

# Business Studies

कक्षा/Class: XII  
2024-25

विद्यार्थी अध्ययन सामग्री  
Student Support Material



केन्द्रीय विद्यालय संगठन  
Kendriya Vidyalaya Sangathan

## संदेश



विद्यालयी शिक्षा में शैक्षिक उत्कृष्टता प्राप्त करना केन्द्रीय विद्यालय संगठन की सर्वोच्च वरीयता है। हमारे विद्यार्थी, शिक्षक एवं शैक्षिक नेतृत्व कर्ता निरंतर उन्नति हेतु प्रयासरत रहते हैं। राष्ट्रीय शिक्षा नीति 2020 के संदर्भ में योग्यता आधारित अधिगम एवं मूल्यांकन संबन्धित उद्देश्यों को प्राप्त करना तथा सीबीएसई के दिशा निर्देशों का पालन, वर्तमान में इस प्रयास को और भी चुनौतीपूर्ण बनाता है।

केन्द्रीय विद्यालय संगठन के पांचों **आंचलिक शिक्षा एवं प्रशिक्षण संस्थान** द्वारा संकलित यह 'विद्यार्थी सहायक सामग्री' इसी दिशा में एक आवश्यक कदम है। यह सहायक सामग्री कक्षा 9 से 12 के विद्यार्थियों के लिए सभी महत्वपूर्ण विषयों पर तैयार की गयी है। केन्द्रीय विद्यालय संगठन की 'विद्यार्थी सहायक सामग्री' अपनी गुणवत्ता एवं परीक्षा संबंधी सामग्री-संकलन की विशेषज्ञता के लिए जानी जाती है और अन्य शिक्षण संस्थान भी इसका उपयोग परीक्षा संबंधी पठन सामग्री की तरह करते रहे हैं। शुभ-आशा एवं विश्वास है कि यह सहायक सामग्री विद्यार्थियों की सहयोगी बनकर सतत मार्गदर्शन करते हुए उन्हें सफलता के लक्ष्य तक पहुंचाएगी।

शुभाकांक्षा सहित।

निधि पांडे  
आयुक्त, केन्द्रीय विद्यालय संगठन

**LIST OF TEACHERS AND OTHER OFFICIALS INVOLVED IN THE PREPARATION OF  
STUDENT SUPPORT MATERIAL**

<b>ACADEMIC - COORDINATOR</b>	<b>SHRI.RAJAPPAN M N</b>	<b>PRINCIPAL PMSHRI KV NO.1 PALAKKAD ERNAKULAM REGION</b>
<b>ZIET COORDINATOR</b>	<b>Mr. P SELVAMANI</b>	<b>TRAINING ASSOCIATE (GEOG) ZIET, MYSORE</b>
<b>REVIEWED BY</b>	<b>Mrs. VARSHA JAIN</b>	<b>PRINCIPAL KV ONGC RAJAHMUNDRY KVS HYDERABAD REGION</b>
<b>EDITED AND COMPILED BY</b>	<b>SMT. SWAPNA V P SHRI SACHIN E SMT. DHANYA M</b>	<b>PGT COMMERCE, PMSHRI KV NO.2 CALICUT PGT COMMERCE, PMSHRI KV MALAPPURAM PGT COMMERCE, PMSHRI KV NO.1 PALAKKAD</b>

**CONTENT CREATERS**

<b>S.NO</b>	<b>NAME OF THE TEACHER</b>	<b>NAME OF THE KV</b>	<b>REGION</b>
1	MRS.RACHNA B CHHILWAR	HEBBAL	BENGALURU
2	NARENDRA VERMA	DONIMALAI	BENGALURU
3	MR. JAGADEESH	MYSURU	BENGALURU
4	MRS. NISHA	AFS AVADI	CHENNAI
5	MRS. R. LALINI	NO.2 TAMBARAM	CHENNAI
6	MRS. CINI AUGUSTINE	KARAIKUDI	CHENNAI
7	MRS. RAJI KRISHNAN	PORT TRUST, COCHIN	ERNAKULAM
8	MS. SHYMOL T VARGHESE	PORT BLAIR NO.1	CHENNAI
9	MRS. KALA V	NO.1 TRICHY	CHENNAI
10	SMT. SOJA C P	K V PAYYANUR	ERNAKULAM
11	SHRI. MUHAMMED NIZAR K A	K V THRISSUR	ERNAKULAM
12	SMT. SUDHA K R,	KV, NO I CALICUT	ERNAKULAM
13	MR SHAHZAD ARABI	NO.1 TIRUPATI (S.1)	HYDERABAD
14	MR G GURAVA REDDY	BOLARUM	HYDERABAD
15	MR PARAS ANAND	NFC NAGAR	HYDERABAD

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**Business Studies**  
**CLASS–XII (2024-25)**

**Theory: 80 Marks**  
**Project: 20 Marks**

**3 Hours**

<b>Units</b>		<b>Periods</b>	<b>Marks</b>
<b>Part A</b>	<b>Principles and Functions of Management</b>		
1.	Nature and Significance of Management	12	16
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3	Business Environment	12	
4	Planning	14	14
5	Organising	15	
6	Staffing	16	20
7	Directing	15	
8	Controlling	12	
	<b>Total</b>	<b>110</b>	<b>50</b>
<b>Part B</b>	<b>Business Finance and Marketing</b>		
9	Financial Management	20	15
10	Financial Markets	18	
11	Marketing Management	30	15
12	Consumer Protection	12	
	<b>Total</b>	<b>80</b>	<b>30</b>
<b>Part C</b>	<b>Project Work (One)</b>	<b>30</b>	<b>20</b>

## Part A: Principles and Functions of Management

### Unit 1: Nature and Significance of Management

Concept	After going through this unit, the student/ learner would be able to:
Management - concept, objectives, and importance	<ul style="list-style-type: none"><li>• Understand the concept of management.</li><li>• Explain the meaning of 'Effectiveness and Efficiency.</li><li>• Discuss the objectives of management.</li><li>• Describe the importance of management.</li></ul>
Management as Science, Art and Profession	<ul style="list-style-type: none"><li>• Examine the nature of management as a science, art and profession.</li></ul>
Levels of Management	<ul style="list-style-type: none"><li>• Understand the role of top, middle and lower levels of management</li></ul>
Management functions-planning, organizing, staffing, directing and controlling	<ul style="list-style-type: none"><li>• Explain the functions of management</li></ul>
Coordination- concept and importance	Discuss the concept and characteristics of coordination. <ul style="list-style-type: none"><li>• Explain the importance of coordination.</li></ul>

## Unit 2: Principles of Management

Principles of Management - concept and significance	<ul style="list-style-type: none"> <li>• Understand the concept of principles of management.</li> <li>• Explain the significance of management principles.</li> </ul>
Fayol's principles of management	<ul style="list-style-type: none"> <li>• Discuss the principles of management developed by Fayol.</li> </ul>
Taylor's Scientific management - principles and techniques	<ul style="list-style-type: none"> <li>• Explain the principles and techniques of 'Scientific Management'.</li> <li>• Compare the contributions of Fayol and Taylor.</li> </ul>

## Unit 3: Business Environment

Business Environment- concept and importance	<ul style="list-style-type: none"> <li>• Understand the concept of 'Business Environment'.</li> <li>• Describe the importance of business environment</li> </ul>
Dimensions of Business Environment - Economic, Social, Technological, Political and Legal	<ul style="list-style-type: none"> <li>• Describe the various dimensions of 'Business Environment'.</li> <li>• Understand the concept of demonetization</li> </ul>
Demonetization - concept and features	

## Unit 4: Planning

Planning: Concept, importance and limitation	<ul style="list-style-type: none"> <li>• Understand the concept of planning.</li> <li>• Describe the importance of planning.</li> <li>• Understand the limitations of planning.</li> </ul>
Planning process	<ul style="list-style-type: none"> <li>• Describe the steps in the process of planning.</li> </ul>
Single use and Standing Plans. Objectives, Strategy, Policy, Procedure, Method, Rule, Budget and Programme	<ul style="list-style-type: none"> <li>• Develop an understanding of single use and standing plans</li> <li>• Describe objectives, policies, strategy, procedure, method, rule, budget and Programme as types of plans.</li> </ul>

## Unit 5: Organising

Organising: Concept and importance	Understand the concept of organizing as a structure and as a
	process. <ul style="list-style-type: none"> <li>• Explain the importance oforganising.</li> </ul>
Organising Process	<ul style="list-style-type: none"> <li>• Describe the steps in the processof organizing</li> </ul>
Structure of organisation- functional anddivisional concept. Formal and informal organization - concept	<ul style="list-style-type: none"> <li>• Describe functional and divisionalstructures of organisation.</li> <li>• Explain the advantages, disadvantages and suitability of functional and divisional structure.</li> <li>• Understand the concept of formaland informal organisation.</li> <li>• Discuss the advantages, disadvantages of formal and informal organisation.</li> </ul>
Delegation: concept, elements andimportance	<ul style="list-style-type: none"> <li>• Understand the concept ofdelegation.</li> <li>• Describe the elements ofdelegation.</li> <li>• Appreciate the importance ofDelegation.</li> </ul>
Decentralization: concept and importance	<ul style="list-style-type: none"> <li>• Understand the concept of decentralisation.</li> <li>• Explain the importance of decentralisation.</li> <li>• Differentiate between delegationand decentralisation.</li> </ul>

## Unit 6: Staffing

Staffing: Concept and importance ofstaffing	<ul style="list-style-type: none"> <li>• Understand the concept of staffing.</li> <li>• Explain the importance of staffing</li> </ul>
Staffing as a part of Human ResourceManagement concept	<ul style="list-style-type: none"> <li>• Understand the specialized duties and activities performed by Human Resource Management</li> </ul>
Staffing process	<ul style="list-style-type: none"> <li>• Describe the steps in the processof staffing</li> </ul>



Recruitment process	<ul style="list-style-type: none"> <li>• Understand the meaning of recruitment.</li> <li>• Discuss the sources of recruitment.</li> <li>• Explain the merits and demerits of internal and external sources of recruitment.</li> </ul>
Selection – process	<ul style="list-style-type: none"> <li>• Understand the meaning of selection.</li> <li>• Describe the steps involved in the process of selection.</li> </ul>
job and off the job - vestibule training, apprenticeship training and internship training	<ul style="list-style-type: none"> <li>• Appreciate the importance of training to the organisation and to the employees.</li> <li>• Discuss the meaning of induction training, vestibule training, apprenticeship training and internship training.</li> <li>• Differentiate between training and development. Discuss on the job and off the job methods of training.</li> </ul>

## Unit 7: Directing

Directing: Concept and importance	<ul style="list-style-type: none"> <li>• Describe the concept of directing.</li> <li>• Discuss the importance of directing</li> </ul>
Elements of Directing	<ul style="list-style-type: none"> <li>• Describe the various elements of directing</li> </ul>
Motivation - concept, Maslow's hierarchy of needs, Financial and non-financial incentives	<ul style="list-style-type: none"> <li>• Understand the concept of motivation.</li> <li>• Develop an understanding of Maslow's Hierarchy of needs.</li> <li>• Discuss the various financial and non-financial incentives.</li> </ul>
Leadership - concept, styles - authoritative, democratic and laissez faire	<ul style="list-style-type: none"> <li>• Understand the concept of leadership.</li> <li>• Understand the various styles of leadership.</li> </ul>
Communication - concept, formal and informal communication; barriers to effective communication, how to overcome the barriers?	<ul style="list-style-type: none"> <li>• Understand the concept of communication</li> <li>• Understand the elements of the communication process.</li> <li>• Discuss the concept of formal and informal communication.</li> <li>• Discuss the various barriers to effective communication.</li> <li>• Suggest measures to overcome barriers to communication.</li> </ul>

## Unit 8: Controlling

Controlling - Concept and importance	<ul style="list-style-type: none"> <li>• Understand the concept of controlling.</li> <li>• Explain the importance of controlling.</li> </ul>
Relationship between planning and controlling	<ul style="list-style-type: none"> <li>• Describe the relationship between planning and controlling</li> </ul>
Steps in process of control	<ul style="list-style-type: none"> <li>• Discuss the steps in the process of controlling.</li> </ul>

## Part B: Business Finance and Marketing Unit

### Unit 9: Financial Management

Financial Management: Concept, role and objectives	<ul style="list-style-type: none"><li>• Understand the concept of financial management.</li><li>• Explain the role of financial management in an organisation.</li><li>• Discuss the objectives of financial management</li></ul>
Financial decisions: investment, financing and dividend - Meaning and factors affecting	<ul style="list-style-type: none"><li>• Discuss the three financial decisions and the factors affecting them.</li></ul>
Financial Planning - concept and importance	<ul style="list-style-type: none"><li>• Describe the concept of financial planning and its objectives.</li><li>• Explain the importance of financial planning.</li></ul>
Capital Structure – concept and factors affecting capital structure	<ul style="list-style-type: none"><li>• Understand the concept of capital structure.</li><li>• Describe the factors determining the choice of an appropriate capital structure of a company.</li></ul>
Fixed and Working Capital - Concept and factors affecting their requirements	<ul style="list-style-type: none"><li>• Understand the concept of fixed and working capital.</li><li>• Describe the factors determining the requirements of fixed and working capital.</li></ul>

### Unit 10: Financial Markets

Financial Markets: Concept	<ul style="list-style-type: none"><li>• Understand the concept of financial market.</li></ul>
Money Market: Concept	<ul style="list-style-type: none"><li>• Understand the concept of money market.</li></ul>
Capital market and its types (primary and secondary)	<ul style="list-style-type: none"><li>• Discuss the concept of capital market.</li><li>• Explain primary and secondary markets as types of capital market.</li><li>• Differentiate between capital market and money market.</li><li>• Distinguish between primary and secondary markets.</li></ul>

Stock Exchange - Functions and trading procedure	<ul style="list-style-type: none"><li>• Give the meaning of a stock exchange.</li><li>• Explain the functions of a stock exchange.</li><li>• Discuss the trading procedure in a stock exchange. Give the meaning of depository services and demat account as used in the trading procedure of securities.</li></ul>
Securities and Exchange Board of India (SEBI) - objectives and functions	<ul style="list-style-type: none"><li>• State the objectives of SEBI. Explain the functions of SEBI.</li></ul>

## Unit 11: Marketing

Marketing – Concept, functions and philosophies	<ul style="list-style-type: none"><li>• Understand the concept of marketing.</li><li>• Explain the features of marketing.</li><li>• Discuss the functions of marketing.</li><li>• Explain the marketing philosophies.</li></ul>
Marketing Mix – Concept and elements	<ul style="list-style-type: none"><li>• Understand the concept of marketing mix.</li><li>• Describe the elements of marketing mix.</li></ul>
Product – branding, labelling and packaging – Concept	<ul style="list-style-type: none"><li>• Understand the concept of product as an element of marketing mix.</li><li>• Understand the concept of branding, labelling and packaging.</li></ul>
Price - Concept, Factors determining price	<ul style="list-style-type: none"><li>• Understand the concept of price as an element of marketing mix.</li><li>• Describe the factors determining price of a product.</li></ul>
Physical Distribution – concept, components and channels of distribution	<ul style="list-style-type: none"><li>• Understand the concept of physical distribution.</li><li>• Explain the components of physical distribution.</li><li>• Describe the various channels of distribution.</li></ul>
Promotion – Concept and elements; Advertising, Personal Selling, Sales Promotion and Public Relations	<ul style="list-style-type: none"><li>• Understand the concept of promotion as an element of marketing mix.</li><li>• Describe the elements of promotion mix.</li><li>• Understand the concept of advertising.</li><li>• Understand the concept of sales promotion.</li><li>• Discuss the concept of public relations.</li></ul>

## Unit 12: Consumer Protection

Consumer Protection: Concept and importance	<ul style="list-style-type: none"><li>• Understand the concept of consumer protection.</li><li>• Describe the importance of</li></ul>
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	<p>consumer protection.</p> <ul style="list-style-type: none"> <li>• Discuss the scope of Consumer Protection Act, 2019</li> </ul>
<p>The Consumer Protection Act, 2019:  <i>Source:</i>  <a href="http://egazette.nic.in/WriteReadData/2019/210422.pdf">http://egazette.nic.in/WriteReadData/2019/210422.pdf</a></p> <p>Meaning of consumer  Rights and responsibilities of consumers  Who can file a complaint?  Redressal machinery  Remedies available</p>	<ul style="list-style-type: none"> <li>• Understand the concept of a consumer according to the Consumer Protection Act, 2019.</li> <li>• Explain the consumer rights</li> <li>• Understand the responsibilities of consumers</li> <li>• Understand who can file a complaint and against whom?</li> <li>• Discuss the legal redressal machinery under Consumer Protection Act, 2019.</li> <li>• Examine the remedies available to the consumer under Consumer Protection Act, 2019.</li> </ul>
<p>Consumer awareness - Role of consumer organizations and Non-Governmental Organizations (NGOs)</p>	<ul style="list-style-type: none"> <li>• Describe the role of consumer organizations and NGOs in protecting consumers' interests.</li> </ul>

**Suggested Question Paper Design Business Studies (Code No. 054)**

**Class XII (2024-25)**

**March 2025 Examination**

**Marks: 80**

**Duration: 3 hrs.**

<b>SN</b>	<b>Typology of Questions</b>	<b>Marks</b>	<b>Percentage</b>
1	<b>Remembering and Understanding:</b> Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
2	<b>Applying:</b> Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way	19	23.75%
3	<b>Analysing, Evaluating and Creating:</b> Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
	<b>Total</b>	<b>80</b>	<b>100%</b>

# **CHAPTER -1**

## **NATURE AND SIGNIFICANCE OF MANAGEMENT**

### **Meaning/Concept of Management:**

Management is the process of getting things done with the aim of achieving goals effectively and efficiently.

(Process means the activities that management performs to get things done.)

Management consists of a series of interrelated functions that are performed by all managers.

Management guides the efforts of people working towards the achievement of common goal of the organisation.

**Effectiveness:** means completing the right task to achieve the goal within time.

**Efficiency:** means completion of task using minimum resources.

### **Characteristics/Features of Management**

**Management is a goal-oriented process:** -The basic goal of the organisation for its existence must be clearly stated.

**Management is all pervasive:-** The activities involved in managing an enterprise are common to all organisations whether economic, social or political.

**Management is multidimensional:-**Management of Work, Management of people, Management of Operation.

**Management is a continuous process:-** Management is a series of continuous, composite but separate functions.

**Management is a group activity:-** Every member of the group has a different purpose for joining the organisation but as members of the organisation they work towards fulfilling the common organisational goal.

**Management is a dynamic function:-** To be successful, an organisation must change itself and its goals according to the needs of the environment.

**Management is an intangible force:-** Management is an intangible force that cannot be seen but its presence can be felt in the way the organisation functions.

### **Importance of Management**



**Management helps in achieving group goals:-** The task of manager is to give a common direction to the individual efforts.

**Management increases efficiency:-** The aim of a manager is to reduce costs and increase productivity.

**Management creates a dynamic organisation:-** Management helps people to adapt to the changes to maintain its competitive edge.

**Management helps in achieving personal objectives:-** Through motivation and leadership the management helps individuals to achieve their personal goals.

**Management helps in the development of society:-** It helps to provide good quality products and services, creates employment opportunities, adopts new technology.

## **Objectives of Management**

### **1. Organisational objectives: -**

**Survival:** - In order to survive, an organisation must earn enough revenues to cover costs.

**Profit:** - Profit is essential for covering costs and risks of the business.

**Growth:** - Growth indicates how well it exploits the potential opportunities.

### **2. Social Objectives:**

Supply of quality products at reasonable rates, generating employment opportunities, using environmentally friendly methods of production.

### **3. Personal Objectives:**

Meeting the Financial needs like competitive salaries & perks, Peer recognition like self-respect etc. Good & healthy working conditions for ensuring the safety of employees, Promotion, training personal growth of employees.

## **Levels of Management**

The levels of management denote a demarcation between various positions in an organization on the basis of the responsibility, authority and status.

These are–

**Top Level Management** - CEO, Board of directors, MD, President& Chairman.

**Functions of Top-Level Management: -**

- Decide overall objectives of the organization.
- Responsible for the welfare and survival of the organization.
- Analyse the business environment and its implications for the survival of the firm.

- Formulate overall organisational goals and strategies.

**Middle Level Management** – Departmental heads such as purchase manager, Operations manager, Production manager, Marketing manager, Divisional heads & Plant superintendent etc.

**Functions of Middle Level Management: -**

- Interpret the policies framed by top management.
- Ensure that their department has the necessary personnel.
- Assign necessary duties and responsibilities to them.
- Motivate them to achieve desired objectives.
- Co-operate with other departments for smooth functioning of the organisation.

**Supervisory or Operational Management**–

Foremen, Inspectors, Supervisors etc.

**Functions of Operational Management: -**

- Oversee the efforts of the workforce.
- Interact with the actual work force and pass on instructions of the middle management to the workers.
- Maintain quality of output.
- Minimise wastage of materials.
- Maintain safety standards.

**Nature of Management**

**Management as an Art**

Features of an art are :-

**(i)Existence of theoretical knowledge:** Art presupposes the existence of certain theoretical knowledge.

**(ii) Personalised application:** The use of this basic knowledge varies from individual to individual.

**(iii) Based on practice and creativity:** Art involves the creative practice of existing theoretical knowledge.

**Management can be said to be an art** since it satisfies the following criteria:

- (i) A successful manager practices the art of management based on study, observation and experience.
- (ii) A manager applies the scientific methods and body of knowledge to a given situation, in his own unique manner.
- (iii) A manager applies this acquired knowledge in a personalised and skillful manner.

## **Management as a Science**

Science is a systematised body of knowledge that explains certain general truths or the operation of general laws. The basic **features of science** are:

- (i) **Systematised body of knowledge**: Its principles are based on a cause and effect relationship.
- (ii) **Principles based on experimentation**: Scientific principles are developed through observation and repeated experimentation.
- (iii) **Universal validity**: Scientific principles have universal validity and application.

**Management has some characteristics of science.**

- (i) Management is also a systematised body of knowledge.
- (ii) Management deals with human beings, hence the outcomes of the experiments cannot be predicted.
- (iii) The principles of management are not as exact as the principles of science, their application and use is not universal.

## **Management as a Profession**

- (i) **Well-defined body of knowledge**: All professions are based on a well-defined body of knowledge that can be acquired through instruction.
- (ii) **Restricted entry**: The entry to a profession is restricted through an examination or through acquiring an educational
- (iii) **Professional association**: All professions are affiliated to a professional association.
- (iv) **Ethical code of conduct**: All professions are bound by a code of conduct which guides the behaviour of its members.
- (v) **Service motive**: The basic motive of a profession is to serve their client's interests by rendering dedicated and committed service.

Management does not meet the exact criteria of a profession.

- (i) Management based on a systematic body of knowledge comprising well-defined principles.
- (ii) There is no restriction on anyone being designated or appointed as manager in any business enterprise.
- (iii) There is no compulsion for managers to be members of any professional Association.
- (iv) The basic purpose of management may be profit maximisation for a business enterprise and service for a hospital.

## **Functions of Management**

**Planning** - Setting objectives and targets and formulating an action plan of what is to be done, how to be done and when to do it.

**Organising** - Assignment of duties, task, establishment of authority and responsibility Relationship, allocating the resource required to perform the planned task.

**Staffing** - Finding and placing the right person at the right job at the right time.

**Directing** - Leading, influencing, and motivating the staff chosen to perform the assigned task efficiently and effectively.

**Controlling** - Ensuring/Monitoring the activities in an organisation are performed as per the plan.

### **Coordination**

The process by which a manager synchronises the activities of different departments is known as coordination. Coordination is the force that binds all the other functions of management.

#### **Characteristics of Coordination**

(i) **Coordination integrates group efforts**: Coordination gives a common focus to group effort to ensure that performance is as it was planned and scheduled.

(ii) **Coordination ensures unity of action**: It acts as the binding force between departments and ensures that all action is aimed at achieving the goals of the organisation.

(iii) **Coordination is a continuous process**: Coordination begins at the planning stage and continues till controlling.

(iv) **Coordination is an all pervasive function**: Coordination is required at all levels of management.

(v) **Coordination is the responsibility of all managers**: Coordination is the function of every manager in the organisation.

(vi) **Coordination is a deliberate function**: A manager has to coordinate the efforts of different people in a conscious and deliberate manner.

#### **Importance of Coordination**

(i) **Growth in size**: As organisations grow in size, the number of people in the organisation also increases. They may work for cross purposes. So, coordination is needed to integrate their efforts and activities.

(ii) **Functional differentiation**: Coordination brings unity of action among inter-dependent departments of an organisation and helps to avoid conflicts between them.

(iii) **Specialisation**: In modern organisations, there is high degree of specialisation. So, many specialists are appointed. Coordination is required to avoid conflict between the specialists and other members of the organisation.

### **MULTIPLE CHOICE QUESTIONS (MCQs)**

1. Efficiency:

- (a) Focuses on optimum use of resources
- (b) Involves cost-benefit analysis

- (c) Means doing the task correctly and with minimum cost  
(d) All of the above

2. Which of the following is not an organisational objective of the management?

- (a) Survival (b) Women Empowerment  
(c) Profit (d) Growth

3. \_\_\_\_\_ is concerned with monitoring organisational performance towards the attainment of organisational goals.

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

4. General Manager belongs to \_\_\_\_\_ level, while Production Manager belongs to \_\_\_\_\_ level.

- (a) Middle, Top (b) Top, Middle  
(c) Top, Lower (d) Middle, Lower

5. Manager is able to achieve the target production within the time, but after high wastage of resources. In this case, the manager is:

- (a) Effective (b) Efficient  
(c) Both (a) and (b) (d) Neither (a) nor (b)

6. 'A business needs to add to its prospects in long run'. Which organisational objective of management is highlighted in the given statement?

- (a) Growth (b) Profit (c) Survival (d) None of these

7. Star Ltd. arranged motivational lecture for personal growth and development to fits employees. Which objective of management the company is trying to achieve?

- (a) Organisational Objective (b) Personal Objective  
(c) Social Objective (d) Both (a) and (b)

8. Earth Ltd. has a target of producing 10,000 units in a year, at a cost of ₹70 per unit. The target was achieved by the production manager but at a cost of ₹90 per unit. Is production manager effective or efficient or both?

- (a) Effective only (b) Efficient only  
(c) Both (a) and (b) (d) None of these

9. 'The activities involved in managing an enterprise are common to all organisations whether economic, social or political'. Which characteristic of management is highlighted in the given statement?

- (a) Intangible Force (b) Group Activity  
(c) Dynamic Function (d) Pervasive

10. Top Level Management spend more time on:

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

11. 'A manager applies the acquired knowledge in a personalised and skilful manner in the light of the realities of a given situation'. The given statement indicates that management is:

- (a) A Science
- (b) An Art
- (c) A Profession
- (d) None of these

12. A good manager synchronises all the activities of different departments through:

- (a) Staffing
- (b) Directing
- (c) Coordination
- (d) Planning

13. The target production of Mars Ltd. was 10,000 units in a year. Production manager was able to cut down the cost but could not achieve the target. In this case, manager is \_\_\_\_\_ but not \_\_\_\_\_.

- (a) Efficient, Effective
- (b) Efficient, Honest
- (c) Effective, Efficient
- (d) None of these

14. The functions performed by top management are the most important because they take care of:

- (a) Overall organisation
- (b) Specific problems
- (c) Routine problems
- (d) extraordinary problems

15. Foremen belongs to:

- (a) Top level of management
- (b) Middle level of management
- (c) Supervisory management
- (d) None of the above

16. Name the process, which integrates activities of different departments.

- (a) Coordination
- (b) Cooperation
- (c) Organising
- (d) Management

17. Which function determines the future course of action?

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

18. \_\_\_\_\_ is the process of motivating, leading and communicating with the subordinates to achieve the organisational objectives.

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

19. To become a Chartered Accountant in India, a candidate has to clear a specified examination conducted by the Institute of Chartered Accountants of India. Which feature of profession is being revealed?

- (a) Ethical code of conduct
- (b) Restricted Entry
- (c) Well defined body of knowledge
- (d) Professional association

20. "Management has to adapt itself according to the changing environment". Which feature of management is highlighted in the given statement?  
(a) Continuous Process (b) Goal Oriented  
(c) Group Activity (d) Dynamic Function
21. An organisation is providing basic amenities like schools and healthcare to employees. Which management objective is highlighted?  
(a) Organisational objective (b) Individual Objective  
(c) Social Objective (d) None of these
22. An organisation consists of diverse individuals with different needs, who join the organisation for different purpose, but as members of the organisation, they work together to achieve organisational goal. Which feature of management is being highlighted?  
(a) Goal Oriented (b) Pervasive Function  
(c) Group Activity (d) Continuous Process
23. Which management level is responsible to ensure that their department has necessary personnel?  
(a) Supervisory Level (b) Top Level  
(c) Middle Level (d) None of these
24. Coordination is associated with which management function?  
(a) Planning (b) Organising  
(c) Staffing (d) All of these
25. Policy formulation is the function of:  
(a) Top level managers (b) Middle level managers  
(c) Operational management (d) All of the above
26. Survival is possible only when organisation is able to earn enough revenue to cover its costs. Which management objective is highlighted?  
(a) Organisational objective (b) Individual Objective  
(c) Social Objective (d) None of these
27. 'To cooperate with other departments for smooth functioning of the organisation' highlights the function of \_\_\_\_\_ level of management.  
(a) Top (b) Supervisory  
(c) Middle (d) None of these
28. Ms. Sonia is a section officer of Epson Ltd. She is working at..... level.  
(a) Middle (b) Lower  
(c) Top (d) None
29. The force that binds all other functions of management is called:

(a) Controlling (b) Planning (c) Organising (d) Coordination

30. 'Management cannot be seen but its presence can be felt'. Which characteristic of management is highlighted in the given statement?

- (a) Group Activity (b) Dynamic Function  
(c) Intangible Force (d) Continuous Process

31. Max Ltd. needed funds to fulfil a big order. The management of the company borrowed money from a financial institution @ 15% interest, while the prevailing rate of interest was 11%. As a result of this the company was able to achieve the target. According to you, management was \_\_\_\_\_

- (a) Effective (b) Efficient  
(c) Both (a) and (b) (d) Inefficient

32. Chief Executive Officer is working at \_\_\_\_\_ level of management.

- (a) Middle (b) Lower  
(c) Top (d) Supervisory

33. Which management function puts the right people at right place?

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

34. Every manager has his own unique way of managing things and people. This is related to:

- (a) Management as a Profession (b) Management as Science  
(c) Management as an Art (d) None of these

35. \_\_\_\_\_ is the creation of an internal environment where individuals working in a group can perform effectively and efficiently for the achievement of organisational goal.

- (a) Planning (b) Organising  
(c) coordination (d) Management

36. Which function of management aims to ensure that everything is done according to predetermined goals?

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

Q.No.	Ans:	Q.No.	Ans:	Q.No.	Ans:
1	D	13	A	25	A
2	B	14	A	26	A
3	B	15	C	27	C
4	B	16	A	28	A
5	A	17	C	29	D



6	A	18	D	30	C
7	B	19	B	31	A
8	A	20	D	32	C
9	D	21	C	33	C
10	D	22	C	34	C
11	B	23	C	35	D
12	C	24	D	36	D

### MATCHING TYPE QUESTION

Q.1. From the set of statements given in Column I and Column II, choose the correct pair of statements:

Column I	Column II
(a) Effectiveness	(i) It refers to doing the task correctly and with minimum cost
(b) Middle Level Management	(ii) It consists of divisional or departmental heads
(c) Coordination	(iii) It is one of the main function of management
(d) Efficiency	(iv) It refers to achieving the goals on time

*Ans. (b) Middle Level Management - (ii) It consists of divisional or departmental heads.*

### Short Answer Type Questions

1. Yash Ltd. is facing a lot of problems these days. It manufactures electronic goods like washing machines, microwave ovens, refrigerators and air-conditioners. The company's margins are under pressure and the profits and market share are declining. The production department blames marketing department for not meeting sales targets and marketing department blames production department for producing goods, which are not of good quality to meet customers' expectations. The finance department blames both production and marketing departments for declining return on investment and bad marketing.

- (a) What quality of management do you think the company is lacking? Justify your answer.
- (b) State the importance of the concept identified in (a).

**Ans.**

(a) **Coordination**; because production, marketing and finance departmental efforts are not coordinated for achieving organisational objectives harmoniously. As a result, the company's profits and market share are declining.

(b) Importance of Coordination

- (i) **Growth in size**: As organisations grow in size, the number of people in the organisation also increases. They may work for cross purposes. So, coordination is needed to integrate their efforts and activities.

- (ii) **Functional differentiation**: Coordination brings unity of action among inter-dependent departments of an organisation and helps to avoid conflicts between them.
- (iii) **Specialisation**: In modern organisations, there is high degree of specialisation. So, many specialists are appointed. Coordination is required to avoid conflict between the specialists and other members of the organisation.

2. The management of Vee Ltd. strongly believes that the members of an organisation should work towards fulfilling the common organisational goals. This requires team work and integration of efforts of all individuals, departments and specialists. This is because all the individuals and departments depend on each other for information and resources to perform their respective activities. Managers need to reconcile differences in approach, timing, effort or interest. At the same time it should enable all its members to grow and develop. Thus, there is a need to harmonise individual goals and organisational goals.

- (a) Identify the concept of management discussed above.
- (b) State any three features of the concept identified in (a).
- (c) Identify and explain the characteristic of management which is reflected from the above para.

**Ans.** (a) Coordination

(b) Features of coordination:

- (i) Coordination integrates group efforts by unifying diverse interests.
- (ii) Coordination ensures unity of action by acting as a binding force between departments.
- (iii) Coordination is a continuous process as it begins at planning stage and continues till controlling.

(c) Management is a group activity.

An organisation is a group of different individuals who work together with team spirit and coordination to achieve the goals of the organisation.

3. Nisha is the marketing manager of a company selling laptops. She plans the target sale of 2000 laptops per month. She allocated necessary resources to carry out the plan. She has six salesmen working under her. She works with them, guiding and motivating them to achieve the target sales. At the end of the month, after comparison of actual sales with the target sales she found that actual sales exceeded the target sales. She rewards the efficient employees to motivate them.

- (a) How does Nisha prove the importance of management? Explain.
- (b) Also state the functions performed by Nisha.

**Ans.** (a) The marketing manager, Nisha helps in:

- (i) achieving the group goals by giving a common direction to the individual effort of her subordinates in achieving the target sale of 2000 laptops in a month.
- (ii) increasing efficiency of employees by rewarding them.
- She performs all the functions of management.
  - She plans the target sale of 2000 laptops per month’ – **Planning**
  - She allocates necessary resources to carry out the plan’ – **Organising.**
  - She works with them, guiding and motivating them to achieve the target sales’ – **Directing**
  - At the end of the month, after comparison of actual sales with the target sales she found that actual sales exceeded the target sales’ – **Controlling**

4. Megha Ltd. was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was just sufficient to meet its costs. To increase the revenue, the company analysed the reasons of less revenues. After analysis the company decided

- (i) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.
- (ii) to start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly.

This will not only help in covering the risks, but also help in meeting other objectives too. **Identify and explain the objectives of management discussed above.**

Ans: (i) Organisational Objective- Profit  
(ii) Social Objective.

### **HOTS & APPLICATION BASED QUESTIONS WITH ANSWERS**

Q.1. Mr. Aditya is responsible for framing plans and policies of M/s Evershine Industries. At which managerial level, he is working. Also discuss his main functions.

Ans. Top Level. Discuss ‘Main Functions of Top level management’.

Q.2. “A business needs to add to its prospects in the long run. “Which organisational objective is highlighted in the statement? Mention two other objectives under this category.

Ans. The organisational objective highlighted is ‘Growth’. Two other organisational objectives are: (i) Survival (ii) Profit.

Q.3. 'Success of a manager depends on the manner in which he practices the conceptual knowledge of management in combination with his own skills.' What nature of management is indicated in the statement?

OR

"Every manager has his own unique way of managing things and people." What nature of management is highlighted in the statement?

OR

"Management is skilful and personal application of existing knowledge to achieve desired results:" Explain.

Ans. Discuss 'Management as an Art'.

Q.4. "Management helps to implement new changes in the organisation. "Which importance of management is referred in the statement?

Ans. Management creates a dynamic organisation.

Q. 5. "A manager is continuously engaged in maintaining an orderly arrangement of his group efforts so that their actions move in the same direction and common purpose of the company can be achieved." Which process is referred here? Discuss the importance of this process in management.

OR

'Through this process, a manager synchronises the activities of different departments'. Identify and explain the importance of the process highlighted in the given statement.

Ans. Coordination is referred in the given case. Discuss 'Importance of Coordination'.

Q.6. Mr.Tanvir is responsible for assigning work to employees and representing their grievances to Mr. Deepak (Tanvir's Boss). Identify the managerial levels at which Tanvir and Deepak are working.

Ans. *Mr.Tanvir works at the Operational Level and Deepak at the Middle Level.*

Q.7. Match the 'Functions of Management' given under 'A' with the suitable statements under 'B':

(A)	(B)
(i) Organising	a. Determining in advance what is to be done.
(ii) Directing	b. Aims to ensure that right people with right qualifications are available at the right places.
(iii) Planning	c. Monitoring organisational performance for achieving organisational goals.
(iv) Controlling	d. Involves leading, influencing and motivating employees.

(v) Staffing	e. Grouping of the required tasks into manageable departments.
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*Ans. (i) e; (ii) d; (iii) a; (iv) c; (v) b.*

**Q. 8.** Identify the 'Nature of Management' highlighted in each of the following individual cases:

- (i) Management Principles have been evolved over a period of time based on repeated experimentation and observation.
- (ii) Every manager has his own unique way of managing things and people.
- (iii) Certain management associations, like AIMA, have formulated ethical codes for managers, but there is no legal support for it.
- (iv) Managers improve their managerial skills with regular application of management principles.
- (v) There is no restriction on any person being appointed as manager.
- (vi) A lot of literature is available in various areas of management which the manager has to specialize in.

*Ans. Management as a Science: (i)  
Management as an Art: (ii), (iv), (vi)  
Management as a Profession: (iii), (v)*

## CASE STUDIES

**Q.1.** Alpha Automobiles aims to produce and sell 2,00,000 cars in 2019. To achieve this objective, the production department strives for timely production and sales department takes all possible steps to sell them. Due to combined efforts of all the departments, the company is able to achieve its target.

- (i) Which significance of management is highlighted in the given statement?
- (ii) Mention two other points of importance of management.

*Ans. (i) Management helps in achieving group goals;  
(ii) (a) Management increases efficiency  
(b) Management creates a dynamic organization.*

**Q.2.** From the following pictorial presentation, identify the objective violated by the management.

Ans. Social Objective.

**Q.3.** Aman, Ahmad and Ally partners in a firm engaged in the distribution of dairy products in Maharashtra state. Aman is a holder of Senior Secondary School Certificate from Central Board of Secondary Education with Business Studies as one of his elective subjects. Ahmed had done his post-graduation in History and Ally in dairy farming.



One day, there was a serious discussion between Ahmed and Ally regarding the nature of management, Ahmed argues that management was a profession. Whereas, Ally argued against it saying that the legal and medical profession are the only professions because they fulfill all the conditions of profession. Aman on the basis of his knowledge of business studies explained the nature of management as a profession to Ahmed and Ally. Explain, how Aman would have satisfied both Ahmed and Ally?

Ans. Aman would have satisfied both Ahmed and Ally by explaining the following features of management as a profession:

- (i) Well-defined body of knowledge:
- (ii) Restricted entry:
- (iii) Professional association:
- (iv) Ethical code of conduct
- (v) Service motive

## CHAPTER 2 PRINCIPLES OF MANAGEMENT

### Concept of Principles of Management

‘Principles of Management are broad and general guidelines for decision making and behaviour of managers.’

- These principles help managers to take decisions while performing functions of management viz. planning, organising, staffing, directing and controlling.
- Not rules but only a guide to action.
- Applicable to different kinds of organisations.
- Derived from Observation and Experimentation.
- Derivation of these principles may be said to be a matter of science and their creative application may be regarded as an art.

### Nature/Characteristics/Features of Principles of Management

**Code :-**    Under Ground Cat is Pining For Bitter Cucumber

#### 1. Universal Applicability

- Can be applied to all kinds of organisations irrespective of size & nature.
- Extent of application varies depending on nature & size of organisation.
- E.g. Principle of ‘Discipline’ can be applied to all kinds of organisations for smooth functioning of management.

#### 2. General Guidelines

- Are general guidelines and cannot be used as tailor-made tools.
- As real business situations are very complex and dynamic, these can just provide guidelines not the specific solutions.
- E.g. Strict compliance of principle of ‘Centralisation & Decentralisation’ is not required in all sorts of situations and in all organisations.

#### 3. Cause and Effect Relationship

- Are intended to establish relationship between cause and effect so that they can be applied in similar situations.
- However, accurate cause and effect relationship cannot be established by these as these are applied on human behaviour and in real life situations which are not identical.
- E.g. According to principle of ‘Stability of Personnel’, making efforts to keep employees satisfied is cause and employees remain stable is effect.

#### 4. Formed by Practice and Experimentation

- Are evolutionary in nature i.e. developed through observations, experimentation and experience of the management thinkers.
- E.g. Principle of ‘Scalar Chain’ has been developed after observing positive results of the hierarchy.

## 5. Flexible

- Are not rigid as in case of pure science principles.
- Can be modified as per changes in the business environment.
- Even in identical situations, same principles cannot be applied blindly.
- Manager has to decide which principle to use under each situation.
- E.g. Principle of 'Unity of Direction' is applied as per the requirement.

## 6. Mainly Behavioural

- Aim at influencing human behaviour.
- Human behaviour is very complex and unpredictable in nature.
- Also enable a better understanding of relationship between human and material resources to achieve the organisational goals.
- E.g. Principle of 'Initiative' is effective only if employees are interested.

## 7. Contingent

- Their application is dependent or contingent (uncertain) upon the prevailing conditions at a particular point of time.
- Have to be suitably amended as per situations.
- E.g. Principle of 'Division of Work' cannot be applied in organisations, where personal skills are needed.

## Significance/Importance of Principles of Management

<b>Code:-</b> <b>I</b> nights of <b>T</b> raining <b>O</b> ptimise <b>S</b> cience, <b>S</b> ociety & <b>E</b> nvironment
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### 1. **Providing Managers with Useful Insights into Reality**

- These principles improve knowledge, ability and understanding of managerial situations and circumstances.
- Enable managers to learn from past mistakes and to save time by solving recurring problems quickly.
- E.g. Like Accounting Principles become the basis for taking decisions related to real life accounting problems.

### 2. **Management Training, Education and Research**

- Are used as a basis for management training, education and research.
- That is why these have been included in various courses like MBA, BBA, B.Com., etc.
- These also enable refinement of management practices and facilitate development of new techniques.
- E.g. As for teaching and learning law, one has to undergo law discipline where one learns norms of law.

### 3. **Optimum Utilisation of Resources and Effective Administration**

- These help managers to foresee the cause and effect relationship of their decisions and as a result, wastage and inefficiency associated with trial-and-error approach can be reduced.
- Resources are used in a manner that give maximum benefit with minimum cost.



- E.g. Having knowledge of the accurate proportions of the all ingredients to prepare a dish reduces wastage of ingredients hence dish tastes up to the mark.

#### 4. **Scientific Decisions**

- Decisions based on these principles include objective assessment of the situation and emphasis on logic rather than blind faith.
- Hence, decisions are timely, realistic and subject to measurement and evaluation.
- E.g. Science emphasizes on first analysis then solution and all principles of management have been given after analysis.

#### 5. **Fulfilling Social Responsibility**

- Help in fulfilling social responsibility by responding to the demands of the public.
- These not only help in achieving organisational goals but also guide managers in performing social responsibilities.
- E.g. Principle of ‘Equity’ states that there should be no discrimination with any employee on the basis of caste, religion, gender, etc. By following this principle, social responsibility is automatically being fulfilled.

#### 6. **Meeting Changing Environment Requirements**

- These provide an effective and dynamic leadership and help the organisation to implement the changes.
- Although these principles are general guidelines yet they are flexible and can be modified to meet the dynamic business environment.
- E.g. One can adapt to new changes successfully only when one is well aware of old system.

Sl. No.	Basis of difference	Henri Fayol	F. W. Taylor
1.	Perspective	Top level of management	Shop floor level of a factory
2.	Unity of Command	Staunch Proponent	Did not feel that it is important as under functional foremanship a worker received orders from eight specialists.
3.	Applicability	Applicable universally	Applicable to specialised situations
4.	Basis of formation	Personal experience	Observations and experimentation
5.	Focus	Improving overall administration	Increasing Productivity
6.	Personality	Practitioner	Scientist
7.	Expression	General Theory of Administration	Scientific Management

### **1. Division of Work**

- Work of all kinds must be divided and allocated as per competence, qualification and experience.
- Due to this reason, big companies have separate departments for finance, marketing, production and human resources.

According to this principle, whole work must be divided into small tasks or jobs and each job must be assigned to a trained specialist who is competent to perform it.

### **2. Authority and Responsibility**

- Authority is the right to give orders to subordinates and responsibility is the duty.
- Authority and Responsibility go hand in hand.
- Parity between Authority and Responsibility helps in meeting responsibilities on time and prevents misuse of authority.

According to this principle, there should be proper balance between Authority and Responsibility.

### **3. Discipline**

- Discipline requires good supervisor at all levels, clear and fair agreement regarding rules and judicious application of penalties.
- An employer/manager must also be disciplined to stick to his commitments/promises/words.

According to this principle, there must be obedience to rules and regulations of the organisation, which is necessary for systematic working of the organisation.

### **4. Unity of Command**

- If an employee gets orders from two or more superiors at the same time, it creates confusion, conflicts, disharmony and many other unpleasant situations.

According to this principle, each subordinate should receive orders and be accountable to one and only one superior.

### **5. Unity of Direction**

- All the units of an organisation should be moving towards the same objectives through coordinated and focused efforts.
- It ensures unity of action and avoids unnecessary duplication of efforts.

According to this principle, there should be one head and one plan for group of activities having same objectives.

### **6. Subordination of Individual Interest to General Interest**

- Every individual has its own interests and company has got its own objectives.
- This principle demands that each individual should sacrifice his personal interest for achieving company's objectives.

According to this principle, interest of the organisation as a whole must prevail over the interest of the individuals or employees.

### **7. Remuneration of Employees**

- Employees should be paid fair wages which should give them at least a reasonable standard of living.
  - At the same time it should be within the paying capacity of company.
- According to this principle, overall pay and compensation should be fair to both employees and organisation.

### **8. Centralisation and Decentralisation**

- Centralisation refers to concentration of decision-making authority.
- Decentralisation refers to evenly distribution of authority at all levels of management.

According to this principle, there should be proper balance between centralisation and decentralisation in the organisation.

### **9. Scalar Chain**

- The formal lines of authority from highest to lowest ranks are known as scalar chain.
- This chain should not be violated in normal course of formal communication but in case of urgency, a short cut in the chain is permitted i.e. **Gang Plank**.

*Gang Plank allows direct communication between two employees of the same level, without following the scalar chain.*

According to this principle, organisation should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates.

### **10. Order**

- If there is fixed place for everything and it is present there, there will be no obstruction in work.
- Same is with the employees.

According to this principle, there should be a place for everything and everyone and they should be present there.

### **11. Equity**

- If management is partial or biased in dealing with employees, the employees will get dissatisfied and will not contribute to their maximum potential.
- This principle emphasises kindness and justice in the behaviour of managers towards employees.

It ensures loyalty, devotion and cordial relations between superiors and subordinates.

According to this principle, there should not be any discrimination among the employees on the basis of religion, language, caste, sex, belief or nationality

### **12. Stability of Personnel**

- It is always in the interest of the enterprise that its trusted, experienced and trained employees do not leave the organisation.
- Continuous changes will create instability and insecurity among employees and they would tend to leave the organisation.
- It will also raise the cost of recruitment, selection and training.
- Employees should be selected and appointed after due and rigorous procedure and they should be given reasonable time to show results.

According to this principle, there should be proper efforts to achieve stability and continuity of tenure of personnel.

### **13. Initiative**

- Initiative means taking the first step with self-motivation and a source of strength by suggesting or forming plans for the betterment of the organisation.
- Initiative should be encouraged by the employer.

According to this principle, employees should be encouraged and given an opportunity to take some initiative in making and executing the plans.

### **14. Esprit De Corps:**

- A manager should replace ‘I’ with ‘We’ in his conversations to give rise to a spirit of teamwork.
- It develops an atmosphere of mutual trust and belongingness among team members and minimises the need for using penalties.
- Management must promote the feeling of team spirit among employees specially in large organisation.

*Esprit/Esprit De Corps is a French phrase which means ‘spirit of group’*

According to this principle, management should promote a team spirit of unity and harmony among employees.

### **Concept of Scientific Management**

‘It stresses that there is always ‘**one best way**’ of doing a work.’

- Scientific Management refers to use of scientific, systematic, objective and logical principles and techniques to various managerial functions
- It can also be defined as ‘application of science for each and every element of management’.
- It means knowing exactly what you want men to do and seeing that they do it in the best and the cheapest way.

**Code:- She & He Can Dance**

### **1. Science, not Rule of Thumb**

- Taylor believed that there was only one best method to maximise efficiency.
- This method can be developed through study and analysis.
- This study and analysis involves investigation of traditional methods also through work-study, unifying the best practice and developing a standard method of work.

- The method so developed should substitute Rule of Thumb throughout the organisation.

According to this principle, there should be scientific study and analysis of each element of a job, in order to replace the old rule of thumb approach or hit and trial method.

## 2. **Harmony, not Discord**

- As under a factory system, there always exists a possibility of class-conflict between the managers (owners) and workers, Taylor recognised that this conflict helps neither the manager nor the worker but organization surely suffers.
- Taylor emphasised complete harmony between managers and workers away from any discord.
- Both need to realise each other's importance and should be part of family.

Taylor called for complete 'mental revolution' on the part of both.

### **Mental Revolution:**

*A complete change in the mindsets of manager as well as worker.*

Management should share the gains of the company, if any, with the workers and workers should work hard and be willing to accept the changes made by management for the betterment of the company.

According to this principle, there should be complete harmony and proper understanding between management and workers

## 3. **Cooperation, not Individualism**

- This principle is an extension to 'Harmony, not discord'.
- Competition should be replaced by cooperation.
- Taylor stated that there should be an almost equal distribution of work and responsibility between workers and management.
- Management should encourage constructive suggestions by employees and take them into confidence before making any important decision.

## 4. **Development of Workers to their greatest efficiency and prosperity**

- Taylor was of the view that the concern for efficiency could be built in right from the process of employee selection.
- Each employee should be scientifically selected and should be assigned job as per their physical, mental and intellectual capabilities.
- To increase the efficiency and to achieve the maximum potential of workers, they should be provided scientific training so that they may learn the 'best method' developed due to application of scientific management.

According to this principle, management should aim to develop workers to their greatest efficiency and prosperity.

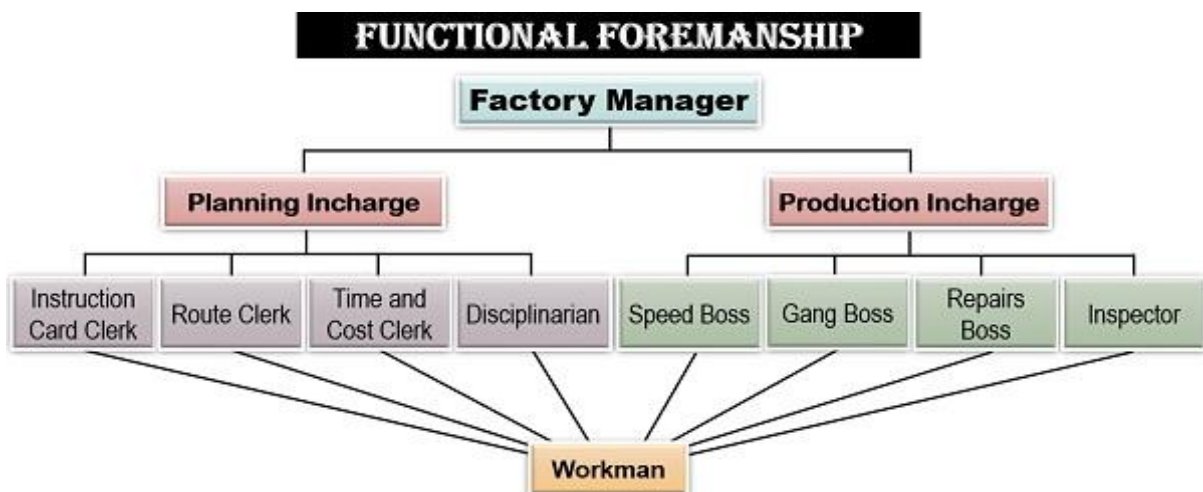
## Techniques of Scientific Management

**Code:-**

**Foreman Stands & Simplifies Work (of method, motion, time & fatigue) Differently**

### 1. Functional Foremanship

- Functional Foremanship is an extension of 'Division of Work' principle of Fayol. This technique is opposite to 'Unity of Command' principle of Fayol. He suggested the division of factory into two departments; 'Planning Department' and 'Production Department'. Therefore, in a factory, there should be a planning in-charge and a production in-charge.
- He also stated that the both in-charges will be assisted by a group of 4 foremen each. i.e., total of 8 specialists will guide and direct a worker, and each worker will have to take orders from these 8 foremen.



According to this technique, the task of supervision is divided into several specialised functions and each function is entrusted to a specialist foreman.

#### Foremen Under Planning In-charge:

- 1. Instruction Card Clerk:** One who drafts instructions for the workers.
- 2. Route Clerk:** One who specifies the route of production.
- 3. Time and Cost Clerk:** One who prepares time and cost sheet.
- 4. Disciplinarian:** One who ensures discipline.

#### Foremen Under Production In-charge

- 1. Speed Boss:** One who ensures timely and accurately completion of job.
- 2. Gang Boss:** One who keeps machines and tools, etc. ready for operation by workers.
- 3. Repair Boss:** One who ensures proper working condition of machines and tools.
- 4. Inspector:** One who checks the quality of work.

## 2. Standardisation and Simplification of Work:

(i) **Standardisation of Work:** Standardisation of Work refers to the process of setting standards for every phase of business operation.

### Objectives of Standardisation

- To establish standards of excellence and quality in materials.
- To establish performance standards of men and machines.
- To establish interchange ability of manufactured parts and products.
- To reduce product to fixed types, sizes and characteristics.

(iii) **Simplification of Work:** Simplification of work refers to eliminating Superfluous or unnecessary varieties, sizes and grades of the product manufactured by the organisation

- It aims to eliminate unnecessary diversity of products, sizes & types.
- It results in savings cost of labour, machines and tools and facilitates better control of activities.

**Work Study --** It is a group of four techniques;

Method Study, Motion Study, Time Study & Fatigue Study

## 3. Method Study

Method study is concerned with finding 'one best way' of doing a job.

### Objectives of Method Study:

- To minimise the cost of production.
- For finding one best method of performing the job, critical analysis is made for plant layout, product design, material handling and work processes.

## 4. Motion Study

- Motion study involves study of movements like lifting, putting objects, sitting and changing positions, etc., which are undertaken while doing a typical job.

### Objectives of Motion Study:

- To determine the movements of workers while doing a typical job.
- To differentiate between productive, incidental and unproductive movements.
- To cut down unproductive movements.

## 5. Time Study

- Time study refers to a technique, which is used to determine the standard time taken by a workman of reasonable skills and ability to perform a well- defined job

### Objectives of Time Study

- To determine number of workers to be employed.
- To frame suitable incentive schemes.
- To determine labour costs.

## 6. Fatigue Study

- Fatigue means tiredness from physical or mental work.
- Taylor suggested that as a person gets tired when he works continuously without a break, he must be provided a brief rest interval in between so as to enable him to regain lost stamina. This will result in increased productivity.

### Objectives of Fatigue Study

- To determine the amount and frequency of rest intervals in completing a task.
- Fatigue study refers to determining the amount and frequency of rest intervals required in completing a task.

## 7. Differential Piece Wage System

- In this technique, incentive is directly linked with productivity.
- First of all, a standard task is established with the help of time and motion study. Then, two rates are fixed: Higher wage rate for the workers who produce equal to or more than standard output and low wage rate for the workers who do not reach the standard.

### Objectives of Differential Piece Wage System

- To differentiate efficient and inefficient workers and to suitably reward the efficient workers.

## Multiple Choice Questions (MCQs)

**Q.1** Study Buddy Pvt. is company dealing in stationery items. In order to establish standards of excellence and quality in materials and in the performance of men and machines, the company adheres to benchmarks during production. Moreover, its products are available in limited varieties, sizes and dimensions thereby eliminating superfluous diversity of products.

Identify the technique of scientific management which has been adopted by Study Buddy Pvt. Ltd.

- (a) Functional Foremanship (b) Fatigue Study  
(c) Standardisation & Simplification of Work (d) Method Study

**Q.2** In a factory the toolbox was kept under the table of every worker, whenever worker needs tools he had to bend to take out tool from tool box and keep it back after use. The newly appointed supervisor observed it and suggested to keep a stool near every worker's chair where toolbox can be placed so that workers do not waste their energy in bending again and again. Which technique of scientific management is used by new supervisor?

- (a) Motion Study (b) Fatigue Study  
(c) Time Study (d) Method Study

**Q.3** She/he keeps machines, materials, tools etc., ready for operations by concerned workers. Which specialist's work is described by this sentence under functional foremanship?

- (a) Gang Boss (b) Repair Boss  
(c) Route Clerk (d) Instructions Card Clerk



**Q.4** 'Resources should be put to use in such a manner that they should give maximum benefit with minimum cost'. Identify the importance of principles of management highlighted in the statement.

- (a) Providing managers with useful insights into reality
- (b) Meeting changing environment requirements
- (c) Fulfilling social responsibility
- (d) Optimum utilisation of resources and effective administration

**Q.5** It refers to the use of scientific methods in decision making to resolve management problems rather than depending on conventional or trial and error methods. Name it.

- (a) Science, not rule of thumb
- (b) Harmony, not discord
- (c) Cooperation, not individualism
- (d) Method Study

**Q.6** Every individual working in an organization has different goals, but they all work towards fulfilling the common organizational goals.

Which principle of management is being referred to here?

- (a) Scalar Chain
- (b) Harmony, not Discord
- (c) Subordination of Individual Interest to General Interest
- (d) Unity of Action

**Q.7** Ram is a marketing executive and he is being given instructions from the purchase manager as well as production manager simultaneously.

Which principle of Fayol is being violated here?

- (a) Discipline
- (b) Unity of Command
- (c) Scalar Chain
- (d) Unity of Action

**Q.8** What is the situation if all the decisions are taken by the top managers?

Explain the principle given by Fayol in relation to the same.

- (a) Equity
- (b) Centralisation and Decentralisation
- (c) Scalar Chain
- (d) Authority and Responsibility

**Q.9** The manager of ABC Ltd. asked his workers to work overtime to increase the production and earn more but he did not pay extra wages to workers for extra time worked. The workers started feeling dissatisfied and stop contributing maximum. Which principle of Fayol is violated in the above case.

- (a) Discipline
- (b) Equity
- (c) Esprit De Corps
- (d) Order

**Q.10** Telco Ltd. is manufacturing files and folders from old clothes to discourage use of plastic files and folders. For this, they employ people from nearby villages where very less job opportunities are available. An employee, Harish, designed a plan for cost reduction but it was not welcomed by the production manager. Another employee gave some suggestion for improvement in design, but it was also not appreciated by the production manager. Identify the principle of management being violated in the above para.

- (a) Authority and Responsibility
- (b) Stability of Personnel
- (c) Esprit De Corps
- (d) Initiative

**Q.11** Mr. Rajiv, the senior manager of Unique Enterprise, considered himself very wise and used to take all the decisions himself without consulting the employees, he never used to help anyone nor he used to take help of anyone. The employees of Unique Enterprise were not working efficiently and company's profit margin started declining. To tackle the problem, the company appointed a new manager from IIM Bangalore. The new manager after joining made a policy that all the decisions will be taken after consulting employees in the meeting. All employees must give some suggestions and best suggestions will be rewarded with financial and nonfinancial incentives. This policy had a very positive effect on the company. State the principle of Henry Fayol used by new manager.

- (a) Authority and Responsibility
- (b) Initiative
- (c) Equity
- (d) Division of Work

**Q.12** In a school, principal makes sure that every instruction, order or information given by him must be passed to vice-principal then Head of the department and then to teachers and students must be informed by respective teachers only. He never allows teachers to directly communicate with him. State the principle of Henry Fayol followed by the school principal.

- (a) Discipline
- (b) Scalar Chain
- (c) Centralisation and Decentralisation
- (d) Unity of Command

**Q.13** Keerti is working in a local bank. She has been assigned the duty of safety of cash but she is not allowed to keep the keys with her. Which principle of management is being violated here?

- (a) Authority and Responsibility
- (b) Initiative
- (c) Equity
- (d) Division of Work

**Q.14** 'AapkaVidyalaya' believes in holistic development of students and encourages team building through a mix of curricular, co-curricular and sports activities. On its foundation day, a stage performance had to be put up. A committee of ten prefects was constituted to plan different aspects of the function. They all decided to use recycled paper for decoration. There was a spirit of unity and harmony and all members supported each other. With mutual trust and belongingness, the programme was systematically planned and executed. Kartik, one of the prefects realized that unknowingly the group had applied one of the principles of management while planning and executing the

programme. He was so inspired by the success of the function that he asked his father to apply to same principle in his business. His father replied that he was already using this principle.

Identify the principle of management applied for the success of the programme.

- (a) Authority and Responsibility (b) Stability of Personnel  
(c) Esprit De Corps (d) Initiative

**Q.15** Karan Nath took over 'D' North Motor Company from his ailing father three months ago. In the past, the company was not performing well. Karan was determined to improve the company's performance. He observed that the methods of production as well as selection of employees in the company were not scientific. He believed that there was only one best method to maximize efficiency. He also felt that once the method is developed, the workers of the company should be trained to learn that 'best method'. He asked the production manager to develop the best method and carry out the necessary training. The production manager developed this method using several parameters right from deciding the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers. This method was implemented throughout the organisation. It helped in increasing the output, improving the quality and reducing the cost and wastage. Identify the principle of scientific management followed by the production manager in the above case.

- (a) Science, not rule of thumb (b) Harmony, not discord  
(c) Cooperation, not individualism (d) Method Study

**Instructions: Q.16 to Q.19** are based on Assertion and Reason. In each question, on the basis of (A) and (R) given in the question, choose the correct choice from the options given below:

- (a) Both (A) and (R) are wrong  
(b) Only (A) is right and (R) is wrong  
(c) Both (A) and (R) are right and (R) is the correct explanation of (A)  
(d) Both (A) and (R) are right but (R) is not the correct explanation of (A)

**Q.16 Assertion (A):** Management principles have to be modified as per the changes in the business environment.

**Reason (R):** Principles of management are rigid like pure science principles.

**Q.17 Assertion (A):** The application of principles of management is contingent.

**Reason (R):** The principles of management are not rigid prescriptions, which have to be followed absolutely.

**Q.18 Assertion (A):** In an organisation, there should be a chain of superiors ranging from the ultimate authority to the lowest.

**Reason (R):** Managers require authority commensurate with their responsibility.

**Q.19 Assertion (A):** When authority is transferred, responsibility is automatically transferred.

**Reason (R):** When responsibility is transferred, authority is not automatically transferred.

**Q.20 Statement I:** "The application and result of management principles remain same in all organisations."

**Statement II:** "The application of principles of management is dependent upon the

prevailing situation at a particular point of time.”

Choose the correct option:

- (a) Both **Statements** are wrong
- (b) **Statement I** is right and **Statement II** is wrong
- (c) **Statement I** is wrong and **Statement II** is right
- (d) Both **Statements** are right

### **Answer Key**

<b>1 (c)</b>	<b>2 (a)</b>	<b>3 (a)</b>	<b>4 (d)</b>	<b>5 (a)</b>	<b>6 (c)</b>	<b>7 (b)</b>	<b>8 (b)</b>	<b>9 (a)</b>	<b>10 (d)</b>
<b>11 (b)</b>	<b>12 (b)</b>	<b>13 (a)</b>	<b>14 (c)</b>	<b>15 (d)</b>	<b>16 (b)</b>	<b>17 (d)</b>	<b>18 (d)</b>	<b>19 (c)</b>	<b>20 (b)</b>

### **Very Short Answer Type Questions/ Three Marks Questions**

**Q.1** Explain the technique of differential piece wage system with a numerical example. What will be the effect on the performance of a firm if it follows this technique?

**Q.2** The production department of Alpha Ltd. was not performing well on detailed analysis, it was observed that the workers of that department were overburdened. They were forced to work for longer hours without any break. So the management planned to replace the production manager. They appointed Mr.Hari as the new Production Manager. He observed the average worker and note down their times. He noted down the time they worked and the time they required to be fresh to join back the work. Based on this observation, he set the break intervals for workers. He gave small breaks to workers to recharge their energy. Name and explain the technique of scientific management used by Mr.Hari. Also mention its objective.

**Q.3** In the staff meeting, the principal of the school raised objection that teachers start the teaching after 5 to 10 minutes in third floor classes. He warned them as students are complaining about this. The teachers explained the principal that when we climb steps from ground to third floor, we get some tiredness and need 5 to 10 minutes rest before starting the lecture. The principal planned to install a lift in school so that teachers do not waste their energy on wasteful activity of climbing steps.

(i)State the technique of scientific management used by principal.

(ii)State the objectives of the technique of scientific management identified in (i).

**Q.4** A company believes in natural growth of an enterprise as per needs and circumstances. It has no policies to regulate the working of its staff. Therefore, the staff has become unproductive and unpunctual. Advice.

**Q.5** Anshul owns a small scale factory where utility items are prepared from waste material like paper machine items, paper and cloth bags, decorative material etc. over the past few weeks, he was observing that the productivity of one of his very efficient workers, Ramdas, is going down. So he decides to probe into the matter and confronts Ramdas one day. On being asked, Ramdas shares with Anshul that he has deliberately slowed down in his work as many of the less efficient workers often pull his leg saying that there is no need for him to be more efficient when everybody is being paid at the same rate. Taking a lesson from this insight, Anshul decides to implement an incentive

bonus plan so as to differentiate between efficient and inefficient workers. In context of the above case, name and explain the incentive bonus plan that Anshul may implement so as to differentiate between efficient and inefficient workers.

**Q.6** Mr. Mukesh used to manufacture shoes by employing labourers who were easily available. When his son after completing his MBA, joined the business, he analysed that if we use capital intensive method by using a machine, it will reduce the cost and the quality of shoes will also improve.

- (i) Which technique of scientific management is used by his son?
- (ii) What is the objective of that technique?

**Q.7** After finishing her BBA degree course, Tanya gets a job of Assistant Manager in a retail company through the reference of her cousin. Taruna who works in the same company as a Senior Manager, decides to guide Tanya through her experience by making her aware of the important facts about management in practice. She tells her that neither the principles of management provide any readymade, straitjacket solutions to all managerial problems nor they are rigid prescriptions, which have to be followed absolutely. In context of the above case:

- (i) Identify the feature of principles of management mentioned in the above paragraph by quoting lines from the paragraph.
- (ii) Why do the principles of management not provide readymade, straitjacket solutions to all managerial problems?

**Q.8** Knowledge of management principles is quite relevant for managers in performing their jobs efficiently, but they cannot use these principles without having analytical skills. Discuss the relevance of management principles in the light of above statement

**Q.9** “Contributions of Taylor and Fayol are complementary to each other.” Do you agree? Give reasons.

**Q.10** Ammy and Sammy are friends and graduated from a Law School together. Ammy sets up her law practice and establishes her Law Firm while Sammy joins a job with a reputed Law Firm. One day, Sammy visited Ammy’s office and finds it in a real mess. Files and documents were all lying in a haphazard manner. There was no assigned place for the stationery being used by Ammy. The employees in her office do not have a fixed place to work. They sit anywhere they feel like. When someone has to be contacted, he/she has to be searched all over the office. On the basis of the given information about Ammy and Sammy, answer the following questions:

- (i) Which principle of management is not being applied in Ammy’s office?
- (ii) What are the drawbacks of that?

**Q.11** Ramesh and Ravi are office assistant in a company having the same educational qualifications. Ramesh gets Rs.13,000 per month and Ravi gets Rs.17,000 per month as salaries for the same working hours.

- (i) Which principle of management is being violated in this case?
- (ii) Explain the principle and also discuss the effects of its violation.

**Q.12** Fast Track Motors, an automobile company, is producing 3 different types of vehicles: cars, two-wheelers and three-wheelers. All the activities of the company (purchase, production, marketing, etc.) with respect to each type of vehicle are under one common department. Due to this, the company is unable to achieve its overall objectives.

- (i) Which management principle is not observed by Fast Track Motors?
- (ii) What should be done so that Fast Track Motors can achieve its overall objectives?

**Q.13** Gangadhar is a worker in Liberty Industries, a shoe making company. He is regularly provided instructions by one of his superior. Another superior lays down the sequence of operations. His speed, efficiency and quality of work are also supervised by different superiors, who specialise in their respective fields.

- (i) Identify the technique of scientific management followed by Liberty Industries.
- (ii) What is the significance of having so many superiors on Gangadhar?
- (iii) Which principle of Fayol is not applicable in this kind of organisation?

**Q.14** Identify the principles/techniques of scientific management in the following cases:

- (i) An efficient employee produces more and earns more.
- (ii) Replacing hit and trial methods with rational approach.
- (iii) Employer will take care of employees as a father would take care of his kids.

**Q.15** State the role of “Route clerk”, “Gang Boss” and “Inspector” in functional foremanship.

### Answers

**Q.1** The standard output per day of a factory is 50 units and the workers who make standard output or more than standard get Rs.75 per unit and those below get Rs.65 per unit. By this efficient workers will be rewarded and inefficient workers will be penalized.

### **Q.2 Fatigue Study**

Fatigue study refers to determining the amount and frequency of rest intervals required in completing a task.

**Objective of Fatigue Study** is to determine the amount and frequency of rest intervals in completing a task.

**Q.3 (i) Motion Study-** Motion study refers to making thorough analysis of various motions being performed by a worker while he is doing a particular task.

#### **(ii) Objectives of Motion Study:**

- To determine the movements of workers while doing a typical job
- To differentiate between productive, incidental and unproductive movements

**Q.4** Company should apply the scientific principle of Development of Workers to their greatest efficiency and prosperity.

- To increase the efficiency and to achieve the maximum potential of workers, they should be provided scientific training so that they may learn the ‘best method’ developed due to application of scientific management
- Consequently, the efficient employees would produce more and earn more. This will ensure their greatest efficiency and prosperity for both company and workers.

**Q.5 Differential Piece Wage System**

- According to Taylor, financial incentives act as motivators and scope of extra earnings motivates the worker to put extra efforts. So, he developed the concept of ‘Differential Piece Wage System’
- Differential piece wage refers to a system in which efficient and inefficient workers are paid at different rates.

**Q.6 (i) Method Study-**

Method study is concerned with finding ‘one best way’ of doing a job.

**Q.7 (i) General Guidelines**

- (ii) The principles of management not provide readymade, straitjacket solutions to all managerial problems

**Q.8 Providing Managers with Useful Insights into Reality**

- These principles enable managers to learn from past mistakes and to save time by solving recurring problems quickly.
- E.g. Like Accounting Principles become the basis for taking decisions related to real life accounting problems.

**Q.9 Yes. Reasons are as follows:**

<b>Henri Fayol</b>	<b>Frederick Winslow Taylor</b>
<ul style="list-style-type: none"> <li>• Known as <b>Father of General Management</b></li> <li>• Gave 14 Principles of Management</li> <li>• His principles are mainly focused on office management and administration</li> </ul>	<ul style="list-style-type: none"> <li>• Known as <b>Father of Scientific Management</b></li> <li>• Gave 4 Principles and 7 Techniques of Scientific Management</li> <li>• His principles and techniques focus on factory management and productivity</li> </ul>

**Q.10 (i) Order-** According to this principle, there should be a place for everything and everyone and they should be present there.

**(ii) Drawbacks of not applying this principle:**

- Inefficient use of resources due to loss of time and energy in search of resources.
- Lack of discipline in the organisation.

**Q.11 (i) Equity-** According to this principle, there should not be any discrimination among the employees on the basis of religion, language, caste, sex, belief or nationality.

**(ii) Effects of Violation:**

- Decrease in satisfaction and motivation level of employees.
- Unhealthy relations between employees and management.

**Q.12 (i) Unity of Direction-** According to this principle, there should be one head and one plan for group of activities having same objectives.

**(ii) They should apply this principle as it:**

- Emphasizes importance of common goals and helps in achieving them.
- Ensures unity of action and facilitates coordination.

**Q.13 (i) Functional Foremanship**

**(ii) Significance of having so many supervisors:**

- Foreman or supervisor is the central point around whom revolves the entire process of production, planning, implementation and control in a factory.
- Taylor concentrated on improving the performance of the role of 'Foreman' and identified a list of qualities of a good foreman and found that no single person could fit them all. Consequently, he suggested the technique of 'Functional Foremanship'.

**(iii) Unity of Command**

**Q.14 (i) Differential Piece Wage System**

**(ii) Science, not Rule of Thumb**

**(iii) Cooperation, not Individualism**

**Q.15 Under functional foremanship:**

- Route Clerk is responsible for elaborating the optimum route of production to the workforce of an organisation. He reports his performance directly to the planning in-charge.
- Gang Boss has to ensure that all the required material to get things done is available for workers to start the work. He is under the reporting of production in-charge.
- The responsibility of an Inspector is to make sure that the workers meet the desired standards of quality in the output produced by them.

**Short Answer Type Questions**

**Q.1** Gaurika has been appointed as the chief organizer of a weeklong cultural event. Being a staunch follower of scientific management, she decides to execute her work by putting into practice the various techniques of scientific management. On the basis of several observations, she is able to determine that the standard time taken by the security officer at the gate to check the credentials of each visitor is 30 seconds. So she decides to employ two persons on this job for every function along with the other necessary support staff. She considers the fact that every day, the functions will take place in three shifts of four hours each, therefore it is important to give breaks to the support staff even in a single shift to take her/his lunch etc. moreover, on introspection, she determines that the best way to distribute refreshment boxes to the visitors will be to hand it over to them at the exit gate as it would help to save time and eliminate any kind of confusion. She



also reduces movement of support staff by providing them walkie talkie. In the context of the above case, identify and explain the various techniques of work study which have been put into practice by Gaurika.

**Q.2** Rajveer works as a plant superintendent in a carpet making factory. In order to complete the export orders on time, the production manager asks him to make the workers work over time whereas the finance manager is strictly against this practice because it will increase the cost of production. Moreover, Rajveer feels that since the company is manufacturing handmade carpets as well as machine made carpets, there is a lot of overlapping of activities. Therefore, there should be two separate divisions for both of them wherein each division should have its own in-charge, plans and execution resources.

In context of the above case:

- (i) Identify and explain the principle of management which is being violated.
- (ii) Also identify the principle of management that Rajveer feels should be implemented in the factory.
- (iii) Give any two differences between the principle of management as identified in part (i) and part (ii) respectively.

**Q.3** Neeraj is selected for the post of software developer in an IT Company. On the first day of his joining Mehul, his project manager tells Neeraj that during the course of his work he will come across many such opportunities which may tempt him to misuse his powers for individual or family's benefit at the cost of larger general interest of the company. In such situations, he should rather exhibit exemplary behaviour as it will raise his stature in the eyes of the company. Also, for interacting with anyone in the company on official matters, he should adopt the formal chain of authority and communication. In context of the above case, identify and explain the various principles of management that Mehul is advising Neeraj to follow while doing his job.

**Q.4** The principles of Taylor and Fayol are mutually complementary. One believed that management should not close its ears to constructive suggestions made by the employees while the other suggested that a good company should have an employee suggestion system whereby suggestions which result in substantial time or cost reduction should be rewarded.

Identify and explain the principles of Taylor and Fayol referred to in the above paragraph.

**Q.5** Ritika Kapoor, the CEO of Mobilo Limited firmly believes in providing fair wages to the employees, superior value to the customer, care for the environment and honest dealings with business associates. She also believes that for greater productivity, work should be divided into small tasks and each employee should be trained to perform his/her specialised job. This principle is applicable to a government office where there is a dairy/dispatch clerk whose job is to receive and send mail or documents, a data entry operator whose task is to input data on the computer, a peon and officer etc. This principle is also applicable to a limited company where there are separate departments

like production, finance, marketing and research and development (R&D) etc. In context to the above case, answer the following questions:

- (i) "...believes in providing fair wages to the employees, superior value to the customer, care for the environment and honest dealings with business associates." Identify the general principle of management followed here.
- (ii) Identify the point of importance of management principles highlighted above.
- (iii) "... For greater productivity, work should be divided into small tasks and each employee should be trained to perform his/her specialized job." Identify the principle of management highlighted here.
- (iv) Identify the characteristic of principles of management highlighted in the above para.

### Answers:

**Q.1** The various techniques of work study which have been put into practice by Gaurika are outlined below:

**1. Time Study:** Time study refers to a technique, which is used to determine the standard time taken by a workman of reasonable skills and ability to perform a well- defined job.

**2. Fatigue Study:** Fatigue study refers to determining the amount and frequency of rest intervals required in completing a task.

**3. Method Study:** Method study is concerned with finding 'one best way' of doing a job.

**4. Motion Study:** Motion study refers to making thorough analysis of various motions being performed by a worker while he is doing a particular task.

**Q.2 (i) Unity of command:** According to this principle, each subordinate should receive orders and be accountable to one and only one superior.

(ii) **Unity of direction:** According to this principle, there should be one head and one plan for group of activities having same objectives.

(iii) Two differences between Unity of Command and Unity of Direction:

1. Unity of Command prevents dual subordination and Unity of Direction prevents overlapping of activities.
2. Unity of Command affects an individual employee and Unity of Direction affects the entire organisation.

**Q.3** The various principles of management that Mehul is advising Neeraj to follow while doing his job are as follows:

**1. Subordination of Individual Interest to General Interest:** According to this principle, interest of the organisation as a whole must prevail over the interest of the individuals or employees.

**2. Scalar Chain:** According to this principle, organisation should have a chain of authority and communication that runs from top to bottom and should be followed by managers and the subordinates.

**Q.4** The principles of Fayol and Taylor referred to in the above paragraph respectively are 'Initiative' and 'Cooperation and Not Individualism':

**1. Initiative:** According to this principle, employees should be encouraged and given an opportunity to take some initiative in making and executing the plans.

**2. Cooperation and Not Individualism:** According to this principle, there should be cooperation between management and workers instead of individualism.

**Q.5** (i) Equity

(ii) Principles of management help in fulfilling social responsibility.

(iii) Division of work

(iv) Universal applicability

### Long Answer Type Questions

**Q.1** Hritik is desirous of setting up a small factory to manufacture different kinds of eco-friendly packaging materials. He proposes to adopt a logical approach to his business rather than hit and trial method as he knows that this can result in tremendous saving of human energy as well as wastage of time and materials. He plans to adopt paternalistic style of management in practice in order to avoid any kind of class-conflict that may emerge between him and the workers. Moreover, he plans to seek the opinion of his workers before taking any important decisions and also offers incentives to them for providing valuable suggestions for the business. In context of the above case, identify and explain the various principles of scientific management that Hritik plans to apply in his business.

**Q.2** The directors of Subroto Ltd. want to set up an industry in the remote and hilly areas of the country for producing mineral water. They have decided to divide the task of construction and management between two different managers each specializing in their area. The plant will have a proper set up and construction will involve proper sections from where the worker will collect all the material required and a store for keeping the bottled water before it is dispatched. They will not transfer their managers frequently into different wings. The CEO has devised a set of rules and regulations for the workers which if violated will be penalized for. Quoting the lines from the paragraph identify and explain the principles of management as given by Henri Fayol.

**Q.3** Fayol and Taylor both have contributed immensely to the knowledge of management, which has become a basis for further practice by managers. Taylor thought that by scientifically analyzing work it would be possible to find 'one best way' to do it. He is most remembered for his time and motion studies and functional foremanship. He said that the best result would come from the partnership between a trained and qualified management and a cooperative and innovative workforce. Fayol explained what amounts to a manager's work and what principles should be followed in doing this work. In the light of the above discussion, differentiate between the contribution of Taylor and Fayol on the following basis:

(i) Perspective    (ii) Unity of command    (iii) Applicability    (iv) Basis of formation  
(v) Focus    (vi) Personality

**Q.4** Vignesh completed his MBA at a reputed Business School in Lucknow. He was impressed by the principles and techniques of scientific management developed by FW Taylor. On completing his MBA, he wanted to apply scientific management in his family's business of fast-food chain of restaurants named 'Burger Mania'. His main goal was to reduce costs which increased output. To begin with, he wanted to develop a standard method which would be followed throughout the organisation. He investigated traditional methods through work study and unified the best practices. The standard method, i.e. the best way of doing the job was then developed taking into account all parameters right from the procurement of raw materials till the delivery of the final product to the customer. Vignesh also believed that each person should not only be scientifically selected but should also be given the required training to increase efficiency. For this, he set up a special training unit called 'Hamburger' in Bengaluru where the workers were given the required training to increase efficiency. At 'Hamburger' workers were given the required training to learn the best method. At the factory, the ingredients making up a burger were strategically placed to reduce the time taken for excess movements. The Standard Time and other parameters were determined on the basis of work study and Vignesh rewarded the workers for meeting the standard output. Now, 'Burger Mania' has standardized process, raw material, time, machinery, product and working conditions that ensured the food they send out to their customers as the same high standards of excellence and level of quality in every chain of franchisee. The application of scientific management to every aspect of restaurant operations led to Burger Mania's widespread success. Quoting the lines from the above, explain the principles and techniques of scientific management used by 'Burger Mania'.

**Q.5** Davinder is a class twelfth commerce student in a reputed school in Punjab. Satinder is his elder brother who is doing his Masters in Hospital administration from Delhi after completing his B. Sc course. During vacations when Satinder comes home, Davinder shows him the business studies project that he is preparing on the topic 'Principles of Management'. Satinder tells him that these principles are also a part of MBA course curriculum at the beginner's level as they form the core of management in practice. But he finds these principles different from those of pure science. In context of the above case:

- (i) Outline the concept of principles of management.
- (ii) Why does Satinder find the principles of management different from those of pure science?
- (iii) Why do the principles of management form the core of management in practice? Explain by giving any two points highlighting the importance of principles of management.

### Answers:

**Q.1** The various principles of scientific management that Hritik plans to apply in his business are described below:

#### **1. Science, not Rule of Thumb:**

- According to this principle, there should be scientific study and analysis of each element of a job, in order to replace the old rule of thumb approach or hit and trial method.
- This method can be developed through study and analysis. This study and analysis involves investigation of traditional methods also through work-study, unifying the best practice and developing a standard method of work. The method so developed should substitute Rule of Thumb throughout the organisation.

## **2. Harmony, Not Discord:**

- According to this principle, there should be complete harmony and proper understanding between management and workers and they should work together for organisational goals.

## **3. Cooperation, Not Individualism:**

- This principle is an extension to ‘Harmony, not discord’
- Competition should be replaced by cooperation
- Taylor stated that there should be an almost equal distribution of work and responsibility between workers and management

**Q.2** Various principles by Henry Fayol are as follows:

### **1. Unity of Direction-** “They have.....dispatched.”

All the units of an organisation should be moving towards the same objectives through coordinated and focused efforts

### **2. Stability of Personnel-** “They will.....different wings.”

It is always in the interest of the enterprise that its trusted, experienced and trained employees do not leave the organisation

### **3. Discipline:** “The CEO.....penalized for.”

Discipline requires good supervisor at all levels, clear and fair agreement regarding rules and judicious application of penalties.

## **Q.3 Difference between the contributions by Henri Fayol and F W Taylor**

**Q.4** Various principles and techniques of scientific management are as follows:

### **1. Science, not rule of thumb** “to begin with ..... best practices”

- According to this principle, there should be scientific study and analysis of each element of a job, in order to replace the old rule of thumb approach or hit and trial method.

### **2. Development of each and every person to his/her greatest efficiency and prosperity** “Vignesh also believed ..... increase efficiency.”

- According to this principle, management should aim to develop workers to their greatest efficiency and prosperity.

### **1. Method study** “The standard ..... to the customer.”

- Method study is concerned with finding ‘one best way’ of doing a job.

### **2. Motion study** “at the factory ..... movements.”

- Motion study refers to making thorough analysis of various motions being performed by a worker while he is doing a particular task.

**Q.5 (i) Concept of Principles of Management:**

- The principles of management serve as a broad and general guideline for the managerial decision making and action.
- These principles help managers to take decisions while performing functions of management viz. planning, organising, staffing, directing and controlling.

**(ii) Satinder finds the principles of management different from those of pure science because:**

- The management principles are not as rigid as principles of pure science.
- This is due to the fact that they deal with the human behaviour and thus, need to be applied creatively in the light of given situation.
- Human behaviour is very complex and unpredictable in nature

**(iii) The importance of principles of management are:**

**1. Providing managers with useful insights into reality:**

**2. Optimum utilization of resources and effective administration:**

**Activity:**

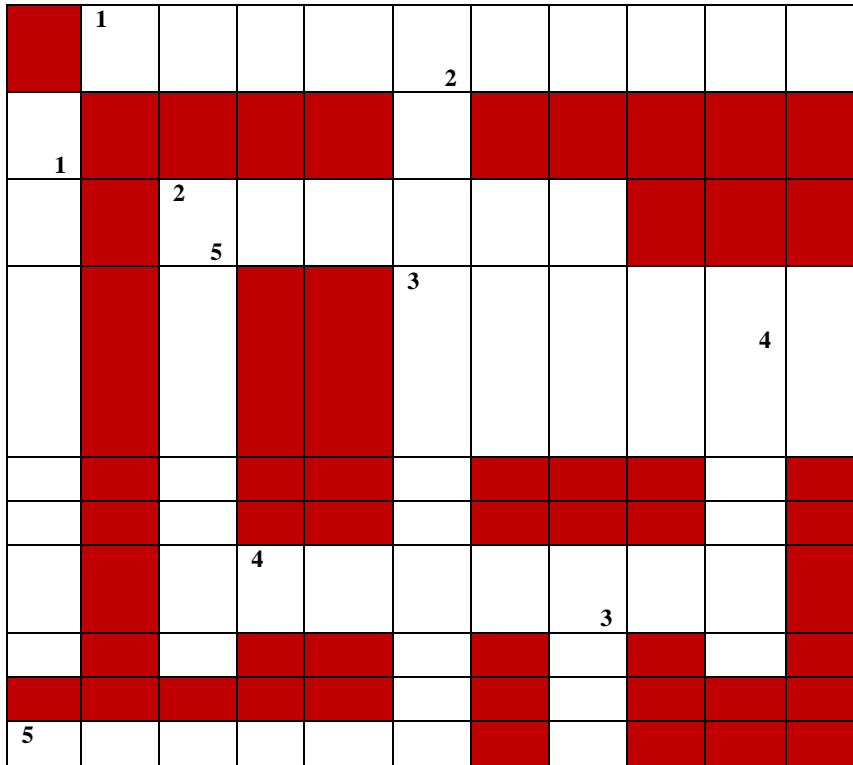
Solve the following crossword with the help of the hints given under the heads; vertical and horizontal:

**Horizontal:**

1. Principle involves abiding by rules and regulations of organisation.
2. Principle states treating all with no difference.
3. Last name of father of scientific management.
4. Technique talks about the rest interval in the continuous work.
5. Henri Fayol was from....

**Vertical:**

1. A state of peaceful existence together.
2. Principle inspires workforce to put suggestions.
3. .... Boss keeps all machines and tools ready.
4. Principle describing a particular place of persons and resources.
5. First word of the principle which states to replace 'I' with 'We'.



## CHAPTER 3 BUSINESS ENVIRONMENT

### Concept of Business Environment

Business environment refers to the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

### Features/Characteristics

- D- Dynamic Nature
- I- Inter-relatedness
- S- Specific and general forces
- T- Totality of external forces
- U- Uncertainty
- R- Relativity
- C- Complexity

1. Business environment is **Totality of all external forces** affecting a business.
2. It **includes both Specific and general forces**. Specific forces (e.g. investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (e.g. economic, social, political, legal and technological conditions) have impact on all business enterprises and may affect a firm only indirectly.
3. Its elements are closely **Inter-related**.
4. It is **Dynamic** as it keeps on changing (in terms of technological improvement, new competition in the market, etc.).
5. It is **Uncertain** as it is difficult to predict future happenings (especially when changes are taking place frequently as in the case of information technology or fashion industries).
6. It is **Complex** and difficult to comprehend as it consists of numerous inter-related and dynamic forces.
7. It is a **Relative** concept as it differs from region to region.

### Importance of Business Environment

1. **It enables the firm to identify opportunities and getting the first mover advantage:** Opportunity refers to the positive external trends or changes that will help a firm to improve its performance. For example, Maruti Udyog became the leader in small car market because it was the first to recognise the need for small car.
2. **Helps the firm to identify threats and early warning signals:** Threats refer to external environment trends and changes that will hinder a firm's performance. For example, if an Indian firm finds that a MNC is entering the Indian market with new substitutes, it should act as a warning signal and the firm must prepare to meet the threat by adopting measures like improving quality, reducing cost, engaging in aggressive advertising, and so on.



**3. Helps in tapping useful resources:** Environment is a source of various resources for running a business. A business enterprise gets various resources or inputs like finance, machines, raw material, power etc, from its environment including financiers, government and suppliers. For example, with rise in demand for LED monitors, companies started arranging raw materials for LED instead of CRT monitors.

**4. Helps in coping with rapid changes:** The business environment is getting increasingly dynamic where changes are taking place at a fast pace. For example, management of google is continuously busy in adding new features in its search engine to remain ahead of changes made by other competing search engines.

**5. Helps in assisting in planning and policy formulation:** Environment is a source of both opportunities and threats for a business enterprise, its understanding and analysis provide the base for planning. For example, ITC Hotels planned for new hotels in India after observing the increase in India's share of world tourism.

**6. Helps in improving performance:** Analysis and understanding of trends of the business environment helps the business to improve its performance.

### **Dimensions/Components/Elements**

**1. Economic Environment:** It refers to factors like interest rates, inflation rates and changes in disposable income of people etc.

**2. Social Environment:** It includes social forces like custom and traditions, values, social trends and society's expectation from business. Traditions define social practices that have lasted for centuries. For Example: - Diwali, Id, Christmas and Guru Parv in India.

**3. Political environment:** It includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.

**4. Legal environment:** It includes various legislations passed by the Government, administrative orders issued by government authorities, court judgments and the decisions rendered by various commissions and agencies at every level of the government- Centre, state or local.

**5. Technological Environment:** It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

For Example: - Recent technological, advances in computers and electronics have modified the ways in which companies advertise their product.

### **Demonetisation – Concept**

Demonetisation is the act of the government to cancel the legal tender status of a currency unit in circulation.

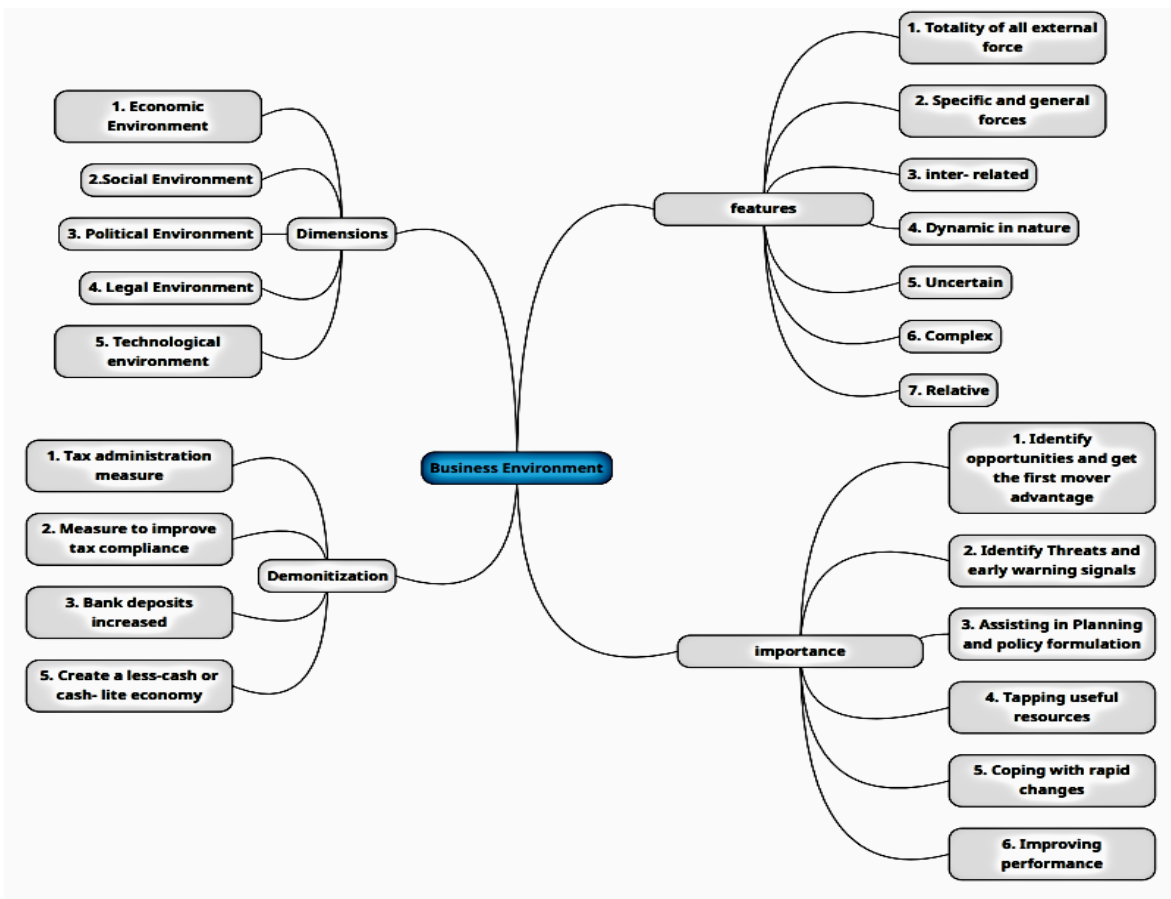
The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. Rs.500 and Rs.1000 denomination notes were withdrawn from circulation. The aim of demonetisation was to curb corruption,

counterfeiting the use of high denomination notes for illegal activities; and especially the accumulation of ‘black money’ generated by income that has not been declared to the tax authorities.

**Features of Demonetisation:**

1. Demonetisation is a tax administration measure.
2. Demonetisation is a measure to improve tax compliance.
3. Demonetisation led to channelizing more savings through the formal financial system.
4. Demonetisation aimed to create a less-cash or cash-lite economy.

**MIND MAP**



**MULTIPLE CHOICE QUESTIONS**

1. Demand for Sari may be fairly high in India, whereas it may be almost non-existent in France. Which characteristics of Business environment are referred here?  
 (a) Dynamic      (b) Inter-relatedness      (c) Complexity      (d) Relativity

2. The Trend of Yoga as a result of COVID-19 relates to:  
 (a) Social (b) Political (c) Technological (d) Legal
3. Since business environment consist of numerous interrelated and dynamic conditions or forces which arise from different sources it becomes difficult to comprehend at once what exactly constitute a given environment. The characteristics of business environment highlighted here is:  
 (a) Relativity (b) Complexity (c) Uncertainty (d) Totality
4. Investors, Customers, Competitors and suppliers come under \_\_\_\_\_ forces.  
 (a) General (b) Specific (c) General & Specific (d) None of the above
5. Which of the following is an example of social environment?  
 (a) Money supply in the economy (b) Consumer Protection Act  
 (c) The Constitution of the country (d) Composition of family
6. Many multinational food chains such as KFC, Mc Donald's, Domino's etc. have altered their menu according to Indian taste and culture. Name the dimension of business environment which is responsible for this step.  
 (a) Economic environment (b) Social Environment  
 (c) Technological environment (d) Legal environment
7. The court issued the order that it is essential for the vehicles to be smokeless and that any one violating this order shall have to pay fine. Identify the dimension of business environment. (a) Economic (b) Political (c) Social (d) Legal
8. Online reservation of railway ticket is an example for which types of dimensions of business environment. (a) Economic (b) Political (c) Social (d) Technological
9. Legal environment includes:  
 (a) Various Laws and Legislative Act  
 (b) Administrative order issued by government authorities  
 (c) Court judgments  
 (d) All of these

10.

Match the following	
Column I	Column II
A. Stock Market Indicates	(i) Political Environment
B. Customs and Traditions	(ii) Social Environment
C. New Techniques of operating business	(iii) Technological Environment
D. General stability and peace in the country	(iv) Economic Environment

(a) A (iv), B (iii), C (i), D (ii)  
 (b) A (ii), B (iii), C (iv), D (i)

(c) A (iii), B (iv), C (ii), D (i)

(d) A (iv), B (ii), C (iii), D (i)

Direction (Q. No.11 to 13) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below: a) Both Assertion(A) and Reason (R) are true and Reason (R) is the correct

explanation of Assertion (A)

b) Both Assertion (A) and Reason (R) are true but reason (R) is not the correct explanation of Assertion (A)

(c) Assertion (A) is true but Reason (R) is false

(d) Assertion (A) is false but Reason (R) is true

**11. Assertion (A):** Manufacturers have now flexible manufacturing systems.

**Reason (R) :** Agricultural and industrial production trends are the economic dimensions of the environment which affect the business environment.

**12. Assertion (A):** Entry of new firms in the market may make an enterprise think afresh about how to deal with the situations.

**Reason (R):** Business Environment assist in planning and policy formulation.

**13. Assertion (A):** Reservation of jobs for backward classes as per the constitution of India affects the business environment.

**Reason (R):** Various elements of legal dimension affect the business environment

**Direction: Read the following text and answer the question number 14-18 on the basis of the same**

The government all over the world are becoming more and more cautious towards the environment. To ensure the same, recently, many state governments passed an order to ban polythene bags since these are non-biodegradable. As a result, the government also decided to give a subsidy to jute industry (bags). The minister said in the statement that they believe it will be helpful as income of people is rising and people can afford jute bag. After this subsidy, Aman saw great potential in jute multi-pocket bags business which was not established yet in India but had been flourishing in UK where he studied during his graduation. He launched the product and his business started to boom. So, more companies entered into the market with other articles and improvisations.

14. Which business dimension is highlighted in the line, " As a result, the government also decided to give a subsidy to jute industry (bags)."

(a) Legal (b) Political (c) Economic (d) Social

15. Which business dimension is highlighted in the line, " The Minister said in the statement that he believes it will be helpful as income of people are rising and people can afford jute bags."?

(a) Legal (b) Political (c) Economic (d) Social

16. Which merit of business environment is highlighted in the lines, "After the subsidy Aman saw great potential in jute multi-pocket bags business which was not established yet in India but had been flourishing in UK where he studied during his graduation."

- (a) Identify opportunities      (b) Tapping useful resources  
(c) Coping with rapid changes      (d) Assisting in planning

17. Which merit of business environment is highlighted in the lines, " He launched the product and his business started to boom. So, more companies entered into the market with other articles and improvisations."

- (a) Identify opportunities      (b) Identified threats  
(c) Assisting in planning      (d) Coping with rapid changes

18. Which dimension of business environment is highlighted in the given lines, " To ensure the same, many state governments passed an order to ban polythene bags since these are non-biodegradable."?

- (a) Political      (b) Legal      (c) Technological      (d) Economic

**Direction: Read the following text and answer the question number 19-22 on the basis of the same**

Rita and Rohit are good friends and after finishing their graduation they decided to start their own travel agency which will book Rail Tickets and Air Tickets on commission basis. They also thought of providing tickets through the use of internet. They discussed the idea with Rita's uncle Manoj who was working as a professor in a reputed university. He liked their idea and suggested them to first analyse the business environment which consist of investors, competitors and other forces like social, political etc. that may affect their business. He further told them about the technological improvements and shifts in customer preferences that were taking place and hence, they should be aware of the environmental trends and changes which may hinder their business performance.

19. Identify the component of business environment highlighted in the above paragraph

- (a) Economic Environment      (b) Social Environment  
(c) Technological Environment      (d) Political Environment

20. Identify the feature(s) of business environment as discussed by Professor Manoj with Rita and Rohit.

- (a) Specific and general forces      (b) Inter-relatedness  
(c) Dynamic nature      (d) Uncertainty

21. Identify the point(s) of importance of business environment as stated by Professor Manoj in the above situation.

- (a) It enables the firm to identify opportunities and getting the first mover advantage.  
(b) It helps the firm to identify threats and early warning signals.

- (c) It helps in tapping useful resources.
- (d) It helps in assisting in planning and policy formulation

22. “Rita and Rohit after finishing their graduation they decided to start their own travel agency which will book Rail Tickets and Air Tickets on commission basis” Which dimension of business environment highlighted here?

- (a) Economic
- (b) Political
- (c) Legal
- (d) Social.

**ANSWERS:**

1	2	3	4	5	6	7	8	9	10
d	a	b	b	d	b	d	d	b	d
11	12	13	14	15	16	17	18	19	20
b	a	a	b	c	a	b	b	c	a
21	22								
b	a								

**COMPETENCY BASED QUESTIONS**

Q1. 'Heathy & Tasety ' was among the first fast food chains in India which pioneered the concept of family style restaurants? However, over the years it started losing business to multinational food chains like McDonalds and Pizza Hut, etc. and soon had to shut down. The reason to shut down was the inability of managers to identify, understand, evaluate and to react to the forces external to their firm.

In the light of the above situation, explain with the help of any two points, how understanding of business environment is important for managers.

Q.2 Environment is a source of various resources for running a business. To engage in any type of activity, a business enterprise assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc., from its environment including financiers, government and suppliers. They decide to provide these resources with their own expectations to get something in return from the enterprise. The business enterprise supplies the environment with its outputs such as goods and services for customers, payment of taxes to government, return on financial investment to investors and so on. Because the enterprise depends on the environment as a source of inputs or resources and as an outlet for outputs, it only makes sense that the enterprise designs policies that allow it to get the resources that it needs so that it can convert those resources into outputs that the environment desires. This can be done better by understanding what the environment has to offer. Since environment is a source of both opportunities and threats for a business enterprise, its understanding and analysis can be the basis for deciding the future course of action (planning) or training guidelines for decision making (policy). For instance, entry of new players in the market, which means

more competition may make an enterprise think afresh about how to deal with the situation.

Explain briefly any three points of importance of business environment other than those explained in the above paragraphs

### CASE STUDY

**1: Read the following text and answer question no. 1-4 on the basis of the same:**

In an environment of rising petroleum prices and a large middle-class population in India, RK Motors Ltd. recognized the need for small cars in India. It created a product far superior than their competitors not only in terms of quality but also in terms of overall driving experience. It soon became the leader in the small car market. As the Indian government was encouraging foreign investment, MNCs having a big name in car manufacturing entered the Indian market. RK Motors further expanded its service network and quality creating an entry barrier for the competitors. It depicted its strengths through various brand-building activities. As a result, the market share of RK Motors is refusing to go down in spite of all major automakers as its competitors.

1. Identify the feature of business environment highlighted in the above case.

- (a) Specific and general forces
- (b) Inter-relatedness
- (c) Dynamic nature
- (d) Uncertainty

2. "RK Motors Ltd. recognized the need for small cars in India." Identify the point of importance of Business Environment highlighted in the above line.

- (a) It helps the firm to identify opportunities and get the first mover advantage.
- (b) It helps the firm in improving performance.
- (c) It helps the firm in planning and policy formulation.
- (d) None of the above

3. "It created a product far superior than their competitors not only in terms of quality but also in terms of overall driving experience. It soon became the leader in the small car market." Identify the point of importance of Business Environment highlighted in the above line.

- (a) It helps the firm to identify opportunities and get the first mover advantage.
- (b) It helps the firm in improving performance.
- (c) It helps the firm in planning and policy formulation.
- (d) None of the above

4. "As the Indian government was encouraging foreign investment, MNCs having a big name in car manufacturing entered the Indian market." Identify the dimension of business environment highlighted here.

- (a) Technological environment
- (b) Legal environment
- (d) Economic environment
- (c) Political environment

**2: Read the following text and answer question no. 5-8 on the basis of the same:**

With rapid advancements in the field of replacing manual work with machines, a Robot named 'Karthik' has been invented and developed and is likely to get the citizenship of the country of its origin. It has led to a stage where machines are being used in place of human beings. "Karthik' is doing all types of work whether routine or hazardous and

even answering the queries of people. However, this issue has to be carefully looked into keeping in mind the consumer attitude towards product innovations, problem of unemployment and its impact on the quality of life. Through the orders and decisions of various commissions and agencies at Centre, State or Local level the Indian Government is playing a very significant role in balancing the use of human and machine power.

5. Identify the feature of business environment highlighted in the above case.

- (a) Specific and general forces      (b) Inter-relatedness  
(d) Uncertainty                              (c) Dynamic nature

6. Identify the point of importance of business environment highlighted in the above case.

- (a) It helps in tapping useful resources.  
(b) It helps in assisting in planning and policy formulation.  
(c) It helps in coping with rapid changes.  
(d) It helps in improving performance.

7. However, this issue has to be carefully looked into keeping in mind the consumer attitude towards product innovations, problem of unemployment and its impact on the quality of life. Identify the dimension of business environment highlighted here.

- (a) Technological environment (b) Social environment  
(c) Political environment (d) Economic environment

8. Through the orders and decisions of various commissions and agencies at Centre, State or local level the Indian Government is playing a very significant role in balancing the use of human and machine power. Identify the dimension of business environment highlighted here.

- (a) Legal environment                              (b) Social environment  
(c) Political environment                              (d) Economic environment

**Answers:**

1. (c)    2. (a)    3. (b)    4. (c)    5. (c)    6. (c) / (d)    7. (b)    8. (a)

**SHORT ANSWER TYPE QUESTIONS**

1. State the difference between general and specific environment with examples.

2. Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decision in this regard- customer income is rising. People have developed a taste for better quality products even though they may have to pay more. The government permitted cent percent foreign direct investment in some sectors of retailing. Identify the change in business environment under different dimension quoting the line from the above para.

3. Understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms.’ In light of the statement, explain by giving any four points why in the present-day competitive



market, it is essential for a business enterprise to remain alert and aware of its environment.

4. Karodimal Ltd. manufactures fashionable and designer clothes. Recently it finds that the demand for its product been declining. After market research it was discovered that fashion and tastes of the consumers is changing a pace. Consumers demand is increasing. New competitors have entered the market with new design. It is difficult for the company to predict future happening. Also, it is difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on decrease in demand of its product in the market. A meeting was held in which managers from different functional level heading production, marketing, financial etc. for example, chief operating officer, chief finance officer, vice president (marketing) were present to discuss how to deal with the situation. After a long discussion, it was decided that they would study and analyse the market first to identify customers taste and fashion and then manufacture garments accordingly. It was also decided to increase expenditure on advertising, after sale service, etc.

(a) Identify any two features a business environment by quoting the lines from the above case.

(b) State the importance of understanding of environment by business managers in the light of the above para.

5. Two big Bollywood movies were scheduled to be released on the same date. But, at the last moment, release of one movie had to be postponed due to opposition by a group of people because of some unethical content in the movie. The loss suffered by the postponed movie provided opportunity for the released movie to earn maximum profits.

(a) Which characteristic of Business Environment is highlighted in the given case?

(b) Identify and explain the dimension of Business Environment which led to the postponement of movie.

6. Mahinder Agro Ltd. started a new venture for distribution of harmful and chemical fertilizers free vegetables. They conducted a survey to find out consumer preference for such vegetables. They found that most of the consumers were concerned about the harmful chemicals being used in growing the vegetables. They found that 90% of the households were searching for its alternatives. The company contacted a group of agriculture experts to lay down the procedure for growing the vegetables by the farmers. They decided to train the framers in new technology to grow chemical free vegetables according to new Tech. innovative methods the experts also suggested soil management techniques through which farmers would be able to create an abundant and lasting harvest. Identify and explain the two dimensions of business environment highlighted in the above para.

## LONG ANSWER TYPE QUESTIONS

1. The court passed an order that all school must have water purifier for the school children as society in general is more concerned about quality of life. Innovative techniques are being developed to manufacture water purifier at competitive rates. Incomes are rising and children at home are also drinking purified water. The government is also showing positive attitude towards the water purifier business.

State the meaning of Business environment and identify the different dimensions of business environment by quoting lines from the above details.

2. The government of India announced Demonetization of ₹500 and ₹1,000 currency notes with effect from the midnight of November 8, 2016. As a result, the existing ₹500 and ₹1,000 currency notes ceased to be legal tender from that date. New currency notes of the denomination of ₹500 and ₹ 2,000 were issued by Reserve Bank of India after the announcement. Recently ₹2000 also demonetized. This step resulted in a substantial increase in the awareness about and use of Point of Sale machines, e-wallets, digital cash and other modes of cashless transactions. Also, increased transparency in monetary transactions and disclosure led to a rise in government revenue in the form of tax collection.

- (a) Enumerate the dimensions of business environment highlighted above.
- (b) State the features of Demonetization

## SHORT ANSWERS

1. Business environment includes both specific forces (investors, customers, competitors and suppliers) and general forces (economic, social, political, legal and technological conditions). Specific forces affect an individual firm directly and immediately in its day to-day working while general forces have impact on all business firm and thus may affect an individual firm only indirectly.

2.
  - (1) Economic environment: customer income is rising.
  - (2) Social environment: people have developed a taste for better quality product even though they may have to pay more.
  - (3) Political environment: the government permitted cent per cent foreign direct investment in some sector of retailing.

3.
  - (i) Identify Opportunities and get First Mover Advantage: Early identification of opportunities helps the firm to be the first to exploit them instead of losing them to competitors.
  - (ii) Identify Threats and Early Warning Signals: Environmental awareness can help managers to identify various threats on time and serve as an early warning signal.
  - (iii) Tap Useful Resources: A business firm assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc. from its environment.

(iv) Assist in Planning and Policy Formulation: Since business environment provides both opportunities and threats for the firm, its understanding and analysis can be the basis for planning and policy formulation

(v) Help in Coping with Rapid Changes: Managers must understand and examine the environment and develop suitable courses of action to cope with rapid changes in business environment

4. (a) (1) Dynamic nature – Fashion and taste of the consumer is changing at a fast pace.

(2) Uncertainty- It is very difficult for the company to predict future happening.

(3) Complexity – It is difficult to know the extent of the relative impact of the social, economic, political, technological or legal factor on decreasing in demand of its products in the market.

(b) Business environment helps the manager in coping with rapid changes.

5. (a) Relative concept. (b) Social environment.

6. Social and Technological environment.

### LONG ANSWERS

1. The sum total of individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

(1) Legal environment: The court passed an order that all schools must have water purifier for the school children.

(2) Social environment: Society in general is more concerned about quality of life.

(3) Technological environment: Innovative techniques are being developed to manufacture water purifier at competitive rate.

(4) Economic environment: Income is rising and children at home are also drinking purified water.

(5) Political environment:

The government is also showing positive attitude towards the water purifier.

2.

a) Political environment, Legal environment, Technological environment and Economic environment

b) Demonetisation as a tax administration measure, Non-tolerance of tax evasion,

c) Demonetisation also led to tax administration channelizing savings into the formal financial system,

d) Demonetization is to create a less-cash or cash-lite economy.

## Practice Test - Choose the correct alternative

### 1. Match the following:

- |  |                               |
|--|-------------------------------|
| (i) Stock market indices                                 | (a) Political Environment     |
| (ii) Customs and traditions                              | (b) Social Environment        |
| (iii) New methods and techniques of operating a business | (c) Technological Environment |
| (iv) General stability and peace in the country          | (d) Economic Environment      |

2. \_\_\_\_\_ is considered a major element of the economic environment.

- (a) Public debt (internal and external)
- (b) The nature of relationship of our country with foreign countries
- (c) Birth and death rates
- (d) Education system and literacy rates

3. In order to solve economic problems of our country, the government took several steps including control by the state of certain industries, central planning and reduced importance of the private sector.

Which dimension of environment is discussed above?

- (a) Economic environment
- (b) Political environment
- (c) Both (a) and (b)
- (d) Legal environment

4. 'Threats to law and order' is an example of \_\_\_\_\_ environment of business. (Fill up the blank with correct answer)

5. What is the aim of demonetisation'? Explain briefly its any two features.

6. Mahinder Agro Ltd. started a new venture for distribution of harmful and chemical free fertilizers vegetables. They conducted a survey to find out consumer preferences for such vegetables. They found that most of the consumers were concerned about the harmful chemicals being used in growing the vegetables. They found out that 90% of the households were searching for alternatives. The company contacted a group of agricultural experts to lay down the procedure for growing the vegetables by the farmers. They decided to train the farmers in new technology to grow chemical free vegetables according to new innovative methods. The experts also suggested soil management techniques through which farmers would be able to create an abundant and lasting harvest.

Identify and explain the two dimensions of business environment highlighted in the above para.

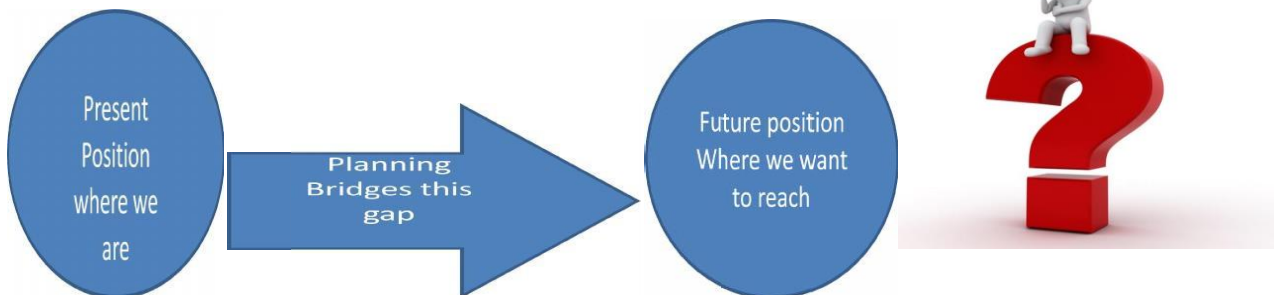
8. State any five features of business environment.

9. In an environment of rising petroleum prices and a large middle-class population in India, RK Motors Ltd. recognized the need for small cars in India. It created a product far superior than their competitors not only in terms of quality but also in terms of overall driving experience, it soon became the leader in the small car market. As the Indian government was encouraging foreign investment, MNCs having a big name in car manufacturing entered the Indian market. RK Motors further expanded its service network and quality creating an entry barrier for the competitors. It depicted its strengths through various brand-building activities, As a result, the market share of RK Motors is refusing to go down in spite of all major automakers as its competitors. Quoting the lines, explain any two points of importance of Business Environment being highlighted in the above case.

## CHAPTER 4 PLANNING

### MEANING

- Planning means setting objectives and making plans to achieve them.
- It gives direction for decision and action.



### PLANNING

Deciding in advance-

- **What** is to be done
- **How** is to be done
- **When** is to be done
- **Who** is to be done

### IMPORTANCE OF PLANNING

#### 1. PLANNING PROVIDES DIRECTION:

- It states in advance how work is to be done.
- It provides direction for action.
- It clearly state the objectives.
- This ensures effective implementation of plans to achieve the goal.

#### 2. Planning reduces the risks of uncertainty:

- Action are decided in advance.
- Planning helps the organisation to face unexpected events.
- With the help of planning an enterprise can predict future events and make due provision for them.

#### 3. REDUCES OVERLAPPING AND WASTEFUL ACTIVITIES:

- It ensures clarity in thoughts and actions.
- Planning Coordinates the activities of different department.
- Thus there will be order which avoids wasteful activities.

#### 4. PLANNING PROMOTES INNOVATIVE IDEAS:

- New methods, ideas and procedures are taken up in plan to find better methods for productivity.
- This makes the managers innovative and creative.

#### 5 PLANNING FACILITATES DECISION MAKING:

- It helps to predict future.

- It helps to select best alternatives.

Therefore helps to make decisions

## **6.PLANNING ESTABLISHES STANDARD FOR CONTROLLING:**

- It provides standard to measure actual performance.
- It helps to correct the mistakes.
- Plans serve as standards for evaluation of performance.

### **FEATURES OF PLANNING:**

#### **1. Planning Focuses on objectives:**

- Every organization has its own objectives.
- Every plan must contribute towards the accomplishment of these objectives.

#### **2.Planning is the primary function of management**

- Planning is the first function of management.
- All other functions are performed to implement the plan

#### **3.Planning is pervasive**

- Planning is required at all levels of management
- Top management - Long range plans
- Middle management - Departmental plans
- Lower level management - Short term plans

#### **4.Planning is continuous**

- Planning is an on-going process.
- Usually a plan is prepared for a specific period of time.
- At the end of the period a new plan is prepared in accordance with the requirement of future condition.

#### **5.Planning is futuristic**

- Planning is looking ahead and preparing for the future.
- Forecasting is the essence of planning.

#### **6.Planning involves decision making**

- Management have to select the best one alternative from various alternative. (decision making)
- This can be done after proper analysis.

#### **7.Planning is a mental exercise**

- Planning is an intellectual process which involves foresight,imagination and judgment.

### **LIMITATIONS OF PLANNING**

#### **1. PLANNING LEADS TO RIGIDITY:**

- Employees are required to work strictly in accordance with plan.
- Restricts the individual skill, initiative and creativity,

- Plan is a predetermine policy, so no change can be made.

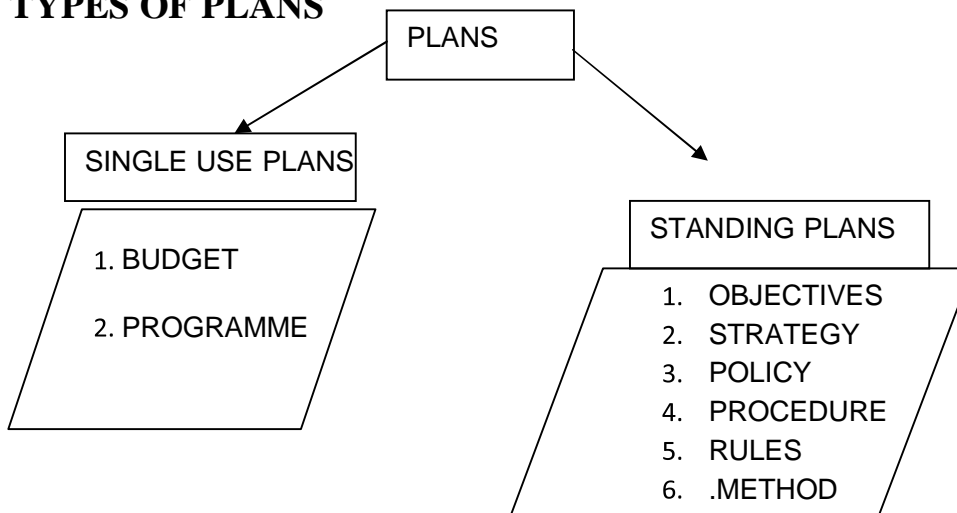
## **2. PLANNING DOES NOT WORK IN A DYNAMIC ENVIRONMENT:**

- It cannot foresee all changes
- The scope for planning is limited up to a certain extent especially in the organizations having rapid changing situations.

## **3. IT REDUCES CREATIVITY:**

- Managers at middle and lower levels; just implement the plans formulated by the top management.
- Thus it reduces the creativity among them.

### **TYPES OF PLANS**



### **SINGLE USE PLANS**

- Developed for a one-time event or project.
- It is used for a course of action which is not likely to be repeated in future.
- The duration may depend upon the type of project, may be for one day, a week or a month.

### **STANDING PLANS**

- It is used for activities that occur regularly over a period of time.
- It is usually developed once but is modified from time to time to meet business needs.
- E.g- objectives, strategy, policy
- Usually made once and retained their values over a period.

### **1 OBJECTIVES**

- It is the end result of activity
- Set by top level management
- It is future position that management want to achieve



- It can be measured and expressed in specific term Objective :the objective of the school is to get 100% result

## **2.STRATEGY:**

- Designed to achieve specific objectives
- It defines the direction and scope in long term objectives
- It is formulated after considering both internal and external environment
- It adopts particular course of action
- E.g- the result strategy may include decisions regarding which subject to be allotted more period, time for special class during the revision time

## **3.POLICIES:**

- They are general statement
- Helps to interpret strategy
- It exists at all levels
- It is stated in general terms
- E.g: cannot appoint the top scorer of last year to teach the present students. Appoint only qualified and experienced teachers

### **Difference between policies and objectives**

Basis	policies	objectives
Purpose	Determine how the work is done	Determine what is to be done
Period	No time dimension	Objectives may be of short term and long term
Need	Objectives cannot be achieved without policies	Objectives are the base of any organisation
Formulation	Formulate at all levels	Determined by top level
source	Derived from objectives	Derived from goal

### **Difference between policies and strategy**

Basis	policies	strategy
Purpose	Deals with repetitive issues	Counters unforeseen problems or threats

Validity	Valid for Problems which are recurring	Suitable for specific situations
Role of competitors	It is planned on the move of competitors	Formulated after considering activities of the competitors
Hierarchy of plans	Occupy lower place in hierarchy of plans	Occupy higher place in hierarchy of plans

#### **4.PROCEDURE:**

- It is a chronological sequence of various step
- It says the manner in which work is to be determined
- ~~It is very rigid and there is no scope of individual judgement.~~
- Example: identify the subject which requires more time of revision, allot more time for that subject, provide study materials and pervious question paper for that subject.

#### **5. RULES**

- Rules are specific statements that inform what is to be done
- They are rigid
- ~~It is the simplest type of plans and there is no compromise or change~~
- Maintains discipline and order
- Example: not to use mobile phones in the school

#### **6.METHOD:**

- It provides prescribe way to do a task
- Methods provide detailed and specific guidance for day today action
- It compromises one step of procedure
- Vary from task to task

#### **4. PROGRAMMES:**

- It is a detailed statement
- It gives minutest( minute) detail
- It gives outline of

#### **5. BUDGET:**

- It is a statement of expected results expressed in numerical terms
- It quantifies future facts and figures
- It is prepared for various groups of activities

<b>BASIS</b>	<b>STANDING PLANS</b>	<b>SINGLE USE PLAN</b>
1 Period	These plans are formulated for a long period	These plans are for a short period and are repeatedly formulated in case of need

2 Object	These plans are formulated to bring uniformity in decisions	These plans are designed to run successfully some particular activities
3 Types	They are six types i) objectives ii) strategies iii) policies iv) procedures v) methods and vi) rules	They are two types i) budget ii) programmes
4 Scope	They guide the managers in particular matters like price policy and sales policy	These plans guide in matters of daily routine
5 Basis	They are based on the main objective of the organisation	They are based on the standing plans of the organisation

### **MULTIPLE CHOICE QUESTIONS**

1 At what managerial level planning is needed?

- (a) Top level (b) Middle level (c) Lower level (d) All the levels

2 A Co is manufacturing garments. The manager wants to increase profits by purchasing new high speed machines or increasing the sale price or using waste materials in manufacturing stuffed toys. He decided that "using waste material" is the best solution for him. Identify the concept of management involved.

- A) Directing B) Coordination C) Planning D) Organising

3 Identify the correct sequence of steps involved in the planning process.

- (a) Evaluating alternative courses, Identifying alternative courses of action, Setting objectives, Developing premises

(b) Setting objectives, Identifying alternative courses of action, Evaluating alternative courses, Developing premises

(c) Setting objectives, Developing premises, Identifying alternative courses of action, Evaluating alternative courses

(d) Setting objectives, Developing premises, Identifying alternative courses of action, implementing alternative courses

4 “Plans decide the future course of action and managers may not be in a position to change it.” Identify the limitation of planning indicated here.

- (a) Planning reduces creativity
- (b) Planning does not guarantee success
- (c) Planning may not work in a dynamic environment
- (d) Planning leads to rigidity.

5

∴ Which of the following is an example of an objective?

- (a) Raising sales up to Rs. 5000 crore
- (b) Giving employment to 1000 people
- (c) Raising income by 3%
- (d) All of these

### **ASSERTION REASONING QUESTIONS**

There are two statements marked as Assertion (A) and Reason(R). Read the statements and choose the appropriate option from the options given below;

- (a) Both Assertion (A) and Reason(R) are true and Reason (R) is correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason(R) are true but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true but Reason(R) is false
- (d) Assertion (A) is false but Reason(R) is true

6 Assertion (A) : Planning is pervasive

∴ Reason (R) : It is an exclusive function of top management or of some particular department or manager.

7 Assertion (A) : Middle management and other decision makers are neither allowed to deviate from the plan nor they are permitted to act on their own.

∴ Reason(R) : Planning in a way reduces creativity since people tend to think along the same lines as others.

8 Assertion (A): The various functions of planning are inter related, however planning provides the basis of all other functions.

Reason (R) : Planning is a continuous activity.

9 Assertion (A) : Sales forecast is the basis on which a business firm prepares its annual plan for production and sales.

Reason(R) : Planning is the primary function of management.

10 Assertion (A): Monitoring the plan is equally important to ensure that objectives are achieved.

Reason(R): To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process.

11 For the following two statements choose the correct option:

1 Statement I: Planning is pervasive.

Statement II: Planning reduces creativity as it is usually made by top management and the rest of the members just implements these plan.

Choose the correct option from the options given below:

- (a) Statement I is correct and II is wrong
- (b) Statement II is correct and I am wrong
- (c) Both statements are correct
- (d) Both statements are incorrect

12 “If the end result is clear it becomes easier to work towards the goal.” Identify the step of one of the functions of management highlighted above.

- a. Developing premises
- b. Implementation of plan
- c. Follow up action
- d. Setting of objectives

13 “Following a pre-determined plan, when circumstances have changed, it may not turn out to be in the organization’s interest.” Identify the limitation of planning highlighted above.

- a. planning leads to rigidity
- b. planning may not work in the dynamic environment
- c. planning does not guarantee success
- d. planning reduces creativity

1  
4  
: Changes and events cannot be eliminated but can be anticipated and managerial response to them can be developed. Which importance of planning is highlighted in the above statement.

- a. Planning provides direction
- b. Planning reduces overlapping and wasteful activities
- c. Planning reduces the risk of uncertainty
- d. It facilitates decision making

15. Match the column i with ii on the basis of “characteristics of planning” by using the option below:

COLUMN I	COLUMN II
A. Planning process other function.	1. Achieving objectives.
B. Planning is purposeful	2. Primary function
C. Planning essentially involves looking ahead.	3. Futuristic
D. Planning involves examination and evaluation of each alternative.	4. Decision-making.

A B C D

- (a) 2 1 4 3
- (b) 1 2 4 3

A B C D

- (b) 3 4 2 1
- (d) 2 1 3 4

1  
6  
: Match the columns on the basis of “Type of Plan” given in column ii by using the options given:

COLUMN I	COLUMN II
1. Detailed statement.	A. Budget
2. Prescribed manner	B. Methods
3. Comprehensive plan	C. Programmes
4. Measurable results	D. objective
	E. strategy

Choose the correct option:

- (a) 1-c, 2-B, 3-D, 4-E
- (b) 1-B, 2-E, 3-D, 4-C
- (b) 1-C, 2-D, 3-A, 4-B
- (d) 1-C, 2-B, 3-E, 4-D

1  
7 Match the category of “Type of Plan” given in column i with the “type of plan” given in column ii by using the options given:

COLUMN 1	COLUMN 2
A) SINGLE USE PLANS	1) BUDGET
B) STANDING PLANS	2) POLICIES
	3) PROGRAMMES
	4) METHODS
	5) RULES

Choose the correct options:

- (a) A-1,2,3 ; B-4,5
- (b) A-4,5 ; B-1,2,3
- (c) A-1,3 ; B-2,4,5
- (d) A-2,3,4,5; B-1

Column I	Column II
1. All the alternative courses of action should be identified.	A. Follow-up action
2. Plans are being implemented and activities are performed according to schedule is checked	B. Developing premises
	A. Identifying alternative
	B. Setting objectives

Match the above table on the basis of ‘process of planning’ by using the given options: Choose the correct option:

- (a) 1-B ; 2-D      (b) 1-C ; 2-D
- (b) 1-D ; 2-C      (d) 1-C; 2-A

1  
9 A Co is manufacturing garments. The manager wants to increase profits by purchasing new high speed machines or increasing the sale price or using waste materials in manufacturing stuffed toys. He decided that "using waste material" is the best solution for him. Identify the concept of management involved.

A) Directing B) Coordinating C) Planning D) Organising

2  
0  
Micromax was India's largest seller of mobile handsets. It launched low-cost Chinese manufacturing with some smart packaging and features like long-lasting batteries and dual-sim functionality to garner 20% market share in India's value-conscious mobile handset market. Identify the two types of plans being described in the above lines.

- (a) Strategy and objective (b) Rule and Programme  
(c) Programme and objective (d) Method and objective

2  
1  
According to the World Health Organization, 39% of adults are overweight. Consequently in the U.K., a sugar tax was introduced in 2018 on beverages containing more than 5% sugar to curb sugar intake. Identify the type of plan being described in the above lines.

- (a) Programme (b) Method (c) Strategy (d) Rule

2  
2  
Shubham wants to increase the sale of his business by 15% in the next quarter. Identify the type of plan being described in the above lines.

- (a) Method (b) Objective (c) Strategy (d) Programme

2  
3  
India is world's third largest domestic aviation market. The government plans to make India a hub for financing aircraft purchases and leasing of planes. In order to promote this, the government has announced tax incentives, like tax deductions, for companies setting up business in IFSC for fifteen years. Identify the type of plan being described in the above lines.

- (a) Method (b) Strategy (c) Programme (d) Rule

2  
4  
Ketan Enterprises adopts different ways to provide training to employees, like Job Rotation, Coaching, Vestibule Training, Conference, Lecture Method and Role Playing. Identify the type of plan being described in the above lines.

- (a) Method (b) Strategy (c) Programme (d) Procedure

2  
5  
Deepak is striving to earn a profit of 30% in the current financial year. Identify the type of plan being described in the above lines.

- (a) Method (b) Objective (c) Strategy (d) Programme

2  
6  
In 2019 alone, Swiggy has launched operations in 300 towns and cities. Swiggy follows a two-step sequence while expanding to a small town. First, it provides more laborious training to restaurants and delivery partners compared to their counterparts in the city. Second, it focuses on building scale in operations and increase the restaurant's reach to a larger base of consumers, including optimizing kitchens, resource planning among others. Identify the type of plan being described in the



above lines.

(a) Method (b) Strategy (c) Programme (d) Procedure

ANSWER KEY

<u>1</u>	d) All the levels
<u>2</u>	C) Planning
<u>3</u>	c) Setting objectives, Developing premises, Identifying alternative courses of action, Evaluating alternative courses
<u>4</u>	d) Planning leads to rigidity
<u>5</u>	d) All of these
<u>6</u>	( C)Assertion (A) is true but Reason(R) is false
<u>7</u>	(A)Both Assertion (A) and Reason(R) are true and Reason (R) is correct explanation of Assertion (A)
<u>8</u>	(b)Both Assertion (A) and Reason(R) are true but Reason (R) is not the correct explanation of Assertion (A)
<u>9</u>	(b)Both Assertion (A) and Reason(R) are true but Reason (R) is not the correct explanation of Assertion (A)
<u>10</u>	b) Both Assertion and Reason are true but Reason is not the correct explanation of Assertion.
<u>11.</u>	c) Both statements are correct
<u>12.</u>	d. Setting of objectives
<u>13</u>	a. planning leads to rigidity
<u>14.</u>	c. Planning reduces the risk of uncertainty
<u>15.</u>	A B C D (d) 2 1 3 4
<u>16.</u>	(d)1-C,2-B,3-E, 4-D
<u>17.</u>	( c) A-1,3 ; B-2,4,5
<u>18.</u>	(d)1-C;2-A
<u>19.</u>	C) Planning

<u>20</u>	(a) Strategy and objective
<u>21</u>	(c) Strategy
<u>22</u>	b) Objective
<u>23</u>	(b) Strategy
<u>24</u>	(a) Method
<u>25</u>	b) Objective
<u>26</u>	(b) Strategy

## **II. SHORT ANSWERS AND LONG ANSWER TYPE**

<u>1</u>	Dheeraj is a very hard working manager. After working for the implementation of his well chalked out plan he, from the start of July, decides to see in what ways and up to what accuracy has his plan been implemented. Which step of the planning process will be involved by Dheeraj from the starting of July?
<u>2</u>	A specific statement was given by an HR head. This statement had no scope for any flexibility. It was the simplest type of plan. Identify the type of plan. Give one more characteristic of this plan. Which plan is the widest type of plan?
<u>3</u>	Rajesh is at the real point of decision making in the course of his planning. He has arrived at this point after identifying various alternative courses of action. After identification he was thoroughly involved in the evaluation of each of these alternatives. He later got involved into making several permutations and combinations of these alternatives to arrive at this point. Through which stage of the planning process is Rajesh going? Also give the next two steps of planning process.
<u>4</u>	Planning reduces creativity. Critically comment.
<u>5</u>	“Grover Ltd.” has a plan of increasing profits by 25%. for this , it has incurred a lot of time and money. But the competition started increasing, so it could

	<p>not change its plan to beat its competitors because huge amount of money had already been spent to the pre decided plan.it cause losses to the company. Identify and explain any two limitations of planning highlighted in the above case by quoting the lines.</p>
<u>6</u>	<p>“ABC Ltd.” Gave its sales Executives the directive that they could sell the goods on credit. Also it told them very clearly to inform the customers that if upto one month they did not make the payment, after the completion of this period, they would have to pay interest for the whole period at the rate of 12% per annum. Identify and explain the types of plans mentioned above by quoting the lines.</p>
<u>7</u>	<p>After completing her studies in product design, Sarah wishes to start her own business to design products to cater to the mobility and communication requirements of persons with special needs. She told her friend that she wanted to focus on supplying high quality and affordable products on “no profit – no loss basis”. The Unique Selling Proposition (U.S.P) of the products will be sensitivity to challenges and needs of the differently abled. She has to follow a series of steps to attain her predetermined objectives. In the above lines, Sarah has discussed about one of the functions of management. Identify the function and state its steps in chronological order other than the one discussed in the above para.</p>

- 3 Two years ago Madhu completed her degree in food technology. She worked for sometime in a company manufacturing chutneys, pickles and murabbas. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulated action plan to achieve the same. One of her objective was to earn 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices, etc. will be purchased on three months’ credit form farmers cultivating organic crops only. She also decided to follow the steps required for marketing of the products through her own outlets. She appointed Mohan as a production Manager who decides the exact manner in which the production activities are to be carried out. Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year. Madhu informed Mohan about her sales target for different products, area wise for the forthcoming quarter. While working on the production table a penalty of ₹100 per day for not wearing the caps,

gloves and apron was announced.

Quoting lines from the above para identify and explain the different types of plans discussed.

- 4 **High Voltage** – a company which manufactures microwaves is known for its flawless planning. However the top management of the company accepts that some of its plans have failed in the past as the outside business environment is unpredictable and dynamic. The company invests a huge portion of its revenue on planning related issues. Recently in a newspaper the company was blamed for preventing its employees from doing new things due to the plans which are decided by the top management. Rajesh a middle level manager in the company in a seminar said that the planning aspect of a company should be dealt cautiously. There should be specific goals and activities to reach these goals should also be properly executed. Company has many serious competitors in the market. Even they unanimously agree that without planning no other function of management can exist and it's the basic platform on which the whole structure of management is laid. When it comes to follow up of plans it becomes very important to know the standards. The success of a plan can only be checked when it is known how much of the set target has been met because it is at the stage of planning these targets are set. It's not about the past. It's for the coming time and challenges that a company formulates a plan. Rajesh knows this well. He uses his intelligent imagination and foresight while formulating the plans. Which limitations of planning have been highlighted in the above case? Which features of planning have been indicated in the above paragraph? Which importance of planning do you find sighted in the above case?

#### ANSWERS FOR SHORT AND LONG ANSWER QUESTIONS

<u>1</u>	The step of the planning process involved by Dheeraj will be the last step: <b>'Follow through'</b>
<u>2</u>	The type of plan is <b>'Rule'</b> . One more characteristic of this plan. It tells which action must or must not be taken. The widest type of plan is <b>'Programme'</b> .
<u>3</u>	The stage through which Rajesh is going is <b>'Selecting an alternative'</b> . The real point of decision making is selecting an alternative. The next two steps in the process of planning are <b>'Implementing the plan'</b> and <b>'Follow through'</b> .

4	<ul style="list-style-type: none"> <li>● Planning always helps in promoting innovation.</li> <li>● Formulating policies and plans is an intellectual process, and it requires creativity and some innovation from the managers.</li> <li>● Once a plan is formulated, it is not possible for a manager to change it. Such type of rigidity creates hurdles when changes are uncertain, and therefore, it reduces creativity.</li> </ul>
5	<p>A) <u>Planning is a time-consuming process:</u>  “For this , it has incurred a lot of time and money.”</p> <p>B) <u>Planning leads to rigidity:</u>  “The competition started increasing, so it could not change its plan to beat its competitors because huge amount of money had already been spent to the predecided plan.”</p>
6	<p><u>Policy:</u>  “ABC Ltd.” Gave its sales Executives the directive that they could sell the goods on credit”</p> <p><u>Rule:</u>  :”if upto one month they did not make the payment, after the completion of this period, they would have to pay interest for the whole period at the rate of 12% per annum. “</p>
7.	<p>Planning.</p> <p>Steps in the process of Planning are:</p> <p>(i) Developing Premises which involves making assumptions about future, upon which plans are to be withdrawn.</p> <p>(ii) Identifying alternative courses of action which may be used to achieve the set objectives.</p> <p>(iii) Evaluating alternative courses of action and selecting the best alternative which involves scrutinizing the feasibility and consequences of each alternative before a choice is made.</p> <p>(iv) Implementing the plan which involves seeing whether plans are put into action.</p> <p>(v) Follow up which involves seeing that activities are performed according to plans</p>

**ANSWERS FOR COMPETENCY BASED AND CASE BASED QUESTIONS**

1.	<p>The features of Planning which have been highlighted in the above case are:</p> <ol style="list-style-type: none"> <li><b>Planning is a mental exercise.</b> For this he involves foresight and intelligent imagination.</li> <li><b>Planning involves decision making.</b> He always makes alternative plans and selects the best out of them after considering relevant aspects.</li> </ol> <p>The limitations of Planning which have been highlighted are:</p> <ol style="list-style-type: none"> <li><b>Planning is a time consuming process.</b> He knows that sometimes his concern for making very good plans eats a lot time and energy.</li> <li><b>Planning does not guarantee success.</b> Even after so much painstaking Sukumar knows that his plans can yet fail in the uncertain business environment.</li> </ol>
2.	<p>The different types of plans are:</p> <ul style="list-style-type: none"> <li>Strategy</li> <li>Objective</li> <li>Policy</li> <li>Method</li> <li>Procedure</li> <li>Budget</li> </ul>
3.            4.	<p>The different types of plans are:</p> <p>‘One of the objective was to earn 10% profit on the amount invested in the first year.’</p> <p><b>Objective.</b> An objective is the end result towards which all managerial efforts and organizational activities are directed.</p> <ol style="list-style-type: none"> <li>‘Raw materials like fruits, vegetables, spices, etc. will be purchased on three months credit from farmers cultivating organic crops only. <b>Policy.</b> A policy is a part of the general standing plan of a business. It is the general course of action to be followed in a particular situation.</li> <li>‘To follow the steps required for marketing of the products.’ <b>Procedure.</b> A procedure is a series of related tasks that make up the chronological sequence and establish a way of performing the work.</li> <li>‘Statement showing the number of workers that will be required in the factory throughout the year.’ <b>Programme.</b> A budget is a plan which states expected results of a given future period in numerical terms. It may be expressed in time, money or physical units.</li> </ol>

4. 'Penalty of RS 100 per day for not wearing the caps, gloves and apron.'  
**Rule.** A rule is a statement that specifies what is to be done or not to be done.

The limitations of planning highlighted in the above case are:

1. **Planning may not work in a dynamic environment.** (However the top management of the company accepts that some of its plans have failed in the past as the outside business environment is unpredictable and dynamic).
2. **Planning reduces creativity.** (Recently in a newspaper the company was blamed for preventing its employees from doing new things due to the plans which are decided by the top management).

The features of planning indicated in the above case are:

1. **Planning helps in achieving objectives.** There should be specific goals and activities to reach these goals should also be properly executed.
2. **Planning is the primary function of management.** Even they unanimously agree that without planning no other function of management can exist and it's the basic platform on which the whole structure of management is laid.
3. **Planning is a mental exercise.** He uses his intelligent imagination and foresight while formulating his plans.

The importance of planning highlighted in the above paragraph:

**Planning sets standards for controlling.** The success of a plan can only be checked when it is known how much of the set target has been met .

## Chapter 5 Organising

### Definition for Important Terms used in this chapter.

- a) **Organising:** Organising is the process of defining and grouping activities and establishing authority relationships among them.
- b) **Organisational Structure:** It is the framework within which managerial and operating tasks are performed. It can be functional or divisional.
- c) **Span of Management:** It is the number of subordinates under a superior.
- d) **Functional Structure:** This structure groups activities on the basis of functions.
- e) **Divisional Structure:** This structure groups activities on the basis of product.
- f) **Formal Organisation:** It is designed by the management to achieve organisational goals.
- g) **Informal Organisation:** Informal organisation arises out of interaction among people at work.
- h) **Delegation:** It is the transfer of authority from superior to subordinate.
- i) **Decentralisation:** It is a delegation of authority throughout the organisation.

### Chapter at a Glance

#### General Concept:

After laying down the plans and objectives, the next function to be performed by the managers is **organising**. It determines what activities and resources are required and decides who will do a particular task, where it will be done and when it will be done.

**Meaning:** Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively for achieving goals.

#### STEPS IN THE PROCESS OF ORGANISING

**1. Identification and Division of Work:** It involves identification and division of the total work to be done into specific activities (called jobs) in accordance with previously determined plans. By dividing the work, the burden of work can be shared among the employees.

It facilitates specialisation of work and skills. Duplication of work can be avoided by dividing the work into manageable activities.

**2. Departmentalization:** The second step in organising is to combine or group similar or related jobs into larger units, called departments, divisions or sections. They can be grouped on the basis of functions which an organisation undertakes to achieve its



objective.

(Departments may be created for manufacturing, marketing, financing, etc)

**3. Assignment of Duties:** Once departments have been formed each of them is placed under the charge of an individual called departmental head, like, Production Manager, Finance Manager, etc. Jobs are then allocated to the members of each department according to their skills and qualifications.

**4. Establishing Reporting Relationships:** Merely allocating work is not enough. Each individual should also know from whom he has to take orders and to whom he is accountable. It helps in coordination amongst various departments.

### **Importance of Organising**

1. **Benefits of Specialisation:** In organising every individual is assigned a part of total work and not the whole work. Due to this division of work into smaller units, the repetitive performance leads to specialisation. Thus organising promotes specialisation which in turn leads to efficient and speedy performance of tasks.

2. **Clarity in Working Relationships:** It helps in creating well-defined jobs and also clarifying the limits of authority and responsibility of each job. The superior, subordinate relationship is clearly defined in organising.

3. **Effective Administration:** It provides a clear description of jobs and related duties which help to avoid confusion and duplication. Clarity in working relationships enables proper execution of which results in effective administration.

4. **Optimum Utilisation of Resources:** The proper assignment of jobs avoids overlapping/ duplication of work. This helps in preventing confusion and minimising the wastage of resources and efforts.

5. **Adaptation of Change:** It allows a business enterprise to adapt according to changes in the business environment. Organisational structures can be suitably modified according to changes.

6. **Development of Personnel:** Sound organisation encourages initiative and creative thinking on the part of employees.

7. **Expansion and Growth:** It helps in growth and diversification of an enterprise by adding more job positions and departments.

### **Organisation Structure**

It seeks to establish relations among all the persons working in the organisation. Under the organisational structure, various posts are created to perform different activities for the attainment of objectives of the enterprise. Relations among people working on different posts are determined.

The structure provides a basis or framework for managers and other employees performing their functions.

Organisation Structure can be defined as “the framework within which managerial and operating tasks are performed”.

The basic criteria that determines the size of organisation structure is the “Span of Management”. It refers to the number of subordinates that can be effectively managed by a superior. The span of management to a large extent gives shape to the organisation structure. This determines the levels of management in the structure.

### **Types of Organisation Structures**

The organisational structure can be classified as:

1. Functional and Divisional Structure.
2. Formal and Informal Structure.

**Functional Structure:** In functional structure, activities are grouped and departments are created on the basis of specific functions. For example, all the jobs related to production are grouped under production department- sales to sales department etc.

#### **Advantages of Functional Structure:**

1. **Specialisation:** Better division of labour takes place which results in specialisation of functions and its consequent benefits.
2. **Coordination is established:** All the persons working within a department are specialist of their respective jobs. It makes the coordination easier at department level,
3. **Helps in increasing managerial efficiency:** Managers of one department are performing same type of function again and again which makes them specialised and improves their efficiency.
4. **Minimises cost:** It leads to minimum duplication of effort which results in economies of scale and thus lower cost.

#### **Disadvantages of Functional Structure:**

1. **Ignorance of organisational objectives:** Each departmental head works according to his own wishes. They always give more weight to their departmental objectives. Hence, overall organisational objectives suffer.
2. **Difficulty in inter-departmental coordination:** All departmental heads work as per their own wishes which will results in coordination within the department but it makes inter- departmental coordination difficult.
3. **Hurdle in complete development:** As each employee specialises only in a small part of a job, complete development becomes difficult.

**Divisional Structure:** Dividing the whole enterprise according to the major products to be manufactured (like, metal, plastic, cosmetics) is recognised as divisional organisational structure.

### **Advantages of Divisional Structure:**

1. **Quick Decision Making:** Divisional manager can take any decision regarding his division independently which makes decisions quick and effective.
2. **Divisional Results can be Assessed:** Divisional results (profit/loss) can be assessed easily. On this basis unprofitable divisions can be closed.
3. **Growth and Expansion:** It facilitates growth and expansion as new divisions can be added without disturbing existing departments.

### **Disadvantages of Divisional Structure:**

1. **Conflicts:** Conflicts can be possible among different divisions on allocation of resources.
2. **Duplication of Functions:** Entire set of functions is required for all divisions. It gives rise to duplication of efforts among divisions.
3. **Selfish Attitude:** Every division tries to display better performance even sometimes at the cost of other divisions. This shows their selfish attitude.

### **Formal Organisation**

This structure is designed by the management to achieve organisational goals in which the responsibilities, authority and mutual relationships among all the employees working in an enterprise are clearly defined. It can be functional or divisional.

#### **Features:**

1. It is deliberately created by top management.
2. It is based on rules and procedures which are in written form.
3. It is impersonal - does not take into consideration emotional aspect.
4. It clearly defines the authority and responsibility of every individual.
5. It is created to achieve organisational objectives.

### **Advantages of Formal Organisation:**

1. Easier to fix responsibility since mutual relationships are clearly defined.
2. No overlapping of work - because things move according to a definite plan.
3. Unity of command through an established chain of commands.
4. Easy to achieve objectives - because of coordination and optimum use of human and material resources.
5. Stability in the organisation - because behaviour of employees can be fairly predicted since there are specific rules to guide them.

### **Disadvantages of Formal Organisation:**

1. The work is based on rules which cause unnecessary delay.
2. Lack of initiatives - because the employees have to do what they are told to do and they have no opportunity of thinking.
3. Limited in scope - it is difficult to understand all human relationships

in an enterprise as it places more emphasis on structure and work.

### **Informal Organisation.**

An informal organisation is that organisation which is not established deliberately but comes into existence because of common interests, tastes, religious and communal interests.

#### **Features of Informal Organisation:**

1. It originates within the formal organisation as a result of personal interaction among employees.
2. It has no written rules and procedures.
3. It does not have fixed lines of communication.
4. It is not deliberately created by the management.
5. It is personal, i.e., the feelings of individuals are kept in mind.

#### **Advantages of Informal Organisation:**

1. **Speed:** Prescribed lines of communication are not followed which leads to faster spread of information.
2. **Fulfilment of Social Needs:** Enhances job satisfaction which gives them a sense of belongingness in the organisation.
3. **Contributes towards fulfilment of organizational objectives :** employees reactions towards plans and policies can be tested through the informal network

#### **Disadvantages of Informal Organisation:**

1. **It creates rumours:** All the persons in an informal organisation talk carelessly and sometimes a wrong message is conveyed to the other person.
2. **It resists change and lays stress** on adopting the old techniques.
3. **Priority to group interests:** Pressurises members to conform to group expectations.

#### **Difference between Formal and Informal Organisation.**

<b>Basis</b>	<b>Formal Organisation</b>	<b>Informal Organisation</b>
1. Meaning	It refers to the structure of well defined authority and responsibility.	It refers to the network of social relationships which develops automatically.
2. Nature.	Rigid	Flexible
3. Authority	Arises by virtue of positions in management	Arises out of personal qualities.
4. Adherence to rules	Violation of rules may lead to penalties and punishments	No such punishments.

5. Flow of communication	Takes place through the scalar chain	Not through a planned route. It can take place in any direction.
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## Delegation

### Meaning:

It means the granting of authority to subordinates to operate within the prescribed limits. The manager who delegates authority holds his subordinates responsible for proper performance of the assigned tasks. To make sure that his subordinates perform all the work effectively and efficiently in an expected manner the manager creates accountability.

### Elements of Delegation.

1. **Authority:** The power of taking decisions in order to guide the activities of others. Authority is that power which influences the conduct of others.
2. **Responsibility:** It is the obligation of a subordinate to properly perform the assigned duty. When a superior issues orders, it becomes the responsibility of the subordinates to carry it out.
3. **Accountability:** When a superior assigns some work to a subordinate, he is answerable to his superior for its success or failure.
4. **Principle of Absoluteness of Accountability:** Authority can be delegated but responsibility / accountability cannot be delegated by a manager. The authority granted to a subordinate can be taken back and re-delegated to another person. The manager cannot escape from his responsibility for any default or mistake on the part of his subordinates.

### Importance of Delegation

#### 1. Effective Management:

It reduces the work load of officers. They can thus utilise their time in more important and creative work instead of routine.

#### 2. Employee Development:

Employees get more opportunities to utilise their talent which allows them to develop those skills which will enable them to perform complex tasks.

#### 3. Motivation of employees:

The subordinates are granted sufficient authority so they develop feeling of self-esteem and become more willing to work hard and achieve the target

4. **Facilitation of growth:** Delegation improves the quality of managerial talent. So it provides a ready workforce to take up leading positions in new ventures

5. **Basis of Management Hierarchy:** delegation establishes superior-subordinate relationships which are the basis of hierarchy of management.

**6. Better Coordination:** The elements of delegation - authority, responsibility and accountability help to define the power, duties and answerability related to various job positions which result in developing and maintaining effective co-ordination.  
Difference - Authority, Responsibility and Accountability.

### **Decentralisation**

#### **Meaning:**

It means to delegate authority to all levels of management for taking decisions. Under decentralisation, all the authority except the one which is absolutely necessary for the superiors to hold is given to the subordinates permanently. Under decentralisation, the number of centers for taking decisions increases because the managers belonging to the middle and lower levels have the authority to take important decisions.

**Centralisation and Decentralisation** represent the pattern of authority among managers at different levels. Centralisation of authority means concentration of power of decision making in a few hands. In such an organisation, very little authority is delegated to managers at middle and lower levels. No organisation can be completely centralised or decentralised. They exist together and there is a need for a balance between the two. As the organisation grows in size there is a tendency to move towards decentralisation. Thus every organisation is characterised by both.

#### **Importance of Decentralisation.**

1. **Develops initiative amongst subordinates.** It helps to promote confidence because the subordinates are given freedom to take their own decisions.
2. **Develops managerial talent for future:** It gives subordinates a chance to prove their abilities so that it can be considered to fill up more challenging positions through promotions.
3. **Quick decisions making.** The burden of managerial decisions does not lie on a few individuals but gets divided among various persons who help them to take better and quick decisions.
4. **Relieves to top management.** The daily managerial works are assigned to the subordinates which leave enough time with the superiors which they can utilise in developing new strategies.
5. **Facilitates growth.** It means giving authority to the subordinates up to the lower level to take decisions regarding their work. In this way, the opportunity to take decisions helps in the development of the organisation.
6. **Better control.** It makes it possible to evaluate performance at each level which

results in complete control over all the activities.

### **Difference between - Delegation and Decentralisation.**

Basis	Delegation	Decentralisation
1. Nature	It is a compulsory act	It is an optional policy
2. Freedom of action	Less freedom to take decisions due to more control by the superiors	More freedom of action due to less control by the top management.
3. Status	It is a process of sharing tasks and authority.	It is the result of policy decisions taken by top management.
4. Scope	Narrow- as it is confined to a superior and his immediate subordinate	Wide- It includes extension of delegation to the lowest of management.
5. Purpose	To reduce the burden of the manager.	To increase the role and autonomy of lower level management.

### **Multiple Choice Questions.**

N o	Questions
1.	Which of the following is not an element of delegation? (A) Accountability. (C) Responsibility. (B) Authority. (D) Informal organisation.
2.	The purpose of “departmentalisation” in the process of organising is (A) To adapt changes in the business environment. (B) To facilitate specialisation. (C) To facilitate expansion and growth of the organisation without interrupting the existing operations. (D) To help in increasing managerial efficiency
3.	“While performing the organising function. Jobs are allocated to the members of each department in accordance with their skills and competencies”. Identify the step in the organising function being discussed above:

	<p>(A) Identification and division of work.</p> <p>(B) Departmentalisation.</p> <p>(C) Assignment of duties.</p> <p>(D) Establishment of reporting relationships.</p>
4.	<p>“Grouping similar nature jobs into larger units called departments” is the step in the process of one of the functions of management. Identify the function of management.</p> <p>(A) Planning (B) Organising (C) Directing (D) Staffing.</p>
5.	<p>..... is the process of dividing work into manageable activities and grouping the activities which are similar in nature.</p> <p>(A) Coordination. (C) Organisation Structure.</p> <p>(B) Departmentalisation. (D) Delegation of authority.</p>
6.	<p>The type of organisational structure in which jobs of similar nature are grouped together on the basis of functions to form department is called:</p> <p>(A) Functional Structure. (C) Informal Structure.</p> <p>(B) Divisional Structure. (D) Grouped Structure.</p>
7.	<p>Which type of organisational structure will you suggest for a firm which has diversified activities and operations requiring a high degree of specialisation?</p> <p>(A) Centralised structure. (C) Divisional Structure.</p> <p>(B) Decentralised structure. (D) Functional structure.</p>
8.	<p>Name the concept that refers to the number of subordinates that can be effectively managed by a superior and determines the number of levels of management in the organisation.</p> <p>(A) Organisation Structure. (C) Hierarchy of Authority.</p> <p>(B) Span of Management. (D) Delegation of Authority.</p>
9.	<p>The element of delegation which relates to the obligation of a subordinate to properly perform the assigned duty is known as:</p> <p>(A) Authority. (C) Accountability</p> <p>(B) Responsibility. (D) Centralisation.</p>



10.	<p>Name the concept which explain the manner in which decision-making responsibilities are divided among hierarchical levels:</p> <p>(A) Organisational structure. (C) Delegation.  (B) Span of management. (D) Decentralisation.</p>
11.	<p>Which of the following statements is true?</p> <p>(A) Accountability can be entirely delegated.  (B) Accountability flows downward.  (C) Accountability refers to answerability for final outcome of the assigned task.  (D) Accountability means the right of an individual to command his subordinates.</p>
12.	<p>The form of organisation known for giving rise to rumours is called:</p> <p>(A) Centralised organisation. (C) Informal organisation.  (B) Decentralised organisation. (D) Formal organisation.</p>
13.	<p>.....ensures that the subordinates perform tasks on behalf of the manager thereby reducing his work load and providing him with more time to concentrate on important matters.</p> <p>(A) Decentralisation. (C) Both (A) &amp; (B)  (B) Delegation of authority. (D) Neither (A) nor (B)</p>
14.	<p>A network of social relationship that arises spontaneously due to interaction is called:</p> <p>(A) Formal organisation. (C) Both (A) &amp; (B)  (B) Informal organisation. (D) Neither (A) nor (B)</p>
15.	<p>Which of the following does not follow the ‘scalar chain’?</p> <p>(A) Functional Structure. (C) Formal Organisation.  (B) Divisional Structure. (D) Informal Organisation.</p>
16.	<p>For delegation to be effective, it is essential that responsibility be accompanied with necessary:</p>

	(A) Authority. (B) Manpower. (C) Incentives. (D) Promotions.
17.	Grouping of activities on the basis of product lines as a part of: (A) Functional Organisation. (C) Centralised Organisation. (B) Divisional Organisation. (D) None of the above.
18.	Silicon Ltd offers IT services to clients across the country. During Covid 19, to accommodate changes taking place in the business environment, it suitably modified its organisation structure in a way that work from home became the new way of working for all employees bringing cost benefits and flexibility in the organisation. The point of importance of organising discussed above is: (A) Benefits of Specialisation. (C) Development of Personnel. (B) Adaptation to change. (D) Clarity in working relationships
19.	From the below given description, arrange the organizing process in a sequential order. (a) Assignment of duties. (b) Establishing reporting relationship. (c) Identification and division of work (d) Departmentalisation. Choose the correct answer from the options given below: (A) d c b a (B) c d a b (C) a c b d (D) b d c a

### Assertion and Reason type questions.

Sl No	Question	Ans.
1.	<p><b>Assertion (A):</b> Identification and division of work is the first step in the process of organising.</p> <p><b>Reason (R):</b> Organising involves identifying and dividing the work that has to be done in accordance with previously determined plans.</p> <p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct</p>	1 A

	<p>explanation of Assertion (R)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (R)</p> <p>(C) Assertion (A) is true but Reason (R) is false.</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	
2.	<p><b>Assertion (A):</b> Organising provides a clear description of jobs and related duties.</p> <p><b>Reason (R):</b> Organising stimulates creativity amongst the managers.</p> <p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (R)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (R)</p> <p>(C) Assertion (A) is true but Reason (R) is false.</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	1 A
3.	<p><b>Assertion (A):</b> Organising leads to the proper usage of all materials, financial and human resources.</p> <p><b>Reason (R):</b> The Proper assignment of jobs avoids overlapping of work and also makes possible the best use of resources.</p> <p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (R)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (R)</p> <p>(C) Assertion (A) is true but Reason (R) is false.</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	1 A
4.	<p><b>Assertion (A):</b> Delegation is a pre-requisite to the efficient functioning of an organisation.</p> <p><b>Reason (R):</b> It enables a manager to use his time on high priority activities.</p>	1 A

	<p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (R)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (R)</p> <p>(C) Assertion (A) is true but Reason (R) is false.</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	
5.	<p><b>Assertion (A):</b> A proper organisation structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise.</p> <p><b>Reason (R):</b> An organisation structure provides the framework which enables the enterprise to function as an integrated unit by regulating and coordinating the responsibilities of individuals and departments.</p> <p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (R)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (R)</p> <p>(C) Assertion (A) is true but Reason (R) is false.</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	1 A
6.	<p><b>Assertion (A):</b> Functional structure makes training of employees easier as the focus is only on a limited range of skills.</p> <p><b>Reason (R):</b> Divisional heads are accountable for profits.</p> <p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (R)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (R)</p> <p>(C) Assertion (A) is true but Reason (R) is false.</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	1 B
7.	<p><b>Assertion (A):</b> The formal organisation provides a complete picture of how an organisation works.</p>	1 B

	<p><b>Reason (R):</b> An informal organisation originates from within the formal organisation as a result of personal interaction among employees.</p> <p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (R)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (R)</p> <p>(C) Assertion (A) is true but Reason (R) is false.</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	
8.	<p><b>Assertion (A):</b> Delegation of authority allows more time to managers to concentrate on the tasks that are of higher importance for the organisation.</p> <p><b>Reason (R):</b> Delegation allows for changing of the routine work which brings a sense of freedom.</p> <p>(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (R)</p> <p>(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (R)</p> <p>(C) Assertion (A) is true but Reason (R) is false.</p> <p>(D) Assertion (A) is false but Reason (R) is true.</p>	1 A
9.	<p>For the following two statements choose the correct option:</p> <p><b>Statement I:</b> Accountability can be delegated.</p> <p><b>Statement II:</b> Responsibility can be delegated completely.</p> <p>(A) Statement I is correct and II is wrong.</p> <p>(B) Statement II is correct and I is incorrect</p> <p>(C) Both the statements are correct.</p> <p>(D) Both the statements are incorrect.</p>	1 D
10.	<p>For the following statements choose the correct option:</p> <p><b>Statement I:</b> A decentralisation policy helps to identify those executives who have the necessary potential to become dynamic leaders.</p> <p><b>Statement II:</b> Decentralisation awards greater autonomy to the lower levels of management as well as divisional or departmental heads.</p>	1 C

(A)	Statement I is correct and II is wrong.	
(B)	Statement II is correct and I is incorrect	
(C)	Both the statements are correct.	
(D)	Both the statements are incorrect.	

### Case Based Questions.

Sl No	Case Based Statement & Questions
1.	<p><b>Read the below case and answer the questions that follow:</b></p> <p>Printing Solutions Ltd. is a company manufacturing printers and printers and scanners. Management of this company is known for speedy and prompt delivery of orders. As a result, the market share of this company is growing. The company grabbed a new project to supply 1,500 printers to Uprise Bank Ltd. for its various branches, within two weeks. The production manager, Ashok, made one of his efficient subordinates, Deepak, in charge of the project and also gave him the right to command workers in order to meet the target. Now Ashok could use his time on high priority areas. He felt that this will also give an opportunity to Deepak to gain experience and develop himself for higher positions. On getting the charge. Deepak was very happy, his confidence level increased and he was encouraged to do his best to fulfill the responsibility. Considering his responsibility, Ashok kept a track of the completion of work with Deepak and he provided him the needed guidance to reach the target on time.</p> <p>1. Identify the concept of management used by Ashok to ensure accomplishment of the new project.</p> <p>(a) Functional structure  (b) Divisional structure  (c) Delegation  (d) Decentralisation</p> <p>2. The application of the concept used above allows Ashok to use his time on high priority areas. This will lead the organization towards:</p>

- (a) Adaptation to change
  - (b) Effective management.
  - (c) Economies of scale
  - (d) Reduction in conflicts among different divisions
3. On getting the charge, Deepak was very happy, his confidence level increased and he was encouraged to do his best to fulfill the responsibility given to him. The concept discussed above helps in
- (a) Departmentalization
  - (b) Reduction in conflicts among different divisions
  - (c) Motivating the employees
  - (d) Promoting control and co-ordination within a department.
4. The concept discussed above provides benefits to:
- (a) Superior only
  - (b) Subordinate only
  - (c) Both superior and subordinate
  - (d) Neither superior nor subordinate
- Ans. 1 (C) 2(B) 3. (C) 4. (C)**

2. **Read the below case and answer the questions bat follow:**

"Saarth, the name has been associated with the manufacturing and sale of Fashion products since 1960, when Kapil Saarthi opened his first fashion clothing outlet in Ahmedabad. Saarthi Cosmetics was incorporated in India in 1940, and became a member of the S & M family of companies in India. Saarthi Perfumes began operations in Gujarat in an existing administrative S&M facility in 1985. An important difference between S & M and most other companies is that instead of operating as one large corporation it operates as 180 smaller companies each focused on a specific product and area, implying selective dispersal of authority, recognizing decision makers need for autonomy, as decision making authority is pushed down the chain of command. It enables the company to maintain short lines of communication with customers and employees, and accelerate the development of talent.

- Q. 1. Identify the philosophy that is being followed by S&M through which it is dividing the decision-making responsibilities among hierarchical levels.
- (a) Delegation of authority
  - (b) Decentralization of authority
  - (c) Division of work
  - (d) Span of management.

Q. 2. Why is there, need to apply the philosophy being followed by S&M, with caution?

- (a) As it can cause a delay in communication.
- (b) As it can cause disintegration of the organisation.
- (c) As it can increase the workload of the top management.
- (d) As it can reduce the chances of growth of the firm.

Q. 3. The application of the philosophy discussed above can foster a sense of competition amongst the departments, which in turn will help the firm in the following manner

- (a) Facilitates growth
- (b) Better control
- (c) Relief to top management
- (d) Quick decision making

Q. 4. Quote the line from above which highlights the importance of the philosophy towards providing management education to employees.

- (a) Maintain short lines of communication
- (b) Accelerate the development of talent
- (c) Selective dispersal of authority
- (d) Recognizes decision makers need for autonomy

**Ans.: 1. (B) 2. (B) 3. (A) 4. (B)**

3. Roasted coffee corporation is a coffeehouse chain operating in states in India. Through its effective organisational structure, it has grown despite pressure from competitors in the national market. The company has a purchase and production department, Supply chain management and logistics department, Brand management department and Sales department. This structure has facilitated operational efficiency, as employees became specialists within their own realm of expertise. They could be imported with specialised training as the focus was on limited range of skills. Identify the organisational structure of Roasted Coffee Corporation. Also state the three advantages of this structure other than those discussed in the above paragraph.

**Ans. Functional Structure.**

Advantages of functional structure:

- (a) Functional specialisation.
- (b) Effective control and coordination.
- (c) Improve Efficiency.



	(d) Avoids duplication.
4.	<p>Sheela Koul was the managing director of a restaurant in Kanpur, called Delicious Diet. The restaurant was doing well and the volume of work started increasing slowly and steadily. Sheela Koul was not able to manage all the work on her own. The increasing magnitude of work made it impractical for her to handle it all by herself. Moreover her objective is to open more branches of this restaurant at different places. She appointed Neena Kumar, as a General Manager of another restaurant in Kanpur and gave her the right to command her subordinates and to take action within the scope of her position. For smooth running of the restaurant she also gave her authority to hire and train the staff as per the requirements.</p> <p>Sheela Koul was satisfied with the work of Neena Kumar and was able to open other branches of the restaurant in Agra and Meerut also.</p> <p>(a) Identify the concept followed by Sheela Koul which helped her to open new branches of the restaurant.</p> <p>(b) Also, state the two points of importance of the concept identified in (a) above.</p> <p><b>Ans.</b></p> <p>(a) Delegation of authority.</p> <p>(b) Importance of delegation of authority: Effective management (ii) Employee development (iii) Motivation of employees.</p>
5.	<p>Elegant automobiles Ltd. decided to set up its new manufacturing unit in the backward areas of Rajasthan where very less job opportunities were available. People of that area welcomed this effort of Elegant automobiles Ltd. The company also decided to provide facilities like school, hospital, market, etc. In the factory premises so that the people are attracted to join the factory as workers.</p> <p>Elegant automobiles Ltd. Started earning huge profit. Another competing company asked their production manager to investigate the reasons of earning huge profits by Elegant automobiles Ltd. He found that in both the companies there was systematic coordination among the various activities to achieve organisational goals. Every employee knew who was responsible and accountable to whom. The only difference</p>

was in his organisation communication took place only through the scalar chain whereas Elegant automobiles Ltd was allowing flow of communication in all the directions as per the requirement which led to faster spread of information as well as feed-back.

(a) Identify the type of organisation which permits the flow of communication in all the directions in Elegant automobiles Ltd.

(b) Also state an advantage of the type of organisation identified in part (a) above.

**Ans.**

(a) Informal organisation which permits the flow of communication in all the directions in Elegant automobiles Ltd.

The advantage of the informal organisation is that it allows and benefits the employees to feel interactive, sociable, and competitive. This results in better employee engagement and work culture. All these improve the productivity of the employees towards the organisation.

6. One of the questions that needs to be answered in the organising function is “At what level are decisions made?” Decision making authority in an organisation can be pushed down to the lower levels or it may lie with the top management. However it is not an ‘either or’ concept. When an organisation grows in size or complexity, there is tendency towards sharing decision making authority with the lower levels. This is because in large organisations, employees who are closely involved with certain operations tend to have more knowledge about them than the top management.

An important concept of organising function is discussed above. Identify the concept and state any three points of its importance.

**Ans.** Decentralisation is discussed in above case. Decision making authority in an organisation can be pushed down to the lower levels or it may lie with the top management. It refers to the dispersal of the decision making power among the middle level and lower level managers. The extent of decentralisation varies from one to another.

**Creates Initiative among Subordinates.** Decentralisation helps the directors at the lower levels to take that load of choices, which are for the advancement of

association, they resolve all issues by themselves and to foster answers for taking care of the different issues they face. This aids in improving certainty and confidence among the representatives.

**Creates Managerial Talent for the future.** Decentralisation gives an opportunity to the workers to demonstrate their capacities by taking care of different tasks freely. Such freedom to make choices is to increment their insight and involvement with all levels. It likewise gives qualified labour to satisfy the top positions through advancements.

**Fast Decision Making.** Decentralisation advances autonomous and speedy decisions by subordinates as they are near the tasks and are in steady touch with all activities of their specializations.

7. Anoop started 'Cat's Eye', a company providing cyber security solutions to businesses. Its objective is to prevent, detect, respond to cyber-attacks and protect critical data. He was a hardworking software engineer and an expert in cyber security. His reputation grew by leaps and bounds as he was not only a person of integrity but also did his work with utmost honesty and sincerity. The business started growing day by day.
- He got delighted when he was given a big project by the Ministry of Science and Technology. While working on the project he found that the volume of work made it impractical for him to handle all the work by himself. Therefore he decided to expand the team. The company maintained a close liaison with an engineering college in the State. During a campus placement, Arya and Arun were appointed to work for the new project. He found the new employees capable, enthusiastic and trustworthy. Anoop was thus, able to focus on the objectives and with the help of Arya and Arun, the project was completed on time. Not only this, Anoop was also able to extend his area of operations. On the other hand, Arya and Arun also got opportunities to develop and exercise initiative.

(A) Identify and explain briefly the concept used by Anoop in the above case which

helped him in focussing on the objectives.

(B) Also, explain any four points of importance of the concept identified in part (A).

**Ans.**

(A) The concept used by Anoop is **Delegation**. This is because, he found the volume of work impractical to handle by himself and thus, decided to expand his team. After this, he delegated the tasks to Arya and Arun so that he himself can focus on the objectives. Thus, here, he is delegating the tasks to his subordinates.

(B) The following points highlight the importance of delegation:

(a) **Managerial Efficiency.** By delegating work to the subordinates, the managers can concentrate on priority areas and also venture into new areas. This freedom from the routine tasks enhances the efficiency of the managers.

(b) **Employee Proficiency.** As the subordinates are entrusted with the responsibility of completing a task, they get an opportunity to prove their abilities and apply their skills. This helps them to gain experience and improve their proficiency.

(c) **Motivation.** Delegation provides the employees with psychological benefits, which motivate and encourage them to give their best to the organisation.

**Growth.**

Delegation helps in the preparation of efficient and experienced managers who can take up leading positions during the growth phase of the organisation. This facilitates easy growth and expansion of the organisation.

## **CHAPTER – 6**

### **STAFFING**

#### **Meaning**

In the simplest terms, staffing is ‘putting people to jobs’.

Staffing has been described as the managerial function of filling and keeping filled the positions in the organisation structure.

#### **Need and Importance of Staffing**

Proper staffing ensures the following benefits to the organisation:

- (i) helps in discovering and obtaining competent personnel for various jobs;
- (ii) makes for higher performance, by putting right person on the right job;
- (iii) ensures the continuous survival and growth of the enterprise through the succession planning for managers;
- (iv) helps to ensure optimum utilisation of the human resources. By avoiding overmanning, it prevents under-utilisation of personnel and high labour costs. At the same time it avoids disruption of work by indicating in advance the shortages of personnel; and
- (v) improves job satisfaction and morale of employees through objective assessment and fair rewarding of their contribution.

#### **Staffing Process**

- (i) **Estimating the Manpower Requirements:** Understanding manpower requirements is not merely a matter of knowing how many persons we need but also of what type.
- (ii) **Recruitment:** Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
- (iii) **Selection:** Selection is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment.
- (iv) **Placement and Orientation:** Placement refers to the employee occupying the position or post for which the person has been selected. Orientation is introducing the selected employee to other employees and familiarising him with the rules and policies of the organization
- (v) **Training and Development:** Training is concerned with up gradation of the knowledge and skills of the employees so that their ability to perform can be enhanced.
- (vi) **Performance Appraisal:** Performance appraisal means evaluating an employee’s current and/or past performance as against certain predetermined standards.

- (vii) **Promotion and career planning:** Promotions refers to being placed in positions of increased responsibility.
- (viii) **Compensation:** Compensation refers to all forms of pay or rewards going to employees. It may be in the form of direct financial payments like wages, salaries, incentives, commissions and bonuses and indirect payments like employer paid insurance and vacations.

### **Aspects of Staffing**

There are three important aspects of staffing:

- (i) **Recruitment:** Recruitment is a positive step which aims at attracting a number of candidates to apply for the given job. The higher the number of people who apply for a job, the higher will be the possibility of getting a suitable employee.
- (ii) **Selection:** Selection, on the other hand, is a negative process in which a person is selected and the others are rejected. It aims at selecting the most rateable person out of the candidates who have applied for the job.
- (iii) **Training:** Training is concerned with up gradation of the knowledge and skills of the employees so that their ability to perform can be enhanced.

### **Recruitment**

Recruitment has been defined as ‘the process of searching for prospective employees and stimulating them to apply for jobs in an organisation.’

### **Sources of Recruitment**

There are two sources of recruitment – **Internal and External.**

#### **Internal Sources**

There are two important sources of internal recruitment, namely, transfers and promotions, which are discussed below:

- (i) **Transfers:** It involves shifting of an employee from one job to another, one department to another or from one shift to another, without a substantive change in the responsibilities and status of the employee. It may lead to changes in duties and responsibilities, working conditions etc., but not necessarily salary.
- (ii) **Promotions:** Business enterprises generally follow the practice of filling higher jobs by promoting employees from lower jobs. Promotion leads to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay. Promotion is a vertical shifting of employees.

#### **Merits of Internal Sources**

- (i) Employees are motivated to improve their performance
- (ii) Internal recruitment also simplifies the process of selection and placement.
- (iii) Transfer is a tool of training the employees to prepare them for higher jobs.

- (iv) Transfer has the benefit of shifting workforce from the surplus departments to those where there is shortage of staff;
- (v) Filling jobs internally is cheaper as compared to getting candidates from external sources.

### **Limitations of Internal Sources**

The limitations of using internal sources of recruitment are as follows:

- (i) When vacancies are filled through internal promotions, the **scope for induction of fresh talent is reduced.**
- (ii) The **employees may become lethargic** if they are sure of time bound promotions;
- (iii) **A new enterprise cannot use internal sources** of recruitment.
- (iv) The **spirit of competition among the employees may be hampered;**
- (v) **Frequent transfers of employees may often reduce the productivity** of the organisation.
- (vi) Sufficient number of **persons having required qualifications** may not be available within the organisation
- (vii) It may encourage **favouritism and Nepotism**
- (viii) Not suitable for posts requiring **innovation**

### **External Sources**

External recruitment provides wide choice and brings new blood in the organisation.

The commonly used external sources of recruitment are discussed below:

- (i) **Direct Recruitment:** Under the direct recruitment, a notice is placed on the notice-board of the enterprise specifying the details of the jobs available. Job seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot.
- (ii) **Casual Callers:** Many reputed business organisations keep a database of unsolicited applicants in their offices. A list of such job-seekers can be prepared and can be screened to fill the vacancies as they arise.
- (iii) **Advertisement:** Advertisement in newspapers or trade and professional journals is generally used when a wider choice is required.
- (iv) **Employment Exchange:** Employment exchanges run by the Government are regarded as a good source of recruitment for unskilled and skilled operative jobs.
- (v) **Placement Agencies and Management Consultants:** In technical and professional areas, Placement agencies provide a nationwide service by compiling bio-data of a large number of candidates and recommending suitable names to their clients. Management consultancy firms help the

organisations to recruit technical, professional and managerial personnel.

- (vi) **Campus Recruitment:** Many big organisations maintain a close liaison with the universities, vocational schools and management institutes to recruit qualified personnel for various jobs.
- (vii) **Recommendations of Employees:** Applicants introduced by present employees, or their friends and relatives may prove to be a good source of recruitment.
- (viii) **Labour Contractors:** Labour contractors maintain close contacts with labourers and they can provide the required number of unskilled workers at short notice.
- (ix) **Advertising on Television:** The practice of telecasting vacant posts over Television is gaining importance these days.
- (x) **Web Publishing:** The Internet is becoming a common source of recruitment these days. There are certain websites specifically designed and dedicated for the purpose of providing information about both job seekers and job openings.

### Merits of External Sources

The advantages of using external sources of recruitment are as follows:

- (i) **Qualified Personnel:** The management can attract qualified and trained people to apply for vacant jobs in the organisation.
- (ii) **Wider Choice:** When vacancies are advertised widely, the management has a wider choice while selecting the people for employment.
- (iii) **Fresh Talent:** External recruitment provides wider choice and brings new blood in the organisation.
- (iv) **Competitive Spirit:** If a company taps external sources, the existing staff will have to compete with the outsiders.

### Limitations of External Sources

1. **Dissatisfaction among existing staff:** External recruitment may lead to dissatisfaction and frustration among existing employees.
2. **Lengthy process:** Recruitment from external sources takes a long time as the business has to notify the vacancies and wait for applications to initiate the selection process.
3. **Costly process:** A lot of money has to be spent on advertisement and processing of applications.

### Selection

Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job.

Process of Selection The important steps in the process of selection are as follows:

- (i) **Preliminary Screening:** Preliminary screening helps the Manager eliminate



unqualified or unfit job seekers based on the information supplied in the application forms.

- (ii) **Selection Tests:** An employment test is a mechanism (either a paper and pencil test or an exercise) that attempts to measure certain characteristics of individuals.

These characteristics range from aptitudes, such as manual dexterity

Important Tests Used for Selection of Employees:

- (a) **Intelligence Tests:** This is one of the important psychological tests used to measure the level of intelligence quotient of an individual.
  - (b) **Aptitude Test:** It is a measure of individuals potential for learning new skills.
  - (c) **Personality Tests:** Personality tests provide clues to a person's emotions, reactions, maturity and value system.
  - (d) **Trade Test:** These tests measure the existing skills of the individual.
  - (e) **Interest Tests:** Interest tests are used to know the pattern of interests or involvement of a person.
- (iii) **Employment Interview:** Interview is a formal, in-depth conversation conducted to evaluate the applicant's suitability for the job.
  - (iv) **Reference and Background Checks:** Many employers request names, addresses, and telephone numbers of references for the purpose of verifying information and gaining additional information on an applicant.
  - (v) **Selection Decision:** The final decision has to be made from among the candidates who pass the tests, interviews and reference checks.
  - (vi) **Medical Examination:** After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test.
  - (vii) **Job Offer:** The next step in the selection process is a job offer to those applicants who have passed all the previous hurdles.
  - (viii) **Contract of Employment:** After the job offer has been made and the candidate accepts the offer, certain documents need to be executed by the employer and the candidate.

### **Training and Development**

Training and Development is an attempt to improve the current or future employee performance by increasing an employee's ability to perform through learning, usually by changing the employee's attitude or increasing his or her skills and knowledge.

#### **Benefits to the Organisation**

The benefits of training and development to an organisation are as follows:

- (i) Training is a systematic learning, always **better than hit and trial methods** which lead to wastage of efforts and money.
- (ii) It **enhances employee productivity** both in terms of **quantity and quality**,

leading to **higher profits**.

- (iii) Training **equips the future** manager who can take over in case of emergency.
- (iv) Training **increases employee morale and reduces absenteeism and employee turnover**.
- (v) It helps in **obtaining an effective response to the fast changing environment** – technological and economic.

### **Benefits to the Employee**

The benefits of training and development activity to the employees are as follows:

- (i) **Improved skills and knowledge** due to training lead to better careers for the individual.
- (ii) **Increased performance** by the individual helps him to earn more.
- (iii) Training **makes the employee more efficient to handle machines**. Thus, **less prone to accidents**.
- (iv) Training **increases the satisfaction and morale** of employees.

### **Training, Development and Education**

Training is any **process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased**.

Education is the **process of increasing the knowledge and understanding of employees**.

Development **refers to the learning opportunities designed to help employees grow**. It covers not only those activities which **improve job performance but also those which bring about growth of the personality**.

### **Training Methods**

There are various methods of training. These are broadly categorised into two groups:

#### **On-the-Job and Off-the Job methods.**

- On-the-Job methods refer to the methods that are **applied to the workplace, while the employee is actually working**.
- Off-the-Job methods are **used away from the workplace**. The former means learning while doing, while the latter means learning before doing.

#### **On the Job Methods**

- (i) **Apprenticeship Programmes:** Apprenticeship programmes put the trainee under the guidance of a master worker. These are designed to acquire a higher level of skill. Example: plumbers, electricians or iron-workers
- (ii) **Coaching:** In this method, the superior guides and instructs the trainee as a

coach. The coach or counsellor sets mutually agreed upon goals, suggests how to achieve these goals, periodically reviews the trainees progress and suggests changes required in behaviour and performance. .

- (iii) **Internship Training:** It is a joint programme of training in which educational institutions and business firms cooperate.
- (iv) **Job Rotation:** This kind of training involves shifting the trainee from one department to another or from one job to another. This enables the trainee to gain a broader understanding of all parts of the business and how the organisation as a whole functions.

### Off the Job Methods

- (i) **Classroom Lectures/Conferences:** The lecture or conference approach is well adapted to conveying specific information rules, procedures or methods.
- (ii) **Films:** They can provide information and explicitly demonstrate skills that are not easily represented
- (iii) **Case Study:** Taken from actual experiences of organisations, cases represent attempts to describe, as accurately as possible real problems that managers have faced.
- (iv) **Computer Modelling:** It simulates the work environment by programming a computer to imitate some of the realities of the job and allows learning to take place without the risk or high costs that would be incurred if a mistake were made in a real life situation.
- (v) **Vestibule Training:** Employees learn their jobs on the equipment they will be using, but the training is conducted away from the actual work floor. Actual work environments are created in a class room and employees use the same materials, files and equipment.
- (vi) **Programmed Instruction:** Information is broken into meaningful units and these units are arranged in a proper way to form a logical and sequential learning package i.e. from simple to complex.

### **Multiple Choice Questions**

1. Which of the following is not concerned with Staffing?  
a) Recruitment b) Selection c) Training d) Publicity
2. \_\_\_\_\_ involves planning, acquisition & development of resources necessary for organizational success.  
a) Human Resource management      b) Human emphasis  
b) Specialization                              d) Compensation  
c)
3. \_\_\_\_\_ refers to careful study of each of each job to determine tasks &

- responsibility involved in a job.
- a) Multiplier effect
  - b) Job analysis
  - b) Human emphasis
  - d) Job satisfaction
4. Process of attracting qualified person to apply for the jobs that are open is refer to as:
- a) Training
  - b) Human resource management
  - b) Recruitment
  - d) Transfer
5. \_\_\_\_\_ is the learning experience that seeks relatively permanent change in an individual that will improve his ability to perform on job.
- a) Training
  - b) Attitude formation
  - b) Development
  - d) Job analysis
6. Under this method employees learn their job on the equipment they will be using but training is done away from actual work place
- a) Apprenticeship programme
  - b) Job rotation
  - b) Vestibule training
  - d) Job analysis
7. Under which method of training, employees are shifted from one job position to another:
- a) Promotion
  - b) Transfer
  - c) Training
  - d) Job Rotation
8. Workforce analysis is a part of
- a) Recruitment process
  - b) Training and development process
  - b) Selection process
  - d) estimation of manpower requirement
9. Which method of training is concerned with familiarizing the new employee to the organization?
- a) Induction training
  - c) Coaching
  - b) Apprenticeship training
  - d) Job rotation
10. Which of the following is an internal source of recruitment?
- a) Transfer
  - c) Casual callers
  - b) Advertising on television
  - d) Labour contractors
11. This results in higher responsibilities and hike in salary
- a) Transfers
  - b) Job rotation
  - c) Promotion
  - d) None of the above
12. Which of the following is not a disadvantage of using external sources of recruitment?
- a) Dissatisfaction among existing staff
  - b) Lengthy process
  - c) The scope for induction of fresh talent is reduced

- d) Costly process  
e)
13. Lectures and Conferences are method of  
a) Training    b) Development    c) Recruitment    d) Selection
14. This source of recruitment selects fresh talent  
a) Direct recruitment    b) Campus interview  
b) Promotions    d) All of the above
15. Staffing is very important function these days because of  
a) Advancement of technology    b) Increasing size of organisation  
c) Complicated behaviour of human beings    d) All of the above

### SHORT ANSWER QUESTIONS

1. State any three factors which may influence Staffing Process. Explain briefly.
2. Explain the process of Recruitment through Internal Sources. Briefly explain the two Internal Sources of Recruitment.
3. How can an organization handle over-staffing?
4. Suggest a suitable selection test for the following jobs  
a. Driver    b. Salesman    c. Front desk officer    d. Team Leader
5. State with reasons why Internal Sources of recruitment are better than External Sources.
6. What is meant by recruitment? State any five Limitations of Internal Sources of Recruitment.
7. Differentiate between Training and Development.
8. Your school has some vacancies for teachers. The eligible staff has been promoted to half of the posts. Suggest any four ways through which the right type of people may be invited to fill up the rest of vacancies.
9. An organization provides security services. It requires such candidates who are eligible and trustworthy. What steps should be incorporated in the Selection Process?
10. Manoj, a Chief manager in a company using highly sophisticated machines and equipment, wants every employee to be fully trained before using the machines and equipment. Suggest and describe the best method of training that Manu can use for training of employees

### LONG ANSWER QUESTIONS

1. Define the Staffing Process and the various steps involved in it.
2. Explain the procedure for Selection of employees.
3. What are the advantages of Training to the individual and to the organisation?
4. State the benefit offered by Staffing as a function of management.

5. Explain the various methods of on- the -job training and off- the- job training methods.
6. Differentiate between On-the-job and off-the-job training methods
7. A major insurance company handled all recruiting screening and training processes for data entry/customer service representatives. Their competitor was attracting most of the qualified, potential employees in their market. Recruiting was made even more difficult by the strong economy and the ‘job seeker’s market.’ This resulted in the client having to choose from candidates who had the ‘soft’ skills needed for the job, but lacked the proper ‘hard’ skills and training.
  - a. As an HR manager what problems do you see in the company?
  - b. How do you think it can be resolved?
8. A public transport corporation has hired 1,000 buses for the different routes for the passengers of the metropolitan city. Most of the 3,000 crewmen (drivers, conduct, helpers etc) of these buses have been found to be wanting in satisfactorily dealing with public and daily commuter. They seem to be little interested in the job and the job seem to have lost all meaning to them.
  - a. As manager of the public transport company what measures do you suggest to improve the working of the crewman in question?
  - b. Is it possible to modify their behaviour by planning a suitable type of training? Suggest one.
9. Ms Jayashree recently completed her post graduate diploma in human resource management. A few months from now a large steel manufacturing company appointed her as its human resource manager. As of now, the company employs 800 persons and has an expansion plan in hand which may require another 200 persons for various types of additional requirements. Ms Jayashree has been given complete charge of the company’s human resource department.
  - a. Point out what functions is she supposed to perform?
  - b. What problems do you foresee in her job?
10. Nithya is running a Diagnostic Centre in Raipur. She has recently taken the franchise of a famous brand in order to expand her business. In order to meet the increased demand for manpower she had placed an advertisement in the local newspaper and also short listed some candidates after conducting a selection test. Identify the remaining steps that she needs to follow in the related process and explain them briefly.

## ANSWER HINTS

### Multiple Choice Questions

1	D	2	A	3	C	4	B	5	A
6	B	7	D	8	D	9	A	10	A
11	C	12	C	13	A	14	B	15	D

### Short Answer Questions

Qn No	Answer Hints
1	Supply and demand of specific skills Labour market conditions Technological changes Company's Image
2	Transfer Promotion
3	By removing existing employees By transferring the excess employees to departments which are under-staffed.
4	Trade test Personality Test Personality Test Intelligence Test
5	Benefits of Internal sources of recruitment
6	i. No infusion of new blood ii. Lethargic iii. Persons may not be available within the organization. iv. It hampers the spirit of competition. v. Not suitable for the posts requiring innovation. vi. It may encourage favouritism and nepotism (partiality). vii. Reduction in productivity
8	Advertisement, Campus recruitment, Employment exchange, Recommendations from present employees
9	Conduct Personality Test
10	Vestibule Training

### Long Answer Questions

Qn No	Answer Hints
1	Estimating the Manpower Requirements Recruitment Selection Placement and Orientation Training and Development Performance Appraisal Promotion and Career Planning Compensation
2	Preliminary Screening Selection Tests Employment Interview Reference and Background Checks Selection Decision Medical Examination Job Offer Contract of Employment
3	<p><b>Benefits to the Organisation</b></p> <p>(i) Training is a systematic learning which reduces the wastage of efforts and money.</p> <p>(ii) Enhances employee productivity.</p> <p>(iii) Training helps a manager to handle an emergency situation.</p> <p>(iv) Training motivates workers and thus reduces absenteeism.</p> <p>(v) Helps in adjusting to the changing environment (technological).</p> <p><b>Benefits to the Employee</b></p> <p>(i) Better career opportunities due to improved skills and knowledge.</p> <p>(ii) Earnings can be increased due to improved performance.</p> <p>(iii) Trained workers can handle machines more efficiently.</p> <p>(iv) Employees always remain motivated and satisfied.</p>
4	Explain various merits of staffing Competent personnel Higher Performance Survival and growth Optimum utilization of Human Resources Improve Job satisfaction and morale
5	On-the-job training Methods Internship training Apprenticeship training



	Induction training Off-the-job training Vestibule training.		
6	On the basis of the following points		
	Basis	On the Job	Off The Job
	Meaning	Training at actual work place	Away from actual work place
	Level Of Employees	Suitable to employees at lower level	Top level
	Methods	Internship, Apprenticeship, Coaching	Vestibule Training, conferences, seminar
	Approach	Practical approach	Theoretical approach
	Work Pressure	It is there	No work pressure

7	<p>(a)The human resource manager may face the following problems</p> <ul style="list-style-type: none"> <li>(i) Lack of trained workforce.</li> <li>(ii) Lack of sufficient personnel to provide customer services.</li> <li>(iii) Inefficient maintenance of data.</li> </ul> <p>(b)Following steps can be taken to resolve these problems</p> <ul style="list-style-type: none"> <li>(i) Proper training of the personnel.</li> <li>(ii) Provision of incentive based schemes.</li> <li>(iii) Proper data base should be maintained by the company in order to provide efficient services.</li> </ul>
8	<p>The following measures can be taken to improve the working of crewmen.</p> <ul style="list-style-type: none"> <li>(i) Along with wages/salary various other facilities should be provided to them like education for their children, insurance etc.</li> <li>(ii) Working hours should be between 7 to 8 per day.</li> <li>(iii) Intervals should be provided.</li> </ul> <p>Yes, it is possible to modify their behaviour by planning ‘coaching’ training programmes as in this programme superior guides and instruct the trainee as a coach. He suggests the changes required in behaviour and performance of the employee. Coach gives due importance to the objective of the individual and objectives of organisation. Thus, effective coaching motivates the employees to perform their best ability.</p>
9	<p>Ms Jayshree as HR manager is required to perform the following functions</p> <ul style="list-style-type: none"> <li>(i) Recruitment</li> <li>(ii) Prepare job description</li> <li>(iii) Preparing compensation and incentive plans</li> <li>(iv) Arranging training programmes</li> <li>(v) Making welfare schemes for employees</li> <li>(vi) Handling grievances of employees</li> <li>(vii) Handling labour dispute</li> </ul> <p>She may face the following problems :</p> <ul style="list-style-type: none"> <li>(i) Properly qualified candidates may not be available.</li> <li>(ii) Demand for wages may go higher.</li> <li>(iii) After providing training the workers may leave the organisation.</li> <li>(iv) Trade unions may bring unreasonable demands.</li> </ul>

10	She is conducting staffing process The remaining steps are: Placement and Orientation Training and Development Performance appraisal Promotion and career planning Compensation
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## **CHAPTER 7 DIRECTING**

**Meaning:** Directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve organisational objectives.

### **IMPORTANCE OF DIRECTING**

1. **Directing initiates' action:** Other functions like Planning, organising, Staffing and Controlling prepare a setting for action, directing initiates action in the organisation. It helps in initiating action by the people in the organisation towards attainment of desired objectives.
2. **Directing Integrates Employees Efforts:** The efforts of individual employees working at different levels are integrated and coordinated for organisational goals with the help of directing function.
3. **Directing guides employees to fully realise their potential:** It helps to identify potential of employees and motivates them to contribute their maximum efforts towards the achievement of organisational goals.
4. **Directing Facilitates introduction of needed Changes:** Employees often resist changes due to fear of adverse effects. Effective directing through motivation, communication and leadership helps to reduce such resistance and develop cooperation in introducing changes in the organisation.
5. **Directing brings Stability and balance in the organisation:** Effective directing fosters cooperation and commitment among employees and helps to achieve balance among various groups, activities and departments.

### **ELEMENTS OF DIRECTING**

1. SUPERVISION
  2. MOTIVATION
  3. LEADERSHIP
  4. COMMUNICATION
1. **SUPERVISION:** Supervision being an element of directing can be understood as the process of guiding the efforts of employees and other resources to accomplish desired objectives. It implies overseeing the work of subordinates by their

superiors.

2. **MOTIVATION:** It means the process of making subordinates to act in a desired manner to achieve certain organisational goals. It is the process of stimulating people to action to accomplish desired goals.
3. **LEADERSHIP:** Leadership is the process of influencing the behaviour of people by making them strive voluntarily towards achievement of organisational goals. A Leader should influence and guide the efforts of subordinates and help them in the attainment of organisational objectives.
4. **COMMUNICATION:** Communication is the process of exchange of ideas, views, facts, feelings etc between or among people to create common understanding.

## MOTIVATION

Motivation refers to the process of stimulating subordinates to act in a desired manner to accomplish desired organisational goals. Motivation means **incitement or inducement to act or move.**

Three Key terms of Motivation: **Motive, Motivation, Motivators**

**Motive:** Inner state that energises, activates and directs behaviour towards goals. It arises out of unsatisfied needs of individuals and it causes restlessness.

**Motivation:** Process of stimulating people to action to accomplish desired goals.

**Motivators:** Technique applied in order to motivate people like giving bonus, promotion etc.

## MASLOW'S NEED HIERARCHY THEORY OF MOTIVATION

This theory was given by Abraham Maslow in 1943, and is based on human needs. According to Maslow within every human being, there exists a hierarchy of five needs which are the following:

1. **Basic Physiological Needs:** These are the most basic needs such as food, shelter, sleep etc. In the organisational context, basic salary helps to satisfy these needs.
2. **Safety/ Security Need:** Provide security from physical and emotional harm E.g. Job security, stability of income etc.
3. **Affiliation/Belonging Need:** These needs refer to affection, sense of belongingness, acceptance and friendship for mental satisfaction.
4. **Esteem Needs:** These include factors such as self-respect, prestige, autonomy status, recognition and attention.
5. **Self-Actualization Needs:** It is the highest level of need in the hierarchy. It refers to the drive to become what one is capable of becoming.



### **Maslow's Theory based on the following Assumptions:**

- People's behaviour is based on their needs. Satisfaction of such needs influences their behaviour.
- People's needs are in hierarchical order, starting from basic needs to other higher-level needs.
- A satisfied need can no longer motivate a person, only next higher-level need can motivate him.
- ❖ A person moves to the next higher level of the hierarchy only when the lower need is satisfied.

Maslow's theory focuses on the needs as the basis for motivation. This theory helps managers to realise that the need level of employee should be identified to provide motivation to them.

### **Financial and Non-Financial Incentives**

Incentive means all measures which are used to motivate people to improve performance. These incentives may be **Financial and Non-Financial**.

- ❖ **Financial Incentives**: Incentives offered to employees which are either in direct monetary form or can be valued in monetary terms.

#### **Types of Financial Incentives**

- a) ***Pay and allowances***: These include salary, dearness allowance and other allowances paid to employees.
- b) ***Productivity linked wage incentives***: Wages paid at different rates to increase productivity.
- c) ***Bonus***: Incentive offered over and above the wages or salary to the employees.
- d) ***Profit Sharing***: Providing a fixed percentage of profit to employees.
- e) ***Co-partnership/ Stock option***: Shares offered to employees at a price which is lower than the market price.
- f) ***Retirement benefits***: Benefits offered after retirement such as provident fund, pension, etc.

- g) **Perquisites**: Benefits over and above the salary offered such as car allowance, housing, medical aid, education to children etc.
- ❖ **Non-Financial Incentives**: Incentives which focus on psychological, social and emotional factors which play an important role in providing motivation.

### **Types of Non-Financial Incentives**

- a) **Status**: It means ranking of positions in the organisation. The authority, responsibility, rewards, recognition, perquisites and prestige of a job indicates the status.
- b) **Organisational climate**: The characteristics which describe an organisation and distinguish one organisation from the other. Some of these characteristics are individual autonomy, reward orientation, consideration to employees, etc.
- c) **Career Advancement Opportunity**: Opportunities of growth and development in the organisation to the higher level.
- d) **Job enrichment**: It is concerned with designing jobs that include greater variety of work content, require higher level of knowledge and skill, give workers more autonomy and responsibility and provide the opportunity for personal growth.
- e) **Employee recognition programmes**: It involves recognising and appreciating the contribution of employees in public.
- f) **Job security**: It refers to the certainty and stability offered in a job about future income and work.
- g) **Employee participation**: Involvement of employees in the decision-making process and seeking their suggestions for issues related to them.

**Employee empowerment**: Empowerment by giving more autonomy and powers to subordinates makes people feel that their jobs are important and makes them use their skills and talents in jobs.

## **LEADERSHIP**

Leadership indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organisational objectives. It is the process of influencing the behaviour of people by making them strive voluntarily towards achievement of organisational goals.

### **Features of Leadership**

- ✓ Leadership indicates the ability of an individual to influence others.
- ✓ Leadership tries to transform the behaviour of the subordinates.
- ✓ Leadership indicates interpersonal relationship between leader and followers.
- ✓ Leadership is exercised to achieve organisational goals.
- ✓ Leadership is a continuous process.

## Leadership Styles

- ❖ **Autocratic leadership:** In this style of leadership, a leader takes all the decisions on his own and gives orders to his or her subordinate to implement them. He is the ultimate decision maker and believes in centralisation of power.
- ❖ **Democratic leadership:** In this style of leadership a leader takes decisions after consulting with subordinates and encourages them to participate in decision making. He pays supreme importance to his subordinates. He believes in the decentralisation of power.
- ❖ **Laissez faire leadership:** In this style of leadership a leader gives freedom to his subordinate to take decisions and execute work assigned to them and the leader acts as observer or guide.

## DIAGRAMATIC REPRESENTATION OF LEADERSHIP STYLES

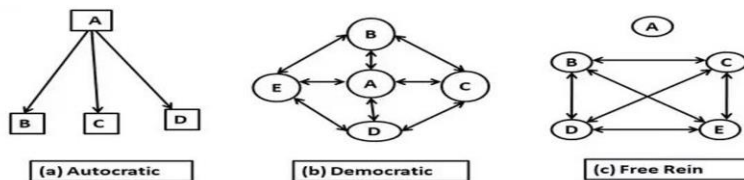


Figure : Leadership Styles (A is the Leader)

## Comparative study of Leadership styles

	<i>Autocratic or Authoritarian Leadership</i>	<i>Participative or Democratic Leadership</i>	<i>Laissez faire or Free - rein Leadership</i>
<b>Definition</b>	Leader only believes in giving orders and complete obedience from subordinates	Leader takes decisions only after discussions with subordinates	Leader lets the subordinates to take decisions and acts as a facilitator
<b>Authority</b>	Lies with the Leader	Partially delegated by the leader.	Completely delegated to subordinates
<b>Flow of communication</b>	Downward and one way	Both upward and Downward	Free flow of communication

## COMMUNICATION

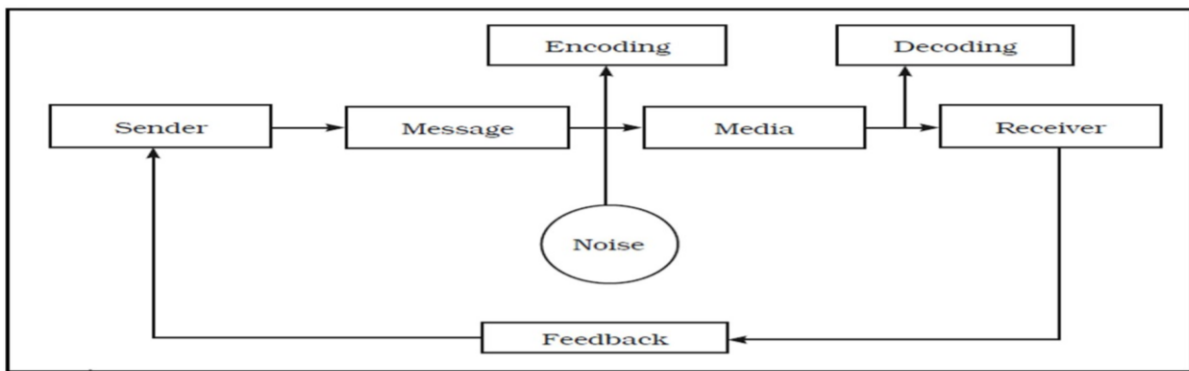
The word communication has been derived from the Latin word 'communis' which means 'common'. Communication is the process of exchange of information between two or more persons to reach common understanding. Communication is

important for the directing function because all other elements of directing become possible only when there is adequate communication.

**ELEMENTS OF COMMUNICATION PROCESS**

1. Sender: Who conveys his thoughts or ideas.
2. Message: Ideas, feelings, suggestions, order etc.
3. Encoding: Converting the message into communication symbols such as words/pictures etc.
4. Media: Path/Channel through which encoded message is transmitted to receiver e.g., face to face, phone call, internet etc.
5. Decoding: Converting encoded symbols of the sender.
6. Receiver: Who receives communication of the sender.
7. Feedback: All those actions of receiver indicating that he has received and understood the message of the sender.
8. Noise: Some obstruction or hindrance to communication like poor telephone connection, inattentive receiver.

**COMMUNICATION PROCESS-DIAGRAM**



**Communication process within an organization may be classified into two:**

<p><b>Formal Communication –</b></p> <p>It refers to official communication which takes place by following the chain of command.</p> <p>Eg: communication between superior to subordinate</p>	<p><b>Informal Communication:</b></p> <p>Communication that takes place without following the formal lines of communication is said to be informal communication.</p> <p>It is also called as GRAPEVINE because it spreads throughout the organisation in all directions. There is no fixed direction or</p>
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	path for the flow of information.
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Formal communication may be classified into:

### Vertical communication and Horizontal communication

❖ **Vertical communication:** Flows vertically i.e., upwards or downwards through formal channels

**Downward Communication:** Flow of communication from higher level to lower level like plans, policies, rules etc.

**Upward Communication** – Flow of communication from Subordinate to superior like suggestions, grievances, reports etc.

❖ **Horizontal/lateral Communication:** communication between persons holding positions at the same level of the organisation e.g., production manager may contact marketing manager about product design, quality etc.

### DIFFERENCE BETWEEN FORMAL & INFORMAL COMMUNICATION

<i>Basis</i>	<i>Formal Communication</i>	<i>Informal Communication</i>
<i>Meaning</i>	Within the official chain of command	Between individuals and no command
<i>Channel</i>	Through a definite path	No definite path
<i>Speed</i>	Slow - because all information has to pass through an established chain of command	Very fast - Cuts across all the official channels.
<i>Nature</i>	More rigid and cannot be modified	Flexible and varies from individual to individual.
<i>Expression</i>	Normally in written form	It is generally oral

### BARRIERS TO EFFECTVE COMMUNICATION

Sometimes the message sent by the sender does not reach the receiver in the same manner as expected by the sender. The barriers can be categorised as:

- ❖ **SEMANTIC BARRIERS**
- ❖ **PSYCHOLOGICAL BARRIERS**
- ❖ **ORGANISATIONAL BARRIERS**
- ❖ **PERSONAL BARRIERS**

A. **SEMANTIC BARRIERS:** Semantic barriers are concerned with the problems and obstructions in the process of encoding and decoding a message into words or impressions. These are:

- **Badly expressed message:** Due to lack of vocabulary, Managers may use wrong words, omission of needed words results in failure to convey the same meaning

to subordinates.

- **Symbols with different meanings:** A word may have different meanings and the receiver may understand other meanings.
- **Faulty Translation:** Communications drafted in one language translated into another language may be understood in different meanings.
- **Unclear assumptions:** Some communications networks have certain assumptions which are subject to different interpretations.
- **Technical jargon:** Using of Technical jargon by experts to persons who are not specialist in the concerned field may cause difficulty in understanding
- **Body language and gesture decoding:** If there is no match between what is said and what is expressed in body movements, message may be wrongly understood.

B. **PSYCHOLOGICAL BARRIERS:** Emotional or psychological factors act as barriers to communication. Some of the psychological barriers are:

- **Premature evaluation:** Evaluation of message before the sender completes his message, results in premature evaluation of message.
- **Lack of attention:** Preoccupied mind of receiver and the resultant non- listening of message acts as a major psychological barrier
- **Loss by transmission and poor retention:** When communication passes through various levels, successive transmissions of the message result in loss of, or transmission of inaccurate information. People cannot retain the information for a long time if they are inattentive.
- **Distrust:** If the parties do not believe each other, they cannot understand each other's message in its original sense.

C. **ORGANISATIONAL BARRIERS:** The factors related to organisational structure, authority relationships, rules and regulations may act as barrier. Some of these barriers are:

- **Organisational policy:** If organisational policy is not supportive to free flow of communication it may hamper effectiveness of communications.
- **Rules and regulations:** Rigid rules and complicated procedures may be a hurdle to communication.
- **Status:** A status conscious manager also may not allow his subordinates to express their feelings freely.
- **Complexity in organization structure:** When the information passes through various levels, then there can be screening or filtering of information at different levels.
- **Organisational facilities:** Frequent meetings, suggestion complaints etc will encourage free flow of communication.

D. **PERSONAL BARRIERS:** Personal factors of both sender and receiver may

influence effective communication. Some of the personal barriers are mentioned below:

- **Fear of challenge to authorities:** If a superior thinks that a particular communication may adversely affect him/her authority, he or she may suppress such communication.
- **Lack of confidence of superior on his subordinate:** If a superior do not have confidence on subordinate, he may not seek their advice.
- **Unwillingness to communicate:** Sometimes subordinates may not be prepared to communicate with their superiors.
- **Lack of proper incentives:** If there is no motivation for communication, subordinates may not take initiative to communicate.

### IMPROVING COMMUNICATION EFFECTIVENESS

- ❖ Clarify the ideas before communication.
- ❖ Communicate according to the needs of the receiver.
- ❖ Consult others before communicating.
- ❖ Be aware of the language, tone and content of the message.
- ❖ Ensure proper feedback.
- ❖ Follow up communication.
- ❖ Be a good listener.

### **MULTIPLE CHOICE QUESTIONS**

1	The channel of communication which is transmitted through informal channel is called as----- a. Gang Plank                      b. Formal communication c. grapevine                        d. Decoding
2	Identify the need in which an employee desires self-respect, recognition and status. a. Security Needs b. Social Needs c. Esteem Needs d. Self-Actualisation Needs
3	The importance of directing is reflected in: a. Goal accomplishment b. Effective communication c. Efficient utilization of resources d. All of the above
4	The element of directing which involves guiding and influencing the behaviour of employees towards the achievement of organizational goals? a. Motivation b. Communication c. Leadership

	d. Coordination
5	Which type of incentives are needed to satisfy esteem needs? a. Financial incentives b. Non-Financial incentives c. Additional incentives d. None of the above
6	Assertion (A): Communication acts as the basis of coordination. Reason (R): We must always clarify the idea before communication. Alternatives a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) c. Assertion (A) is true, but Reason (R) is false d. Assertion (A) is false, but Reason (R) is true
7	One of the incentives includes a greater variety of work content, giving workers more autonomy and responsibility and providing the opportunity for personal growth' Which of the following incentives are discussed here? a. Employee recognition programme b. Career advancement opportunity c. Job enrichment d. Employee Participation
8	State the type of communication barrier of Unclarified assumption? a. Psychological barrier b. Semantic barrier c. Organisational barrier d. Personal barrier
9	Identify the style of leadership in which the superior encourages participation of subordinates. a. Autocratic leadership b. Democratic leadership c. Laissez faire leadership d. Authoritarian leadership
10	Which of the following is not an assumption of Maslow's theory? a. People behaviour is not based on their needs b. Satisfaction of such needs influences their behaviour c. A satisfied need no longer motivates a person only the next higher-level need can motivate him d. A person moves to the next higher level of Hierarchy only when the lower-level need is satisfied.

11	<p>Name the function that initiates the action in the organisation, while other functions prepare a setting for action.</p> <p>a. Planning b. Organising c. Staffing d. Directing</p>
12	<p>For taking the company out of losses, Ravi Kumar took over as the Managing Director of the struggling ‘Vova Watch Company’ in January 2020. As soon as he joined, he tried to find out the reason for the company not doing well. He found that the employees were not involved in decision-making and they had to just follow orders, resulting in low morale of employees.</p> <p>Recognising the need for change, Ravi Kumar started on a journey to bring back the enthusiasm and motivation of the employees. He initiated open dialogues and encouraged them to actively participate in decision-making. Together, they developed action plans to address the company’s challenges regarding outdated designs and inefficient production processes etc. As time passed, ‘Vova Watch Company’ transformed from a struggling enterprise to a profit-making enterprise. Identify the leadership style of Ravi Kumar:</p> <p>(A) Autocratic leadership style      (B) Democratic leadership style (C) Free-rein leadership style      (D) Both (A) and (B)</p>

**MULTIPLE CHOICE QUESTIONS---ANSWERS**

1	Grapevine
2	Esteem Needs
3	All of the above
4	Leadership
5	Non -Financial incentives
6	b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
7	Job enrichment
8	Semantic Barrier
9	Democratic leadership
10	a) People behaviour is not based on their needs
11	Directing
12	(B) Democratic leadership style

### **SHORT ANSWER QUESTIONS (3 marks)**

1	Abhichand is working as CEO of Logistics Ltd. He introduced appropriate skill development programmes and sound promotion policy for the employees of the company to motivate and to include greater variety of work content. Identify and explain two incentives introduced by Abhichand to motivate the Employees.
2	Explain briefly any three measures to overcome communication barriers.
3	Why a manager thinks that motivation is the only source to stimulating employees?
4	What is meant by leadership? State any two leadership styles? OR Explain the following leadership styles: a) Autocratic leadership b) Laissez Faire leadership
5	Aswin is working as a supervisor at Navaratna oil Factory. The factory is producing 2500 Liters of refine oil every day. His job was to make sure that the work goes on smoothly and there was no interruption in production. He was such a leader who gives orders only after consulting with his subordinates and work out the policies with the acceptance of the group. Identify and describe the leadership style being adopted by Aswin.
6	Define the terms: - a) 'motive' b) 'motivation' and c) 'motivator'.
7	"Directing initiates every action in the organisation". Considering this statement, list any three reasons why directing is important.
8	State the type of barrier mentioned in the following statements a) These are concerned with encoding/decoding of messages. b) A worried person cannot communicate properly. c) Authority relationships and rules and regulations obstruct communication.

### **HINTS FOR ANSWERS:**

1	a) Career advancement opportunity b) Job enrichment
2	a) Clarify the ideas before communication b) Communicate according to the need of the receiver c) Be aware of languages, tone, and content of message d) Ensure feedback (any three points)
3	a) it helps to improve the performance level of employees b) it helps to change negative attitude of employees to positive attitude

	c) it helps to reduce employee turnover and absenteeism
4	<p>Leadership is the process of influencing the behaviour of other people so that they work willingly for the attainment of goals in a given situation.</p> <p>Leadership styles are: -</p> <ul style="list-style-type: none"> <li>a) Authoritarian or autocratic leadership- autocratic leader exercises complete control over the subordinates.</li> <li>b) Democratic or participative leadership- a democratic leader takes decisions after consultation and encourages the participation of subordinates</li> </ul> <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> <li>a) Autocratic or Authoritarian leadership style-An autocratic leader gives orders and expects his subordinates to obey those orders. This leadership style is effective in getting productivity in many situations like in a factory where the supervisor is responsible for production on time and has to ensure labour productivity. Quick decision making is also facilitated.</li> <li>b) Laissez fair or Free-rein leader-Such a leader does not believe in the use of power unless it is absolutely essential. The followers are given high degree of independence to formulate their own objectives or ways to achieve them. The manager is only there to support them and supply them the required information to complete the task assigned.</li> </ul>
5	<p>Democratic Leadership.</p> <p>Democratic leader favours decision making by group</p> <p>It allows subordinates to become part of the team to take better decisions</p>
6	<ul style="list-style-type: none"> <li>a) Motive: A motive is an inner state that energizes, activates or moves and directs behaviour towards goals. Motives arise out of the needs of individuals. Realisation of a motive causes restlessness in the individual which prompts some action to reduce such restlessness.</li> <li>b) Motivation: Motivation is the process of stimulating people to action to accomplish desired goals. Motivation depends upon satisfying needs of people.</li> <li>c) Motivator: Motivator is the technique used to motivate people in an organisation. Managers use diverse motivators like pay, bonus, promotion, recognition, praise, responsibility etc., in the organisation to influence people to contribute their best.</li> </ul>
7	<p>Directing is important due to following reasons:</p> <ul style="list-style-type: none"> <li>a) Provides Leadership -Effective directing provides motivation and leadership by the employees, which helps them to identify their potentials and realise their latent capabilities, leading to growth</li> </ul>

	<p>b) Introduces Changes-- Changes in an organisation are usually resisted by employees. Through effective direction, a manager can explain the purpose, benefit and offer incentives to adopt such changes to the employees.</p> <p>c) Provides Stability--- Effective directing helps to develop commitment on part of subordinates. This provides stability to the organisation and helps to achieve balance among various groups activities and departments.</p>
8	<p>a) Semantic barriers</p> <p>b) Psychological barriers</p> <p>c) Organizational barriers</p>

### **SHORT ANSWER QUESTIONS**

1	Give the meaning of formal communication and informal communication
2	Anu and Minu are working in zenith Ltd. Anu is working in the finance department and Minu in the production department During lunch time Anu informed Minu that due to computerisation few employees in the finance department are going to lose their Jobs. Identify the type of communication in the above case. Explain any three limitations of that type of communication.
3	<p>Prerana is working in a multinational company. Her performance is appreciated by everyone in the company. As an incentive, the company offered her to buy the shares of the company at a price that is less than the market price,</p> <p>i. Name and give the meaning of the incentive offered to Prerana.</p> <p>ii. State any two more incentives of the same type.</p>
4	<p>Nitya is a student of class XII of a well-known school. She has a preconceived notion that her teacher always finds fault in her work. One day while checking the project work of class XII, her teacher wanted to appreciate Nitya for her hard work and good performance, but before she could complete her sentence, Nitya left the room without listening to her teacher.</p> <p>a) Identify the barrier to communication and also the type of barrier to which it is related.</p> <p>b) Explain two other communication barriers of the type/category identified in (a) above.</p>
5	Employers contribute 12% of basic wages each towards Employees Provident Fund scheme and Employees' Pension Fund scheme. A proposal to reduce the contribution by employers and employees to 10% of basic pay and dearness allowance was listed on the agenda for a recent meeting of Employees Provident Fund Organisation held. The stakeholders expressed their reservations about it and they feel that it should be continued at 12%. Explain any two needs as suggested by Maslow's Need Hierarchy Theory, which will not be satisfied by the incentives discussed above.



6	State any FOUR organizational barriers of communication.
7	“Autocratic style of leadership is appropriate where subordinates are uneducated.” In the light of this statement, give some advantages of autocratic style of leadership.
8	<p>Amrit Lal joined as a shop level manager in the production department of a textile company in the year 2005. Because of his good work he became the Deputy Production Manager of the company in the year 2010.</p> <p>He had status and prestige and was well respected by all in the company. On 1/3/19 he was promoted as the general manager of the company.</p> <p>Amrit Lal was very happy with his promotion as now he had become what he was capable of becoming. As a good manager Amrit Lal decided to motivate his subordinates after understanding the need hierarchy theory which is based on various assumptions. He realized that people’s behavior is based on their needs and the manager can influence the behavior of his employees by satisfying their needs.</p> <ol style="list-style-type: none"> <li>i. One of the assumptions of need hierarchy theory is stated in the above paragraph. State other 3 assumptions of this theory.</li> <li>ii. State the needs of Amrit which are being satisfied through promotion.</li> </ol>

## ANSWERS --SHORT ANSWER QUESTIONS

1	<p>Formal communication refers to communication taking place through official channel in the organization. such type of communication takes place between superior and subordinate or managers working at the same cadre, or employees working in the same cadre. Though such communication maybe oral or written, but it is recorded and filed in the office.</p> <p>Informal communication takes place in an organization without following the formal lines of communication the network of communication followed in the informal communication is referred to as grapevine network, because it spreads throughout the organization with its branches going out in all directions irrespective of the level of authority.</p>
2	<p>Informal communication</p> <p>Limitations:</p> <ol style="list-style-type: none"> <li>a) Spreads rapidly and sometimes get distorted</li> <li>b) Difficult to detect the source</li> <li>c) Generate rumours</li> </ol>
3	<ol style="list-style-type: none"> <li>i. The incentive offered to Tanushree is financial incentive of co- partnership or stock option. Financial incentives are in direct monetary form and serves to motivate people for better performance.</li> <li>ii. Other financial incentives- pay and allowances, bonus, profit sharing, etc.</li> </ol>
4	<p>(a) Premature Evaluation and Psychological Barriers</p> <p>(b) Any two of the following:</p>

	<ol style="list-style-type: none"> <li>1. Lack of Attention: The preoccupied mind of the receiver and the resultant non listening of messages acts as a major psychological barrier.</li> <li>2. Loss by transmission and poor retention: When communication passes through various levels, successive transmissions of the message results in loss of, or transmission of inaccurate information.</li> <li>3. Distrust: Distrust between communicator and communicatee acts as a barrier. If the parties do not believe each other, they cannot understand each other's message in its original sense.</li> </ol>
5	<ol style="list-style-type: none"> <li>1. Basic Pay and allowances-Basic needs</li> <li>2. Retirement benefits-Safety and security needs</li> </ol>
6	<ol style="list-style-type: none"> <li>a) Organizational policy- Communication is hampered if the policy of an organization doesn't support the free flow of communication</li> <li>b) Rules and regulations- Rigid rules and cumbersome procedures act as a barrier to effective communication. Communication through the prescribed channels may result in delays.</li> <li>c) Organizational facilities- lack of facilities like suggestion box, frequent meetings, complaint box, etc. may lead to barriers to effective communication.</li> <li>d) Complexity of organizational structure- when there are several managerial levels communication gets delayed and distorted.</li> </ol>
7	<p>Yes, autocratic style of leadership is appropriate where the subordinates are uneducated because here the leader gives orders which are to be obeyed. As per this style of leadership the leader exercises complete control over his subordinates. He centralizes power in himself and takes all decisions without consulting the subordinates. Advantages of autocratic style are: -</p> <ol style="list-style-type: none"> <li>a) Autocratic style permits quick decision making</li> <li>b) It provides strong concentrated power to leader</li> <li>c) This style is suitable when great speed for decision making is required</li> </ol>
8	<ol style="list-style-type: none"> <li>i. The following are the assumptions of Maslow's need hierarchy theory other than the one discussed above: -</li> <li>b) People's needs are in hierarchical order, starting from basic needs to other higher-level needs.</li> <li>c) A satisfied need can no longer motivate a person, only next higher-level need can motivate him.</li> <li>d) A person moves to the next higher level of the hierarchy only when the lower need is satisfied.</li> </ol>

	<p>ii. Needs of Amrit Lal which are being satisfied through promotion are:-</p> <p>a) Esteem needs- the need for self-respect, autonomy, status recognition and attention.</p> <p>b) Self-actualization needs- it refers to the drive to become what one is capable of becoming. It includes growth, self fulfillment and achievement of goals.</p>
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### **LONG ANSWER QUESTIONS**

1	Explain any four points of importance of 'Directing' function of management.
2	<p>ALAKA is running a successful business of providing high end beauty services to the upper section of society. Her parlor boasts of innovative beauty products. she has an inhouse training program for new employees.</p> <p>Also, she believes in high standard of performance and shares her profits with her employees. She also gives them yearly bonus and salary hikes but still she feels that her employees are not as motivated as she wants them to be.</p> <p>i. Are financial incentives the only way to motivate employees? what are the non-monetary incentives?</p> <p>ii. State and explain any FOUR non-monetary incentives which contributes to the performance of employees.</p>
3	What are the measures to overcome barriers to effective communication?
4	Name the process of exchange of information between two or more persons to reach common understanding? Also state in brief the elements of that process.
5	Explain Maslow's Need Hierarchy theory of Motivation

### **LONG ANSWER QUESTIONS-- ANSWERS**

1	<p>Importance of directing: (Any four)</p> <ol style="list-style-type: none"> <li>1. Initiates action: Directing helps to initiate action among people in an organization towards attainment of desired objectives.</li> <li>2. Integrates employees' efforts: Directing integrates employees' efforts in the organization in such a way that every individual effort contributes to the organizational performance. Thus, it ensures that the individuals work for organization's goals.</li> <li>3. Guides employees to fully realise their potential: Directing guides employees to fully realise their potential and capabilities by motivating and providing effective leadership.</li> </ol>
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	<p>4. Facilitates introduction of needed changes: A manager reduces resistance to change through motivation, communication and leadership, and develop required cooperation in introducing changes in the organisation.</p> <p>5. Brings stability and balance in the organisation: It fosters cooperation and commitment among the people and helps to achieve balance among various groups, activities and the departments.</p>
2	<p>No.</p> <p><b>Financial incentives</b> are not the only way to motivate employees. Employees can also motivate with the help of non-monetary incentives.</p> <p><b>Non-Financial Incentives</b> – All human needs cannot be satisfied by money alone. There are certain needs which are psychological, social or emotional in nature. To satisfy them some other motivation methods are required. Incentives which cannot be measured in terms of money are called non- monetary incentives. Some of them are given below:</p> <ol style="list-style-type: none"> <li>1. <b>Status</b> –Status means ranking of positions. The authority, recognition, pay and perquisites, rewards etc. indicate the status of a person in the organization. Status fulfills psychological, social and esteem needs of an individual.</li> <li>2. <b>Career advancement opportunity</b>–Appropriate skill development programs and sound promotion policy encourage employees to improve their performance.</li> <li>3. <b>Employee recognition programmes</b> –Acknowledgement and appreciation of good performance is called recognition. It inspires to improve their performance. E.g. congratulating an employee for his good work, Wall of fame, Cash awards, Mementos or certificates etc</li> <li>4. <b>Employees Participation</b> – Employees participation in management refers to involving employees in the process of decision making is means of motivation</li> </ol>
3	<p>Various measure to overcome barriers to effective communication are:</p> <ol style="list-style-type: none"> <li>1. Clarify Ideas before Communication: The person sending the message should be very clear about the information to be communicated. He should know the objective of his message and, therefore, he should arrange his thoughts in a proper order.</li> <li>2. Communicate according to the need of the Receiver: The sender should prepare the content of the message according to the understanding or the environment of the receiver so that the communication is effective.</li> <li>3. Consult Others before Communication: It is desirable to involve others in developing a plan for communication.</li> </ol>

	<p>4. Consulting the subordinates before communicating the message helps gain their cooperation which in turn leads to effective communication.</p> <p>5. Be Aware of Language, Tone and Content of Message: The language should be clear, simple and easily understandable.</p> <p>6. Similarly, the tone and content of the message should not provide any harm to the sentiments of listeners.</p>
4	<p>Communication.</p> <p>a) Sender: Who conveys his thoughts or ideas.</p> <p>b) Message: Ideas, feelings, suggestions, order etc.</p> <p>c) Encoding: Converting the message into communication symbols such as words/pictures etc.</p> <p>d) Media: Path/Channel through which encoded message is transmitted to receiver e.g., face to face, phone call, internet etc.</p> <p>e) Decoding: Converting encoded symbols of the sender&amp; receiver, Who receives communication of the sender.</p> <p>f) Feedback: All those actions of receiver indicating that he has received and understood the message of the sender.</p> <p>g) Noise: Some obstruction or hindrance to communication like poor telephone connection, inattentive receiver</p>
5	<p>Famous Psychologist Abraham H Maslow developed a conceptual framework for understanding the nature and strength of human needs.</p> <ol style="list-style-type: none"> <li>1. <b>Basic Physiological Needs</b> – These are the basic needs of an individual like food, clothing and shelter. Unless these needs are met, a higher-level need will not arise, the majority of a person’s activities will probably be directed towards satisfying them.</li> <li>2. <b>Safety and Security Needs</b> – These are the needs for safety and protection against hazards and dangers. People in the organization want job security, security of source of income, provision for old age, insurance against risks etc.</li> <li>3. <b>Affiliation / Belonging needs (Social Needs)</b> – These are the needs for love and affection, friendship, a sense of belonging etc. Since man is a social being, he has a need to belong and to be accepted by various groups.</li> <li>4. <b>Esteem Needs</b> – These needs are the desire for status, prestige, dignity, self-respect, independence, respect from others etc. The organizations can satisfy these needs by recognizing and appreciating good performance, promotions etc.</li> <li>5. <b>Self-Actualization Needs---</b> Self-actualization is the need to</li> </ol>

maximize one's potential, whatever it may be. In other words it is an urge to use one's potentialities for the achievement of life ambition
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## Chapter – 8 CONTROLLING

### CONCEPT

Controlling function can be defined as **comparison of actual performance with the planned performance**. If there is any **difference or deviation then finding the reasons** for such difference and **taking corrective measures** or action so that in future there is match between actual and planned performance.

### IMPORTANCE OF CONTROLLING

1. **Accomplishing organisational goals:** The controlling function measures progress towards the organisational goals and brings to light the deviations if any and indicate corrective action.
2. **Judging accuracy of standards:** An efficient control system checks changes taking place in the organisation and in the environment and helps to review and revise the standards.
3. **Making efficient use of resources:** It acts like a traffic signal and guides the organisation and keeps it on the right track. As a result, wastage and spoilage of resources will be reduced so that effective and efficient use of resources can be ensured.
4. **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do as well as the basis against which their performance will be appraised. Thus, it motivates them to give better performance.
5. **Ensuring order and discipline:** Control creates an atmosphere of order and discipline in Organisation and helps to minimize dishonest and fraud behaviour of employees.
6. **Facilitates coordination in action:** The activities of each department and employee are governed and controlled by predetermined standards which are well coordinated with one another.

### LIMITATIONS OF CONTROLLING

1. **Difficult to set quantitative standards:** Control system becomes less effective when standards of performance cannot be defined in quantitative terms.
2. **Little control on external factors:** Controlling function can effectively deal with internal factors. However, it is difficult to control the external factors.

3. **Resistance from employees:** Employees often resist control as it interferes with their action and creates restriction on their freedom.
4. **Costly affair:** It is an expensive process and is effective only when cost of operating a control system does not exceed the benefit derived from it.

### **RELATIONSHIP BETWEEN PLANNING AND CONTROLLING**

1. **Planning without controlling is meaningless. Similarly, Controlling is blind without planning :** If the standards are not set in advance, managers have nothing to control i.e. when there is no plan, no basis of controlling. Planning is clearly a prerequisite for controlling. Controlling could not be accomplished without planning.
2. **Planning is perspective whereas controlling is evaluative.** Planning is basically an intellectual process involving thinking and analysis to discover and prescribe an appropriate course of action for achieving objectives. Controlling, on the other hand, checks whether decisions have been translated into desired action.
3. **Planning involves looking ahead and is called a forward looking function whereas Controlling is a backward looking function.** Planning is done for the future. On the other hand, Controlling is like a post mortem of past activities to find deviations from the standards.
4. **Planning is backward looking, Controlling is forward looking:** Planning is based on past experiences. Whereas, Controlling is done to improve future performance.

**Both Planning and Controlling are forward looking and backward looking.**

### **CONTROLLING PROCESS**

1. Setting performance standard.
2. Measurement of actual performance.
3. Comparison of actual performance with standards.
4. Analyzing deviations.
5. Taking corrective action.

The above steps in the process of controlling have been discussed below:

1. **Setting performance standards:** Standards are the criteria against which actual performance would be measured. Standards can be set in **both qualitative and quantitative** terms.
2. **Measurement of actual performance:** In the second step, the actual performance should be measured through personal observation, sample

checking, performance reports, calculation of ratios, etc. The Measurement should be objective and reliable.

**3. Comparing actual performance with standard:** The comparison of actual performance with the standard will reveal the deviation, if any. If the deviation is minor, it should be ignored. But, if the deviation is more, then timely action must be taken.

**4. Analysing deviation:**

There are two ways to analyse deviations.

(a) **Critical point control:** It means keeping focus on some Key Result Areas (KRAs) which are critical to the success of an organisation. If anything goes wrong in these critical points, then it must be attended to urgently.

(b) **Management by Exception:** It means a “**manager who tries to control everything may end up controlling nothing**”. Thus, only significant deviations which go beyond permissible limit should be brought to the notice of management.

**5. Taking corrective action:** The final step in controlling function is to find out the reasons for deviations which need immediate attention and trying to remove deviations in future.

### MULTIPLE CHOICE QUESTIONS

#### (CASE BASED, COMPETENCY BASED, SOURCE BASED)

<b>1</b>	The main objective behind controlling is: a) Pointing out inefficiency b) Fixing responsibility of the subordinate c) Ensuring conformity of actual performance with set standard d) Creating an atmosphere of order and discipline
<b>2</b>	In a company, while scrutinizing the production records it is found that in a particular batch, the rejection rate was 7% against the standard of 5%. The management found out that this was due to negligence of quality control staff. This action is part of the controlling process. a. Measurement of actual performance b. Comparing actual performance with standards c. Analysing deviations d. Taking corrective action
<b>3</b>	Which of the following is not an importance of controlling function? a. It ensures order and discipline b. It restricts coordination in action c. It helps in judging accuracy of standard d. It improves employee motivation
<b>4</b>	The controlling function is performed by : a. Top level management b. Lower level management



	c. Middle level management d. All of the above
<b>5</b>	Which one of the following is a step of controlling? a. Developing Premises b. Taking corrective action c. Assessing environment d. Evaluation of Alternatives
<b>6</b>	OM Sweets is a renowned name for quality sweets since 1915. Amrit, the owner of OM Sweets was worried as the sales had declined during the last two months. When he enquired from the Sales Manager, the Sales Manager reported that there were some complaints about the quality of sweets. Therefore, Amrit ordered for sample checking of sweets. Identify the step taken by Amrit that is related to one of the functions of management. a. Measurement of actual performance. b. Corrective action c. Comparison of actual performance with standards d. Finding deviations
<b>7</b>	Nalini set up a business for the manufacturing of detergent. In order to market the detergent in the local residential areas, she has appointed a team of ten salesmen. Each salesman is expected to sell at least 400 units of the detergent within a week's time. Identify the point of importance of controlling being highlighted in the above case. (a) Controlling helps in judging accuracy of standards. (b) It ensures efficient use of resources. (c) It helps in improving employee motivation. (d) It facilitates co-ordination in action.
<b>8</b>	To make sure employees focus on work and follow the method of production as per plan the management of Amway ltd. decided to install CCTV (close circuit television) in the factory for monitoring the activity of workers. Which function of management is it? (a) Planning (b) Controlling (c) Staffing (d) Directing
<b>9</b>	The Financial Manager of RK Ltd. pays more attention towards an increase of 3% in the marketing cost as compared to a 15% increase in the courier expenses. Identify the concept being used by the manager. (a) Management by exception (b) Critical point control (c) Corrective action (d) None of the above
<b>10</b>	Rivaan Ltd. is engaged in manufacturing machine components. The target production is 200 units per day. The company had been

	<p>successfully attaining this target until two months ago. Over the last two months, it has been observed that daily production varies between 150-180 units.</p> <p>Identify the management function to rectify the above situation.</p> <ol style="list-style-type: none"> <li>Controlling</li> <li>Planning</li> <li>Directing</li> <li>Organising</li> </ol>
<b>11</b>	<p>In an import-export company in New York City, it is suspected that two employees were robbing it. Corporate Defense Strategies (CDS) of Maywood, New Jersey, advised the firm to install a software program that could secretly log every single stroke of the suspects' computer keys and send an encrypted e-mail report to CDS." Which function of management is related to the above case study.</p> <ol style="list-style-type: none"> <li>Organizing</li> <li>Directing</li> <li>Controlling</li> <li>Staffing</li> </ol>
<b>12</b>	<p>Management by exception refers to:</p> <ol style="list-style-type: none"> <li>Controlling significant deviations</li> <li>Focus on key result areas</li> <li>Check on each and every activity</li> <li>Keep a control on everything</li> </ol>
<b>13</b>	<p>'Critical point control' technique refers to</p> <ol style="list-style-type: none"> <li>Controlling significant deviations</li> <li>Controlling key result areas</li> <li>Controlling through sample checking</li> <li>Controlling through personal judgment</li> </ol>
<b>14</b>	<p>Process of controlling does not involve :</p> <ol style="list-style-type: none"> <li>Setting of performance standard</li> <li>Analyzing of deviations</li> <li>Organizing resources</li> <li>Taking corrective actions</li> </ol>
<b>15</b>	<p>Time taken by 'Mc Burger' to serve a customer is an example of :</p> <ol style="list-style-type: none"> <li>Quantitative Standard</li> <li>Qualitative Standard</li> <li>Both (a) and (b)</li> <li>None of these</li> </ol>

## ASSERTION REASONING QUESTIONS (ARQs)

**Read the following statements: Assertion and Reason.**

Choose one of the correct alternatives given below:

1. **Assertion (A)** : Controlling can prevent deviations.

**Reason (R)** : Controlling helps to minimise deviations by taking actions and decision reduce their recurrence.

- a. Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of Assertion(A).
- b. Both Assertion(A) and Reason(R) are true and reason is not the correct explanation of Assertion(A).
- c. Assertion(A) is True but Reason(R) is False.
- d. Assertion(A) is False but Reason(R) is True.

2. **Assertion (A)** :Controlling is exercised at all levels of management.

**Reason (R)** : Controlling is done only by Top level managers.

- a. Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of Assertion(A).
- b. Both Assertion(A) and Reason(R) are true and reason is not the correct explanation of Assertion(A).
- c. Assertion(A) is True but Reason(R) is False.
- d. Assertion(A) is False but Reason(R) is True.

3. **Assertion (A)** : Controlling aims to ensure that resources are used effectively and efficiently to achieve pre-determined goals.

**Reason (R)**: Controlling is both forward as well as backward looking function.

- a. Both Assertion(A) and Reason(R) are true and Reason(R) is the correct explanation of Assertion(A).
- b. Both Assertion (A) and Reason(R) are true and reason is not the correct explanation of Assertion(A).
- c. Assertion (A) is True but Reason(R) is False.
- d. Assertion (A) is False but Reason(R) is True.

### SHORT ANSWER QUESTIONS

1. A company is engaged in manufacturing machine components. The target production is 250 units per day per worker. The company had been successfully attaining this target until two months ago. Over the last two months it has been observed that daily production varies between 200-210 units per worker.

- a. Name the function of management and identify the step in the process of this function which helps in finding out that the actual production of a worker is less than the set target.
- b. To complete the process of the function identified in (a) and to ensure the performance as per set targets, explain what further steps a manager has to take.

2. Riya and Siya are managers in the same organization having different units. While discussing the function of management, Riya says “Planning is looking ahead whereas controlling is looking back.” But Siya says, “Planning is looking back whereas controlling is looking ahead.” Both are giving reasons in favour of their statements.

Explain the possible reasons given by both and justify who is correct.

3. ‘Swadeshi’ is a company involved in the export of indigenous food products like chutneys and pickles. It has tied up with the small farmers in various states for sourcing of fruits and vegetables. In this way it helps the small farmers to sell their produce at reasonable rates. The company follows a practice where only significant deviations from a budget or plan are brought to the attention of management. The degree of deviations allowed in different categories in the budget are well defined in advance, along with the appropriate levels of management who will respond to the deviations in question. For example, a deviation of Rs. 20,000 or more in purchase costs will be reported to the concerned department manager.

In context of the above case:

Identify the principle of management control adopted by the company.

State the belief underlying this principle.

4. DIONA Ltd. is a large manufacturing unit. Recently, the company has conducted the ‘time’ and ‘motion’ studies and concluded that on an average a worker could produce 120 units per day. However, it has been noticed that average daily production of a worker is in the range of 80-90 units.

Which function of management is needed to ensure that the actual performance is in accordance with the performance as per ‘time’ and ‘motion’ studies? State four features of this function of management.

5. Mr. RaghuNath, a recently appointed production manager of Skytech Ltd. has decided to produce jute bags instead of plastic bags as these are banned by the government. He set a target of producing 1000 jute bags a day. It was

reported that the employees were not able to achieve the target. Mr. Raghunath's behaviour is good towards the employees. His attitude is always positive. So, he announced various incentive schemes for the employees like.

- installing award or certificate for best performance.
- Rewarding an employee for giving valuable suggestions.
- Congratulating the employees for good performance.

(a) Identify the functions of management highlighted in the above paragraph.

(b) Explain the step in the Controlling process discussed above.

### **LONG ANSWER TYPE QUESTIONS**

1. Mr. Venkat was the CEO of 'Yale Ltd.', a company providing advanced software solutions to Indian Defence Services. They had been carrying on business successfully for the last twelve years and earning enough profits. But from the last one year, they realised that though the business is getting big orders which are being fulfilled in time, even then the revenues kept on decreasing. Mr. Venkat was not able to find out where the problem was. He started keeping a close check on the progress of activities as he could sense that something was wrong. He wanted to take some action before any major damage could be done to the business. Mr. Venkat appointed a cyber security expert who monitored the company's processes and found out that the computer operator was deleting the entries from the computers and pocketing the revenues. He was caught and handed over to the police. This created an atmosphere of order and discipline in the organisation and helped in minimizing dishonest behaviour on the part of the employees.

- (a) Identify the function of management highlighted in the above paragraph.
- (b) Explain any four other ways in which this function of management may help the organisation.

2. 'Ansal Ltd.' is a large company engaged in assembly of air-conditioners. Recently the company had conducted the 'Time' and 'Motion' study and concluded that on an average a worker can assemble ten air-conditioners in a day. The target volume of the company in a day is assembling of 1,000 units of air-conditioners. The company is providing attractive allowances to reduce

labour turnover and absenteeism. All the workers are happy. Even then the assembly of air conditioners per day is 1800 units only. To find out the reason the company compared actual performance of each worker and observed through C.C.T.V. that some of the workers were busy in gossiping.

- a. Identify the function of management discussed above.
- b. State those steps in the process of the function identified

3. A company 'M' Ltd. is manufacturing mobile phones both for the domestic Indian market as well as for export. It has enjoyed a substantial market share and also had a loyal customer following. But latterly it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also, the mobile market in India has grown tremendously and new players have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problems it is facing.

- i. Identify the benefits the company will derive from a good control system.
- ii. How can the company relate its planning with control in this line of business to ensure that its plans are actually implemented and targets attained?
- iii. Give the steps in the control process that the company should follow to remove the problems it is facing.

4. A critical point control (CPC) approach is followed by McDonald in the cooking and handling process so that any food safety threat can be prevented, eliminated, or reduced to an acceptable level. Hence, continuous monitoring of activities are undertaken to ensure that the process is right at each critical point control. The main principle followed for cooking at McDonald's is "less amount many times" which can ensure the high quality and high fresh level of the food. For instance, if your hamburgers have to be made, a worker cannot cook all the four hamburgers at one time. The time figured out for making one hamburger is one hundred and forty-five seconds. Moreover, nearly all foods in McDonald's have a specific holding time, the holding time for hamburgers is ten minutes and for French fries is seven minutes. If it is not sold within that time it is thrown away. Also, the temperature of the milk sent by the supplier must be under 40°C, otherwise, it will be returned.

In context of the above case:

- a. Name the steps involved in the controlling process which is being discussed in the above lines.

- b. What do you understand about ‘critical point control’? Explain
- c. How does the controlling function of management help in accomplishing organizational goals and ensure efficient use of resources?

5. Ramneet started a take away eating joint in a nearby market. His business was doing well. He ensured that the food was properly cooked, a standard taste was maintained, packing of food was done effectively and the orders were executed on time. But unfortunately he met with an accident and was advised three months of bed rest. In his absence, his cousin Akshay took charge of his business. When he resumed his work after three months, he realized that his clientele had dropped. The people were not happy with the services as the quality of food had deteriorated and the delivery time for orders had increased considerably. All this was happening because most of his previous staff had left as Akshay used to adopt a very strict and authoritative approach towards them.

In context of the above case:

- a. List any two aspects about his business that Ramneet was controlling in order to make it successful.
- b. Explain briefly any two points to highlight the importance of the controlling function.
- c. Name and explain the style of leadership adopted by Akshay.

### ANSWERS

#### MULTIPLE CHOICE QUESTIONS

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

#### ASSERTION REASONING QUESTIONS (ARQs)

1.d, 2.c 3.b, 4. a.iii. , b. ii. , c. i., 5. a.ii. , b. iii. ,  
c. i.

### SHORT ANSWER QUESTIONS

- 1. a. The management function is Controlling.
- b. A manager has to take the following two further steps to complete the process of controlling:
  - Analysing deviations
  - Taking corrective action

2. Riya who says, “Planning is looking ahead whereas controlling is looking back” must be giving the following reason:

Planning is considered as a forward-looking function by Riya as plans are made for future.

Controlling is considered as a backward-looking function by her as it is like the post mortem of the past activities to ascertain the deviations if any.

Siya who says, “Planning is looking back where as controlling is looking ahead” must be giving the following reasons.

Planning may be considered as a backward-looking function by Siya because the quality of planning can be improved with the help of valuable information provided by controlling in terms of results achieved.

Controlling is considered as a forward-looking function by her as it helps to improve the future performance by providing guidance for taking corrective action so that deviations do not reoccur in future.

Conclusion: Planning and controlling are both backward looking and forward looking functions. Hence, both of them are partially correct.

3. Management by exception is the principle of management control adopted by the company. It is based on the belief that ‘if you try to control everything, you may end up controlling nothing.’ It stresses the fact that it is not possible to control each and every activity effectively. If we try to control all activities giving equal importance it may lead to crucial activities being ignored and as a result we may lose control over overall performance of the organisation. The principle 'Management by Exception states that in order to have effective control over organisation's performance, management should lay down the permissible limits of deviations in actual performance and then instead of controlling each and every deviation management must try to control and take corrective actions for deviations which are beyond the acceptable range.

#### 4. Controlling

Features of controlling:

- i. Controlling is a goal-oriented function
- ii. Controlling is a pervasive function
- iii. Controlling is a continuous process
- iv. Controlling is both a backward looking as well as forward looking function.

5. a. Controlling and Directing    b. “Setting up performance Standards”

Standards are the criteria against which actual performance would be measured.

Standards can be set in **both qualitative and quantitative** terms. Standards must be



set up keeping in mind the resources of the organisation and must be achievable. Standards should be **flexible** enough to be modified due to changes taking place in internal and external environment.

## LONG ANSWER TYPE QUESTIONS

1. a. Controlling
  - b. Any four points of importance of controlling.
    - i. **Accomplishing organisational goals:** The controlling function measures progress towards the organisational goals and brings to light the deviations if any and indicate corrective action.
    - ii. **Judging accuracy of standards:** An efficient control system checks changes taking place in the organisation and in the environment and helps to review and revise the standards.
    - iii. **Making efficient use of resources:** It acts like a traffic signal and guides the organisation and keeps it on the right track. As a result, wastage and spoilage of resources will be reduced so that effective and efficient use of resources can be ensured.
    - iv. **Improving employee motivation:** A good control system ensures that employees know well in advance what they are expected to do as well as the basis against which their performance will be appraised. Thus, it motivates them to give better performance.
    - v. **Ensuring order and discipline:** Control creates an atmosphere of order and discipline in Organisation and helps to minimize dishonest and fraud behaviour of employees.
    - vi. **Facilitates coordination in action:** The activities of each department and employee are governed and controlled by predetermined standards which are well coordinated with one another.
2. a. Controlling
  - b. Steps discussed in the above paragraph are:
    - Setting performance standards
    - Measurement of actual performance
    - Comparing actual performance with the standards
    - Analyzing deviations for their causes.
3. i. Importance of controlling.
  - ii. Company can relate its planning with control in this line of business by following measure by implementing an effective controlling system and following a controlling process.
  - iii. Steps in the process of controlling system are:
    - i. Setting performance standards
    - ii. Measurement of actual performance
    - iii. Comparing actual performance with standard
    - iv. Analysing deviation:

v. Taking corrective action.

**4. Answer**

i. Analyzing deviation and taking corrective action are being discussed in the above lines.

ii. Since it may neither be economical nor easy to monitor each and every activity in the organization, there for every organization identifies and states its specific key result area (KRAs) or critical points which require tight control are likely to have a significant effect on the working of the business. Any deviations on these points are attended to urgently by the management. This is Critical Point Control (CPC).

iii. The two points that highlight the importance of the controlling function are listed below:

a. Accomplishing organizational goals:

b. Making efficiently use of resources:

5. a. The two aspects about his business that Ramneet was controlling in order to make it successful are listed below:

• A standard taste was maintained.      • The orders were executed on time.

b. The two points that highlight the importance of the controlling function are listed below:

• Judging accuracy of standards.      • Improving employee motivation.

c. Akshay had adopted an autocratic style of leadership. An autocratic leader expects strict compliance form his subordinates with regard to the orders and instructions given by him. Therefore, it involves only one-way communication.

## CHAPTER 9

### FINANCIAL MANAGEMENT

**Business finance:** Money required for carrying out business activities is called business finance. Almost all business activities require some finance. Finance is needed to establish a business, to run it, to modernise it, to expand, or diversify it

**Financial Management:** Financial Management is concerned with optimal procurement as well as usage of finance. For optimal procurement, different available sources of finance are identified and compared in terms of their costs and associated risks.

**Role of Financial Management:** The financial statements such as Balance Sheet and Profit and Loss Account reflect a firm's financial position and its financial health. Almost all items in the financial statements of a business are affected directly or indirectly through some financial management decisions.

- (i) The size as well as the composition of Fixed Assets of the business
- (ii) The quantum of Current Assets as well as its break-up into cash, inventories and receivables:
- (iii) The amount of long term and short -term financing to be used:
- (iv) Break-up of long- term financing into debt, equity etc:
- (v) All items in the Profit and Loss Account e.g., Interest, Expense, depreciation

#### **Objectives of Financial Management :**

Primary aim of financial management is to maximise shareholder's wealth, which is referred to as the wealth maximisation concept. The market price of a company's shares are linked to the three basic financial decisions Financial decision-making is concerned with three broad decisions which are Investment Decision, Financing Decision, Dividend Decision.

#### **FINANCIAL DECISIONS:**

Financial decision-making is concerned with three broad decisions:

**A) Investment decision, B) Financing decision and, C) Dividend decision**

**A. Investment decision (Capital Budgeting Decision):-** This decision relates to careful selection of assets in which funds will be invested by the firms. Investment decision can be long term or short-term. A long-term investment decision is also called a **Capital Budgeting decision**. It involves committing the finance on a long-term basis. Short term investment decisions (also called working capital decisions) are concerned with the decisions about the levels of cash, inventories and debtors. These decisions affect the day to day working of a business. These affect the liquidity as well as profitability of a business.

**Factors Affecting Investment/ Capital budgeting decision:-**

1. **Cash flows of the project:-** Before considering an investment option, business must carefully analyse the net cash flow expected from the investment during the life of the investment. Investment should be made if net cash flow is more.
2. **The rate of return:-** Investment should be done in the projects which earn the higher rate of return. It should be calculated on the basis of expected return of the projects.

**3. Investment criteria involved:-** Before taking decision, each investment opportunity must be compared by using the various capital budgeting techniques. These techniques involve calculation of rate of return, cash flow during the life of investment, cost of capital etc.

**B. Financing decision:-** It deals with determination of sources of finance i.e. amount to be raised from each source. A firm needs to have a judicious mix of both debt and equity in making financing decisions, which may be debt, equity, preference share capital and retained earnings

**Factors Affecting Financing decision:-**

- 1. Cost of raising finance:** - The cost of raising finance from various sources is different and finance managers always prefer the source with minimum cost.
- 2. Risk involved:-** The risk associated with each of the sources is different.
- 3. Flotation costs:-** Higher the flotation cost, less attractive the source.
- 4. Cash flow position of the company:** - A strong cash flow position may make debt financing more viable than funding through equity.
- 5. Fixed Operating Costs:** - If a company is having high fixed operating cost then they must prefer owner's fund because due to high fixed operational cost, the company may not be able to pay interest on debt securities.
- 6. Control consideration:** - If existing shareholders want to retain the complete control of business then they prefer borrowed fund securities to raise further fund.
- 7. State of Capital Markets:** During the period when stock market is rising, more people are ready to invest in equity. However, depressed capital market makes it difficult for any company.

**C. Dividend decisions:-** It refers decisions related to amount of profit/surplus to be distributed among shareholders and how much amount of profit/surplus keep aside as retained earnings.

**Factors Affecting Dividend decisions:-**

- 1. Amount of Earning:** - Dividends are paid out of current and past earning.
- 2. Stability of earning:** - Companies having stable or smooth earning prefer to give high rate of dividend.
- 3. Stability of dividend:** - Some companies follow a stable dividend policy as it has better impact on shareholder and improves the reputation of company in the share market.
- 4. Growth opportunities:** - If companies have no investment or growth plans then it would be better to distribute more in the form of dividend. Generally mature companies declare more dividends whereas growing companies keep aside more retained earnings.
- 5. Cash Flow Position:-** Paying dividend means outflow of cash. Companies declare high rate of dividend only when they have surplus cash.
- 6. Taxation Policy:** - If tax rate is higher, then company prefers to pay less in the form of dividend whereas if tax rate is low then company may declare higher dividend.
- 7. Shareholders Preference:** There are always some shareholders who depend upon a regular income from their investments.

**8. Stock Market Reaction:** The possible impact of dividend policy on the equity share price is one of the important factors considered by the management while taking a decision about it.

**9. Access to Capital Market:** Large and reputed companies generally have easy access to the capital market and therefore may depend less on retained earnings to finance their growth.

**10. Legal Constraints:** Certain provisions of the Company's Act place restrictions on payouts as dividend.

**11. Contractual Constraints:** While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future.

**Financial planning-** It is the process of estimating the funds requirement, specifying the sources of fund and utilizing them in an optimum manner. It is essentially preparation of a financial blueprint of an organisation's future operations.

**Objectives of financial Planning-**

- (a) To ensure availability of funds whenever these are required.
- (b) To see that firm does not raise resources unnecessarily.

**Importance of financial Planning-**

- (a) Makes the firm better prepared to face the future.
- (b) Helps in avoiding Business Shocks and Surprises.
- (c) Coordinate various functions.
- (d) Proper utilization of finance.
- (e) Link present with future.
- (f) Link between Investment and Financing Decisions.
- (g) Financial planning reduce waste, duplication of efforts, and gaps in planning.
- (h) It makes the evaluation of actual performance easier.

**Capital Structure:-** Refers to proportion of debt and equity used for financing the operations of business.

**Trading on Equity:** Trading on Equity refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest. It is possible only when return on investment is more than rate of interest on debt.

**Factors Affecting Capital Structure: –**

1. **Cash flow positions:** - A company employs more of debt securities in its capital structure if company is sure generating enough cash inflow whereas if there is shortage of cash then it must employ more of equity in its capital structure.
2. **Interest coverage ratio (ICR):-** High ICR means companies can have more of borrowed fund securities whereas lower ICR means less borrowed fund securities.
3. **Debt Service Coverage Ratio (DSCR):** A higher DSCR indicates better ability to meet cash commitments and consequently, the company's potential to increase debt component in its capital structure.
4. **Return on investment:** - If return on investment is more than rate of interest then company must prefer debt in its capital structure otherwise equity.
5. **Cost of Debts:** - If firm can arrange borrowed fund at low rate of interest then it will prefer more of debt as compared to equity.

6. **Tax rate:** - High tax rate makes debt cheaper as interest paid to debt is subtracted from income before calculating tax.
7. **Cost of Equity:** Stock owners expect a rate of return from the equity which is commensurate with the risk they are assuming.
8. **Floatation Costs:** Process of raising resources also involves some cost.
9. **Risk consideration:** - If firm's business risk is low then it can raise more capital by issue of debt securities whereas at the time of high business risk it should depend upon equity.
10. **Flexibility:** If a firm uses its debt potential to the full, it loses flexibility to issue further debt.
11. **Control:** Debt normally does not cause a dilution of control. A public issue of equity may reduce the management's holding in the company and make it vulnerable to takeover.
12. **Regulatory Framework:** Every company operates within a regulatory framework provided by the law e.g., public issue of shares and debentures are made according to the guidelines of the Indian Companies Act, 2013 and SEBI guidelines.
13. **Stock Market Conditions:** If the stock markets are bullish, equity shares are more easily sold even at a higher price. However, during a bearish phase, a company, may find raising of equity capital more difficult.
14. **Capital Structure of other Companies:** A useful guideline in the capital structure planning is the debt equity ratios of other companies in the same industry.

**Fixed Capital:**—It refers to money invested in the fixed assets, which is to be used over a long period of time. The management of fixed capital or investment or capital budgeting decisions are important for the following reasons: (i) Long-term growth and effects: (ii) Large amount of funds involved: (iii) Risk involved: (iv) Irreversible decisions:

**Factors Affecting Fixed Capital:** –

- 1) **Nature of business:** - A manufacturing company needs more fixed capital as compared to a trading company.
- 2) **Scale of operations:**- A large scale company require more fixed capital as they need more machineries and other assets.
- 3) **Choice of technique:**-Companies using capital-intensive technique require more fixed capital whereas companies using labour intensive technique require less capital.
- 4) **Technology upgradation:**-Industries in which technology upgradation is fast need more amount of fixed capital as when new technology is invented old machines become obsolete.
- 5) **Growth prospects:** - Companies which are expanding and have higher growth plan require more fixed capital as to expand their production capacity.
- 6) **Diversification:** - Companies which have plan to diversify their activities by including more range of products require more fixed capital as to produce more products.
- 7) **Financing Alternatives:** A developed financial market may provide leasing facilities as an alternative to outright purchase.

8) **Level of Collaboration:** At times, certain business organizations share each other's facilities which may lead to less fixed capital requirement.

**Working Capital:-** refers to the amount which is invested in current assets. It is required for payment of daily expenses, payment of current liabilities etc. This investment facilitates smooth business operations.

**Factors affecting the requirement of working capital:-**

1) **Nature of business:-** Manufacturing business requires more amount of working capital because it takes lot of time in converting raw material into finished goods while trading business requires less amount of working capital.

2) **Scale of operation:-**Business operating on larger scale requires more funds to maintain the high quantum of inventory and debtors to meet day to day expenses as compared to small scale business.

3) **Business Cycle fluctuation:** - In case of boom, there is increase in production and sales leading to the increased requirement for working capital, whereas the requirements for working capital reduce during depression.

4) **Seasonal factors:** - During peak season the level of activity is high, leading to increased need of working capital as compared to the capital during lean period.

5) **Production cycle:** - working capital requirement is higher in firms with longer processing cycle and lower in firms with shorter processing cycle

6) **Credit Allowed:** A liberal credit policy results in higher amount of debtors, increasing the requirement of working capital.

7) **Credit Availed:** To the extent, it avails the credit on its purchases, the working capital requirement is reduced.

8) **Operating Efficiency:** The firm having higher degree of operating efficiency requires less amount of working capital.

9) **Availability of Raw Material:** If the raw materials and other required materials are available freely and continuously, the firms can manage with less amount of working capital.

10) **Growth Prospects:** If the growth potential of a concern is perceived to be higher, it will require higher amount of working capital

11) **Level of Competition:** Higher level of competitiveness may necessitate higher stocks increases the working capital requirement.

12) **Inflation:** - If there is increase or rise in price then the price of raw material and cost of labour will rise, it will result in an increase in working capital requirement.

### MULTIPLE CHOICE QUESTIONS

1. The board of directors of M Ltd decided to issue debentures worth Rs.40 lakhs in order to finance a major research and development project. This would increase the debt equity ratio from 1: 1 to 2: 1. However, at the same time it would increase the earnings per share. The reason that will justify the above situation is

- (a) Unfavourable financial leverage, as the financial risk will be higher.
- (b) Unfavourable financial leverage, as return on investment is lower than the cost of debt.
- (c) Favourable financial leverage as debt is easily available.

(d) Favourable financial leverage, as return on investment is higher than cost of debt

2. Which of the following is not a factor affecting capital structure of a company?

- (a) Cost of Debt (b) Growth Opportunities  
(c) Cash Flow Position (d) Interest Coverage Ratio

3..... refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest.

- (a) Capital structure (b) Earning per share  
(c) Trading on equity (d) Return on investment

4. Which of the following statement does not highlight the importance of financial planning?

- (a) Detailed plans of action prepared under financial planning increase waste, duplication of efforts and gaps in planning.  
(b) It helps in forecasting what may happen in future under different business situations.  
(c) It provides a link between investment and financing decisions on a continuous basis.  
(d) It helps in avoiding business shocks and surprises and helps the company in preparing for the future.

5. During the Covid-19 pandemic, the restaurant industry faced many challenges. The lockdown led to huge decrease in demand. From April 2022, the effect of Covid started reducing. The economy started picking up and boom was noticed in the restaurant industry. As a result, larger amount of working capital was required with increased production and sales. The factor affecting the working capital requirement discussed above is

- (a) Seasonal factor (b) Production cycle (c) Operating efficiency (d) Business cycle

6. Match the factors affecting fixed capital requirements given in the Column I with explanations given in Column II

Column I	Column II
A. Nature of Business	(i) A trading organisation needs lower investments in fixed assets as compared to a manufacturing organisation.
B. Technology upgradation	(ii) A textile manufacturing company is installing a cement manufacturing plant and thus its investments in fixed assets is increasing.



C. Diversification	(iii) A capital-intensive organisation requires higher investments in fixed assets as compared to labour-intensive organisation.
D. Choice of Techique	(iv) Mobile phones became obsolete faster or many other assets. Hence these type of businesses require more fixed capital.

- (a) (i) A (iv)B (ii)C (iii)D (b) (ii)A (iii)B (iv)C (i)D  
(c) (iii)A (ii)B (i)C (iv)D (d) (iv)A (i)B (iii)C (ii)D

7. 'Temptations' is a food joint in Imperial Mall in Bengaluru. It is becoming popular among students and working people due to healthy, on-the-go dishes on its menu like 'Paneer Wrap', 'Chickpeas Salad', 'Grilled Sandwiches', etc. It has now decided to open two new branches in other parts of Bengaluru. Which financial decision has been discussed in the above case?

- (a) Long-term investment decision (b) Short-term investment decision  
(c) Dividend decision (d) Financing decision

8. A decision to acquire a new and modern plant to upgrade an old one is known as

- (a) Financing decision (b) Working capital decision  
(c) Investment decision (d) Dividend decision

9. ABC Ltd. has debt equity ratio of 3:1 whereas XYZ Ltd. has debt equity ratio of 1: 1. Name the advantage ABC Ltd will have over XYZ Ltd, when the rate of interest is lower than the rate of return on investment of the company.

- (a) Trading on equity (b) Low risk  
(c) Low cost of equity (d) Greater flexibility

10. Vikrant joins his father's business of Organic masalas near Kotgarh in Himachal after completing his MBA. In order to capture a major share of the market, he by using the latest packaging technology decided to sell the products in attractive packages. His father suggested to hire financial consultants to estimate the amount of funds that would be required for the purpose and timings when it would be required. The concept being discussed by Vikran's father, links which financial decision with the investment decision?

- (a) Dividend decision (b) Financial planning  
(c) Capital structure decision (d) Financing decision

11. **Statement I** : A company wants to establish a new unit in which a machinery of worth Rs.50 lakh is involved. Here in the said case, investment decision is involved.

**Statement II** : Working capital involves the allocation of firm's capital to long-term assets or projects.

Alternatives

- (a) Statement I is correct and Statement II is incorrect
- (b) Statement II is correct and Statement I is incorrect
- (c) Both the statements are correct
- (d) Both the statements are incorrect

12.

**Statement I** Business finance refers to the money required for carrying out business.

**Statement II** Financing decision involves careful selection of assets, in which funds are to be invested.

Alternatives

- (a) Statement I is correct and Statement II is incorrect
- (b) Statement II is correct and Statement I is incorrect
- (c) Both the statements are correct
- (d) Both the statements are incorrect

13.

**Assertion (A)** Finance is the life blood of business.

**Reason (R)** Finance is very essential for the smooth running of the business.

Alternatives

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true, but Reason (R) is false
- (d) Assertion (A) is false, but Reason (R) is true

14.

**Assertion (A)** Primary aim of financial management is to maximise shareholder's wealth.

**Reason (R)** Company's funds belong to the shareholders and the return earned by them determine their market value and price.

Alternatives

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true, but Reason (R) is false
- (d) Assertion (A) is false, but Reason (R) is true

### ANSWER KEY

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

## **VERY SHORT ANSWER TYPE QUESTIONS**

15. Organisations which choose to diversify their operations require .....fixed capital. (more/less)

16. "The size of assets, the profitability and competitiveness are affected by one of the financial decisions' State the decision involved with reference to the given statement. Name and state the decision.

17. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly available to the paint manufacturing companies. Bonler Paints Company is also facing this problem and because of this there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods. Identify the factor affecting the working capital requirements of this industry.

18. VXL Ltd is a company dealing in dairy products. It procures these products from Rajasthan and sells them to various parts of Delhi. A month before Marico Ltd., a Haryana based company entered Delhi market with a similar range of products. State the impact of entry of Haryana based 'Marico Ltd.' on the working capital requirements of VXL Ltd. Also, name the factor affecting the working capital requirements of VXL Ltd.

19. Name and state the aspect of financial management that enables to foresee the fund requirements both in terms of 'the quantum' and 'the timings' Or Name and state the aspect of financial management that provides a link between investment and financing decisions

20. Radhika and Vani who young fashion designers are left their job with a famous fashion designer chain to set-up a company 'Fashionate Pvt Ltd.' They decided to run a boutique during the day and coaching classes for entrance examination of National Institute of Fashion Designing in the evening. For the coaching center they hired the first floor of a nearby building. Their major expense was money spent on photocopying of notes for their students. They thought of buying a photocopier knowing fully that their scale of operations was not sufficient to make full use of the photocopier.

In the basement of the building of 'Fashionate Pvt Ltd'. Praveen and Ramesh were carrying on a printing and stationery business in the name of 'Neo Prints Pvt Ltd' Radhika approached Praveen with the proposal to buy a photocopier jointly which could be used by both of them without making separate investment, Praveen agreed to this. Identify the factor affecting fixed capital requirements of 'Fashionate Pvt. Ltd.'

21. 'Best Bulbs Pvt Ltd was manufacturing good quality LED bulbs and catering to local market. The current production of the company is 800 bulbs a day. Sumit, the marketing

manager of the company surveyed the market and decided to supply the bulbs to five-star-hotels also. He anticipated the higher demand in future and decided to buy a sophisticated machine to further improve the quality and quantity of the bulbs produced. Identify the factor affecting fixed capital requirements of the company.

22. Rizul Bhattacharya after leaving his job wanted to start a Private Limited Company with his son. His son was keen that the company may start manufacturing of mobile phones with some unique features. Rizul Bhattacharya felt that the mobile phones are prone to quick obsolescence and a heavy fixed capital investment would be required regularly in this business. Therefore, he convinced his son to start a furniture business. Identify the factor affecting fixed capital requirements which made Rizul Bhattacharya to choose furniture business over mobile phones.

23. How does cost of debt affect the capital structure of a company? State.

### **ANSWER KEY**

15. Ans. More      16. Ans. Capital budgeting decision

17. Ans. Availability of raw materials

18. Ans. With entry of "Marico Ltd., VXL Ltd. needs to increase its working capital. The factor is level of competition'

19. Ans. Financial planning      20. Ans. Level of collaboration

21. Ans. Technology upgradation      22. Ans. Technology upgradation

23. Ans. When a firm is able to borrow at a lower rate, it increases the capacity to employ higher debt and can increase the debt component in the capital structure.

### **SHORT ANSWER TYPE QUESTIONS**

24. 'Geo Motors' is the manufacturer of sophisticated cranes. The Production Manager of the company, reported to the Chief Executive Officer, Ashish Jain that one of the machines used in manufacturing sophisticated cranes had to be replaced to compete in the market, as other competitors were using automatic machines for manufacturing. After a detailed analysis, it was decided to purchase a new automatic machine having the latest technology. It was also decided to finance this machine through long-term sources of finance. Ashish Jain compared various machines and decided to invest in the machine which would yield the maximum returns to its investors.

(i) Identify the financial decision taken by Ashish Jain.

(i) Explain any three factors affecting the decision identified in (i) above.

25. The Return on Investment (Rol) of a company ranges between 10-12% for the past three years. To finance options for borrowing debt. its future fixed capital needs, it has the following

Option 'A' : Rate of interest 9%

Option 'B' : Rate of interest 13%

Which source of debt, 'Option A' or 'Option B', is better?

Give reason in support of your answer. Also state the concept being used in taking the decision.

26. Neelabh Sarin, the Finance Manager and Atul Chopra, the Managing Director of Ghokerns Ltd. were discussing regarding the source of finance to be raised for modernisation of their existing plant. Quoting that 'sensex has soared by 5078 points' in the last three years, Neelabh Sarin suggests that equity should be preferred while Atul Chopra wanted to opt for debt. Keeping in mind the high operating costs of the company, suggest the source of finance that should be used for modernisation of existing plant. Also, explain the two factors highlighted above which should be kept in mind for taking this decision.

27. Ramnath Ltd. is dealing in import of organic food items in bulk. The company sells the items in smaller quantities in attractive packages. Performance of the company has been up to the expectations in the past. Keeping up with the latest packaging technology, the company decided to upgrade its machinery. For this, the Finance Manager of the company, Mr. Vikrant Dhull, estimated the amount of funds required and the timings. This will help the company in linking the investment and the financing decisions on a continuous basis. Therefore, Mr Vikrant Dhull began with the preparation of a sales forecast for the next four years. He also collected the relevant data about the profit estimates in the coming years. By doing this, he wanted to be sure about the availability of funds from the internal sources. For the remaining funds he is trying to find out alternative sources. Identify the financial concept discussed in the above paragraph. Also state any two points of importance of the financial concept, so identified.

28. 'X Ltd. issued 14% debentures of Rs. 4,00,000 and 10,000 equity shares of Rs.60 each. This investment resulted in a net profit of Rs.2,00,000 before interest and tax. The tax rate was 50%.

- i) Calculate the 'Return on Investment and Earning per Share of "X Ltd'.
- (ii) State with reason whether the above example is that of favourable or unfavourable leverage.

### **ANSWER KEY**

24. Ans.

- (i) Financial decision taken by Ashish Jain is Investment (Long-term/Capital budgeting) decision.
- (ii) Factors affecting capital budgeting decision

25. Ans)

The company Should use Option A' as in this case the Return on Investment (10-12%) will be more Than the Cost of Debt (9%).

The concept being used in the above case is 'trading on equity'.

The use of debt along with equity increases Earnings Per Share (EPS). This use of fixed financial charge, i.e. interest, increases the profit earned by shareholders. This concept is known as trading on equity.

If the company opts for Option A, it will lead to favourable trading on equity as in this case  $Roi > CoD$ , Where  $Roi$  - Return on Investment (10-12%)  $CoD$  - Cost of Debt (9%)

26.Ans.

The company should opt for equity as the source of finance to modernise the existing plant. (1) Following factors were taken into consideration from the decision

(i) Stock market condition (ii) Cash flow positions

27.Ans.

The concept discussed in the above paragraph is 'financial planning'. (1) The two points of importance of this concept are

- (i) Helps in avoiding business shocks and surprises
- (ii) ii) Helps in coordination (any two imp)

28.Ans)

$$EPS = 72000/10000=7.2$$

$$ROI = 200000/1000000*100=20\%$$

(ii) Here, the rate of interest is 14%, which is less than 20% (ROI).

Thus, it is a favourable leverage.

### **LONG ANSWER TYPE QUESTIONS**

29. Dhaval Acharya, after acquiring a bachelor's degree in Hotel Management joined his father's chain of vegetarian restaurants in Ahmednagar. Being young and enterprising, he suggested his father to add a new section of vegetarian bakery items which required an investment of Rs.5 crores. His father Mr. Aariketh Acharya suggested him to take the decision with caution and understood everything comprehensively as bad decision may damage the financial fortune of business. Identify the decision suggested by Mr. Aariketh Acharya. State by giving any three reasons as to why he must have advised his son to take decision with caution.

30. Harish is working as a finance manager in 'Kozee Software Ltd'. He had been awarded 'Best employee of the year Award' because of his foresightedness. He always aims at smooth operations of all the financial activities by focusing on fund requirements and their availability in the light of financial decisions. He takes into consideration the growth, performance, investments and requirements of funds for a given period so that financial resources are not left idle and don't unnecessarily add to the cost. By doing all this Harish strives to achieve the two main objectives of an important concept of financial management. Identify the concept and explain its three importance.

31. Krish Limited is the business of manufacturing and exporting carpets and other home decor products. It has a share capital of Rs.70 lacs at the face value of Rs.100 each. Company is considering a major expansion of its production facilities and wants to raise Rs. 50 lacs. The finance manager of the company Mr. Prabhakar has recommended that the company can raise funds of the same amount by issuing 7% debentures. Given that earning per share of the company after expansion is Rs.35 and tax rate is 30%, did Mr. Prabhakar give a justified recommendation. Show the working.

32. Anurag Tiwari is a famous news reader. He has recently started a news company 'Axis Media Corporation Ltd'. The aim of this company is to launch a 24-hour Hindi news channel to broadcast latest news from India and around the world. For this now venture, the company will have to decide how to invest funds in different assets. The purchase of few assets like equipment, computers, vehicles, etc. will involve committing the finance on a long-term basis. It will affect earning capacity of the business in the long run. Therefore the company need to take the decision to invest in such assets with utmost care. (i) Identify and state the type of investment decision discussed in the above paragraph. ii) State any four factors which affect the decision identified in (i) above.

33. 'Reliable Labs Ltd.' is a trusted name in diagnostic services with seven branches spread across the city of Pune. The directors of this company have projected that with the rise in health consciousness in the society and the rising burden of chronic diseases, the demand for diagnostic tests is expected to grow in future. Considering this, they decided to open branches of their diagnostic labs in Ahmedabad. It was estimated that it will require Rs.100 crore of additional funds.

The directors have to take the decision about how much funds should be raised from equity capital and how much from debt. It will affect the overall cost of capital and the financial risk of the company.

(i) Identify the state the financial decision discussed in the above paragraph.

(ii) State any three factors that should be kept in mind by the Board of Directors of Reliable Labs Ltd'. While taking the decision identified in (i) above.

34. Sahil is the Finance Manager of 'Knitwear Ltd'. The company is engaged in the manufacturing of woollen clothes. The demand of the company's products is seasonal, whereas the production continues throughout the year. Due to the quality of its products, the company's business is spreading across the country. The company is operating at a large scale having regional offices in Northern, Southern, Eastern and Western India. The performance of its each division is of a very high level. For uninterrupted availability of raw materials, the company requires high stock levels. Not only has this, to face the competition and to meet the urgent orders of the customers, the company also needed enough stock of finished goods.

Considering the above discussion, state five factors affecting working capital requirements of "Knitwear

35. 'Abhishek Engineering Ltd.', a leading manufacturer of steel rods wants to enter into the business of manufacturing trucks. For this, the Finance Manager has to ensure the availability of funds whenever required and its possible sources. He has to see that the company does not raise funds unnecessarily. In this way he has to match the funds requirement and their availability. i Identify and give the meaning of the concept discussed in the above para which will help the Finance Manager to achieve his objectives. (ii) Also, state any three points of importance of the concept identified in i) above.

36. Vansh Limited is a large and reputed company which manufactures ventilators. After the outbreak of 'Covid-19' in 2020 the company witnessed an increase in revenue by 40%. It has plans to further increase its production capacity and also start production of PPE kits, sanitisers and masks in 2022. The Finance manager of the Company Mr. Rajiv feels confident about the future of the company and its liquidity position. Discuss the meaning of Dividend Decision and in the light of the above statement explain any three factors which should be considered by 'Vansh Limited' while formulating the dividend policy of the company.

37. Vedansh Limited has a share capital of Rs.10,00,000 divided into shares of Rs.100 each. For expansion purpose, the company requires additional funds of Rs.5,00,000. The considering the following alternatives for raising funds.

**Alternative 1** Issue of 5,000 equity shares of Rs.100 each

**Alternative 2** Issue of 10% debentures of Rs.5,00,000

The company's present Earnings Before Interest and Tax(EBIT) is Rs.4,00,000 p.a. Assuming that the rate of Return of Investment remains the same after expansion, which alternatives should be used by company in order to maximise the returns to the equity shareholders. The tax rate is 50%. Show the working.

38. Dheeraj wants to start a business of selling N-95 masks after the outbreak of the global pandemic of Covid-19. Due to the uncertain market conditions he wants to make a low investment in fixed capital. Suggest how the decisions related to the choice of technique and financing alternatives can help Dheeraj in ensuring a low investment in fixed capital requirements.

39. Sun Industries Ltd. is a leading company in India which manufactures steel. Its plants are located in Jamshedpur and Bokaro. Currently it produces about three million tons of saleable steel. As the demand for steel is growing, it is planning to expand the capacity of the existing steel plants. It is estimated that it will require Rs 1,800 crore of fixed capital and Rs 200 crore of working capital. To raise the funds, the company is considering whether it should issue equity shares or 7% debentures of Rs 2,000 crore. Presently the capital structure is comprising of equity only. The Finance Manager of the



company suggested that since the stock markets are undergoing a bearish phase, it should issue debentures.

i) Is it justified to raise funds by issuing debentures? Give reason in support of your answer.

(ii) Explain the impact of issue of debentures on the risk faced by the company.

(iii) Explain the impact of 'cost of debt' and 'cost of equity' on the capital structure of the company.

40. From last many years, in the month of November, due to sudden rise in the pollution levels in Delhi and other parts of Northern India, there has been an increase in the demand for air purifiers. Indraprastha Technologies Ltd., a manufacturer of air purifiers wants to use this opportunity and wants to raise its investment in stock. It is expected that this decision would increase the rate of profitability of the business. Due to this, many competitors have recently entered in this industry. In order to increase the sales, the company has started selling air purifiers on liberal credit terms. It is not affecting the profits of the company since the production cycle of the product is short. Identify and state any two factors that Indraprastha Technologies Ltd. will keep in mind before deciding its working capital requirements. Also state three other factors which should be kept in mind while deciding the working capital requirements of a company.

41. 'Smart Stationery Ltd.' wants to raise funds of Rs.40,00,000 for its new project. The management is considering the following mix of debt and equity to raise this amount

Capital Structure	Alternative		
	I	II	III
Equity	40,00,000	30,00,000	10,00,000
Debt	0	10,00,000	30,00,000

Other details are as follows Interest Rate on Debt 9% Face Value of Equity Shares Rs.100 each Tax Rate 30% Earnings Before Interest and Tax (EBIT) Rs.8,00,000

(i) Under which of the three alternatives will the company be able to take advantage of Trading on Equity?

ii) Does Earning Per Share always rise with increase in debt?

42. Viyo Ltd, is a company manufacturing textiles. It has a share capital of Rs. 60 lakh. The earning per share in the previous year was Rs.0.50. For diversification, the company requires additional capital of Rs. 40 lakh. The company raised funds by issuing 10% debentures for the same. During the current year the company earned a profit of Rs.8 lakh on capital employed. It paid tax @ 40%.

(i) State whether the shareholders gained or lost, in respect of earning per share on diversification. show your calculations clearly. (ii) Also, state any three factors that favour the issue of debentures by the company as part of its capital structure.

43. 'Sarah Ltd.' is a company manufacturing cotton yarn. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well-managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments. It has taken loan of 40 lakh from IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement. The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.

Quoting the lines from the above discussion identify and explain any four such factors.

### ANSWER KEY

29. Ans. Mr Aariketh Acharya has suggested capital budgeting decision. Reasons why he must have advised this decision are i) These decisions have bearing on the long-term growth. (ii) These decisions result in large portion of funds being blocked in long-term projects, these investments are planned after a detailed analysis. iii) These decisions affect the returns of the firm, therefore influence the overall business risk complexion of the firm. (iv) These decisions once taken, are not reversible without incurring heavy losses. Abandoning a project after heavy investment is costly in terms of waste of funds.

30. Ans. The concept discussed in the above case is "Financial Planning" and any three importance

31. Ans. Earning per share = Rs.35  
Earning after tax = Rs.24,50,000  
Interest = 50,00,000  
 $\times 7/100 = \text{Rs.}3,50,000$   
Earning before tax = Rs. 35,00,000  
EBIT = Earning before tax + Interest = 35,00,000 + 3,50,000 = Rs.38,50,000  
RoI =  $\text{EBIT}/\text{Total Investment} \times 100 = 38,50,000/1,20,00,000 \times 100 = 32.08\%$

As RoI (32.08%) > Rate of interest (7%). The company can choose to use trading on equity to increase its EPS. The finance manager was justified in making this recommendation.

32. Ans. (1) Capital budgeting decision (ii) any three factors

33. Ans. i) Financing decision. Meaning ii) any three factors

34. Ans. Factors affecting working capital requirements

35. Ans. i) The concept discussed in the paragraph is financial planning and any three importance

36. Ans. Dividend decision. Factors affecting dividend decision

37. Ans. Rate of Return of Investment is  $4,00,000/10,00,000 \times 100 = 40\%$ . EBIT after expansion -  $40\% \times 15,00,000 = 6,00,000$ , EPS Plan I is 20 and Plan II is 27.5. The company should use Plan 2 in order to increase the return to the equity shareholders.

38. Ans. Choice of technique and Financial alternatives

39. Ans. (i) Yes, it is justified to raise funds by issuing debentures. Reason any one (a) During a bearish phase in the capital market, a company may find raising of equity capital more difficult and it may opt for debt (b) It will help to lower the overall cost of capital. (1) (ii) The issue of debentures will increase the financial risk faced by the company as the payment of interest and the return of principle is obligatory for the business. Any default in meeting these commitments may force the business to go into liquidation. (2) (iii) Impact of the following on capital structure of the company. (a) Cost of debt More debt can be used in the capital structure if debt can be raised at a lower rate. (b) Cost of equity When a company increases debt, the financial risk faced by the equity shareholders increases. Consequently, their desired rate of return may increase due to which cost of capital will increase.

40. Ans. Factors that "Indraprastha Technologies Ltd. will keep in mind before deciding its working capital requirements (any two) i) Seasonal factor (ii) Level of competition (iii) Credit allowed.

41. Ans. (i) The company will be available to take advantage of Trading on Equity in Alternative (III). This is because of higher earning per share in Alternative III.

(ii) No, earning per shares only rises with increase in debt when the rate of interest on debt is lower than the return on investment.

42. Ans. Since, Earning Per Share has fallen from 0.50 to 0.40, therefore the shareholders stand to lose on diversification. Note: In the absence of any information, shares are assumed to be of Rs.10 each. So, Number of Shares = Share Capital/ Face Value Per Share = 60,00,000/10 = 6,00,000 shares . ii Three factors that favour issue of debentures by the company as part of its capital structure are (a) Debenture interest payable is a charge to the profits. Hence a company stands to gain in terms of tax-benefits. (b) Issue of debentures help the shareholders of the company to gain through 'Trading on Equity'. (c) Debenture is a cheaper source of finance as compared to equity.

43. Ans. The factors identified in the above lines are given below i) The line 'It has been consistently earning goods profits for many years' indicated 'Stability of earnings'.

ii) The line 'This year too, it has been able to generate enough profits' indicates 'Earnings' as a factor affecting dividend decision. (iii) The line 'There is availability of enough cash in the company and good prospects for growth in future' indicates 'Growth opportunities'. (iv) The line " It has many shareholders who prefer to receive a regular income from their investments" indicates 'Shareholders preference'

### **CASE BASED QUESTIONS**

44. Mr. Bose is running a successful business. Mr. Bose is the owner of R. K. Cement Ltd. Mr. Bose decided to expand his business by acquiring a Steel Factory. This required an investment of Rs.60 crores. To seek advice in this matter, he called his financial advisor Mr. T. Ghosh who advised him about the judicious mix of equity (40%) and debt (60%). Employ more of cheaper debt may enhance the EPS. Mr. Ghosh also suggested him to take loan from a financial institution as the cost of raising funds from

financial institutions is low. Though this will increase the financial risk but will also raise the return to equity shareholders. He also apprised him that issue of debt will not dilute the control of equity shareholders. At the same time, the interest on loan is a tax deductible expense for computation of tax liability. After due deliberations with Mr. Ghosh, Mr. Bose decided to raise funds from a financial institution.

(i) Identify the concept of financial management as advised by Mr. Ghosh in the above situation.

- (a) Capital Budgeting      (b) Capital Structure  
(c) Dividend Decision      (d) Working Capital Decision

**Ans. (b) Capital Structure**

(ii) In the above case Mr. Ghosh suggested to raise more funds from debt. Higher debt-equity ratio results in

- (a) Lower financial risk      (b) Higher degree of operating risk  
(c) Higher degree of financial risk      (d) Higher earning of profit

**Ans. (c) Higher degree of financial risk**

(iii) "Mr. T. Ghosh who advised him about the judicious mix of equity (40%) and Debt (60%)". . . The proportion of debt in the overall capital is called -

- (a) Working capital      (b) Financial leverage      (c) Total assets      (d) None of these

**Ans. (b) Financial leverage**

(iv) Employ more of cheaper debt may enhance the EPS. Such practice is called

- (a) Equity trading      (b) Financial leverage  
(c) Investment decision      (d) Trading on equity

**Ans. (d) Trading on equity**

45.

Direction: Read the following text and answer the questions on the basis of the same  
AVP is a renowned multiplex operator in India. It owns around 560 screens in 110 properties at 80 locations in the country. Considering the fact that there is more growing trend among the people to spend more of their disposable income on entertainment, company planned to add more screen at existing locations and start at new locations also. Further, they plan to add food chain also at their locations. The company planned to float equity shares in market to raise the desired capital. The issue was fully subscribed and paid. Over the years, the sale and the profit of the company have increased tremendously and it has been declaring higher dividend and the market price of its share has increased manifolds.

i. Which financial decision is highlighted in the lines, "Considering the fact that there is more growing trend among the people to spend more of their disposable income on entertainment, company planned to add more screen at existing locations and start at new locations also"?

- (a) Investment decision      (b) Financing decision

- (c) Dividend decision                      (d) None of the above

**Ans (a) Investment decision**

ii. Identify the decision involved in the lines, "The company planned to float equity shares in market to raise the desired capital. The issue was fully subscribed and paid."

- (a) Financing decision                      (b) Investment decision  
(c) Dividend decision                      (d) None of these

**Ans (c) Dividend decision**

iii. The above case highlights the fulfilment of one of the prime objectives of financial management by AVP company. Identify the objective.

- (a) Profit maximisation                      (b) Increasing customer base  
(c) Wealth maximisation of shareholders                      (d) None of the above

**Ans (c) Wealth maximisation of shareholders**

iv. "Over the years, the sale and the profit of the company have increased tremendously and it has been declaring higher dividend and the market price of its share has increased manifolds". The quoted lines highlight one of the factors affecting dividend decision. Identify the factor.

- (a) Taxation policy                      (b) Legal restrictions  
(c) Stability of earnings                      (d) None of these

**Ans (c) Stability of earnings**



## **CHAPTER 10**

### **FINANCIAL MARKET**

#### **FINANCIAL MARKET**

Financial market serves as a link between savers (who have surplus money) and borrowers (who have investment idea, but lacks money).

#### **FUNCTIONS OF FINANCIAL MARKET**

1. **Mobilizing savings into investment:** - financial market connects savers and investors.
2. **Price discovery:** - financial markets helps in fixing the prices of financial assets. Market forces (demand and supply) determine the price of securities.
3. **Liquidity to financial assets:** - through easy exchange process (buying and selling), financial assets can easily be converted into cash.
4. **Reduce cost of transaction:** - With the help of financial market, investors and companies can easily gather information regarding price, cost and availability of various financial assets.

#### **CLASSIFICATION OF FINANCIAL MARKET**

1. **Capital Market:** - it is a mechanism to raise medium term and long-term funds. Capital market can be classified into
  - a. **Primary Market-** also known as New Issue Market. Here securities are issued for the first time.
  - b. **Secondary Market (Stock Exchange):** - securities already issued in primary market are bought and sold in secondary market.
2. **Money Market:** - money market is an arrangement to raise short-term funds. It helps the players to meet their working capital needs.

#### **CAPITAL MARKET:**

It is an institutional arrangement through which long-term and medium-term funds are raised and invested. Shares, debentures, bonds, public deposits etc. are the common instruments used in capital market.

#### **FEATURES OF CAPITAL MARKET**

1. Acts as a link: - capital market connects savers and investors. It channelizes funds from surplus unit to deficit unit.
2. Long-term investment: - capital market provides funds for long-term uses (for more than one year)
3. Intermediaries: - capital market needs services of intermediaries. Different intermediaries are brokers, depositories, underwriters etc.

4. Capital formation: - by connecting savers and investors, capital market enables companies to raise capital for formation, expansion, innovation etc.
5. Government rules and regulations: - capital market functions under the regulations of SEBI

### TYPES OF CAPITAL MARKET

1. **Primary Market:** - otherwise known as New Issue Market. In this market, securities are issued for the first time. Companies can issue shares, debentures, deposits, loans etc. to raise capital from the primary market. The price of the securities is determined by the company.
2. **Secondary Market (Stock Exchange):** - it is like a second-hand market. The existing securities are bought and sold in the secondary market. The price of the securities is determined by market forces (demand and supply).

### CAPITAL MARKET V/S MONEY MARKET

S.No	Basis	Capital Market	Money Market
1	Participants	Public and Private Companies, Financial institutions, Banks, Foreign Investors, Ordinary Retail Investors from Public	Financial Institutions, Banks, Public and Private companies
2	Duration	Deals in long-term and medium-term financial securities.	Deals with short-term instruments having maximum duration of one year
3	Instruments	Shares, Debentures, Bonds and other innovative securities	Commercial Paper, Certificate of Deposits, Treasury Bills, Trade Bills etc.
4	Investment Outlay	The value of investment is generally low	Money market instruments are expensive and huge amount is required to invest
5	Liquidity	Capital market securities are not that much liquid when we compare with money market instruments	Money market instruments are highly liquid and can easily be converted into cash
6	Safety	Considering the factors related to duration and expected return, capital market instruments are riskier	Money market instruments enjoy high amount of safety due to short duration and reliability of issuers
7	Expected return	High	Less due to short duration
8	Type of Capital	To meet long-term fixed capital requirements	To meet short-term working capital requirements

## PRIMARY MARKET V/S SECONDARY MARKET

S.No	Basis	Primary Market	Secondary Market
1	Type of Securities	Issue of new securities	Mechanism for existing or Second-hand securities
2	Issued By	Directly by companies	Securities already issued in Primary market is transferred between investors only.
3	Capital Formation	Directly helps in capital formation	Helps indirectly for capital formation
4	Entry	All companies can enter by following the prevailing norms	Only listed companies can trade their securities
5	Price	Fixed by management of the companies	Fixed by free market forces (demand and supply)

## STOCK EXCHANGE

“Stock exchange' means an association, organization, body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling the business of buying and selling or dealing in securities”.- Securities Contract (Regulation) Act, 1956.

## FUNCTIONS OF STOCK EXCHANGE

1. **Providing liquidity and marketability to existing securities**- investors can easily disinvest and reinvest with the help of stock exchange. It creates a continuous market for existing securities
2. **Pricing of securities**- stock exchanges value the securities on the basis of free market forces, that is demand and supply.
3. **Safety of transaction**- the dealings of stock exchange are well regulated by SEBI
4. **Contributes to economic growth**- it helps indirectly in capital formation
5. **Spreading of Equity Cult**- stock exchanges educate people to invest in capital market securities. It provides better trading practices
6. **Providing scope for speculation**- stock exchanges promote healthy speculation of securities.

## TRADING PROCEDURE IN A STOCK EXCHANGE

1. **Selection of a Broker:** - Broker is a member of the stock exchange who helps in buying and selling of securities. Trading can only be done through SEBI registered broker. So, the prime step is the selection of a broker.
2. **Opening DEMAT account:** - DEMAT account keeps securities in electronic format. Prospective investors can open their demat account with Depository Participant (Banks and Stock Brokers). Securities are held in electronic format by a depository (NSDL and CDSL). Depository participants are the connecting link between investors and depository.



3. **Placing the order:** - investor has to place an order to the broker personally or through email, phone calls etc. The order should contain the quantity and price range at which securities can be traded.
4. **Match the share and best price:** - broker goes online to see the best price available.
5. **Executing order:** - When the shares can be bought or sold at the price mentioned, it will be communicated to the broker's terminal and the order will be executed electronically. The broker will issue a trade confirmation slip to the investor.
6. **Issue of contract note:** - after execution, broker issues a contract note. It contains details of price, quantity, date, time of deal and brokerage amount. It's a legal document. A unique order number is assigned to each transaction by stock exchange and is printed on the contract note.
7. **Delivery of share and making payment:** - now investor has to deliver the shares sold or make cash payment for the shares purchased. This should be done immediately after receiving the contract note or before the day when the broker shall make payment or delivery of shares to the exchange. This is called the pay-in day.
8. **Settlement cycle:** - the deal has to be settled and finalized on the T+2 day.
9. On T+2 day, stock exchange will deliver the share or make payment to the other broker. This is called **Pay out day**. The broker then has to make payment to investors within 24 hours of the pay-out day since he/she already received payment from the exchange.
10. Now the broker can make delivery of shares in demat form directly to the investor's demat account.

### **DEMATERIALIZATION:**

Conversion of physical securities into electronic form is called dematerialization.

For this investor has to open a demat account with an organization called depository.

**The Depository-** apex organization in this system. Depository is just like a bank where the investor can deposit and withdraw his/her shares. They interact with the investors through Depository Participants (DP). They facilitate electronic transfer of securities and settlement of transactions.

**The Depository Participants (DP)-** they are the connecting link between depository and investors. Financial institutions, share brokers, banks etc. can become depository participants after registering with SEBI. Depository participant will maintain securities account balances of investors.

### **SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)**

- Was set up in 1988
- Was granted legal status in 1992
- To regulate stock market
- To protect investors

#### **Role of SEBI**

1. To protect the interest of investors
2. To provide a market for issuers in order to raise capital

3. To regulate the functioning of intermediaries

### **Objectives of SEBI**

1. To regulate the functioning of stock exchanges
2. To protect the right of investors and provide safety to their investment
3. To prevent fraudulent activities like price rigging, insider trading etc.
4. To regulate the activities of intermediaries (brokers, sub-brokers, underwriters etc.)
5. To develop a code of conduct for intermediaries

### **FUNCTIONS OF SEBI**

1. REGULATORY FUNCTIONS
2. DEVELOPMENTAL FUNCTIONS
3. PROTECTIVE FUNCTIONS

#### **1. Regulatory Functions**

- a. Registration of brokers, sub-brokers and other players in the security market
- b. Registration of mutual funds
- c. To regulate the activities of stock brokers, portfolio managers, merchant bankers, underwriters etc.
- d. To regulate the takeover bids by companies
- e. To regulate stock exchanges and intermediaries by calling for information, conducting inspections/enquiries, through auditing etc.
- f. Levying fees and other charges

#### **2. Developmental Functions**

- a. To provide training to intermediaries
- b. Conducting research and publishing information; which can bring development to stock market
- c. Undertaking measures to develop the capital markets by adopting a flexible approach.

#### **3. Protective Functions**

- a. SEBI protects the interest of investors by performing following activities
- b. Check Price Rigging: - Price rigging refers to the manipulation of security prices with an intend to cheat the investors. SEBI prohibits such practice
- c. Prohibits Insider Trading: - insider trading means buying or selling securities based on non-public, material insider information. SEBI keeps a strict check when insiders are trading company's securities
- d. SEBI prohibits misleading statements
- e. SEBI undertakes steps for investor protection
- f. Promotion of fair practices and code of conduct in stock market.

### **MULTIPLE CHOICE QUESTIONS**

1. Surya Ltd immediately requires 1 crore rupees to buy certain raw materials for next two months. Where they can approach?  
a) Capital market b) Money Market c) Both a) and b) d) None of the above

2. .... helps directly in capital formation  
 a) Primary Market    b) Secondary market    c) Both a and b    d) None of the above
2. Ms. Bindu sure that her share certificate won't get damaged or no one can steal.  
 What may be the reason?  
 a) Rematerialisation    b) Dematerialisation    c) Both a and b    d) None of the above
4. Mr. Tilak wants to trade in stock exchange. If so, he must open a ..... Account with the help of stock broker  
 a) Savings account    b) Demat account    c) Current account    d) None of the above
5. SEBI was granted legal status in the year .....  
 a) 1988                      b) 1991                      c) 1992                      d) 1990

6. MATCH THE FOLLOWING

1 They are the link between investors and depository organization	(i) Insider Trading
2 Manipulating the price of securities to attract investors	(ii) Demat
3 It is an account which holds securities electronically	(iii) Stock Exchange
4 It provides a platform to trade second-hand securities	(iv) Depository Participants
5 Trading of securities by using non-public, material information	(v) Price Rigging

**ASSERTION AND REASON TYPE:**

Select the suitable option from the following to answer questions from 7 to 11

- (a) Both Assertion (A) and Reason (R) are true.
- (b) Both Assertion (A) and Reason (R) are false.
- (c) Assertion (A) is true and Reason (R) is false.
- (d) Assertion (A) is false and Reason(R) is true.

- 7 Assertion (A). Financial market mobilises savings into most productive uses.  
 Reason (R). Financial market provides choice of different investment avenues to savers, which helps them to mobilise surplus funds to most productive uses.
- 8 Assertion (A). Money market deals with instruments having maturity period more than one year.  
 Reason (R). money market instruments can be used to meet working capital requirements.

- 9 Assertion (A). Capital market facilitates the process of economic development.  
Reason (R). Capital market directly helps in capital formation, which is vital for the economic development.
- 10 Assertion (A). Stock exchange provides ready market for the trading of existing securities.  
Reason (R). The presence of ready market provides liquidity and marketability to existing securities.
- 11 Assertion (A). The increase in investors population resulted in variety of trading malpractices by companies, stock market intermediaries etc.  
Reason (R). SEBI was established by Indian Government to prevent various trading malpractices.

### **VERY SHORT ANSWER TYPE QUESTIONS**

- 12 “SEBI is the watchdog of security market”. Comment on it
- 13 “Stock market promotes habits of savings and investments”. Explain.
- 14 Ankita is a company secretary in XYZ Ltd. From inside the company, she came to know that the company is going to acquire the business of some other companies. Ankita thinks that, due to the acquisition process, market price of the share may rise. Considering this, Ankita bought large number of shares of XYZ Ltd. This acquisition news was unknown to the public.
- Identify the malpractice used by Ankita.
  - Name the body which regulates such malpractices
- 15 Rohit holds 1500 shares of ABC Ltd. He likes to sell 750 shares out of total.
- Which market should be selected for selling those shares
  - How would the price be determined in the above market
- 16 Money market is essentially a market for working capital needs, discuss.

### **SHORT ANSWER TYPE QUESTIONS**

- 17 PQR Ltd. Wants to expand their business. They are in need of 100 crore rupees for this expansion process. Expansion project includes starting new product lines, establishing branches in different states, purchase of sophisticated technology etc. Management team is planning to raise the required amount from financial market. You have to help the management by answering following questions;
- Identify the mentioned need. Whether it is working capital requirement or long-term requirement?
  - Identify the market which can to meet the requirements of the company.
  - Point out any of the two features of the identified market.

- 18** Financial market plays a vital role in the allocation of limited resources in an economy by performing many significant functions. Explain three such functions.
- 19** Financial market is a mechanism for creation and exchange of financial assets. It connects the surplus (savers) unit of an economy with deficit unit (investors). By connecting, financial market channelizes funds to most productive avenues. Through stock exchanges, it also promotes easy trade of financial securities. Apart from that, stock exchanges also educate investors and prospective investors on many aspects related to capital market.
- a) Identify two functions performed by financial market from the above passage  
b) Explain two functions of stock exchange, other than those mentioned in the above paragraph
- 20** Supriya's grandmother who was unwell, called her and gave her a gift packet. Supriya opened the packet and saw many crumpled share certificates inside. Her grandmother told her that they had been left behind by her late grandfather. As no trading is now done in physical form, Supriya wants to know the process by adopting which she is in a position to deal with these certificates.
- A. Identify and state the process.  
B. State two reasons due to which the share is not traded physically?
- 21** SEBI conducts workshop sessions to the intermediaries about the changes happening in the stock market. SEBI always stands for the development of various market participants. It conducts researches on "innovations happening in the area of stock market". They publish the findings of such researches through journals. That helps market participants to gain useful information.
- a) Identify the major function performed by SEBI  
b) Point out the sub functions by quoting the lines

### **LONG ANSWER TYPE QUESTIONS**

- 22** Anmol works as a sales executive in an Automobile company in Delhi. While helping a customer in the sales process he overhears him at the table saying that the he has made huge profits by investing in stock market. That made Anmol to think about "channelising his surplus savings to stock market". He is totally unaware of the trading processes related to stock exchange.
- Imagine that you are a stock market consultant and help Anmol to understand the steps involved in the trading process of securities.
- 23** After doing a course in stock trading, Madhav downloaded one trading app from the google play store and he started trading securities. That helped him to earn sufficient

profits. Adwaith, a friend of Madhav, having lot of money in his pocket is finding difficulty in appreciating the money. Madhav suggested Adwaith to open a Demat account with any of the stock broker. An Initial Public Offer (fresh issue of securities for the first time) of a blue-chip company was on the way. Madhav wanted to invest in that. As Adwaith was not that much confident, he decided to buy some existing securities from the stock market. In the context above case:

- (a) Identify the two different types of capital market being referred to by quoting lines from the para.
- (b) State any four differences between the two types of capital markets as identified

**24.** JKL Ltd, a well-known steel manufacturing company has managed to capture major market share in this sector. Recently, it was found out that the directors of the company have tried to manipulate the price of its securities, in order to attract investment from the general public. Through investigation, that fraud was detected by SEBI. SEBI is considering action against these directors.

- a) Name the malpractice done by the directors of this company.
- b) Mention other functions of SEBI under same category.

**25.** Ms. Ananya had lost her physical share certificates of LKG Ltd while travelling in a transport bus. After a long time, she was able to trace out her lost certificates. Now she is facing difficulties in selling those shares. One of her friends suggested to convert those physical certificates into electronic format. Friend had an opinion that “it would be easy to convert electronic securities into cash”. On the basis of the above discussion, answer the following questions;

- a) Name the account which is opened to convert physical securities into electronic form
- b) With whom will she have to open this account?
- c) Which are the two major organizations, in India, who keep securities in electronic form?

**26.** STV Ltd issued prospectus for the subscription of its shares for Rs.1 crore in 2024. The issue was oversubscribed by ten times. The company issued shares to all applicants on pro-rata basis. During an inspection, SEBI found out that the company used some misleading statement in its prospectus. SEBI imposed a penalty on STV Ltd. Also banned three of the directors from dealing in security market for next five years. Identify the major function performed by SEBI in this case.

### **ANSWER KEY**

#### 1. Money Market

2. Primary Market
3. Dematerialization
4. Demat Account
5. 1992
6. 1(iv) 2(v) 3(ii) 4(iii) 5(i)
7. (a) Both Assertion (A) and Reason (R) are true.
8. (d) Assertion (A) is false and Reason(R) is true.
9. Both Assertion (A) and Reason (R) are true.
- 10.Both Assertion (A) and Reason (R) are true.
- 11.Both Assertion (A) and Reason (R) are true.
- 12.SEBI ensures investor protection and conduct market surveillance
- 13.Attractive opportunities of investment in stock market encourages savings
- 14.a) Insider trading and b) SEBI
- 15.a) Secondary Market and b) Market forces, that is demand and supply
- 16.Money market helps to raise short term funds
- 17.a) Long-term needs b) Capital market c) State two features of capital market
- 18.Mention any three functions of financial market
- 19.a) Mobilizing savings into investment and capital formation b) Pricing of securities, safety of transactions etc.
- 20.a) Dematerialization and b) Theft, Forgery etc.
- 21.a) Developmental function b) List out various developmental functions performed by SEBI by quoting the lines from the passage
- 22.Explain various steps involved in the trading process of securities
- 23.Primary market and secondary market. Point out five differences between primary market and secondary market
- 24.a) Price rigging b) Explain protective functions
- 25.a) Demat account b) Depository Participants/ stock brokers  
c) NSDL and CDSL
- 26.Protective function and list out various protective functions performed by SEBI

## CHAPTER 11 MARKETING MANAGEMENT

### **Introduction :**

Marketing management is an important functional area of business.- It is the process of planning, organising, directing and controlling the activities related to marketing of goods and services to satisfy customers needs & achieve organisational goals.

### **Market :**

In the traditional sense, the market means a place where buyers & sellers gather to enter into transaction involving the exchange of goods & services. But in modern sense, market refers to meeting of buyers and sellers at a place, by telephone or by internet etc.

### **Marketing :**

Marketing is a social process whereby people exchange goods & services for money or for something of value to them. Any thing that is of value to the other can be marketed e.g.

1. Physical Products - T.V. Mobile phone etc.
2. Services - Insurance, education etc.
3. Person - Selection for different posts.
4. Place - Agra Taj Mahal , etc.

### **Features of Marketing :-**

1. **Need and want** : Satisfaction of the needs and wants of individuals and organisations.
2. **Creating a market offering** : Complete offer for a product of service.
3. **Customer value** : greatest benefit or value for the money.
4. **Exchange mechanism** : Exchange of products / services for money / value.

## **MARKETING MANAGEMENT PHILOSOPHIES**

1. **Production Concept**: - Some companies believe that it is easy to sell the products when products are inexpensive and are easily available. So the firms following production concept focus on lowering the cost of production by means of mass production and distribution but the drawback of this concept is that customers don't always buy products which are inexpensive and available.

*Main Focus: Large-scale production to decrease the cost.*

2. **Product concept**:- Product concept stresses on quality of production rather than quantity of production. Product improvement is considered the key to success under it.

*Main Focus: Good quality, added features in product.*

3. **Selling Concept**:- Selling concept believes that in order to make a customer buy a product he or she need to be convinced and customers can be convinced by undertaking some aggressive selling and promotional efforts.

*Main Focus: To sell whatever is produced by using intensive promotional technique.*



4. **Marketing Concept:** - Marketing concept concentrates on the need of the customers. The concept says that product should be designed and produced keeping in mind the need of the customer and try to satisfy the need better than the competitor's product.

*Main Focus: Customer satisfaction.*

5. **Societal Marketing concept:** - Marketing concept is satisfying the needs of customers in the best possible manner but then also it has attracted criticism from people who are concerned about society and environment. They argue that companies should not blindly follow the goal of customer satisfaction.

*Main Focus: Customer satisfaction with in ethical and ecological boundaries of our society.*

### Comparison between various marketing philosophies

Philosophies	Production concept	Product concept	Selling concept	Marketing concept	Societal marketing concept
Basis					
Starting point	Factory	Factory	Factory	Market	Market, Society
Focus	Quantity	Quality	Existing product	Customer needs	Customer needs and welfare of society
Means	Availability of products and affordable prices	Product improvement through better quality	Selling and promotional measures	Integrated marketing (Selling of satisfaction rather selling a product)	Integrated marketing
Ends	Profit through volume of production	Profit through quality products	Profit through sales volume	Profit through customer satisfaction	Profit through customer satisfaction and welfare of society

### FUNCTIONS OF MARKETING:

1) **Gathering and Analyzing Market Information:** One of the important functions of a marketer is to gather and analyze market information to identify the needs of the customers. For example: Rapid growth in several areas such as the use of the internet, the market of cell phones, etc.

#### 2) Marketing Planning

Marketing helps to develop appropriate marketing plans to achieve the marketing objectives of the organization. For example: A marketer of LED televisions, having 10% of the current market share, aims at enhancing his/her market share to 20% in the next 2 years.

#### 3) Product Design and Development

Marketing activity relates to designing and developing the product in such a way that it attracts the target customer. For example: When a person plans to buy any product, say

a car, he not only sees its features like price, mileage, etc. but also the design aspect like its shape, style, etc.

#### **4) Standardization and Grading**

Standardization refers to producing goods of pre-determined specifications, which helps in achieving uniformity and consistency in the output.

Grading is the process of classification of products into different groups, based do their important characteristics such as quality, size, etc.

#### **5) Packaging and Labelling**

Packaging refers to designing and developing the package for the products. Labelling refers to designing and developing the label to be put on the package. The label may vary from a simple tag to complex graphics.

#### **6) Branding**

The process of giving a name or a sign or a symbol, etc., to a product is called branding. Various items related to branding are brand, brand name, brand mark, trademark.

#### **7) Pricing of Products**

The price of a product refers to the amount of money customers have to pay to obtain a product. It affects the success or failure of a product in the market.

#### **8) Promotion**

It involves informing the customers about the firm's product, its features, etc., and persuading them to purchase these products. The four important methods of promotion include advertising, personal selling, sales promotion, and public relations.

#### **9) Physical Distribution**

It is an important function in the marketing of goods and services. Under this decision regarding channels of distribution, marketing intermediaries (like wholesalers, and retailers) are to be used.

#### **10) Transportation**

It involves the physical movement of goods from one place to the other.

#### **11) Storage or Warehousing**

Usually, there is a time gap between the production and procurement of goods and their sale or use. Therefore, to maintain a smooth flow of products in the market, there is a need for proper storage of the products.

#### **12) Customer Support Services**

The function of marketing relates to developing customer services such as after-sale services, handling customer complaints, maintenance services, etc.

### **MARKETING MIX**

The marketing mix refers to the ingredients or the tools or variables that the marketer mixes in order to interact with a particular market.

It can be classified into four types: 1.Product 2. Price 3. Place 4.Promotion



## 1. **PRODUCT**

**PRODUCT MIX:** The product mix refers to important decisions related to product. It includes product quality, design, and development, packaging, labelling, branding, etc. For example, Hindustan Liver is dealing with soaps, detergents, tea, toothpaste, etc.

**I BRANDING:** Branding is identified as a process of giving meaning to a specific organization, company, product, or service by creating and designing an impact in the minds of the consumers.

### **Various terms relating to Banding:**

**Generic Name:** It means the name of whole class of a product. E.g., soap, book etc.

**Brand:** A brand is a name, term, sign, symbol, design or some combination of them used to identify the products. E.g., Ariel, Surf excel, Parker, etc.

**Brand Name:** The part of the brand which can be spoken. E.g. Asian Paints, Maggie

**Brand Mark:** It appears in the form of symbol, design. E.g., Gattu of Asian paints, Symbol of LIC, Blue and red ball of Pepsi, Tick sign of Nike.

**Trade Mark:** A brand or part of a brand that is given legal protection is called trade mark.

**II PACKAGING:** Act of designing and producing the container or wrapper of a product. Good packaging often helps in selling the product so it is called a silent salesman.

### **Levels of Packaging:**

1. **Primary Package:** It refers to the product's immediate container of product till it is used. For example, tube of paste, match box.
2. **Secondary Packaging:** These are additional packing which give more protection. For example, card board box used to keep tooth paste, shaving cream etc.
3. **Transportation Packaging:** These are packaging used for storing or transporting the goods. For example, corrugated boxes used to transport tooth paste, etc.

## **III LABELLING**

Labelling is the process of designing label and putting it on the package to provide information regarding the product, its content, method of use etc.

Label performs following functions:-

- (a) It helps in describing the product and specify its contents.
- (b) It helps in identify the product among all products.
- (c) It helps in grading the product.
- (d) It helps in promoting sales

(f) It helps in providing information required by law/legal requirement.

## **2. PRICE**

**PRICE MIX:** Price mix refers to important decisions related to fixing of price of a commodity.

### **FACTORS AFFECTING PRICE DETERMINATION:**

- 1. Product cost:** This includes the cost of producing, distributing and selling the product. The price of the product must be able to cover the total cost of the product. Total cost means Fixed cost and Variable cost.
- 2. The utility and demand:** The utility provided by the product and intensity of demand sets the upper limit of price, which a buyer would be prepared to pay.
- 3. Extent of competition in the market:** When competition is more, then the price is fixed keeping in mind the price of competitors' products.
- 4. Government and legal regulations:** To protect the interest of general public, the government has all the right to control the prices of various products especially in case of food items, drugs, LPG etc.
- 5. Pricing objectives:** If the objective of company is profit maximization, then generally high price is fixed. If the objective of company is sales maximization, it will prefer low price to increase sale and capture big market share.
- 6. Marketing methods used:** Price fixation is also affected by the various techniques of marketing methods e.g., distribution system, quality of advertising, the type of packaging etc.

## **3. PHYSICAL DISTRIBUTION (PLACE)**

It is a process by which the goods are transferred from the place of production to place of consumption. There are two important decisions relation to this aspect.

(I) Channels of Distribution

(II) Physical Distribution

### **(I) Channels of distribution**

Channels of distribution are firms and individuals who help in transferring goods from place of manufacturing to place of consumption.

### **Types of channels:**

**DIRECT CHANNEL** (Zero level channel): It means making goods available to consumers directly by the manufacturers e.g., selling through own retail outlets, door to door selling, mail order selling, internet selling.

### **INDIRECT CHANNEL:**

**One level channel: (Manufacturer-Retailer-Customer)**

**Two level channels: (Manufacturer-wholesaler-Retailer-customer)**

**Three level channels: (Manufacturer-Agent-wholesaler-Retailer-customer)**

## TYPES OF CHANNELS:

(i) *Direct Channel (zero level)*



*Indirect Channel*

(ii) *One level Channel*



(iii) *Two level Channel*



(iv) *Three level Channel*



(II) **PHYSICAL DISTRIBUTION:** The physical handling and movement of goods from place of production to the place of distribution.

### Components of Physical distribution:

1. **Order Processing:** Order processing means the time and steps involved between taking order from customer and delivery of goods as per order.
2. **Transportation:** Transportation is the means of carrying goods from the place of production to the point of sale.
3. **Warehousing:** Warehousing refers to the act of storing and assorting the products in order to create time utility.
4. **Inventory Control:** The inventory needs to be maintained so that the goods can be supplied whenever demanded.

## PROMOTION



**I ADVERTISING:** Advertising can be defined as the paid form of non-personal presentation and promotion of idea, goods or services by an identified sponsor.

### Features of Advertising:

1. **Paid Form:** The sponsor has to pay for advertising, he has to bear a cost to communicate with customers.

2. **Impersonality:** There is no face-to-face contact between customers and advertiser.
3. **Identified sponsor:** Advertising is given by an identified company or firm or individual.

**II PERSONAL SELLING:** Personal selling involves face to face interaction between seller and buyer for the purpose of sale.

**III SALES PROMOTION:** Sales promotion refers to short term use of incentives or other promotional activities that stimulate the customer to buy the product. E.g., discounts, rebate, refunds, quantity gifts, lucky draw, product combination, usable benefit, 0% finance etc.

**IV PUBLIC RELATIONS:** Public relations involve a variety of programs designed to promote or protect a company's image and its individual products in the eyes of the public.

### **MULTIPLE CHOICE QUESTIONS (MCQs)**

- Q1 Which of these is true about marketing?  
 (a)Marketing is used to promote the product and services  
 (b)Marketing is concerned about the sales only  
 (c)Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.  
 (d)Marketing considers only the needs of the organization and not the society
- Q2 According to the modern marketing concept, which of the following statements is true?  
 (a) It refers to the group of people who do not have the ability but willingness to buy a particular product.  
 (b) It refers to only the set of people who have the purchasing power to buy a particular product.  
 (c) It refers to the set of actual and potential buyers for a product.  
 (d) It refers only to the people who show interest in a particular product.
- Q3 In order to get feedback about its recently launched immunity boosting ayurvedic medicine, Atulya limited conducted an online survey using a questionnaire, to gather customer views and opinions. Identify the marketing function being used by Atulya Limited:  
 (a) Standardisation (b) Product Designing  
 (c) Customer Support Service (d) Gathering and analyzing market information
- Q4 Which of the following statements does not reflect a condition to be satisfied for an exchange to take place?

- (a) Involvement of at least two parties- the buyer and the seller- is mandatory.
- (b) Each party should be capable of offering something of value to the other.
- (c) Exchange can take place if the buyers and sellers are not able to communicate with each other.
- (d) Each party should have freedom to accept or reject other party's offer.
- Q5 Sujhav Limited is a company dealing in various types of fire extinguishers. Considering the fact that people generally don't buy fire extinguishers, the company undertakes aggressive sales promotion efforts in order to create and maintain demand for the product. Identify the type of marketing philosophy being described in the given case,
- (a) Product concept      (b) Selling concept  
(c) Marketing concept      (d) Societal marketing concept
- Q6 Pragati Limited has chalked out an action plan in order to increase its market share in the international market by 20% in the next one year. The action plan contains the details about how the production levels will be increased, promotional activities will be carried out and so on. Identify the type of marketing function being described in the given lines.
- (a) Gathering and analysing market information      (b) Marketing planning  
(c) Product designing and development      (d) Packaging and labelling
- Q7 Statement I: For products requiring long term storage like agricultural products, the warehouses are located near to the market.  
Statement II: Higher the level of inventory, higher will be the level of service to customers but the cost of carrying the inventory will also be high.  
Choose the correct option from the following:
- a) Statement I is true and II is false  
b) Statement II is true and I is false  
c) Both the statements are true  
d) Both the statements are false
- Q8 Agile Limited has launched a new range of air conditioners in order to add value to the usability of the product. The new range of air conditioners have an inbuilt air purifier and are available in attractive colours. Identify the type of marketing philosophy being described in the above lines.
- (a) Product concept      (b) Production concept  
(c) Marketing concept      (d) Societal marketing concept
- Q9 Guneet went to a shop and expressed her desire to buy a copper water bottle only of Prestige company. Identify the component related to branding being described in the above case.
- (a) Trademark      (b) Generic name      (c) Brand name      (d) Brand mark

- Q10 Nuthan, a school bag manufacturer decided to improve the product for profit maximization and thus added a water bottle holder to the existing design. Identify the marketing management philosophy adopted by Nuthan.  
 (a) Product concept (b) Production concept.  
 (c) Selling concept (d) Marketing concept
- Q11 Ria refused to buy an insulated lunch box for Rs.1200 as she felt that the real worth of the product was much less than its monetary value. Identify the factor related to pricing decision being described in the given case.  
 (a) Cost of the product (b) The utility and demand  
 (c) Government and legal regulations (d) Pricing objectives
- Q12 In order to improve upon its competitive edge, Khushboo Limited has change the packaging of its hair care products. They are now available in a consumer-friendly design, which has a nozzle attached to the lid so that at the time of usage, the consumer doesn't need to open the cap of the bottle. Name the marketing function being explained in the given lines.  
 (a) Product designing and development (b) Customer support services  
 (c) Promotion (d) Physical distribution
- Q13 Gabbar is a wholesaler of food grains. He categorises his stock into different groups on the basis of their quality and also fixes up the prices accordingly. Identify the type of marketing function being mentioned in the given line.  
 (a) Physical distribution (b) Transportation  
 (c) Warehousing (d) Standardisation and grading
- Q14 Drishti Limited is a chain of trusted optical centres for prescription & fashion eyewear. It caters to affluent people with a range of premium sunglasses for men, women and kids. In order to raise the level of buyers' satisfaction, the company has decided to create a special section in each of its outlets for handling customer complaints and adjustment requirements. Identify the type of marketing function described in the given lines.  
 (a) Product designing and development (b) Customer support services  
 (c) Promotion (d) Physical distribution
- Q15 While reading the label of a pack of aluminium foil, Reshma discovered that the product was manufactured at Hyderabad but was available for sale in many states across the country. Identify the function of marketing which has made this possible.  
 (a) Physical distribution (b) Standardisation and grading  
 (c) Transportation (d) Warehousing
- Q16 Keeping in view the recent trends of sales regression, Sona Limited has decided to offer a flat 15% discount on all its products. Identify the related function of marketing being described in the given lines.  
 (a) Packaging and labelling (b) Branding



(c) Pricing

(d) Promotion

Q17 Within 2 years of its inception, ABC Limited has created a positive image about itself and its products in the eyes of general public by participating extensively in various social welfare programs. Identify the component of promotion mixing described in the given lines.

- (a) Advertising                      (b) Personal selling  
(c) Public relation                  (d) Sales promotion

Q18 In which of the following situations, a company will fix high price for its product?

- (a) When firm's objective is to obtain larger share of the market.  
(b) When the firm is facing difficulties in surviving in the market because of intense competition.  
(c) When the firm wants to cover high cost of Research and Development to attain product quality leadership.  
(d) When the firm wants to maximise its total profit in the long run.

Q 19 Match the following terms related to packaging :

i. Product immediate container	1. Packaging
ii. Packaging components necessary for storage	2. Primary packaging
iii. Act of designing the container or wrapper	3. Secondary packaging
iv. Additional layer of protection.	4. Transportation packaging

- (a) i-1 ,      ii-3 ,      iii-2 ,      iv-4  
(b) i-2 ,      ii-4 ,      iii-1 ,      iv-3  
(c) i-4 ,      ii-3 ,      iii-1 ,      iv-2  
(d) i-4 ,      ii-3 ,      iii-2 ,      iv-1

Q20 Match the following components of Physical distribution along with the objective met by them

- |                       |                  |
|-----------------------|------------------|
| i. order processing   | 1. Time utility  |
| ii. transportation    | 2. Cost Control  |
| iii. warehousing      | 3. Availability  |
| iv. Inventory Control | 4. Speedy orders |

- (a) i-4, ii-3, iii-1, iv-2  
(b) i-4, ii-2, iii-1, iv-3  
(c) i-1, ii-3, iii-4, iv-2  
(d) i-3, ii-4, iii-2, iv-1

## ANSWER KEY

### MCQ QUESTIONS

Q1	c	Q6	b	Q11	b	Q16	d
Q2	c	Q7	b	Q12	a	Q17	c
Q3	d	Q8	a	Q13	d	Q18	c
Q4	c	Q9	c	Q14	b	Q19	a
Q5	b	Q10	a	Q15	c	Q20	a

### Assertion-Reason -type questions

Select the suitable option from the following to answer questions from 1 to 10

- (a) Both (A) and (R) are true, and (R) is the correct explanation of (A)
- (b) Both (A) and (R) are true, and (R) is not the correct explanation of (A)
- (c) (A) is true, but (R) is false
- (d) (A) is false, but (R) is true

<p>1. Assertion (A): That part of brand, which can be spoken is called a brand name. Reason(R): That part of brand which can be recognized but which is not utterable is called trademark</p>
<p>2. Assertion (A): Packaging is known as a silent salesman. Reasoning (R): Attractive and innovative package can attract a lot of customers to purchase the product.</p>
<p>3. Assertion (A): According to Marketing Concepts, products are bought because of their quality and other features. Reason (R): The marketing concept aims to find out the needs and requirements of customers and satisfying them in an effective manner.</p>
<p>4. Assertion(A): Labelling acts as a silent salesman Reason (R): It helps in the promotion of products by attracting the attention of customers and providing required information.</p>
<p>5. Assertion (A): Personal Selling reaches a limited number of people Reason (R): Personal Selling is highly flexible as the message can be adjusted.</p>
<p>6. Assertion (A): Main focus of the selling concept is to sell the existing product through aggressive selling and promotional efforts. Reason (R): Selling concept assumes that customers can be persuaded and manipulated to buy the products.</p>
<p>7. Assertion (A): A good design can improve the performance of a product and also give it a competitive advantage in the market. Reason (R): Standardisation is the process of classification of products into different groups, on the basis of some of its important characteristics such as quality, size, etc.</p>

8.Assertion (A): Customer support services are very effective in bringing repeat sales from the customers and developing brand loyalty for a product.

Reason (R): All these services aim at increasing the profit margin of the dealers, which is the key to marketing success in modern days.

**Assertion-Reason type Questions-ANSWER KEY**

Q1	c	Q6	a
Q2	a	Q7	c
Q3	d	Q8	c
Q4	a		
Q5	b		

**Case based MCQs**

I. Read the following text and answer question numbers 1-5 on the basis of the same:

Shah Ltd. started the product offering with ACs. They have now started to sell the appliances as well including audio systems, TVS, washing machines, water purifiers, etc. The company also handles complaints and offer after sale services. But later on it somehow ignored after sales services leading to a tarnished image of company. The top management quickly took the rectifying measures and protected as well as promoted the favourable image in the eyes of public. The company also started selling mixer-grinders. To ensure better protection these mixers were packed in a transparent polybag and then they were kept in a coloured cardboard box. All the packages of all the products of the company has following details:

- Price - Method of use – Caution - Manufacturer’s address-A yellow square with a blue circle outside it.

- 1 Which element of marketing mix is highlighted in the lines. “Shah Ltd started the product offering which ACs. They have now started to sell other appliances as well including audio systems. TVS, washing machines, water purifiers, etc. The company also handles complaints and offer after sale service”?  
(a) Product (b) Place (c) Price (d) Promotion
- 2 Which element of promotion mix is highlighted in the line, “The topmanagement quickly took the rectifying measures and protected as well as promoted the favourable image in eyes of public”?  
(a) Advertising (b) Sales Promotion (c) Public Relation (d) Both(b)and(c)
- 3 Colour cardboard box is an example of packaging.  
(a) Primary (b) Secondary (c) Transportation (d) Both(b)and(c)
- 4 Blue circle encircling a yellow square is an example of  
(a) Trademark (b) Brandmark (c) Brand name (d) Warning
- 5 Which of the following refers to that process of assigning a distinctive name or symbol of a product, by which it can be known, remembered and identified?  
(a) Labelling (b) Product mix (c) Packaging (d) Branding

II. Direction Read the following text and answer question numbers 6-10 on the basis of the same.

ABC Crackers Limited, a fire cracker manufacturing company, launched some new products on the eve of Diwali in the market, which attracted many buyers. To meet the increased demand, the company employed people to promote the products to each distributor, from the nearby villages. As the products were in great demand in the market, a competitor, A2Z Crackers Limited, imitated the products. The products of the competitor were not accepted by the consumers due to inferior quality, lack of relevant information, poor response from the customer support services wherever it was a status symbol to buy the products of ABC Crackers Limited because of their quality and responsible management.

6. Identify the product related decisions because of Which consumers preferred the products of ARC Crackers Limited.  
(a) Branding and labelling (b) Labelling and packaging  
(c) Branding and packaging (d) Branding, labelling and packaging
7. Which department of the company showed poor customers support services?  
(a) Marketing department (b) Public relations department

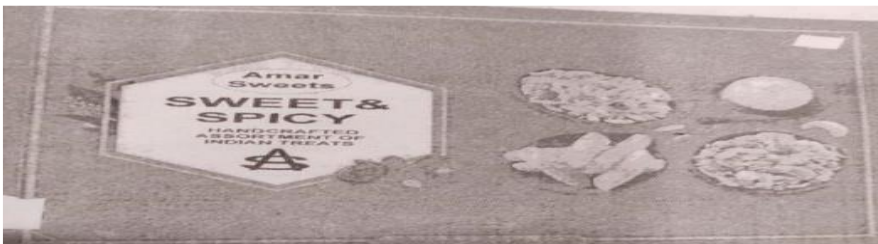
- (c) Production department (d) Sales department
8. “To meet the increased demand, the company employed people to promote the products to each distributor, from the nearby villages”. Which element of promotion mix is highlighted here?  
 (a) Advertisement (b) Personal selling  
 (c) Public relations (d) Sales promotion
9. Which combination of marketing philosophies have been adopted by ABC Crackers Limited and A2Z Crackers Limited respectively?  
 (a) Product and production (b) Product and selling  
 (c) Marketing and production (d) Selling and product
10. ‘ABC Crackers Ltd’, a fire cracker manufacturing company Diwali in the market which attracted many buyers.  
 Which of the following things is marketed here in above case.  
 (a) services (b) places (c) product (d) ideas

### Case Based Questions-ANSWER KEY

Q1	a	Q6	a
Q2	c	Q7	b
Q3	b	Q8	b
Q4	b	Q9	b
Q5	d	Q10	c

### Picture based Questions

- 1 Identify from the following what is depicted in the given picture:



- (a) Trade Mark only (b) Brand Name only  
 (c) Brand Mark only (d) Both Brand Name and Brand Mark
- 2 The picture given below depicts important information related to a decision that a marketer has to take in the area of product.

Manufacturing Date : 10/3/23	Organic Honey :	Quantity : 500 ml
Expiry Date : 10/3/25		No added sugar 100% pure
Max. Retail Price : ₹ 500		Manufacturer : Organic Agro products ----- Uttarakhand

Identify from the following the correct option:

- (a) Branding                      (b) Labelling  
(c) Packaging                      (d) None of the above

3 Identify the component of Promotion Mix.



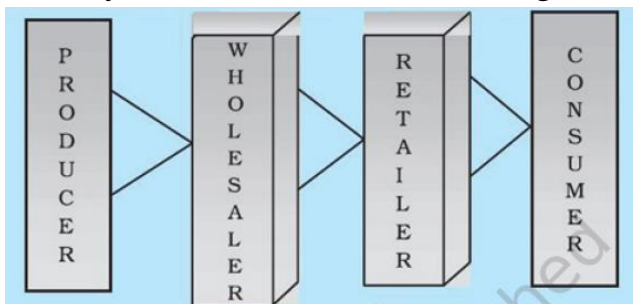
- (a) Advertising  
(b) Sales Promotion  
(c) Public relation  
(d) Personal selling

4 Identify the primary package from the following:

- (a)3                      (b)2                      (c) 1                      (d) 1 and 2



5 Identify the channel of distribution given below:



- a) one level  
b) two level  
c) three level  
d) four level

### Picture based questions-ANSWER KEY

Q1	d
Q2	b
Q3	b
Q4	c

**Short-Answer type questions**

- 1 What is meant by marketing? State any three functions of marketing.
- 2 Differentiate between 'Production concept' and 'Marketing concept' of marketing management philosophies on the basis of:  
(a) Meaning (b) Main focus (c) Means (d) Ends
- 3 'An important task in the marketing of goods relates to designing the label as it provides useful and detailed information about the product'. In the light of the above statement, draw a label for a liquid soap and highlight the important information to be provided on it.
- 4 Explain the following functions of marketing:  
(i) Customer support services (ii) Product designing and development
- 5 Explain 'Advertising' and 'Personal Selling' as tools of promotion used by the marketers.
- 6 Explain the four important elements of marketing mix
- 7 A company wants to increase the sales of its products. To do this the company is applying all tactics like informing the customers about its products, persuading them to buy these products, involving personal selling and promotional activities. The sales might pick up with these efforts but there is something more it is concerned about doing. The issue which is worrying the company is repeat purchase. For this, the company is taking interest in after sales services, maintenance services and providing useful information to the customers. With these efforts the real purpose of the company may get fulfilled. However, the company is avoiding one aspect which is related to the decision regarding channels of distributing products. The company doesn't have a well decided strategy for it. Which functions of marketing have been highlighted in the above case?
- 8 Explain the main components of physical distribution.

**Short-Answer type questions-answers**

- 1 Ans. Marketing is the sum total of all those activities which move goods and services from the producers to the consumers.

According to Philip Kotler, ‘Marketing is that social process by which individual and groups obtain what they need and want through creating offerings and freely exchanging products and services of value with others’.

The three main functions of marketing are :

- (i) Marketing planning
- (ii) Production designing and development .
- (iii) Pricing of products

2 ANS.

### Difference between Production Concept and Marketing Concept

Basis	Production concept	Marketing concept
(a) Meaning	It assumes that consumers would favour those products which are widely available at an affordable price.	It assumes that in the long run, an organisation can achieve its objective of maximization of profit by identifying the needs of the present and prospective buyers and satisfying them in an effective way.
(b) Main focus	Its focus is on Quantity produced.	Its focus is on satisfaction of Customer needs
(c) Means	It uses Availability and affordability of product as a means to achieve the objective	It uses Integrated marketing as a means to achieve the objective
(d) Ends	Its objective is to earn Profit through production volume	Its objective is to earn Profit through customer satisfaction

**Ans.** A label contains essential information about a product. Therefore, following are the important information to be provided on the label of liquid soap.



3



4 ANS.

(i) Customer support services

- Customer support services include after sales services, handling customer complaints and adjustments, procuring credit services, maintenance services, technical services and consumer information.

(ii) Product designing and development

- The design of the product contributes to making the product attractive to the target customers.

5 ANS:

Advertising : - Advertising is an impersonal form of communication, which is paid for by the marketers (sponsors) to promote some goods or service.

- The most common modes of advertising are 'newspapers', 'magazines', 'television', and 'radio'.

Personal Selling

- Personal selling involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. It is a personal form of communication.

- Companies appoint salespersons to contact prospective buyers and create awareness about the product and develop product preferences with the aim of making sale.

6 Ans: Four element product, price, place, promotion

7 Answer:

The functions of marketing highlighted in the above case are:

1.Promotion 2.Customer support services 3.Physical distribution..

8 Ans.

The main components of physical distribution are as follows:

1. Order Processing.                      2. Inventory Control  
3. Warehousing.                            4. Transportation

## Long Answer type Questions

1 Explain the following as functions of marketing:

(i) Marketing Planning

(ii) Product Designing and Development

(iii) Standardisation and Grading

- 2 'The important product related decisions include decisions about the packaging, labelling and branding of products.' Explain these important decisions.
- 3 Explain the following marketing philosophies:
  - (i) Product Philosophy
  - (ii) Production philosophy
  - (iii) Marketing Philosophy
- 4 'It is a social process by which individual groups obtain what they need and want through creating offerings and freely exchanging products and services of value with others,' Identify and state the process. Also explain any three of its features.
- 5 Explain any three elements of promotion mix.
- 6 Explain any three factors that affect the price determination of a product.
- 7 Explain different concepts/philosophies of marketing.

### Long Answer type Questions-Hints and answers

- 1 Ans. (i) Marketing Planning (ii) Product Designing and Development  
(iii) Standardisation and Grading
- 2 Packaging, labelling and Branding
- 3 ANS.  
(i) Product Philosophy :The Product philosophy focuses on continuous improvement in the quality of the product  
(ii) Production Philosophy: As per Production philosophy, profits can be maximised by producing at large scale, thereby, reducing the average cost of production  
(iii) Marketing Philosophy: According to Marketing philosophy, an organisation can achieve its objective of maximisation of profit by identifying the needs of its present and prospective buyers and satisfying them in an effective way.
- 4 ANS.  
Marketing: Marketing is a process whereby people exchange goods and services for money or for something of value to them.  
Features of marketing (any three):
  - 1) Needs and Wants
  - 2) Customer Value
  - 3) Creating a Market Offering
  - 4) Exchange Mechanism

- 5 Advertising, personal selling, sales promotion, public relation
- 6 ANS.  
Factors kept in Mind while Fixing the Price of the Product
  - 1) Price Objectives
  - 2) Product Cost
  - 3) Customer's Demand and Utility
  - 4) Extent of Competition in the Market
  - 5) Government and Legal Regulations
- 7 Production concept, product, selling, marketing and societal marketing concept

### Case study questions

- 1 Arushi successfully runs a bookstore 'Children's Delight' catering to children of the age group 5-15 years. They have the complete range of children's books like activity books, colouring books, fiction and much more. The books are of good quality and are highly appreciated by schools, parents and children. They have 16 stores all over India, where children can not only purchase the books, but can also come and read, and participate in quiz competitions and experience the joy of reading. They have their own well-managed inventory management, storage, and warehousing to deliver books to locations all over India. The bookstore regularly communicates the availability, features, merits, etc. of the books to target customers and persuades them to buy the books. Quoting lines in the situation, identify and explain the two elements of marketing mix in addition to 'Product' highlighted in the above case.

ANS.

(i) Place

*'They have 16 stores all over India'.*

OR

*'They have their own well-managed inventory management, storage, and warehousing to deliver books to locations all over India'.*

Place or Physical Distribution include activities that make firm's products available to the target customers.

The other decision areas relate to managing inventory, storage and warehousing and transportation of goods from the place it is produced to the place it is required by the buyers.

(ii) Promotion

*'The bookstore regularly communicates the availability, features, merits, etc. of the books to target customers and persuades them to buy the books'.*

Promotion of products and services include activities that communicate availability, features, merits, etc., of the products to the target customers and persuade them to buy it.

Most marketing organisations use number of tools such as advertising, personal selling and sales promotion techniques.

- 2 'Maharana' is a famous take-away food outlet in Meerut. It is quite popular among local people and travellers on the national highway. It offers a wide variety of 'paranthas' and 'sandwiches' packed in special containers which are designed and developed by them to keep the food hot and fresh. Considering the tough competition in the nearby area, the prices have been set reasonably low. The owner Nirmal Singh spends huge sums of money to put large hoardings and kiosks in the vicinity, to inform the people about the outlet's location and the special items on its menu. The firm is performing various marketing functions to achieve its marketing objectives. On the basis of the information given in the above case identify and explain any three marketing functions.

ANS:

Marketing Functions (any three):

- (i) Branding- Branding is the process of giving a name or sign or a symbol to a product which helps in identifying and distinguishing it from the competitor's products.
  - (ii) Packaging – Packaging refers to designing and developing the package for the products. It is important not only for protection of the products but also serves as a promotional tool.
  - (iii) Pricing of Product – Price of product refers to the amount of money customers have to pay to obtain a product. Generally, lower the price, higher would be demand for the product and vice versa.
  - (iv) Promotion – Promotion of products involves informing the customers about the firm's product, its features, etc. and persuading them to purchase these products. The methods of promotion include advertising, personal selling, public relations and sales promotion.
- 3 Best Electronics started manufacturing washing machines under the brand name 'Amaze'. Once the washing machines were manufactured, packaged, branded, priced and promoted, they had to be made available to the customers at the right place, in the right quantity and at the right time.' Best Electronics' provided for accurate and speedy processing of orders so that the washing machines reach the customers in time, in the right quantity and specifications. They also ensured that the washing machines are physically made available to the customers. Further, 'Best Electronics arranged for facilities to store the washing machines at different

locations near the market to minimize the charges on transportation. Explain any three components of physical distribution discussed in the above case.

Ans. The three components of Physical Distribution discussed in above case are:

(i) Order processing (ii) Transportation (iii) Warehousing

- 4 Q. 'Smart Watch Ltd.' is a watch manufacturing company marketing smart-watches for adults. The company now wants to manufacture smart-watches for children also. For this it gathered and analysed market information, did marketing planning, product designing and development, standardisation and also decided about the packaging, labelling, branding, pricing, warehousing, transportation and distribution of these smart-watches. Even after doing all the above stated activities the company is not picking up the sales. The Chief Executive Officer of the company asked the Marketing Manager to find out the reason. The Marketing Manager investigated the matter and found out that his marketing team had not performed the two important functions of marketing which may help the company not only in boosting the sales but also in getting repeat sales.

Identify and explain the functions of marketing which were not performed by the marketing team.

ANS.

Functions of Marketing not performed are:

(i) Customer Support services (ii) Promotion

- 5 'Stay Fit', a probiotic drink was launched in the market by Dabal India Ltd. and is available in various cities across the country. Doctors are recommending it as it is very useful for the stomach. The company is also using various tools to inform and persuade customers about its product. It has recently started free distribution of its samples to encourage the customers to know about its benefits to buy this probiotic drink in future. The company has also appointed a large number of salespersons, who contact the prospective buyers and communicate with them to make sales. This way, the company is able to develop personal rapport with its customers. In order to create awareness and to increase its popularity among school children, it also organises workshops for students and teachers. It also arranged visits of students and teachers to the factory to create awareness about the standards of hygiene adopted in processing and packaging, etc. This helps the company to build a positive image of its product in the society. This way the company is using a combination of communication tools to inform and persuade customers about their firm's product. Identify and explain these tools.

ANS. Tools used by the company to inform and persuade customers about their product are:

(i) Sales Promotion: (ii) Personal Selling: (iii) Public Relations:

6 Choco Ltd. offers a wide variety of chocolate products. It has an action program of not selling its products by their generic name but under different names like Choco-silk bar, Choco-Munchy and Choco-crunchy etc. for different customer segments. All these names have great popularity and acceptability in the markets. As the company policy the products were offered at reasonable and affordable prices for targeting a mass customer base.

During the festive season the company launched a massive promotional campaign to increase its revenue and achieve its communication objectives. The company introduced free gifts for the customers.

Their on-ground sales team delivers the product not only to the departmental stores but also to small shops, so that all segments of customers can easily get the products. They also provide information and support services to customers to ensure repeat sales.

From the viewpoint of the management function, briefly explain any four activities of marketing which the firm will be involved in, apart from the above-mentioned ones it's already performing.

ANS:

(Any four)

1. Gathering and analyzing market information:
2. Product designing and development:
3. Standardization:
4. Packaging and labelling-
5. Transportation-
6. Storage and warehousing.

7 The Research & Development department of Healthy Production Ltd. has decided to diversify from manufacturing health drinks to cereals made from millets. They are well aware of the fact that the company will have to communicate to the people the benefits of eating millets. For this purpose, they plan to sponsor various events like marathons and encourage people to switch to healthy eating through newsletters.

- a) Identify and briefly explain the promotional tool being discussed above.
- b) Also explain any two other promotional tool that can be used by the company, apart from the one discussed above.

ANS:

- a) Public relations- It involves variety of activities designed to promote or protect company's image & its individual products in the eyes of public
- b) Any two of the following are the promotional tools which may also be used:
  - i) Advertising
  - ii) Personal Selling

iii) Sales promotion

8 Q. Nisha, a school bag manufacturer, decided to improve the product for profit maximisation and thus, added a water bottle holder to the existing design.

(i) Identify the marketing management philosophy adopted by Nisha.

(ii) Explain this philosophy on the basis of (a) Main focus and (b) Means and ends

Ans. (i) Product concept or philosophy Firms which follow the product concept, propose that the way to realise business goals is by making high quality products. These firms manufacture the products of superior quality. Nisha is trying to bring improvement in quality, by incorporating a new feature, i.e. adding a water bottle holder in the bag.

(ii) (a) Main focus The main focus of this concept is to improve the quality of products. The marketers now believed that potential exchange would be realised when the products are of high quality. Thus, the firm now focused on making superior products and improving them overtime.

(b) Means Product improvement.

Ends Profit through improvement in product quality.

9 Ginika, Tanish and Rohit were friends from college days and now they are doing different kinds of business. They regularly meet and discuss their business ideas and exchange notes on customer satisfaction, marketing efforts, product designing, selling techniques, social concerns etc. In one of such meetings, Ginika drew the attention of Tanish and Rohit towards the exploitation of consumers. She told that most of the sellers were exploiting the consumers in various ways and were not paying attention towards the social, ethical and ecological aspects of marketing, whereas she was not doing so. Tanish told that they were under pressure to satisfy the consumers, but stated that the consumers would not buy or not buy enough unless they were adequately convinced and motivated for the same. Rohit stressed that a company cannot achieve its objectives without understanding the needs of the customers. It was the duty of the businessmen to keep consumer satisfaction in mind because business is run by the resources made available to them by the society. He further stated that he himself was taking into consideration the needs of the customers.

Identify the various types of thinking that guided Ginika, Tanish and Rohit in the marketing efforts of their business. Also, state one more feature of the various types of thinking identified that is not given in the above para.

ANS. Various types of thinking that guided the marketing efforts were:

Ginika – Societal marketing concept/ thinking/ philosophy.

Additional Feature. Societal marketing concept or philosophy aims at identifying the needs and wants of the target market and delivering the desired customer

satisfaction in an effective and efficient manner so that a business is able to take care of the long term well-being of the consumers and the society.

Tanish – Selling concept/thinking/philosophy.

Additional Feature. Firms following this philosophy undertake aggressive selling and promotional efforts to make customers buy their products.

Rohit – Marketing concept/ thinking/philosophy.

Additional Feature. Firms following this concept or thinking take all the decisions from the point of view of satisfaction of customers. It involves development of products for satisfying needs of the target market better than the competitors.



## CHAPTER 12

### CONSUMER PROTECTION

According to Consumer Protection Act 2019 "consumer" means any person who — buys any goods for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or partly paid or partly promised, or under any system of deferred payment.

#### IMPORTANCE OF CONSUMER PROTECTION

##### (A) From Consumers' point of view

1. **Consumers Ignorance:** Majority of consumers are not aware of their rights and reliefs available to them as a result of which they are continuously exploited. In order to save consumers from exploitation, consumer protection is needed.
2. **Unorganized Consumers:** In India consumers are still unorganized and there is lack of consumer organizations, which would act in their interests.
3. **Widespread Exploitation of Consumers:** Consumers are exploited on a large scale by means of various unfair trade practices and consumer protection is required to protect them from exploitation.

##### (B) From the point of view of Business

1. **Long term Business Interest:** It is always in the interest of the business to keep its customer satisfied. Global competition could be won only after satisfying customers. Satisfied customers lead to repeat sales and thus helps in increasing customer base of the business.
2. **Business uses Resources of Society:** Every business uses the resources of the society and thus it is their responsibility to work in the society's interest .
3. **Social Responsibility:** A business has social responsibilities towards various groups like owners, workers, government, customers etc. Thus, customers should be provided with quality goods at reasonable prices.
4. **Moral Justification:** It is the moral duty of any business to act in favour of consumer's interest & avoid any form of exploitation & unfair trade practices like defective & unsafe products, adulteration, false and misleading advertising, hoardings, black marketing etc.
5. **Government Intervention:** If a business engages in any form of unfair trade practices, then government takes action against it, which will adversely affect the goodwill of the company.

#### CONSUMER RIGHTS

1. **Right to Safety:** Consumer has the right to be protected against products, & services which are hazardous to health & life. E.g. ISI certification for electronic items.

2. **Right to be Informed:** Consumer has right to have complete information about the product before buying it.

3. **Right to be assured:** Consumer has a right to choose any product out of the available products as per his/ her own interests.

4. **Right to be heard:** Consumer has the right to file a complaint to be heard in case of dissatisfaction with goods or services (use of grievance cell).

5. **Right to Seek Redressal:** Consumer has the right to get relief in case the product or service falls short of consumers expectations or is dangerous. The consumer may be provided with replacement/removal of defect or compensation for any loss.

6. **Right to consumer education:** Consumer has the right to acquire knowledge and to be well informed throughout life. He should be made aware of his rights and reliefs available to him in case of the product or service falls short of his exceptions.

## **CONSUMER RESPONSIBILITIES**

1. Be aware about the various products available in the market so that an intelligent and wise choice can be made.

2. Buy only standardized goods as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewellery etc.

3. Follow instructions related to the product and learn about the risks associated with products, and use it safely.

4. Read labels carefully to gain information about prices, net weight, manufacturing and expiry dates, etc.

5. Assert yourself to ensure that you get a fair deal.

6. Be honest in your dealings.

7. Ask for a cash memo on purchase of goods or services.

8. File a complaint in an appropriate consumer forum in case of a shortcoming in the quality of goods purchased or services availed.

9. Form consumer societies which would play an active part in educating consumers and safeguarding their interests

10. Respect the environment. Avoid waste, littering and contributing to pollution.

## **REDRESSAL AGENCIES**

	<b>District Commission</b>	<b>State Commission</b>	<b>National Commission</b>
Set Up by	By state Govt.	By state Govt.	By central Govt.

Members	President = 1 other members =2 (at least one member should be a woman)	President =1 other members = 2  (At least one member should be woman)	president = 01 other members = 4  (At least one member should be woman)
Value of complaint (Direct appeal)	Upto Rs1 Crore	More than Rs. 1 crore and upto Rs. 10 Crore	More than Rs. 10crore
Complaint handling procedure	Receiving complaint →Information to opposite party → sending sample of goods to laboratory for test → If goods are defective → Appropriate redressal to aggrieved party in form of replacement, compensation etc.	Same procedure as in district commission	Same procedure as in District commission
Re-appeal	Within 45 days of decision to state commission	Within 30 days of decision to national commission	Within 30 days of decision to supreme court

### Who Can File A Complaint Under CPA, 2019

A complaint before the appropriate consumer forum can be made by:

- Any consumer.
- Any registered consumer association.
- The central or state government.
- One or more consumers on behalf of numerous consumers having same interest.
- A legal heir or representative of a deceased consumer.

### RELIEFS/REMEDIES AVAILABLE TO CONSUMERS

- To remove the defect in goods or services.
- To replace the defective product with new one free from defect.
- To refund the price paid for the product/service.
- To pay compensation for the loss or injury suffered by the consumer due to product/service.

- To pay punitive damages in appropriate circumstances.
- To discontinue the unfair trade practice and not to repeat them.
- Not to offer hazardous goods for sale.
- To withdraw the hazardous goods from sale.
- To cease manufacture of hazardous goods
- Compensate for any loss or injury suffered by consumer under product liability action and withdraw hazardous products from being offered for sale etc.

### **Role of Consumer organisations and NGO's**

- Educating the general public about consumer rights by organising training programmes, seminars and workshops.
- Publishing periodical & other publications to educate consumers.
- Providing legal assistance to consumers by providing legal advice etc.
- Carrying out comparative testing of consumer products in laboratories to test relative qualities of competing brands and publishing the test results.
- Filing complaints in appropriate consumer courts on behalf of consumers.
- Encouraging consumers to take on action against unfair trade practices.
- Taking an initiative in filing cases in consumer courts on behalf of consumers.

### **MULTIPLE CHOICE QUESTIONS**

- 1 Read the following statements: Assertion (A) and Reason (R). Choose the correct alternative from the options given below :

Assertion (A) : Many enlightened business firms have set up their own consumer service and grievance cells.

Reason (R) : The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or service.

(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true

- 2 From the following, identify the Incorrect Statement as per Consumer Protection Act, 2019:

(a) National Commission has territorial jurisdiction over the whole country for consumer protection.

(b) District Commission entertains complaints where value of goods or services paid as consideration does not exceed ₹1 crore.

(c) Appeal against District Commission's order can be filed in National Commission.

(d) District Commission and State Commission are set by the State Governments.

3 Which of the following consumer rights under Consumer Protection Act, 2019 gives the freedom to consumers to access variety of products at competitive prices?

(a) Right to be informed (b) Right to be assured/Right to choose

(c) Right to consumer education (d) Right to be heard

4 Aarushi purchased a pack of biscuits. When she opened it, she felt the biscuits were stale. She carefully read the label on the pack of biscuits which mentioned :  
“If you are not satisfied with the product quality, write to our Customer Care Cell at Bell Foods Pvt. Ltd. B/321, Jalandhar, Punjab.” The biscuit company has set up its own consumer service and grievance cell to promote and protect the following right :

(A)Right to Safety (B) Right to be Heard

(B)Right to be Informed (D) Right to Consumer Education

5 Read the following statements:

Assertion(A) and Reason(R) . Choose the correct option given below :

Assertion (A) According to Right to Choose, marketers should not force the consumer to buy a brand.

Reason (R) Every consumer has the right to choose from a variety of goods and services at competitive prices.

A)Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

B) Assertion (A) is False but Reason (R) is true

C) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

D)Assertion (A) is true but Reason (R) is False

6 Mohit filed a case against Domestic Collings Ltd in the District commission, but he was not satisfied with the orders of the district commission. Where can he appeal further against the decisions of district commission?

A) Cannot Apply (B) District court

B) State Commission (D) Supreme Court

7 Amrit filed a case against Volvo Ltd in the State Commission but he was not satisfied with the orders of the State Commission. Name the authority to which he can appeal against the decisions of State Commission.

A) District commission (B) National Commission

C) Supreme Court (D) None of the above

- 8 “Don’t purchase in haste’, this is an important  
a) consumer Responsibility (b) Right (c) Act (d) All the above
- 9 Archana is a pure vegetarian. She went to a popular food chain shop and asked for a packaged ‘Veg-Biryani’. While eating the same she noticed that it had some non-vegetarian content. Neither the advertisement, nor the label on the package showed that the product had non-vegetarian content. Name the consumer right under which Archana can claim for compensation as per the provisions of Consumer Protection Act, 2019.  
A) Right to safety      b)Right to seek redressal  
c)Right to information d) Right to choose

### **ANSWER MCQ QUESTIONS:**

**1 a; 2 c; 3b; 4b; 5a; 6c; 7b; 8a; 9b**

### **SHORT ANSWER QUESTIONS**

- 1 Anuj, after a lot of research, paid 'SS Developers' an advance of ₹ 2 crore to build a lavish house for him. They promised to deliver the property within 18 months. At the end of 18 months, Anuj asked for the delivery of the property many times but the developer did not respond. Anuj realized that 'SS Developers' was not in a position to hand over the property to him. Anuj asked for a refund of the money with interest, which 'SS Developers' refused. Anuj approached the consumer court with his complaint.
- (i) Which grievance redressal agency had Anuj approached?
- (ii) (ii) State any three reliefs Anuj is likely to get, if the consumer court is satisfied with the complaint.

Ans. (i) State Commission

(ii) Reliefs Anuj is likely to get, if the consumer court is satisfied with the complaint are: (Any three reliefs)

- 2 Prakhar purchased an ISI mark electric iron from Bharat Electricals. While using, he found that it was not working properly. He approached the seller and complained for the same. The seller satisfies Prakhar by saying that he will ask the manufacturer to replace this iron. The manufacturer refused to replace and Bharat Electricals decided to file a complaint in the consumer court. Can Bharat Electricals do this. Why? Also explain who can file a complaint as per CPA 2019.

Ans. Bharat Electricals cannot file a complaint. This is because Bharat

Electricals is not a consumer as per Consumer Protection Act, 2019 because they bought the goods for resale or for commercial purpose.

A complaint can be made by:

- Any consumer.
- Any registered consumer association.
- The central or state government.
- One or more consumers on behalf of numerous consumers having same interest.
- A legal heir or representative of a deceased consumer

3 Ankush bought a high-end microwave on Diwali from a leading electronic store. The microwave had ISI mark and Ankush diligently went through the instruction manual so that he could use it properly. However, due to faulty wiring there was a short circuit in the microwave. He called up the consumer helpline of the company many times, but no solution was provided by the company. Ankush now decided to file a case in the consumer court.

(a) Identify and explain the right which Ankush will exercise.

(b) State two responsibilities which Ankush had identification fulfilled while purchasing and using the microwave.

Ans: (a) Right to seek redressal

The consumer has a right to get relief in case the product or a service falls short of his expectations.

(b) Responsibilities which Ankush had fulfilled while responsibility purchasing and using the microwave.

(i) Buy only standardised goods as they provide quality assurance.

(ii) Learn about the risks associated with products and services, follow manufacturer's instructions and use the products safely.

4 How are consumer grievances redressed by the three-tier machinery under CPA, 2019? Explain.

Ans. The three-tier-machinery under CPA, 2019 consist of District commission ,State Commission and the National Commission. A consumer can file a case in District Commission if the value of goods and services along with the compensation claimed, does not exceed Rs 1 crores, in the State Commission if the value of goods and services along with the compensation claimed is over Rs 1 crore but less than Rs 10 crores, and in the National commission, if the value of goods and services along with the compensation claimed is above Rs 10 crores. On receiving the complaint, the District Commission/State Commission/National Commission shall refer the complaint to the party against whom the complaint is filed. If required, the goods or a sample, thereof, shall

be sent for testing in a laboratory. The court shall pass an order after considering the test report and hearing to the party against whom the complaint is filed.

- 5 Harish purchased a medicine from Bhatia Medical Stores for his son, who had high fever. Even after giving the medicine his son's condition did not improve and he had to be hospitalised. Doctor informed Harish that medicine given to his son was spurious. Harish complained about this to Bhatia Medical Stores. As-a result, Bhatia Medical Stores decided to file a complaint against the manufacturer in the consumer court. Can Bhatia Medical Stores do this? Give reason in support of your answer. Also, explain who is a consumer as per Consumer Protection Act, 2019.

Ans. 'Bhatia Medical Stores' cannot file a complaint against the manufacturer in the consumer court because Bhatia Medical Stores is not a consumer in this case. He is not a user but has obtained medicine for resale purpose/commercial purpose. Harish can file a complaint against the seller of medicines in the District commission.

- 6 State the role of consumer organisations and non-governmental organisations for the protection and promotion of consumers interests on the basis of any four points.
- 7 State any four reliefs available to the consumers if the consumer court is satisfied about the genuineness of the complaint.
- 8 Mention the quality mark which a consumer should look for while purchasing the following products:
- (i) Electrical goods; (ii) Jewellery; (iii) Agriculture products;  
(iv) Food products; (v) Environmental friendly products

Ans: (a) ISI Mark (b) Hallmark (c) Agmark  
(d) FPO mark (e) Eco mark

- 9 Anchal purchased a food processing machine for ₹10,000 from 'Kajal Machinery Pvt. Ltd.' She found that the machine was not working properly. Despite many complaints, the defect was not rectified by Kajal Machinery Pvt. Ltd.
- (a) Identify the consumer right that has been violated by Kajal Machinery Pvt. Ltd.
- (b) Suggest the appropriate forum where Anchal can file her complaint.
- (c) Can she appeal to the Supreme Court if she is not satisfied with the order of the appropriate forum? Give reason in support of your answer

Ans: Ans. (a) Right to be heard (b) District Commission.



c) Yes, because appeals from a District CDRC will be heard by the State CDRC. Appeals from the state CDRC will be heard by the National CDRC. Final appeal will lie before supreme Court

## LONG ANSWER QUESTIONS

1. State any five responsibilities of a consumer as per the Consumer Protection Act, 2019.
2. Besides a 'consumer', name the parties who can file a complaint before the appropriate consumer forum.
3. Sudha was having stomach ache. She approached a reputed nursing home for diagnosis. She was detected with stone problem and suggested to undergo surgery. During operation due to excessive anaesthesia she went to coma. The doctor blamed her medical to wash away his hands. Looking at her serious condition Sanjay, her husband was forced to sign papers taking all the responsibility for the outcomes. She was shifted to ICU. The ICU expenses were exorbitant. Soon, Sanjay was finding it difficult to find her ventilator and other medical expenses. He did not know whom to approach for negligence on the part of doctor. He tried to contact some of the NGOs. As the case has to be filed against the most reputed doctor and nursing home, nobody came forward to help him.

Explain the importance of consumer protection from the view of Sudha and Sanjay

Ans: Importance of consumer protection from consumers' point of view

4. Reena purchased one litre of pure Desi Ghee from a shopkeeper. After using it she had a doubt it is adulterated. She sent it for a laboratory test which confirmed that the Ghee is adulterated. State any six reliefs available to Reena, if she complains and the consumer court is satisfied about the genuineness of the complaint.

Ans: Any 6 reliefs

5. Kiran, Dev and Shan are three friends having their separate small manufacturing units in an industrial estate. They are hard-working and honest and undertake their production activities following the good practices of business. They use good quality raw materials and adopt standardised process. They fix the prices of their products with a reasonable profit margin. But all of them are worried about the malpractices like manufacturing sub-standard, duplicate and defective goods by the fellow manufacturers. Therefore, they decided to form an organisation with a constitution of its own which is free from government interference. This

organisation would encourage consumers to strongly protest and take action against unscrupulous, exploitative and unfair trade practices of sellers. State the functions performed by this organisation for the protection and promotion of consumer interest.

Ans: functions of consumer organisations and NGOs

6. Mrs. Jaison sent a jacket to a laundry shop. The jacket was purchased at a price of Rs.5,000. She had previously sent the jacket for dry cleaning with 'Angel Dry Cleaners' and the jacket was cleaned well. However, she noticed that her jacket had white discolouration marks when she collected the jacket at that time. On informing the fry cleaner, Mrs. Jaison received a letter confirming that discolouration indeed appeared after the jacket was dry cleaned. She contacted the dry cleaner multiple times and requested for compensation for discoloured jacket. She filed case in consumer court. Upon consumers court's intervention, 'Angel Dry Cleaners' agreed to compensate Rs. 3,000 to Mrs. Jaison for the discoloured jacket.

- a. which right was exercised by Mrs. Jaison at the first instance?
- b. Name and explain the right which helped Mrs. Jaison to avail the compensation.
- c. State the consumer responsibility has been fulfilled by Mrs. Jaison in the above case.

Ans; a. Right to be heard

- b. Right to seek redressal: The consumer has the right to get relief in case the product or service falls short of expectations.
- c. File a complaint in an appropriate consumer forum in case of shortcoming in the quality of goods purchased or services availed.

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**KENDRIYA VIDYALAYA SANGATHAN**

**SAMPLE QUESTION PAPER 1**

**BUSINESS STUDIES (054)**

**CLASS XII**

**Max Marks – 80 Time**

**allowed: 3 Hours**

General instructions:

1. This question paper contains 34 questions.
2. Marks are indicated against each question.
3. Answers should be brief and to the point.
4. Answers to the questions carrying 3 marks may be from 50 to 75 words.
5. Answers to the questions carrying 4 marks may be about 150 words.
6. Answers to the questions carrying 6 marks may be about 200 words. 7. Attempt all parts of the questions together.

Q1. A quiet digital revolution is reshaping the lives of farmers in remote Indian villages. In these villages, farmers grow soyabeans, wheat and coffee in small plots of land, as they have done for thousands of years. A typical village has no reliable electricity and has antiquated telephone lines. The farmers are largely illiterate and have never seen a computer. But farmers in these villages are conducting e-business through an initiative called E-Choupal, created by ITC, one of India's largest consumer product and agribusiness companies. The basic aim of the programme is to provide farmers in rural India with the opportunity to make use of a direct marketing channel eliminating multiple intermediation and wasteful handling and unnecessary transaction costs. It is the single-largest information technology-based intervention by a corporate entity in rural India, transforming the Indian farmer into a progressive knowledge-seeking citizen, enriching him with knowledge and elevating him to a new order of empowerment

Identify the objective of management highlighted in the above case (1 mark)

- (a) Organisational Objectives
- (b) Social objectives
- (c) Personnel objectives
- (d) Both Social and Personnel objectives

Q2. Taylor proposed eight specialists from whom each worker will have to take orders from as part of the technique of Functional Foremanship specified by him. Those with technical, mastery, intelligence and grit may be given\_\_\_\_\_ work. Those with energy and good health may be assigned\_\_\_\_\_ work  
(1 mark)

- (a) Planning, Execution

- (b) Execution, Planning
- (c) Production, Planning
- (d) Implementation, Production

Q3. Reema is working as a 'Production Manager' in a company manufacturing different types of products of milk. Now she is planning to launch packaged Kheer in packs of 250 grams for which she requires to reduce few lines of products which are not profitable. She knows that it will result in savings of cost of labour and machines.

Identify the technique of management applied by Reema in the above situation:

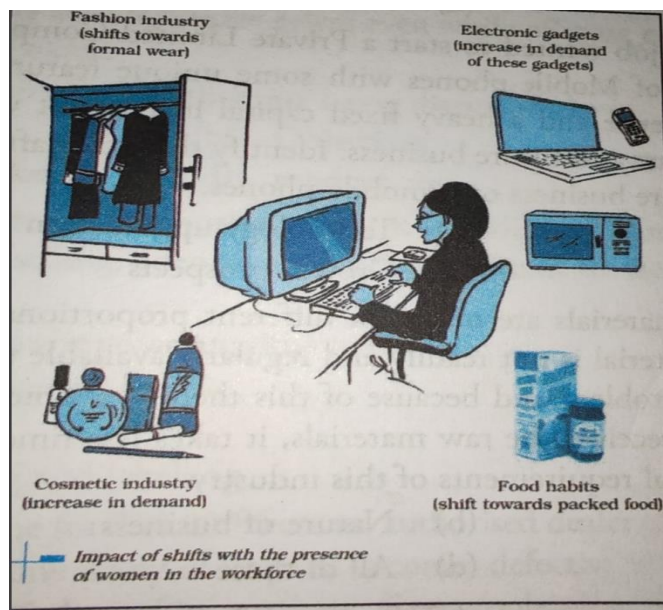
- (a) Motion study (1 mark)
- (b) Time study
- (c) Method study
- (d) Standardisation and simplification of work

Q4. Increased life expectancy of people and increased awareness for health care have increased the demand for many health products and services like soft drinks, fat-free cooking oil, and health resorts. New health products and services have, in turn, changed people's Lifestyles.

Identify the characteristic of the business environment which is highlighted above (1 mark)

- (a) Inter-relatedness
- (b) Dynamic nature
- (c) Uncertainty
- (d) Relativity

Q5. Identify the dimension of the business environment illustrated by the picture given below: (1mark)



- (a) Economic Environment

- (b) Social Environment
- (c) Technological Environment
- (d) Legal Environment

Q6. In an attempt to cope with Reliance Jio's onslaught in 2018, market leader Bharti Airtel has refreshed its ₹ 149 prepaid plan to offer 2 GB of 3G/4G data per day, twice the amount it offered earlier. Identify the type of plan is highlighted in the given example. (1mark)

- (a) Policy
- (b) Programme
- (c) strategy
- (d) Procedure

Q7. For the following statements, choose the correct option:

Statement I: Training is a job oriented process of learning new skills and application of knowledge

Statement II: Development is a career oriented process to enable the overall growth of the employee. (1 mark)

- (a) Statement I is correct and Statement II is not correct.
- (b) Statement II is correct and Statement I is not correct.
- (c) Both the Statements I and II are correct.
- (d) Both the Statements I and II are not correct.

Q8. Read the following statements-Assertion (A) and Reason (R):

Assertion (A): No organisation can fill all its vacancies from internal sources.

Reason (R): The existing staff may be insufficient or they may not fulfil the eligibility criteria of the jobs to be filled.

Select the correct alternative: (1 mark)

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A).
- (c) Assertion (A) is true and Reason (R) is false.
- (d) Assertion (A) is false and Reason (R) is true.

Q9. Joining a job marks the beginning of socialisation of the employee at the workplace. The employee is given a brief presentation about the company and is introduced to his superiors, subordinates and the colleagues. He is taken around the workplace and given the change of the job for which he has been selected. This process of familiarisation is very crucial and may have a lasting impact on his

decision to stay and on his job performance. Identify the two concepts of one functions of management highlighted above (1 mark)

- (a) placement and orientation
- (b) Training and Development
- (c) Performance Appraisal and Compensation
- (d) Promotion and Career Planning

Q10. Match the following and choose the correct option: (1mark)

<b>Standards to gauge performance</b>	<b>Functional areas of business</b>
<b>I. Labour relations, labour turnover, labour absenteeism, etc.</b>	A. Production
<b>II. Sales volume, sales expense, advertising expenditure, individual salesperson's performance, etc.</b>	B. Marketing
<b>III. Capital expenditure, inventories, flow of capital, liquidity, etc.</b>	C. Human resource management
<b>IV. Quantity, quality, cost, individual job performance, etc.</b>	D. Finance and accounting

- (a) I-A, II-B, III-C, IV-D
- (b) I-C, II-B, III-D, IV-A
- (c) I-C, II-B, III-A, IV-D
- (d) I-A, II-B, III-D, IV-C

Q11 Rizul Bhattacharya after leaving his job wanted to start a Private Limited Company with his son. His son was keen that the company may start manufacturing of Mobile phones with some unique features. Rizul Bhattacharya felt that the mobile- phones are prone to quick obsolescence and a heavy fixed capital investment would be required regularly in this business. Therefore he convinced his son to start a furniture business. Identify the factor affecting fixed capital requirements which made Rizul Bhattacharya to choose furniture business over mobile-phones. (1mark)

- (a) Financing alternatives
- (b) Technology upgradation
- (c) Level of collaboration

(d) Growth prospects

Q12 In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regularly available to the paint manufacturing companies. Bolner Paints Company is also facing this problem and because of this there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods. Identify the factor affecting the working capital requirements of this industry.

(1mark)

(a) Availability of raw materials

(b) Nature of business

(c) Production Cycle

(d) All of the above

Q13 'XY Ltd.' is registered with an authorised capital of 10 crore. The paid-up capital of the company is 6 crores. The company was facing shortage of funds. The management of the company decided to raise funds by issue of 1,00,000 equity shares of 100 each. The issue was fully subscribed. After this it was realised that the funds raised were in excess of the actual requirement. The concept which was not considered by the company before deciding the amount of funds to be raised is \_\_\_\_\_.

(1mark)

(a) Dividend decision

(b) Financial Planning

(c) Capital structure decision

(d) Financing decision

Q14 Higher dividend per share is associated with:

(1mark)

(a) high earnings, high cash flows, unstable earnings and higher growth opportunities

(b) high earnings, high cash flows, stable earnings and high growth opportunities

(c) high earnings, high cash flows, stable earnings and lower growth opportunities

(d) high earnings, low cash flows, stable earnings and lower growth opportunities

Q15 ABC Ltd. issued prospectus for the subscription of its shares for 500 crores in 2008. The issue was oversubscribed by 20 times. The company issued shares to all the applicants on pro-rata basis. Later SEBI inspected the prospectus and found some misleading statement about the management of the company in it. SEBI imposed a penalty of 5 crores and banned its three executive directors for dealing in securities market for three years. Identify the function and its type performed by

SEBI in the above case.

(1

mark)

(a) Undertaking measures to develop the capital markets by adapting a flexible approach - Development Function

(b) Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc

- Protection Function

(c) Controlling insider trading and imposing penalties for such practices - Protection Function

(d) Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries -

Regulatory Function

**Read the following text and answer question No.16-18 on the basis of the same:**

Yamuna Prasad, a small shopkeeper in Bikaner, Rajasthan used to sell the famous 'Bhujia-Sev'. It was a quick selling product for locals and foreign tourists. His second generation expanded the business and got 'Yamuna Ki Bhujia' registered with concerned authorities. Gradually the brand offered a wide range of products to its customers like namkeen, sweets, bakery items etc. However, 'Bhujia-Sev' remained the most popular product of the brand creating maximum revenue. 'Yamuna Ki Bhujia' offered its products at competitive prices even while offering customer services like gift packaging and free home delivery to become a household name. Now it has virtually become a synonym for bhujia-sev in the market, so much so, that people ask for 'Yamuna Ki Bhujia' instead of bhujia-sev. "Yamuna Ki Bhujia' has developed a strong distribution network in India and abroad by setting up retail outlets and reaching out to the customer through internet selling. Promotion of the brand had always been low profile, till the increase in competition pushed it to hire the services of a professional advertising agency, VIGYAPAN PVT.LTD for promoting the product. On the advice of VIGYAPAN PVT.LTD, 'Yamuna Ki Bhujia' has also worked upon managing public opinion by developing relations with the masses through sponsoring cultural and sporting events, maintenance of public parks etc.

Q16 'His second generation expanded the business and got 'Yamuna Ki Bhujia' registered with concerned authorities."

With reference to the given text 'Yamuna ki Bhujia' is a \_\_\_\_\_ giving it a legal protection against its use by anyone else. (1mark)

(a) Brand value

(b) Trademark

(c) Trait mark

(d) Brand mark



Q17 'Yamuna Ki Bhujia' offered its products at competitive prices even while offering customer services like gift packaging and free home delivery to become a household name.

Identify the factor affecting the element of marketing mix being discussed above.

(1 mark)

- (a) Marketing methods used
- (b) Objectives
- (c) Extent of competition in the market
- (d) product cost

Q18.'Yamuna Ki Bhujia' has developed a strong distribution network in India and abroad by setting up retail outlets and reaching out to the customer through internet selling. Identify the decision related to the element of marketing mix being discussed above (1mark)

- (a) Storing and assorting products in order to create time utility
- (b) Regarding the channels or using intermediaries
- (c) Both (a) & (b)
- (d) One regarding branding, packaging and labelling

Q19 Your mother purchased a washing machine for 10,000 from an authorised dealer of the manufacturer with an oral guarantee that the machine will be replaced with a new one if any of its parts becomes defective within 3 months from the date of purchase. The motor of the machine was burnt within 15 days of its purchase. On complaining, the seller refused to replace the machine. Name the redressal agency under the Consumer Protection Act where your mother can file the complaint (1

mark)

- (a) District commission
- (b) State commission
- (c) National commission
- (d) None of these

Q20. For the following statements, choose the correct option:

**Statement I:** National Commission has a jurisdiction to entertain complaints where value of goods or services paid as consideration exceeds ten crores of rupees.

**Statement II:** If any of the parties are not satisfied by the order of National Commission can appeal against such order to the Supreme Court of India within a period of thirty days of such order. (1mark)

- (a) Statement I is correct and Statement II is not correct.
- (b) Statement II is correct and Statement I is not correct.

(c) Both the Statements I and II are correct.

(d) Both the Statements I and II are not correct.

Q21. The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, ₹500 ₹1,000, were ceased to be legal tender except for a few specified purposes such as paying utility bills. This led to eighty six per cent of the money in circulation invalid. The people of India had to deposit the invalid currency in the banks which came along with the restrictions placed on cash withdrawals. In other words, restrictions were placed on the convertibility of domestic money and bank deposits. The aim was to curb corruption, counterfeiting the use of high denomination notes for illegal activities; and especially the accumulation of 'black money' generated by income that has not been declared to the tax authorities.  
(3 marks)

Q22. Merely allocating work is not enough. Each individual should also know who he has to take orders from and to whom he is accountable. The establishment of such clear relationships helps to create a hierarchal structure and helps in coordination amongst various departments.

Name and explain the logical steps involved in the process of one of the functions of management which are followed by a manager before performing the step highlighted above. (3marks)

OR

(b) Explain any three points of importance of the function of management by which the manager brings order out of chaos, removes conflict among people over work or responsibility sharing and creates an environment suitable for teamwork.

Q.23 (a) 'Beauty Products Ltd' is a natural and ethical beauty brand famous for offering organic beauty products for men and women. The company uses plant based materials for its products and is the No.1 beauty brand in the country. It not only satisfies its customers but also believes in overall protection of the planet. Identify and explain the marketing management philosophy being followed by 'Beauty Products Ltd.'

OR

(b) 'Various tools of communication are used by the marketers to promote their products.

(i) Why do companies use all tools at the same time?

(ii) Which tool of promotion will primarily be used for the following?

A. To promote or protect a company's image or its individual products.

B. An existing product meant for mass usage by literate people.

C. To introduce a new product to a particular class of people through door-to-door visits.

D. To attract attention of the people by using incentives. (3marks)

Q24. Identify the function of management that helps in verifying whether the standards set are accurate and objective or not. Explain briefly any two points highlighting the importance of this function of management

(3marks)

Q25. (a) An organisation is a system made up of different interlinked and interdependent subsystems. A manager has to link these diverse groups towards the achievement of a common goal. It is the common thread that runs through all activities such as purchase, production, sales, and finance to ensure continuity in the working of the organisation.

Identify and state the process highlighted above, and explain how it is the essence of management. (4marks)

OR

(b) Management is required not for itself but for achieving the goals of the organisation. The task of a manager is to give a common direction to the individual effort in achieving the overall goal of the organisation.

Explain any four reasons that make management so important, other than that highlighted above.

Q.26 A company wants to increase its market share from the present 10% to 25% to have a dominant position in the market by the end of the next financial year. Ms Rajni, the sales manager has been asked to prepare a proposal that will outline the options available for achieving this objective. Her report included the following options - entering new markets, expanding the product range offered to customers, using sales promotion techniques such as giving rebates, discounts or increasing the budget for advertising activities. Explain the next steps in the process of one of the functions of management highlighted above which will be performed by Ms Rajni after the step discussed in the above paragraph.

(4marks)

Q.27 A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown. Its business was very good till 1991. But after that, new liberalised environment has seen entry of many MNC's in the sector. With the result the market share of X limited has declined. The company had followed a very centralised business model with Directors and divisional heads making even minor decisions. Before 1991 this business model had served the company very well as consumers had no choice. But now the company is under pressure to reform.

(a) What organisation structure changes should the company bring about in order to retain its market share?

b) How will the changes suggested by you help the firm? State any three benefits. (4 marks)

(Keep in mind that the sector in which the company is FMCG.)

Q.28 In an interview with a leading news channel, Mr. Rakesh Kwatra, CEO of 'Get My Job' has suggested that the Companies which want more and more people to apply for jobs in their organisation should make the process of applying for jobs easier and candidate friendly. It is for this reason, he said, that most progressive companies today have a short application process. He also said that the application form filled by the candidate is very important as it is the information supplied in the application forms, which helps the manager in eliminating unqualified or unfit job seekers. The company create a mechanism that attempts to measure certain characteristics of individuals like aptitude, manual dexterity, and intelligence to personality. The candidate may then be called for an in-depth conversation to evaluate their suitability for the job.

(a) Name the process and steps in the process of identifying and choosing the best person out of a number of prospective candidates for a job discussed above.

(b) Also explain the next two steps in the process which can be subsequently performed by the company. (4mark)

Q.29 Aditya Khosla, the Managing Director of 'D.L.W. Ltd.' and Rajesh Puri, the Finance Manager were discussing about the avenues of investing the idle funds of the company. Aditya Khosa was of the opinion that money should be invested in the capital market whereas Rajesh Puri, being more conservative, feels that it would be better if the investment was made in money market.

Since the economy was buoyant, the Managing Director convinced Rajesh that they should take advantage of it and invest in the capital market to get good returns. Ultimately it was decided to invest the idle funds in the capital market.

(a) What kind of instruments should the company buy? (b) Why is the capital market expected to give a better return in a buoyant economy? State the reason.

(c) Why and how safe are the securities in this market as compared to money market? (4mark)

Q.30 (a) Explain how the 'District Commission' helps the consumers in redressing their grievances.

OR

(b) Give the meaning of a 'Consumer' as per the Consumer Protection Act. 2019. Also discuss when the 'State Commission' and 'National Commission' are helpful in redressing the grievances of consumers. (4mark)

Q.31 (a) "To see whether plans are being implemented and activities are performed according to schedule is also part of the planning process. Monitoring the plans is equally important to ensure that objectives are achieved." Name and explain briefly

the logical steps in the process of planning which are followed by a manager before performing the step highlighted in the above para.

OR

(b) Identify and explain the following types of plans and classify them into single-use plans and standing plans:

(i) A statement of expenses, revenue and income for a specified period.

(ii) It specifies the organisation's response to a certain situation.

(iii) It may consist of identifying steps, procedures required for opening a new department to deal with other minor work. (6mark)

Q.32 Agrima, Arunima and Avika are pursuing MBA from a reputed institution. Now it is the time of their placement.

Agrima wants to work in a company which would provide her more authority for fulfilling her duties and will give recognition, rewards, perquisites and prestige of job.

Arunima wants to work in an organisation in which behaviour of individuals is influenced by its characteristics like autonomy, reward orientation, consideration to employees, risk taking etc.

Avika wants to join the organisation which has appropriate skill development programmes and sound promotion policy that encourages employees to exhibit improved performance.

Identify and explain the incentives about which Agrima, Arunima and Avika are talking about. (6mark)

Q33 'Reliable Labs Ltd.' is a trusted name in diagnostic services with seven branches spread across the city of Pune. The directors of this company have projected that with the rise in health consciousness in the society and the rising burden of chronic diseases, the demand for diagnostic tests is expected to grow in future. Considering this, they decided to open branches of their diagnostic labs in Ahmedabad. It was estimated that it will require 100 crores of additional funds. The directors have to take the decision about how much funds should be raised from equity capital and how much from debt. It will affect the overall cost of capital and the financial risk of the company. (a) Identify and state the financial decision discussed in the above paragraph.

(b) State any five factors that should be kept in mind by the Board of Directors of 'Reliable Labs Ltd.', while taking the decision identified in above. (6 mark)

Q.34 Sahil is the Finance Manager of 'Knitwear Ltd'. The company is engaged in the manufacturing of woollen clothes. The demand of the company's products is seasonal whereas the production continues throughout the year. Due to the quality of its products, the company's business is spreading across the country. The

company is operating at a large scale having its regional offices in Northern, Southern, Eastern and Western India. The performance of its each division is of very high level. For uninterrupted availability of raw materials, the company requires high stock levels. Not only this, to face the competition and to meet the urgent orders of the customers, the company also needs enough stock of finished goods.

Considering the above discussion, explain any four factors affecting working capital requirements of 'Knitwear Ltd? (6 mark)

**KENDRIYA VIDYALAYA SANGATHAN  
ANSWER KEY**

**SAMPLE PAPER 1-BUSINESS STUDIES (054)**

ANSWERS / HINTS

1. (b)
2. (a)
3. (d)
4. (a)
5. (b)
6. (C)
7. (c)
8. (a)
9. (a)
- 10.(b)
- 11.(b)
- 12.(d)
- 13.(b)
- 14.(c)
- 15.(b)
- 16.(b)
- 17.(a)
- 18.(b)
- 19.(c)
- 20.(c)

21. Demonetisation

22. (a)Steps in the process of organising:

(I)Identification and division of work

(II) Departmentalisation

(III) Assignment of duties

(b) Importance of Organising

23. (a) Societal marketing concept (Explain)

(b) (i) The companies use all tools at the same time because of the nature of market, nature of product, promotion budget and objectives of promotion being different at different times.

(ii) The tools of promotion used are:

- A. Public Relations
- B. Advertisements
- C. Personal Selling
- D. Sales Promotion

24. Controlling

25. (a) Coordination

(b) Importance of management:

- (i) Management increases efficiency
- (ii) Management creates a dynamic organisation
- (iii) Management helps in achieving personal objectives

26. The next steps in the planning process are:

- (i) Evaluating alternative courses
- (ii) Selecting an alternative
- iii) Implementing the plan
- (iv) Follow-up action

27. Decentralisation

28. (a) Selection Steps in the process of selection

(1) Preliminary Screening

(2) Selection discussed: Tests

(3) Employment interview

(b) Next two steps: (1) Reference and background checks

(2) Selection Decision

(Explain)

29. (a) Shares, debentures, bonds

(b) Capital market is expected to give a better return in a buoyant economy as:

- (i) The securities are held for a longer duration
- (ii) There is a scope of earning capital gains on shares.

(c) Securities in capital market are riskier with respect to return and principal repayment. Issuing company may fail to perform as promoters may defraud investors.

30. (a)

District Commission' helps the consumers in redressing their grievances in the following manner:

- District commission has a jurisdiction to entertain complaints where value of goods or services paid as consideration does not exceed one crore rupees.
- It may direct the parties to give their consent for settlement of dispute through mediation within five days. In case the parties agree for settlement by mediation and give written consent, the District Commission refers the matter for mediation and the provisions relating to mediation shall apply. In the event of failure of settlement by mediation, it proceeds with the complaint. If the complaint alleges defect in goods which cannot be determined without proper analysis or test of goods, the commission obtains the sample of goods, seal it and refer to the appropriate authority for analysis. In case of services, the dispute is settled on the basis of evidence brought to its notice by the complainant and can ask for any required information document or records from the service provider for settlement.

(b) Meaning of consumer as per CPA 2012: (Explain)

State Commission is helpful in redressing:

- (I) Any complaint where value of goods and services paid as consideration exceeds one crore but does not exceed ten crore rupees.
- (II) Any appeal against the order of District Commission within a period of forty-five days from the date of passing of such order.

National Commission is helpful in redressing:

- (i) Any complaint where value of goods or services paid as consideration exceeds ten crores of rupees.
- (ii) Any appeal against the order of State Commission within a period of thirty days of passing of such order.

31. (a)

Steps in the planning process:

- (i) Setting Objectives
- (ii) Developing Premises
- (iii) Identifying alternative courses of action
- (iv) (Evaluating alternative courses
- (v) Selecting an alternative
- (vi) Implementing the plan

(b) (i) Budget (Single-use Plan)

(ii) Policy (Standing Plan)

(iii) Programme (Single-use Plan)

32. Agrima is talking about 'Status. Arunima is talking about

'Organizational climate. Avika is talking about "Career Advancement Opportunity.

33. Financing decision

34. Factors affecting working capital requirement (any four)

- (i) Nature of business



- (ii) Scale of operations
- (iii) Seasonal factors
- (iv) Availability of raw materials
- (v) Level of competition

**KENDRIYA VIDYALAYA SANGATHAN**

Business Studies (054)

Class: XII

Sample Paper - 2

Maximum Mark: 80

Time : 3 Hrs

**General Instructions:**


1. This question paper contains 34 questions.
2. Marks are indicated against each question.
3. Answers should be brief and to the point.
4. Answers to the question carrying 3 marks may be from 50 to 75 words.
5. Answers to the question carrying 4 marks may be about 150 words.
6. Answers to the question carrying 6 marks may be about 200 words.
7. Attempt all parts of the questions together.

1	<p>Kanishk is the CEO of ‘ Keravillayil Enterprises; one of the world’s most successful startup. He put his full effort to maintain his workforce highly motivated and enthusiastic, especially managers. He allows his group members work on their own tasks resolving issues themselves. He intervenes, but only to support them and supply them the required information to complete the task assigned. At the same time, the subordinate assumes responsibility for the work to be performed.</p> <p>Identify the leadership style adopted by Kanishk</p> <p>(A) Autocratic leadership style                      (B) Democratic leadership style</p> <p>(C) Free-rein leadership style                      (D) Both (A) and (B)</p>	1
2	<p>Sushand and his friend, Sanjay booked the movie tickets online and chose the seats as per their preference at the click of a button at the desired movie hall. Now going to theatre for booking of tickets is no longer required.</p> <p>The dimension of business environment reflected in the above para is :</p> <p>(A) Political environment                      (B) Social environment</p>	1

	(C) Legal environment environment	(D) Technological	
3	<p>Read the following statements : Assertion (A) and Reason (R). Choose the correct alternative from the options given below :</p> <p>Assertion (A) :Delegation is an optional policy decision and is done at discretion of top management.</p> <p>Reason (R) : No individual can perform all tasks on his own.</p> <p>Alternatives :</p> <p>(A) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion.</p> <p>(B) Both Assertion and Reason are true, but Reason (R) is not the correct explanation of Assertion.</p> <p>(C) Assertion is true, but Reason is false.</p> <p>(D) Assertion is false, but Reason is true.</p>		1
4	<p>_____ refers to doing the task correctly and with minimum cost.</p> <p>(A) Effectiveness (B) Coordination (C) Process (D) Efficiency</p>		
5	<p>The process of estimating fund requirements of a business and specifying the sources of funds is called :</p> <p>(A) Financial planning (B) Financial Intermediation (C) Allocative function (D) Capital budgeting</p>		1
6	<p>Chanel White Ltd. Purchased a hi-tech machine from Germany for manufacturing high quality auto components in a cost effective manner. But during the production process, the manager observed that the quality of production was not as per standard. On investigation it was found that there was lack of knowledge amongst the employees of using the hi- tech machine. Manager has arranged one workshop to the employees and engineers are invited from Germany.</p> <p>Which Concept is highlighted in the above paragraph.</p> <p>(A) Staffing (B) Training (B) Delegation (D) Development</p>		1
7	<p>Jono Fark was carrying on a business of manufacturing plastic disposables like plastic plates, plastic cups and plastic straws. She heard about the upcoming ban on single use plastics. She was able to identify this external environmental trend which could hinder her firm's performance. So she took action and shifted to manufacturing</p>		1

	<p>the plates, cups and straws from bamboo and palm leaves. As a result, her business not only survived but was able to generate profit. The point of importance of Business Environment highlighted above is :</p> <p>(A) It enables the firm to identify opportunities and getting the first mover advantage.</p> <p>(B) It helps the firm to identify threats and early warning signals.</p> <p>(C) It helps in tapping useful resources.</p> <p>(D) It helps in assisting in planning and policy formulation.</p>	
8	<p>Which of the following market deals in securities with maturity of less than one year?</p> <p>(A) Primary Market                      (B) Secondary Market</p> <p>(C) Money Market                      (D) Capital Market</p>	1
9	<p>Financial leverage is called favourable if :</p> <p>(A) Return on investment is lower than cost</p> <p>(B) ROI is higher than cost of debt</p> <p>(C) Debt is nearly available</p> <p>(D) If the degree of existing financial leverage is low</p>	1
10	<p>Statement I : SEBI was established to promote orderly and healthy growth of securities market.</p> <p>Statement II : Price Rigging refers to a practice, in which the insider uses the sensitive information about a company to make personal profits.</p> <p>Choose the correct option from the following :</p> <p>(A) Statement I is true and Statement II is false.</p> <p>(B) Statement II is true and Statement I is false.</p> <p>(C) Both the Statements are true.</p> <p>(D) Both the Statements are false</p>	1
11	<p>Choose the incorrect statement from the following:</p> <p>(A) Providing liquidity to securities is one of the functions of stock exchange.</p> <p>(B) Process of holding shares in electronic form is known as Dematerialisation.</p> <p>(C) Securities and Exchange Board of India perform the regulatory function of controlling insider trading and imposing penalties for such practice.</p> <p>(D) Capital market consists of Commercial banks, Development bank and stock exchanges.</p>	1

12	<p>Match the Marketing Management philosophies given in Column I with their main focus given in Column II :</p> <table border="1" data-bbox="300 228 1348 922"> <thead> <tr> <th data-bbox="300 228 782 280">Column I</th> <th data-bbox="782 228 1348 280">Column II</th> </tr> </thead> <tbody> <tr> <td data-bbox="300 280 782 392">1. Production concept</td> <td data-bbox="782 280 1348 392">(i) Focus on continuous improvement in the product quality.</td> </tr> <tr> <td data-bbox="300 392 782 504">2. Product concept</td> <td data-bbox="782 392 1348 504">(ii) Identify the potential customers and produce good accordingly</td> </tr> <tr> <td data-bbox="300 504 782 616">3. Marketing concept</td> <td data-bbox="782 504 1348 616">(iii) Take care of social, ethical and ecological aspects of marketing.</td> </tr> <tr> <td data-bbox="300 616 782 728">4. Societal marketing concept</td> <td data-bbox="782 616 1348 728">(iv) Persuades, motivates and convince customers to buy the product.</td> </tr> <tr> <td data-bbox="300 728 782 922">5. Selling concept</td> <td data-bbox="782 728 1348 922">(v) Ensures availability of goods at reasonable prices and at maximum places.</td> </tr> </tbody> </table> <p>Choose the correct option from the following:</p> <p>(A) 1-(i), 2-(ii), 3-(iii), 4-(iv),5-(v)  (B) 1-(v), 2-(i), 3-(ii), 4-(iii),5-(iv)  (C) 1-(iv), 2-(ii), 3-(i), 4-(v),5-(iii)  (D) 1-(ii), 2-(iv), 3-(v), 4-(iii),5-(i)</p>	Column I	Column II	1. Production concept	(i) Focus on continuous improvement in the product quality.	2. Product concept	(ii) Identify the potential customers and produce good accordingly	3. Marketing concept	(iii) Take care of social, ethical and ecological aspects of marketing.	4. Societal marketing concept	(iv) Persuades, motivates and convince customers to buy the product.	5. Selling concept	(v) Ensures availability of goods at reasonable prices and at maximum places.	1
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13	<p>Abhisree runs a fashion house wherein she designs dress. The business has been doing well and she intends to expand by diversifying into leather bags as well as western formal wear, and shoes thereby making her company a complete provider of corporate wear. This will enable her to market her business unit as the one shop for working women. Which type of structure would you recommend for the expanded organization.</p> <p>(A) Functional structure (B) Divisional structure  (C) Capital Structure (D) Formal structure</p>	1												
14	<p>The selection tests which are used to measure individuals potential for learning new skills are called :</p> <p>(A) Aptitude Tests (B) Intelligence Tests  (C) Personality Tests (D) Interest Tests</p>	1												
15	<p>The picture given below is the package of a Chocolate :</p>													

		1
	Identify the level of packaging of the box shown above : (A) Primary package (B) Secondary packaging (C) Transportation packaging (D) Both (A) and (B)	
16	Planning requires application of the mind involving foresight, intelligent imagination and sound judgement. The feature of planning reflected in the above lines is : (A) Planning is futuristic (B) Planning is continuous (C) Planning is pervasive (D) Planning is a mental exercise	1
17	Read the following statements : Assertion (A) and Reason (R). Choose the correct alternative from the options given below : Assertion (A) : According to right to choose, marketer should not force the consumer to buy a particular brand. Reason (R) : Every consumer has the right to choose from a variety of goods and services at a competitive price. (A) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion. (B) Both Assertion and Reason are true, but Reason (R) is not the correct explanation of Assertion. (C) Assertion is true, but Reason is false. (D) Assertion is false, but Reason is true.	1
18	Which of the following is not a factor that affects the determination of price of the product ? (A) Inventory control (B) Government and legal regulation (C) Extent of competition in the market (D) Production Cost	1
19	Ms. Anuradha, working as sales executive in STAR Ltd. Possess good marketing techniques. Her techniques involved oral presentation of messages in the form of conversation with	1

	<p>prospective customers for the purpose of making sales. The promotional tool used by Anuradha to induce the customer is :</p> <p>(A) Advertising (B) Personal selling (C) Sales promotion (D) Public relations</p>	
20	<p>‘Carbonix Electricals’ is led by its visionary Chief Executive Officer, Archa. It has a reputation for good quality products and customer service. Archa recognised the need to continually innovate and provide customers with the latest products. She wanted the company to be the market leader in electronics. Archa knew that to realise her ambitious vision, she needed a clear and well-defined plan that would provide broad contours of the company’s business. Her team conducted extensive market research to uncover emerging trends, customer preferences, and potential competitors. On its basis, a plan was prepared defining the company’s direction and scope in the long run. On the implementation of the plan ‘Carbonix Electricals’ became the market leader in two years. The type of plan which helped ‘Carbonix Electricals’ to become the market leader was :</p> <p>(A) Policy (B) Rule (C) Strategy (D) Procedure</p>	1
21	<p>A study of business environment is important for the success of the Organization. Explain any three importance of Business Environment.</p>	3
22	<p>Anand, after passing out of college with specialization in renewable energy, was determined to start a solar power plant. The venture required heavy investment in plant and machinery and less on manual labour. Anand invested in the latest solar panel technology and infrastructure and purchased the latest solar panels, inverters and battery storage systems.</p> <p>Despite the high risk and substantial investment, Anand’s business had good expansion possibilities. The world was increasingly moving towards clean energy solutions, and there was a growing demand for sustainable power sources. So, Anand decided to create a higher capacity to meet the anticipated demand quickly. This entailed further investment in fixed assets which Anand was able to arrange. As the years passed, the solar power plant did very well and played a pivotal role in the city’s transition towards a greener and more sustainable future.</p>	3

	Identify and explain the two factors affecting the fixed capital requirements discussed in the above case.	
23	State any three regulatory functions of Securities and Exchange Board of India.  OR Differentiate between 'Money Market' and 'Capital Market' on any three bases.	3
24	After the completion of Senior secondary examination Manohar left the school and started getting training under his father. His father, a renowned electrician, had worked for many companies. Every day he started accompanying his father on work and watched him carefully while working. Manohar was a good learner and he learned the techniques of work quickly. Now his father started passing on the tricks of the trade to Manohar. With the passage of time, Manohar acquired a high skill and become a well-known electrician. Big business houses started calling him for electrical wiring. (a) Name the method of training discussed in the above paragraph. (b) State any two benefits which Manohar could get on being trained.	3
25	Vanitha Public School had a vacancy of a maths teacher. They were looking for a smart and creative teacher having a drive for excellence. An advertisement was given with all leading dailies. Since the response was huge, the school examined all the application forms and rejected the candidates who did not have the necessary qualifications. Thereafter, a test was conducted to measure the existing skills of the candidates. After that it was followed by a formal in-depth conversation with the Principal of the school and panel of math experts. (a) Explain the steps that have been performed by Vanitha Public School in the process of Identifying and choosing the best candidate. (b) Give the name of the test which was conducted by the school	4
26	(a) State any four importance of management.  OR (b) State any four functions performed by Middle Level Management.	4
27	Differentiate between 'Delegation' and 'Decentralisation' on any four bases.	4
28	(a) Explain how the following factors affect the working capital requirement of a business :	

	<p>(i) Business Cycle (ii) Seasonal Factors</p> <p style="text-align: center;">OR</p> <p>Explain how the following factors affect the choice of capital structure of a company :</p> <p>(i) Risk Consideration. (ii) Stock Market Conditions</p>	4
29	<p>Parvathi Chemicals Ltd., a soap manufacturing company wanted to increase its market share from 30% to 55% in the long run. A recent report submitted by the Research &amp; Development Department of the company had predicted a growing trend of herbal and organic products. On the basis of this report the company decided to diversify into new variety of soaps with natural ingredients having benefits and fragrances of Jasmine, Rose, Lavender, Mogra, Lemon Grass, Greed Apple, Strawberry etc. The Unique Selling Proposition (USP) was to promote eco-friendly living in the contemporary lifestyle. The company decided to allocate Rs.30 crores to achieve the objective.</p> <p>(a) Identify the one of the functions of management mentioned above which will help the company to acquire dominant position in the market.</p> <p>(b) State any three importance of the function identified in point.</p>	4
30	<p>Nidhi had gone to a grocery store to make routine purchases. On reaching home, as she took out Binx tomato chips packet from the bag to give it to her son, she felt that it was underweight. She checked its weight on the kitchen weighing scale and found that it weighed 60 grams whereas the label on the chips packet mentioned the weight of the packet as 100 grams. She approached the manufacturer and complained about it. The manufacturer offered her a gift hamper and requested her not to disclose this to anyone. Nidhi refused to accept the gift hamper and took the issue to a redressal agency.</p> <p>(a) State two responsibilities discharged by Nidhi, as a consumer, in the above case.</p> <p>(b) State any two reliefs which can be granted to Nidhi, if the consumer court is satisfied with the genuineness of the complaint.</p>	4
31	<p>Rahul and Ankit are good friends. They decide to set up a digital printing press together as both of them are computer wizards. They plan to offer various types of printed products including labels, manuals, marketing material, memo pads, business order forms, T-</p>	



	<p>shirts, mugs etc. They set standards for every aspect of their work in order to create an efficient working environment. As per the standards, an average person types between 38 and 40 words per minute. Keeping this in mind, they engage two typists Britto and Raju and assign them work accordingly. Within two days, they realize the output in terms of typing work done by Raju is too less as compared to the desired output. On inspecting, Ankit finds out that Raju's typing speed is between 18 and 20 words per minute only. But Raju exhibits great skills in designing work and is a good human being. Hence, Rahul and Ankit decide to retain him for doing creative work and appoint a new typist.</p> <p>In context of the above case:</p> <p>(a) Identify and explain the function of management being discussed here.</p> <p>(b) Quoting lines from the above paragraph explain the steps involved in the function of management as identified in part (a).</p>	6
32	<p>(a) Explain the following principles of Scientific Management :</p> <p>(i) Science, Not Rule of Thumb</p> <p>(ii) Harmony, Not Discord</p> <p>(iii) Development of Each and Every Person to His or Her Greatest Efficiency and Prosperity</p> <p style="text-align: center;">OR</p> <p>(b) Explain the following points of significance of principles of management :</p> <p>(i) Providing managers with useful insights into reality</p> <p>(ii) Scientific decisions</p> <p>(iii) Fulfilling social responsibility</p>	6
33	<p>Gopiika was a student of Bachelor of Business administration. Her father was a farmer who grew different varieties of rice and was well-versed about various aspects of rice cultivation. He was also selected by the government for a pilot-project on rice cultivation. As a project-work in her studies she decided to study the feasibility of marketing good quality rice at a reasonable price. Her father suggested her to use internet to gather customers' views and opinions. She found that there was a huge demand for packaged organic rice. She knew that there were no predetermined specifications in the case of rice because of which it would be difficult to achieve uniformity in the output. To differentiate the product from its competitors, she gave it the name of</p>	6

	<p>‘Godavari Organic Rice’ and classified it into three different varieties namely– Topaz, Ruby and Emerald, based on the quality. She felt that these names would help her in product differentiation.</p> <p>Explain the three function of marketing, with reference to the above paragraph.</p>	
34	<p>(a) Give the meaning of ‘Training’. Explain the following methods of training :</p> <p>(i) Vestibule Training (ii) Internship Training</p> <p style="text-align: center;">OR</p> <p>(b) Explain any four points of importance of ‘Directing’ function of management.</p>	6

### KENDRIYA VIDYALAYA SANGATHAN

Business Studies (054)

Class: XII

Marking Scheme (Sample Paper – 2)

Maximum Mark: 80

Time : 3 Hrs

1	(C) Free-rein leadership style
2	(D) Technological environment
3	(D) Assertion is false, but Reason is true.
4	(D) Efficiency
5	(A) Financial planning.
6	(B) Training
7	(A) It enables the firm to identify opportunities and getting the first mover advantage.
8	(C) Money Market
9	(B) ROI is higher than cost of debt
10	(A) Statement I is true and Statement II is false.
11	(C) Securities and Exchange Board of India perform the regulatory function of controlling insider trading and imposing penalties for such practice.
12	(B) 1-(v), 2-(i), 3-(ii), 4-(iii),5-(iv)
13	(B) Divisional structure
14	(A) Aptitude Tests
15	(B) Secondary packaging

16	(D) Planning is a mental exercise
17	(A) Both Assertion and Reason are true and Reason (R) is the correct explanation of Assertion.
18	(A) Inventory control
19	(B) Personal selling
20	(C) Strategy
21	<p>1. It helps to the Identification of business opportunities and getting the first mover advantage – Identification of opportunities at an early stage will help the firm to exploit them without losing them to competitors. E.g., Maruthi Udyog Ltd. became the leader in the segment of small car market.</p> <p>2. It helps to Identifying threats and early warning signals – Environmental awareness helps the managers to identify various threats; it provides the business early warning signals to plan its future course of action. E.g., Entry of multinational companies in Indian market gave a warning signal for the domestic industries to make some preparations like cost reduction, improving quality, reducing wastages etc.</p> <p>3. It helps to Tapping useful resources – Environment provides various resources to the business-like materials, machinery, water, finance, electricity, labour etc.</p> <p>4. It helps to Coping with rapid changes – Business environment is highly dynamic such as change in market condition, technology, competition etc. To cope with these changes managers must be dynamic. This will be possible through proper environment scanning.</p> <p>5. It helps to Assisting in planning and policy formulation – Environment scanning gives vital information which can be taken as the basis for deciding future course of action (planning) or framing guidelines for decision making (policy formulation).</p> <p>6. It Helps in improving performance – Those enterprises which continuously monitor their environment and adopt suitable policies will improve their performance.</p>
22	<p>1. Choice of technique – Highly mechanized and automated industries require large amount of fixed capital. Anand selected the venture which required heavy investment in plant and machinery</p> <p>2. Growth prospects – Higher investment in fixed capital is necessary, if the organization is in the way of growth and expansion. Anand’s business had good expansion possibilities. The world was increasingly moving towards clean energy solutions, and there was a growing demand for sustainable power sources.</p>
23	<p>Regulatory functions:</p> <p>1. Registration of brokers and sub brokers in the market.</p>

2. Registration of investment schemes and Mutual Funds.
3. Regulates the functioning of share brokers, underwriters etc.
4. Regulation of takeover bids by companies.
5. Conducting enquiries and audits of stock exchanges.
6. Levying fee or other charges as specified by the Act.

OR

Money Market	Capital Market
<ol style="list-style-type: none"> <li>1. It is a market for short term instruments having a maturity period of less than one year</li> <li>2. It helps to meet the working capital needs.</li> <li>3. The instruments in money market are Bill of exchange, treasury bills, certificate of deposits, commercial papers etc.</li> <li>4. It is a wholesale market. The instruments have large face value.</li> <li>5. The central bank, commercial banks and other financial institutions take part in the market.</li> <li>6. Money market instruments do not have an active secondary market.</li> <li>7. Money market transactions normally take place over telephone and other ways.</li> <li>8. The market regulator is the central bank of the country. In India it is RBI.</li> </ol>	<ol style="list-style-type: none"> <li>1. It is for medium and long term instruments having maturity period of more than one year.</li> <li>2. It helps in meeting fixed capital needs.</li> <li>3. The instruments are equity shares, preference shares, debentures, bonds etc.</li> <li>4. It is a retail market where the instruments have small face value.</li> </ol> <p>Stock exchanges, Merchant banks, Issue houses and many financial intermediaries take part in the market.</p> <p>Capital market instruments have both primary and secondary markets.</p> <p>Capital market transactions normally take place at stock exchanges.</p> <p>There is a separate regulator in the capital market. In India it is SEBI.</p>

- 24 Apprenticeship training.: Under this, both knowledge and skills in doing a job are imparted. Here the trainee is put under the supervision of an experienced person in this field. This method is more suitable in electrical work, mining etc.
- Importance of training
1. Better career prospects through improvement in skills and knowledge.
  2. Higher earnings performance through better performance.
  3. Less accidents due to higher efficiency
  4. Increased employee morale and job satisfaction

- 25 (a)
1. Preliminary screening – A careful screening of applications is done by a screening committee to eliminate the under qualified candidates.

	<p>2. Selection Test – Tests are conducted to know the level of ability, knowledge, interest, aptitude etc. of a particular candidate.</p> <p>3. Employment Interview – Detailed interviews are undertaken to seek more information from the candidate. This gives the employer to observe the candidate and to assess his level of confidence to take up the job. Usually it is done by an expert interview board.</p> <p>(b) Trade Test – This test is conducted to check whether the candidate is suitable for that particular trade. For example, to select a driver, candidates’ knowledge and technical skill in driving are tested.</p>				
26	<p><b>Importance of Management</b></p> <p>Management is a universal activity that is integral to any organisation we now examine some of the reasons that have made management so important:</p> <ol style="list-style-type: none"> <li>1. Management helps in achieving group goals.</li> <li>2. Management increases efficiency.</li> <li>3. Management creates a dynamic organization.</li> <li>4. Management helps in achieving personal objectives.</li> <li>5. Management helps in the development of society.</li> </ol> <p style="text-align: center;">OR</p> <p><b>Middle Level Management:</b></p> <p>This level of management consists of different departmental heads. These managers receive orders and instructions from top level managers and pass them to their subordinates. They are responsible for executing the plans formulated by top management. This level consists of production manager, finance manager etc. This level acts as an intermediary between the top management and the lower level management.</p> <p><b>Functions:</b></p> <ol style="list-style-type: none"> <li>1. Maintain closer watch on day to day results.</li> <li>2. Participate in operating decisions.</li> <li>3. Implement the policy decisions made by the top management.</li> <li>4. Communicating policies of top level to the lower level.</li> <li>5. Planning the activities to be carried out by their own department.</li> <li>6. Directing the managers at the lower level.</li> <li>7. Evaluating the performance of departmental employees.</li> <li>8. Reporting to top level management.</li> <li>9. Co-operating with other departments to achieve organizational goals.</li> <li>10. Motivating and rewarding employees based on their performance.</li> </ol>				
27	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 25%; text-align: center;"><b>Basis</b></td> <td style="width: 25%; text-align: center;"><b>Delegation</b></td> <td style="width: 25%; text-align: center;"><b>Decentralisation</b></td> <td style="width: 25%;"></td> </tr> </table>	<b>Basis</b>	<b>Delegation</b>	<b>Decentralisation</b>	
<b>Basis</b>	<b>Delegation</b>	<b>Decentralisation</b>			

	Nature	Delegation is a compulsory act because no individual can perform all tasks on his own.	Decentralisation is an optional policy decision. It is done at the discretion of the top management.
	Freedom of action.	More control by superiors hence less freedom to take own decisions	Less control over executive's hence greater freedom of action.
	Status	It is a process followed to share tasks.	It is the result of the policy decision of the top management.
	Scope	It has narrow scope as it is limited to superior and his immediate subordinate.	It has wide scope as it implies extension of delegation to the lowest level of management.
	Purpose.	To lessen the burden of the manager	To increase the role of the subordinates in the organisation by giving them more autonomy.
28	<p><b>(i) Business Cycle</b> – Different phases of business cycle affect the requirement of working capital by a firm. In boom period, the production and sales will be larger and hence huge amount of working capital is required. But in case of depression, it will be less.</p> <p><b>(ii) Seasonal Factors</b> – Industries that produce and sell seasonal goods require large amount of working capital. During peak season the level of activity is high, leading to increased need of working capital as compared to the capital during lean period.</p> <p style="text-align: center;">OR</p> <p><b>(i) Risk Consideration</b> – A business has two types of risks; they are financial risk (to pay interest, preference dividend, repayment of debt etc.) and business risk (operating risk). It must be considered while choosing a suitable capital structure.</p> <p><b>(ii) Stock Market Conditions</b> – During depression in capital market, investors will prefer fixed interest bearing securities for safety and hence it is not advisable to issue shares that time. In a booming situation, issue of share will be more preferable.</p>		
29	Planning		

	<p>1. Planning provides direction – Planning provides direction for action. This ensures effective implementation of plans and direction of effort towards attainment of objectives. If you don't know where you are going, no road will take you there.</p> <p>2. Planning promotes innovation and creativity – Planning is a process of thinking in advance; there is a scope for finding better methods for productivity. This makes the managers innovative and creative.</p> <p>3. Planning establishes standards for control – Plans serve as standards for evaluation of performance. It will help to ensure proper control by comparing the actual performance with the standard performance.</p>
30	<p>(a)</p> <p>(i) Read labels carefully so as to have information about prices, net weight, manufacturing and expiry dates, etc.</p> <p>(ii) File a complaint in an appropriate consumer forum in case of a shortcoming in the quality of goods purchased or services availed.</p> <p>(b)</p> <p>(i) To replace the defective product with a new one, free from any defect.</p> <p>(ii) To refund the price paid for the product, or the charges paid for the service.</p> <p>(iii) To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to the negligence of the opposite party.</p>
31	<p>The functions of management identified in the above paragraph is Controlling.</p> <p>1. 'They set standards for every aspect.....' - Setting performance Standards – In order to achieve the goals, standards of performance have to be determined in planning itself.</p> <p>Quantitative Standards - As far as possible, standards must be in concrete and tangible forms which will make evaluation process easy.</p> <p>Qualitative Standards - Standards can also be in intangible forms. The results expected from a training programme, loyalties of workers, Improving motivation level of employees, etc. are the examples for qualitative standards.</p> <p>2. 'Within two days, they realize the output in terms of typing work done by Raju is too less' Comparison of actual performance with standards – Comparison of actual performance with the standards reveals the deviations between actual and desired results.</p> <p>3. 'typing work done by Raju is too less as compared to the desired output' - Comparison of actual performance with standards – Comparison of actual performance with the standards reveals the deviations between actual and desired results.</p> <p>4. 'On inspecting, Ankit finds out.....20 words per minute only.' - Analyzing deviations – At this stage, the extent of deviations and causes of such</p>

	<p>deviations are to be found out. It is important to ascertain whether deviations are within the expected range. Deviations in key areas of business require urgent attention.</p> <p>5. ‘Rahul and Ankit decide ..... appoint a new typist.’ Taking corrective actions – As soon as deviations are reported, it is the duty of the executives to take steps to correct the past action so that deviations may not occur again and the plans are properly executed. If there is no deviation or if the deviation is within the permissible limit, let the situation remains as it is.</p>
32	<p><b>1. Science, not rule of thumb</b> – Rule of thumb means application of traditional methods or the methods decided by the managers based on their past experience. According to this principle, there should be scientific study and analysis of each element of a job, in order to replace the old rule of thumb approach.. Taylor suggested ‘thinking before doing’, i.e “Trial and Error Method’ should be avoided and a scientific study must be done before solving any problem or doing a work.</p> <p><b>2. Harmony, not discord</b> – This principle states that there should be complete harmony and proper understanding between management and the workers and they should work together for organizational goals.. This can be achieved through a change in the attitude of workers and the management. Taylor calls it as “Mental Revolution” means complete change in their mental outlook for each other. Management should share the gains with workers and the workers should work hard and accept changes for achievement of goals.</p> <p><b>3. Development of each and every person to their greatest efficiency and prosperity</b> – According to this principle, management should aim to develop workers to their greatest efficiency and prosperity. For this, Taylor advocated scientific methods for selection, training and development of workers. If workers put in their best efforts, it ensures maximum prosperity not only to workers but also to the organization.</p> <p style="text-align: center;">OR</p> <p><b>1. Providing Managers with useful insights into reality:</b> Adherence to the principles of management will add to their knowledge, ability and understanding of managerial situations.</p> <p><b>2. Scientific Decisions:</b> With the help of Management Principles, managers can take appropriate decisions in right time.</p> <p><b>3. Fulfilling social responsibility</b> – Good quality products to the customers, care for environment, opportunities for employment, education for the children of employees etc. are some of the examples for social responsibilities.</p>
33	<p><b>Gathering and Analysing market information</b> It refers to conducting research to understand what customer wants to buy, when they are likely to buy, in what</p>



	<p>quantity they will buy, what price they will be able to pay, what purpose the customer is buying etc.</p> <p><b>2. Marketing planning:</b> The marketers make plans to increase production or to increase sale or to use promotion tools and specify the action programs to achieve these objectives.</p> <p><b>3. Product designing and development:</b> It is an important marketing activity that relates to designing and developing the product in such a way that it attracts the target customers</p> <p><b>4. Standardisation and grading</b>  <b>Standardization</b> means producing goods of predetermined quality standards to achieve uniformity and consistency in the product.  <b>Grading</b> is the process of classification of products into different groups on the basis of size, quality etc.</p> <p><b>5. Packaging and labelling</b>  <b>Packaging</b> refers to designing of packets, wrappers and cartons etc. which are used to pack the product. <b>Labelling</b> refers to designing the labels to put on the package.</p> <p><b>6. Branding:</b> Branding is the process of giving a name or a sign or a symbol to a product which helps in identifying and distinguishing it from the competitors' product.</p>
34	<p>(a) Training – “Training is the art of increasing the knowledge and skill of an employee for doing a particular job.” Its purpose is to enable them to do their jobs better. A capable and competent person may not do the best on his job unless he is systematically trained.</p> <p>(i) <b>Vestibule Training</b> – In this case an actual work situation is created in a classroom. Employees use the same materials and equipment for training.</p> <p>(ii) <b>Internship Training</b> – According to this, a vocational institute enters into an arrangement with a business enterprise to provide practical knowledge to its students. It is intended for providing practical experience to the students in their fields. For example, MBA students are directed to undertake project work in business enterprises, engineering students are sent to big industrial enterprises to gain practical work experience, Medical students to hospitals etc.</p> <p>(b) <b>Importance of Directing</b></p> <ol style="list-style-type: none"> <li>1. Directing initiates action – Through direction management conveys and motivates individuals to perform in the desired way to achieve goals.</li> <li>2. Integrates employees' efforts – It is very necessary to coordinate and integrate the activities of all the people in the organization. If their efforts are not integrated properly, the business cannot achieve its objectives successfully.</li> </ol>

3. Means of motivation – In order to get the best result from business, it is necessary to motivate the workers to contribute their best and it is possible through proper motivation.

4. Provides stability and balance in the organization – Direction coordinates and integrates the individual goals and organizational goals so as to achieve maximum results. Effective leadership, supervision, motivation and communication provide stability and balance in the organization.

5. Facilitates changes in the organization – Business environment is highly flexible and changing, most of the employees prefer to remain indifferent to new ideas and techniques and unwilling to implement changes. Only through effective direction and motivation they will be induced to accept changes and challenges of their job pleasantly

### SAMPLE QUESTION PAPER-3

#### BUSINESS STUDIES(054)

Time Allowed: 3 Hours


Maximum Marks: 80

.....  
General Instructions:

- (i) The Question Paper contains 34 questions.
- (ii) Marks are indicated against each question.
- (iii) Answers should be brief and to the point.
- (iv) Answers to the questions carrying 3 marks may be from 50 to 75 words.
- (v) Answers to the questions carrying 4 marks may be about 150 words.
- (vi) Answers to the questions carrying 6 marks may be about 200 words.
- (vii) Attempt all parts of the questions together

QN. No.		Marks
1	An organisation interacts with its external environment, which consist of various social, economic, technological and political factors. In order to be successful, an organisation must change itself according to the needs of the environment. The characteristic of management being highlighted here is (a) Pervasive (b) Continuous (c) Goal Oriented (d) Dynamic	1
2	In a manufacturing unit work take place in three shifts of eight hours each. Even in a single shift a worker has to be given some rest interval to take her/his lunch etc. If the work involves heavy manual labour then small pauses have to be frequently given to the worker so that he/she can recharge his/her energy level for optimum contribution. Which type of study is to be conducted by the company to determine the amount and frequency of rest intervals in completing a task ? (a) Method Study (b) Motion Study (c) Fatigue Study (d) Time Study	1
3	Which among the following is a component of economic environment ? (a) Equal pay to male and female workers for equal work (b) Increase in the sales of sweets at the time of Diwali. (c) Decrease in interest rate is beneficial and increase in demand for home loans. (d) Policy changes implemented by different government.	1
4	Which among the following is not a standing plan ? (a) Budget (b) Policies (c) Procedures (d) Methods	1
5	The element of delegation which relates to the obligation of a subordinate to properly perform the assigned duty is known as ..... (a) Authority (b) Responsibility (c) Accountability (d) Decentralisation	1

6	<p>Mr. Aravind is the HR Manager of SMK (P) Ltd. The post of two security guards is vacant in the company. Kiran Manpower Services is recruiting security guards for different organisations at short notice. These guards are recruited on temporary basis. The guards provided by Kiran Manpower Services are known for their honesty and punctuality. Mr. Aravind approached Kiran Manpower Services for posting security guards in his company. Which sources of recruitment is adopted by Mr. Aravind ?</p> <p>(a) Direct Recruitment (b) Placement Agencies (c) Employment Exchanges (d) Labour Contractor</p>	1
7	<p>Re arrange needs of human beings given below as per Maslow's Need hierarchy theory and choose the correct alternative.</p> <p>(i) Job title (ii) Basic Salary (iii) Achievement of goals (iv) Pension plan (v) Cordial relations with colleagues</p> <p>(a) (iv)-(i)-(iii)-(v)-(ii) (b) (ii)-(iv)-(v)-(i)-(iii) (c) (ii)-(i)-(iv)-(v)-(iii) (d) (i)-(iv)-(iii)-(v)-(ii)</p>	1
8	<p>“ If you try to control everything, you may end up controlling nothing”. Identify the management concept underlying in the above statement.</p> <p>(a) Critical Point Control (b) Delegation of Authority (c) Management by Exception (d) Decentralisation</p>	1
9	<p>Neo (P) Ltd. decided not to issue equity shares this year as they want to keep the managerial control in their own hands. The company would prefer issue of debentures as it will not dilute the control of existing shareholders. Identify the type of financial decision taken by the company.</p> <p>(a) Investment Decision (b) Financing Decision (c) Dividend Decision (d) Capital Budgeting Decision</p>	1
10	<p>“Stock exchange gives investors the chance to disinvest and re invest”. Identify the function of stock exchange related to the given statement.</p> <p>(a) Providing liquidity and marketability to existing securities. (b) Contribution to economic growth (c) Spreading equity cult (d) Safety of transaction.</p>	1
11	<p>Arun bought an air conditioner for Rs.35,500 from a reputed electronic shop in the city. After two days of its installation the air</p>	1

	<p>conditioner is not working properly. He approached the seller who refused to replace it.</p> <p>Which is the appropriate authority to file his complaint under consumer protection Act,2019</p> <p>(a) District Commission (b) State commission (c) National Commission (d) Supreme Court</p>											
12	 <p>Identify the element of promotion mix depicted in the above picture</p> <p>(a) Advertising (b) Personal selling (c) Sales promotion (d) Public Relation</p>	1										
13	<p>Match the various barriers to communication in <b>Column A</b> with their respective statement in <b>Column B</b> and choose the correct alternative</p> <table border="1" data-bbox="327 922 1359 1198"> <thead> <tr> <th>Column A</th> <th>Column B</th> </tr> </thead> <tbody> <tr> <td>A. Semantic Barriers</td> <td>(i) Lack of proper incentives</td> </tr> <tr> <td>B. Organisational Barriers</td> <td>(ii) Premature evaluation</td> </tr> <tr> <td>C. Psychological Barriers</td> <td>(iii) Rules and regulations</td> </tr> <tr> <td>D. Personal Barriers</td> <td>(iv) Faulty translations</td> </tr> </tbody> </table> <p>(a) A-(ii), B-(iii), C-(i), D-(iv) (b) A-(iii), B-(iv), C-(ii), D-(i) (c) A-(iv), B-(iii), C-(ii), D-(i) (d) A-(ii), B-(i), C-(iii), D-(iv)</p>	Column A	Column B	A. Semantic Barriers	(i) Lack of proper incentives	B. Organisational Barriers	(ii) Premature evaluation	C. Psychological Barriers	(iii) Rules and regulations	D. Personal Barriers	(iv) Faulty translations	1
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C. Psychological Barriers	(iii) Rules and regulations											
D. Personal Barriers	(iv) Faulty translations											
14	<p><b>ASSERTION (A)</b> : Managers of only lower level need to perform controlling function of management.</p> <p><b>REASON (R)</b> : Controlling is forward looking as well as backward looking</p> <p>Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)</p> <p>Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A)</p> <p>Assertion (A) is True but Reason (R) is False.</p> <p>Assertion (A) is False but Reason (R) is True.</p>	1										
15	<p>In a manufacturing unit the purchase department purchased 100 tonnes of raw material for production department. Although only 80 tonnes were needed by the production department. Due to this goods were over produced and not accepted by sales department. As a result some goods remained unsold. Which aspect of management is lacking in the above case?</p>	1										

	(a) Organising (c) Co-ordination	(b) Controlling (d) Directing	
16	Which among the following is not a principle of scientific management? (a) Science not rule of thumb (b) Harmony, not discord (c) Cooperation, not individualism (d) Stability of personnel		1
17	<p><b>Statement – I :</b> Demonetisation refers to the process of stripping a currency unit of its status to be used as a legal tender.</p> <p><b>Statement – II:</b> The aim of demonetisation was to curb corruption and reducing tax evasion.</p> <p><b>Choose the correct option from the option given below:</b>  Statement-I is true and II is false  Statement –II is true and I is false  Both the statements are true  Both the statements are false</p>		1
18	Management have a tendency to rely on previously tried and tested successful plans. It is not always true that just because a plan has worked before it will work again. Which limitation of planning is described in the above statement? (a) Planning does not guarantee success (b) Planning reduces creativity (c) Planning may not work in dynamic environment (d) Planning is time consuming		1
19	..... is defined as the framework within which managerial and operating tasks are performed. (a) Span of management (b) Organisational Structure (c) Decentralisation (d) Departmentalisation		1
20	Which of the following stages in staffing process enable to know whether the organisation is understaffed, overstaffed or optimally staffed ? (a) Recruitment (b) Selection (c) Performance Appraisal (d) Estimating the manpower requirement		1
21	<p>(a) Mr. GopaKumar is working as the Marketing Manager of Beta (P) Ltd. Name the managerial level at which he is working ? State any four functions he will perform under this level of management</p> <p style="text-align: center;"><b>OR</b></p> <p>(b) Mr. Arun Kumar is working as the supervisor of JK Traders. Name the managerial level at which he is working ? State any four functions he will perform under this level of management</p>		3
22	‘Make in India’ is an initiative launched by the Government of India on 25 <sup>th</sup> September 2014 to encourage national and multinational companies to manufacture their product in India. The major objective of ‘Make in India’ initiative are job creation and skill enhancement in		3

	<p>25 sectors of the economy. Under the initiative, brochures on these sectors and a web portal were released. The initiative aims at high quality standards and minimising the impact on the environment. It also seeks to attract foreign capital investment in India.</p> <p>By quoting lines, identify the various dimensions of business environment being referred to in the paragraph.</p>	
23	<p>(a) Briefly explain the concept of ‘Gross Working Capital’ and ‘Net Working Capital’ with a suitable example.</p> <p style="text-align: center;"><b>OR</b></p> <p>(b) Briefly explain the factors affecting the Investment decision</p>	3
24	<p>JB (P) Ltd. is following a marketing management philosophy of concentrating on the need of the customers. They believe that product should be designed and produced keeping in mind the need of the customer and try to satisfy the need better than the competitor. According to this concept the customers satisfaction is the pre condition for realising firms goals and objectives. Under this concept firm’s don’t sell what they have, but they produce and sell what customers want.</p> <p>(a) Identify the marketing management philosophy followed by JB (P) Ltd.</p> <p>(b) Briefly explain any other two marketing management philosophies</p>	3
25	<p>Identify and explain the Fayol’s Principles of Management violated in the two situations in Star Ltd.</p> <p>(i) Mrs. Maya, sales manager of Star Ltd. has to negotiate a deal with a buyer. She find that if she can offer credit period of 60 days she is likely to clinch the deal which is supposed to fetch the company net margin of say Rs.10 lakh. Now the company gives power to the manager to offer a credit period of only 30 days.</p> <p>(ii) Mr. Rahul, a sales person of Star Ltd. is asked to clinch a deal with a buyer and is allowed to give 10% discount by the Marketing manager. But Finance Manager tells him not to offer more than 5% discount.</p>	4
26	<p>(a) Briefly explain the steps in the organising process</p> <p style="text-align: center;"><b>OR</b></p> <p>(b) Briefly explain the importance of delegation (any four)</p>	4
27	<p>PK Ltd. recently selected 30 new employees in different departments. In order to improve employee productivity and increase employee morale, PK Ltd. adopted various ways of training such as:</p> <p>(i) To the newly recruited employees company gives a dummy model of machinery and instead of using original machinery employees are trained on dummy model.</p> <p>(ii) Some employees are put under the guidance of a master worker to acquire high levels of skill.</p> <p>(a) Name the training methods adopted by PK Ltd. to improve employee productivity.</p>	4

	(b) Explain any other two on the job training methods. (c) State any two advantages of training to the organisation	
28	<p>“ A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised, which in turn help them to give better performance”.</p> <p>(a) Which importance of controlling function of management is being highlighted here?</p> <p>(b) Enumerate any other three importance of controlling</p>	4
29	<p>(a) State any four differences between Primary Market and Secondary Market.</p> <p style="text-align: center;"><b>OR</b></p> <p>(b) State any four differences between Money Market and Capital Market</p>	4
30	<p>“Jago Grahak Jago” is a government initiative to spread awareness among the consumers. Name the consumer right highlighted in the above statement. Also explain any other three consumer rights as per Consumer Protection Act, 2019.</p>	4
31	<p>(a) Briefly explain the following financial incentives</p> <p style="text-align: center;">(i) Pay and Allowance                      (ii) Profit Sharing (iii) Co-partnership/stock option      (iv) Perquisites</p> <p style="text-align: center;"><b>OR</b></p> <p>(b) Briefly explain the following non-financial incentives</p> <p style="text-align: center;">(i) Status    (ii) Organisational Climate (iii) Employee Recognition programme   (iv) Job Enrichment</p>	6
32	<p>Delicia foods (P) Ltd. is engaged in manufacturing and distribution of pickles across the country. The company has set up an objective of increasing its sales turnover by 20% in next quarter. In order to achieve this target, the marketing department of the company considered the impact of government policy and also anticipated the level of competition. They conducted a market survey to identify the needs and wants of consumers. The management of Delicia food (P) Ltd. explored the various available options for increase sales like increasing advertisement, appointing salesman for door to door delivery ,offering discount, quantity gifts, refunds, instant draws and assigned gifts. A thorough analysis of each option was done on the basis of positive and negative aspects of each alternative and finally company decided to offer quantity gift (10% extra in every packet) for next quarter.</p> <p>(a) Name the function of management which is being described in the above paragraph</p>	6



	(b) Identify and explain the first five steps involved in the process of the function of management as identified in the above para, by quoting the lines from it.	
33	<p>(a) “Marketing functions include a series of specialised activities performed in marketing of goods and services”. In the light of above statement explain any six functions of marketing.</p> <p style="text-align: center;"><b>OR</b></p> <p>(b) “Price of a product is influenced by many factors”. Explain the factors affecting the price determination of a product.</p>	6
34	<p>Sunrise Industries Ltd. is a leading company in manufacturing steel. It’s plants are located at Jamshedpur and Bokaro. Over the past five years, the company has been paying regular dividend at a higher rate to its shareholders. The company has been consistently earning good profit for the past five years. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. The company having many shareholders who prefer to receive a regular income from their investment. As this company is a large and reputed company, generally they have easy access to the capital market.</p> <p>However, the current year although the earnings of the company are high, its liquidity position is not so good. More over the company plans to set up a new plant at Bhilai in order to expand their business. For this purpose the company has taken a loan of Rs.50,00,000 from GBR Bank and is bound by certain restrictions on the payment of dividend for next five years according to the terms of the loan agreement. So the current year company decided to pay a low rate of dividend to share holders.</p> <p>(a) State any three reasons because of which you think Sunrise Industries Ltd. has been paying higher rate of dividend to its shareholders over the past five years by quoting the lines from the above case.</p> <p>(b) State any three reasons because of which you think Sunrise Industries Ltd paying low rate of dividend in the current year by quoting the lines from the above case.</p>	6

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**SAMPLE QUESTION PAPER -3**  
**MARKING SCHEME**  
**BUSINESS STUDIES(054)**

Time Allowed: 3 Hours

Maximum Marks: 80

QN. No.		Mark
1	(d)	1

2	(c)	1
3	(c)	1
4	(a)	1
5	(b)	1
6	(d)	1
7	(b)	1
8	(c)	1
9	(b)	1
10	(a)	1
11	(a)	1
12	(c)	1
13	(c)	1
14	(d)	1
15	(c)	1
16	(d)	1
17	(c)	1
18	(a)	1
19	(b)	1
20	(d)	1
21	(a) Middle Level Management – 1 mark Any four functions of Middle Level Management -1/2 mark each -2 (i) Responsible for implementing and controlling plans and strategies developed by top management. (ii) Responsible for all the activities of first line managers (iii) Carry out the plans formulated by the top managers. (iv) Interpret the policies framed by top management (v) Ensure that their department has the necessary personnel (vi) Assign necessary duties and responsibilities to them (vii) Motivate them to achieve desired objectives (viii) Cooperate with other departments etc. <b>OR</b> (b) Lower Level Management -1 mark Any four functions of Lower Level Management – ½ mark each -2 (i) They interact with the actual work force . (ii) Pass the instructions of the middle management to the workers. (iii) Representing the problems or grievances of workers. (iv) Maintaining good working conditions and developing healthy relations between superior and subordinates (v) Looking to the safety of workers etc.	3
22	‘Make in India’ is an initiative launched by the Government of India - ½ mark Political Environment – ½ mark	3

	<p>Under the initiative, brochures on these sectors and a web portal were released-1/2 mark          Technological Environment – ½ mark          It also seeks to attract foreign capital investment in India. – ½ mark          Economic Environment – ½ mark</p>	
23	<p>(a) <b>Gross Working Capital</b> : This refers to the investment in all the current assets such as cash, bills receivables, prepaid expenses, inventories etc. These current assets get converted into cash within an accounting year. - ½ mark          Eg. Cash in hand Rs. 5,000 , Cash at Bank Rs.10,000, Bills Receivable Rs.8,000, Sundry Debtors Rs.6,000, Inventories Rs. 15,000  <math display="block">\text{Gross working capital} = 5,000 + 10,000 + 8,000 + 6,000 + 15,000 = \text{Rs.44,000} - 1 \text{ mark}</math> <b>Net Working Capital</b> : This refers to excess of current assets over current liabilities. The net working capital indicates the liquidity position of the company. – ½ mark          Eg. Current Assets Rs. 50,000, Current Liabilities Rs. 35,000.  <math display="block">\text{Net Working Capital} = \text{Current Assets} - \text{Current Liabilities}</math> <math display="block">50,000 - 35,000 = 15,000 \quad - 1 \text{ mark}</math> <p style="text-align: center;"><b>OR</b></p> <p>(b) Factors affecting investment decision – ½ mark for heading ½ mark for explanation          (i) <u>Cash flow of the project</u> : When a company takes an investment decision involving huge amount it expects to generate some cash flows over a period. These cash flows are in the form of a series of cash receipts over the life of an investment. The amount of these cash flows should be carefully analysed before a capital budgeting decision.          (ii) <u>The Rate of return</u> : The most important criterion is the rate of return of the project. These calculations are based on the expected returns from each proposal and the assessment of the risk involved.          (iii) <u>The Investment criteria involved</u>: The decision to invest in a particular project involves a number of calculations regarding the amount of</p> </p>	3

	<p>investment, interest rate, cash flows and rate of return. These are different techniques to evaluate investment proposals which are known as capital budgeting techniques.</p>	
24	<p>(a) Marketing Concept – 1 mark  (b) Any other two marketing management philosophies – 1 + 1 =2  (1/2 mark –heading  (1/2 mark –explanation)  (i) <u>Production Concept</u> : Some companies believe that it is easy to sell the products when products are inexpensive and are easily available. So the firms following production concept focus on lowering cost of production by means of mass production and distribution.  (ii) <u>Product Concept</u>: Firms which follow the product concept propose that the way to realise business goal is by making products that are of high quality. The focus of business activity changed to bringing continuous improvement in the quality, incorporating new features etc.  (iii) <u>Selling concept</u> : The firms which follow the selling concept believe that in order to make a customer buy a product he or she need to be convinced and customers can be convinced by undertaking some aggressive selling and promotional effort.  (iv) <u>Societal Concept</u> : Although marketing concept is satisfying the needs of customers in the best possible manner, but then also it has attracted criticism from people who are concerned about society and environment. The customers satisfaction within ethical and ecological boundaries of our society.</p>	3
25	<p>(i) Authority and Responsibility – 1 mark , 1 mark for explanation  Authority means power to take decision. Responsibility means obligation to complete the job assigned on time. According to this principle, there must be balance or parity between the authority and responsibility. Excess of authority without matching responsibility may bring negative results and excess of responsibility without matching authority will not allow the worker to complete his job on time.  (ii) Unity of command - 1 mark , 1 mark for explanation  According to this principle an employee should receive orders from one boss/superior and should be accountable to one superior only because if he is receiving orders from more than one boss then he will get confused and will not be able to understand that whose orders must be executed first.</p>	4

26	<p>(a) Steps in the organising process – ½ mark for heading -1/2 for explanation</p> <ol style="list-style-type: none"> <li>1. <u>Identification and Division of Work</u> : The first step in organising is identifying and dividing the work as per plan. Work can be shared among the employees. The manager divides the work into smaller units and each unit of work is called job.</li> <li>2. <u>Departmentalisation</u>: After dividing the work in smaller jobs, related and similar jobs are grouped together and put under one department. The departmentalisation or grouping of jobs can be done by the organisation on the basis of function or divisions.</li> <li>3. <u>Assignment of Duties</u>: After dividing the organisation into specialised departments each individual working in different departments is assigned a duty matching to his skill and qualifications. The work is assigned according to the ability of individual.</li> <li>4. <u>Establishing reporting relationships</u>: In the fourth step of organising process all individuals are assigned some authority matching to the job they have to perform. The assignment of authority results in creation of superior-subordinate relationship and the question of who report to whom is clarified.</li> </ol> <p style="text-align: center;"><b>OR</b></p> <p>(b) Importance of delegation (any four) – 1 mark each (1/2 mark for heading - ½ mark for explanation)</p> <ol style="list-style-type: none"> <li>1. <u>Effective Management</u> : In delegation process managers pass routine work to the subordinates. So they are free to concentrate on other important matters.</li> <li>2. <u>Employees Development</u>: As a result of delegation employees get more opportunities to utilise their talents. It allows them to develop those skills which help them to perform complex task.</li> <li>3. <u>Motivation of employees</u>: In delegation when the manager is sharing his responsibilities and authority with the subordinates it motivates the subordinates as they develop the feeling of belongingness and trust which is shown to them by their superiors.</li> <li>4. <u>Facilitates organisational growth</u>: In the process of delegation when managers are passing their responsibility and authority to the subordinates they keep in mind the qualification and capability of all the subordinates. This leads to division of work and specialisation which is very important for organisational growth.</li> <li>5. <u>Basis of Management Hierarchy</u>: Delegation establishes superior-subordinate relationship which is the base for hierarchy of managers.</li> <li>6. <u>Better coordination</u>: The systematic division of work gives clear picture of work to everyone and there is no duplication of work clarity in duties assigned and reporting relationships bring effective coordination in the organisation.</li> </ol>	4
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27	<p>(a) (i) Vestibule training -1/2 mark  (ii) Apprenticeship Programmes – ½ Mark</p> <p>(b) Any other two training method- 1 mark + 1 mark ( ½ mark for heading ½ for explanation)</p> <p>(i) <u>Internship Training</u> : It is a joint programme of training in which educational institutions and business firms cooperate. Selected candidates carry on regular studies for the prescribed period. They also work in some factory or office to acquire practical knowledge and skills.</p> <p>(ii) <u>Coaching</u>: In this method, the superior guides and instructs the trainee as a coach. The trainee works directly with a senior manager and the manager takes full responsibility for the trainees coaching.</p> <p>(iii) <u>Job Rotation</u> : This kind of training involves shifting the trainee from one department to another or from one job to another. This enables the trainee to gain a broader understanding of all parts of the business and how the organisation as whole functions.</p> <p>(c) Benefits of training to the organisation (any two ) ½ Mark each</p> <p>(i) Reduced learning time  (ii) Better performance  (iii) Less wastages of resources and higher productivity  (iv) Equip the future managers  (v) Increases employee morale and reduces absenteeism and employee turnover  (vi) Helps to adapt changes</p>	4
28	<p>(a) Improving employee motivation – 1 mark</p> <p>(b) Any three importance of controlling – 1 mark each ( ½ mark for heading ,1/2 mark for explanation)</p> <p>(i) <u>Accomplishing organisational goals</u>: The controlling function measures progress towards the organisational goals and brings to light the deviations, if any, and indicates corrective action.’</p> <p>(ii) <u>Judging accuracy of standards</u>: A good control system enables management to verify whether the standards set are accurate and objective.</p> <p>(iii) <u>Making efficient use of resources</u>: By exercising control a manager seeks to reduce wastages and spoilage of resources. Each activity is performed in accordance with predetermined standards and norms.</p> <p>(iv) <u>Ensuring order and discipline</u> : Controlling creates an atmosphere of order and discipline in the organisation. Effective controlling system keeps subordinates under check and makes sure they perform their functions efficiently.</p> <p>(v) <u>Facilitates coordination in action</u>. Each department and employee is governed by pre determined standards which are well coordinated</p>	4

	with one another. This ensures that overall organisational objectives are accomplished.			
29	(a) Difference between primary market and secondary market (any four) -1 mark each			4
	Sl. No.	Basis	Primary Market	Secondary Market
	1	Type of securities	There is sale of new securities	It is the market for existing or second hand securities
	2	Issued by	securities are directly issued by companies	securities are transferred between investors only
	3	capital formation	contributes directly for capital formation	contributes indirectly for capital formation
	4	Entry	All companies enter the primary market to raise capital for their operations	only listed companies securities bought and sold in secondary market
	5	Geographical location	No fixed geographical location	Located at specified places
	6	Price	Price of the securities are fixed by the management of the company	Price of the securities are fixed by the demand and supply factors of stock exchange
<b>OR</b>				
	(b) Difference between Money market and Capital Market (any four) -1 mark each			
	Sl. No.	Basis	Money Market	Capital Market
	1	Participants	financial institutions, banks , RBI, and finance companies	financial institutions, banks , corporate entities, foreign investors, and ordinary retail investors
	2	Duration	Short term securities having maximum tenure of 1 year	medium and long term securities

	3	Instruments	Treasury Bills, CP, Certificate of Deposits, Trade bills etc.	equity shares, preference shares, debentures, bonds and other innovative securities	
	4	Investment outlay	Quite expensive and huge financial investment is required	not required huge financial investment as value of securities is generally low	
	5	Liquidity	Higher degree of liquidity	less liquid	
	6	Safety	safe or less risky	Riskier both with the respect to returns and principal repayment	
	7	Expected return	less due to short duration	higher as along with regular dividend or interest there are chances of capital gain	
30	<p>(a) Right to consumer education – 1 mark Any other three consumer rights -1 mark each ( ½ mark for heading ½ mark for explanation)</p> <p>(i) <u>Right to safety</u>: According to this right, a consumer has the right to be protected against goods and services which are hazardous to life and health. This right is important for safe and secure life. Some times the manufacturing defects in pressure cookers, gas cylinders and other electrical appliances may cause loss to life, health and property of customers. This right to safety protect the consumers from sale of such hazardous goods or services.</p> <p>(ii) <u>Right to be informed</u>: According to this right, a consumer has the right to have complete information about the product he intended to buy including its ingredients, date of manufacture, price, quantity, direction for use etc.</p> <p>(iii) <u>Right to be assured</u>: according to this right, consumer has freedom to choose from variety of products at competitive prices. This implies that the marketers should offer a wide variety of products in terms of quality, brand , prices, size etc. and allow the consumer to make a choice from amongst these.</p> <p>(iv) <u>Right to be heard</u>: According to this right, consumer has the right to file a complaint and to be heard in case of dissatisfaction with a good or service. It is because of this reason that many enlightened business firms have set up their own consumer service and grievance cells.</p>				4



	<p>(v) <u>Right to seek redressal</u>: According to this right, a consumer has the right to get relief in case the product or service falls short of his expectations. The consumer protection Act provides a number of reliefs to the consumers including replacement of the product, removal of the defect in the product, compensation paid for any loss or injury suffered by the consumer etc.</p>	
31	<p>(a) 1 ½ mark for each explanation</p> <p>(i) <u>Pay and allowance</u>: Salary is the basic incentive for every employee to work efficiently for an organisation. Salary include basic pay, dearness allowance, house rent allowance, and similar other allowances. Regular increment in salary every year and grant of allowance act as a good motivators. In some organisation pay hikes and allowances are directly linked with the performance of the employee.</p> <p>(ii) <u>Profit Sharing</u> : The organisations offer share in the profits to the employees as a common incentive for encouraging the employees for working efficiently. It encourages the employees to work efficiently to increase the profit of the company so that they can get share in profit.</p> <p>(iii) <u>Co-partnership/Stock option</u>: Under these incentive schemes, employees are offered company shares at a set price which is lower than market price. The allotment of shares creates a feeling of ownership to the employees and makes them to contribute for the growth of the organisation.</p> <p>(iv) <u>Perquisites</u>: In many organisations, perquisites and fringe benefits are offered such as car allowance, housing, medical aid, and education to children etc. over and above the salary. These measures help to provide motivation to the employees/ managers.</p> <p style="text-align: center;"><b>OR</b></p> <p>(b) 1 ½ mark for each explanation</p> <p>(i) <u>Status</u>: With reference to the organisation, status refers to the position in the hierarchy of organisational chart. The level of authority, responsibility, recognition, salary, perks etc. determine the status of an employee in the organisation.</p> <p>(ii) <u>Organisational climate</u>: Organisational climate indicates the characteristics which describe an organisation and distinguish one organisation from the other. These characteristics influence the behaviour of individuals in the organisation.</p> <p>(iii) <u>Employee Recognition Programme</u>: Recognition means acknowledgement with a show of appreciation. Most people have a ne evaluation of their work and due consideration. They feel that what they do should be recognised by others</p>	6

	<p>concerned. When such appreciation is given to the work performed by employees , they feel motivated to perform/work at higher level.</p> <p>(iv) <b>Job Enrichment:</b> It refers to the designing of the jobs in such a way that it involves a higher level of knowledge and skill , variety of work content, more autonomy and responsibility of employees, meaningful work experience and more opportunities of growth. If the jobs are enriched and made interesting, the job itself becomes a source of motivation to the individuals.</p>	
32	<p>(a) Planning – 1 mark , Identification of steps and explain the steps quoting the lines – 1 mark each</p> <p>(b) (i) <u>“The company has set up an objective of increasing its sales turnover by 20% in next quarter”</u> <b>Setting Objectives :</b> The first and foremost step is setting objectives. Every organisation must have certain objectives. Objectives may be set for the entire organisation and each department or unit within the organisation. Objectives should be stated clearly for all the departments , units and employees.</p> <p>(ii) <u>“In order to achieve this target, the marketing department of the company considered the impact of government policy and also anticipated the level of competition.”</u> <b>Developing Premises:</b> The manager required to make certain assumptions about the future. These assumptions are called premises. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts , existing plans or any past information about policies.</p> <p>(iii) <u>“The management of Delicia food (P) Ltd. explored the various available options for increase sales like increasing advertisement, appointing salesman for door to door delivery ,offering discount, quantity gifts, refunds, instant draws and assigned gifts.”</u> <b>Identifying alternative courses of action:</b> Once objectives are set, assumptions are made, then the next step would be to act upon them. There may be many ways to act and achieve objectives. All the alternative courses of action should be identified.</p> <p>(iv) <u>“A thorough analysis of each option was done on the basis of positive and negative aspects of each alternative.”</u> <b>Evaluating alternative courses:</b> The next step is to weigh the pros and cons of each alternative. The positive and negative aspects of each proposal need to be evaluated in the light of the objective. To be achieved. To evaluate such proposal detailed calculations of earnings , earning per share, interest , taxes, dividends are made and decision taken. Alternatives are evaluated in the light of their feasibility and consequences.</p>	6

	<p>(v) <u>“finally company decided to offer quantity gift (10% extra in every packet) for next quarter.”</u></p> <p><b>Selecting an alternative:</b> The best plan has to be adopted and implemented. The ideal plan would be the most feasible, profitable and with least negative consequences. Some time a firm may also go for combination of plan instead of selecting one best course.</p>	
33	<p>Functions of Marketing –(any six) – 1 mark for each explanation</p> <p>(i) Gathering and Analysing market information  (ii) Marketing Planning  (iii) Product Designing and Development  (iv) Standardisation and grading  (v) Packaging and Labelling  (vi) Branding  (vii) Customer Support Services  (viii) Pricing of a product  (ix) Promotion  (x) Physical Distribution  (xi) Transportation  (xii) Storage or Warehousing</p> <p style="text-align: center;"><b>OR</b></p> <p>Factors affecting the pricing of a product – 1 Mark for each explanation</p> <p>(i) Product Cost  (ii) The Utility and Demand  (iii) Extent of completion in the market.  (iv) Government and legal regulations  (v) Pricing objectives  (vi) Marketing methods used.</p>	6
34	<p>Quoting the lines -1/2 mark identifying and explaining the factors – ½ mark</p> <p>(a) <u>Reasons for giving high rate of dividend over the past five years</u></p> <p>“ The company has been consistently earning good profit for the past five years.”</p> <p>(i) <b>Stability Earnings</b> : Companies having stable or smooth earnings prefer to give high rate of dividend whereas companies with unstable earnings prefer to give low rate of dividend.  “The company having many shareholders who prefer to receive a regular income from their investment”.</p> <p>(ii) <b>Preference of shareholders:</b> While declaring dividend, management must keep in mind the preference of the share holders in this regard. If the share holders in general desire that at least a</p>	6

<p>certain amount is paid as dividend, the companies are likely to declare the same. There are always some share holders who depend upon a regular income from their investment.</p> <p>“As this company is a large and reputed company, generally they have easy access to the capital market.”</p> <p>(iii) <b>Access to Capital Market:</b> Large and reputed companies generally have easy access to the capital market , and therefore may depend less on retained earnings to finance their growth. These companies tend to pay higher dividends than the smaller companies which have relatively low access to capital market.</p> <p><u>(b) Reasons for giving low rate of dividend in the current year</u></p> <p>“However, this year although the earnings of the company are high, its liquidity position is not so good.”</p> <p>(i) <b>Cash flow position:</b> The payment of dividend involves an outflow of cash. Availability of enough cash in the company is necessary for declaration of dividend.</p> <p>“More over the company plans to set up a new plant at Bhilai in order to expand their business.”</p> <p>(ii) <b>Growth Opportunities:</b> Companies having good growth opportunities retain more money out of their earnings so as to finance the required investment. The dividend in growth companies is therefore, smaller , than that in the non-growth companies.</p> <p>“For this purpose the company has taken a loan of Rs.50,00,000 from GBR Bank and is bound by certain restrictions on the payment of dividend for next five years according to the terms of the loan agreement.”</p> <p>(iii) <b>Contractual Constraints :</b> While granting loans to a company , some time the lender may impose certain restrictions on the payment of dividend in future . The companies are required to ensure that the dividend does not violate the terms of the loan agreement in this regard.</p>	
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THE END

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