

11h  
6

Commerce  
class - XI  
chap - 3.

~~24/6/2020~~

30/6/2020

### Questions

- Q.1. Discuss the advantages and disadvantages of loan from Commercial Bank.
- Q.2. Discuss the advantages and disadvantages of loan from Financial Institutions.
- Q.3. Write short notes on following
- |                      |                              |
|----------------------|------------------------------|
| a) Public Deposit    | d) Factoring                 |
| b) Trade Credit      | e) Customer Advances.        |
| c) Instalment Credit | f) Inter-Corporate Deposits. |

### Chap - 4 (Banking Latest Trends)

#### Questions

- Q.1. Write down features of RTGS.
- Q.2. Write down the features of NEFT.
- Q.3. Discuss the benefits of Electronic Banking.
- Q.4. Write short notes on following
- |  |
|--|
| a) Electronic Funds Transfer System (EFTS) |
| b) Automatic Teller Machine (ATM)          |
| c) Debit Card.                             |
| d) Credit Card.                            |
| e) SMS Alerts.                             |



may attach the pledge. During the period of the loan, the company may not be able to pay dividends and the market value of its shares may go down.

### From the Viewpoint of Debentureholders

**5. No voting rights.** Debentureholders have no voting rights in the management of a company. Therefore, they remain at the mercy of the shareholders. Debentureholders have little appeal to investors who want a share in the prosperity of the company.

**6. High unit price.** The unit price of debentures is generally higher than that of shares. Therefore, small investors may not be able to purchase debentures.

**7. Unattractive.** Enterprising investors who want high return and appreciation of capital find debentures unattractive. Debentures of new companies do not appeal to investors.

### Debentures at a Glance

No.	Advantages	Disadvantages
1.	Trading on equity	Fixed burden on profits
2.	Low cost	Loss of prestige
3.	Appeal to cautious investors	Charge on assets
4.	Flexibility	Limited appeal
5.	Tax benefit	
6.	No interference in management	

## 3.10 LOANS FROM COMMERCIAL BANKS

Commercial banks usually provide short term finance because most of their deposits are short term deposits. However, in some cases commercial banks also provide term loans for medium and long periods especially to small scale and medium enterprises (SSMEs).

**Meaning :** Under a term loan, a bank advances a fixed amount in lump sum to the borrower for a specified period. The interest is charged at a fixed rate on the sanctioned amount. The loan is advanced against the security of some assets or on the personal guarantee of the borrower.

**Advantages :** (i) Funds are available for the specified period (ii) Loans from commercial banks provide the benefit of trading on equity (iii). Relationship with a reputed bank is beneficial for the borrower (iv) Repayment can be made out of future earnings (v) Interest paid on bank loan is deductible for determining taxable profits.

**Meaning :** to provide development well as for both in the They also locating a Corporation Credit and of India) Insurance help in the biggest

**Adv**

1. E underwri

2. N finance f impractic much str

3. to a con

4. availabl

5. Facilitie

6. success

**D**

**Limitat**

1. itself to

2. conditi

3. They la the app



loans (ii) Several time consuming formalities are involved in raising loans from commercial banks (iii) Interest on bank loans has to be paid irrespective of profits (iv) Credit raising capacity of the borrower is reduced after a bank loan.

### 3.11. LOANS FROM FINANCIAL INSTITUTIONS

**Meaning :** The Government of India had set up several special institutions in the country to provide long term and medium term finance to business enterprises. These institutions or development banks have become a major source of finance for floatation of new concerns as well as for the modernisation and expansion of the existing concerns. They provide finance both in the form of equity and debt. These institutions are not simply financial institutions. They also provide promotional, technical and managerial services. They take initiative in locating and filling gaps in the country's industrial structure. IFCI, (Industrial Finance Corporation of India), IDBI, (Industrial Development Bank of India), ICICI, (Industrial Credit and Investment Corporation of India), SIDBI (Small Industries Development Bank of India) are well-known development banks in the country. In addition, the LIC, General Insurance Corporation, SFCs, (State Financial Corporations), NIDC, NSIC, UTI etc., also help in providing finance to industry. These specialised financial institutions have become the biggest source of finance for industries in India.

**Advantages:** The main advantages of institutional finance are as follows:

1. Both risk as well as loan capital is available. Special financial institutions provide underwriting facilities also. Benefits of trading on equity are available.
2. New companies which may find it difficult to raise financial from the public can get finance from these institutions. Assistance is available when recourse to normal sources is impracticable or unprofitable. Modernisation and expansion plans can be financed without much strain on the financial structure of the company.
3. As these institutions carry out a thorough investigation before granting assistance to a concern relationship with them helps to increase the creditworthiness of a company.
4. Loans and guarantees in foreign currency and deferred payment facilities are available for the import of required machinery and equipment.
5. The rate of interest and repayment procedures are convenient and economical. Facilities for repayment in easy instalments are made available to deserving concerns.
6. Along with finance, a company can obtain expert advice and guidance for the successful planning and administration of projects.

**Disadvantages:** However, institutional financing may involve the following

**Limitations:**

1. The concern requiring finance from special financial institutions has to submit itself to a thorough investigation. A number of formalities and documents are involved.
2. Many deserving concerns may fail to get assistance for want of security and other conditions laid down by these institutions.
3. Sometimes these institutions place restrictions on the autonomy of management. They lay down a convertibility clause in loan agreements. In some cases, they insist on the appointment of their nominees on the Board of Directors of the borrowing company.



### 3.12 SOURCES OF SHORT TERM FINANCE

#### 3.12.1 Public Deposits

Public deposits refer to the deposits of money made by the public with non-banking companies. These deposits represent loans from the public including employees and shareholders of the company. The system of public deposits originated when banks were not well developed in India. In recent years, this source has become popular due to various reasons. Depositors get a higher rate of interest than that available on bank deposits. At the same time companies find it cheaper than loans from banks and financial institutions.

#### Public Deposits at a Glance

No.	Merits	Demerits
1.	Convenience	Uncertainty
2.	Economy	Limited appeal
3.	No charge on assets	Restrict growth of capital markets
4.	Flexibility	Not available to new firms
5.	Trading in equity	Speculation
6.	Wide contacts	

As a source of finance, public deposits offer the following **advantages** (i) **Economy**. The interest payable on public deposits is lower than the interest charged by banks and special financial institutions. Interest paid on deposits is a deductible expense for income tax purposes (ii) **Simple**. Administrative cost of deposits is lower than that involved in the issue of shares and debentures. The procedure of inviting public deposits is simple and lesser formalities are involved. (iii) **Trading on equity**. As the rate of interest is fixed, a company can derive the benefits of trading on equity. By using public deposits a company can pay a higher dividend to equity shareholders and thereby raise its reputation. (iv) **No charge on assets**. The public deposits generally do not involve a charge on the assets of the company. The company can use its assets as security to borrow from other sources. (v) **Medium term**. The company can borrow funds from a wider public through public deposits. It need not depend upon a single financial institution. Funds are available for a longer period than bank loans. (vi) **Flexibility**. Public deposits introduce flexibility in the financial structure of the company. There is no danger of over-capitalisation and the deposits can be repaid when they are not required. (vii) **No interference**. There is no dilution of shareholders' control because the depositors have no voting rights. They cannot interfere with the internal management of the company. (viii) **Wide contacts**. The system of public deposits enables a company to create contacts with a large number of investors. This helps to improve the prospectus of raising finance through the issue of shares and debentures.

**Disadvantages** : The method of raising finance through the public deposits suffers from the following disadvantages: (i) **Unreliable**. Public deposits are an uncertain and unreliable source of finance. The depositors may not respond when the conditions in the economy are uncertain. Deposits may be withdrawn whenever the depositors feel that the company is in a shaky position. Therefore, public deposits are called 'fair weather friends'. It is not advisable to depend upon them for long-term financing. (ii) **Risk**

#### SOURCES OF FINANCE

**investors**. Deposits are made by the public with non-banking companies. Management of public deposits is done by the company. (iv) **Restrict** growth of a business due to dearth of sources of finance. credit planning by the company. surplus deposits are repaid the same way.

#### 3.12.2 Commercial Finance

Commercial finance in several forms.

##### 1. Loans

Loans are credited to a company's account. The full amount is repaid to the lender. The borrower repays the loan in installments. Loans may be secured or unsecured. Stocks are kept as collateral assets which

##### 2. Cash Credit

to borrow up to a certain amount. Cash credit is known as a revolving credit. It is signed by the borrower to give security to the lender.

The bank sets a 'limit' which is available to the borrower and again and again.

##### 3. Bank overdraft

by a bank to a company's account with a business enterprise. It is a (days) short-term loan and not on the basis of the bank's credit.

##### 4. Discounting

credit instrument by discounting



deposits are generally not available to new companies and those with uncertain earnings. (iv) **Restrict growth of capital market.** Widespread use of public deposits restricts the growth of a healthy capital market. It distorts the interest rate pattern and results in the dearth of sound industrial securities. A spurt in public deposits may pose a threat to credit planning and plan priorities of the Government. (v) **Speculation.** Management of the company may be tempted to indulge in over-trading and speculation with the help of surplus deposits. When the deposits get blocked in fixed assets, the company may fail to repay the same in time.

### 3.12.2 Commercial Banks (Bank Credit)

Commercial banks are a major source of short term finance for business. Banks provide finance in several ways:

**1. Loans and Advances:** A loan is a direct advance made in lump sum which is credited to a separate loan account in the name of the borrower. The borrower withdraws the full amount in cash immediately and undertakes to repay it in one, or more instalments. The borrower is required to pay the interest on the whole amount from the date of sanction. Loans may be secured or unsecured. Loans granted for some immediate need, e.g., to hold stocks are known as transaction loans. These are usually secured by pledge of specific assets which are in the actual or constructive possession of the bank.

**2. Cash credits.** It is a revolving credit agreement under which a borrower is allowed to borrow upto a certain limit. Unlike a loan, it is a running account from which the amounts can be withdrawn and paid back from time to time, subject to the stipulated amount. Cash credit is of two types. When the cash credit is not backed by any security, it is known as *clean cash credit*. Under it, the borrower submits a promissory note which is signed by two or more sureties. In case of *secured cash credit*, the borrower is required to give security in the form of tangible assets or guarantees. In both types of cash credit, the borrower has to pay interest only on the amount actually utilised.

The bank can refuse credit when the creditworthiness of the borrower is unsatisfactory or when there is shortage of funds. The maximum amount known as the 'limit' is determined according to the financial position of the borrower. Cash credit is available to firms of high credit standing only. It avoids the need to negotiate credit again and again and paying interest on idle (unutilised) money.

**3. Bank overdrafts.** It is a kind of a temporary financial accommodation extended by a bank to its regular customers. Under this arrangement, a customer having a current account with the bank is allowed to overdraw his account upto a specified amount. A business enterprise can enter into this arrangement to take care of a temporary (a few days) shortage of working capital. Interest is charged on the amount actually overdrawn and not on the amount sanctioned by the bank. The borrower has not to seek approval of the bank every time it is overdrawing.

**4. Discounting of Bills.** This implies procuring cash from a bank in exchange for credit instruments. Commercial banks provide short-term finance to business concerns by discounting their bills of exchange, promissory notes and hundies. Banks charge some



Bank credit has several advantages: (i) Banks provide credit in the desired form and term as desired, (ii) Banks maintain secrecy of the borrower's affairs in many ways and the borrower has a choice; (iv) Banks do not interfere in the borrower's business; (v) Loans can be repaid in easy instalments. In developed countries, banks reschedule payments.

Bank credit suffers from some disadvantages: (i) The borrower has to observe several legal formalities (ii) Banks grant loans generally against some security charge is created on the company's assets (iii) Bank loans are available for a short period and there is uncertainty of renewal (iv) Banks charge a high rate of interest and the burden is created on profits.

### Bank Credit at a Glance

No.	Merits	Demerits
1.	Flexibility	Legal formalities
2.	Secrecy	Charge on assets
3.	Wide choice	Short period
4.	No interference in management	High rate of interest
5.	Easy repayments	

### 3.12.3 Trade Credit

Trade credit is the credit extended by one business firm to another as incident to the sale or purchase of goods and services. It is also known as mercantile credit. It may be defined as credit extended by sellers to buyers at all levels of the production and distribution process down to the retailer. It does not include consumer credit or credit for personal use. It arises out of transfer of goods and is unsecured. Trade credit is usually for periods ranging from 15 days to three months. The buying firm receives the goods without paying immediately. Trade credit reflects the buyer's power to purchase and pay later. It also indicates the seller's faith in the buyer. Trade credit is available in the ordinary course of business and no security is required for getting it. The terms of credit available depend upon the financial strength and goodwill of the supplier, the amount and frequency of purchases, degree of competition in the market, location of the customers, the nature of products, etc. Trade credit does not make available the funds in cash.

Trade credit may be extended in two forms: (a) open account wherein the buyer does not sign any formal debt instrument. For example, A&Co. purchases goods from B&Co. for ₹ 50,000 on three months' credit. This means A&Co's requirement of working capital for three months is reduced to the extent of ₹ 50,000. Additionally, it can be generated by increasing purchase volume and extending the credit period payable wherein the buyer has to give a written promise to pay at a fixed date in future.



# 4

## BANKING-LATEST TRENDS

### LEARNING OBJECTIVES

After studying this chapter you should understand

- 4.1 Real time Gross Settlement (RTGS)
- 4.2 National Electronic Funds Transfer (NEFT)
- 4.3 E-Banking—Debit and Credit cards, ATM, Mobile Banking-SMS alerts
- 4.4 Issue of Bank Drafts Online

### 4.1 REAL TIME GROSS SETTLEMENT (RTGS)

It is a funds transfer system under which transfer of funds takes place from one bank to another on a 'Real Time' and 'Gross' basis. Settlement on 'Real Time' means there is no waiting period, in payment-transaction. The transaction is settled as soon as it is processed. 'Gross' settlement means the transaction is made on one to one basis without bunching or netting with any other transaction.

The RTGS service is available to customers from 9:00 am to 3:00 pm on week days and from 9:00 am to 12:00 noon on Saturdays. This is the fastest possible system for transfer of money through the banking system.

**Features of RTGS :** The main features of RTGS are as follows :

- (i) RTGS is not available at all the bank branches in India. This facility is provided only by CBS enabled bank branches.
- (ii) RTGS transactions are processed individually and continuously throughout banking hours rather than in batches.
- (iii) The minimum amount in a RTGS transaction is ₹ two lacs. There is no upper ceiling for a RTGS transaction.
- (iv) The receiving or beneficiary bank must credit the customer's account within two hours of receiving the funds transfer message.
- (v) Fees charged for RTGS transactions vary from bank to bank.

### 4.2 NATIONAL ELECTRONIC FUNDS TRANSFER (NEFT)

NEFT is a countrywide system by which an individual, firm or company can electronically transfer funds from any bank branch to another individual, firm or company having an account with any other bank branch in the country. The funds transfers take place at



**Advantages :** (i) Trade credit is a very simple and convenient method of raising short term finance. (ii) No formalities are involved and the credit is readily available to reputed business firms. (iii) No interest is payable and no security is to be paid. (iv) It is flexible source of finance as no charge is created against the assets of the company. (v) Trade credit is more economical than bank loans.

**Disadvantages :** However, the prices charged for credit sales are usually higher. The supplier has to bear loss of bad debts in addition to the costs of administering credit accounts. He requires a larger working capital to supply goods on credit. The buyer loses cash discounts.

### 3.12.4 Instalment Credit

Instalment credit refers to the facility of buying machinery, equipment and other durable goods on credit. The buyer has to pay a part of the price of the asset at the time of delivery and the balance is payable in a number of instalments. The supplier charges interest on the balance due and the interest is included in the amount of instalment itself. Some suppliers provide instalment credit through finance companies and commercial banks. A business firm may also buy fixed assets on hire purchase basis. Under this arrangement, the ownership of the asset remains with the supplier until all the instalments are paid by the buyer. Purchase of fixed assets on instalment and hire purchase basis enables a business firm to utilise the asset and make payments out of the earnings, made from such use.

### 3.12.5 Factoring (Accounts Receivable Financing)

Accounts receivable financing implies raising finance through the sale or mortgage of book debts. Finance companies or factors provide finance to business concerns through outright purchase of accounts receivable or against the security of accounts receivable. The finance companies generally make advances upto 60 per cent of the accounts receivable pledged with them. The debtors of the firm make payments to it which in turn forwards them to the finance company. Sometimes, debtors may be required to make payments directly to the finance company. Bad debt losses, if any, are to be borne by the business concern itself. Outright sale of accounts receivable is known as 'factoring'. The business concern is relieved of the cost and effort of collecting debts and bad debt losses. But it is an expensive method of financing.

### 3.12.6 Customer Advances

In certain cases, manufacturers or suppliers of goods require the customers to deposit an advance payment before the delivery of goods. The customer's advance represents a part of the price of the goods ordered/booked by the customers to be supplied at a later date. This arrangement is used in case of products which are in short supply or which involve a waiting period for delivery, e.g., automobiles, telephone connection, etc. A nominal interest is paid on such advance. At the time of delivery of the article, the advance is adjusted against the price of the article.

### 3.12.7 Inter-corporate Deposits

When a company borrows funds for a short period (say upto six months) from another company which has surplus funds, it is called intercorporate deposit (ICD).



**Benefits**

E-banking offers the following **benefits to customers**:

- (i) Customers get 24 hours and 365 days-a-year services.
- (ii) Customers can make the permitted transactions from residence or office and even while travelling. They need not go to the bank.
- (iii) Recording of each and every transaction inculcates a sense of financial discipline.
- (iv) Customers feel a sense of security. They do not face the risk of carrying cash.
- (v) Unlimited access to the bank increases customer satisfaction.

E-banking offers the following **benefits to banks**:

- (a) The bank gains a competitive advantage.
- (b) Network of the bank is not limited to the number of branches. Rather it expands far and wide.
- (c) Centralised data base reduces load on branches.

The main forms of electronic banking are as follows:

✓ **1. Electronic Funds Transfer System (EFTS)** Under this system, money can be transferred from one account to another account. For example, a bank transfers wages and salaries directly from the company's account to the accounts of employees of the company. This service saves both employer and employees from the inconvenience and risk of handling large amounts of cash.

The main examples of EFT are as follows:

- (a) **Direct credits:** Salary, pension, dividend on shares, interest on debentures, commission, royalty, etc are directly credited to the bank account of a person.
- (b) **Direct Debits:** Loan instalment, school fees, insurance premium, telephone bills, electricity bills, water bills, club membership fee, credit card dues, etc. are directly debited to the bank account of the account holder.

Electronic funds transfer offers the following **advantages**:

- (i) Payments are made on due dates.
- (ii) There is no loss in transit.
- (iii) No expenses are to be made on correspondence.
- (iv) There is no mishandling of cash.
- (v) Transactions are effortless.

✓ **2. Automatic Teller Machine (ATM):** ATM is an automatic machine. A customer can withdraw or deposit money with the help of this machine by inserting his/her ATM card and typing his/her personal identity number (PIN). The ATM operates for all the 24 hours. This is much less costly and less time consuming than a human teller (bank employee). ATMs have begun to assume the role of mini bank kiosks making the need for a visit to a bank branch almost negligible.

Seeing the popularity of ATMs, banks have now begun to install other devices such as cash-depositing machine (in which you can deposit loose cash), passbook printer, internet kiosk, information kiosk and phone banking device next to ATMs, which ensure that branches see less number of customers. At present, there are around 91,000 ATMs.



a particular period of time. All transfers are held till that time. In other words, transactions are settled in batches. During the weekdays NEFT transactions take place 3 times a day (9:30 am, 10:30 am, 12:00 noon, 1:00 pm, 3:00 pm and 4:00 pm). On Saturdays NEFT transactions take place 3 times a day (9:30 am, 10:30 am, and 12:00 noon).

Any NEFT transaction initiated after a designated settlement time has to wait till the next designated settlement time.

**Features of NEFT:** The main features of NEFT are as follows:

- (i) A bank branch must be NEFT enabled to become a part of the NEFT transfer network.
- (ii) An individual, firm or company can make use of NEFT even without having a bank account by depositing cash at a NEFT enabled bank branch.
- (iii) In order to receive funds through the NEFT system, an individual, firm or company must have an account with a NEFT enabled bank branch.
- (iv) In case one does not have a bank account, the maximum amount that can be transferred through NEFT system is ₹ 49999.
- (v) There is no minimum or maximum amount that can be transferred through NEFT when one has a bank account.
- (vi) NEFT transactions take place in batches.
- (vii) NEFT cannot be used to receive foreign remittances.
- (viii) The sender of funds has to pay the following charges for NEFT:
  - (a) For an amount upto ₹ One lac – ₹ 5 plus Service Tax.
  - (b) For an amount above ₹ One lac and upto ₹ Two lacs ₹ 15 plus Service Tax.
  - (c) For an amount above ₹ 2 lacs – ₹ 25 plus Service Tax.
- (ix) The receiver of funds has to pay no charges.

#### Difference Between NEFT and RTGS

	Basis of Distinction	NEFT	RTGS
1.	Processing	NEFT transactions are settled in batches	RTGS transactions are processed individually and continuously
2.	Minimum transaction value	No minimum value	Minimum value is ₹. 2 lacs.
3.	Number of transfers during the day	Six times on a weekday and three times on Saturday	No limit on the number of transfers during the day.

### 4.3. ELECTRONIC BANKING (E-BANKING)

Electronic banking means banking transactions carried out with the help of computer systems. Any user having a PC and a browser can access the bank website and avail banking services. Electronic banking is banking over the internet. It is a part of e-banking.

#### Benefits

E-banking offers the following benefits:

- (i) Customers get services 24 hours a day.
- (ii) Customers can transact even while travelling.
- (iii) Recording of each transaction is automatic.
- (iv) Customers feel safe.
- (v) Unlimited access to services.

E-banking offers the following advantages:

- (a) The bank gains a wider reach.
- (b) Network of the bank is extended far and wide.
- (c) Centralised data management.

The main forms of e-banking are:

#### 1. Electronic Fund Transfer

It is a service provided by banks to transfer funds from one account to another and salaries directly from the employer to the employee's company. This service saves the risk of handling large amounts of cash.

The main examples of electronic fund transfer are:

- (a) **Direct credits:** Direct deposit of salaries, pension, commission, etc.
- (b) **Direct Debits:** Direct payment of bills, electricity, etc.

Electronic funds transfer has the following features:

- (i) Payments are made directly.
- (ii) There is no loss of cash.
- (iii) No expenses are incurred.
- (iv) There is no misappropriation.
- (v) Transactions are secure.

#### 2. Automatic Teller Machine (ATM)

ATM is a machine that can withdraw or deposit money from a bank account using a card and typing his/her PIN. It is available 24 hours. This is much convenient for an employee. ATMs have replaced the need for a visit to a bank branch.

Seeing the popularity of ATMs, banks have introduced cash-depositing machines, internet kiosks, information kiosks, etc. that branches see less number of customers.



### Questions

- Q1. What is Staff Selection? Distinguish between Recruitment and Selection.
- Q2. Discuss the steps of in selection procedure.

Q3.

### Chap 5 (Staff Training)

- Q1. What is Staff training?
- Q2. Distinguish between training and education.
- Q3. Distinguish between training and development.
- Q4. Discuss the various types of training.
- Q5. Discuss the most popular methods of on-the-job training.
- Q6. Discuss the merits and demerits of on-the-job training.
- Q7. Discuss the various methods of off-the-job training.
- Q8. Distinguish between Induction Training and On-the-Job - Training.
- Q9. Write down the main hindrances to training.



✓ **3. Debit Card:** A person can get a debit card by depositing money in the bank. A card holder can make immediate payment for the goods purchased or services availed with the help of debit card availed provided the seller has the terminal facility. When the customer presents his debit card the terminal automatically transfers money from the buyer's account to the seller's account. Debit card can also be used to withdraw money from the ATM.

✓ **4. Credit Card:** Anybody having good reputation can obtain a credit card from the bank. A person need not have money in his bank to get a credit card. Rather it is a facility of overdraft facility. The name, photo, signatures of the customer, the name of the bank and the date of validity are inscribed on the credit card. The card holder can purchase goods and services with the help of credit card. He keeps on depositing the money as per the agreement with the bank.

**5. Tele Banking:** Under this system, the personal computer of a customer is linked to the bank's computer. The customer can get information about the balance in his account and latest transactions on the telephone. This facility is available round the clock.

**6. Core Banking Solution (CBS):** Under this system a customer becomes 'customer of the bank' rather than customer of a branch'. By opening a bank account in one branch (which has CBS facility), the customer can operate the same account in all the branches of the same bank anywhere across the country. The bank gives a unique ID to the CBS customer which gives him the privilege of opening an account with any of the branches without any formalities. CBS also known as 'Centralised Banking Solution' offers the following facilities:

- Instant transfer of funds between the accounts in CBS branches across the country
- Cash withdrawal facility from any of the CBS branches
- Updating of pass book at all CBS branches
- The facility of centralised corporate limits in all the CBS branches.

Thus, CBS is speedy banking anywhere and at anytime.

**7. SMS Alerts :** Under this service a customer gives his/her mobile number. The bank records the mobile number in its computer system in the customer's account. Whenever there is a transaction (debit or credit) there is automatically a SMS on the customer's mobile. The SMS states the nature and amount of transaction, date of the transaction and the balance in the account on that date. Thus, the customer receives all the information about his/her accounts without visiting the bank.

### An alphabet soup to nourish banking health

- RTGS or real time gross settlement is a mechanism wherein money transfer takes place from one bank to another instantly. It requires a minimum amount of ₹ 2 lakhs to be transferred.
- In NEFT or national electronic funds transfer, transactions are settled in batches, between 9 am and 7 pm, subject to a maximum amount of ₹ 50,00,000 per transaction.
- CBS or core banking solution refers to networking of branches, which enables customers to operate their accounts anywhere.

### BANKING-LATEST TRENDS

- ECS or electronic clearing system is a facility to transfer money from a bank account to another bank account.
- CTS or cheque clearing system is a facility to transfer money from a bank account to another bank account using cheque images.

### 4.4 BANK DRAFT

A bank draft is a type of payment order issued by a bank in favour of a third party. It is always payable on demand and is the most convenient method of payment for a person who wants to purchase goods or services. A bank draft is a document duly filled in along with a cheque and is issued by the bank. The bank issues the draft. He then gets the amount of the draft from the bank. A specimen of Bank Draft is given below.

No. 5131/71111

Not over Rs. ...

On demand payable to the order of

STATE BANK OF INDIA

Drawee Branch

A Bank Draft is a document issued by a bank in favour of a third party. Anybody can obtain a bank draft from a bank. The bank issues the draft. The payee can get the amount of the draft from the bank. The main features of a bank draft are:

- Money can be transferred from one bank account to another bank account.



involves weeding out the unsuitable. Therefore, it is a negative process. On the other hand, recruitment is a positive process because it

involves attracting a sufficiently large number of candidates so that the most eligible ones can be chosen.

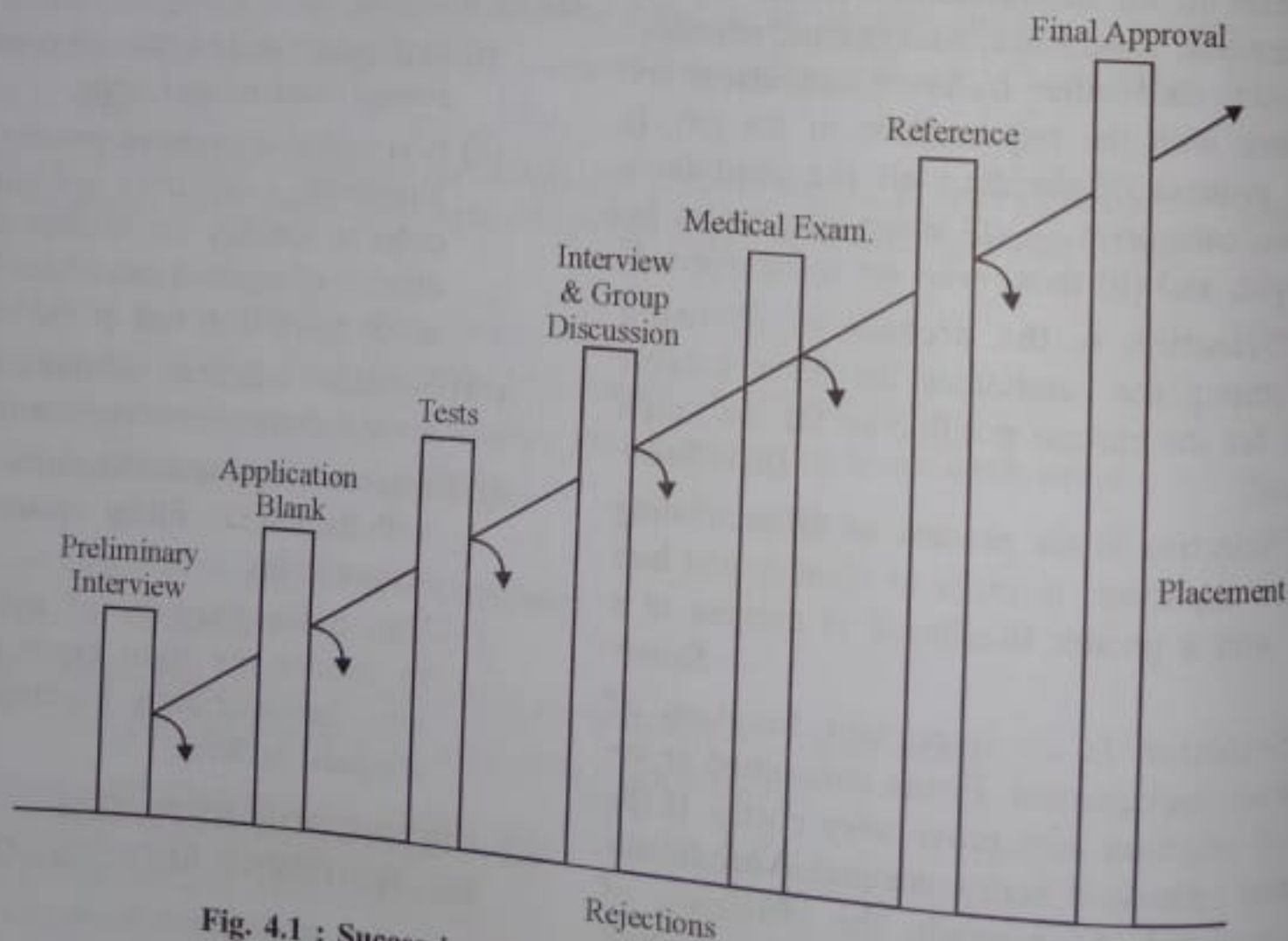
**Table 4.1 : Distinction between Recruitment and Selection**

Points of Difference		Recruitment	Selection
1.	Meaning	Searching prospective employees and stimulating them to apply for jobs.	Choosing the candidates having necessary qualifications.
2.	Nature	Positive process.	Negative process.
3.	Aim	To create a large pool of candidates.	To eliminate all unsuitable candidates.
4.	Process	Simple as candidates are not required to cross many hurdles.	Complex as the candidates are required to cross several hurdles.
4.	Number	No restriction upon the number of candidates.	Only a limited number of candidates are selected.
5.	Order	It is done prior to selection.	It is made only after recruitment.

### 4.3 STEPS IN SELECTION PROCEDURE

A well-organised selection procedure should be designed to select suitable candidates for various jobs. Each step in the selection

procedure should help in getting more and more information about the candidate. There is no ideal selection procedure appropriate for all cases. Generally, the following steps are used in the selection of employees.



**Fig. 4.1 : Successive Stages or Hurdles in Selection**

Staff S

essential  
the min  
interview  
eliminate  
job seek  
of the co  
official  
whether  
up the a  
the min  
chance o  
applicati

The  
both the  
time and  
the applic  
are also s  
a long pr

2. A  
contains  
education  
variety o  
The app  
relevant i  
be brief.

App  
selection  
permanen  
the candi  
job. Tent  
Application  
framing t  
interview.

The  
information  
to caste, r  
as it is re  
Generally  
following

(a) Ic

ac

(b) Pe

of



**1. Preliminary Screening :** This is essentially to check whether the candidate fulfils the minimum qualifications. The preliminary interview is generally quite brief. It aims to eliminate the totally unsuitable candidates. The job seekers are received at the reception counter of the company. The receptionist or some other official interviews the candidate to determine whether it is worthwhile for the candidate to fill up the application bank. Candidates possessing the minimum qualifications and having some chance of being selected are given the prescribed application form known as application blank.

The preliminary interview is beneficial to both the employer and the candidate. It saves the time and expense of the employer in processing the applications of unfit candidates. The candidates are also saved from the trouble of passing through a long procedure and being rejected.

**2. Application Blank :** Application form contains columns for name, age, address, education, job experience, etc. of candidates. A variety of application forms are used in practice. The application form should provide all the relevant information about the candidate and yet be brief.

Application blank is an important step in selection procedure. It provides a detailed and permanent record about the candidate. It reflects the candidate's suitability and interest for the job. Tentative inferences can be drawn from it. Application blank also serves as the basis for framing the questions to be asked during the interview.

The application form should provide all the information relevant to selection. But reference to caste, religion, birth place may be avoided as it is regarded an evidence of discrimination. Generally, an application form contains the following information :

- (a) Identifying information—Name, address, telephone no., etc.
- (b) Personal information—age, sex, place of birth, marital status, dependents, etc.

- (c) Physical characteristics—height, weight, eye sight, etc.
- (d) Family background.
- (e) Education—academic, technical and professional.
- (f) Experience—jobs held, employers, duties performed, salary drawn, etc.
- (g) References
- (h) Miscellaneous—extracurricular activities, hobbies, games and sports, membership of professional bodies, etc.

Application form helps to serve several objectives. *Firstly*, scrutiny of the form helps to weed out candidates who are lacking in education, experience or some other eligibility traits. *Secondly*, it helps in formulating questions to be asked in the interview. *Thirdly*, data contained in application forms can be stored for future reference. Application form duly filled in is also called biodata or curriculum vitae. It provides factual information required for evaluating the candidate. It is also used as a basic record of personal data for those finally selected.

**3. Selection Tests :** After scrutinising the applications, a list of those candidates is prepared who will be tested and interviewed. Tests have become a popular device for screening candidates. These tests are based on the assumption that human traits and work behaviour can be predicted by sampling. Individuals differ in their physical and mental qualities. Various types of tests are used to judge these qualities. Tests are helpful in measuring a candidate's suitability for the job and in establishing standards of job performance. However, tests are not fully reliable and they also involve time and money. Tests are more useful in identifying and eliminating unsuitable candidates. Therefore, tests should be used only as a supplement rather than an independent technique of selection. Psychological tests are intended to test behavioural characteristics like dominance, tolerance, adaptability, adjustability, aggression, emotional characteristics etc. These



# 4

## Staff Selection

### Chapter Outline

- 4.1 Meaning and Definition of Staff Selection
- 4.2 Distinction between Recruitment and Selection
- 4.3 Steps in Selection Procedure
- 4.4 Psychological Tests
- 4.5 Interviews

Once an adequate number of candidates become available through recruitment, the process of selection begins.

### 4.1 MEANING AND DEFINITION OF STAFF SELECTION

Staff selection is the process of careful screening of all the available candidates to choose the most suitable ones to fill the job vacancies in an organisation. Under it, the qualifications, experience, background, attitudes, personality and other traits of candidates are compared with the requirements of the job. It is the process of dividing all the candidates into two categories — (a) those who are to be employed, and (b) those who are to be rejected.

“Selection is the process of choosing from among the candidates the most suitable person for the current position or for the future position”. — Dale Yoder

“Selection is the process of differentiating between applicants in order to identify and hire those with a greater likelihood of success in a job”. — Stoner

Selection is an important function of personnel management. Errors committed at the time of selection may prove very costly. If the selection process is faulty, unsuitable candidates are appointed. As a result, the efficiency of the organisation goes down. Such person shirk work and absent themselves from work quite

frequently. They may ultimately leave their jobs. This leads to waste of time and money spent on their selection and training. Proper selection and placement of personnel are essential for building up a suitable work-force. It helps to improve the efficiency of operations and the morale of employees. The rates of labour turnover and absenteeism can be kept low.

The main characteristics of staff selection are as follows :

- (i) Staff selection is a process consisting of several inter-related steps.
- (ii) It is called a negative process because unsuitable candidates are rejected in order to identify the suitable ones. The number of rejected candidates is usually much more than that of the selected.
- (iii) Selection succeeds recruitment as it is always done after recruitment.
- (iv) Selection involves matching the candidate with the job i.e., fitting square pegs into square holes.
- (v) The basic purpose of selection is to choose the right types of people who can efficiently perform the jobs assigned to them.

### 4.2 DISTINCTION BETWEEN RECRUITMENT AND SELECTION

Selection is different from recruitment. It



selected do not suffer from any serious disease which may create problem in future.

**7. Checking References :** Generally, every candidate is required to state in the application form the names and addresses of at least two responsible persons who know him. These persons are contacted in writing or over telephone to collect information about the background, abilities and character of the candidate. However, the references may not give their frank opinion unless a promise is made that all information will be kept strictly confidential. Moreover, information given by them may be biased in favour of the candidate.

**8. Final Approval :** The candidates who are found suitable after the medical check-up and background investigation are formally appointed by issuing appointment letters to them. They are asked to join duty by the specified date. Generally, the candidates are appointed on probation of one or two years. No selection procedure is foolproof and the best way to judge a person is by observing him working on the job. Candidates who give satisfactory performance during the probationary period are made permanent.

The main **types of employment tests** are as follows :

(a) *Intelligence tests.* These tests are used to measure a person's capacity for reasoning and comprehension in terms of his memory, vocabulary, mental alertness, capacity to grasp

and to put together the elements of an abstract situation. A candidate's IQ (Intelligence Quotient) or mental alertness can be estimated through intelligence tests.

(b) *Aptitude Tests (A.T.).* Such tests seek to measure a candidate's capacity to learn particular skills and his potential abilities. Both mechanical aptitude and aptitude for acquiring job skills can be tested. Aptitude tests are useful for selecting candidates who have the potential to succeed in jobs after undergoing training and experience. Aptitude tests help to predict future performance. These are used to identify persons with special inclination and abilities.

(c) *Trade tests.* These tests are designed to measure the applicant's level of knowledge and skill already achieved in a particular trade or occupation. For example, candidates for the job of a typist may be asked to type a page so as to judge their speed and accuracy. Trade tests are also known as performance tests, proficiency tests or achievement tests.

(d) *Interest tests.* Such tests are employed to find out the preferences of an individual for a certain type of work.

(e) *Personality tests.* These tests are aimed at finding out emotional balance, maturity, temperament, etc. of the candidate.

(f) *Dexterity tests.* Such tests are designed to determine an individual's capacity to use his hands and fingers in industrial work.

**Table 4.2 : Advantages and Disadvantages of Tests**

Advantages		Disadvantages	
1.	Useful for checking information in applications.	1.	Not fully reliable.
2.	Provide additional information.	2.	Cannot measure all qualifications.
3.	Help to reduce bias in selection.	3.	Time consuming and expensive.
4.	Establish performance standards.		

**9. Placement :** Selected candidates are put up or posted on appropriate jobs. This is called placement. It is the process of assigning specific jobs and work places to the selected candidates. It involves matching the candidate and the

job. Proper placement helps to improve work efficiency and satisfaction of employees. While placing the employees, the requirements of both the organisation and the candidates should be taken into consideration.

Q8. Distinguish  
the Job -



have to be carefully chosen after checking for rehabilitate and validity.

**4. Selection or Final Interview (FI) :** It involves a face-to-face conversation between the employer and the candidate. The selectors ask job related and general questions. The way in which a candidate responds to the questions is evaluated. The objectives of the interview are :

- (a) to cross-check the information obtained through application blank and tests, and
- (b) to give an accurate picture of the job and the company.

Interview is the most widely used step in employee selection. There are some qualities which can be judged only through a face-to-face talk with candidates. However, interview suffers from several drawbacks. *Firstly*, it is a time consuming and expensive device. *Secondly*, it can test only the personality of the candidate and not his skills for the job. *Thirdly*, the interviewer may not be an expert and may fail to extract all the relevant information from the candidate. *Fourthly*, the personal judgement or bias of the interviewer may make the result of the interview inaccurate.

When a panel is interviewing, the individuals in the panel need to have some understanding about dividing the work and time among themselves. Each member should be able to complete whatever he is exploring, before another member gets into the action.

Interviews should be conducted in a proper physical environment. The interviews room should be free from noise and interruption. The environment should be quiet and confidential. People generally talk freely and frankly when there is privacy and comfort. Therefore, candidates should be put at ease. The interviewer should pay full attention to what the candidate says.

**5. Group Discussion (GD) :** In an interview, the candidate gets no opportunity to participate and show his leadership ability. Therefore, the interviewer cannot judge the leadership quality

and social make-up of the candidate. Group discussion is a useful means of judging the leadership ability and social traits of candidates. In a group discussion, a problem is given to a group consisting of 8-10 candidates. Members of the group discuss the problem and interact with one another. The observer guides the discussion. He records how many times and in what way each member addresses/reacts to other members and puts forth his views on the problem. Some members may initiate and lead the discussion while others may initiate and lead the discussion while others may participate very little. The leadership qualities, behaviour and judgement of every member can be judged on the basis of observations made. The behaviour of a member might have been aggressive or cooperative.

Group discussion is widely used to screen candidates for admission into management schools. It is a useful device for selecting people when the job requires cooperation of several persons. It can be used for selecting supervisors and executives who require social or human skills. But the time allowed for interaction is not adequate enough to make an accurate assessment. Environmental circumstances or the situation may place some candidates in a more commanding position than others. It is more difficult to administer group discussion than a structured interview. Group discussions provide a lot of data about the candidates, particularly if the subject of discussion is

- not anticipated
- in some way familiar to all in the group.

The contents of the discussion is important to the extent that they reveal the thought processes, values, etc. The process is equally important as it reveals interpersonal skills.

**6. Medical or Physical Examination :** Candidates who are found suitable after interview are called for a physical examination. A medical check-up of such candidates is done by a panel of doctors to ensure that they are healthy and physically fit for the job. A proper medical examination will also ensure that the candidates



and skills for doing a specific job. On the other hand, development involves growth of a person in all respects. It is the process by which managers and executives acquire not only skills and competence in their present jobs but also capabilities for future tasks of increasing difficulty and scope. Secondly, training aims at improving current job performance whereas development seeks to improve future job performance. In other words, training is job

centered while development is career-bound. For instance, an employee may receive training to operate a computer. But he may attend a management course to develop leadership skills. Training and development programmes may be beneficial to both managers and workers but the contents of the programmes are likely to differ. Managers receive instructions in developing leadership skills whereas workers are trained in technical skills.

**Table 5.1 : Distinction between Training, Education and Development**

Points of Distinction	Training	Education	Development
1. <i>Nature</i>	Practical	Theoretical	Both
2. <i>Contents</i>	Job related	General	Career-oriented
3. <i>Participants</i>	Non-managers	Both	Managers
4. <i>Duration</i>	Short	Long	Continuous
5. <i>Cost paid</i>	By the employer	By Government and the individual	By both

### 5.3. IMPORTANCE OF TRAINING

Training is beneficial to both, employers and employees. A well-trained employee is an asset to the enterprise because his efficiency and productivity is high. Training enables the employee to obtain job security, higher earnings and promotion. In fact, management has no choice whether or not to train employees. The only choice left is whether training will be imparted through a formal and systematic programme or not. In the absence of formal training, employees learn by 'trial and error.' They pick wrong ways of doing things and the time involved in learning is very long. Formal training helps to minimise time, cost and wastage involved in training. The main advantages of training are as follows:

**1 Higher productivity.** Training helps to improve the job performance of employees. Well-trained employees are more efficient and as a result the quantity and quality of performance increase.

**2. Reduced supervision.** Well-trained employees are self-reliant. They do not require continuous and intensive supervision. Therefore, the supervisors can save their time and energy.

**3. Better safety.** Human error or negligence is the major cause of accidents in industries. Employees who lack knowledge and skill regarding their job often commit mistakes. Training makes employees proficient and reduces accidents. Training makes employees safety conscious and enables them to make better use of safety devices.

**4. Economy.** Trained employees make better and economical use of the materials and machinery. Proper handling of facilities reduces wastage, spoilage and breakage. Loss due to damage is minimised.

**5. Higher morale.** Effective training improves job attitudes and self-confidence of employees. They feel that management cares for them. Trained employees can work better and thereby earn rewards. As a result, their

Staff Training

motivation and helps to reduce

**6. Promotion.** enables employees to acquire skills for promotion. Training facilitates career

**7. Stability.** an organisation and thereby flexible as well as a great variety of trained staff, expand and diversify

**Benefits of Training**

Training following way

(i) **Self-improvement.** improve the self-efficiency enables him to work with enthusiasm

(ii) **Higher productivity.** can perform better

(iii) **Safety.** to use various machines safely and avoid accidents.

(iv) **Adaptability.** employee to adapt to new methods.

(v) **Promotion.** can develop himself

(vi) **New Skills.** knowledge and new skills are acquired and remain permanent

### 5.4 TYPES OF TRAINING

According to following types :

**1. Induction Training.** Induction or orientation training introducing and familiarising



# 5

## Staff Training

### Chapter Outline

- 5.1 Meaning and Definition of training
- 5.2 Distinction between Training, Education and Development
- 5.3 Importance of training

- 5.4 Types of training
- 5.5 Preparation of the training programme
- 5.6 Methods and techniques of training
- 5.7 Hindrances to training

Once the employees are selected and placed on jobs, they need to be trained to make them efficient in performing the job.

### 5.1 MEANING AND DEFINITION OF TRAINING

Training is the process of increasing the job knowledge and skills of employees. It is an organised or systematic activity wherein people require knowledge and skills for doing specific work. It is a two-way process because there must be someone to learn and someone to teach. A training programme is prepared to improve the knowledge and skills of employees.

According to Michael Jucious, "training is any process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased. On the other hand, education is the process of increasing the general knowledge and understanding of employees."

The main objectives of training are as follows :

- (i) To prepare employees for the right jobs by imparting the required knowledge and skills.
- (ii) To enable employees to work more efficiently on their present jobs by exposing them to the latest concepts and techniques.

- (iii) To build a second line of competent officers by preparing them to occupy higher positions.

### 5.2 DISTINCTION BETWEEN TRAINING, EDUCATION AND DEVELOPMENT

Training should be differentiated from both education and development.

**Training and Education :** Education involves improving the general knowledge and developing an overall understanding of the total environment. For example, a mechanic who repairs a car better than an engineer is only trained. He is not educated because he does not know the principles of engineering. Therefore, scope of education is wider than that of training. Secondly, the purpose of education is general whereas training has a specific and immediate purpose of making a person proficient in a particular job. Thirdly, education involves formal instruction in a school or college whereas training can be given on the job itself. Fourthly, education is generally theoretical whereas training is practical in nature. Fifthly, the cost of education is generally paid by the Government and the student. On the other hand, the cost of training is generally borne by the employer.

**Training and development :** Training should also be differentiated from development. Training is the act of improving the knowledge



location of factory, office and other facilities.

(iii) Arranging lectures by senior managers of the company to acquaint the new employees with the history, activities, policies, etc. of the company.

(iv) Distributing handbook of information, employee manual among new employees.

**2. Job Training :** It is not always possible to recruit and select trained employees. When persons without any training and job experience are selected, they require some training to perform their job well. Such training is called job training and it is given to make the employees knowledgeable and skilled in performing a specific job.

**3. Remedial Training :** This type of training is designed to correct the mistakes and shortcomings in the work behaviour and job performance of employees. Some employees might have picked up faulty ways of doing work. Remedial training is provided to remove these defects and to teach the right methods of doing the job.

**4. Safety Training :** The purpose of safety training is to create safety consciousness and to teach the use of safety devices so as to prevent and minimise accidents and injuries.

**5. Promotional Training :** When persons working at lower level are promoted they need training in the performance of higher jobs. Promotional training involves preparing employees for higher positions. Employees with adequate potential are given training to fill vacancies at higher levels. Promotional training facilitates succession planning and career development.

**6. Refresher Training :** When existing work methods and techniques become obsolete, employees have to be trained in the use of new methods and techniques. Refresher training is provided to update the knowledge and skills of employees. It helps to refresh the job knowledge

and make employees efficient in the use of new technology. Rapid advancements in technology have increased the need for refresher training.

Thus, several types of training programmes can be organised in an office for clerical, supervisory and managerial staff.

## 5.5 PREPARATION OF THE TRAINING PROGRAMME

A good training programme is required for successful training. The main components of a training programme are as follows :

### PRE-TRAINING ACTIVITIES

**1. Defining the Objectives :** The purpose of training should be clearly defined. Without clearly defined objectives, training is likely to be misguided and unsuccessful.

**2. Identifying Training Needs :** All training activities should be related to the specific needs of the employer and the employees. A training programme should be launched only after the training needs are assessed and defined. In order to identify the training needs, the gap between existing and desired performance, attitudes, knowledge and skills may be analysed.

**3. Selecting and Motivating the Target Group :** It is necessary to decide who is to be trained — new or old employees, unskilled or semi-skilled workers, supervisors or executives. The type and methods to be used will depend upon the type of persons to be trained. It is also necessary to create a desire for learning. The employees will be interested in training if they believe that it will benefit them personally. Trainees will change their behaviour if they become aware of better ways of performing and gain experience in the new pattern of behaviour so that it becomes their normal manner of operation. A climate conducive to learning can also be created through physical and psychological environment. Physically an appropriate location, adequate space, proper lighting and ventilation, adequate furniture, and audio-visual aids are necessary. Psychological environment consists of involvement and participation, freedom of

social in  
and help  
learner's p

### 4. Pr

a training  
upon the i  
trainer mu  
how to tea  
teaching a  
techniques

### 5. De

step involv  
designing  
choosing  
Training co  
in the proc  
course may  
week to a  
the contents  
advisable to  
training pac  
training pack  
syllabus wit  
and an appr  
Support mate  
notes, case str  
manuals, mov

### POST-TRAINING

#### 1. Presen

of training. He  
and illustrates  
knowledge and  
the learner sho  
to explain why  
his interest in  
told of the sequ  
for each step in  
job to the total w  
be clear and co  
stressed and on  
a time. Audio-v



social interaction, open communication, friendly and helpful trainers, provision for measuring learner's progress, etc.

**4. Preparing the Trainers.** The success of a training programme depends to a great extent upon the instructors or the resource persons. The trainer must know both the job to be taught and how to teach it. He should have an aptitude for teaching and should employ the right training techniques.

**5. Developing Training Package.** This step involves deciding the content of training, designing support material for training and choosing the appropriate training methods. Training courses may involve specific instructions in the procedures of doing a job. A training course may cover time periods ranging from one week to a few months. In addition to deciding the contents, methods and time required, it is advisable to work out budget for alternative training packages to facilitate choice. Such a training package should also contain a detailed syllabus with proper sequencing of contents and an appropriate mix of training methods. Support material for training may include study notes, case studies, pamphlets, charts, brochures, manuals, movie slides, etc.

## POST-TRAINING ACTIVITIES

**1. Presentation.** This is the action phase of training. Here the trainer tells, demonstrates and illustrates in order to put over the new knowledge and operations. However, before it, the learner should be put at ease. It is necessary to explain why he is being taught, to develop his interest in training. The learner should be told of the sequence of the entire job, the need for each step in the job, the relationship of the job to the total workflow, etc. Instructions should be clear and complete. Key points should be stressed and one point should be explained at a time. Audio-visual aids should be used to

demonstrate and illustrate and the trainee should be asked to repeat the operations. He should also be encouraged to ask questions in order to ensure that he really knows and understands the job.

**2. Performance Try-out.** The trainee is asked to do the job several times slowly. His mistakes are corrected and, if necessary, the complicated steps are explained again. As soon as the trainee demonstrates that he can do the job rightly, he is put on his own and the training is over.

**3. Follow-up.** In this step, the effectiveness of the training programme is assessed. The feedback generated through follow-up will help to reveal weaknesses or errors, if any. Necessary corrective action can be taken. If necessary, instruction may be repeated until the trainer learns whatever has been taught to him. Follow-up action reinforces the learning process. It also helps in designing future training programmes.

## 5.6 METHODS AND TECHNIQUES OF TRAINING

The methods employed for training of operatives may be described as under :

**1. On-the-Job Training.** In this method the trainee is placed on a regular job and taught the skills necessary to perform it. The trainee learns under the guidance and supervision of the superior or an instructor. The trainee learns by observing and handling the job. Therefore, it is called *learning by doing*. This is the most popular method of training.

Several methods are used to provide on-the-job training, e.g., coaching, job rotation, committee assignments, etc. A popular form of on-the-job training is Job Instruction Training (JIT) or step by step learning. It is widely used in the United States to prepare supervisors. It is appropriate for acquisition or improvement of motor skills and routine and repetitive operations. The JIT involves the following steps :

88. Distinguishing  
On-the-Job - Training



motivation and morale is boosted. Higher morale helps to reduce absenteeism and labour turnover.

**6. Promotion and career growth.** Training enables employees to acquire knowledge and skills for more responsible jobs. They can earn promotions more quickly. Thus, training facilitates career growth of an employee.

**7. Stability and growth.** Through training, an organisation can develop its future executives and thereby ensure its stability. It becomes flexible as well-trained employees can handle a great variety of jobs. With the help of well-trained staff, an organisation can smoothly expand and diversify.

### Benefits of Training to Employees

Training is useful to employees in the following ways :

(i) **Self-confidence** : Training helps to improve the self-confidence of an employee. It enables him to approach and perform his job with enthusiasm.

(ii) **Higher Earnings** : Trained employees can perform better and thereby earn more.

(iii) **Safety** : Training helps an employee to use various safety devices. He can handle the machines safely and becomes less prone to accidents.

(iv) **Adaptability** : Training enables an employee to adapt to changes in work procedures and methods.

(v) **Promotion** : Through training employee can develop himself and earn quick promotions.

(vi) **New Skills** : Training develops new knowledge and skills among employees. The new skills are a valuable asset of an employee and remain permanently with him.

### 5.4 TYPES OF TRAINING

According to the purpose training is of the following types :

#### 1. Induction or Orientation Training :

Induction or orientation is the process of introducing and familiarising new employees to

the organisation so that they may adjust quickly and easily in their new environment.

Orientation implies introducing the new employees to the organisation and its policies, procedures and rules. When a new employee reports for work, he must be helped to become familiar with the work environment and the fellow employees. A systematic orientation programme helps to make the employee feel at home and reduces the initial nervousness on his part. The main objectives of an orientation programme are (a) to build-up the new employee's confidence in himself and in the new organisation so that he may become an efficient employee, (b) to give the necessary information to the employee about the location of work rooms, canteen and other facilities, leave rules, rest period, etc, (c) to develop a feeling of belonging and loyalty to the organisation, and (d) to ensure that the new employee does not form a false opinion about the organisation because first impression is the last impression.

In small organisations, orientation may be informal. But in large firms, a formal orientation programme is organised to supply the following type of information to the new employees :

- ✓ 1. Company's history and products
- ✓ 2. Company's organisational structure
- ✓ 3. Location of departments and employee services
- ✓ 4. Rules and regulations
- ✓ 5. Personnel policies and practices
- ✓ 6. Grievance procedure
- ✓ 7. Safety measures
- ✓ 8. Standing orders
9. Terms and conditions of employment.

An induction training programme may consist of several activities such as :

- ✓ (i) Welcoming and introducing the new employee with his colleagues, superiors and subordinates during a get-together.
- ✓ (ii) Taking the new employees around the building to familiarise them with the

88. Distinguishing  
On-the-Job - Training



method can be taught effectively by the trained instructor who knows how to teach. *Fifthly*, it permits the trainee to practice without the fear of being observed and ridiculed by the superior/co-worker. *Lastly*, it is a very efficient method of training a large number of employees in the same kind of work at the same time. This method is also useful when it is not advisable to put the burden of training on line supervisors and when a special coaching is needed. It is often used to train clerks, bank tellers, inspectors, inactive operators, testers, typists, etc.

**Demerits :** Vestibule training is the most expensive method because of additional investment in classroom, equipment and expert trainers. *Secondly*, the training situation is somewhat artificial and the trainee does not get a feel of the real job. *Thirdly*, separation of training from the supervisory responsibilities may lead to problems in the organisation.

**(b) Apprenticeship Training.** In this method, theoretical instruction and practical learning are provided to trainees in training institutes classroom lectures are followed by practical work. In India the Government has established Industrial Training Institutes (ITIs) for this purpose. Under the Apprenticeship Act 1962 employers in specified industries are required to train the prescribed number of persons in 'designated trades.' The aim is to develop all round craftsmen. Generally, a stipend is paid during the training period. Thus, it is an "earn when you learn" scheme.

**Merits :** The main advantage of this method is that it combines theory and practice. *Secondly*, the trainees acquire skills which are valuable in the job market. *Thirdly*, apprenticeship programmes provide skilled workforce to industry.

**Demerits :** Apprenticeship training is time consuming and expensive because the period of training is quite long and stipend has to be

paid to the apprentices. Many persons leave the training programme midway as the training period ranges from one year to five years.

Apprenticeship training is the oldest method of training. It is particularly suitable for learning crafts and technical trades wherever job proficiency is the result of a relatively long training period. Draughtsman, machineman, printer, tool maker, pattern designer, mechanic, carpenter, weaver, fitter, jeweller, engraver, electrician, etc. are examples of such areas.

**(c) Classroom Training.** Under this method, training is provided in company classrooms or in educational institutions. Lectures, case studies, group discussions, and audio-visual aids are used to explain knowledge and skills to the trainees. Classroom training is suitable for teaching concepts and problem solving skills. It is also useful for orientation and safety training programmes. Some companies maintain their own training institutes or schools. Special training courses are designed, e.g., management course for foremen, computer course for typists, etc. Courses in retraining and upgrading may also be conducted. Small firms depend on outside schools and courses.

**(d) Internship Training.** It is a joint programme of training in which educational institutions and business firms cooperate. Newly recruited employees are sent to the vocational institutions for theoretical training. They also work in some factory or office to acquire practical knowledge and skills. This method helps to provide a good balance between theory and practice. But it involves a long time period due to slow process. This method of training is used in professional work, e.g., MBBS, CA, ICWA, Company Secretaries, etc. This method is suitable for jobs where advanced theoretical training requires practical applications.



88. Dishnagar  
On the Job - Training



(a) Preparing the trainee for instruction. This involves putting the trainee at ease, securing his interest and attention, stressing the importance of the job, etc.

(b) Presenting the job operations or instructions in terms of what the trainee is required to do. The trainee is put at work site and each step of the job is explained to him clearly.

(c) Applying and trying out the instructions to judge how far the trainee has understood the instructions.

(d) Following up the training to identify and correct the deficiencies, if any.

On-the-job training method provides immediate feedback, permits quick correction of errors and provides extra practice when required. But it needs skilled trainers and preparation in advance.

**✓ Merits :** The main advantage of on-the-job training is that the trainee learns on the actual machine in use and in the real environment of the job. He gets a feel of the actual job. Therefore, he is better motivated to learn and there is no problem of transfer of training skills to the job. *Secondly*, this method is very economical because no additional space, equipment, personnel or other facilities are required for training. The trainee produces while he learns. *Thirdly*, the trainee learns the rules, regulations and procedures by observing their day to day applications. *Fourthly*, this is the most suitable method for teaching knowledge and skills which can be acquired through personal observation in a relatively short time period. It is widely used for unskilled and semi-skilled jobs, e.g., mechanical, clerical and sales jobs. *Fifthly*, line supervisors take an active part in training their subordinates.

**Demerits :** In on-the-job training, the learner finds it difficult to concentrate due to noise of the actual work-place. *Secondly*, this method is often haphazard and unorganised.

The superior or experienced employee may not be a good trainer. *Thirdly*, in this method the trainee may cause damage to costly equipment and materials. *Fourthly*, accidents in the factory may increase.

On-the-job training is, however, the most widely used and accepted method of training. It is suitable for all levels of employees, workers, supervisors and executives. It is appropriate for teaching knowledge and skills which can be learnt in a relatively short period of time and where only a few persons are to be trained for the job. This method is recommended for routine jobs which do not involve costly machines and elaborate supervision.

In order to make on-the-job training successful, some conditions must be satisfied (a) what and how to teach should be carefully decided, (b) the instructor should be carefully selected and trained, and (c) a definite follow-up schedule should be used to judge the results of training.

**2. Off-the-Job Training.** It means training is given outside the job. Various methods used in off-the-job training are given below :

**(a) Vestibule Training.** In this method a training centre called vestibule is set up and actual job conditions are duplicated and simulated in it. Expert trainers are employed to provide training with the help of equipment and machines which are identical with those used at the workplace.

**Merits :** The main advantage of vestibule training is that the trainee can concentrate on learning without disturbance of the workplace noise. *Secondly*, the interest and motivation of the trainee are high as the real job conditions are duplicated. *Thirdly*, this method is essential in cases where on-the-job training might result in a serious injury, a costly event, or the destruction of valuable equipment and materials, e.g., aeronautical industry. *Fourthly*, compared



**Table 5.2 : Distinction between Induction Training and On-the-Job Training**

Basis of Distinction		Induction Training	On-the-Job Training
1.	Meaning	Process of socialisation whereby a new employee is made familiar with his work environment.	Process of providing knowledge and skills for doing a particular job.
2.	Place of training	May be outside the workplace.	At the workplace.
3.	Frequency	Once in the lifetime of an employee in an organisation.	May be several times.
4.	Trainee	A new employee.	Both new and existing employees.
5.	Purpose	To help an employee adjust to the organisation.	To improve efficiency of employee.

### 5.7 HINDRANCES TO TRAINING

There are several hindrances to a good training programme. The main hindrances are as follows :

1. Lack of top management support.

2. Shortage of funds required for training.
3. Shortage of qualified trainers.
4. Lack of faith in the usefulness of training.
5. Lack of willingness to learn on the part of trainees.

### SUMMARY

Training is the process of increasing the knowledge and skills in a specific type of work. It is different from education and development. Training is beneficial for both employer and employees. It is of several types, e.g. induction, safety, refresher, remedial, promotional, etc. Several on-the-job and off-the-job methods are used for training.

### EXERCISES

#### Short Answer Type Questions

1. Differentiate between Training and Development.
2. List the elements of a training programme.
3. What is the purpose of induction or orientation training?
4. Explain one major hindrance to a good training programme.
5. Training is an unavoidable cost. Justify.
6. Write two advantages of orientation training.
7. What is vestibule training? What is its purpose?
8. State the significance of refresher training.
9. State any two hindrances to staff training.

[2011, 2015]  
[2000]  
[2002, 2006]  
[2003, 2008]  
[2005]  
[2008]  
[2009]  
[2013]  
[2017]

1. "Train  
Ans. Traini  
devel  
There  
2. Give f  
Ans. Only c  
(i) Tra  
(ii) Tra  
(iii) Tra  
(iv) Tra  
3. Give fo  
Ans. Only of  
(i) Wh  
(ii) Wh  
(iii) Wh