

ABFM — Advanced Business & Financial Management

Complete Book | Table of Contents | 25 chapters + 4 sections

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CH-1 Basics of Management

Topic 1 — Management

- **Harold Koontz** — Management is “the art of getting things done through others and with formally organised groups”.
- **Process** — It means **planning and organising resources and activities** of a business.
- **Aim** — It achieves specific goals in the **most effective and efficient** manner.

Thinker	View of management
F. W. Taylor	Knowing what should be done and achieving it efficiently .
Henri Fayol	“To manage is to forecast and plan, organise, command, coordinate and control. ”
Peter Drucker	A manager sets objectives, organises, motivates and communicates, sets yardsticks and measures , to develop people.

Topic 2 — Functions of Management

Function	What it involves
Planning (basic function)	Looking ahead and deciding in advance the most appropriate course of action to achieve pre-determined goals. Bridges the gap between “where we are” and “where we want to be”.
Organising	Provides human and non-human resources . Identify, classify and group activities; assign duties. Delegate authority and create responsibility . Coordinate authority-responsibility relationships.
Staffing	Putting the right person on the right job : recruitment, selection and placement; training and development; remuneration; performance appraisal; promotion and transfer.
Directing	Sets people in motion ; plan, organise, staff only prepare. Supervision — watching work, workers. Motivation — positive/negative, monetary/non-monetary. Leadership — guiding staff. Communication — sharing information, experience, opinion.
Controlling	Measures performance and corrects deviations from plans.

Remember this

- Fayol sequence: **Plan → Organise → Staff → Direct → Control**; directing has 4 elements — **S-M-L-C**.

Topic 3 — Importance of Management

Benefit	How management helps
Change management tool	Helps the transition of an organisation from good to great .
Achieves group goals	Better quality decisions and better control over departments.
Optimum use of resources	Efficient allocation of scarce resources .
Better functioning, lower cost	Maximum results through minimum input by proper planning.
Development of resources	All-round development of human resources, machines, materials and capital.
Better organisation	Defines authority and responsibility at each level and ensures right job fit.
Proper direction	Directs the organisation towards its goals.
Integration of interests	Integrates the interests of various groups in the organisation.

Topic 4 — Classical or Traditional School

Classical Management Theory is the **oldest** management theory. Its main focus is **increasing employee efficiency**, concentrating on **operations** and rewarding high performers through **wages or bonuses**.

- Integrated and **centralised** system
- Greater emphasis on **production**
- Concentration on **errors and their rectification**
- Assumes employees' continuity irrespective of organisational changes
- Based on an **accounting model**
- Gives **equal weightage** to different types of jobs and employees

Topic 5 — Neo-Classical or Behavioural School

- **Motivation** — Different persons are motivated differently to satisfy their specific needs.
- **Communication** — It is a critical input for efficiency measurement.
- **Team-work** — It is essential for organisational performance.
- **Two perspectives** — The school has a **Human Relations** and a **Psychological** perspective.

Theory	Key idea
Maslow's Hierarchy of Needs	Needs follow a hierarchy : physiological → safety → social → esteem → self-actualisation . Only unsatisfied needs influence behaviour . Lower needs usually come first; the order is not rigid.
McGregor's Theory X and Y	Managerial assumptions about employees. Theory X : people avoid work and need control . Theory Y : people exercise self-direction and accept responsibility in suitable conditions.
Herzberg's Motivation-Hygiene (Two-Factor / Satisfier-Dissatisfier)	Motivators (challenging work, recognition, responsibility) give positive satisfaction. Hygiene factors (status, job security, salary, fringe benefits) do not motivate if present but cause demotivation if absent .

Remember this

- Herzberg: **salary is a hygiene factor**, recognition is a motivator.

Topic 6 — Modern Management Theory

Modern theory uses tools such as **statistics** to measure performance and encourages **cross-functional cooperation**. It comprises **3 major theories**.

Theory	Key idea
Quantitative	Built mainly for military decision-making ; integrates people and materials. Uses models, hypotheses, empirical data and statistical models. Uses data analysis, controlled experiments, variable testing and instruments.
Systems	Management is an interrelated component of the organisation; it must support goals and process flows serving overall organisational health .
Contingency	Effective management depends on the situation and context . Contributor: Joan Woodward . Criticised as reactive, not proactive , and for giving no standard principles for specific situations.

Topic 7 — Ohio State and Michigan Leadership Studies

Ohio State University	University of Michigan	Focus
Consideration: rapport with subordinates, good interpersonal relations, support and concern	Relation-oriented: encourages social interaction, mutual respect and trust, empowers people	People
Initiating structure: proper structure for planning, scheduling and aligning roles with task completion and business goals	Task-oriented: defines structure and goals, emphasises planning, defines priorities, has a reward-and-punishment model	Task

Topic 8 — Contemporary School — Total Quality Management

- **Basis** — The contemporary school is built on **Total Quality Management (TQM)** and the **Learning Organisation**.
- **TQM thinkers** — TQM is associated with **Deming, Juran and Crosby**.
- **Aim of TQM** — It manages the organisation to deliver **high-quality goods and services** to customers.
- **Origin** — TQM originated in **Japan after the Second World War**.

TQM principle	Meaning
Employee involvement	High involvement of employees prevents quality issues.
Customer focus	Understand customers' business and wants; deliver suitable products and services.
Standardisation	Use industry standards as benchmarks to compare with competitors and evaluate own performance.
Continuous monitoring	Monitor and change for the better to improve all areas .

Deming's 14 Points

No.	Point	No.	Point
1	Consistency of purpose	8	Drive out fear through two-way communication
2	Adopt the new philosophy	9	Remove barriers between departments
3	Cease dependence on inspection	10	No targets, slogans or exhortations without new methods
4	End the lowest-bid system	11	Avoid arbitrary production quotas
5	All-round improvement	12	Remove barriers to pride of workmanship and annual rating/merit system
6	On-the-job training	13	Vigorous programme of education and self-improvement
7	Culture of leadership	14	Management to drive transformation involving everyone

Topic 9 — Learning Organisation

A **learning organisation** is one where **all employees take part in identifying and solving problems**, enabling the organisation to continuously enhance its capacity to grow, learn and achieve its goals.

Discipline (5)	Meaning
Personal mastery	Capacity to achieve personal goals; environment for an employee's personal vision, leading to a shared vision.

Discipline (5)	Meaning
Shared vision	Leaders and employees trust and collaborate for a joint vision , rather than mere compliance with instructions.
Mental models	Understanding the impact of our assumptions and generalisations .
Team learning	Members reflect on and consider the views of others.
Systems thinking	Everything is interrelated ; look at the whole picture and how each part connects.

It matters because it finds **innovative ways** and stays ahead of competition, has very high effectiveness and efficiency, higher productivity and output, and enhances the **company's image**.

Remember this

- Senge's 5 disciplines: **P-S-M-T-S** — Personal mastery, Shared vision, Mental models, Team learning, Systems thinking.

Topic 10 — Business Models

A business model is based on the **clients served, product offerings, revenue model**, ways of differentiating and sustaining competitive advantage, and the manner of delivering products or services.

Model	Feature	Example
Solution / consulting	Consulting services that improve client operations	IBM
Profit pyramid	Low-priced products first, then customers move to expensive, high-profit products	General Motors
Multi-component system	Base product at no-profit no-loss ; profit on components/consumables	Gillette (razors vs blades)
Advertisement	Basic product free ; earns through advertising	YouTube, Google
Switchboard	Intermediary connecting multiple sellers with multiple buyers	eBay, Amazon, Flipkart
Time	Depends on speed of R&D; pioneer succeeds until competitors join	—
Efficiency	Enters a mature, standardised market with low-cost, low-margin mass products	Southwest Airlines, Wal-Mart, Dell
Blockbuster	Profits depend on a few major successes ; patents or copyright	Pharmaceuticals, films
Profit multiplier	One concept drives many products through synergy	Walt Disney characters
Entrepreneurial	Specialised offerings not attractive to large firms but with fast growth	1MG (acquired by Tata)
De facto industry standard	Free/low price to saturate market and become standard, then high-margin products	Microsoft

Topic 11 — Information Explosion and Managing Change

- **Information explosion** — Digitisation and **information explosion** will keep increasing.
- **Realign** — Business entities must **adjust and realign** themselves.
- **Manager's role** — Managers must **learn new management techniques, adapt to new technologies, and undergo training** to hone skills.
- **Smooth change** — Change must be **smooth** and must not affect **productivity and profitability**.
- **New products and services** — They rely on a continuous **customer feedback mechanism** and research.
- **Testing** — They must be **properly tested before launch**.

- **Triggers** — Lack of demand, changed consumption patterns or customer expectations may need them.
- **Other triggers** — Technological innovation, competition, or changes in government/regulatory rules.
- **Technological change** — The car industry is adapting to electric vehicles alongside petrol and diesel.
- **Healthcare** — Robots perform surgery with greater precision.
- **Banking** — **Fintech** is changing the role and relevance of banks.
- **Two sides** — New business models with technology enhance bank capabilities but also cause **disruption**.

Topic 12 — Globalisation and Environmental Sustainability

- **Phil Harding** — “Without **environmental sustainability**, economic stability and social cohesion cannot be achieved.”
- **Growth** — Globalisation creates opportunities to grow business and exports.
- **Sourcing and tie-ups** — Firms can source raw materials and enter collaborations and joint ventures.
- **Funding and presence** — Firms can **borrow from international markets at cheaper rates** and set up subsidiaries abroad.

Impact on environment	Effect
Increased transport of goods	Higher emissions, habitat destruction, harm to species
Economic specialisation	Overuse of natural resources, lower forest cover, habitat loss
Reduced biodiversity	Climate change, invasive species, forest loss, greenhouse gases, ocean acidification

Global challenges — poverty, inequality, climate change, environmental degradation, peace and justice — led the **United Nations** to set **17 Sustainable Development Goals (SDGs)**.

SDG	Goal	SDG	Goal
1	No poverty	10	Reduced inequalities
2	Zero hunger	11	Sustainable cities and communities
3	Good health and well-being	12	Responsible consumption and production
4	Quality education	13	Climate action
5	Gender equality	14	Life below water
6	Clean water and sanitation	15	Life on land
7	Affordable and clean energy	16	Peace, justice and strong institutions
8	Decent work and economic growth	17	Partnerships for the goals
9	Industry, innovation and infrastructure		

Topic 13 — Strategic Management — Planning vs Strategy

Strategy comes from the Greek **strategos**, meaning a general or military commander.

Planning	Strategy
Anticipation and preparation in advance for uncertain future events	Best plan chosen among alternatives to accomplish objectives
Like a map for guidance	The path that takes you to the destination
Leads to programmes	Leads to planning
Future-oriented	Action-oriented
Based on assumptions	Based on practical experience

Planning	Strategy
Short-term or long-term	Long-term
Part of the managerial process	Part of decision-making

Type of strategy	Feature
Corporate	Three categories: stability , growth , retrenchment (e.g., selling a marginal software unit to focus on a stronger consultancy business).
Business	Competitive (e.g., differentiate services) or cooperative (alliances to reach global markets).
Functional	Develops a distinctive capability for competitive advantage, e.g., R&D and technology.

Topic 14 — Environmental Scanning and Strategy Formulation

SWOT analysis — Strengths, Weaknesses, Opportunities, Threats — is one of the easiest ways of environmental scanning.

Environment	Elements	Control
Internal	Strengths and Weaknesses	Usually controllable by top management in the short run
External	Opportunities and Threats; general factors (whole economy/industry) and specific factors (an industry or organisation)	Generally outside top management's short-term control

- **Strategy formulation** — It uses situation analysis to set direction through **vision and mission statements**.
- **Vision** — It answers “**What do we want to become?**”
- **Order** — Vision is established **first**; it is the foundation for the mission.

Entity	Vision	Mission
SBI	Be the Bank of choice for a transforming India	Committed to providing simple, responsive and innovative financial solutions

Topic 15 — Phases, Benefits and Importance of Strategic Management

Phase	Feature
Basic budgetary planning	Annual budgeting or financial planning
Forecast-based planning	Extrapolation techniques used for prediction
Externally oriented (strategic) planning	Top management controls planning with external consultants ; bare minimum contribution of lower-level managers
Strategic management	Plans for 5 years with continuous review at shorter intervals; information shared with all levels through LAN and intranets

- **Benefits**: clearer strategic vision; focus on strategically important issues; better understanding of a dynamic environment.
- **Importance**: sets objectives, identifies key issues, coordinates resources, supports implementation, evaluation and adaptation; crucial for **long-term success** but **cannot guarantee** success.
- **Business environment analysis**: a business does not operate in isolation; SWOT helps managers understand the external environment and stay prepared for contingencies.

**ABFM | Module A | CH-1 | MCQs**

Q1. A branch head assigns duties to officers, delegates loan-sanctioning powers and fixes reporting lines. Which management function is this? [Ref: Topic 2, p. 2]

- (a) Organising (b) Planning (c) Staffing (d) Controlling

Q2. A regional manager compares actual CASA growth with the target and initiates corrective action at lagging branches. This is: [Ref: Topic 2, p. 2]

- (a) Directing (b) Staffing (c) Controlling (d) Organising

Q3. Under Herzberg's theory, an increase in salary for a dissatisfied officer will most likely: [Ref: Topic 5, p. 2]

- (a) Strongly motivate the officer
(b) Remove dissatisfaction but not create motivation
(c) Have no effect on dissatisfaction
(d) Act as a self-actualisation need

Q4. A manager believes staff dislike work and must be closely supervised. This reflects: [Ref: Topic 5, p. 2]

- (a) Theory Y (b) Systems theory
(c) Contingency theory (d) Theory X

Q5. Which school holds that the best management style depends on the situation and is criticised for being reactive? [Ref: Topic 6, p. 2]

- (a) Classical (b) Contingency (c) Quantitative (d) Behavioural

Q6. Which feature belongs to the Classical school of management? [Ref: Topic 4, p. 2]

- (a) Communication as critical input for efficiency
(b) Different persons motivated differently
(c) Team learning
(d) Emphasis on production and a centralised system

Q7. 'Initiating structure' leader behaviour was identified by: [Ref: Topic 7, p. 3]

- (a) University of Michigan (b) Deming
(c) Ohio State University (d) Peter Senge

Q8. Which is one of Deming's 14 points? [Ref: Topic 8, p. 3]

- (a) Award business on lowest bid
(b) Fix production quotas
(c) Use slogans to push output
(d) Cease dependence on inspection

Q9. In a learning organisation, understanding the impact of our assumptions and generalisations is called: [Ref: Topic 9, p. 3]

- (a) Personal mastery (b) Mental models
(c) Systems thinking (d) Shared vision

Q10. A printer company sells printers at near cost and earns profits on ink cartridges. The business model is: [Ref: Topic 10, p. 3]

- (a) Profit pyramid (b) Switchboard
(c) Multi-component system (d) Efficiency

Q11. Which statement on planning and strategy is correct? [Ref: Topic 13, p. 4]

- (a) Strategy leads to planning; planning leads to programmes
(b) Planning is action-oriented; strategy is future-oriented
(c) Strategy is only short-term
(d) Planning is part of decision-making; strategy is part of the managerial process

Q12. A bank decides to exit a marginally profitable business and focus on its core lending. This is an example of: [Ref: Topic 13, p. 4]

- (a) Functional strategy
(b) Business strategy
(c) Corporate strategy (retrenchment)
(d) Cooperative strategy

Q13. In SWOT, which elements are usually controllable by top management in the short run? [Ref: Topic 14, p. 4]

- (a) Opportunities and threats (b) Strengths and weaknesses
(c) General external factors (d) Specific external factors

Q14. In the strategic management phase, strategic plans typically cover: [Ref: Topic 15, p. 4]

- (a) 1 year (b) 3 months
(c) 10 years without review (d) 5 years with periodic review

Q15. Which is NOT a benefit of globalisation for business entities? [Ref: Topic 12, p. 4]

- (a) Borrowing abroad at cheaper rates
(b) Setting up subsidiaries abroad
(c) Guaranteed reduction in environmental degradation
(d) Joint ventures

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	a	4	d	7	c	10	c	13	b
2	c	5	b	8	d	11	a	14	d
3	b	6	d	9	b	12	c	15	c

CH-2 Planning**Topic 1 — Planning and its Features**

Planning is the **first primary function** of management, followed by the other functions, and is **closely related to controlling**. It means deciding beforehand **what to do, how, where and who** is to do it.

Koontz and O'Donnell: "Planning bridges the gap from **where we are to where we want to go**. It makes possible things to occur which would not otherwise happen."

Feature	Meaning
Pervasive	Present in all segments and required at all levels of the organisation
Futuristic	Looks ahead and takes a view of the future

Topic 2 — Planning Process

Step	Action
1	Be aware of opportunities in the external environment and within the firm; conduct SWOT analysis
2	Establish objectives for the whole organisation and departments (long and short term)
3	Set planning premises — assumptions in the form of forecasts, existing plans, past policies
4	Identify alternative courses of action
5	Evaluate alternatives (pros and cons) against objectives
6	Select the best and most feasible plan
7	Implement the plan through one or more supporting (derivative) plans
8	Follow up and review ; compare actual with desired results

Remember this

- 8 steps: **Opportunities** → **Objectives** → **Premises** → **Alternatives** → **Evaluate** → **Select** → **Implement** → **Review**.

Topic 3 — Importance and Advantages of Planning

- SMART goals** — Goals should be **Specific, Measurable, Achievable, Realistic, Timely**.
- Goals and direction** — Planning helps **identify goals** and gives **direction** like a roadmap.
- Problems** — It uncovers problems and tackles uncertainty.
- Efficiency** — It adds professionalism and **discards wasteful activities**.
- Ideas** — It gives perspective and promotes innovative ideas.