CHAPTER - 2

MANAGERIAL EFFECTIVENESS – CONCEPTUAL FRAMEWORK

2.1 EFFECTIVENESS

The concept and criteria of effectiveness are quite debatable points in management. Effectiveness is not one-dimensional concept that can be measured and predicted from a set of clear-cut criteria. However, managerial effectiveness can be defined mostly in terms of organizational goal-achieving behavior. For example, Guion states that the success of an executive lies largely in meeting major organizational goals through the coordinated efforts of his organization; in part at least, these efforts depend upon the kind of influence the executive has upon those whose work behavior touches... The executive’s own behavior contributes to the achievement of organizational goals only by its influence on the perceptions, attitudes, and motives of other people in the organization and on their subsequent behaviour.¹

Effectiveness means the capability of producing an effect. The term effectiveness has different meanings in different field. In mathematics, effective is sometimes used as a synonym of algorithmically computable. In physics, an effective theory is, similar to a phenomenological theory; a framework intended to explain certain (observed) effects without the claim that the theory correctly models the underlying (unobserved) processes. In heat transfer, effectiveness is a measure of the performance of a heat exchanger when using the NTU method. In medicine, effectiveness relates to how well a treatment works in practice, as opposed to efficacy, which measures how well it works in clinical trials or laboratory studies. In management, effectiveness relates to getting the right things done. Peter Drucker reminds us that effectiveness is an important discipline which “can be learned and must be earned”.

¹ For more information, see Guion's work on executive success.
The word effective is sometimes used in a quantitative way, "being very or not much effective". However it does not inform on the direction (positive or negative) and the comparison to a standard of the given effect. Efficacy, on the other hand, is the ability to produce a desired amount of the desired effect, or success in achieving a given goal. Contrary to efficiency, the focus of efficacy is the achievement as such, not the resources spent in achieving the desired effect. Therefore, what is effective is not necessarily efficacious, and what is efficacious is not necessarily efficient.

Effectiveness is very similar to efficiency, but the measure is related to some enterprise objective rather than the technical quality of output. For example, one common indicator of effectiveness is related to customer satisfaction rather than output. Therefore the effectiveness measure of a business process can be indicated by the resource inputs needed to produce a level of an enterprise objective. A further measure of effectiveness is given by: effectiveness = Enterprise objectives/Input Quantity.

2.2 EFFECTIVENESS AND EFFICIENCY

Often confusion arises between effectiveness and efficiency as both these terms are used quite closely and, sometimes, interchangeably, though both these denote different states of affairs. For example, Banard has viewed that; “Organization effectiveness is the degree to which operative goals have been attained while the concept of efficiency represents the cost/benefit rate incurred in the pursuit of these goals”²

Thus, effectiveness is related to goals which are externally focused. Efficiency is used in engineering way and it refers to the relationship between input and output. This denotes how much inputs have been used to produce certain amount of outputs. It is not necessary that both go together always. For example, Barnard says that, “when unsought consequences are trivial, or insignificant, effective action is efficient; when unsought consequences are not trivial, effective action may be inefficient”.

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2.3 MANAGERIAL EFFECTIVENESS

Managerial effectiveness is a complex and multifaceted phenomenon. It can be considered on the basis of organizational jobs performed by the individual managers. Managerial effectiveness reflects the smooth working operations over a period of time, obtained within the laid parameters of cost, time and productivity. In fact, effectiveness actually focuses on generating revenues, creating new markets and launching new products. From the organizational standpoint, managerial effectiveness can be seen as the degree to which the Management achieves the organizational goals, with in its environmental constraints or other uncontrollable and unpredictable factors. In simple terms, managerial effectiveness is the yardstick through which one can measure the efficiency of an organization which depends upon the ability of the organizations to face and handle varied problems successfully.

Effectiveness and efficiency are very much related concepts, and by that count we can say that managerial effectiveness and managerial efficiency are also closely related - However, we must note that these two terms are not used very commonly. Therefore we must have clarity about what we mean by these two terms. If we define effective manager as one who delivers results that are effective, and efficient manager as one who delivers efficient results, then we just need to understand the relationship between effectiveness and efficiency to understand the relationship between managerial effectiveness and managerial efficiency.

Effectiveness is defined as the measure of total output produced, and efficiency is defined as a ratio of output produced and input used to produce it. Thus:

Effectiveness = Output produced

Efficiency = (Output produced)/ (Inputs used)

When the inputs available for producing are being fully utilized, the output or the effectiveness's can be increased further only by increasing the efficiency. In this situation, effectiveness and efficiency are directly proportional.
In other situations it may be possible to increase output by increasing the inputs. In this case the productivity increases with increase production, but the efficiency may remain same, increase, or decrease with production depending on increase in inputs. In this case, efficiency and effectiveness are two independent variables. Fall in efficiency may or may not be compensated by benefits of increased productivity. For example, it may be possible to increase production by increasing production cost. This may be justified as long as higher profit from increased sales, more than compensates for the increased costs.

In a real life situation, some minimum efficiency is essential to compete effectively in the market also given same volume of sale with more efficient operations, means higher profit, which in turn contributes to higher growth and higher effectiveness.

Thus we can say that in situation of resource constraints, efficiency and effectiveness are directly proportional. In absence of resource constraints efficiency and effectiveness are not necessarily related. However, in long term better efficiency contributes to improvement of higher effectiveness.

2.4 AREAS OF MANAGERIAL EFFECTIVENESS

Prof. Robert has developed balance score card to measure overall effectiveness of business it revolves around four distinct perspectives:

- Financial perspective
- Customer perspective
- Business process perspective
- Learning and growth perspective

According to Prof. Robert main aim of an organization is not to earn more profit or more return but satisfaction of customer and employees. If an organization becomes successful to satisfy these two, the organization can expand its market share as a result, maximum utilization of all resources can be possible and the organization can get the profit automatically.
Managerial effectiveness can be measured from all the aforesaid perspectives. However in the present study managerial effectiveness of APMC s is measured from the financial perspective only. A financial manager should analyze financial health of the firm and accordingly take the future decisions. In financial perspective the managerial effectiveness can be measured in following areas.

1. Analysis of Productivity
2. Analysis of Profitability
3. Analysis of Activity
4. Analysis of Working Capital

2.4.1 Analysis of Productivity

2.4.1.1 Introduction

Productivity is the heart of economic growth and development. It is focal point of current public interest in business and economic matter, all over the world. When any person strives to make a better living for himself and his family, he has to focus more on productivity than hard work. Productivity and growth in any country is two sides of a coin. Prof. S. G. Verma has noted higher productivity is necessary for survival of any nation.³ Profitability and financial soundness of any business depend upon productivity.

2.4.1.2 Definitions of Productivity:

1. General meaning of productivity is simply the ratio of output to input.

2. According to Export Illustrated Dictionary, Productivity is defined as “Efficiency in industrial production to be measured by some relationship of outputs-inputs.”

3. Albert Dubin,"Productivity is the efficiency with which goods and services are produced that is the ratio of output of goods and services to the output of resources."
Guidelines of national productivity Council

After studying several aspects of the question, the National Productivity Council of India has come to conclusion that the adoption of the following guidelines as a basis of productivity policy would go a long way for helping enterprises and workers unions to make a positive contribution to national economic growth consistent with their respective interest.

- Equitable sharing the gains of productivity.
- The sharing should be flexible and simple to understand. Broad guidelines are to be laid down for this purpose.
- Sharing the gains of productivity should be regarded more as a philosophy of industrial relations rather than a statistical technique of distributing the gains.
- The management has the primary responsibility for increasing productivity.
- They also have the responsibility for motivating labour and seeking its cooperation for increasing productivity.
- Introduction of adequate incentive schemes. Such incentive schemes should be simple but composite. These schemes should have an element of providing training to employees and motivating them to reduce masters.
- Production norms should be arrived at on the basis of scientific productivity techniques and these should be finally settled through mutual negotiations between managements and trade unions.
- Effective participation of workers representatives.
- Proper job evaluation system.
- Merit rating system.
- Productivity agreements should be entered into with workers with an encouragement of participation by the workers’ representatives. Interest of the consumers also should be kept in view.
- Where the wage level is low, employees should be given a higher share in the gains of productivity.
- In the initial stages, schemes for sharing the gains of productivity should be tried in some of the organized manufacturing industries so that the same system can be adopted in the unorganized sector at a later stage on the basis of experience gained in the organized manufacturing industries.
2.4.1.3 Objectives of Productivity

1. To reduce the wastage and cost
2. To improve product quality
3. To improve living standard of people
4. To reduce fatigue of workers
5. To improve working condition in organization
6. To give higher remuneration and welfare schemes for employees
7. To generate revenue for government

2.4.1.4 Importance of Productivity

The productivity consciousness has increased all types of activities because it gives the following advantages:

1. It emphasis on the efficient utilization of all the factors of production which are scar universally. It attempts to eliminate the wastage of every kind.
2. It facilitates the comparison of performance of the firm with that of its competitors or related firm both in terms of aggregate results and in term of measure component of performance.
3. It enables the management to control the performance of the firm by identifying the comparative benefits rising out of the huge different inputs currently and over longer period has the basic for considering alternative adjustment over period.
4. It also provides a reliable data for certain managerial decision such as collective bargaining regarding the wages with the trade union, effective presentation before the government against the imposition of prospective restrictions etc.
5. At national level also the concept of productivity is useful. The statistical data about productivity assist the government in framing certain economic policies regarding business community, trade unions, employment, hours of work, wages, price control, protection to industries, technological developments, taxation and fiscal policies,
allocation of scarce natural resources, extension of labour welfare and social extension scheme etc.

2.4.2 Analysis of Profitability

2.4.2.1 Introduction

Profit is the primary and ultimate aim of any business units. In accounting profit is an excess of revenue over expenses over a period of time. The progress of business is also depends on profit, if business concern not earn profit then it becomes difficult for them to maintain the continuity of their business. The profit is the yardstick for judging managerial effectiveness. Lord Keynes remarks that, “profit is the engine that drives the business enterprise.” Indeed, profit is a soul of business enterprise.

2.4.2.2 Concept of profit

Generally, profit is difference between total revenue and total expense of a period old time. However, profit has been defined in number of ways by accountants, economists and others as per its use and purpose. There three main concepts, those are accounting concept, economic concept and social profit which are discussed below:

- Accounting Profit
- Economic Profit
- Social profit

1. Accounting Profit

“The excess of revenue over related costs applicable to a transaction, a group of transaction of an operating profit is profit.” In accounting profit is generally known as the excess of total revenue over total costs associated with these revenues for the period. As such the residue of income after meeting all the “explicit”, items of expenditure is termed as profit Explicit items of expenditure generally, includes, raw material consumed direct expenses, salaries and wages, administrative interest on capital of business firm.
“The difference between the sales price and the costs of producing and selling that product is its profit”. The term like ‘Profit’, ‘Income’, and 'Earnings' refer to the same quantum. 'The more commonly use accounting forms of profit are gross profit, operating profit and the net profit. The difference between net sales and the cost of goods sold during a given period is termed as 'Gross profit'. For a trading firm the cost of goods sold includes the price paid for goods and all the expenses directly related to such purchases, while for a manufacturing firm it includes the cost of raw materials and direct cost of labour and power. If, the selling and administrative expense and provision for non-cash items like depreciation is deducted from gross profit, the resultant figure is known as operating profit, while net profit is the residual income left after meeting all the contractual and ‘non-contractual expenses: such as manufacturing, administrative selling and distribution costs.

2. Economic Profit
Back 1939 the famous economist J. R. Hicks defined a man's income as "the maximum value which he can consume during a week, and still expect to be as well of at the end of the weak as he was at the beginning".

Economic profit is the residual of income meeting all the 'explicit' and 'implicit' items of expenditure for a given period. The term explicit item of expenditure has the same meaning that have discussed in "Accounting profit", but the implicit items of expenditure included the amount of those factors of production which are owned by owner. For example the rent of own land building, the interest of own capital and salary of owner are termed as "Implicit costs", or "Opportunity costs".

In economics the accounting profit is known as gross profit while the profit remaining after subtracting the implicit cost of owner's time and capital invested is known as "pure profit".
3. Social Profit
The business units are using scarce resources of the society. So they should be accountable towards the society which provided the resources. Therefore social responsibility of the enterprise has been stressed. An increasing awareness of the social responsibilities on the part of a business unit has Abt. Associates of U.S. Has suggested “Social Statement Approach for social accounting in which the term social profit or social surplus has been defined. Under this approach, the excess of social benefits over social cost is termed as 'social Profit' or 'Social Surplus'. The social benefits made available to the society by the business unit include the employment generation, payment for goods and other services, taxes paid, contributions, dividend and interest paid, additional paid contributions, dividends and interest paid, additional direct employee benefits like creating good townships, offering good condition of work environmental improvements. Any cost, sacrifice which proves a detriment to society, whether economic or non-economic, internal or external is termed as social costs. Social costs include goods and materials acquired, buildings and equipment parched, labour and services used, work related to injuries and illness, public services and facilities used, environment damage like terrain damage, air pollution, water pollution noise pollution, solid waste, visual and aesthetic pollution. However there is no clear concept for measuring social benefits and social costs.

2.4.2.3 Concept of profitability
The word profitability is combination of two terms that is the profit and ability, therefore profitability means ability to earn profit. It shows how efficiently the management can make profit by using all the resources available to it. Prof. Harward and Upton define that profitability is the ability to given investment to earn return from its use. We are not concerned here with profit as a reward to owner of capital but with the return on capital as an objective of firm’s profitability. Interestingly profit seen two separate business concern mighty be the same and yet more often note their profitability could differ when measure in term of the size of investment.7
2.4.2.4 Importance of profitability

Profit is a very good indicator of business performance, but the real standard of performance of a business firm cannot be judged by absolute size of its periodic profit for that profitability is good tool which represent the earning of a business firm. The analysis of profitability is useful for management, investor, share holder, employees and government. The management can evaluate the effectiveness of its own plan and policies. It is also helpful for creditors for granting credit. Investors are also interested to know profitability by this they can take decision of buying, selling or holding shares in the company, employees of the organization can think over fringe benefits. The government uses it for the purpose of regulations and administration.

2.4.2.5 Techniques to measure profitability

The profitability of the business firm can be measured from number of perspectives the following are the major techniques may be used to measure profitability:

2.4.2.5.1 Ratio analysis

Ratio analysis is the process of determining and interpreting numerical relationship based on financial statement, it is the technique of interpretation of financial statement with the help of accounting ratios derived from the balance sheet and profit and loss account. A ratio may be defined as “the indicated quotient of mathematical expression and as the relationship between two or more things”. Ratio analysis is one of the most important tools of analyzing and interpreting the financial statement, it helps in understanding the financial health and trend of business. Its past performance enables to forecast future state of business affairs. It reveals the symptoms of business as in case of a passion temperature blood pressure or pulse beat which indicates the symptom of disease in a patient. Ratio analysis can be useful to management in evaluating the performance, in planning and forecasting and controlling the business. The shareholders and investors can use the ratios the performance and future prospect of the company. The creditor cannot liquidity position and solvency of the company. The employees
can use the ratio analysis to decide their wages and fringe benefits. A
government uses the ratio analysis with a view to study the cost structure and
thereby implements price control measures to protect the interest of the
customer. Accounting ratios may be classified into four categories are as
under:

(1) Liquidity ratio
Liquidity ratios are used to test short term solvency or liquidity position of the
business. This ratio also indicates whether a firm has adequate working
capital to carry out routine business activity. Current ratio, liquidity ratio and
quick ratio are included in liquidity ratio.

(2) Profitability ratio
Profitability ratios are calculated to measure the overall effectiveness of
management and profitability of business. The following are the ratios to
measure profitability of business:

- Gross profit ratio
- Net profit ratio
- Operating ratio
- Expense ratio
- Return on capital employed ratio
- Return on capital share ratio
- Return on total resource ratio
- Earning per share
- Dividend payout ratio
- Price earning ratio
- Total asset turnover ratio
- Current turnover ratio

(3) Capital Structure Ratio
- Proprietary ratio
- Debt – equity ratio
Managerial Effectiveness – Conceptual Framework

- Capital gearing ratio
- Fixed charge cover ratio
- Fixed asset ratio

(4) Activity Ratio

- Stock turnover ratio
- Debtors turnover ratio
- Creditors turnover ratio
- Working capital turnover ratio
- Fixed assets turnover ratio
- Total assets turnover ratio
- Current assets turnover ratio

2.4.2.5.2 Common-size Statement

The common-size statements are known as ‘component percentage statements or vertical statements’. In this technique, the total assets or liabilities and the figure of net sales are taken equal to one hundred and the percentages of individual items are calculated likewise.

2.4.2.5.3. Comparative Statement Analysis

Comparison of financial statements for two or more years is another technique used in analyzing data. Comparative financial statements are statements of financial position of a business so designed as to provide time perspective to the consideration of various elements of financial position embodied in such statements. For this purpose the balance sheet and profit and loss account are prepared in comparative form. Comparative statements may be made to show:

(i) absolute data (rupee amount or money values),
(ii) Increase or decrease in absolute values data in terms of money values, and
(iii) Increase or decrease in absolute data in terms of percentages.
2.4.2.5.4. Trend Analysis

Trend analysis makes it easy to understand the changes in an item or a group of items over a period of time and to draw conclusion regarding the changes in data. For this purpose, a base year is chosen and the amount of that item relating to the base year is taken equal to one hundred and index numbers are calculated for other years based on the amounts of that item in those years. It is a dynamic method of analysis showing the changes over a period of time. For proper trend analysis, the trend should be studied at least over a period of not less than five years. This method of analysis indicates the direction in which a concern is going and upon this basis for future can be made.

2.4.3. Analysis of Working Capital

2.4.3.1. Concept of Working Capital

Business capital is broadly divided into two types: Fixed capital and Working capital. Fixed capital refers to the funds invested in such fixed or permanent assets as land, building, machinery etc. while working capital refers to the funds locked up in materials, work-in- progress, finished goods, receivables and cash. In very simple terms, working capital may be defined as capital invested in current assets.

Working capital can be mainly divided into two ways viz the gross working capital and net working capital. Gross working capital may be used to refer to total current assets and net working capital refers to the current assets over current liabilities.9

Net working capital refers to the difference between current assets and current liabilities According to McMullen, “Working capital is excess of current assets over current liabilities”10 In the words of Lincoln “Working capital equals the aggregate value of current assets minus aggregate value of current liabilities.”11

Gross working capital refers to the amount of funds, invested in current assets. Current assets are the assets which can be converted into cash within
an accounting year or operating cycle. Therefore gross working capital is sum total of current assets, such as inventories, trade debtors, cash and bank balance, advances and bills receivables. Net working capital refers to the difference between current assets and current liabilities. Current liabilities include trade creditors, bills receivables, bank overdraft, outstanding expenses, provisions, etc.

2.4.3.2. Importance of working capital

Working capital is absolutely essential to meet the requirement of day to day activities of the business. It is one of the important measurement financial soundness of business. The word of H. G. Guthmann clearly explained the importance of working capital. “Working capital is the life blood, never centre of the business.” The firm having enough working capital would be able to meet its business liabilities in time as and when they arrive. The firm can make purchases economically, timely payment of wages, bonus etc. to its customers.

2.4.3.3. Factors affecting to the working capital

A business undertaking should plan its operations in such a way that it should have neither too much nor too little working capital. There are no set of rules or formulae to determine the working capital requirements of a firm. The total working capital requirement is determined by a wide variety of factors. These factors, however, affect different firms’ working capital. Also the relative importance of these factors changes even in the same firm in course of time. Therefore, an analysis or relevant factors should be made in order to determine the total investment in working capital. A brief description of the general factors influencing the working capital needs of a firm is as follows:

1 Nature of Business

The amount of working capital is basically related to the nature of business. The proportion of current assets needed in some lines of business activity varies from other lines. For instance, trading and finance firms have a very small investment in fixed assets, but they require more
working capital. In contrast public utility concerns rendering public services require huge investment in fixed assets. The requirement of current assets in such concerns is usually less due to cash sales. In trading concerns the amount of working capital required is less than the manufacturing concern, since there is no production of goods and services involved, but in service industry like banks the amount of working capital required is very high. The relative importance of current assets to total assets will indicate the required intensity of planning and control efforts in working capital management area.

2 Size of Business
It may be argued that a firm’s size, measured in terms of assets or sales, affects need for working capital. Size may be measured in terms of a scale of operation. A firm with large-scale operations needs more working capital required than a small firm with small-scale operations. A small firm may use extra current assets as a cushion against cash flow interruptions.

3 Production Cycle Process
This is another factor, which has bearing on the quantum of working capital. The term production cycle refers to the time involved in manufacturing of goods. In other words, it covers the time span between the procurement of raw materials and the completion of the manufacturing process leading to the production of finished goods. Longer the production cycle, the higher will be the working capital requirement and vice versa. Manufacturing firms have lengthy production cycle, so they require high working capital.

4 Production Policy
Production policy means whether it is continuous or seasonal production. What kind of production policy should be followed in above cases? there are two options one to such companies, either they confine their production only to periods when goods are purchased or they can follow a steady production policy throughout the year and produce goods at a level
to meet peak demand. Suppose in case of production and sales goes simultaneously the amount of working capital required is less (FMCG goods business), but the sales will be only in seasonal and production will take place throughout the year continuously the amount of working capital required is very high. (Umbrella business).

5 Terms of Purchase and Sales
The credit policy to sales and purchases also affects the working capital. If a company purchases raw materials in cash and sells goods on credit, it will require larger amount of working capital. On the contrary, a concern having credit facilities for the purchase of raw materials and allowing no credit to its customers will require lesser amount of working capital.

6 Business Cycle
The amount of working capital requirements of a firm varies with every movement of business conditions may be in two directions; (a) Upward phase – when boom conditions prevail, more working capital required to cover the lag between the increased sales and receipt of cash as well as to finance purchase of additional material. (b) Downswing phase – in this case the need for working capital will be very less, since there is no growth in sales.

7 Growth and Expansion
As company grows, it is logical to expect that a larger amount of working capital required. It is very difficult to determine the relationship between the growth in the volume of business and increase in its working capital required. Other things fact, however is that the need for increased working capital funds does not follow the growth in business activities but proceeds it.

8 Scarce Availability of Raw Materials
The availability of certain raw materials on a continuous basis without interruption would sometimes affect the working capital requirement. There
may be some materials, which cannot be procured easily either because of their sources, are few or they are irregular availability. Therefore, firm might be compelled to purchase more than required to manage smooth production. In this case the amount of working capital required is large. In other case the availability of raw materials are easy and there is no fluctuations the amount of working capital required is less.

9 Profit Level
Firms may differ in their capacity to generate profit. Some firms enjoy a dominant position, due to quality product or good marketing management or monopoly power in the market and earn a high profit margin. Other firms may earn low profits. Net profit is a source of working capital to the extent that it has been earned in cash. A high net profit margin contributes towards the working capital pool. A firm with high profit level requires less working capital and vice versa.

10 Level of Taxes
The amount of taxes to be paid is determined by the tax authorities. So the management has no discretion in this respect. Hence, companies very often, pays tax in advance on the basis of the profit of the previous year. Therefore, tax is an important aspect of working capital planning. If tax liability increases, it leads to an increase in the requirement of working capital and vice versa. So tax planning can, therefore, be said to be an integral part of working capital planning.

11 Dividend Policy
Dividend policy also has a bearing on working capital, since it is appropriation profits. The payment of dividend reduces cash resources and thereby affects working capital to that extent. Conversely, if the firm does not pay dividends but retaining profits, working capital increases. In other words, declaration of dividends leads to more working capital requirement and vice versa.
12 Depreciation Policy
It is also exerts an influence on the quantum of working capital required. Depreciation charge is out of pocket cost. The effect of depreciation policy on working capital is indirect. More depreciation provisions the amount of working capital required is less and vice versa.

13 Price Level Changes
Increasing prices necessitate the use of more funds for managing an existing level of activity. The effect of raising prices is that a higher the amount of working capital required. However in the case of companies, which can raise their prices proportionately, there is no serious problem regarding working capital required. Moreover, the price rise does not have a uniform effect on all commodities. The effects of raising price levels will be different for different firms depending upon their pricing policies, nature of the product etc.

14 Operating Efficiency
The operating efficiency of the firm relates to the optimum utilization of resources at minimum costs. Efficiency of operations accelerates the pace of cash cycle and involves the working capital turnover, in this case the amount of working capital needed is less since it release pressure on working capital by improving profitability and improving the internal generation of funds.

15 Availability of Credit
The need for working capital in a firm will be less, if it avails liberal credit facilities. Similarly, the availability of credit from banks also influences the working capital needs of the firm. A firm enjoying bank credit facilities can secure funds to finance its working capital requirement very easily whenever it requires. It can therefore, perform its business activities with less working capital than a firm without such credit facility.
16 Other Factors

In addition to the above factors there are a number of other factors, which affect the requirement of working capital. Some of them are: close coordination between production and distribution policies, an absence of specialization in the distribution of products, the means of transportation and communication, the hazards and contingencies inherent in a particular type of business, credit policy of RBI inventory policies, management attitude and wages government policies and so on.\textsuperscript{12}

2.4.4. Analysis of activity

To generate revenue income is primary object of any business unit, because the financial failure of business depends on Income Generation. It is pivot around which all business operations cluster. Revenue Income from various sources is life blood of business. Thus more Income is to be in business like oxygen is to the human being. It is but natural with revenue Income from various sources, the business operates with greater profit and effectiveness and operation are boost up. It evidents, therefore, that effectiveness of activity of business can be measured in term of its contribution in revenue income. This can be measured in term of Activity ratios. These ratios are also known as turnover ratio, It measures the financial position of the business in term of revenue income. The activity Analysis of business has been under taken from following approaches.

- Growth of activity and its measurement in term of revenue income
- Activity in relation to total assets
- The conduct of Activity
- The Impact of Activity
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