- ❖ The next meeting was fixed for ...

(iii) Impersonal passive voice is used for recording decisions and regulations. The impersonal passive voice is used only for verbs of mental actions like decide,

resolve, suggest, recommend, etc. These are not physical actions and can be taken by a group collectively. Here are some examples:

- ❖ It was decided that a committee be appointed ...
- ❖ It was resolved that the meeting be adjourned ...
- ❖ It was decided to create a separate fund for the purpose.
- ❖ It was resolved that a separate fund be created for the purpose.

(iv) The verb is in the subjunctive mood. Subjunctive mood of the verb describes an action that is proposed, intended, planned or thought of, but not yet completed. It is used only for the verb to be, and only with verbs of command or desire; for example:

- ❖ I move that Mr. Samant be appointed ...
- ❖ I propose that the Secretary be authorised ...

### **Example of Minutes of a Meeting**

#### **MINUTES**

Minutes of the first meeting of the Board of Directors of Satguru Trading Corporation Ltd., held at the Registered Office on Friday, 12<sup>th</sup> April, 2013, at 4.00 p.m.

- The following members were present:
  - Shri Amaranaath, Chairman & Director
  - Dr. S. Shanthi, Director
  - Shri V. Krishnan, Joint Secretary
  - Shri Reddy, Treasurer
  - Shri Sathyanarayan, Executive Member
- In attendance:
  - Shri Pandit, Secretary
  - Shri Maruthuvar, Solicitor
- Shri Ramkrishnan and Shri Nair had intimated their inability to attend, and were granted leave of absence.
  - ❖ Minutes of the meeting held on 10<sup>th</sup> Feb, 2013, which had been circulated earlier, were taken as read, and were approved and signed.
  - ❖ The Secretary read out the minutes of the last meeting held on 10<sup>th</sup> Feb, 2013. They were signed as a correct record of the meeting.
  - ❖ *Reports and Accounts:* Draft of the Director's Report, Profit & Loss Account and Balance Sheets as at 31<sup>st</sup> March, 2013, were laid on the table and it was Resolved that the Director Report and Annual Account and Balance Sheet be adopted and signed as required by the Chairman.
  - ❖ *Dividend:* It was resolved that out of the total net profit of ₹8,660,000, ₹11,60,000 be credited to the Dividend Equalisation Fund, and ₹660,000 be credited to the Taxation Reserve Fund, that balance of ₹6,84,000 be distributed as dividend to shareholder and that the dividend on Equity shares be and is hereby recommended at the rate of 9% per annum.
  - ❖ *Closing of Share Transfer Book and Registered of Member:* It was that Transfer Books and Registered of Members be closed from 30<sup>th</sup> June, 2013.
  - ❖ *Appointment of Director:* Resolved that Shri S. Shanthi, retiring by rotation, being eligible for re-election, be appointed a Director, of the Company.
  - ❖ There being no other business, the meeting ended with a Vote of Thanks to the chair.

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## 13.8 SALES LETTER

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From one viewpoint, each letter you write will be selling something. For instance, requests sell your credibility and responsibility. Even letters carrying information may be stated to “sell” a business relationship founded on trust as well as fair play. When you are intentionally using a letter to sell a product or a service, or when the sole motive of the letter is to endorse future business, your message needs an exclusive strategy.

In addition to examining your audience, you must be aware of your product or service completely before you can write an efficient sales letter. What will your product or service perform for your reader? How will it fulfil your reader’s need for wealth, health, pleasure, or curiosity?

Sales letters come in three general, overlapping groups: solicited, unsolicited, and soft-sell. Unsolicited sales letters are also called direct-mail advertising; they are a type of advertising sent by mail straightaway to the prospective buyer. As such advertising is not requested and frequently not desired, the paper-based version is frequently known as “junk mail”, whereas the electronic form is termed as “spam.” Solicited sales letters are replies to inquiries related to products or services. Soft-sell letters are exclusive goodwill letters planned to keep cordial relations with vital customers.

### 13.8.1 Unsolicited Sales Letters

Direct mail advertising is big business. The average person attains over 500 pieces of direct mail a year. Despite the fact that majority of it goes straightaway into the trash, in the United States only, consumers spend nearly \$250 billion in reply to unsolicited sales letters as well as catalog offerings. Every dollar devoted on direct mail advertising returns nearly \$10 in sales, which is nearly twice the effectiveness of a television commercial. As recent data collection and processing facilitate direct sales companies to create extremely precise psychographs on consumers, direct mail advertising has become **excessively** effective in current years.

Organisations utilising direct mail advertising purchase or else attain mailing lists planned to target those who **correspond** a specific psychograph. In case you possess a home, purchase a car, **subscribe** to a magazine, or utilise a credit card, you are on somebody’s list. When the cost of paper as well as postage has risen, buying as well as selling of mailing lists founded on occupation, ethnic background, and a variety of personal and professional interests have turn into big business in their personal right. Your name as well as **psychograph** could be worth as much as 20 cents every time they are sold.

As many who acquire unsolicited sales letters consider regard them junk mail, your initial goal **must** be to **persuade** the reader that opening the envelope and reading the letter would be valuable. Think about using an envelope teaser – some words on the envelope to advise a reader benefit – to motivate the reader to persist. Other “envelope tricks” involve the following:

- **Urgent Labels:** Envelopes graded Urgent, Hand Deliver, Express, Official, or Date Material will assist in capturing attention.
- **Real Stamps:** Envelopes with actual stamps on them capture more attention than those that have been run via a postage meter.
- **Return Address:** A personal return address of a political figure or a renowned celebrity will enhance the attention an envelope acquires. Paradoxically, the lack of a return address also raises curiosity.

- **Official Envelopes:** Envelopes that appear as though they have been sent by a governmental agency acquire enhanced attention. These envelopes are frequently brown and utilise a typeface identical to that utilised by governmental agencies.

Remember that your chief concern is with those people in your audience who are really prospects, people who both wish your product or service and can afford to purchase it. Write your letter or email message to convince those with an actual interest in your product or service instead of writing it to entertain everyone who may attain it.

In case you are in the business of direct mail advertising, you will doubtless need to buy lists from time to time. The best mailing list you can probably have, however, comprises of the names of those who have already bought your product and liked it. But majority “tricks of the trade” you utilise to capture attention and to convince people who react, you will perform better in the long-run in case your product or service satisfies the explicit as well as implied promises of your letter.

Successful sales letters portray the following features:

1. They stress on benefits instead of the features of the product or service. The word free, despite being extremely overworked, is yet a powerful motivator. Purchase one and obtain one free naturally works better than either half-price sale or 50 per cent off.
2. They utilise active voice as well as personalise the letter by making the reader the subject or object of several sentences. They utilise word pictures to develop a mental image of the reader enjoying the usage of the product or service. When the mailing list is good and fairly special, they address every letter individually. Whenever the list is large and less exclusive, they utilise a simulated inside address to pace the reader while ignoring trolling salutations, like “Dear Friend” or “Dear Homeowner.”
3. The best simulated inside addresses are queries that cannot be replied yes or no. Questions that can be replied yes or no are next in efficiency, and statements related to a reader benefit are a third selection. They emphasise on one major appeal.
4. They subordinate the price, until it is an evident bargain, by stating it after majority of the benefits have been listed and explained. They mention the price with relation to small units (\$5 a box instead of \$50 a carton), contrast the price with the cost of something else with which the reader is more acquainted, or, when the price is high, provide the alternative of extended payments.

They utilise enclosed brochures to demonstrate the product or service and to supplement the details offered in the letter.

5. They are particular in their request for action, stating precisely what the reader should do (finish the order blank, call a toll-free number, send a check, or visit a dealer), making the action easy by offering order blanks and return envelopes, and motivating the reader to act quickly .
6. They utilise a variety of formatting techniques to develop visual interest in the letter. These methods include differing paragraph widths, inserting “personal” notes with fake handwriting, utilising varied colours for various paragraphs or key phrases, involving photographs or other illustrations, and adding a postscript to restate an essential benefit and suggest urgency.



### Sample Unsolicited Letter

To  
Gokul Menon  
34, Edison Street  
Chennai

10th July 2013

**Subject:** Launch of Motor Bike

Dear Gokul,

This is to inform about the launch of motorbike "Allure" by our company on 5<sup>th</sup> July 2013. This is the sixth launch of the year by K2Z Motor Corporation. The bike is powered with a 250 cc oil cooled engine which delivers a torque of 150 Newton meter at about 3000 RPM. The top speed of the bike is 220 km/hr with the speedometer touching 0-100 Km/Hr in fifteen seconds. The motorbike gives excellent fuel economy of 50 Km/Liter of petrol. Allure comes with leather cushion seats for comfortable seating purpose and tough suspension to take care of the rough terrains. The bike has got a tank capacity of 25 liters of gasoline.

The limited edition of the bike is available at an inaugural price of ₹ 35,000 (thirty five Thousand) only. The bike can also be bought on attractive finance schemes of our schedule bankers. Our company is providing free insurance to the first two thousand customers of "Allure". Please visit our nearest showroom around your locality to test drive the motor bike.

Yours Sincerely  
Akhil Iyer  
Manager Marketing  
K2C Motor Corporation  
Contact No. +91- 4435678

### 13.8.2 Solicited Sales Letters

It is frequently simpler to write a solicited sales letter than an unsolicited sales letter as the reader has welcomed you to send information and is anticipating your letter. As a result, you do not have to worry that your letter will be neglected entirely.

Whenever anyone has written requesting information related to your products or services (or known as requesting information or completed and returned a product-inquiry card), you have a good chance to motivate that person to purchase from you. Your message should portray all the features of an unsolicited sales letter. However, it should be made ready individually instead of as a form. Use the below mentioned structure:

1. **Pace:** Your reader is already attentive in your product or service, so start by responding one of his or her major questions. Find the most vital question in your reader's letter of inquiry that you can respond in a positive manner. If you have been inquired to make a suggestion, do it first.
2. **Lead:** Reply to all your reader's questions as obviously and as explicitly as you can. Subordinate negative replies. Adjust your letter to cater to the needs conveyed in the reader's inquiry.
3. **Blend Outcomes:** Supply the details as well as evidence that appear most suitable for your individual reader. Utilise an enclosed brochure for extra information to keep the letter from turning too cluttered.

4. **Motivate:** Similar to an unsolicited sales letter, you need to tell the reader precisely what to do, make the needed action appear easy (“visit your local dealer”), and motivate the reader to act rapidly.

Never use a postscript in a solicited sales letter because doing so would indicate a lack of planning.

#### Sample Solicited Letter

RECLINE-O ORTHOPEDIC FURNITURE  
New No 99 Old No 100,  
Sardar Patel Road, Guindy, Chennai – 600032  
Tel No: 0442345678

Mr. Ram Balchandra  
1776 Riverview Drive  
East St. Louis, IL 62203

Dear Mr. Balchandra:

The Recline-O-Matic chair you inquired about is fabricated to ease strain on the lower back and to make sitting extra relaxed for those with chronic back pain.

Your doctor may have suggested a Recline-O-Matic chair since it is the solitary chair designed to permit sitting instantly after most types of back surgery. Recline-O-Matic chairs also help avert the repetition of back problems since their exclusive, orthopedic design dispenses body weight uniformly and completely supports the back. In accumulation, the automatic lift and recline mechanism permits you to sit and stand without strain to the back. With a Recline-O-Matic, sitting will be as natural and as comfortable for you as it was previously to your injury.

You'll be pleased to know that because your doctor recommended a Recline-O-Matic, purchase and shipping costs may be completely or moderately covered by your insurance program. Also, any percentage of the cost of the chair not covered by insurance may be tax-deductible as a medical expense.

Just because the chair is orthopedic, however, doesn't mean that it's not attractive. The Recline-O-Matic will blend with any decoration, whether traditional or modern. It comes in seven colors and four fabrics. The enclosed brochure demonstrates you the colors and fabrics available and gives you the particulars on our exclusive steel frame construction.

As soon as you complete the enclosed order form, we'll begin erecting a chair to meet your requirements. Since the cost of a custom-built Recline-O-Matic is ₹ 2500, please provide the suitable credit card information or complete and return the financial statement and insurance forms provided. Shipping charges to East St. Louis will be ₹ 258.

Just imagine how comfortable you will feel, Mr. Jackson, when you can sit naturally for watching television, reading, and conversing with friends. Whichever version of the chair you buy, you're sure to enjoy the uncompromising quality and comfort.

In case you have any special requirements, have your doctor complete the Physician's Form. You can be appreciating the comfort of a Recline-O-Matic about six weeks after we receive your order.

Sincerely  
Laxmi Iyer  
President

#### 13.8.3 Soft-Sell Letters

Soft-sell or cordial-contact letters are exclusive goodwill letters meant to remind the reader which your organisation offers a specific product or service. Due to the cost

included, paper-based soft-sell letters are utilised mainly at the industrial level to maintain a company's name acquainted to vital clients and customers. Few organisations utilise newsletters as soft-sell correspondence with a particular audience. Also, in the last few years, organisations have been utilising regular email lists, telephone contact, and websites to conduct identical functions. Cordial contact by email provides most of the same benefits as soft-sell letters however at much lower cost.

To be successful, soft-sell letters must be invited and praised by the reader, i.e., they must offer something of inherent value to the reader, who must look ahead to attaining them month after month.

#### 13.8.4 Letters that Sell Ideas

Almost everything said so far related to selling products and services applies equivalently well to selling ideas. When you want to convince higher management to allot more resources for your department or adopt a latest procedure or convince your staff to preserve supplies, pursue the similar basic procedure you would utilise to sell a product or service: analyse your audience as well as choose appeals founded on their needs.

Selling ideas by letter, memo, or email requires the same kind of structural planning as that used for selling a product or service.

To sell an idea, but, you need to take a few extra precautions:

1. **Pace:** You need to start not only with an issue of interest to your reader, but also with a proposition your reader willingly accepts. In case, the reader disagrees with your opening, he or she will be more disposed to resist the remaining of your message.
2. **Lead:** How rapidly you can create your argument relies on your reader's probably degree of resistance. People normally have a conferred interest in maintaining their recent beliefs, and before they will adopt latest ideas, they must be entirely persuaded that it is in their self-interest to do so. Corporations, for instance, are famous for accepting reports that agree with recent policy and refusing those that disagree.
3. **Blend Outcomes:** Depend on truth and logic. When there are two sides to an issue, offer both sides. You can stress on your personal side of the argument, but your reader will dislike your message in case you fail to state other evident possibilities. Always offer your reader all the facts that might affect his or her decision. Long-range outcomes are normally more vital than short-range success.
4. **Motivate:** Let your reader know precisely what you anticipate. When your reader's resistance is great, it is better to convince by degrees (several messages over time) than to make your message an all-or-nothing proposition. Remind the reader of the advantages to be attained (or lost) by adopting (or not adopting) your idea.

#### 13.8.5 Collection Letters

As conducting business by credit always includes a particular degree of risk, it is at times essential to convince people who owe money to pay. In current years, collection has turned into an increasingly specialised business, mainly as a consequence of credit card purchases, which transfers majority of the concerns of collection away from retailers to organisations that major in credit transactions.

Consultants as well as those who possess small retail establishments are the most probable to have sold goods or services on unsecured credit. However, everyone in

business should have a fundamental comprehension of collection procedures. A sale is not complete until the seller has been paid.

The materials offered here are planned to provide an overview of the process so that if you are confronted with a collection issue, you will be able to determine what actions to take for yourself prior to turning the issue over to a collection specialist. Observe that how far you go in the process relies on the amount owed and the nature of your business. You need to be aware how much energy, time, and money you can afford to place into gathering the amount owed.

The collection procedure is one of slow escalation in forcefulness. When a bill turns overdue, the writer should initially assume that the reader proposes to pay but has forgotten. If the reader does not reply to a reminder (or reminders) to pay, the writer should assume that the reader is not paying due to financial, personal, or medical issues. At this point, the writer can assist the reader solve his or her issues by making new financial arrangements that will relieve the reader's burden. Majority people who are slow to pay do so after a reminder or two. Only after such attempts have been made should the writer presume that the reader will have to be convinced to pay.

#### Sample Collection Letter

{Enter your business name}

{Enter your address}

{Recipient's name}

{Recipient's business name}

{Recipient's address}

18 October 2013

**Subject:** Unpaid invoice # {Enter invoice reference}

Dear {Recipient's name}

The above invoice for ₹ (enter amount) has recently become overdue for payment. As such, we would appreciate you making this payment as soon as possible.

If there is an error on our part and payment has been made, please contact me immediately so that the matter can be rectified.

Otherwise, if there is a problem paying this amount owing, please contact me so that an alternative arrangement for payment can be made.

Yours sincerely

{Your name}

{Your position}

#### **Reminders**

Reminders of overdue bills normally comprise of:

1. A duplicate copy of the original bill.
2. Duplicate copies of the original bill stamped Reminder or Past Due, often specifying how much past due the bill is.

3. A short note (usually a form) specifying the amount due, the due date, late charges, and the account number.

A company normally sends one or more reminders to a customer as majority people who are going to pay will do so when they are reminded gently. At times companies select to combine an ultimate reminder with an inquiry about the purposes for not paying. Reminders of overdue bills are negative messages.

<b>Sample Reminder Letter</b>	
	{Enter your business name}
	{Enter your address}
{Recipient's name}	
{Recipient's business name}	
{Recipient's address}	
18 October 2013	
<b>Subject:</b> Unpaid invoice # {Enter invoice reference}	
Dear {Recipient's name}	
Stop credit notice	
The above invoice for Rs. {enter amount} remains unpaid despite our previous reminder. As such, we would appreciate you making this payment as soon as possible.	
I value your business but regret that we are unable to continue supplying goods or services on credit while this amount remains unpaid.	
If there was a problem with the goods or services supplied I urge you to contact me so that the matter can be addressed.	
Otherwise, if there is a problem paying this amount owing I'm happy to discuss an alternative arrangement for payment so that we can get your account back onto normal supply as soon as possible.	
Yours sincerely	
{Your name}	
{Your position}	

### 13.8.6 Inquiries

Prior to the writer determines that the customer requires to be convinced to pay, the writer should attempt to find whether exclusive conditions are preventing payment. Majority people are ashamed when they are not able to pay their bills, and rather than taking positive action to resolve their financial issues, they hope that if they avoid their issues long enough, they will solve themselves. When the writer illustrates a genuine willingness to assist such readers solve their financial problems, most will react by agreeing to latest terms that will permit the company to gather its money and the customer to stay solvent. Inquiries are written with the supposition that it is better to gather your money a little late than not gather it at all.

Inquiries are segregated into two categories. A second inquiry may consist of an appeal for an instant partial payment and some advice for looking after the obligation in methods other than those stated in the original agreement. Keep inquiries positive, and ignore advising that reader discontent with your goods or services might be accountable for late payment.

### Sample Inquiries

The Innovative IT Community Group, Inc.  
17 Park Road, Rural Town,  
Chennai, Tamilnadu  
January 2, 2013

Bhagavaandaas Nair,  
Executive Director  
Nehru Institute  
555 S. Smith Road.  
Adyar, Chennai. 600 020

Dear Ms. Nair,

I am writing to inquire whether the Nehru Institute would invite a proposal from the Innovative IT Community Group, Inc., requesting an investment of ₹ 2,50,000 per year over two years to support our Enterprise 2000 initiative. This grant would provide part of the funds needed for us to train at least 1200 low-income entrepreneurs in rural Chennai in the computer skills they need to create sustainable businesses as we enter the twenty-first century. Your literature indicates that the Nehru Institute is searching for innovative ideas to improve the lives of the rural poor; we believe Enterprise 2000 falls well within your area of interest.

We believe that broadly-implemented technical skills programs such as Enterprise 2000 have the potential to transform the lives of many struggling entrepreneurs, and change the economic landscape of needy rural communities. Unlike many poverty mitigation initiatives, all of the Innovative IT Community Group, Inc programs are predicated on the assumption that these entrepreneurs already have 90% of what it takes to compete in the marketplace -- intellect, determination, creativity, and aptitude. After two years of experimentation and program development, The Innovative IT Community Group, has fashioned a superb, easily replicable model in Enterprise 2000, and established a high degree of credibility among community groups, policy makers, and funders. With your support, we can make that 10% difference in the lives of these hard-working people and the future of our rural communities.

Please feel free to call me with any questions. I look forward to hearing from you soon.

Sincerely,  
Executive Director  
The Innovative IT Community Group, Inc.  
ed@innovativeit.com

### 13.8.7 Appeals

As the reader has failed to react to one or more inquiries and one or more reminders, the writer must presume that the reader will not pay until he or she is convinced – perhaps even compelled legally – to do so. Since you would not be writing an appeal until you had gone through the reminder as well as inquiry stages, you should presume that the reader is going to be well-prepared to oppose your message. For this purpose, many organisations submit the debt to a collection professional.

Should you select to continue the collection process yourself, you might start with one positive appeal, like an appeal to fair play, cooperation, or pride. As the reader has failed to react to your previous messages, however, the opportunities are that unless you can provide him or her very good purpose for paying, he or she will persist to avoid your attempts to collect. For this purpose, negative appeals to the reader's

self-interest are normally suitable at this stage. The reader should be stated that by not paying, he or she is probably to lose the following:

The goods or services not paid for.

- Additional money or property.
- Credit privileges.
- Good reputation and self-respect.

In case your reader fails to react to your appeal (or appeals, if you select to send more than one), offer him or her one final opportunity to pay along with announcement of the action you will take in case payment does not come. This ultimate letter is called the ultimatum. Your supposition in writing is that the reader will have to be compelled to pay.

In this final attempt to gather, you should review the facts (what the reader bought and when and your attempts to gather over time), set an end date, as well as tell the reader that on that date you will submit the debt to a collection agency or to a lawyer. Ignore threatening the reader (which is illegitimate), and ignore blaming the reader of personal weaknesses or involving in name-calling (crook, deadbeat, loser, etc.).

Even at this moment, you may be able to preserve your reader's cash business and goodwill, so stay reasonable, fair, and logical throughout. And then be certain to follow through – in case the reader still doesn't pay, employ a collection professional or submit the matter to your attorney.

#### Sample of Appeal Letter

Date 17th October 2013

Gokul Chintalapati  
25 N P.H.Road, Kilpauk, Chennai, Tamilnadu  
600010, India

Krishnamoorthy V  
Viceroy Building,  
Old No: 99, New No: 100  
Sardar Patel Road, Guindy,  
Chennai 600 032, India

**Subject:** Summon to settle the amount outstanding

Dear Gokul,

Despite our previous reminders, our invoice of Laptops in the amount of ₹ 1,20,000 remains outstanding. We should now like to summons you to settle the amount within five days.

In case you should fail to pay said amount (in a timely manner), we shall be forced to seek legal remedy through the offices of Rajagopalan Advocates in Chennai. In such case we shall be entitled to contractual or statutory interest and extra judicial debt recovery and legal costs.

We trust that we shall not be forced to take further action and await your early remittance.

Yours sincerely,

Krishnamoorthy V

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## 13.9 ENQUIRIES

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You will find it interesting to note that the most common letters in business are buyers' enquiries about goods and services and sellers' replies giving information and quotations. Enquiries generally figure in the first category of letters sent by an organisation or an individual. They are, first and foremost, information-seeking letters. The writer may, however, also give valuable information about themselves or the organisation, their organisation's requirements, expectations, etc. In this way, a letter of enquiry triggers off a two-way communication or information exchange process.

**Example:** When a buyer seeks information about the price, quantity, availability of goods to be purchased or about the terms and conditions of sale, he sends a letter of enquiry to the seller. In such a letter, direct approach is used to save time. The letter is short and it is possible that formalities will not be required.

### 13.9.1 Categories of Letters of Enquiries

Letters of enquiry may roughly be put into the following categories:

- An enquiry made at the buyer's own initiative.
- An enquiry made in response to the seller in the usual course of business.
- A routine enquiry made by an old buyer in the usual course of business.
- An enquiry for some favour like some special price, relaxation of terms and conditions, etc.

#### *Writing Enquiry Letters*

A letter of enquiry is ideally a direct approach letter. It should, therefore, be straightforward, courteous and to the point. Special care must be taken about the opening that sets the tone of urgency or the need for information and the close of the letter that shows the writer's expectation of a quick response.

1. To ask for information, one can begin with a question like:

Could you give us the following information?

Or

Sentences like:

Please send us the following information.

Or

I would appreciate receiving the following information from you.

2. Indicate the purpose for which the information is needed. In some fields, the information is very vast and only some of the information is needed by different users.

For example, a dealer in kitchen accessories will be able to give useful information and a quotation only when he knows the buyer's specific need. The letter may begin with an explanation of the need.

- ❖ We intend to set up a vast kitchen for our hotel. The area of the kitchen measures  $8 \times 7$  metres.
- ❖ We are setting up a huge manufacturing unit of plastic goods. We wish to enquire about the plastic manufacturing machines which you sell.
- ❖ A series of direct questions may follow this opening paragraph.



3. End the letter with a friendly comment which will indicate a sense of personal relationship. Endings like, "an early reply would be appreciated," or "Thanking you in anticipation" are conventional in use. One could be more informal, by ending with sentences like:

"We could discuss the matter over a cup of tea, in my office, if you wish to...."

"I would be most grateful if you could email this data to me."

#### Sample Letter of Enquiry

To  
Relationship Officer  
Make my Trip  
Anderson Street,  
Chennai

15<sup>th</sup> August, 2013

**Subject:** Enquiry for Holiday tickets

Dear Sir/madam,

I (Your Name) am writing to request for a quotation for round trip tickets from New Delhi to Kerala.

Date of Trip: ..... to ..... (provide your chosen departure date from New Delhi and return date as well)

Chosen time of arrival/departure: .....

Number of Persons traveling: .....

On another note, kindly let me know if you have Hotel/Tour packages as well so I can have a lot of options to choose from.

Looking forward to hear from you soon.

Sincerely yours,  
Your name.

#### ***Replies to Enquiries***

All enquiries must be replied promptly. Delay in replying a letter of enquiry would prove counterproductive as it would convey a poor image of the seller.

A reply must be complete in that it should contain all the information asked for, namely, prices, terms of sales such as discount, credit, delivery, etc. Catalogue/price lists and quotations may either be enclosed with the letter or sent in a separate cover. In either case, the letter of reply must contain information about them.

All replies to 'first' enquiries, whether made at the buyer's own initiative in response to the seller's offer/advertisement must be so carefully drafted, that an order is ensured. It must contain all the positive information that may be enumerated as 'selling points.' In this respect, a letter of reply to an enquiry virtually replaces a salesman. It must convince the buyer about the quality of the product, favourable nature of terms and conditions, and after sales service, whenever needed.

Replies to regular customers, besides being clear and correct, should express gratitude for continued interest in the seller, his product and services.

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## 13.10 ORDERS

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You will find that an order is a formal document, which places a demand for goods or services, along with the details of the product/service required. Before placing an order, one must get all the details of what you want to buy. The details can be grouped under the following headings:

1. **Product, its specifications and quantity:** Some products come in a variety of sizes, colours etc. The exact product should be identified by specifications like:
  - ❖ Size (of product or the packing)
  - ❖ Colour
  - ❖ Catalogue number
  - ❖ Model number
  - ❖ Unit price

Mention the correct quantity required and its proper unit of measurement. Different products are sold in different measures: liquids in litres, solids in kilograms, dozens or hundreds and large products like cupboards, in units.

2. **Packing:** Liquids and small products have packing of various quantities. Shampoos are packed in 100ml, 200ml, etc. while tablets come in strips of ten or bottles of 50, 100, etc. Some products are available in different types of packing like bottles, tins and sachets, which should be specified in the order.

Packing goods suitably for transport is the responsibility of the supplier. A buyer's instructions are needed only if the goods are to be specially packed for any special purpose.

3. **Delivery:** Give the full address at which the goods are to be delivered. If the order is urgent and you require the goods within a certain time frame, ensure that you give the date. The mode of transport need not be mentioned, unless it is carried forward.
4. **Settlement of account:** Mention the agreed prices and terms and refer to: (a) discount or concession given (b) mode of payment of the bill.

### 13.10.1 Ways to Place an Order

1. **Letter:** Orders can be placed in the form of a letter, stating the reference number, price quoted, specification of goods, quantity and quality required, time limit and discount.
2. **Order Form:** These are standardised forms containing all the necessary instructions and blank space to be filled at the time of sending out an order. Details to be given in an order are easy to tabulate, and hence printed forms are used for placing orders. Sellers prepare the forms with columns required for their products. This ensures that no essential details are left out. The form makes it easy for the customer to place an order. Carbon copies as required are arranged in the pad. Regular customers are given pads of forms. A set of forms is sent with a quotation to encourage a potential customer to place an order.
3. **Through Telephone/Fax:** Orders can be placed by telephone/fax. These must then be followed by a letter, for future reference or record.

### 13.10.2 Drafting Orders

Placing orders through an order form is quite simple, as it requires no formal language. Only the blank spaces are to be filled in carefully.

While writing a letter for order, one needs to display good communication skills.

An order can be divided into three groups:

- (i) First or trial order
- (ii) Repeat order
- (iii) Routine order – There is a slight variation of opening and ending sentences in each of these while other details remain the same.

Points to be included in an order:

1. Reference to previous communication (for first order) and request to send goods.
2. Details of required goods and other instructions, like place and time of delivery and reference to terms of payment.
3. Goodwill message

<b>Letter of Order</b>				
<p>Ms. Nikita Rao University of Management Excellence Director Academics 11 Main Street Chennai, 6500001 Contact No. 044-28765432 July 9, 2013</p>				
<p>Mr. Anand Raj Sharma Managing Director, Anand Publications Naraina Road, New Delhi, 110025</p>				
<p><b>Subject:</b> Purchase Order</p>				
<p>Dear Mr. Anand,</p>				
<p>Please accept this purchase order of management books for MBA first year students of our university for academic year 2013-14:</p>				
No.	Product	Quantity	Unit Price	Total
1	Principles of Financial Management by S K Gulshan.	120	₹ 680	₹ 81600
2	Organisational Behaviour by Raj Acharaya	120	₹ 350	₹ 42,000
3	Advanced Communication skills by Sukatn Shekhar	120	₹ 300	₹ 36,000
4	Marketing Management by Rao Chand	120	₹ 520	₹ 62400

Contd...

We require the above order to be delivered by August 17, 2013 to:

University of Management Excellence  
Director Academics  
11 Main Street  
Chennai, 6500001  
Contact No. 011-8765432

Please refer to this order as "purchase order # SS01234. Should you need more information, please contact me at 044-22-756756 at your earliest convenience or email me at da@ume.com.

Sincerely,

Ms. Nikita Rao  
Director Academics.

(i) ***First or Trial Order***

A trial order is placed to check the efficiency of the seller that include proper packaging, on time delivery of goods, prompt receipts for payments, etc. A retailer may also place a trial order to find out the demand for a new product. Only a small quantity is ordered for trial.

***Situations Leading to the First Order:*** The situations that may lead to the first order are as follows:

- Seller's sample and/or quotation are approved
- A bargain has been concluded
- Request granted
- Buyer convinced to order on offered terms
- Buyer intends to try a product in a new area

The opening and the ending for each of these are given below:

I. Open with a reference to the received quotation.

- ❖ Your quotation is approved and we are pleased to place an order.
- ❖ Thank you for your quotation, for we are glad to place a trial order with you as follows:

When you have a reason to be very particular about the quality of the product, as in the case of medicines or precision goods, testing of samples leads to the order. Start the letter by mentioning satisfaction with samples.

- ❖ We have tested your sample of ... and found that sample No. 099 suits our requirements.
- ❖ We are glad to say that we approve of your sample of terry wool suiting, and would like to receive supplies as follows:

End with the expectation that the trial order will be satisfactory and lead to regular business.

- ❖ We hope to find everything satisfactory and are looking forward to placing frequent orders with you.

If you order goods on the basis of a sample, you expect them to match with the sample. You may refuse to accept the goods if they are different and it may be prudent to mention this at the end of the order:

We expect that your goods will be of the same high standard as the sample which has led us to place this order. It is essential that goods supplied should be of the same quality as the selected sample and that we reserve the right to reject goods, which do not tally with the sample.

II. (a) When the seller has agreed to a bargain, open the order letter with a reference to it.

- ◆ We thank you for agreeing to give us special packing at no extra charge.
- ◆ The corresponding ending would be:
- ◆ We assure you that a large amount of business will follow if the trial order is found satisfactory.

(b) If you are convinced that the seller cannot give better terms, but still wish to place the order, mention this in the opening.

We understand that it is not possible for you to give us export packing without charging extra, but we are willing to take a trial lot of your milk powder tins.

End with the expectation of high standard of good/services.

- ❖ We hope to find your goods and services of high standard, to justify our placing this large order with you.

III. If you decide to try an offered substitute, you may order a small lot.

- ❖ We are willing to try the Super Disinfectant Cleaning Fluid which you have offered instead of Yellow Brand Phenyl we had asked for.

End by suggesting that more will be ordered only if the trial order proves satisfactory.

We shall ask for further supplies, only if we find it suitable for our requirements.

IV. A buyer may place on an order, on his own initiative, on seeing an advertisement, if he feels that a certain product has potential demand. The opening sentence refers to this.

- ❖ There is a reasonably good demand for pure cotton shirts in this town and we would like to have a trial consignment.
- ❖ We have received several inquiries from local customers about your Vacuum Cleaners. As there is a no supplier of your products in this area we would like to try the market. Please send us a trial consignment according to details given below:

End with the hope that a regular demand will be established:

- ❖ We hope to establish a sustained demand and expect to place frequent orders with you.

V. An order placed by telephone or telegram is confirmed further by a letter because a signed and written document is necessary for the formalisation of a contract. Open the letter with a reference to the already placed letter and its confirmation, for example:

- ❖ We confirm our order for... placed by telephone this morning.

The new IT bill has provisions for certification of digital signature in an email order in e-commerce in which case it will not be necessary to confirm orders placed by email.

### ***Reserving the Right to Reject***

A customer may reserve the right to reject delivered goods if they are not delivered within the specified time, especially when the question of time is specified.

The following example illustrates the above discussed.

#### ***Example:***

Dear Sir,

We have tested your sample of adhesive paste and found that sample No. 27 is suitable for our requirements.

We are glad to place an order for 500 large tins of this paste. Please deliver the tins at our factory address given below. Our cheque of ₹ 5000/- as advance payment and our Sales Tax declaration form are enclosed.

The material supplied should be of the same quality as the sample and we reserve the right to reject material of any other quality.

Yours Faithfully,

#### **(ii) Repeat Order**

When the buyer is satisfied with goods bought on a trial consignment he may place a repeat order.

The letter opens with a reference to the first order and the continuing demand:

- We are glad to say that the Super Disinfectant Cleaning fluids you supplied last week have been found suitable for our purpose and we would like to have another similar consignment.
- The vacuum cleaners we ordered from you last month sold very well and there is still more demand for them. We are glad to place a repeat order.

#### ***Example:***

Sub: Order for Vijay Travel Bags

Sir,

We are glad to say that the Vijay Travel Bags we purchased a fortnight ago have proved popular and have all sold out. We need another similar consignment immediately. (250 Bags)

Holiday travel season at this time of the year is very short and demand for travel bags cannot be expected to continue for more than a week. We must therefore receive the consignment by 22 December and we reserve the right to reject goods supplied later.

Please despatch immediately, on carriage forward terms as before.

Yours Faithfully,

(iii) ***Routine Order***

The most important thing to convey in a routine order is the details of requirements. Prices and terms are fixed by custom. These orders are usually placed by filling in order forms which may be accompanied by a letter. The letter opens with a courteous request for goods to be sent, for example:

- Please despatch the following goods on the usual terms.
- Please send the enclosed order on your regular terms.
- If there is any special requirement, state it at the beginning or at the end.
- The customer for whom we are ordering these products is to leave town on the 14th and must get them by the 12th. Please ensure delivery in time.

***Example:***

Sir,

We are enclosing our order form no. RO/08345 for sports goods. As the colleges have opened and indoor games are very popular during the monsoon, we would like to have the goods delivered within a week's time.

Please bill our account as usual.

Yours Truly,

**13.10.3 Replies to Orders**

A good business relation can be developed by being prompt in replying to letters. Whether you are capable of fulfilling the order or not, always acknowledge an order as soon as it is received. The acknowledgement can be used to build and maintain good relationships with customers.

Include the following points:

1. Name and quantity of articles despatched or being despatched.
2. Date of shipment and expected date, receipt or date of delivery of goods.
3. Mode of transport, and place of delivery
4. Mode of payment and reference to enclosed bill.

***Reply to First Order***

Assure the customer that every attention has been paid to the order, and that future orders will receive the same careful attention.

The letter should include the following points:

1. Expression of thanks for the order
2. Statement of terms, etc.
3. Assurance of satisfactory goods and services
4. Expectation that you will deserve further orders.

**Example:**

Date: .....
Sub: Ref to your Order No. .... Dated .....
Dear Sir,
Thank you for your order for 15,000 cartons with corrugated partitions for packing biscuits.
We shall deliver your goods in 10 days, i.e., by the 20th of this month, as required. The bill will be sent with the goods. Payment within seven days, entitles you to a discount of 2%.
You will find that our goods and services are of a high standard. We are looking forward to a standing contract for regular supplies of packing material for your biscuits and confectionery.
Yours truly,

**Asking for extension of time:** If goods cannot be delivered at the expected time, contact the customer to negotiate a new date. The purpose of the letter is to get the customer to agree to a later date of delivery.

Points to be included in this letter are:

1. Appreciation of the order and explanation of circumstances.
2. Steps being taken to handle the situation, and approximate date by which normal conditions will be restored.
3. Apology for the inconvenience and request for confirmation of the order for delivery at a later date.

**Example:**

Date: .....
Sub: Ref to your Order no ..... Dated ..... for Stationery Items
Dear Sir,
Thank you for your order for Stationery Items to be supplied by 5 June.
Owing to rush of orders and somewhat slow supplies, we are not able to guarantee that we can supply your requirement by the required date. We are handling all orders in rotation, and expect to be able to deliver your consignment around 15 June.
We are making every effort to meet the requirements of all customers and will get in touch with you as soon as we have the required supplies.
In the meantime, we request you to confirm your order for delivery by mid-June.
Yours faithfully,



### ***Reply to Repeat Order***

When the customer repeats his order, you can make a more definite attempt to win his confidence.

Points to be included in this letter are:

1. Appreciation for success of the trial order
2. Statement of terms, etc.
3. Expectation that regular business will follow.

#### ***Example:***

Date: .....
Sub: Reply to your order for Super Disinfectant
Sir,
We are glad to learn through your letter, that the trial lot of Super disinfectant cleaning fluids we sent to you last month is suitable for your purpose.
We are sending along with this letter, the consignment of 200 tins of Super floor cleaner you have ordered. Our bill of ₹ 3500 is enclosed. Cash payment within seven days will entitle you to a discount of 2%.
We are looking forward to supplying our products to your hospital on a regular contract.
Yours truly,

### **13.10.4 Changes in Orders**

You might have to make a change in an order which has been placed. It may be a correction on finding a mistake or a request for a change in the date or the place of delivery. Or you have might have to cancel an order.

Points to be included in this letter are:

1. Reference to order
2. Statement of change required, and explanation of the reason
3. Offer to cooperate/adjust
4. Apology for the inconvenience caused

The following example embodies these points:

#### ***Example:***

Dear Sir,
Please refer to our Order No. XX03 dated 15 <sup>th</sup> June, for steel shelves to be delivered on 15 September.
We are sorry we cannot take delivery of the shelves on 15 <sup>th</sup> September owing to unforeseen shortage of storage space. Our warehouse was destroyed by fire

*Contd...*

this week, and we have had to shift salvaged goods to our showrooms. It will take two months to arrange for storage space and unless you can store the goods for us, we shall have to cancel our order.

We are sure you will understand the situation and accept our apology for the inconvenience caused. Please let us know whether you can hold the goods for 2 months.

Thanking you

Yours faithfully,

### ***Reply to Customer's Request for Change***

If the change requested by the customer can be made without much inconvenience or loss, inform him that it will be made. If it involves disturbance, request the customer to cooperate.

Points to be included:

1. Agreement to make the change as requested.
2. Explanation of problem, if any, and how the customer can help.
3. Statement for terms for purpose of acknowledgement.

### ***Example:***

Dear Sir,

We are glad to inform you that we can deliver the washing machines you ordered, a week earlier than the date originally fixed, as you requested in your letter dated 15th May.

Thank you for offering to pay additional charges, but we do not wish to charge anything extra for early delivery. However, as our delivery vans will be engaged till 15 June, we request you to release us from the contract to deliver carriage paid, and to make arrangements for the transport of the goods. We hope that it will be possible for you to make the arrangements.

Your consignment will be ready for collection by 10<sup>th</sup> June.

Yours faithfully,

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## **13.11 LETTER OF COMPLAINT – CLAIMS AND ADJUSTMENTS**

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There may be occasions when discrepancies arise between the stipulations in the order placed by the buyer and the actual manner or execution of the order by the supplier. The quantity and quality of goods received may not conform to the goods ordered, or the goods received may be short or damaged or in a defective condition, or the terms and conditions of payment, delivery, etc. may have varied. Letters of claims and complaints may have to be written by the buyers on such occasions.

A letter of complaint should be written in a polite language giving only bare facts which should be substantiated by sufficient evidence. The letter should never start with the assumption that the other party is a cheat. Complaints may arise due to some unintentional acts and circumstances and benefit of doubt should be given unless otherwise proved.

Letters of claims and adjustments are written to the suppliers of goods when there are defects in the goods received. Such letters are also written to Railways, Roadways, Postal, or Insurance Authorities when the goods are lost or damaged in transit. When complaints are received, the suppliers should attend to them immediately and speedy action should be taken to rectify the wrong, if any. If the complaint is not justified, the reply must be given in a polite manner and without being offensive. All letters of complaints, claims and adjustments must be clear and definite and should be supported by relevant documents.

### **Specimen of Letter of Complaint regarding Defective Goods**

Chennai Potter House  
Adams Street,  
Chennai  
Tamil Nadu.

March 27, 2013

The Khurja Potteries,  
3, Main Road,  
Trichy (TN)

Dear Sir,

We took delivery of the two parcels sent by you last week vide invoice No..... dated ..... On opening the parcels, we found that two Tea Sets were broken possibly on account of bad packing. Kindly send us replacement or a credit note for the same. The broken sets are lying with us and whenever your representatives visit us, they can inspect them and decide on their disposal.

We shall appreciate early action on the matter.

Yours faithfully,

for Chennai Potter House  
Kappaswami  
Partner

The Khurja Potteries,  
3, Main Road,  
Trichy (TN.)  
April 10, 2013

Chennai Potter House  
Adams Street,  
Chennai – Tamil Nadu.

Dear Sir,

We regret to note from your letter dated March 27, 2013, that two tea sets of the last consignment sent to you were found broken. We are sending a fresh consignment to replace the two sets. We hope that you would find them in order.

We regret the inconvenience caused to you in this regard and assure you that every effort will be made to prevent such deficiencies in future.

We hope to receive further orders in the near future.

Yours faithfully,

For Khurja Potteries  
Nuruddin Shah  
Partner

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## **13.12 CIRCULARS, NOTICES AND TENDERS**

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Remember, written communication within an organisation has to be thoughtfully drafted. A written message can and does act as precedence to further messages of a similar nature. Besides, it also goes on record. Intra-or inter-departmental written communication can be in the form of circulars or notices that are either circulated to all employees or displayed on a board for all to read. Inter-office memos are another form of important written communication through which many tasks are accomplished. While there might be printed forms for filling in the memos, one should be familiar with the structuring and patterning of the message.

All these forms of transmitting messages require meticulous drafting and proper revision of the message and a careful understanding of the following:

1. Purpose for which they are written.
2. Manner in which they are composed.
3. Pattern of tone and style that is adopted.

### **13.12.1 Notices**

Notices form part of inter-departmental communication, that is, communication from one department to another. Informational messages are transmitted to the members of an organisation by putting them up as notices for everyone to read.

A notice is a formal written document, the objective of which is to provide important information to the receivers of the notice. A notice is usually displayed on the Notice Board of the organisation and everyone is expected to go through its contents. In case of a Legal Notice, it is sent by post.

The purposes of a notice in any business organisation are:

1. Inviting everyone for a meeting.
2. Regarding a new rule/regulation to be initiated or formulated
3. Regarding some event to be held.
4. Regarding a holiday.
5. Regarding a deadline for submitting any paperwork.
6. Regarding any other important information.

Various components of a notice, in case of a meeting or event, are as follows:

- The purpose of the business to be transacted or the event to be held.
- Day, date and time of the event or meeting.
- Venue of the meeting/event.
- Names of any special guests.

Occasionally, the notice is displayed on a board and the same information is also circulated to all concerned within the organisation. The tone of both the circular and notice is always in the form of a request instead of a command. This necessitates that the tenor be polite and courteous.

### ***Format of a Notice***

A formal notice begins with the name of the organisation in the centre, on the top. It may be the letterhead of the organisation. After that, the word NOTICE appears. One either may or may not give the subtitle in the notice. The subtitle is the heading of the notice. Then date of issue of the notice is written, followed by the matter. The signature, name and designation of the issuer of the notice appear at the bottom, on the left hand side.

<p style="text-align: center;"><b>Sample Notice</b></p> <p style="text-align: center;"><b>Nirmaan Private Limited</b> <b>Phase 1, Industrial Area</b> <b>Nungambakam High Road, Chennai- 600034</b></p> <p style="text-align: center;"><b>NOTICE</b></p> <p style="text-align: right;">June 10, 2014</p> <p>The Members of the Marketing Division are requested to gather for an important meeting on Tuesday, June 13, 2014 at 10.30 am in the Conference Room, to discuss the latest marketing strategy for our new product.</p> <p>G.D. Sethi (President)</p>
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### 13.12.2 Circulars

A circular is also a written formal document, used for inter-departmental or inter-organisational communication. It serves the same purpose as the notice and may be written for the same reasons. The only difference in the circular and notice is that the notice is displayed at one place, whereas the circular is widely circulated among the members concerned. Usually, the signature of the reader is taken on the Circular, to ensure that the information has been transmitted.

<p style="text-align: center;"><b>Sample Circular</b></p> <p style="text-align: center;"><b>Nirmaan Private Limited</b> <b>517, Nungambakam High Road,</b> <b>Chennai- 600034</b></p> <p style="text-align: right;">June 10, 2014</p> <p style="text-align: center;"><b>Circular No. 177/61</b></p> <p>The organisation is conducting a "Visit to Village" programme, under the Rural Development Project, on June 20, 2014. We will be visiting a nearby village and conducting a cleanliness campaign there. The employees are advised to come in informal dress code and assemble in the Main Ground at 11.00 a.m. and join for the noble cause.</p> <p>Sd/-</p> <p>Bharat M. (Personnel Manager)</p>
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The format of the circular is the same as that of the notice, the only difference being that the circular number is written on the circular.

### 13.12.3 Tenders

A Tender is a formal offer to execute work or supply goods at fixed price. Organisations invite tenders for particular construction activities or for supply of specified goods and/or services. They issue tender notice by publishing them in a newspaper and or on their websites.

In response to such notice, interested parties collect the tender forms that contain the detailed requirements of the work or services to be executed. On the basis of these forms, such interested parties submit quotations specifying their estimates of prices for which they are willing to undertake the work, time schedule for completion of work, their previous experiences etc.

The tender forms are accepted till a specified day. After this, on a specified date and time, all such documents are opened in the presence of tenderers or their representatives, and the forms are scrutinised. The tender whose terms are more favourable to the company/organisation inviting such tender is finally awarded the contact.

### Check Your Progress

Fill in the blanks:

1. The letter should provide relevant details which go into forming part of the \_\_\_\_\_.
2. \_\_\_\_\_ are the very essence of written communication.
3. \_\_\_\_\_ indicates the positive mental response of groups of potential customers to the suggestive appeals of producers and traders.
4. \_\_\_\_\_ is the name of the firm printed in the letter pad in an attractive form.
5. \_\_\_\_\_ is a form used by a person known to the receiver personally.
6. \_\_\_\_\_ letters are exclusive goodwill letters meant to remind the reader which your organisation offers a specific product or service.

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### 13.13 LET US SUM UP

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- Writing is a mode of communicating a message for a purpose. It reveals one's ability to think clearly and to use language effectively.
- A good business letter is one which maintains conformity and standard. Good letters are characterised by clear content, a tone of goodwill, and correct form.
- In business letters, three types of messages are covered. These are good news, bad news and persuasive messages.
- The essentials of a good business letter are clarity, use of short and simple words, writing with vigour, writing concisely, use of positive language, use of active and passive voice appropriately, unification and coherence in paragraph, using parallel structure.
- Memo is a brief document of a page used for day-to-day exchange of information for internal and inter or intra-office communication among units of the same organisation.
- Email is a system of e-correspondence by which users send and receive messages over a network of computer and telecommunication links.
- Agenda is a list of items to be discussed at the meeting.
- Minutes is a record of decisions taken at a formal meeting.
- Sales letters is a letter which is designed to persuade the reader to purchase a particular product or service.
- An order is a formal document, which places a demand for good or services, along with the details of the product/service required.
- Letter of claims and adjustments are written to the suppliers of goods when there are defects in the goods received.

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### 13.14 LESSON END ACTIVITY

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You have received an enquiry about an ex-employee of your accounts department. The employee had a poor service record and had been persuaded to resign his post. Draft a reply.

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## 13.15 KEYWORDS

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**Agenda:** The agenda is the statement of the business, including supporting documentation, for noting/consideration at the meeting.

**Email or Electronic Mail:** It is a system of e-correspondence by which users send and receive messages over a network of computer and telecommunication links.

**Memo:** It is a brief document of a page in length used for day-to-day exchange of information for internal and inter or intra-office communication among units of the same organisation.

**Minutes:** The minutes are the formal record of the meeting. Minutes give an accurate, concise record of the meeting, and provide unambiguous and clear statements of recommendations, decisions and action needed.

**Simplicity:** It refers to the ease of understanding. Simple writing is the opposite of complex and involved writing.

**Soft-sell Letters:** They are special goodwill letters intended to remind the reader that your organisation provides a particular product or service.

**Style:** It refers to the manner of writing. It constitutes the collective characteristics of the writing, impression or way of presenting things.

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## 13.16 QUESTIONS FOR DISCUSSION

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1. Define circulars.
2. Define unsolicited sales letter.
3. Discuss the features of a good business letter.
4. Discuss the layout of any tender document.
5. Discuss the use of emails as business correspondence.
6. Discuss various ways of placing an order.
7. Distinguish between notice and circular.
8. How are letters of replies written?
9. List the various types of letters.
10. What are the letters of complaints?
11. What are routine orders?
12. A man who has worked efficiently with you for 8 years as sales representative has applied to another company for the post of assistant sales manager. You have received an enquiry about his ability and character. Draft a reply.
13. What do you mean by the letter of enquiry?
14. What do you mean by memo?
15. What is the difference between agenda and minutes?
16. Two letters have been sent to a client requesting to make the payment of outstanding money by the sale of textile goods. But he has not responded to any of these letters. Write a final letter to him.
17. What is the scope of simplicity in business correspondence?
18. Why business letters should follow the concept of timeliness?



19. Write a letter of complaint to the electricity department of your area regarding the problems faced due to shortage of supply.
20. Discuss the method of drafting orders.
21. Discuss the technique of writing a memo. What are the principles to be followed for writing memos?
22. How are replies to enquiries made? Give an example.
23. List the guidelines for smart email. Also, discuss the tips for writing email messages.
24. What are the principles of a business letter?
25. What are the various categories of letters of enquiries?
26. A cloth merchant of Delhi ordered 10 parcels of textile items from a merchant of Ahmedabad. The goods were dispatched through goods train. Two bundles have been stolen in transit. Write a letter to the Railway authorities to compensate the loss.
27. You have just started the business in textiles and want to purchase some textile items. Write a letter enquiring into the goods and price to a wholesale dealer.
28. While giving necessary particulars on our behalf, write an unfavourable reply to a letter received enquiring into the economic condition of any business firm.
29. Write a letter to explain the concept of letter of complaint – claims and adjustments.

#### **Check Your Progress: Model Answers**

1. Message
2. Words
3. Goodwill
4. Heading
5. Memo
6. Soft-sell or cordial-contact

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### **13.17 SUGGESTED READINGS**

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- Sehgal M.K., Khetarpal Vandana, *Business Communication*, Excel Books
- P.D. Chaturvedi, Mukesh Chaturvedi, *Business Communication, Concepts, Cases and Applications*, Pearson Education
- Bowman, Joel and Branchaw, *Business Communication: From Process to Product*, Dryden Press
- Courtland Bovee and John Thill, *Business Communication Today*, Random House, New York
- Urmila Rai and S.M. Rai, *Business Communication*, Himalaya Publishing House

# UNIT V



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## LESSON

# 14

## MODERN FORMS OF COMMUNICATION

### CONTENTS

- 14.0 Aims and Objectives
- 14.1 Introduction
- 14.2 Choice of Medium
- 14.3 Modes of Communication – Conventional Modes
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  - 14.4.1 Telephone
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  - 14.4.6 Teleconferencing
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- 14.5 International Communication for Global Business
  - 14.5.1 The Importance of Communication in International Business
- 14.6 Let Us Sum Up
- 14.7 Lesson End Activity
- 14.8 Keywords
- 14.9 Questions for Discussion
- 14.10 Suggested Readings

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### 14.0 AIMS AND OBJECTIVES

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After studying this lesson, you should be able to:

- Understand various conventional modes of communication
- Discuss various modern modes of communication
- Explain international communication for global business

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## 14.1 INTRODUCTION

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Medium is the means of transmitting a message. Some media carry written words and/or pictures/graphics and other media carry the voice. Electronic media can carry both voice and words. The message can be transmitted by any suitable medium. Each medium has its own characteristics which are advantageous in one situation and disadvantageous in another. Each medium makes a different kind of impression and impact on the receiver.

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## 14.2 CHOICE OF MEDIUM

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The medium of communication is selected keeping in view the following considerations:

- **Type of audience:** If the audience we want to reach is educated, then the written form of communication may be used, but in case of uneducated audience, pictures, symbols or voice may be more suitable. Similarly, depending upon who is the receiver, the medium of communication is selected.
- **Need for secrecy:** If confidentiality is required for the message to be transmitted, it cannot be sent by media like telex or fax, even if the message is urgent. The choice of media will be influenced by the requirement of secrecy.
- **Need for accuracy:** Need for accuracy in transmission is not the same for all messages. The alphabetical data may not need as much accuracy as the numerical data, so the selection of media to send such data must be done with due consideration.
- **Need for reliability:** Need for reliability of the medium is an important factor. Sending a message by hand delivery is more reliable than ordinary mail. Similarly, registered post is more reliable than ordinary mail.
- **Speed/time considerations:** The pressure of time and distance between the sender and receiver influence the choice of the medium. Media like telephone, telex, fax and email are the fastest in this case.
- **Cost of the medium:** Cost of the medium, keeping in view its urgency and relative importance is one major factor to be considered. If the message is not very urgent or important, low cost media, like ordinary post, etc. may be chosen.
- **Availability of a medium:** A particular medium should be available to the sender as well as receiver for the message to be transmitted. The sender can send the message through telephone only if the receiver has this facility available.
- **Feedback capacity:** For some messages, immediate feedback is required. In such a case, that medium should be chosen, which has the capacity for immediate feedback, like the telephone.
- **Availability of a printed (hard copy) for record purposes:** If a printed copy of the message is required for record, then the message cannot be transmitted by oral or vocal mediums like telephone. In this case, letter, e-mail or fax may be suitable.
- **Requirement of the situation:** Sometimes, a particular situation may create the need for a particular medium of transmission. For example, to offer a formal note of thanks or to officially congratulate somebody, a written communication may be more appropriate.
- **Intensity and complexity of the message:** Many messages have an emotional content, or may be complex in nature or carry an intense result with them. Care has to be taken while choosing the medium for such messages.

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## 14.3 MODES OF COMMUNICATION – CONVENTIONAL MODES

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Media which have been in use for a long time depending on traditional carriers are called conventional modes. These include:

1. Postal mail – Government service
2. Courier – Private Service
3. Hand Delivery
4. Telegraph
5. Telex

### 14.3.1 Mail

The postal service uses rail, road and air transport, and is usually a government-owned network having with links with all other countries. Various types of mail services are available: ordinary mail, registered mail which may include A.D. (Acknowledgement Due), Quick Mail Service (QMS), express delivery, under certificate of posting, etc. Speed post is a special service offered by the post office. It ensures delivery of letters and parcels on the same day within the city, within 24 hours to certain cities in the country and within 48 hours to cities in other countries. This service is not available in all cities. The post office now offers electronic media for new services like hybrid mail in some cities.

### 14.3.2 Courier

Courier services are private; in that, they collect and deliver packets door-to-door at any time during the day. Though the cost is high, this is a quick service for the delivery of letters and parcels. Courier services are limited to the cities where they maintain their network and their door-to-door service turns out to be a great advantage. Courier companies are recognised as commercial companies. Courier services are a modernised and sophisticated form of the messenger or runner of the olden days before the postal service.

### 14.3.3 Hand Delivery

Written messages documents and parcels can be delivered within the city by an organisation's delivery boys. The effectiveness and speed of this method depends on the organisation's own system of messengers. It requires a number of employees for outdoor work, and may be expensive; but it ensures prompt delivery which is necessary for record purposes as the messenger can bring back a signed copy, official receipt or signature in the sender's peon book.

### 14.3.4 Telegraph

Telegraph is a government-owned network in most countries having links with all other countries. It works by transmitting sounds in Morse code. Telegrams can be sent as 'ordinary' or 'express'. There is also a facility for reply-paid telegrams and you can send a telegram and pay for the other party's reply telegram at your telegraph office.

This facility is used to impress upon the receiver that an immediate reply is expected. The telegraph office registers special telegraphic addresses for companies, on application. This address is, only one word; the only addition needed is, the pin code number. Organisations which receive and send a large number of telegrams thus save

expenditure for themselves and their correspondents. The telegraphic address can also be used as signature of the organisation in telegrams.

A telegram is used for external communication for contacting customers, suppliers, traveling salesmen, branches, office, etc. A telegram gives an impression of urgency, and therefore gets immediate response. It is used when there is an urgent message to be conveyed or urgent action is required.

This medium's importance has been substantially reduced by fax and mobile phones in large cities, but it has an excellent network which reaches even in remote parts of country where modern media is yet to penetrate. Hence, it will continue to be used for a long time.

### **14.3.5 Telex**

Telex (short form of Teleprinter Exchange) is a world-wide teletype service providing instantaneous communication through a direct dial Teleprinter-to-teleprinter system. Messages can be sent and received 24 hours a day. The system of direct dial teleprinter exchange was introduced in 1958 and within ten years it acquired a 25,000 subscriber base enabling subscribers to send messages and data directly to each other.

Telex connection is obtained through the Post Office with each subscriber having this own identification code for connection. The teleprinter has a key board for typing messages and a transmitter/receiver for sending and receiving messages. The machine is fitted with a roll of paper, and the message can be typed out continuously. When a message is typed on the sender's machine, the same message gets typed at the same time on the receiver's machine also. The advantage of this machine is that, it automatically types out received messages even if the machine is not attended to enabling the sender and receiver to carry on a two-way "dialogue" by typing out in turn.

Telex so covered messages are paid for, on the basis of the time taken from transmission and the distance. The charge begins as soon as the connection is made. Telex users have developed a language of contractions and abbreviations for saving time. Telex has an excellent international network and installation of good machines in good working condition. Recent developments have made it possible to use a computer instead of a teleprinter for transmission of telex. As technologies coverage, the use of a freeing it from the teleprinters may become outdated. As telex helps to connect, the two parties can communicate in real time, problems of viruses, etc.

It is used mainly by organisations like railways, ports, stock exchange, banks, etc., which need constant international communication. Telex messages are relayed on a screen in newspaper office, share markets, airports, railway stations and places where information has to be conveyed to many people on a minute-to-minute basis.

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## **14.4 MODES OF COMMUNICATION – MODERN FORMS**

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These are media which transmit signals instantly from any source to any destination in the world by modern electronic technology.

1. Telephone
2. Intercom
3. Cell phone
4. Fax
5. E-mail
6. E-conferencing

7. Tele-conferencing
8. Internet
9. Computer networks – LAN, WAN, MAN

These are explained below:

#### **14.4.1 Telephone**

This form of electronic communication has been around for nearly a century. It is the most useful and universal medium of oral communication with a person who is not present at the same place as the sender. The telephone instrument has evolved, over the years, into a very sophisticated form with many new facilities. STD (Subscriber Trunk Dialling) allows a user to make calls to numbers in another city directly, without having to call the operator at the telephone exchange.

This service is available to almost all cities in the country. Every city has its own code number which is dialed before dialing the personal telephone number. The code number for Mumbai is for example 022.

ISD (International Subscriber Dialling) allows the user to call a number to any of the major cities of the world, without calling the operator at the telephone exchange. Every country has an international code number which you dial before dialling the required city code and personal telephone number. The code for India is 091.

STD and ISD facilities can be locked with a number code on telephones attached to electronic exchanges. On other telephones, you may have to pay a fee and/or deposit to get the facilities activated. These facilities have made the telephone an instrument for instant communication to any part of the world.

Technological advancement has made the telephone instrument so sophisticated that it is able to provide a number of services. An answering machine can take a message if you cannot answer it. Caller identity device attached to the telephone can show the number from which the incoming call is being made.

#### **14.4.2 Intercom**

The intercom is an internal telephone system which allows communication between persons in different parts of a building. It eliminates the need for visiting another part of the office and the need for a peon to carry written notes and messages. Information can be passed quickly from one person to another in the office. Some intercom instruments have facility to broadcast messages to the entire office over all the internal lines or a particular location on one line.

#### **14.4.3 Cellular Phone**

The cellular phone is based on a combination of the old radio technology and emerging telecommunication technology. Cellular or mobile phones have some of the characteristics of the home phones but there are several differences. There are some boundaries to cellular coverage outside metropolitan areas and away from major highways. Air times are charged by the minute on calls made from and received by the cellular phone and a fraction of a minute is rounded off to the next higher minute. Calls made are charged from the time the "send" button is pressed.

When a cellular call is placed, a radio signal travels from the phone to a receiver/transmitter within a cell. A cell is a geographic area ranging from less than a quarter mile to 20 miles in diameter, and contains a fixed radio signal receiver/transmitter. The size of a cell depends on the population and the terrain. As a person making or receiving a call with a cellular phone moves from one cell to another, the call is



automatically passed from one cell to the other. A receiver/transmitter within the cell relays the call to a Mobile Transmitter Switching Office (MTSO) using the home telephone lines.

The MTSO is connected to the local telephone company which routes the call to the destination. The call process takes less than half a second. Cellular phone instruments have facilities for storage of numbers, record of missed calls (calls which were not answered), for receiving text messages, and for receiving information given by the network about the weather, about conditions on the road, and other vital news needed while traveling. The mobile has freed many managers from the confines of their offices as they can be in touch with the office from wherever they are. It has become possible to contact persons who are travelling or are out in the open.

A manager talking for business on his mobile while relaxing on a beach may be a depressing sight, but then, he might not have been relaxing on the beach at all but for the mobile, which allows him to stay in touch.

#### **14.4.4 Fax**

The facsimile machine is a device for transmitting copies of printed images over telephone lines. The machine is connected to the telephone through a modem (modulator– demodulator). The sender has to dial the receiver's fax number, insert the documents into the machine and press the start button.

The receiving machine decrypts the signals and uses its in-built printer to produce an exact photocopy of the original page. The cost of the printout is borne by the receiver.

Fax permits quick exchange of information and documents between offices and organisation and individuals. Important decisions and instructions can be quickly conveyed to branches and other offices.

Fax is usually used for documents which are not confidential. The machine puts a printout which is open and can be seen by any one. However, you can arrange (by telephone talk) to be alone with the machine, when a confidential message is being sent.

The printout contains the time, date and fax number of the sender's machine. The sender gets a confirmation printout showing the receiver's fax number, date and time of transmission and the number of pages transmitted. Sometimes the received copy is not clear. It is customary to telephone the receiver to make sure that the fax has been received. The fax machine can be set to function as a telephone or as a voice mail answering machine by pressing relevant buttons. It can also make one or two photocopies of a document.

Fax can be sent through a computer, provided the required software and a modem are installed and a telephone line is connected to it. Recent models of computers have an inbuilt modem, and software for fax is included as part of Windows. Fax through a computer, can transmit only messages which have been created on the computer and it cannot transmit a document as it is, as the fax machine can. Faxes have been available for many years and are popular in business offices. Newer fax machines are digital, allowing communication via computer's, and are much faster than the old ones.

#### **14.4.5 E-mail**

Electronic mail requires a computer, telephone line and modem (if a modem is not in-built in the computer). The connection is given by VSNL, MTNL and other email and Internet Service Providers (ISP) like Satyam. E-mail is the most frequently used application of the internet.

### *Name and address on e-mail*

In order to send an e-mail, you must know the recipient's "name," that is, computer I.D. and address. This has the form: someone@someplace; "someone" could be the person's real name like Geeta or it may be a world/letters chosen by the person, like goverma or gmd3 or anything else; "someplace" is the address of the computer and network on which the person has an account, like hotmail.com, yahoo.com, vsnl.com or giasbm01.vsnl.net.in or mailcity.com. You can find people's e-mail addresses by checking sites like Bigfoot, Who, Where, and Info Space, Four11.com or Netscape's e-mail directories.

### *How e-mail is different from fax*

In the 1980s, faxing became a popular way to send letters and documents without the delays of regular mail (nick-named snail mail). E-mail has the immediacy of a fax and is much more efficient and economical. Fax, like telephoning, sets up a temporary circuit between the origin and the destination of the call, for which you have to pay regular phone rates. E-mail uses "packet switching" technology which makes efficient use a network of permanently open lines. There is no additional cost in sending e-mail even long distances and you do not need STD or ISD connection to send e-mail to any country in the world. E-mail does not have incremental costs once an organisation has paid the fee for network access. Besides issues of speed and cost, fax only sends a "photo" of the document, while e-mail provides the recipient with text which can be edited by using any word processing programme.

### *Different e-mail programmes*

Earlier, Hotmail was the only free e-mail service on the internet. Now there are many web-based e-mail services. Every search engine provides the internet user with an e-mail service. Yahoo! Mail, Excite Post, Altavista E-mail, Mail City (from Lycos), RediffMail, Satyam Online mail, etc. are some of the popular free e-mail services.

These services are web-based and do not require any special software and can be used with any web browser. They can be accessed from anywhere in the world through the internet. They have an address book facility when you can enter your list of names, address, telephone numbers and e-mail addresses in your address book and you have a diary which you access from anywhere in the world.

Setting up a free e-mail account is easy; open the relevant page of the search engine (or any programme that gives e-mail services); you will be guided by instructions on the screen; you have to fill in the details that are required by the form which appears on the screen and click on the "submit" button at the end. You have to make up the ID name you want (can be your own name or initials or anything you like) and the password you want, and enter them. You have to remember your password and enter it each time you want to check your mail. You can have an e-mail account even if you do not have a computer or an internet account; you can set up an account and access it by renting internet time in a cyber café.

Using e-mail for conferencing: An important capability of e-mail is its ability to create ongoing electronic conference. It works like this: if people interested in a particular topic (like new HR practices, or women's studies Shakespeare or anything) find that there is interest in an ongoing conference someone with a networked computer in an organisation can set up and manage a "list" (using a software programme like "listserv" or majordomo or mailserv).

The interested person can subscribe to the conference. Every time someone sends in a contribution to the discussion and it is automatically distributed to the entire person on

the list as an email message. Yet it does not make demands on your time because you can send in your response at any time at your convenience.

Besides the facility to join the conference e-mail provides other ways to interact with the writer of articles or owner of web sites. Almost every website gives an e-mail address for any visitor/reader to send back comments and reactions.

### *Advantages and shortcomings of using e-mail*

E-mail makes information more accessible and permits faster procedures in an organisation. Conventions developed by e-mail users allows the exchange of brief and efficient messages of information or instruction. The messages presume knowledge of previous communication, and do not waste time on references or on social niceties. Email has contributed to relationship building since it is easier to keep in touch. A message, jokes, interesting anecdotes and information can be distributed to a large number of persons across the world in a few strokes.

E-mail respects the receiver's time. The message need not be attended to and answered at once as with the telephone. Although in speed of transmission e-mail comes close to the telephone, it does not demand instant reply. There is time to think before replying. By sending a reply by e-mail you can show that you have replied promptly and yet avoid personal contact of the telephone.

Efficiency of the e-mail depends on the user's regularity in checking mail. You cannot know how often or at what time the receiver checks the e-mail box. The message could lie there for days if the person does not check the e-mail regularly. Issues of confidentiality and security pose the greatest problem. Many organisations restrict access to e-mail and the internet because of security risks and the possibilities of abuse. It is worth considering what kind of messages should not got by e-mail. You would not expect to get a firing from the boss or give a firing to your subordinate by email.

A scolding may be carried by telephone and a warning by memo. Neither is proper by e-mail. But congratulatory and other social goodwill messages are actually made easy by e-mail which offers various free electronic greeting cards which can be sent.

### **14.4.6 Teleconferencing**

Teleconferencing can be defined in several ways but most people agree that it can be defined simply as "bringing people together without having to spend time and money on travel." This mode of communication begins in teleconferencing. A number of telephones are simultaneously connected to one another. Teleconferencing is a facility enabling people in different parts of the world to have an audio meeting (as opposed to dialogue), saving on transit time and hotel stay. It helps in thrashing out a variety of opinions on a subject to reach a faster conclusion.

Teleconferencing is a rapidly developing technology that has changed the way companies do business. There are three types of teleconferencing:

- (a) Audio Teleconferencing
- (b) Audio graphics teleconferencing
- (c) Video teleconferencing.

#### *Audio Teleconferencing*

Audio teleconferencing provides the interactive element of the telephone. It is also the most frequently used and most productive and inexpensive medium, which is why it is

also called "phone meeting." It does not need any special equipment, other than the ordinary telephone.

Reasons for its widespread acceptance are:

- Easy to use – everyone can use a telephone.
- Easily available – telephones are available anywhere.
- Easy to participate and join in from any telephone line in the world.
- Takes only a few minutes to set up a conference call.
- Costs little.

### *Audio Graphics Teleconferencing*

Audio graphics teleconferencing provides the facility to move text, computer-generated images, photographs and large files over ordinary telephone lines (like the internet). It is not as expensive as video conferencing but requires going to a location that has the equipment or requires making an investment in the equipment.

### *Video Teleconferencing*

A further advance in this technology is computer teleconferencing. The participants can react to the messages and inputs for the others' knowledge. They may not even be present simultaneously for the computer teleconference but add their contribution at their convenience.

Videoconferencing, however, is the closest it gets to seeing and hearing one another without being present together. The technologies used in a videoconference are: monitor screen, camera, microphone, codec (compressor-decompress or), equipment control pad at each location, and internet connectivity. With the passage of time, this is becoming more popular and easier to use. You often see it in TV interviews.

You often see it in TV interviews. For a videoconference, the participants get into a special room at their respective locations, equipped with the gadgetry. They can see, hear, speak to others and show exhibits without physical presence together.

The entire proceedings can be recorded on video tapes. As someone has jocularly put it, except for the snacks and coffee, everything else is transmissible in a videoconference. At present, the privilege of the richer business houses, videoconferences are set to gain wider popularity.

Video classrooms are another possibility in this field, where an expert faculty member may teach a number of classes in a number of towns simultaneously and answer the participants' queries.

## **14.4.7 Internet**

The internet is a worldwide collection of computer networks that co-operate with one another by using a common software standard. It conveys data through satellite links and telephone wires. There is no single owner or central authority that operates or controls the internet. However the internet is bound by a few rules which allow you to oversee the system and the protocols involved. The internet is also bound by few rules and is not answerable to any single organisation. The speed of the internet has changed the way people receive information.

The size, scope and design of the internet enable users to:

- Connect easily through an ordinary personal computer and local telephone line.

- Exchange electronic mail with friends, colleagues and customers (with internet accounts) and also attach files which are on their computer.
- Share business and research data among colleagues.
- Request and provide help with problem and questions.
- Post information for others to access, and update information regularly.
- Publicise and market goods and services.
- Gather valuable feedback and suggestions from customers and business partners.
- Access multimedia information which includes photographic images, sounds and video.
- Join group discussions on any subject.
- Subscribe to mail lists on topics of interest and receive views expressed by members of the group on the topic.
- Since the internet consists of not one but multiple data systems, which were developed independently, it allows users to access a variety of services. The most important and popular ones are:
  - E-mail for exchange of electronic mail.
  - Internet Relay Chat (IRC) for sending private and public messages to other users and real time (that is, your messages appear on the recipient's computer screen as soon as you type it).
  - USENET newsgroups for posting and answering messages on public "bulletin boards."
  - File Transfer Protocol (FTP) for storing and retrieving data files on large computer systems.
  - CU – See Me, a video conferencing system which allows users to send and receive sounds and pictures simultaneously over the internet.

Over the following 20 years, the network developed and became useful for academic institutions, scientists, and government bodies for research. It enabled distant and unrelated organisations to share information and establish contact with one another's data bases and computing systems.

The nature of the internet changed dramatically in 1992. A new computer program called NCSA Mosaic was developed at the National Centre for Supercomputing Applications (NCSA) at the University of Illinois which was also the first Web browser. With the browser it was easier to access the different web sites, and soon the Web sites began to include video files and sound files.

In India, VSNL began to give internet connections in 1995. The growth in India has been astonishing in the last one year. The expansion of the internet has coincided with the coming of powerful yet reasonably priced personal computers and easy to use graphical operating systems. For those who do not own a computer, there are cyber cafes and other commercial centres that rent internet facilities by the hour.

#### **14.4.8 Computer Networks**

The computer is a versatile electronic instrument which can combine various media functions. The trend of technology is towards convergence of various technologies so that the computer will become single multi-task equipment for all kinds of transmission. Computer software development is rapidly making the computer take over more and more tasks and functions in businesses and at home. The word

processor helps in the preparation of letters, reports and meeting Agendas, by guiding you through the steps of the layout. It ensures that the document is neatly laid out in a few commands and enables you to prepare a circular and personalise it for several persons and also addresses through mail merge.

Electronic mail, voice mail, video conferencing, and multimedia facilities are forms of communication which must be transmitted. Faxes and telexes can also be sent through the computer. Accounting software is already used in many offices. This means that account books do not have to be written manually. Various financial reports can be prepared within a short time by using accounting software packages.

Software programmes are being written for almost all activities in business. It would be wise to keep a close watch on the advertisements that announce new programmes. A computer technology is a fast growing field where advances are made rapidly, and users can upgrade their equipment and buy the latest software for more advanced tasks.

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## 14.5 INTERNATIONAL COMMUNICATION FOR GLOBAL BUSINESS

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The phenomenon of global communication as we know it today is essentially the result of technological advancements. It probably started with the development of advanced transport technology such as the steam engine and the internal combustion engine. Currently it is primarily driven by the worldwide proliferation of advanced information and communication technologies (ICTs).

A communication line also goes beyond the borders of your business and stretch to international companies. To successfully trade across international borders, you have to analyse the country and culture of the people whom you are trading with. You have to get a feeling for the way they do business and also for customs or manners that could offend them. People from a different background will feel honoured and will be much more open to business if they can see that you respect their ways. Because of this reason, it is also critical to look at the importance of multicultural communication in international trade. Looking at aspects such as marketing, logistics finance and payment, we discuss the important role that communication plays in today's businesses.

In a globalised world, effective communication is a necessity. When colleagues need to reach all corners of the world, it is easy to see the importance of global communications in the world today. Whether you need to connect from India to Beijing, instant contact has become the norm and expectation. But how did we get here? Just 10 years ago, we were being introduced to new programs called YouTube, Skype, and Facebook. Now these are household names that are used on a daily basis at home and in the office. But in a business environment, there is more to communications than just opening up Skype and connecting to the other side of the planet. Learning the importance of global communications and implementing effective communications policies are key to helping a global organisation thrive in this new world.

Global communications is not only the interaction between two employees within your organisation. The first step in achieving effective communications is to know your audience. Your entire company profile and history is available to the whole world at the click of a button, making you a sitting duck if you're not prepared. If you're not, your company could wind up as the next viral sensation. Communicating with your customers, your suppliers, your stockholders, and many other stakeholders all factor into the global equation. Proper handling of a customer complaint can be just as important whether it is sent to company headquarters or at a local store - one

insensitive comment could wind up being viewed by millions on Twitter. Company owners have to be kept informed about the status of the business and employees have to be able to be in constant contact in order to reach deadlines.

### **14.5.1 The Importance of Communication in International Business**

Affecting the true meaning of global communications would be the intercultural factor. Now that we expect to do business on multiple continents, understanding the language and cultural difference between two people can bridge gaps and make business transactions much smoother. Even within Europe, making sure your organisation understands the business customs of Spain versus Germany will help grow your business. And in a globalized world, it is absolutely vital.

#### ***Understanding Culture***

Because cultures vary so widely across the globe, understanding the differences in culture is vital to the business environment. A person's culture impacts the way he communicates. For example, in Japan people do not like to say the word "no." In a business meeting, a Japanese business person may mean no, but never directly state it. This can cause confusion. Another cultural example is in Saudi Arabia. Never discuss women, even to ask about a female family member's health. In Saudi Arabia, you may be having a business meeting and the person may leave the room for up to 20 minutes. The Saudi person may have gone to prayers as he considers the business meeting more of a discussion than a formal meeting.

#### ***Communication Errors***

Understanding the local meaning of a word or phrase is a vital aspect of international communication. Errors can cause embarrassment and can show disrespect. According to Kwentz essential, a communication company, an example of a communication error occurred with the Kellogg company. It was selling a cereal product in Sweden. The cereal name, Bran Buds, can generally mean, "burned farmer," in Sweden. Another example is the ad, "Come Alive with Pepsi," by Pepsico. In Taiwan, the translation became, "Pepsi brings your ancestors back from the dead."

#### ***Etiquette and Communication***

Etiquette is a combination of behavior and communication. Making an error in etiquette can cause a business deal to fail. For example, when you are meeting with a group of people from the Asian culture, you have to be aware of hierarchy issues. If you disagree with an idea presented by a person in management, it is not a good idea to say so in front of subordinates. The manager "loses face," by what is perceived as criticism.

#### ***Written Communication***

In the Western World, business is handled by phone calls and emails. Less formal communication can cause confusion and misinterpretation due to language differences. For example, if you use generally accepted Americanized statements, you can cause a lot of confusion such as, "I'm on it. I'll jump on that right away," or even, "I get it." Other email communication needs to be considered. For example, in Japan, typically, a person will greet you by your last name and then the word "san." This is a sign of respect to you. If you simply send back an email response without a greeting, it may be considered rude.

### Check Your Progress

Fill in the blanks:

1. Telex connection is obtained through the \_\_\_\_\_ with each subscriber having this own identification code for connection.
2. \_\_\_\_\_ allows the user to call a number to any of the major cities of the world, without calling the operator at the telephone exchange.
3. The \_\_\_\_\_ is based on a combination of the old radio technology and emerging telecommunication technology.
4. The \_\_\_\_\_ machine is a device for transmitting copies of printed images over telephone lines.
5. \_\_\_\_\_ is the closest it gets to seeing and hearing one another without being present together.
6. The nature of the internet changed dramatically in \_\_\_\_\_.

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## 14.6 LET US SUM UP

- The range of communication media available to business people have proliferated our lives in the past few years.
- One can select from the traditional oral and written channels, like courier, hand delivery, postal mail, telegraph and from the new electronic media, including telephone, cellular phone, fax, e-mail, etc.
- People who need to communicate will have to keep up with the technology of communication, which is developing rapidly, to bring communicating parties closer to each other.
- Some older channels and media may become outdated as new methods become available.
- Selection of medium can make a difference between effective and ineffective communication.
- Every medium has limitations, which filter out parts of the message.
- Every medium influences the receiver's perceptions of the sender's intentions.
- It is said the medium is the comment on the message.

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## 14.7 LESSON END ACTIVITY

Internet, if wisely used, can become the most powerful tool of communication as well as personal communication. Explain with the help of example.

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## 14.8 KEYWORDS

**Audience:** Total number of readers, listeners, or viewers reached by a particular advertising medium.

**Postal Mail:** The mail or post is a system for physically transporting documents and other small packages; or, the postcards, letters, and parcels themselves. A postal service can be private or public, though many governments place restrictions on private systems.



**Telegraph:** A telegraph is a communications system in which information is transmitted over a wire through a series of electrical current pulses.

**Telex:** A communication service involving teletypewriters connected by wire through automatic exchanges.

**E-conferencing:** Electronic conferencing is a method of holding meetings with customers or colleagues in different locations via the Internet.

**Tele-conferencing:** A teleconference is a telephone meeting among two or more participants involving technology more sophisticated than a simple two-way phone connection.

**Internet:** Internet is the wired or wireless mode of communication through which one can receive, transmit information that can be used for single or multiple operations.

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## 14.9 QUESTIONS FOR DISCUSSION

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1. What are the conventional modes of communication?
2. What are the factors influencing the choice of a particular medium of communication?
3. Choice of the medium influences the perceptions of the receiver and intentions of the sender. Comment.

### Check Your Progress: Model Answers

1. Post Office
2. ISD
3. Cellular phone
4. Facsimile
5. Videoconferencing
6. 1992

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## 14.10 SUGGESTED READINGS

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Sehgal M.K., Khetarpal Vandana, *Business Communication*, Excel Books

P.D. Chaturvedi, Mukesh Chaturvedi, *Business Communication, Concepts, Cases and Applications*, Pearson Education

Bowman, Joel and Branchaw, *Business Communication: From Process to Product*, Dryden Press

Courtland Bovee and John Thill, *Business Communication Today*, Random House, New York

Urmila Rai and S.M. Rai, *Business Communication*, Himalaya Publishing House