



केन्द्रीय विद्यालय संगठन  
**KENDRIYA VIDYALAYA  
SANGATHAN**



# **BUSINESS STUDIES**

## **BENGALURU REGION**

**SUPPORT  
MATERIAL  
CLASS- XII**

**2024  
2025**



# **OUR INSPIRATION**

## **SHRI DHARMENDRA PATLE**

**Deputy Commissioner**

**KVS RO BENGALURU**

## **SHRI P C RAJU**

**Assistant Commissioner**

**KVS RO BENGALURU**

## **SHRI R PRAMOD**

**ASSISTANT COMMISSIONER**

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## **SMT HEMA K**

**ASSISTANT COMMISSIONER**

**KVS RO BENGALURU**

# KENDRIYA VIDYALAYA SANGATHAN

## BENGALURU REGION

### CONTENT AND REVIEW TEAM

**COORDINATOR : SHRI KAMLESH RAUTELA ,Principal KV AFS BIDAR**

Name Of The Teacher	Name Of KV
Mr. T V Loganathan	KV ASC AND CENTRE
MR. JAGADEESH	KV MYSORE
MRS. GLORY	KV NO. 02 JALAHALI
MR. MUTHU I M	KV MEG & CENTRE
Mrs. Rachana Baberwal	KV HEBBAL
Mrs. Rashmi Nair	KV MALLESWARAM
Mrs. Isha Mahajan	KV No. 01 Jalahali
Mr. Narendra Verma	KV Donomalai
Mrs. Mamta	KV M G Railway
Mr. Vasanth Kumar	KV CRPF Yelahanka
Mr. P Shekhar Babu	KV No. 01 Hubli
MR. RAHUL	KV BELGAUM CANTT
MRS. KRISHNA	KV NAL

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

**Theory: 80 Marks**

**3 Hours**

**Project: 20 Marks**

Units		Periods	Marks
<b>Part A</b>	<b>Principles and Functions of Management</b>		
1.	Nature and Significance of Management	12	16
2	Principles of Management	14	
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>

	<p>characteristics of coordination.</p> <ul style="list-style-type: none"> <li>• Explain the importance of coordination.</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	<ul style="list-style-type: none"> <li>• Discuss the concept and</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>
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### Unit 5: Organising

	<ul style="list-style-type: none"> <li>• Explain the importance of organising.</li> </ul>
Organising Process	<ul style="list-style-type: none"> <li>• Describe the steps in the process of organizing</li> </ul>
Structure of organisation- functional and divisional concept. Formal and informal organization - concept	<ul style="list-style-type: none"> <li>• Describe functional and divisional structures of organisation.</li> <li>• Explain the advantages, disadvantages and suitability of functional and divisional structure.</li> <li>• Understand the concept of formal and informal organisation.</li> <li>• Discuss the advantages, disadvantages of formal and informal organisation.</li> </ul>
Delegation: concept, elements and importance	<ul style="list-style-type: none"> <li>• Understand the concept of delegation.</li> <li>• Describe the elements of delegation.</li> <li>• Appreciate the importance of Delegation.</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 delegation and decentralisation.</li> </ul>
Organising: Concept and importance	<ul style="list-style-type: none"> <li>• Understand the concept of organizing as a structure and as a process.</li> </ul>

### Unit 6: Staffing

Staffing: Concept and importance of staffing	<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 Resource Management 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 process of 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>
Training and Development - Concept and importance, Methods of training - on the 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.</li> <li>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>

<p>Communication - concept, formal and informal communication; barriers to effective communication, how to overcome the barriers?</p>	<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>
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**Unit 8: Controlling**

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



## Part B: Business Finance and Marketing

### 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.</li></ul>

	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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>

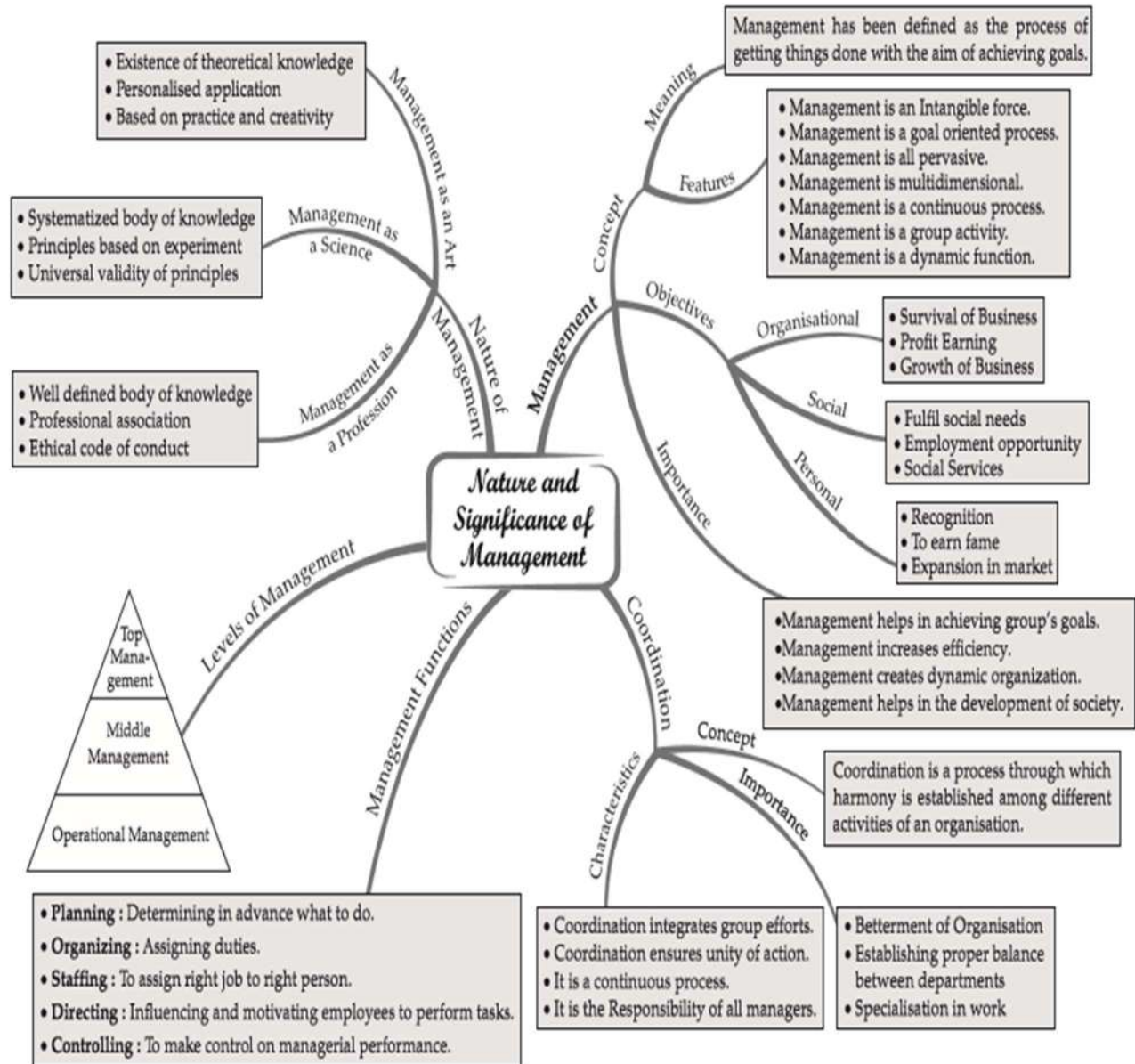
### Unit 13: Project Work

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# CH. 1 Nature and Significance of Management

## MIND MAP



## SUMMARY

### Concept of Management

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

- Effectiveness is concerned with doing the right task, completing activities and achieving goals.
- Efficiency means doing the task correctly and with minimum cost.

Management must ensure that tasks are completed (effectiveness) at a minimum cost (efficiency).

### Objectives of Management

#### Objectives of Management

Organizational or Economic Objectives

Social Objectives

Personal Objectives

#### 1. Organizational or Economic Objectives:

- (i) Survival-An organization must earn enough revenues for survival.
- (ii) Profit-Profit is essential to cover costs and risks of the business.
- (iii) Growth-Management must exploit fully the growth potential of the organization. Indicators of growth are increase in sales turnover, capital investment and number of products and employees.

**2. Social Objectives:** Social objectives of management involve the creation of benefits for the society. This includes using environmental friendly methods of production, providing basic amenities like schools and creches to employees, giving employment opportunities to the disadvantaged sections of the society, etc.

**3. Personal Objectives:** Personal objectives of management are concerned with satisfying diverse needs of the employees such as financial needs by giving them competitive salary and perks, social needs such as peer recognition, and higher level needs such as personal growth and development.

### Importance of Management

1. Management increases efficiency by reducing costs and increasing productivity through better planning, organizing, directing and controlling the activities of the organization.
2. Management helps in the development of the society by providing good quality products, creating employment opportunities and adopting new technology, etc.
3. Management helps in achieving group goals by giving a common direction to the individual efforts.

4. Management creates a dynamic organization by adapting itself according to the changes in business environment.

5. Management helps in achieving personal objectives through motivation and leadership.

## **Nature of Management**

### **Management as an Art**

Art refers to the skillful and personal application of knowledge to achieve desired results. Management is also an art because it satisfies all the features of an art:

**1. Existence of theoretical knowledge:** There is a lot of literature available in various areas of management (like finance, marketing, human resource, etc.)

**2. Personalized application:** A manager applies his knowledge of scientific methods to a given situation or a problem in a personalized and unique manner.

**3. Based on continuous practice and creativity:** A manager gains experience through regular practice and becomes more effective.

### **Management as a Science**

Science is a systematized body of knowledge that explains certain general truths. Management is a science but not an exact science. The reasons are:

**1. Systematized body of knowledge:**

Like Science, management is a systematic body of knowledge with its own theories and principles that have developed over a period of time.

**2. Principles based on observation and experimentation:**

Like Science, management principles are derived through observation and repeated experimentation. However, since management deals with human beings the outcomes of these experiments are not capable of being accurately predicted. Therefore, management can be called an inexact science, not a pure science like Physics or Chemistry.

**3. Universal validity:**

Principles of management can be used in different situations. However, they have to be modified according to a given situation. Therefore, application of principles of management is not universal.

### **Management as a Profession**

Management is not a full-fledged profession like legal, accounting or medical professions because it does not meet the exact criteria of a profession.

**1. Well-defined body of knowledge:**

Management is a profession like Accounting, Medical and Legal professions as it has a well-defined body of knowledge comprising well-defined principles based on a variety of business situations.

## 2. Restricted entry:

Entry to management institutes like IIMs, FMS is through an examination. However, unlike professions such as medicine or law there is no restriction on anyone being appointed as manager in any business.

## 3. Professional association:

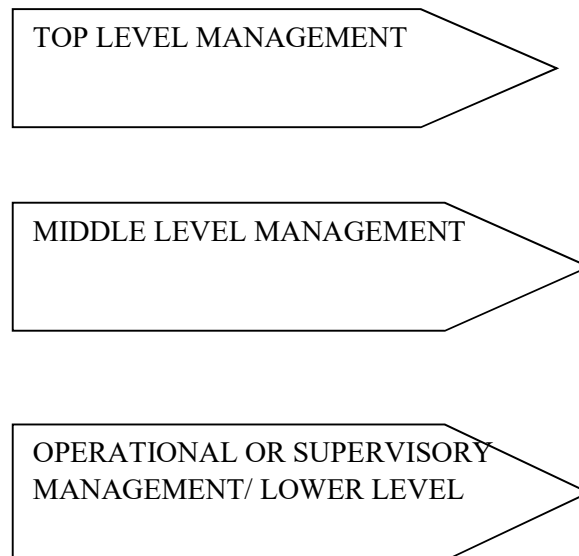
There are several associations of practicing managers in India, like All India Management Association (AIMA). But legally, it is not compulsory for managers to be members of such an association.

## 4. Ethical code of conduct:

AIMA has laid down a code of conduct to regulate the activities of its members. But its membership is not compulsory for all managers.

5. **Service motive:** The basic motive of management of an organization is profit maximization.

## Levels of Management



## 1. Top Level Management

Top management consists of the senior most executives of the organization and their team.

- Chief Operating Officer
- Chief Executive Officer (CEO)
- Chief Marketing Officer
- Chief Financial Officer
- Managing Director
- Chairman
- President
- Vice-President

## Functions:



- (i) To formulate organizational goals and strategies.
- (ii) To coordinate the activities of different departments.
- (iii) To be responsible for welfare and survival of the organization.
- (iv) To analyze the business environment and its implications.

## **2. Middle Level Management**

Middle management consists of divisional/departmental heads.  
Human Resource (HR) Manager

- Human Resource (HR) Manager
- Production Manager
- Finance Manager
- Operations Manager
- Regional Manager
- Divisional Manager
- Marketing Manager
- Plant Superintendent

### **Functions:**

- (i) Interpret the policies framed by top management.
- (ii) Ensure that their department has the necessary personnel.
- (iii) Assign necessary duties and responsibilities to them.
- (iv) Motivate them for higher productivity.
- (v) Cooperate with other departments for smooth functioning of the organization.

## **3. Operational or Supervisory Management or Lower Level**

Supervisors, Foremen

### **Functions:**

- (i) Supervisors oversee the efforts of the workforce.
- (ii) Supervisory management passes on instructions of the middle management to the workers.
- (iii) Through their efforts quality of output is maintained, wastage of materials is minimized and safety standards are maintained.

## Functions of Management

**(i) Planning:** It involves establishing organizational goals, setting business targets and planning the process to achieve the same most effectively and efficiently.

**(ii) Organizing:** It involves organizing human and physical resources to implement decisions taken at planning stage.

**(iii) Staffing:** It involves recruiting and selecting people with right qualification and experience for the right job at the right time.

**(iv) Directing:** It involves leading, motivating, instructing the staff to perform the tasks assigned to them.

**(v) Controlling:** It involves monitoring and comparing the performance of employees at all critical levels.

## Concept of Coordination

Coordination is the process by which activities of different departments are synchronized to ensure unity of action.

### Nature/Characteristics/Features of Coordination

1. Coordination integrates group effort by unifying diverse interests and by giving a common focus to group effort.
2. Coordination ensures unity of action by acting as a binding force between departments
3. Coordination is a continuous process as it starts at the planning stage and continues till controlling.
4. Coordination is a pervasive function as it is required at all levels of management and in all departments
5. Coordination is the responsibility of all managers at the top, middle and lower level.

### Need and Importance of Coordination

**1. Growth in size:** As organizations grow in size, number of people in the organization also increases. Coordination is needed to integrate their efforts.

**2. Functional differentiation:** In an organization, there are different departments like production, marketing, finance, etc. All departments have their own objectives, policies, strategies, etc. So, there may arise conflict among them. Coordination is needed to ensure unity of action among them and to avoid inter-departmental conflicts.

**3. Specialization:** In modern organizations, there is high degree of specialization. So, organizations employ a number of specialists. Coordination is needed to avoid conflict between the specialists and the other members of the organization.

### Key words with meaning:

**1. Management:** It is a process of getting things done with the aim of achieving goals effectively and efficiently.

- 2 Effectiveness** : Effectiveness in management is concerned with doing the right task and achieving the goals on time.
- 3. Efficiency** : Efficiency means doing the task correctly and with minimum cost.
- 4. Pervasive** : Spreading through all types of organization.
- 5. Art** : Art refers to skillful and personal application of systematic knowledge to bring desired results
- 6. Science** : Science is a systematized body of knowledge acquired through observation and experimentation that explains certain general truths.
- 7. Profession** : It refers to an occupation backed by specialized knowledge and training in which entry is restricted.
- 8. Code of conduct** : It is a defined set of rules, principles, values, employee expectations, behaviours and relationships that a business considers important and believes necessary for its success.
- 9. Coordination**: It is the process by which the manager synchronizes the activities of different departments towards the achievement of a common goal.
- 10. Specialization**: Becoming an expert in a particular area of knowledge.

### MCQs

1	<p>Efficiency is a task</p> <p>(a) being completed on time</p> <p>(b) being completed on time with least resources</p> <p>(c) being completed on time with added resources</p> <p>(d) none of the above</p>
2	<p>Which of the following is a social objective?</p> <p>(a) providing good working conditions to workforce</p> <p>(b) providing good quality products at reasonable prices</p> <p>(c) providing good returns to investors</p> <p>(d) utilizing human and material resources optimally.</p>
3	<p>Which of the following characteristics of profession is present in management?</p>

	(a) code of conduct (c) restricted entry	(b) professional degree (d) well defined body of knowledge
4	Which level of management sets the targets for workforce? (a) top level (c) lower level	
	(b) middle level (d) all the above	
5	<p><b>Assertion (A)</b> : Coordination begins at the planning stage and continues till controlling</p> <p><b>Reason (R)</b> : Coordination is a one-time process</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion ( A)</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>	
6	This function of management provides right kind of people for the right job. (a) organizing      (b) planning      (c) staffing      (d) directing	
7	Which of the following belongs to middle level management? (a) chief operating officer (c) factory supervisor	
	(b) factory head (d) none of the above	
8	The managers at ----- level of management is responsible for the welfare and survival of an organization. (a) Top      (b) Middle      (c) Lower      (d) All of these	
9	Derivation of principles of management is a matter of -----and their application is a matter of ---- (a) art ; science (c) art ; discipline	
	(b) science ; art (d) discipline ; science	
10	<p><b>Assertion (A)</b> : Management is a goal oriented process</p> <p><b>Reason (R)</b> : An organization has a set of basic goals which are the basic reason for its existence.</p>	

	<p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</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>
11	<p>Read the following statements carefully.</p> <p>Statement I : Management is called as an inexact science.</p> <p>Statement II : Management deals with complex human behavior, which cannot be determined with accuracy.</p> <p>Choose the correct option from the options given below:</p> <p>(a) Statement I is true and II is false      (b) Statement II is true and I is false</p> <p>(c) Both the statements are true      (c) Both the statements are false</p>
12	<p>Vasanthan was working in ABC Ltd. a company manufacturing air coolers. He found that the profits had started declining from the last six months. Profits has an implication for the survival of the firm. So he analyzed the business environment to find out the reason for the decline. Identify the level of management at which Vasanthan was working.</p> <p>(a) Lower level      (b) Middle level</p> <p>(c) Top level      (d) None of these</p>
13	<p>ITC Ltd. contributes Rs.1 on sale of its each note book towards primary education. Identify the objective of the management is trying to achieve.</p> <p>(a) Personal objective      (b) Social objective</p> <p>(c) Economic objective      (d) None of these</p>
14	<p><b>Assertion (A)</b> : Management is an intangible force.</p> <p><b>Reason (R)</b> : Management has to adapt itself to its changing environment, which consists of various social, economic and political factors.</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</p>





1 Alpha Ltd. is a construction company in which all the employees learn various ways of dealing with diverse situations from their seniors. Company provides financial as well as non-financial incentives. This helps the employees to grow and develop their abilities. The organization behaves as a responsible constituent of society and always creates good quality products. It has a positive image in the market. The training modules are excellent and the employees always try to find unique ways of providing solutions in the context of rapidly changing business environment. This has helped the organization to adjust smoothly.

The importance of management highlighted is as follows:

(a) Helps in achieving personal objectives: A manager motivates and leads his team in such a manner that individual members are able to achieve personal goals while contributing to the overall organizational goals.

(b) Helps in the development of society: The organization tries to behave as responsible constituent of society and always creates good quality products.

(c) Creates a dynamic organization: Organizations have to function in a constantly changing environment. Management helps people adapt to the changes so that organization is able to maintain a competitive edge.

2 After completing his MBA degree, Amar joined a multinational company Zeya Ltd.'. His job demands long hours and commitment to the organization. He is responsible for integrating diverse elements and coordinating all the activities of the business and for its impact on society. His job is complex and stressful.

(a) Identify the level of management at which Amar joined the organization.

(b) State any two functions to be performed by Amar at this level other than those discussed in the paragraph.



(a) Top Level of Management

(b) The functions to be performed by Amar are:

(i) He is responsible for the welfare and survival of the organization.

(ii) He formulates overall organizational goals and strategies for their achievement.

3

Rosh is working as the CEO of a company. He deals with different types of people in his company who perform different types of activities which are many of times unrelated. His job is to unify these unrelated and diverse activities and interests into purposeful work so that a common focus could be provided.

(a) Which characteristic of coordination is indicated in the above case?

(b) Explain any two other characteristics other than identified in part (a).

(a) **Coordination integrates group efforts:** Coordination unifies unrelated or diverse interests into purposeful work activity. It gives a common focus to group effort to ensure that performance is as it was planned and scheduled.

(b) (i) **Coordination ensures unity of action:** The purpose of coordination is to secure unity of action in the realization of a common purpose. It acts as the binding force between departments and ensures that all action is aimed at achieving the goals of the organization.

(ii) **Coordination is a continuous process:** Coordination is not a one-time function. It begins at the planning stage and continues till controlling.

4	<p>Sonu Nigam, the famous playback singer always spends time for practice and adds his creativity in his singing. Like Sonu Nigam, Mr. Sharma, Manager of H Ltd., uses his creativity and practice management skills under different situations to manage the business. The employees are happy and satisfied as everyday he rewards employees for punctuality and efficiency.</p> <p>(a) Identify and define the nature of management highlighted above.</p> <p>(b) Name and define two other aspects of nature of management.</p> <p>(a) The nature of management highlighted in the given case is management as an Art.</p> <ul style="list-style-type: none"> <li>• Art is the skillful and personal application of existing knowledge to achieve desired results.</li> <li>• It can be acquired through study, observation and experience.</li> </ul> <p>(b) The two other aspects of nature of management are:</p> <p>(i) Management as a Science</p> <ul style="list-style-type: none"> <li>• Science is a systematized body of knowledge that explains certain general truths or the operation of general laws.</li> <li>• It contains principles and facts which explain a phenomenon.</li> </ul> <p>(ii) Management as a Profession</p> <ul style="list-style-type: none"> <li>• A profession can be defined as an occupation backed by special knowledge and training, in which entry is restricted.</li> </ul>
5	<p>Malini is a well-known businesswoman in the field of publishing. She owes the success of her business to her own education in business management and her team of certified management consultants. Therefore, she decides to send both her children Darshit and Pihu abroad to acquire a degree in business management in their individual area of expertise. She feels that all over the world there is marked growth in management as a discipline, but still it is not considered to be a full-fledged profession for certain reasons.</p> <p>(a) Explain the reasons because of which Malini considers management as a discipline.</p> <p>(b) Critically examine the various reasons because of which management is not considered to be a full fledged profession.</p>

(a) Malini considers management as a discipline because there exist a number of theories and principles on management which have been formulated by various management experts. It is taught in various schools and colleges, all over the world, as a separate subject of study.

(b) Management is not considered to be a full-fledged profession because of the following reasons:

(i) Restricted entry: Unlike management, the entry to the other professions is restricted through an examination or eligibility criteria like specific percentage in a particular degree or diploma. However, in management, anyone can be called a manager regardless of his/her academic qualifications.

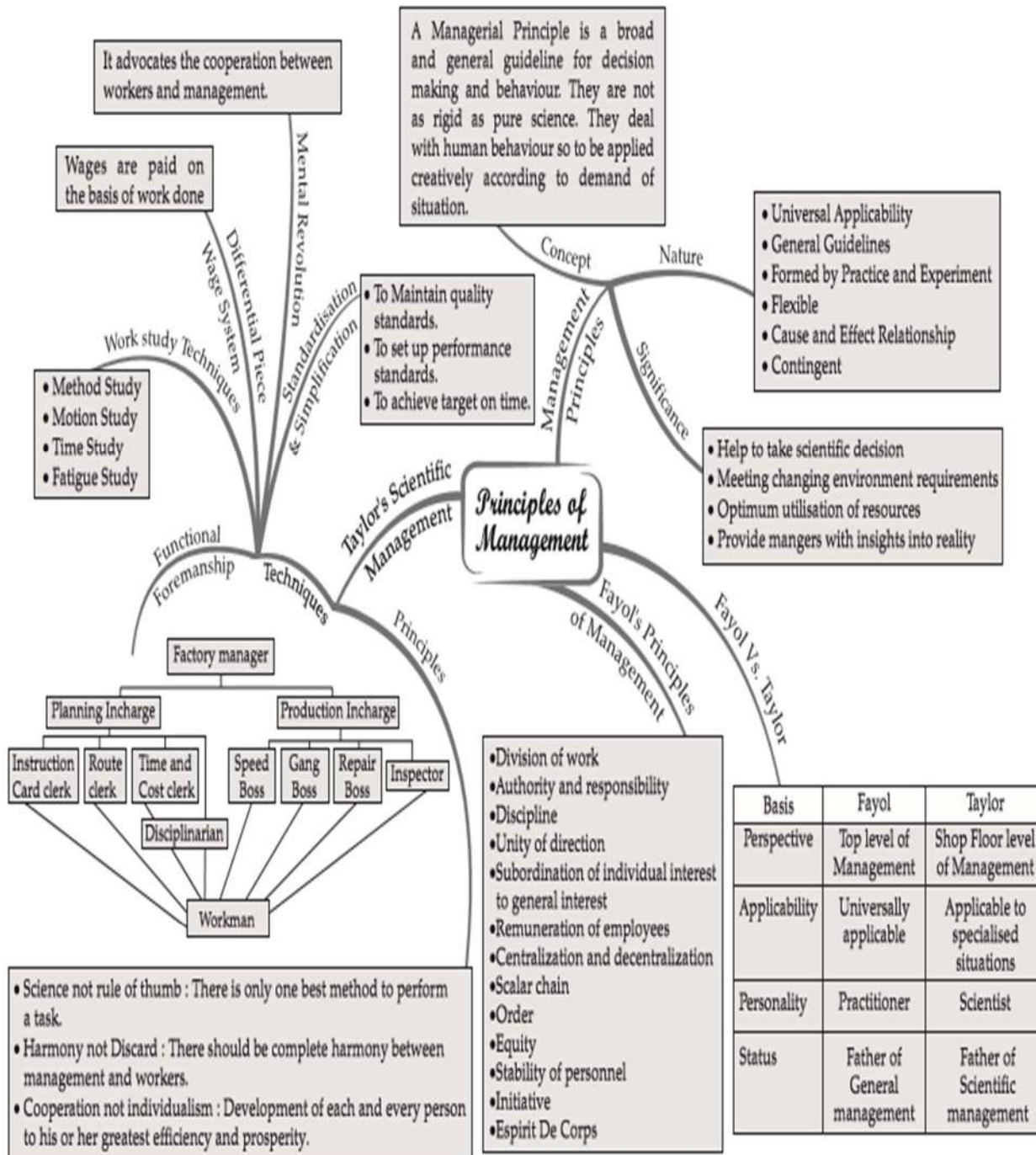
(ii) Professional association: All working professionals have to be a member of an affiliated professional association which regulates their entry, grants certificate of practice and formulates and enforces code of conduct. For example, the practicing doctors should have membership of All India Medical Association etc. However, in case of management, although there exist management association like the All India Management Association (AIMA), neither does it have any statutory backing nor is it mandatory for the practicing managers to a member of such associations.

6	<p>In an organization, sales department wants to increase the sale by 20%. So, sales department planned to offer extra discounts to customers. Finance department raised objections on it as they say, it will result in loss of revenue and company may face liquidity problem.</p> <p>(a) Identify the importance of coordination referred to here.</p> <p>(b) Also, state two other importance of coordination.</p> <p>(a) Functional differentiation</p> <p>(b) The two other importance of coordination are:</p> <p><b>(i) Growth in size</b></p> <ul style="list-style-type: none"> <li>• As organizations grow in size, the number of people employed by the organization also increases.</li> <li>• Though, all individuals differ in their habits of work, background, approaches to situations and relationships with others but need to be integrated to ensure that all individuals work towards the common goals of the organization.</li> <li>• But employees may have their own individual goals also.</li> <li>• Therefore, for organizational efficiency, it is important to harmonize individual goals and organizational goals through coordination.</li> </ul> <p><b>(ii) Specialization</b></p> <ul style="list-style-type: none"> <li>• In modern organizations, there is a high degree of specialization arising out of the complexities of modern technology and the diversity of tasks to be performed.</li> <li>• So specialists are employed who think that they only are qualified to evaluate, judge and decide.</li> <li>• They do not take advice or suggestions from others which lead to conflict between them.</li> <li>• Therefore, some coordination is required to reconcile the differences in approach, interest or opinion of the specialists.</li> </ul>
7	<p>For management, it is important to be both effective and efficient. Effectiveness and efficiency are two sides of the same coin." Comment.</p> <p>"Coordination" is the process highlighted in above case</p>

	<p>It is the force which binds/synchronizes all the other functions of management being performed in various departments to provide continuity and efficiency in the working of the organization.</p> <p>It acts as a common thread that runs through all the activities. It begins at planning stage and continues until the organizational objectives are achieved; thus, it is implicit and inherent in all functions of an organization.</p>	
8	<p>Identify the functions of management:</p> <ul style="list-style-type: none"> <li>(i) Leading, influencing and motivating employees to perform the tasks assigned to them.</li> <li>(ii) Recruitment and selection of the personnel.</li> <li>(iii) Deciding the objectives, policies and procedures to be followed in the company.</li> </ul> <ul style="list-style-type: none"> <li>(i) Directing</li> <li>(ii) Staffing</li> <li>(iii) Planning</li> </ul>	
9	<p>Name the levels of management engaged in:</p> <ul style="list-style-type: none"> <li>(i) Introducing a new product line and deciding the capital structure of the company.</li> <li>(ii) Recruitment of casual labourers.</li> <li>(iii) Devise a suitable advertising campaign to sell a new product/service a company is launching.</li> </ul> <ul style="list-style-type: none"> <li>(i) Top Management</li> <li>(ii) Supervisory or Operational Management</li> <li>(iii) Middle Management</li> </ul>	
10	<p>Jayanth is working as ‘Operations Manager’ in Taflon Ltd. Name the managerial level at which he is working. State any three functions performed by Jayanth.</p> <p>Jayanth is working at Middle level management. Functions :</p> <ul style="list-style-type: none"> <li>(i) interpret the policies framed by top management</li> <li>(ii) ensure that his department has necessary personnel</li> <li>(iii) motivate them for higher productivity to achieve desired objectives.</li> </ul>	

# CH. 2 Principles of Management

## MIND MAP



- Science not rule of thumb : There is only one best method to perform a task.
- Harmony not Discard : There should be complete harmony between management and workers.
- Cooperation not individualism : Development of each and every person to his or her greatest efficiency and prosperity.

Basis	Fayol	Taylor
Perspective	Top level of Management	Shop Floor level of Management
Applicability	Universally applicable	Applicable to specialised situations
Personality	Practitioner	Scientist
Status	Father of General management	Father of Scientific management

General Notes:

1. **Principles of management. The Concept**

- Managerial principles are the general guidelines for decision-making and behaviour.
- Framed on the basis of standard human behaviour patterns applied as per the need or demand of a situation.
- Help managers to perform managerial activities more effectively and efficiently.

2. **Principles of Management Vs. Principles of Pure Science.**

- Management principles are **flexible and updated** to meet the changing demands of the environment.
- Management principles are **related to human behaviour** thus they need to be used creatively.
- Management principles **cannot be tested** in any laboratory.
- Application of same principles may give **different results** in **different situations**.

3. **Principles of Management Vs. Techniques of Management.**

Management principles are the **guidelines** to take decisions or actions whereas techniques are the **procedures or methods**, which need to be followed to accomplish desired goals.

4. **Principles of Management are different from values.**

- Values are the acceptable or desirable behaviour of individuals whereas principles of management are the guidelines for human behaviour.
- Values are related to individual behaviour in society but the principles of management are the technical rules related to work situations.
- Values are part of principles of management but values may not include principles of management.

5. **Nature of Principles of Management.** Management principles are based on observations, experimentations and the personal experiences of managers. The nature of principles of management can be stated as follows:

- a) **Universal applicability.** Principles of management is applicable at all levels of an organisation and in all types of organisations.
- b) **General guidelines.** Principles of management provide broad guidelines to solve business problems in general.
- c) **Formed by practice and experimentation.** The principles of management are formed on the basis of experiences, observations and analysis of events in the past.
- d) **Flexible.** The principles of management are the guidelines or tools which managers may use at their discretion.

- e) **Mainly behavioural.** Principles of management though explain the relationship between human and on situations and material resources but they influence human behaviour the most while accomplishing organisational goals.
- f) **Cause and effect relationship.** Principles of management intent to provide the cause and effect relationship of the principles if applied in a specific situation.
- g) **Contingent.** The application of principles of management is dependent on situations and time at which such situations happen.
6. **Significance of Principles of Management.**
- i. **Providing managers with useful insights into reality.** They provide ideas, hints or guidelines to solve similar problems.
  - ii. **Optimum utilisation of resources and effective administration.** The cause and effect relationships helps managers to foresee the effect of their decisions and actions thus, enables them to use resources most effectively.
  - iii. **Scientific decisions.** Principles based on experiments, observations and logic provide objective assessment of a situation.
  - iv. **Meeting changing environment requirements.** The managers can modify principles to meet the needs of dynamic business environment.
  - v. **Fulfilling social responsibility.** By incorporating values as part of principles has enabled businesses to fulfill social responsibilities.
  - vi. **Management training, education and research.** The principles of management and the managerial experiences are used as case studies to train employees or for further modification or development of principles already applied.
7. **Taylor's Principles of Scientific Management.**
- a) **Science Not Rule of Thumb.** This principle states that maximum productivity can be achieved only by following standard methods of production and the standard methods must be developed by evaluating the different methods followed in the past and selecting the best possible method. Production techniques cannot be followed using hit and trial method.
  - b) **Harmony, Not Discord.** This principle states that management and workers must have good understanding and faith amongst each other. The combined efforts of management and workers help an organisation to achieve its goals.



- c) **Cooperation, Not Individualism.** This principle states that each individual in the organisation must work with the final aim of achieving organisational goals. Management and workers must work as a team to be effective and efficient.
- d) **Development of Each and Every Person to His or Her Greatest Efficiency and Prosperity.** This principle states that organisations must appoint such people who possess the mental, physical and intellectual capabilities required for the job. It must also provide continuous on the job training for employees to improve their productivity and achieve growth.

8. **Taylor's Techniques of Scientific Management.**

- A. **Functional Foremanship.** As per this technique, the planning and execution should be treated as two separate functions and each function should be handled by a separate incharge. Each incharge must be assisted by four specialised personnel who would give instructions to workers.

Assistants of Planning incharge would be:

- a) **Instruction Card Clerk.** For drafting instructions for workers.
- b) **Route Clerk.** To specify the production route.
- c) **Time and Cost Clerk.** For preparing time and cost sheet.
- d) **Disciplinarian.** For maintaining discipline in the factory.

Assistants of Production incharge would be:

- e) **Speed Boss.** Will ensure that jobs is completed accurately and on time.
- f) **Gang Boss.** Responsible to keep machines and tools ready for operations.
- g) **Repair Boss.** Responsible for keeping the machines and tools in proper working conditions.
- h) **Inspector.** Responsible to maintain the quality of work.
- B. **Standardisation of work.** It means setting standards with respect to process followed, time taken, raw materials used, working conditions for each business activity.

**Objectives of Standardisation:**

- a) To produce products of fixed types, sizes and characteristics.
- b) To establish interchangeability of manufactured parts and products.
- c) To establish standards of excellence and quality in materials.
- d) To establish standards of performance of men and machines.
- C. **Simplification of work.** It means simplifying work by eliminating needless varieties, sizes, dimensions, etc. of products produced to utilise resources optimally and reduce labour and overhead costs.

**D. Work Study Techniques: (a) Method Study.**

- a) Finds the best possible way of doing a particular job.
- b) Decides sequence of operations and placement of human and physical resources while producing goods.
- c) Aims to minimise cost of production and maximise efficiency, quality , productivity and customer satisfaction.

**E. Work Study Techniques: (b) Motion Study.**

- a) It is a study of movements undertaken while doing a job like lifting, putting objects, sitting and changing positions, etc.
- b) It designs the best method to perform repeated jobs.
- c) It eliminates unnecessary movements to complete the task in minimum time with greater efficiency.
- d) Body motions can be (i) productive motions (ii) incidental motions and (iii) unproductive motions. Through motion study the unproductive motions can be eliminated.

**F. Work Study Techniques: (c) Time Study.**

- a) It determines the standard time for performing a well-defined job or a repeated activity.
- b) Standard time is fixed by using the average of time taken to perform same activity several times.

**G. Work Study Techniques: (d) Fatigue Study.**

- a) It determines the amount and frequency of rest intervals required to complete a task without getting physically or mentally tired.
- b) The breaks in between work help workers to regain stamina to work with the same energy.

**H. Differential Piece Wage System.**

- a) It suggests that workers should be paid wages at different rates to recognise and reward efficiency and penalise inefficiency.
- b) Under this system different wage rates are determined to make payments to workers for performance as per standard output, above standard output and below standard output.

**9. Fayol's Principles of General Management - An analysis.**

Sl No	Name of Principle	Concept	Positive effects	Adverse effect if principle is violated
1.	Division of work	This principle states that work should be divided into smaller tasks and each task should be performed	Division of work leads to specialisation.  Higher productivity and efficiency	Lack of specialisation leads to inefficiency.  Lesser productivity.

		by a specialised or trained personnel	achieved with same work.	
2.	Authority and responsibility.	Responsibility is the obligation to perform assigned jobs and authority is the right to give orders or instructions to get work done by subordinates. Balance between authority and responsibility ensures efficient and effective completion of task.	Ensures effective completion of task without any delays.  Well defined authority and responsibility reduces the abuse of power.	With inadequate authority completion of task with efficiency will not be possible.  Excess authority may lead to abuse of power.
3.	Discipline	Discipline means following organisational rules and terms of employment agreement while working in the organisation. To maintain discipline organisation must have good supervisors, clear and fair agreements and judicious application of penalties.	Smooth and systematic functioning.  Improved efficiency.  Clear and written rules eliminate cause of suspicion or misunderstanding.	Disobedience of rules and regulations affects productivity adversely.  Performance below standard.  Conflict and indifference between employees and management.
4.	Unity of Command	It means that an employee must receive instructions or orders from only one superior.	Clear instructions improve worker's efficiency.  No confusion in worker's mind regarding whose instructions to follow.  No conflicts between superiors or subordinates.	If two or more superiors give instructions, then authority of superiors is undermined.  It may result in indiscipline or disobedience.  Conflict or differences between superiors.  Employee loyalty may be divided.

				Confusion in worker's mind may lead to inefficiency and delays in execution of orders.
5.	Unity of direction	This principle states that each department or group of activities with same objective should have their own plans and must be headed by independent incharge. One Head and One Plan concept must be followed.	Ensures unity of action.  Effective coordination.  Eliminates duplication or overlapping of work.	Lack of independent plans may lead to duplication of work and wastage of resources.  Lack of unity of action may lead to inefficiency.
6.	Subordination of individual interest to general interest	This principle states that in case of conflict of interest, the interest of organisation as a whole must be given priority over the interest of the individual employees.	Organisational goals are achieved effectively.  Coordination and understanding between employees and management.	Employees may give priority to their personal interests over organisational interests.  Organisational goals may not be achieved.  Employees may lack belongingness to the organisation.
7.	Remuneration of employees.	Remuneration payable to employees should be fair, reasonable, just and equitable	The workforce is satisfied and contented.  Efficient and effective performance.  Ensures smooth relationship between employees and management	Unjust and unequal wage paid may demotivate workers and affect efficiency adversely.  Unhealthy relationship between employees and management.  This may affect the stability of workers adversely.
8.	Centralisation and decentralisation	This principle states that all crucial decisions must be taken by top level management	All important or crucial decisions are taken by top management.	Complete centralisation may lead to delay in decision-making.

		(centralisation) whereas the authority to take routine decisions must be delegated to middle and lower level management (decentralisation).	Delegation eliminates delays in decision-making leading to efficient implementation of plans.  Involvement of middle level and lower level management in decision making ensures loyalty and belongingness.	Top management may not understand on the job problems faced by workers while implementing plans.  Complete decentralisation may lead to misuse or abuse of authority at lower levels.  Personal interests may supersede organisational interests.
9.	Scalar Chain.	This principle states that organisation must follow a line of authority and communication from the highest to lowest ranks. Only in emergencies, the two people at same authority levels but working in different departments may follow concept of Gang Plank and communicate directly.	Effective flow of communication in the organisation.  No possibility of communication gap among superiors and subordinates.  Promotes unity of command.  Instructions from one boss eliminates possibilities of confusions.	Delay in communication due to strict line of authority.  Possibility of communication gaps in the organisation.
10.	Order	This principle states that there should be orderliness in the organisation. It means there should be defined place for all resources and all resources should be in the assigned place.	Eliminates hindrance of all kinds while performing business activities.  No wastage of time while looking for or organising resources.  Increases efficiency and productivity.	In the absence of orderliness there may be wastage of time in moving resources to required place.  Employees may not be approachable easily.  Affects efficiency and productivity.
11.	Equity	This principles states that employees at similar positions must be treated equally.	Ensures better understanding	Discrimination in behaviour may create

		The management must be fair, kind, just and impartial towards employees.	<p>between employees and management.</p> <p>Employees feel satisfied and contend and thus perform their best.</p> <p>Ensures loyalty, belongingness and motivation from employees.</p>	<p>unhealthy relationships.</p> <p>It may affect efficiency and productivity.</p> <p>Employees may not be loyal to organisation.</p> <p>May result in labour turnover.</p>
12.	Stability of personnel	This principles states that employees once selected and appointed should be given fair chance and time to prove their performance. There should be a fixed minimum tenure for employees.	<p>Provides job security to employees.</p> <p>Improves workers' efficiency.</p> <p>Lesser workers' turnover helps to maintain stability and reduction in training costs.</p>	<p>In the absence of stability, workers may feel insecure and thus may not perform their best.</p> <p>It may lead to high worker turnover and workers may continue to look for more secured jobs.</p> <p>Organisation may have to incur high costs on selecting and training new employees.</p>
13.	Initiative	This principles states that employees should be provided with opportunities to take initiative in suggesting plans and taking them forward.	<p>Employees feel important and wanted.</p> <p>Increases sense of belongingness.</p> <p>Provides employees job satisfaction and motivation to perform better.</p>	<p>Lack of employee involvement may lead to frustration and dissatisfaction among employees.</p> <p>Workers may not be motivated to work to their best.</p> <p>Implementation of plans may not be effective.</p>
14.	Esprit De Corps (unity is strength)	This principles states that organisation should promote team spirit of unity and harmony among	It develops atmosphere of mutual trust and belongingness among employees.	In the absence of team spirit individualism becomes more important than group

		employees. "I" is replaced by "We".	It minimises the indiscipline issues.  Individual efforts get unified as group efforts.  Organisational goals are achieved more effectively.	efforts. So "I" replaces "We".  It may result in lack of coordination.  It may become difficult to achieve organisational goals.
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**10. Unity of command Vs. Unity of direction.**

Basis	Unity of command	Unity of direction
Concept	Unity of command means that one subordinate will receive orders or instructions from one superior only.	It means a group of activities or a department having common objective must be headed or monitored by one individual and must have one plan.
Aim	Avoids dual subordination	Avoids or prevents overlapping of activities or conflict of interest.
Implication	It affects and individual employee.	If affects an organisation.

**11. Centralisation Vs. Decentralisation.**

Basis	Centralisation	Decentralisation
Concept	Centralisation means concentration of power to decision-making functions at the apex (top) of the management hierarchy.	Decentralisation means a certain degree of authority and responsibility to take decisions is delegated to lower level of hierarchy.
Authority level	The authority and responsibility to take decisions is with the top level management only.	The authority and responsibility to take decisions is delegated to the middle and lower level management as well.
Flexibility/ freedom of action	The plans need to be implemented as decided by top management. Managers do not have freedom to decide or alter plans.	Managers have the authority to make plans and decide the course of implementation as per the need of situation. They have freedom to act as they deem right.
Suitability.	It is suitable to small organisations only.	It is more suitable for large scale organisations.

**12. Comparison of Fayol's and Taylor's Contributions.**

Basis	Taylor	Fayol

Concept	Scientific management	General theory of administrative management.
Focus	Factory shop floor, working to improve productivity.	Explain what must be included as managerial tasks to improve overall administration.
Perspective	Shop level or operating level management in a factory.	Top and middle level management.
Methodology	Standards developed after observations, experimentations, and analysis of methods used in the past to complete a specific task.	Information based on personal experience while working in various managerial positions.
Beliefs	He believed in functional Foremanship where workers received commands/instructions from more than one specialised bosses.	He believed in one man one boss concept and developed the principles like Unity of Command, Unity of Direction, Scalar Chain etc.
Application	Applicable to business enterprises involved in manufacturing activities.	Applicable to all kinds of business enterprises, manufacturing, trading or service organisations

### Question Bank with Answers.

#### 13. Multiple Choice Questions.

- 1) "Management principles help in thoughtful decision-making. They emphasize logic rather than blind faith." this statement describes the following point of significance of principles of management. **(CBSE 2021-22)**
- (A) Fulfilling social responsibility. (C) Meeting changing environment requirements.  
 (B) Scientific decisions. (D) Optimum utilisation of resources.
- 2) "The application of principles of management is dependent upon the prevailing situation at a particular point of time." The above statement highlights that principles of management are: **(CBSE 2021-22)**
- (A) Flexible (B) Contingent. (C) Behavioural (D) Universal.
- 3) **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.
- (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 the Reason (R) is not the correct explanation to Assertion (A).  
 (C) Assertion (A) is true, but Reason (R) is false.  
 (D) Assertion (A) is false, but Reason (R) is true.



- 4) The .....technique proposed by Taylor aims at eliminating unnecessary diversity of products.
- (A) Motion study. (C) Differential Piece Wage System.  
(B) Standardisation and Simplification of work. (D) Functional Foremanship.
- 5) Kamath Hotels Ltd. is a chain of restaurants dealing with south Indian dishes. It believes in complete cooperation between the labour and management. Its management encourages the employees for their constructive suggestions. They take their employees into confidence for all important decisions. Which principle of scientific management is followed by Kamath Hotels Ltd?
- (A) Science, not rule of Thumb.  
(B) Harmony, not discord.  
(C) Cooperation, not individualism.  
(D) Development of each and every person to his or her greatest efficiency and prosperity.
- 6) According to the technique of Scientific management "Differential piece wage system" how much more will a worker making 60 units earn as compared to a worker making 49 units? The standard output per day is 50 units and those who make standard output or more than standard get ₹ 75 per unit and those below get ₹ 65 per unit.
- (A) ₹ 4,500 (B) ₹ 3,185 (C) ₹ 1,315 (D) ₹ 3,250
- 7) Taylor called for complete mental revolution on the on the part of both management and workers. It meant that management and workers should transform their thinking. Management should share their decisions with the workers. At the same time, workers should work hard and be willing to embrace change for the goal of the company. The principle of management highlighted above is:
- (A) Science, not rule of Thumb.  
(B) Harmony, not discord.  
(C) Cooperation, not individualism.  
(D) Development of each and every person to his or her greatest efficiency and prosperity.
- 8) 'M/s J K Computers' is a small organisation engaged in assembling of computers. In this organisation, decision making rests with top management while the middle level is involved in only the implementation of plans. On the other hand, 'Progressive Computers Ltd.' is a large company where a number of people from each level are involved in the decision-making process.
- The application of the principle of "Centralisation and Decentralization is different in the two organisations as the situation in each enterprise is not same. (CBSE 2023-24)

From the following identify the nature of principles of management:

(A) Mainly Behavioural      (B) Contingent (C) Flexible      (D) Universal.

9) Vidhya Public School is a renowned school in Nasik. The management recently appointed a new Maths teacher, Jeevitha, to teach classes XI and XII and gave her a monthly salary of ₹ 50,000. Jeevitha is not satisfied with it and said “the salary is not just and equitable as per the amount of work required to be done by a Maths teacher. Other schools in the city are paying ₹ 80,000 to their teachers teaching XI and XII classes”. Name the principle of management violated by Vidhya Public School in the above case. (CBSE 2022-23)

(A) Discipline      (B) Remuneration of employees      (C) Equity      (D) Esprit De Corps.

10) 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.

(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. Case Study Questions.

A. Read the following text and answer the questions given below:

After completing her bachelors degree in fashion designing from a reputed institute in the country, Hema has opened a boutique in a posh market Conaught Place in New Delhi. She has divided the work in smaller units and each employee is well trained to perform his/ her task efficiently. The sales persons are allowed to close a deal with a buyer by giving a maximum of 5% discount, whereas the decision to give any further discount rests with Hema as the final authority. In the earlier period of her business venture, employees were asked to put in extra hours of work. In return she had promised to give them a special incentive within a year. Therefore, when the business was doing well, she honours her commitment by giving bonus to her employees. She also instructed her employees that communication from top to bottom should follow the official lines of command. However, she tends to be more biased towards her female employees, when it comes to solve the conflicts among employees. (CBSE 2021-22)

1. Hema has divided the work in smaller units and each employee is well trained to perform his/ her task efficiently. Which principle of management is being followed here?

(A) Centralisation and Decentralisation.

(B) **Division of work.**                      (C) Discipline.                      (D) Order.

2. "The sales persons are allowed to close a deal with a buyer by giving a maximum of 5% discount, whereas the decision to give any further discount rests with Hema as the final authority". Identify the principle of management being followed here.

(A) **Centralisation and Decentralisation.**

(B) Authority and Responsibility.

(C) Unity of Command.

(D) Unity of Direction.

3. "Therefore, when the business was doing well, she honours her commitment by giving bonus to her employees". Which principle of management is being highlighted here?

(A) **Discipline.**

(C) Remuneration to Employee.

(B) Order.

(D) Unity of Direction.

4. "Hema tends to be more biased towards her female employees, when it comes to solve the conflicts among employees." Which principle is being violated here?

(A) Discipline

(B) Order

(C) **Equity**

(D) None of these.

B. Read the following text and answer the questions given below:

A management student Arun likes to relate what he learnt in his classes during study to real life situations around her. He observed many situations while watching educational programme on television that remind him of concepts of Scientific Management. In one such programme , manufacturing of parts for products were being telecast. These factories had defined benchmarks during production were continuously aiming at eliminating unnecessary diversity of products. Thus, they aimed at eliminating superfluous varieties, sizes and dimensions and devising new varieties instead of the existing ones. While watching the programme Arun realised that these companies could adopt one best way of doing the job in order to be more productive. He also felt that the employees of these companies were working for long hours continuously and needed to adopt certain strategies in order to improve their efficiency. The programme also showed a few interviews where some workers were found to be highly efficient as compared with a few others.

1. Which Scientific Management technique would Arun suggest for these factories if they have to help the workers regain their stamina and enable them to work again with the same capacity?

(A) Motion Study (B) Time Study.

(C) Method Study

(D) **Fatigue Study.**

2. Name the technique of Scientific Management that these factories are adhering to while manufacturing parts for such products.

(A) Method Study.

(C) **Standardisation and simplification of work.**

(B) Motion Study. (D) Time Study.

3. Which Scientific Management technique would Arun advise these factories to implement in order to motivate the inefficient workers to perform better?

(A) Functional Foremanship (C) Time Study.

(B) **Differential Piece Wage System.** (D) Method Study.

4. Which Scientific Management technique would Arun recommend for these factories if they have to find out one best way of doing the job?

(A) Motion Study. (B) Time Study. (C) **Method Study.** (D) Fatigue Study.

C. After completing the fashion designing course. Harish opened a new showroom. He decided to sell his own designed costume to customers. With the innovation and introduction of new trends and fashion, he blended the western and ethnic sensibilities together in his designing. To run the showroom smoothly and to manage its day to day affairs, he appointed the staff in showroom. Initially, he promoted a team spirit of unity and harmony among employees. He also welcomes suggestions of the employees from time to time which resulted in substantial cost and time reduction. When customers used to come to buy the costumes, they observed that there is a fixed place for everything and everyone and there is no hindrance in the activities of the showroom. The fabric of different types and colours was organised properly in different racks. There is almost equal division of work and responsibilities between male and female employees. However, at the time of appraisals, he gave 5% extra to female employees than the male employees. After few years he realised that the employee turnover is very high. In order to maintain the efficiency of the showroom, he decided to minimise the employee turnover. This created insecurity among the employees.

1. Which of the following statement is correct with regard to the principle of "Initiative"?

(A) Workers should be encouraged to develop and carry out their plans.

(B) Initiative results in substantial cost and time reduction.

(C) Initiative is thinking out and executing the plan.

(D) All of the above. **(D)**

2. Which of the following principle of management is being violated by Harish in the below mentioned lines: "However, at the time of appraisals, he gave 5% extra to female employees than the male employees".

(A) Equity. (C) Centralisation and Decentralisation.

(B) Remuneration to employees. (D) Scalar Chain. **(A)**

3. Which of the following principle of management is highlighted in the below mentioned lines: "he promoted a team spirit of unity and harmony among employees."

(A) Equity. (B) Unity of Direction (C) Initiative (D) Esprit De Corps (D)

4. Which of the following principle of management is highlighted in the below mentioned lines: "In order to maintain the efficiency of the showroom, he decided to minimise the employee turnover."

(A) Discipline.

(C) Stability of Personnel.

(B) Unity of Command. (D) Subordination of individual interest to General Interest.

D. **Short Answer Type Questions.**

1. State any three reasons as to why proper understanding of management principles is necessary?

**Ans.** Proper understanding of management principles is necessary because of the following reasons:

(A) They provide managers with useful insights into reality.

(B) The help in optimal utilisation of resources and effective administration.

(C) They help in meeting environment requirements.

(D) They are used as basis for management training, education and research.

2. How do management principles ensure optimum utilisation resources and effective administration?

**Ans.** In every organisation, resources such as men, machine, material and money play a vital role. Management principles are designed in such a way that maximum benefits from these sources can be achieved with minimum resource wastage. Along with this, the principles of management also help in establishing effective administration by limiting the boundary of managerial discretion that their decisions may be free from personal biases. *For example, while deciding the annual budget for different departments, a manager is required to follow the principle of contribution to organisational objectives and not personal preferences.*

3. State the role of "route clerk", "Gang Boss" and "Inspector" in functional foremanship.

**Ans.** In functional foremanship, the 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 as per functional foremanship.

The responsibility of an Inspector is to make sure that the workers meet the desired standards of quality in the output produced by them. Quality standards are supervised by him/ her in the functional foremanship, and he/ she provides performance feedback and suggestions to the workers.

4. Appliances India Ltd. is engaged in manufacturing and distribution of home appliances since 1987. It has a good name in the market as the company is producing good quality appliances. It has separate departments for manufacturing, finance, sales, maintenance services and technical services to achieve specialisation.

Since the areas of operation of the company have increased and customers have become more demanding, the company decided to modify the existing principle of management to meet the changing requirements of the environment. State the general principle of management which the company wants to modify to meet the changing requirements.

**Ans.** According to the division of work, the entire task or unit of work should be divided into tiny tasks or units, and instead of allocating the entire task to one person, each task is assigned to persons based on their qualifications, capabilities and experience. When work is separated into categories based qualifications, specialisation occurs naturally. In the above scenario, the general principles of management the company wants to modify to meet the changing requirements is "Division of Work".

5. Principles of management equip the managers to foresee the cause and effect relationships of their decisions and actions so that the wastage associated with a trial and error approach can be overcome. Identify the point of significance of principles of management highlighted here.

**Ans.** The point of significance of management highlighted here is that the Management Principles help in optimum utilisation of resources and an effective administration. The resources available with the organisation are minimal, both human and material and need to be put to full use. By optimal usage it is meant that the resources should be used in such a way as to provide maximum value with minimal cost. Principles enable administrators to predict the interactions between cause and effect of their decisions and actions. Thus, it is possible to solve the wastages associated with a strategy of trial and error.

6. Explain briefly "Unity of Direction" and "Order" as principles of general management.

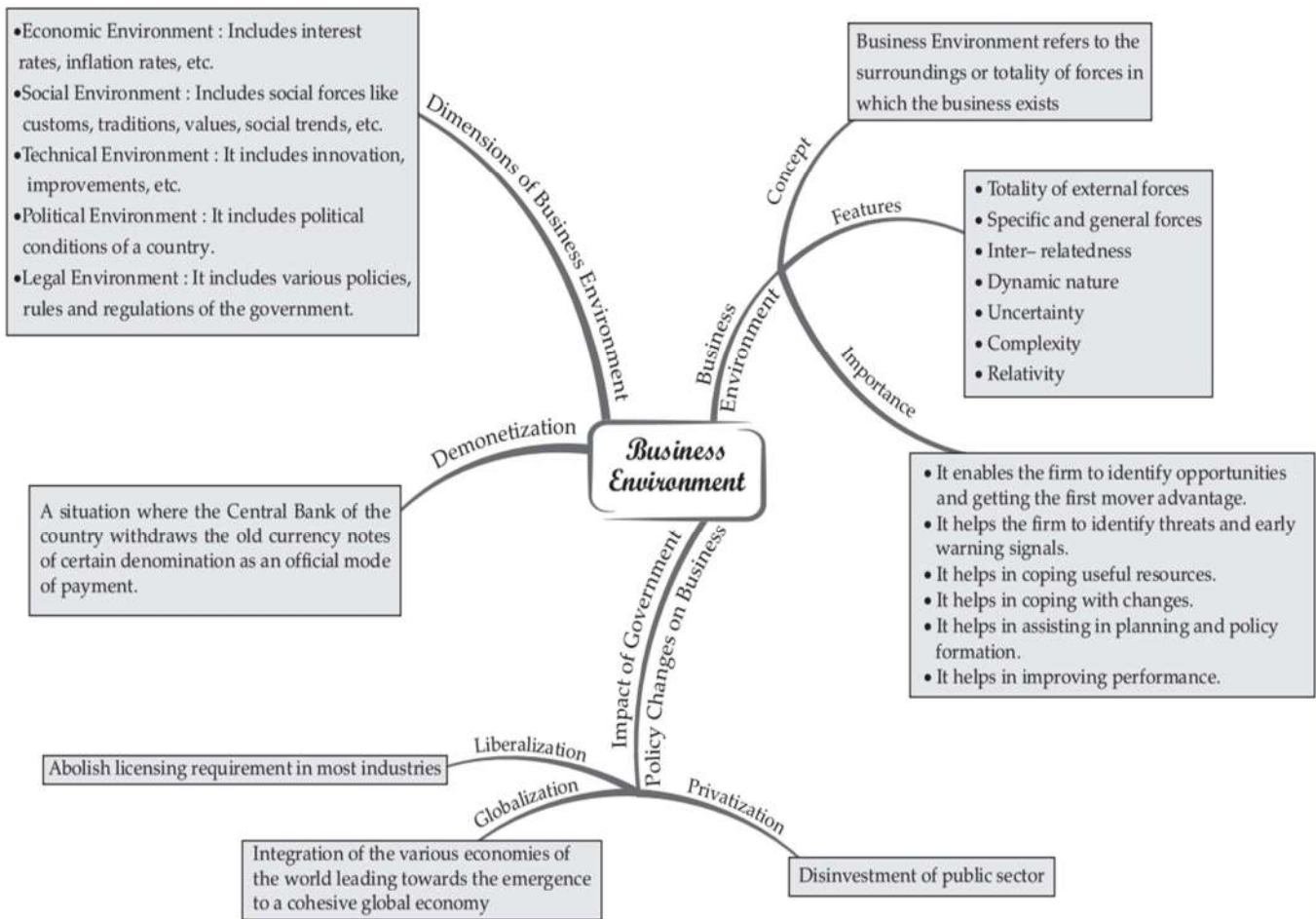
**Ans.** "Unity of Direction" and "Order" as principles of general management are discussed below:

**Unity of Direction:** 'One unit one plan' for the group of activities having the same objective is the essence of this principle. It implies that there should be one head and one plan for a group of activities having the same objective. It means that the efforts of members of the organisation should be directed towards the achievement of a common goal.

Order. According to Fayol, 'People and material must be in suitable place at appropriate time for maximum efficiency. This principle states that there should be a place for everything and everyone in an organisation and that thing or person should be found at its allotted place. This will lead to increased productivity and efficiency.

# CHAPTER – 03 : BUSINESS ENVIRONMENT

## MIND MAP : LEARNING MADE SIMPLE CHAPTER - 3





## A. FEATURES OF BUSINESS ENVIRONMENT.

- (i) **Totality of external forces**
- (ii) **Specific and general forces**
- (iii) **Inter-relatedness**
- (iv) **Dynamic nature**
- (v) **Uncertainty**
- (vi) **Complexity**
- (vii) **Relativity**

### Importance of Business Environment

- (i) **It enables the firm to identify opportunities and getting the first mover advantage:**
- (ii) **It helps the firm to identify threats and early warning signals**
- (iii) **It helps in tapping useful resources**
- (iv) **It helps in coping with rapid changes**
- (v) **It helps in assisting in planning and policy formulation**
- (vi) **It helps in improving performance**

### Dimensions of Business Environment

- (i) **Economic Environment**
- (ii) **Social Environment**
- (iii) **Technological Environment**
- (iv) **Political Environment**
- (v) **Legal Environment**

### Economic Environment in India

As a part of economic reforms, the Government of India announced a new industrial policy in July 1991. This policy has sought to liberate industry from the shackles of the licensing system (liberalisation), drastically reduce the role of the public sector (privatisation) and encourage foreign private participation in India's industrial development (globalisation).

### Demonetisation:

The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, ₹500 and ₹1,000, were 'demonetised' with immediate effect, ceasing to be legal tender except for a few specified.

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.

### Meaning of Business Environment

The term 'Business Environment' means the sum total of all individuals or institutions and other forces that are outside the control of a business enterprise but that may affect its performance. Thus, the economic, social, political, legal and technological forces which operate outside a business enterprise are part of its environment. The individual consumers or competing enterprises as well as the governments, consumer groups, courts, media and other institutions working outside an enterprise also constitute its environment. The important point is that these individuals, institutions and force are likely to influence the performance of business enterprises as shown below:

CHANGES IN BUSINESS ENVIRONMENT	EFFECT ON PERFORMANCE OF BUSINESS ENTERPRISES
1. Increasing taxes by government	Increased cost of production, expensive to buy
2. Increased competition in the market	Reduction in profit margins
3. Changes in fashion and tastes of consumers	Shift in market demand from existing to new ones
4. Technological improvement and with introduction of LED TVs	Render existing products obsolete, Innovations
5. Political uncertainty	Creates fear in the minds of investors to invest in long-term Projects

### Feature of Business Environment

1. **Totality of external forces:** Business environment is the sum total of all the things external to business firms. Therefore it is aggressive in nature
2. **Specific and general forces:** Business environment includes both specific forces (investors, customers and suppliers) and general forces (economic, social, 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
3. **Inter-relatedness:** Different elements or parts of business environment are closely inter-related. For example, people can purchase better quality goods and services which will improve their quality of life (Social environment) because their ime are rising (economic environment)
4. **Dynamic nature:** Business environment is dynamic as it keeps on changing in terms of technological improvements, change in fashion and tastes of consumers, entry of new competitors in the market.

5. **Uncertainty:** Business environment is uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently. e.g. increase of information technology (IT) and fashion industries.
6. **Complexity:** Business environment is a complex phenomenon that is relatively easier to understand in parts but difficult to grasp in its totality. For example, it may be very difficult to know the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.
7. **Relativity:** Business environment is a relative concept since it differs from country to country and even region to region. For example, political conditions in the USA differ from those in India. Similarly, demand for sarees may be fairly high in India whereas it may be almost non-existent in France.

### **Importance of Business Environment**

In the present day competitive market, it is essential for a business to remain alert and aware of its environment. A good understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firm.

1. **It helps the firm to identify opportunities and get the first mover advantage:** 'Opportunities' refer to the positive external trends and changes that will help to improve a firm's performance. Early identification of opportunities helps the firm to be the first to exploit them instead of losing them to competitors.
2. **It helps the firm to identify threats and early warning signals:** 'Threats' refers to the negative external trends and changes that will hinder a firm's performance. So it can improve the quality of its products, reduce cost of production, engage in aggressive advertisements. Environmental awareness can help management to identify various threats on time and serve as an early warning signal.
3. **It helps in assisting 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 deciding the future course of action (planning) or training guidelines for decision-making (policy). Because the enterprise depends on the environment as a source of inputs or resources and as an outlet for outputs, 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.

#### **PAGE 2**

4. **It helps in tapping useful resource:** A business firm assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc. from the environment including financiers, government and suppliers.
5. **It helps in coping with rapid changes:** Today's business environment is getting increasingly dynamic where changes are taking place at a fast pace. Turbulent market conditions, less brand loyalty, divisions and sub-divisions (fragmentation) of markets, more demanding customers, rapid changes in technology and intense global competition are just a few of the images used to describe today's business environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action.

6. **It helps in improving performance:** The firms which continuously monitor the environment and develop suitable course of action not only improve their present performance, but also continue to succeed in the market for a longer period.

### **DIMENSIONS/ COMPONENTS/ ELEMENTS OF BUSINESS ENVIRONMENT**

#### **1. Economic Environment**

1. The rates of growth of GDP and per capital income at current and constant prices
2. Rates of saving investment
3. Volume of imports and exports of different items
4. Balance of payment and changes in foreign exchange reserves.
5. Agricultural and industrial production trends
6. Expansion of transportation and communication facilities
7. Money supply in the economy
8. Public debt (internal and external)
9. Planned outlay in private and public sectors
10. Existing structure of the economy in terms of relative role of private and public sectors.

#### **2. Social Environment**

- a) Attitudes towards product innovations, lifestyles and consumer preferences
- b) Concern with quality of life
- c) Life expectancy
- d) Expectations from the workforce
- e) Shifts in the presence of women in the workforce
- f) Birth and death rates
- g) Population shifts
- h) Educational system and literacy rates
- i) Consumption habits
- j) Composition of family

#### **3. Political Environment:**

- The Constitution of the country
- Prevailing political system
- Dominant ideologies and values of major political parties
- Political ideology and practices of the ruling party
- The nature and profile of political leadership and thinking of political personalities
- The level of political morality
- The extent and nature of government intervention in business
- Political institutions like the government and allied agencies
- The nature of relationship of our country with foreign countries

#### **4. Legal Environment**

- a) Legislations passed by the Government

- b) Administrative orders issued by government authorities
- c) Court judgments
- d) Decisions rendered by various commissions and agencies at every level of the government- centre, state or local

#### 5. Technological Environment

- i) Scientific improvements and innovations which provide new ways of producing goods and services and
- ii) New methods and techniques of operating a business

Examples of Technological Environment affecting the functioning of a business enterprise:

- a) Recent technological advancement in computers and electronics have modified the ways in which companies advertise their products. For example, it is common now to see CD-ROM's and Internet/ World Wide Web (WWW) multimedia pages highlighting the virtues of products
- b) Airline companies have internet and World Wide Web (WWW) pages where customers can look for flight times, designations and fares and book their tickets online
- c) Innovations in Scientific and engineering fields such as lasers, robotic, biotechnology, food preservatives, telecommunication, etc have provided both opportunities and threads for business enterprises
- d) Retailers have direct links with suppliers who replenish stock when needed. Manufacturers have flexible manufacturing systems

#### **Demonetisation:**

The Government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes Rs. 500, Rs. 1000 were 'demonetised' with immediate effect, ceasing 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 restriction placed on cash withdrawals. In other words, restrictions were placed on the convertibility of domestic money and bank deposits. The aim of demonetization was to curb 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

Demonetisation is viewed as a tax administration measure. Cash holdings arising from declared income was readily deposited in banks and exchanged for new notes. But those with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.

#### **Features**

1. Demonetisation is viewed as a tax administration measure. Cash holdings arising from declared income was readily deposited in banks and exchanged for new notes. But those with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
2. Demonetisation is also interpreted as a shift on the part of the government indicating that tax evasion will no longer be tolerated or accepted.

3. Demonetisation also led to tax administration channelizing savings into the formal financial system. Though, much of the cash that has been deposited in the banking system is bound to be withdrawn but some of the new deposits schemes offered by the banks will continue to provide base loans, at lower interest rates.

4. Another feature of demonetization is to create a *less-cash* or *cash-lite* economy, i.e., channeling more savings through the formal financial system and improving tax compliance. Though there are arguments against this as digital transactions require use of cell phones for customers and Point-of-Sale (PoS) machines for merchants, which will only work if there is internet connectivity. On the contrary, these disadvantages are counterbalanced by an understanding that it helps people into the formal economy, thereby increasing financial saving and reducing tax evasion.

### QUESTIONS AND ANSWERS

#### Question 1.

Mr. Ajay after completing MBA from USA comes to India to start a new business under the banner Ecom creations Ltd. He launches a new product in e-learning for Senior Secondary School students in commerce stream. Which already has an established market in UK and USA but not in India? His business starts flourishing in India. Now more Indian companies entered into the market with other subjects also

Identify and quote the lines from above para which highlight the significance of understanding business environment

#### Answer

- (a) “comes to India to start a new business... launches a new product in e-learning for Senior secondary school students in Commerce Stream”
  - (i) It helps in assisting in planning and policy formulation.
  - (ii) It helps the firm to identify opportunities and get the first mover advantage
- (b) “His business starts flourishing in India”
  - (iii) It helps in improving performance
- c) “Now more Indian companies entered into the market with different subjects also”
  - (iv) It helps the firm to identify threats and early warning signals

#### Question: 2

The Court passed an order to ban polythene bags as

- (i) The bags are creating many environmental problems which affect the life of people in general
- (ii) Society in general is more concerned about quality of life.

The Government decided to give subsidy to jute industry to promote this business.

Innovative techniques are being developed to promote this business.

Innovative techniques are being developed to manufacture jute bags at low rates

Income are rising and people can afford to buy these bags

Identify the different dimensions of Business Environment by quoting the lines from the above particulars.

- (i) Legal environment: “ The court passed an order to ban polythene bags”
- (ii) Social environment: The bags are creating many environmental problems which affect the life of people in general Society in general is more concerned about quality of life”.
- (iii) Political environment “ The Government decided to give subsidy to jute industry o promote this business”
- (iv) Technological Environment ‘Innovative techniques are being developed to manufacture jute bags at low rates’
- (v) Economic environment ‘Income are rising and people can afford to but these bags’

### Question 3

Metlapp Networks and Technolitics Ltd. Is a leader in technology innovation in the united network operating creating products and solutions for something the world. It has a large research and development team which invented the first smart world. Named as W.7. Thewatch besides showing the time also monitors few health parameters like heart beat, blood pressure etc

While to search of markets abroad, the company found that in India, the reform process was underway with the aim of accelerating the pace of economic growth. The company decided to take advantage of simplified export procedure and removal of quantitative as well as tariff restrictions in India

It setup its office in Jamnagar with a view to capture the Indian market. In a short span of time, the company emerged as a market leader. Success of the company attracted many other players to enter the market. Competition resulted in reduction in prices , thereby benefiting the customers.

- (a) In the above paragraph, two major concepts related to government policy have been discussed. Identify and explain these concepts.
- (b) (b) Also, explain briefly any three impact of these concepts on Indian business and industry.

### Answer

- (a) Two major concepts related to government policy are
  - (i) Liberalisation: Liberalisation means removal of unnecessary controls and restriction on business
  - (ii) Globalisation : Globsation means integrating the various economics of the world leading towards the emergence of a cohesive global economy.
- (b) Impact of these concepts on Indian business industry : (explain any three points)
  - (i) Increasing competition
  - (ii) More demanding customers
  - (iii) Rapidly changing technological environment

- (iv) Necessity for change
- (v) Need for developing human resources
- (vi) Market orientation
- (vii) Loss of budgetary support to the public sector.

Question 4

**Identify the different dimension of business environment by quoting from the below details**

1. The court passed an order that all schools must have water purifier for the school children (Legal environment:
2. Society in general is more concerned about quality of life (Social Environment: ‘Society in general is more concerned about quality of life’)
3. Innovative techniques are being developed to manufacture water purifier at competitive rates (Technological environment:
4. Incomes are rising and children at home are also drinking purified water (Economic environment : 5. The government is also showing positive attitude towards the water purifier business (Political environment:

Question 5

**Identify and explain briefly the type or dimension of environment to which the following are related**

1. Banks reducing interest rates on housing loans (Economic environment)
2. An increasing number of working women (social environment)
3. Booking of air tickets through internet (Technological environment)
4. Alcoholic beverages are prohibited to be advertised on “Doodarshan” (Legal environment)
5. A stable government has built up confidence among the firms to invest in big projects (political environment)

Question 6

After winning the election, Prime minister Mr. Narendra Modi launched a campaign of ‘ Swachh Bharat’ and invited various celebrities to be a part of this Abhiyaan. This spread awareness among the people in society and in general, people started becoming more careful and aware about the cleanliness around their area. To continue its impact, a new service tax for Swachh Bharat was also started. The government is planning to import new and better technology to adopt new methods of treating the garbage and waste.

Explain the various dimensions of business environment mentioned in the above para quoting the lines from the above para.

**(i) Political Environment**

‘After winning the election, Prime Minister Mr.Narendra Modi launched a Campaign of ‘ Swachh Bharat’

**(ii) Social Environment**

‘People started becomes more careful aware about the cleanliness around there are’



**(iii) Economic Environment**

'a new service tax for Swatchh Bharat was also started

**(iv) Technological Environment**

'import new and better technology to adopt new methods of treating the garbage and waste'

**Question 7**

Nakul, a manager of Zyco Ltd. Always take into account the changes taking place in business environment while determining plans. He accepts changes readily and gives useful suggestions to his superior, which results in reduction of costs. As a result, company's profits increase. Nakul enjoys cordial relations with his co-workers and makes plans in consultation with hs team to achieve organizational goals.

Which characteristic of management is highlighted in the above lines?

- (a) Identify and state any two principles of management followed by Zyco Ltd.
- (b) Give any two benefits which Zyco Ltd, get by taking into account the changes taking place in business environment, quoting the lines from the above para.
- (c) State anyone value which Nakul wants to communicate to the society

**Answer**

Management is a dynamic function

(a) (i) Initiative

This principle indicates that the subordinates should be encouraged to give suggestions and make and execute plans within the prescribed limits of authority.

(ii)Expirit de crops:

This principle suggests that management should promote a team spirit of unity and

Harmony among the employees

**(c)Benefits of business environment**

(i) It helps in assisting in planning and policy formulation '... takes into account the changes taking place in business environment while determining plans'

**Question 8**

**MULTIPLE CHOICE QUESTIONS**

- 1. Which of the following does not characterize the business environment?  
(a) Uncertainty (b) Employees (c) Relativity (d) Complexity
- 2. Which of the following indicates the importance of business environment?  
(a) Identification (b) Improvement of performances (c). The Constitution of the country  
(d) all of them
- 3. Which of the following is an example of social environment?  
(a) Money supply in the economics (b) Consumer Protection Act

(c) The Constitution of the country (d) Composition of family

4. Liberalisation means

- (a) Integration among economics (b) Reduced government controls and restrictions  
(c.) Policy of planned disinvestments (d) none of them

5. Which of the following does not explain the impact of Government policy changes on business and industry?

- (a) More demanding customers (b) increasing competition  
(c.) Change in agricultural prices (d) Market orientation

6. Many business are using social media like face book and twitter to promote themselves. This is an example of which dimension of Business environment:

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

6. In winters the demand for woolens rises. This is an example of which feature of Business Environment

- (a) Dynamic nature (b) Inter- relatedness (c.) Complexity (d) uncertainty

8. Recently the government has decontrolled the price of Diesel. This is an example of:

- (a)Privatisation (b) Globalisation (c.) Libralisation (d) Nationlisation

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

#### OBJECTIVE TYPE QUESTIONS

1. Under New Industrial Policy, the rate of \_\_\_\_\_ has been reduced

- (a) Public Sector (b) Private Sector  
(c) Public Sector and Private Sector (d) Government

2. Reducing the role of public sector and increasing the role of private sector falls under \_\_\_\_\_

- (a) Liberalisation (b) Privatisation  
(c) Liberalisation and Privatisation (d) Globalisation

3. In all the countries there is a free flow of goods and services. Under which of the following does it come

- (a) Liberalisation (b) Privatisation  
(c) Liberalisation and Privatisation (d) Globalisation

4. Liberalisation is

- (a) Free flow of goods and services between different countries of the world
- (b) Increased participation of private sector
- (c) Reduction in formalities taxes and tariff
- (d) Unity among Political parties

5. Freedom granted by Government in deciding the scale of business activities comes under the process of \_\_\_\_\_

- (a) Liberalisation
- (b) Privatisation
- (c) Globalisation
- (d) Monetary Policy

6. Liberalisation, globalisation and privatisation are the aims of \_\_\_\_\_

- (a) Political Planning
- (b) Land reforms
- (c) Socialistic pattern of society
- (d) Economic reforms

7. On the eve of independence, bulk of the population was engaged in

- (a) Agricultural Sector
- (b) Trade and commerce
- (c) Mining Sector
- (d) Industrial Sector

8. Morality rate at the Time of independence was \_\_\_\_\_

- (a) Low
- (b) Moderate
- (c) High
- (d) Average

Read the following statement----- Assertion (A) and Reason (R)

Choose one of the correct alternatives given below

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

9. Assertion (A) : Liberalisation means lifting of unnecessary controls over the economy

Reason (R): Privatisation means giving greater role to the Private sector in a nation.

10 Assertion (A) : Globalisation means integration of various economies of the world leading towards the emergence of a cohesive global economy

Reason (R): It also implies permitting the required free flow of imports and exports of goods and services

11. Free flow of capital across nations comes under the concept of \_\_\_\_\_ in New Industrial Policy

- (a) Liberalisation (b) Globalisation  
(c) Disinvestment (d) Privatisation

12. Main components of New Industrial Policy are liberalization, globalization and \_\_\_\_\_

- (a) Disinvestment (b) Dissaving  
(c) Privatisation (d) Non of the above

13. End of license quota, and reduction of Government control is a feature of \_\_\_\_

- (a) Liberalisation (b) Privatisation  
(c) Globalisation (d) WTO

14. The elements of economic reforms known as \_\_\_\_\_ deal with the process of simplification of Import export

15. After New Industrial Policy, there is a shift in market from the producers' orientation to \_\_\_\_\_

- (a) E-commerce (b) Consumer orientation  
(c) Market orientation (d) none of the above

16. Privatisation of ownership through sale of equity share is called \_\_\_\_\_

- (a) Navratan (b) Dis-saving  
(c) Dis investment (d) Mini Navratan

17. New industrial Policy was introduced in India in the year \_\_\_\_\_

- (a) 1991 (b) 1956 (c) 1990 (d) 1947

Write the True/False in the following questions \_\_\_\_\_

18. Globalisation means integration of Indian Economy with the Economy of America

19. Indian Government giving freedom of fixing prices to oil companies is an indication of Liberalised economy

20. After the introduction of New Industrial Policy, 1991, companies become market-oriented

ANSWERS

1 (A) 2 (B) 3 (D) 4 (C) 5 (A) 6 (D) 7 (A) 8 (C) 9 (B) 10 (A) 11 (B) 12 (C) 13(A) 14 Globalisation 15 (B) 16 (C)  
17 (A) 18(F) 19 (T) 20 (T)

### Assertion – Reasoning Based MCQS

Read the following statement – Assertion (A) and Reason (R)

Choose one of the correct alternatives given below

- (a) Both Assertion (A) and Reason (R) are true 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) false
- (d) Assertion (A) is True but Reason (R) true

1. Assertion (A): Business activities consist of all such factors which are purely monetary in nature  
Reason (R): Business environment consists of technological, legal, social and political forces...  
ANS.....(B)
  
2. Assertion (A): Warning or threat means the external environment trends that will harm a firm's performs  
Reason (R): Nano, the small car introduction, was a warning signal to Maruti to reduce the prices  
ANS .....(A)
  
3. Assertion (A): Social environment consists of the customs and traditions of the society in which business exists  
Reason (R): High inflation rates act as constraints as they increase the cost of production  
ANS .....(B)
  
4. Assertion (A): The political environment has immediate and great impact on the business organizations so businessmen must scan this environment very carefully  
Reason (R): the businessman has to make changes in his organization according to the changing factors of political environment ANS .....(A)
  
5. Assertion (A) Technological environment includes forces related to scientific improvements and innovations which provide new ways of producing goods and services and new way of operating business  
Reason(R) Import and export of technology is important for a nation to develop

ANS .....(B)

6. Assertion (A) Demonetisation is an act of cancelling the legal tender status of a currency unit in circulation

Reason(R) It aims to control inflation, fake currency, corruption and to boost the economy

ANS .....(A)

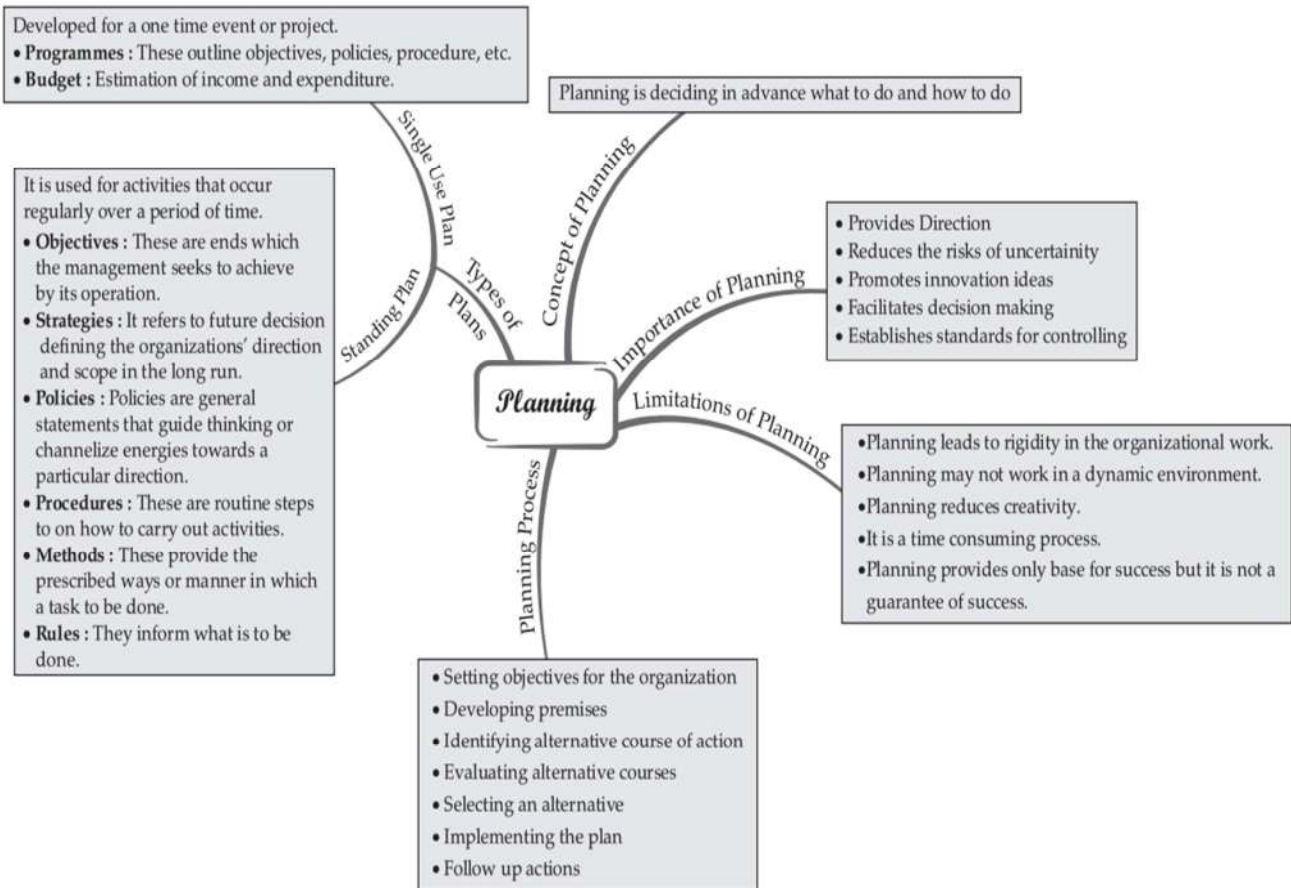
7. Assertion (A) Controlling helps in making efficient use of resources

Reason(R) An efficient control system keeps a check on the changes taking place in the organization and in the environment and helps to review and revise the standards in light of changes...

ANS .....(B)

# CHAPTER – 04 : PLANNING

## MIND MAP : LEARNING MADE SIMPLE CHAPTER - 4



- **MEANING:** Planning is deciding in the present, what is to be done in future. It involves anticipation of future course of events and deciding the best course of action. Thus, it is basically a process of thinking before doing. It bridges the gap between where we are and where we want to go.

#### ➤ **FEATURES OR CHARACTERISTICS OR NATURE OF PLANNING**

1. **Planning Focuses on Achieving Objectives:** Specific goals are set out in the plans along with the activities to be undertaken to achieve the goals. Planning has no meaning unless it positively contributes for achievement of such predetermined goals.
2. **Planning is a Primary Function of Management:** Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn.
3. **Planning is Pervasive:** Planning is required at all levels and in all departments of the organisation. It is performed by all managers at various levels.
4. **Planning is Continuous:** Continuity of Planning is related with the planning cycle. It means that a plan is framed; it is implemented and is followed by another plan and so on.
5. **Planning is Futuristic:** Planning aims to look into future analyze it and predict it to the best advantage of an organisation. In short, planning involves thinking about the future for doing actions in present.
6. **Planning involves Decision-Making:** Planning involves proper and careful analysis of various alternatives and selecting the best possible alternative. Thus, decision-making is an integral part of planning as it involves choice from various alternative courses of action.
7. **Planning is a Mental Exercise:** Planning requires application of mind involving foresight, intelligent imagination and sound judgment. Planning requires logical and systematic thinking instead of guess work.

#### ➤ **IMPORTANCE OF PLANNING**

1. **Planning Provides Directions:** By stating the objectives in advance, planning provides direction for action. In the absence of planning, employees would be working in different directions and the organisation would not be able to achieve its desired goals.
2. **Planning reduces the risks of Uncertainty:** By deciding in advance the tasks to be performed, planning helps to deal with changes and uncertain events. Planning makes an earnest attempt to make uncertain future events certain, to certain extent.
3. **Planning Reduces Overlapping and Wasteful Activities:** Planning of different divisions, departments and individuals coordinate the efforts. It helps in avoiding confusion, misunderstanding and minimising useless activities.
4. **Planning Promotes Innovative Ideas:** While planning, many new ideas arise and it results into creative, innovative and foresighted attitude among the managers. Such new ideas can take the shape of concrete plans.
5. **Planning Facilitates Decision-Making:** The manager has to evaluate each alternative and select the best one. Planning helps in taking rational decisions by setting targets and predicting future conditions.
6. **Planning Establishes Standards for Controlling:** Planning provides standards against which the actual performance is evaluated. Planning provides the basis of control, i.e. controlling is not possible without planning.

#### ➤ **LIMITATIONS OF PLANNING**

1. **Planning leads to Rigidity:** In an organisation, plans are drawn up with specific goals to, be achieved within a specific time frame. These plans decide the future course of action and managers may not be in a position to change it.
2. **Planning, may not work in a Dynamic Environment:** The business environment changes very frequently. It becomes difficult to accurately assess future trends in the environment.



3. **Planning Reduces Creativity:** Planning is an activity which is done by the top management and rest of the members has to strictly follow these plans. As a result, others do not get opportunity to show their skills and it limits their initiative and creativity.
4. **Planning involves Huge Costs:** When plans are drawn up, huge costs are involved in their formulation. These may be in terms of time and money. For example expenses on collection of information, board meetings etc.
5. **Planning is a Time-Consuming Process:** Sometimes, formulation of plans takes so much of time that there is not much time left for their implementation. Planning becomes a difficult exercise during sudden and unexpected emergencies, which require immediate decisions.
6. **Planning does not Guarantee Success:** The success of an enterprise is possible only when plans are properly drawn up and implemented. Managers have a tendency to rely on previously tried and tested successful plans. Mere planning does not ensure success; rather efforts have to be made for it.

### ➤ **PROCESS OF PLANNING**

**The process of planning involves the following steps:**

1. **Setting Objectives:** The first and foremost step of planning is setting up of objectives or goals. Objectives may be set for the entire organisation and each department within the organisation. Such objectives specify what the organisation wants to achieve.
2. **Developing Premises:** Planning involves deciding the future course of action, which is quite uncertain. Every manager has to make certain assumptions about the future. These assumptions are called premises.
3. **Identifying Alternative Courses of Action:** After setting the objectives and making assumptions about the future, the next step is to determine alternative courses of action through which organisation can achieve its objectives. For every plan, there are a number of options. All the alternative courses of action should be identified.
4. **Evaluating Alternative Courses:** After identifying and listing out possible alternative courses, the next step is to evaluate each alternative, i.e., to weigh the pros and cons of each alternative.
5. **Selecting an Alternative:** After evaluating the various alternatives, the next step is to select the most suitable course of action. This is the real point of decision-making. The alternative to be selected should be the most feasible profitable and with least negative consequences.
6. **Implement the Plan:** Plans are of no use until these are put in action. So, this step is concerned with transforming the plan into action by activating other managerial functions.
7. **Follow-up Action:** The last step in the planning process is to see whether plans, are being implemented and activities are performed according to the schedule. Monitoring the plans is important to ensure that objectives are achieved.

### ➤ **TYPES OF PLANS**

- **Single use Plans:** Single use plan is one time plan which is specifically designed to achieve a particular goal.
  - i) **Programme:** It is a detailed statement about a project which outlines the objectives, policies, procedures, rules, tasks, human and physical resources required and the budget to implement any course of action.
  - ii) **Budget:** It refers to statement of expected result expressed in numerical terms over a specific period of time.
- **Standing Plans:** Standing Plan is one which is used for activities that occur regularly over a period of time.
  - i) **Policies:** It refers to general statements that channelise energy towards a particular direction.

- ii) **Procedure:** It refers to a chronological sequence of various steps to be taken in order to perform an activity in an efficient manner.
- iii) **Method:** It is a prescribed process in which a particular operation or an activity is performed considering the objective of the organisation.
- iv) **Rules:** These refer to specific statements that inform what is to be done.
- v) **Objectives:** These are the ends which the management seeks to achieve within a given time period by its operations.
- vi) **Strategy:** It is a comprehensive plan for accomplishing an organisation objective.

#### ❖ KEY WORDS

1. Planning: Deciding in advance what to do and how to do.
2. Planning promotes innovative ideas: New ideas can take the shape of concrete plans.
3. Planning is pervasive: It is required at all the levels of management as well as in all the department of the organisation.
4. Planning is futuristic: it essentially involves looking ahead and preparing for the future.
5. Planning is a mental exercise: It requires application of the mind involving foresight, intelligent imagination and sound judgment.
6. Developing Premises: Making certain assumptions about the future.
7. Follow-up action: To see whether plans are being implemented and activities are performed according to schedule.
8. Single-use Plan: A plan developed for one time event or project.
9. Standing Plan: A plan that is used for activities that occur regularly over a period of time.
10. Objectives: Desired future position that management would like to reach.
11. Policy: General statements that guide thinking or channelize energy towards particular direction.
12. Procedure: Routine steps on how to carry out activities.
13. Method: Prescribed way or manner in which a task has to be performed considering the objective.
14. Rule: Specific statements that inform what is to be done.
15. Budget: Statement of expected results expressed in numerical terms.

#### ❖ MCQ'S

1. Planning requires logical and systematic thinking rather than guess work or wishful thinking. Identify the related feature of planning.
 

(a) Planning is futuristic	(b) Planning is a mental exercise
(c) Planning establishes standards for controlling	(d) Planning focuses on achieving objectives
2. It is not always true that just because a plan has worked before it will work again. Identify the related limitation of planning.
 

(a) Planning leads to rigidity	(b) Planning reduces creativity
(c) Planning may not work in a dynamic environment	(d) Planning does not guarantee success
3. Identify the correct sequence of steps involved in the planning process.
 

(a) Evaluating alternative courses, Identifying alternative course of actions, Setting objectives, Developing premises	(b) Setting objectives, Identifying alternative course of actions, Evaluating alternative courses, Developing premises
(c) Setting objectives, Developing premises, Identifying alternative course of actions, Evaluating alternative courses	(d) Developing premises, Setting objectives, Identifying alternative course of actions, Evaluating alternative courses

4. Which of the following statements is not true with reference to planning?
  - (a) Planning is a pre-requisite for controlling
  - (b) Planning does not lead to rigidity
  - (c) Planning enables a manager to look ahead and anticipate changes
  - (d) Planning facilitates co-ordination among departments and individuals in the organisation
5. Which one of the following elements is not a barrier to effective planning?
  - (a) Rapid Environmental Changes
  - (b) Organisational inflexibility
  - (c) Inadequate Appreciation of Planning
  - (d) Social Responsibility

Read the following statements: Assertion and Reason. Choose one of the correct alternatives given below:

6. **Assertion (A):** Planning provides the base for controlling.  
**Reason (R):** Planning establishes the standards against which the actual performance is evaluated.
  - (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 (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. **Assertion (A):** The need for planning arises only when there is one alternative.  
**Reason (R):** Decision-making is an integral part of planning.
  - (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 (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
8. **Assertion (A):** Planning works fantastically in a dynamic environment.  
**Reason (R):** Plans operate in an external environment, which consists of a number of dimensions.
  - (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 (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
9. **Assertion (A):** Planning facilitates decision-making.  
**Reason (R):** Planning helps the manager in selecting the only alternative available with the firm.
  - (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 (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
10. **Assertion (A):** Planning provides direction for action.  
**Reason (R):** Planning states the objectives in advance so that they act as a guide for deciding the future course of action.
  - (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 (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. Micromax was India's largest seller of mobile handsets. It launched low-cost Chinese manufacturing mobiles with some smart packaging and features like long-lasting batteries and dual-sim functionality to gain 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
12. According to the Economic Survey, insights from behavioural economics can be strategically utilised to create an aspirational agenda for social change – from BBBP (Beti Bachao Beti Padhao) to BADLAVL (Beti Aapki Dhan Lakshmi Aur Vijay Lakshmi); from Swachh Bharat to Sundar Bharat; from 'Give It Up' for the LPG subsidy to 'Think about the Subsidy' and from tax evasion to tax compliance. Identify the type of plan being described in the above lines.
- (a) Programme (b) Method (c) Strategy (d) Rule
13. Shubham 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
14. Shaurya 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

**Read the following text and answer Q 15 to Q17 on the basis of the same:**

Xavier Limited had been taken over by Goenka Group immediately following India's independence. Since then it enjoys a rich record of industry presence and experience. In 2005, with the aim to accelerate growth the company had gone through several rounds of meetings and discussions before launching ERP system to attract large projects. The management had done effective forecast and critical thinking regarding allocation of resources to reduce wastage. For this purpose, the company had laid down multiple courses of action to meet the challenge of adverse situations. In 2008, the company suffered loss in many projects due to the great recession despite taking many cost cutting measures. The management had taken utmost care regarding the possible outcome and timely review of the plans to achieve the set target during that hard time. In 2010 the system implemented successfully which subsequently helped the company to execute numerous projects with precision and timeliness.

15. "In 2005, with the aim to accelerate growth the company had gone through several rounds of meetings and discussions." What is the objective mentioned here according to the process stated here?
- (a) Developing Premises (b) Growth and development  
(c) Launching IT enabled system (d) Cost cutting
16. "In 2008, the company suffered loss in many projects due to the great recession despite taking many cost cutting measures." Which limitation of the management process is indicated here?
- (a) It fails to cope with sudden changes (b) It involves huge cost  
(c) It requires critical thinking (d) Need to construct multiple action plans
17. "The management had taken utmost care regarding the possible outcome and timely review of the plans to achieve the set target during that hard time." Which is the last step of the process mentioned here?
- (a) Implementation of plan (b) Timely execution of projects  
(c) Follow up (d) To prepare alternative course of action

**Read the following text and answer Q 18 to Q20 on the basis of the same:**

Dhriti had 25 acres land where she decided to convert land into agriculture farming. For this purpose she set out specific goals, objectives and activities. Everything was a challenge because she was not aware about farming. She learnt every activity and in the process, thought of assisting other farmers as well. She eventually launched her own company Agricultural Solutions Ltd. She wanted to be sure that the activities effectively met the best interests of the company and the farmers. Hence, she prepared an annual plan for production, sales and marketing through sales forecasting. She also realized that farmers were growing only one or two crops. On account of this; the land remained idle for the rest of the year. Thus, she identified and evaluated different alternatives through which the farms could be utilized throughout the year. She used her foresight and logical and systematic thinking based on analysis of all facts and examined and evaluated all the alternatives. She presented a plan to the farmers union, where after harvesting the primary crop, seasonal vegetables and fruits could be grown.

18. "For this purpose she set out specific goals, objectives and activities." Which feature of planning is depicted in the statement?
- (a) Planning focuses on achieving objectives      (b) Planning is a primary function of management  
(c) Planning is pervasive      (d) Planning is continuous
19. "Hence, she prepared an annual plan for production, sales and marketing through sales forecasting." Which feature of planning is depicted in the statement?
- (a) Planning is continuous      (b) Planning is futuristic  
(c) Planning involves decision making      (d) Planning is a mental exercise
20. Thus, she identified and evaluated different alternatives through which the farms could be utilized throughout the year." Which feature of planning is depicted in the statement?
- (a) Planning is pervasive      (b) Planning is continuous  
(c) Planning is futuristic      (d) Planning involves decision-making

### ANSWERS OF MCQ's

1. (b) Planning is a mental exercise
2. (d) Planning does not guarantee success
3. (c) Setting objectives, Developing premises, Identifying alternative course of actions, Evaluating alternative courses
4. (b) Planning does not lead to rigidity
5. (d) Social Responsibility
6. (a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)
7. (d) Assertion (A) is False but Reason (R) is True
8. (d) Assertion (A) is False but Reason (R) is True
9. (c) Assertion (A) is True but Reason (R) is False
10. (a) Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)
11. (a) Strategy and objective
12. (a) Programme
13. (b) Objective
14. (a) Method
15. (b) Growth and development
16. (a) It fails to cope with sudden changes
17. (c) Follow up
18. (a) Planning focuses on achieving objectives
19. (b) Planning is futuristic

20. (d) Planning involves decision-making

❖ **CASE STUDY QUESTIONS**

❖ **(3/4 MARKS)**

Q1. Nirmala a home science graduate from a reputed college has recently done a cookery course. She wished to start her own venture with a goal to provide 'health food' at reasonable price. She discussed her idea with her teacher (mentor) who encouraged her. After analyzing various options for starting her business venture, they shortlisted the option to sell readymade and 'ready to make' vegetable shakes and sattu milk shakes. Then they both weighed the pros and cons of both the shortlisted options.

(A) Name the function of management being discussed above.

(B) Also list any three limitations of the function discussed in the case.

Ans. (A) Planning

(B) Limitations of planning

- a. Planning leads to rigidity
- b. Planning reduces creativity
- c. Planning is a time-consuming process

Q2. In 'Chak De India' movie, Shahrukh Khan becomes the coach of the girls' hockey team. He knows that he has to prepare the girls for the international hockey matches and bring the world cup after winning. For this he prepares a long-term plan and thinks the ways how to beat the competitors. He coaches the girls to play in different ways like defensive, offensive, etc. At the outset of a match he explains who will open the match, and how the ball will be passed by one player to another step by step.

Identify four types of plan that are highlighted in the above case, quoting the lines from it.

Ans.

1. Objective 'bring the world cup after winning.'
2. Strategy 'For this he prepares long-term plan and thinks the ways how to beat the competitors.'
3. Method 'He coaches the girls to play in different ways like defensive, offensive, etc.'
4. Procedure 'At the outset of a match he explains who will open the match, and how the ball will be passed by one player to another step by step.'

Q3. 'Pennywise' is a balloon manufacturing firm. With the arrival of foreign firms it is feeling the pressure of improving its business strategy. Because of the firm's advance planning it could not suddenly bring changes in its plans as the whole organisation had started implementing the decided plan. But this year the organisation wants to ensure success. However, the firm knows that the external environment is changeable and continues to vary in a fast manner. The organisation wants to prepare in advance for a better future. It has decided to allocate a portion of its budget specifically for proper planning as it knows there are going to be expenses like Expert's fee, survey charges, etc. Which limitations of planning have been identified in the above case?

Ans. The limitations of planning highlighted in the above case are:

1. **Planning leads to rigidity.** Because of the firm's advance planning it could not suddenly bring changes in its plans as the whole organisation had started implementing the decided plan.

2. **Planning may not work in a dynamic environment.** However, the firm knows that the external environment is changeable and continues to vary in a fast manner.
3. **Planning involves huge costs.** It has decided to allocate a portion of its budget specifically for proper planning as it knows that there are going to be expenses like Expert's fee, survey charges, etc.

Q4. 'Glow up' deals in bulb manufacturing business. It plans for a successful year of production and sale this year. It has in advance given targets to all its departments and employees. The departments and employees are happy about this. They know that now they won't have to do unconcerned activities thus leading to more focused approach resulting in saving of resources. The company is thinking of starting two new plants in the southern portion of India. For this some concrete plan has to be made. The main core team of the company has decided to weigh all the options and then choose the best one. The road might be long but the company is geared to face all the challenges.

In the above case identify importance of planning highlighted.

Ans. The importance of planning indicated in the above case are:

1. Planning provides directions. It has in advance given targets to all its departments and employees.
2. Planning reduces overlapping and wasteful activities. They know that now they won't have to do unconcerned activities thus leading to more focused approach resulting in saving of resources.
3. Planning facilitates decision making. The main core team of the company has decided to weigh all the options and then choose the best one.

Q5. An established firm has fifty years of experience in shipping industry. The company time and again proves itself as one of the dominant figures in the market. The plan for the whole year is given a lot of importance. According to the owner of the company their plans are the basic structures upon which other important functions of management rest. It is important that the plans are communicated to the employees. The top management ensures that the plans are communicated and implemented at all levels and in all departments. To learn from past mistakes is a habit of this successful company. They prepare plans for short term as well as long term where it can be seen that throughout the year the plans are prepared one after another. Shipping industry needs such dedicated companies. The goals are specific and the activities to achieve these specific goals are undertaken. The company has planned a growth of 20% in revenue this year. Let's see how much it's possible for it to achieve it by the end of the year. In the above case identify the various features of planning highlighted.

Ans. The features of planning highlighted above are:

1. **Planning is a primary function of management.** According to the owner of the company their plans are the basic structures upon which other important functions of management rest.
2. **Planning is pervasive.** The top management ensures that the plans are communicated and implemented at all levels and in all departments.
3. **Planning is continuous.** They prepare plans for short term as well as long term where it can be seen that throughout the year the plans are prepared one after the other.
4. **Planning focuses on achieving objectives.** Goals are specific and the activities to achieve these specific goals are undertaken.

Q6. Dilip is an energetic middle level manager. He tries to make best plans. For this he involves foresight and intelligent imagination. Within three years many of his projects have been very successful. His high success rate is due to his good plans. He always makes alternative plans and selects the best out of them after considering relevant aspects. However, he knows it is not necessary that his all plans will be successful. He

knows that sometimes his concern for making very good plans eats a lot of time and energy. His friend Jyoti suggests him to take suggestions from others when he makes his plans and also consider plans made by others. Even after so much painstaking Dilip knows that his plans can yet fail in the uncertain business environment. He has recently decided to plan carefully in future. Which features of Planning have been highlighted in the above case?

Which limitations of Planning have been highlighted in the above case?

Ans. The features of Planning which have been highlighted in the above case are:

1. **Planning is a mental exercise.** For this he involves foresight and intelligent imagination.
2. **Planning involves decision making.** He always makes alternative plans and selects the best out of them after considering relevant aspects.

The limitations of Planning which have been highlighted are:

1. **Planning is a time consuming process.** He knows that sometimes his concern for making very good plans eats a lot time and energy.
2. **Planning does not guarantee success.** Even after so much painstaking Dilip knows that his plans can yet fail in the uncertain business environment.

Q7. Identify the types of plans:

1. Darpan is a senior middle level manager. He is busy in allocating resources to his staff, he has also finalized the objectives and decided the course of action to be followed. He is expecting energy in his staff for the whole season but he will have to be cautious.
2. Sapna is giving a speech to the workers of her factory. She is the owner of a toy manufacturing factory and has 123 workers. She tells them that this year's target of production is 7.5 lakh toys.
3. On the wall of 'Health is Wealth' hospital a board is hanging. On this board. It is written 'We care for the health of senior citizens as our topmost priority'. This hospital is known for treating people aged more than 60 years.
4. Rattan calls his new subordinates for a meeting. He is a top level manager. He arranges for a power point presentation to train his subordinates who are all middle level managers. He tells them the way of doing task of treating suppliers through a new software system to be installed within next 30 days.
5. Popal takes a meeting and guides his employees in a type of plan which is chronological in nature and is situation specific. It is a collection of various methods in a step wise sequence.
6. Ashutosh has given a detailed statement of expected results in numerical terms. This plan is conveyed to the subordinates by him in a special meeting.

Ans. The different types of plans are:

1. Strategy
2. Objective
3. Policy
4. Method
5. Procedure
6. Budget

Q8. In an annual general meeting a company sets its targets for the year. The manufacturing department has decided to manufacture 2.5 million units of the product and has decided to monitor the performance so as to control it accordingly. The survey done by the company has shown a number of cities in the north which are showing increased demand for the product. The company in its research during the last three months generated various options and decided to follow the best one. The HR team is also concerned about its output. The HR head revealed that there can be shortage of MBA pass outs which can reduce the quality of manpower in the



near future so it has decided to arrange HR workshops in different colleges to get the best candidates. The board meeting ends on a positive note.

In the above case identify the importance of planning and the concerned lines.

Ans. The importance of planning highlighted above:

1. **Planning establishes standards for controlling.** The manufacturing department has decided to manufacture 2.5 million units of the product and has decided to monitor the performance so as to control it accordingly.
2. **Planning facilitates decision making.** The Company in its research during the last three months generated various options and decided to follow the best one.
3. **Planning reduces the risk of uncertainty.** The HR head revealed that there can be shortage of MBA pass outs which can reduce the quality of manpower in the near future so it has decided to arrange HR workshops in different colleges to get the best candidates.

Q9. Naman is a very intelligent planner. He knows the market pretty well. For last 15 years he has been leading several successful projects for his company. Company gives him responsibility to start a new project in America. With his experience he makes assumptions about all the possible future scenarios.

1. Which step of the planning process is the above paragraph related to?
2. What is the other term used for assumptions in planning process?
3. What is the base material for developing premises?

Ans.

1. The step of the planning process referred to here is 'Developing Premises' (second step of the planning process).
2. The other term used for assumptions in planning process is 'Premises'.
3. The base material for developing premises is forecasts, existing plans or any past information.

Q10. It is deciding in advance what to do and how to do? It is one of the basic managerial functions. It requires that before doing something, the manager must formulate an idea of how to work on a particular task. This function is closely connected with creativity and innovation. It seeks to bridge the gap between where we are and where we want to go and is performed at all levels of management. In spite of this the function of management referred above has a number of limitations. Explain any two such limitations.

Ans. **Planning function** of management has been referred above.

Two limitations of the planning function of management are:

1. **Rigidity.** One of the limitations of planning is rigidity. The existence of a plan puts the managerial activities in a rigid framework. Programmes are carried out according to the plan and deviations are considered to be highly undesirable.
2. **Reduces creativity.** Planning involves deciding in advance what is to be done, how is it to be done, when is it to be done and by whom is it to be done. There is very little scope for deviating from the plans. This blind conformity with the pre-determined guidelines discourages individual initiative and freedom.

❖ (5/6 MARKS)

Q11. Rajesh joins as a sales manager of a company dealing in naturotherapy products. Being proficient in his work, he knew that without good planning he would not be able to organize, direct, control or perform any of the other managerial functions efficiently and effectively. Only on the basis of sales forecasting, he would assist in the preparation of the annual plans for its production and sales. Besides, he would have to prepare sales plans regularly on weekly, monthly, quarterly and half-yearly basis. While preparing the sales forecasts, he

undertakes intellectual thinking involving foresight, visualization and issued judgment rather than wishful thinking or guess work. Most importantly, all these planning activities will be meaningful only if they coincide with the purpose for which the business is being carried out.

In context of the above case, identify the various features of planning highlighted in the above paragraph by quoting lines from it.

**Ans.** The features of planning highlighted in the above paragraph are explained below

1. **Planning is primary function:** "without good planning he would not be able to organize, direct, control or perform any of the other managerial functions efficiently and effectively."
2. **Planning is futuristic:** "Only on the basis of sales forecasting, he would assist in the preparation of the annual plans for its production and sales."
3. **Planning is continuous:** "Besides, he would have to prepare sales plans regularly on Weekly, monthly, quarterly and half yearly basis."
4. **Planning is a mental exercise:** "While preparing the sales forecasts, he undertakes intellectual thinking involving foresight, visualization and issued judgement rather than wishful thinking or guess work."
5. **Planning focuses on achieving objectives:** "Most importantly, all these planning activities will be meaningful only if they coincide with the purpose for which the business is being carried out."

Q12. Rahul, a worker, is given a target of assembling two computers per day. Due to his habit of doing things differently, an idea struck him which would not only reduce the assembling time of computers but would also reduce the cost of production of the computers. Instead of appreciating him, Rahul's supervisor ordered him to complete the work as per the methods and techniques decided earlier as nothing could be changed at that stage. The above paragraph describes one of the limitations of the planning function of management. Name and explain that limitation, and state four other limitations.

**Ans.** The limitation of the planning function of management described in the above paragraph is that "planning reduces creativity". The top management undertakes planning of various policies and procedures whereas, the other members are expected to merely implement these plans. This restricts the creativity of the middle and lower level managers as they are neither allowed to deviate from plans, nor permitted to act on their own.

**Other limitations of planning are as follows:**

1. Planning leads to rigidity.
2. Planning is time consuming.
3. Planning does not guarantee success.
4. Planning may not work in a dynamic environment.

Q13. Answer the following questions:

- (a) Why is planning considered an intellectual activity of thinking rather than doing?
- (b) What does 'primacy of planning' refer to?
- (c) How does planning provide the basis of control?
- (d) What would be the consequences if there was no planning?
- (e) Can planning eliminate changes and uncertain events? Give reason.

**Ans.**(a) Planning requires application of mind involving foresight, intelligence, imagination and sound judgement. It is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken.

(b) Planning is primary function of management. Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other functions. This is referred to as the 'primacy of planning'.

(c) Planning establishes the standards for controlling. If there were no standards, then finding deviations which are a part of controlling would not be possible. Therefore, planning provides the basis of control.

(d) If there was no planning, employees would be working in different directions and the organization would not be able to achieve its desired objectives.

(e) Planning involves looking ahead and anticipating changes. Planning only shows the way to deal with changes and uncertain events. Changes or events cannot be eliminated.

Q14. Flipkart is an e-commerce company founded in the year 2007 by Sachin Bansal and Binny Bansal. The company is registered in Singapore, but has its headquarters in Bengaluru, India. The company seeks to increase traffic (more clicks on their products) and boost sales and revenue through integration of Mobile Apps, Display, Pay Per Click and Search Engine Optimization. In order to dispel the fear of people related to shopping online, Flipkart was the first company to implement the popular 'Cash on Delivery' facility. All the products sold by the company under a particular category may have different return/replacement periods. Flipkart allows multiple payment options such as cash on delivery, credit or debit card transactions, net banking, e-gift voucher and card swipe on delivery. The company operates both ways when an order is received. The products for which it holds inventory are dispatched by it directly. For the products they do not store in inventory, they just send the order received by them to the supplier who ships it. The company plans to spend about ₹ 75 crore on e-commerce advertising in the year 2016. Flipkart reserves the right to terminate your membership and/ or refuse to provide you with access to the website if it is brought to Flipkart's notice or if it is discovered that you are under the age of 18 years. This is because as per the Indian Contract Act, 1872, the minors, undischarged insolvents, etc. are not eligible to use the Website.

In context of the above case, identify the different types of plans being used by Flipkart by quoting lines from the paragraph.

**Ans.** The different types of plans being used by Flipkart are listed below:

- (i) Objectives: "The company seeks to increase traffic (more clicks on their products) and boost sales and revenue through integration of Mobile Apps, Display, Pay Per Click and Search Engine Optimization."
- (ii) Strategies: "In order to dispel the fear of people related to shopping online, Flipkart was the first company to implement the popular 'Cash on Delivery' facility."
- (iii) Policies: "All the products sold by the company under a particular category may have different return/replacement periods. "
- (iv) Methods: "Flipkart allows multiple payment options such as Cash on Delivery, credit or debit card transactions, net banking, e-gift voucher and card swipe on delivery."
- (v) Procedures: "The company operates both ways when an order is received. The products for which it holds inventory are dispatched by it directly. For the products they do not store in inventory, they just send the order received by them to the supplier who ships it."
- (vi) Budgets: "The company plans to spend about ₹ 75 crore on e-Commerce advertising in the year 2016."

- (vii) Rules: "Flipkart reserves the right to terminate your membership and/or refuse to provide you with access to the Website if it is brought to Flipkart's notice or if discovered that you are under the age of 18 years. This is because as per the Indian Contract Act, 1872, the minors, undischarged insolvents, etc. are not eligible to use the Website."

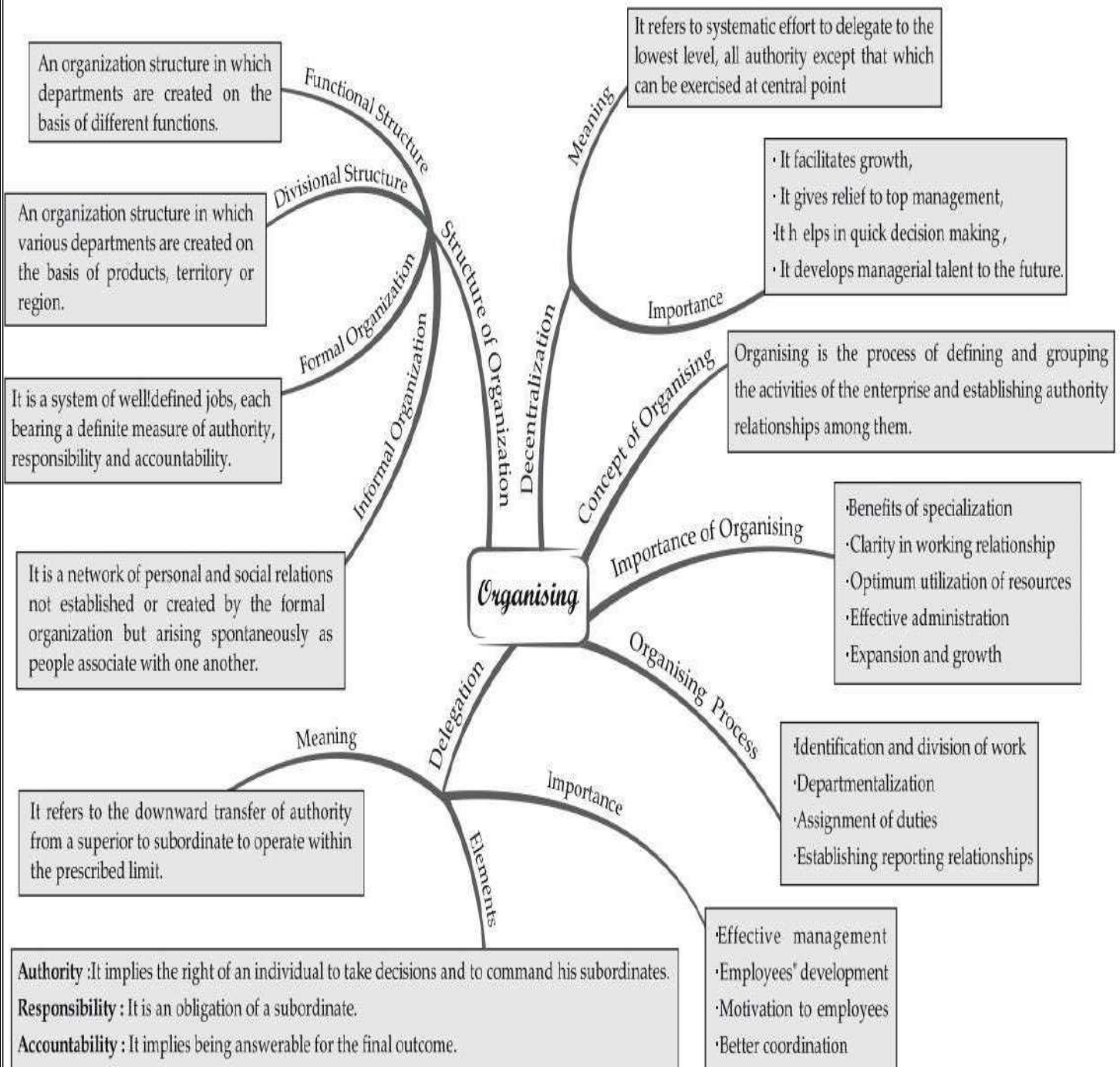
Q15. The CEO of a fast-growing tech company has asked the head of operations to lead a workshop for department heads on effective planning. The workshop will cover different types of plans, including strategies, policies, programme, objectives, rules and procedures. The goal is to enhance their understanding of these planning components and how they contribute to the company's success.

Write six points to include in this workshop.

**Ans.**

1. A strategic plan defines our company's long-term vision, mission, and overarching objectives. It involves analyzing market trends, identifying opportunities, and understanding our strengths and weaknesses.
2. Policies are broad guidelines and principles that guide decision-making and behavior within the organization. They define acceptable conduct, standards, and rules for various activities and processes.
3. Programmes are comprehensive plans that encompass multiple projects or activities with a common goal.
4. Objectives are specific, measurable targets that support the achievement of the overall strategic plan
5. Rules are specific and explicit guidelines that govern specific actions or conduct within the organization. They define the do's and don'ts, ensuring clarity and uniformity in employee behavior.
6. Procedures are detailed step-by-step instructions on how to perform specific tasks or processes. They provide consistency and standardization, ensuring tasks are executed accurately and efficiently.

# CHAPTER - 5 ORGANISING



## Points to Remember

- **Organising** Identifying and grouping different activities in the organisation and bringing together the physical, financial and human resources to establish most productive relations for the achievement of specific goal of organisation.

- **Process of Organising**
  - (i) Identification and division of work
  - (ii) Departmentalisation
  - (iii) Assignment of duties
  - (iv) Establishing reporting relationships
- **Importance of Organising**
  - (i) Benefits of specialisation
  - (ii) Clarity in working relationships
  - (iii) Optimum utilisation of resources
  - (iv) Adaptation to change
  - (v) Effective administration
  - (vi) Development of personnel
  - (vii) Expansion and growth
- **Organisation Structure** It can be defined as “Network of job positions, responsibilities and authorities. The considerations to be kept in mind while forming the organisational structure are
  - (i) Job design
  - (ii) Departmentation
  - (iii) Span of management
  - (iv) Delegation of authority
- **Types of Organisation Structure** The organisational structure can mainly be of two types which are
- **(i) Functional Structure** When the activities or jobs are grouped keeping in mind the functions or the job then it is called functional structure.
- **(a) Advantages**
  - Specialisation at different levels.”
  - Easy supervision
  - Easy co-ordination
  - It helps in increasing managerial efficiency
  - Effective training
  - Reduces duplication
- **(b) Disadvantages**
  - The departments become specialised in their own way only.
  - When departments become too large then the co-ordination decrease.
  - When the organisational goals is not achieved then it becomes very difficult to make any one department accountable.
  - Employees get training of one function only i.e., the department to which they belongs so they can not be shifted to other department.
- **(c) Suitability** It is most suitable when the size of the organisation is large, has diversified activities and operations require a high degree of specialisation.
- **(ii) Divisional Structure** When the organisation is large in size and is producing more than one type of product then activities related to one product are grouped under one department.
- **(a) Advantages**
  - Product specialisation

Fast decision making  
Accountability  
Flexibility  
Expansion and growth

- **(b) Disadvantages**

Each department will require all the resources as every division will be working as an independent unit.  
Conflict on allocation of resources.

Each department focusses on their product only and they fail to keep themselves as a part of one common organisation.

- **(c) Suitability**

Organisation producing multi product.

Organisation which require product specialisation.

Growing companies which plan to add more line of products in future.

- **Formal Organisation** When the managers are carrying on organising process then as a result of organisation process an organisational structure is created to achieve systematic- working and efficient utilisation of resources. This type of structure is known as formal organisational structure.

- **(i) Advantages**

Systematic working

Achievement of organisational objectives

No overlapping of work

Co-ordination

Creation of chain of command

More emphasis on work

- **(ii) Disadvantages**

Delay in action

Ignores social needs of employees

Emphasis on work only

- **Informal Organisation** It is a network of personal and social relations not established or required by the formal organisation but arising spontaneously as people associate with one another.

- **(i) Advantages**

Fast communication

Fulfills social needs

Correct feedback

- **(ii) Disadvantages**

Spread rumours

No systematic working

May bring negative results

More emphasis to individual interest

- **Delegation of Authority** “A process of entrusting responsibility and authority to the subordinates and creating accountability on those employees who are entrusted responsibility and authority.”

- **Importance of Delegation**

(i) Effective management

- (ii) Employee development
- (iii) Motivation of employees
- (iv) Facilitation of growth
- (v) Basis of management hierarchy
- (vi) Better co-ordination

- **Elements of Delegation**

- **(i) Responsibility** It means the work assigned to an individual. It includes all the physical and mental activities to be performed by the employees at a particular job position.
- **(ii) Authority** It means power to take decision. To carry on the responsibility every employee need to have some authority.
- **(iii) Accountability** It means subordinates will be answerable for the non-completion of the task.
- **Decentralisation** Decentralisation explains the manner in which decision making responsibilities are divided among hierarchical level.
- **Importance of Decentralisation**
  - (i) Develops initiative among subordinate
  - (ii) Develops managerial talent for the future
  - (iii) Quick decision making
  - (iv) Relief to top management
  - (v) Facilitates growth
  - (vi) Better control

**KEY WORDS:**

- **Organising :** Process, function of management, integrates human efforts with different resources, defining and grouping activities, establishing authority relationships.
- **Organisational structure:** Framework for managerial and operating tasks.
- **Delegation:** Transfer of authority from superior to subordinate, manager extends his area of operations, authority can be taken back.
- **Elements of Delegation:** **(a) Authority:** Power to take decisions or take work from others, flow downwards **(b) Responsibility:** Obligation to do task, flow upwards and **(c) Accountability:** Answerability . flows upwards
- **Functional structure:** Grouping activities on the basis of functions
- **Divisional structure :** Grouping activities on the basis of products
- **Formal organization:** Designed by the management to achieve organizational goals
- **Informal organisation :** Arises out of interaction amongst people at work.
- **Span of management:** It refers to situations when the organisational hierarchy consists of one manager and many subordinates.
- **Centralisation :** The top-level management retains all the power and authority of decision-making
- **Decentralisation:** Delegation of authority throughout the organization, extension of delegation.

**MULTIPLE CHOICE QUESTIONS:**

1. Which of the following is not a benefit of organising?



- (a) clarity and working relationship
  - (b) adaptation to change
  - (c) expansion and growth
  - (d) identification and obtaining competitive personnel
2. Which type of organisational structure is the most suitable when the size of organisation is large and is producing one line of product?
- (a) functional
  - (b) divisional
  - (c) both (a) and (b)
  - (d) none of these
3. Under this type of organisational structure, manpower is grouped on the basis of different products manufactured.
- (a) Divisional structure
  - (b) Functional structure
  - (c) Network structure
  - (d) Matrix structure
4. Which of the following gives shape to the organisational structure?
- (a) extent of delegation
  - (b) employee strength
  - (c) span of management
  - (d) none of the above
5. \_\_\_\_\_ implies being answerable for the final outcome.
- (a) authority
  - (b) responsibility
  - (c) accountability
  - (d) none of these

**There are two statements marked as Assertion (A) and Reason(R) from questions- no 6 to 10. 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):** Identification and division of work is the first step in process of organising.

**Reason(R):** Organising involves identifying the work that has to be done in accordance with previously determined plans.

7. **Assertion (A):** While authority is delegated, responsibility is imposed, and accountability is assumed.

**Reason(R):** Authority can be delegated by a manager to a subordinate, which means granting of authority to the subordinate to operate within prescribed limits. Responsibility is the obligation of a subordinate to properly perform the assigned duty. Accountability implies being answerable for the final outcome.

8. **Assertion (A):** A proper organisation structure is essential to ensure a smooth flow of communication and better control over the operations of a business enterprise.

**Reason(R):** An organisation structure provides the framework which enables the enterprise to function as an integrated unit by regulating the coordinating the responsibilities of individual and departments.

9. **Assertion (A) :** The framework within which management and operational duties are accomplished can be defined as the organisation structure.

Reason(R) -The term “functional structure” refers to the division of the entire business according to the principal items to be produced.

10. **Assertion (A):** Functional structure makes training of employees easier as the focus is only on a limited range of skills.

**Reason(R):** Divisional heads are accountable for profits

Read the passage given below and answer the questions from 11 to 14.

Saarthi Pvt Ltd. has a large number of locations around the India. Decentralization is a new paradigm that the company has lately implemented. Lower-level managers have been given the flexibility to make their own decisions and trust their own judgements as a result of this. This has significantly aided the company in reaching new heights. Employees are in charge of their own projects, and the experience they obtain will help them advance in the company, eventually earning them positions in management. There is no substitute for delegation in the organisation. Even when the optional policy decision of decentralisation was not implemented in the past, the company performed admirably. The managers realised that by delegating properly, they could delegate ordinary tasks to subordinates and focus on priority areas. This is how the business grew. The superior-subordinate connection was established and reporting ties were clarified as a result of delegation. The firm focuses on product differentiation. We can see how managers will be able to fully improve their managerial skills in the future.

11. Which among the following is an advantage of decentralization discussed in the above case-

- (a) Development of initiative between subordinates
- (b) Facilitates growth and expansion.
- (c) Develops managerial talent for the future
- (d) Better control

12. In the example above, what are the benefits of delegation that are highlighted here?

- (a) Facilitates growth
- (b) Helps in effective management
- (c) Provides basis for management hierarchy
- (d) Both a and c

13.. What type of organisation structure does the company have?

- (a) Divisional structure
- (b) Functional structure
- (c) Authoritative
- (d) Informal

14. Delegation helps a manager in

- (a) Extend his area of operations

- (b) To use his time on high priority activities  
 (c) Both a and b  
 (d) None of these

15. Match the following.

Column – I

- A – Leads to specialisation  
 B – Functional and divisional  
 C – It has narrow scope  
 D – Reporting relationship

Column – II

- i) Delegation  
 ii) Step of organising Process  
 iii) Importance of organisation  
 iv) Types of organisation structure

Options

- a) A – i), B – ii), C – iii), D – iv)  
 b) A – ii), B – iii), C – iv), D – i)  
 c) A – iii), B – iv), C – i), D – ii)  
 d) A – iv), B – i), C – ii), D – iii)

**Answers:** 1. (d) 2. (a) 3. (a) 4. (c) 5. (c) 6. (a) 7. (d) 8. (a) 9. (b) 10. (b) 11. (a)

12. (b) 13. (a) 14. (c) 15. (c)

### **QUESTIONS FOR PRACTICE**

**(3 OR 4 MARKS)**

**16.** Identify the category of ‘Organisation A’ in the following cases:

- (a) Organisation A originates from an organisation B which runs on rules and procedures. It has originated due to personal interaction among employees of organisation B.  
 (b) Organisation A has a definite framework for the fulfillment of operational tasks.  
 (c) Organisation A emerges spontaneously and is not willingly created by the management.

**Answer:** (a) Informal Organisation (b) Formal Organisation (c) Informal Organisation

17. Aasmaan Colours’ is a profit making colour producing company. The company deals in making different types of colours used in painting. The organisation has always been systematic in its approach and due to good organizing has seen a continuous increase in its revenue. Workers are given their respective jobs clearly which leads to gaining of experience since they do their respective jobs on a regular basis leading to high productivity. The organisation has many challenges and it wants to improve. There is no doubt in the lines of communication and everyone knows who has to report whom. With passage of time, there is more need to connect with the employees. They are the most important asset to the organisation. When managers delegate work to their subordinates they set themselves free from routine jobs and this leads to great amount of learning for the subordinates in practical situations.

Which importance of organizing has been highlighted in the above case?

**Answer:** The importance of organizing highlighted in the above case:

- Benefits of specialisation. Workers are given their respective jobs clearly which leads to gaining of experience since they do their respective jobs on a regular basis leading to high productivity.

- Clarity of working relationships. There is no doubt in the lines of communication and everyone knows who has to report to whom.
- Development of personnel. When managers delegate work to their subordinates they set themselves free from routine jobs and this leads to great amount of learning for the subordinates in practical situation.

18. Samir Gupta started a telecommunications company, 'Donira Ltd.', to manufacture economical mobile phones for the Indian rural market with 15 employees. The company did very well in its initial years. As the product was good and marketed well, the demand of the products went up. To increase production, the company decided to recruit additional employees. Samir Gupta, who was earlier taking all the decisions for the company, had to selectively disperse the authority. He believed that subordinates are competent, capable and resourceful and can assume responsibility for the effective implementation of their decisions. This paid off and the company was not only able to increase its production but also expanded its product range.

Identify the concept used by Samir Gupta through which he was able to steer his company to greater heights. Also explain any three points of importance of this concept.

**Answer:** The concept used by Sameer Gupta/ Neeraj Gupta through which he is able to steer his company to greater heights is Decentralisation.

The three advantages of using decentralisation are as follows:

- Decentralisation helps to promote self-reliance and confidence amongst the subordinates: When the subordinates are given freedom to take their own decisions they learn to depend on their own judgment and develop solutions for the various problems they encounter. Moreover, a decentralisation policy helps to identify those executives who have the necessary potential to become dynamic leaders.
- Relief to top management: Decentralisation reduces the need of direct supervision and helps to save the time of top management for persuing other important work.
- Quick decision-making: In a decentralised organisation, managers at all levels are allowed to take such decisions independently which lie within their area of jurisdiction. This makes the process of decision making much faster.

19. A Company named Mahi Cycles has decided to start a new branch in the Middle East. The company has recognised the amount of work to be done in number of hours. The company has found out that it will take 25000 hours of man work and has subsequently divided the number of hours for different operations. The real challenges of the company begin here. Very methodically responsibility of the recognized amount of work has been given to different individuals according to their capabilities.

Which function of management is highlighted above? Identify the two steps of this function indicated above.

**Answer:** The function of management which is highlighted above is 'Organising'.

The two steps of Organising which are indicated in the above case are:

**Step 1: Identification and division of work.** The Company has found out that it will take 25000 hours of man work and has subsequently divided the number of hours for different operations.

**Step 2: Assignment of duties.** Very methodically responsibility of the recognized amount of work has been given to different individuals according to their capabilities.

20. Rahunath works as a human resource manager in 'Vanshika Housing Ltd.' a company engaged in the real estate business. He suggests to the Managing Director of the company to start a sports club in the office where friendly indoor matches can be organised amongst the employees on every Saturday.

In context of the above case:

- (a) Identify the type of organisation that Rahunath is desirous of promoting in the company.  
(b) State any three advantages of the type of organisation as identified in part (a) of the question.

**Answer:** (a) Informal organisation is the type of organisation that Rahunath is desirous of promoting in the company.

(b) The three advantages of informal organisation are stated below:

- It leads to faster spread of information as well as facilitates quick feedback.
- It helps to fulfill the social needs of the members by giving them a sense of belongingness in the organisation and enhances their job satisfaction.
- It contributes towards the fulfillment of organisational objectives by compensating for inadequacies in the formal organisation.

**(5 OR 6 MARKS)**

21. In a progressive company the HR department decided to go for a unique way of controlling the performance of the employees. They decided to give every employee a balance score card through which their performance could be measured. The top brass could leave the decision making on the employees. Due to this change in the approach of the management the evaluation of employees and departments became easier. Since the decisions were not to be taken now by the top management only, the speed at which the decisions were taken got increased. The top management could now see the changes in the organisation. It was quite obvious that they could now sit, relax and focus on other areas. Since this organisation is a formal organisation. In a recent assessment meeting by the top management it was found that the company was meeting the following criteria:

- Mutual relationships among the employees were clearly defined.
- Duties of all the employees were clearly specified.
- There was a definite framework and each employee knew his role.

(a) In the above case identify the highlighted advantages of decentralisation.

(b) In the second part of the case the advantages of formal structure of the organisation are given. What are going to be the outcomes of each of these advantages?

**Answer:** (a) The advantages of decentralisation highlighted above are:

- Decentralisation helps in better control. Due to this change in the approach of the management the evaluation of employees and departments also started to become easier
- Decentralisation helps in quick decision making. Since the decisions were not to be taken now by the top management only, the speed at which the decisions were taken got increased.
- Decentralisation provides relief to the top management. It was quite obvious that they could now sit, relax and focus on other areas.

(b) The respective outcomes of the advantages of the formal organisation given in the case are:

- It became easier to fix responsibility on the employees and the departments (as mutual relationships among the employees were clearly defined).
- There was no scope for any doubt about the role of the employees (as duties of all the employees were clearly specified)

- The goals were effectively achieved (as there was a definite framework and each employee knew his role).

22. Aman Chadha started 'Bulls Eye' a company for providing cyber security solutions to businesses. Its objective is to prevent, detect and 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 was delighted when he was offered a big project by the Ministry of Defence. While working on the project, he found that the volume of work made it impractical for him to handle all the work by himself. He decided to expand the team. The company maintained a close liaison with a local engineering college. During a campus placement, Ishan and Vrinda were appointed to work for the new project. He found the new employees capable, enthusiastic and trustworthy. Aman Chadha was thus, able to focus on objectives and with the help of Ishan and Vrinda, the project was completed on time. Not only this Aman Chadha was also able to extend his area of operations. On the other hand Ishan and Vrinda also got opportunities to develop and exercise initiative,

Identify and briefly explain the concept used by Aman Chadha in the above case which helped him in focusing on objectives.

Also, state any five points of importance of the concept identified in (a) above.

**Answer:** The concept used by Aman Chadha in the above case is delegation. Delegation is the entrustment of responsibility and authority to another and the creation of accountability for performance which helps a manager to extend his area of operations.

**Importance of delegation:**

1. Effective management. By delegation managers get freedom from doing routine work. They get more time to concentrate on important matters.
2. Employee development. As a result of delegation, employees get more opportunities to develop new skills. It makes them better future managers.
3. Motivation of subordinates. Delegation of authority enhances the status of subordinates; and provides motivation to them, to improve their performance.
4. Facilitates organisational growth. Delegation helps in growth and expansion of the organisation by providing a ready workforce to take higher level responsibilities.
5. Basis of management hierarchy. Delegation of authority establishes superior- subordinate relationship which is the basis of hierarchy of management

23. Atul joins as a Regional Sales Head in the export division of a FMCG (fast moving consumer goods) company. In a departmental meeting, he asks one of this subordinates, Manik, to take charge of the company's new office in Dubai. He allocates the work to him and grants the necessary authority. However, within a month by seeking regular feedback on the extent of work accomplished from Manik, Atul realises that Manik is not doing the work as per his expectations. So he takes away the authority delegated to him and re delegates the work to Prakrit. Due to the time wasted in this switch over, the work at the Dubai office suffers tremendously and the company is not able to meet its desired goals.

In context of the above case:

- (a) Can the authority granted to a subordinate be taken back and re-delegated to another person?

(b) Can Manik be held responsible for not meeting the work related expectations of Atul? Give a suitable reason in support of your answer.

(c) Differentiate between authority, responsibility and accountability on the basis of origin and flow.

**Answer:** (a) Yes, the authority granted to a subordinate can be taken back and re-delegated to another person.

(b) Yes, Manik can be held responsible for not meeting the work related expectations of Atul as it is the obligation of a subordinate to perform the assigned duty to the best of his ability and skill.

(c)

Basis	Authority	Responsibility	Accountability
Origin	Arises from formal position in the organisation	Arises from delegated authority	Arises from responsibility
Flow	Flows downward from superior to subordinate.	Flows upward from subordinate to superior	Flows upward from subordinate to superior

24. An organisation is working by clubbing similar related jobs under different departments. The HR department is not in direct touch with the Marketing Department and this has created problems. The HR head feels that he only knows about the HR department and similar is the case with the Marketing department. However the truth is both of them have limited and specific skills.

(a) Which type of organisation structure does this organisation has?

(b) Explain any 3 advantages and 2 disadvantages of the structure identified in part (a)

**Answer:** (a) The type of organisation structure which is present is functional structure. Similar related jobs are clubbed under one department.

**(b)**

**Three advantages of functional structure are**

- It helps in increasing coordination among the various activities of the business as the closely related activities are grouped under the same department.
- The specialisation, which comes out due to division of work here is based on occupation/ job/activity.
- All the tasks of managerial and operational nature are properly taken care of under functional structure.

**Two disadvantages of functional structure are**

- The departmental goals in the functional structure take importance over the organisational goals.
- The functional heads have experience and knowledge only about their departments leading to their inflexible attitude towards each other.

25. Kiran Industries is a company dealing in office furniture. The company chose to diversify its operations to improve its growth potential and increase market share. As the project was important, many alternatives were generated for the purpose and were thoroughly discussed amongst the members of the organisation. After

evaluating the various alternatives, Sukhvinder, the Managing Director of the company, decided that they should add 'Home Interiors and Furnishings' as a new line of business activity.

(a) Name the framework, which the diversified organisation should adopt, to enable it to cope with the emerging complexity?.

(b) State any two merits and two limitations of this framework

Answer: (a) Divisional structure should be adopted by the diversified organisation to enable it to cope with the emerging complexity.

(b) The two merits of divisional structure are as follows:

- Product specialisation helps a divisional manager to gain experience in all functions related to a particular product and this prepares him for higher positions.
- It provides a proper basis for performance measurement and also helps in fixation of responsibility in cases of poor performance of the division as revenues and costs related to different departments can be easily identified.

The two limitations of divisional structure are as follows:

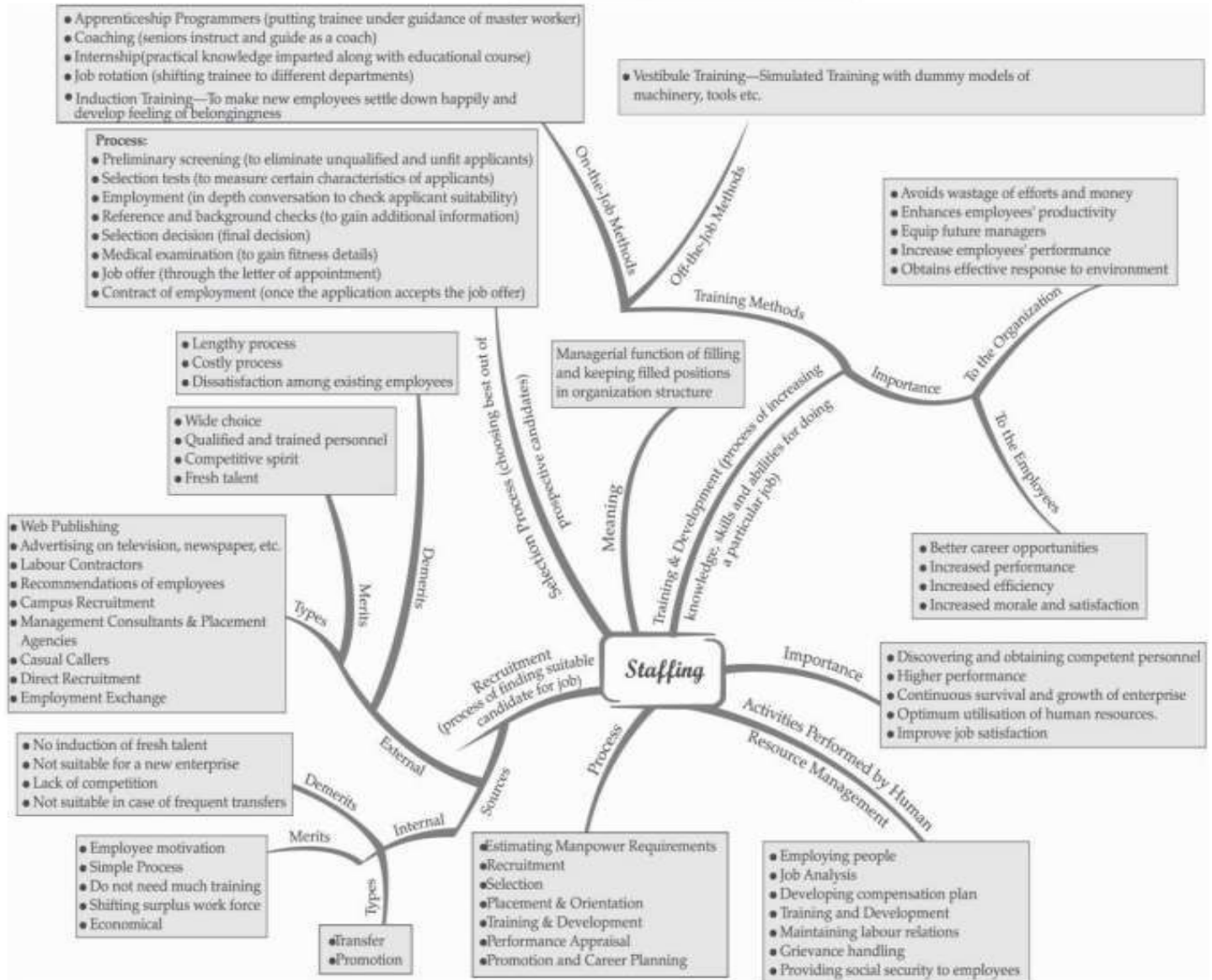
- There may be conflicts among the different divisions heads as in pursuit of higher profits, each of them may seek maximum allocation of resources at the cost of other divisions.
- The cost is high as each division is provided with separate set of similar functions



# CHAPTER 05 : STAFFING

(Mind Map)

## CHAPTER - 6 STAFFING



Meaning: “Staffing consist of Estimating Manpower requirement, Recruitment, Selection, Training, Compensation, Promotion of managerial personal.”

#### IMPORTANCE OF STAFFING:

- 1.Helps in discovering and obtaining competent personnel for various jobs.
- 2.Makes higher performance, by putting right person on the right job
- 3.Ensures continuous survival and growth of the enterprise
- 4.Helps to utilize optimum utilization of the human resources
- 5.Improves job satisfaction and morale of employees

#### STAFFING AS A PART OF HRM:

Following are the activities to be performed by Human Resource Personnel

- (a)Recruitment
- (b)Analyzing jobs, collecting information about jobs to prepare job descriptions.
- ©Developing compensation and incentive plans.
- (d)Training and development of employees for efficient performance and career growth.
- (e)Maintaining labour relations and union management relations.
- (f)Handling grievances and complaints.
- (g)Providing for social security and welfare of employees.
- (h)Defending the company in law suits and avoiding legal complications.

#### STAFFING PROCESS:

- 1.Estimating Man- power Requirement:

2. Finding out number and types of employee. It Includes Work Load Analysis Number and types of persons required, Work Force Analysis- Persons Available to do the job

3. Recruitment:

It refers to identification of the sources of manpower availability and making efforts to secure applicants for the various job positions in an organization.

4. Selection:

It is the process of choosing and appointing the right candidates for various jobs in an organization through various exams, tests & interviews.

5. Placement and Orientation:

Placement is telling the employee its place of work Orientation refers to introducing a new employee to the organization.

6. Training and Development:

Training helps in increasing the skills and knowledge of employees in doing their jobs through various methods. Development involves growth of an employee in all respects.

7. Performance Appraisal/Report:

Checking the performance of the employee on pre decided standards.

8. Promotion & career planning:

Hierarchically upward movement of the employee.

9. Compensation:

Payment of salary and wages to employees

## TYPES OF SOURCES OF RECRUITMENT

Internal sources:

1. Transfers: Shifting of an employee from one job to another, from one department to another

2. Promotions: It refers to shifting an employee to a higher position carrying higher responsibilities, prestige, facilities and pay.

## External sources

1. Direct Recruitment: A notice is placed on the notice board of the enterprise specifying the details of the jobs available.
2. Casual callers: Many reputed business organizations keep a data base of unsolicited applicants in their office. This list can be used for Recruitment of candidate in future.
3. Advertisement: Example—Newspapers, Periodicals, Internet, Radio, Television etc
4. Employment Exchange: A good source of recruitment for unskilled and skilled operative jobs. It is managed by Government.
5. Placement Agencies and mgt. Consultants: Placement agencies provide nation-wide services of matching demand and supply of work force. These agencies run by private people. Generally, Placement Agencies place middle and lower level workers and Management Consultant place Top level managers
6. Campus Recruitment: Companies go to the Campuses of reputed technical and non-technical colleges and institutions for recruitment

## INTERNAL SOURCES OF RECRUITMENT

### MERITS

1. The employees are motivated as they are getting promotion to higher position.
2. It simplifies the process of selection and placement

### LIMITATIONS

1. The scope for induction of fresh talent is reduced
2. The employee may become lethargic

## EXTERNAL SOURCES OF RECRUITMENT

### MERITS

1. Qualified personnel

2. Wider choice

#### LIMITATIONS

1. Dissatisfaction among existing staff
2. Costly process

**SELECTION:** Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job. . Selection is described as a negative in nature because it aims at rejecting applicants who are found unsuitable and offering jobs to those who are found perfectly suitable

1. Preliminary Screening;After applications have been received, they are properly checked for qualification, age, gender etc. by screening committee.
2. Selection Tests :Includes intelligence tests, aptitude test, personality test, trade and interest tests.
3. Employment Interviews: Face to face interaction between employer and candidate to check candidate"s personality confidence, knowledge.
4. Reference Checks: Prior to final selection, the prospective employer makes an investigation of the references supplied by the applicants.
- 5.Selection Decisions:A list of candidates who clear the employment tests, interviews and reference checks is prepared and then the selected candidates are listed in order of merit.
- 6.Medical Examination:Is done to check medical conditions of employee before his joining.
- 7.Job Offer:Formally appointed by issuing him an Appointment Letter.
- 8.Contract of Employment:After acceptance, both employer and employee will sign a contract of employment contains terms & conditions, pay scale, leave etc.

#### MULTIPLE CHOICE QUESTIONS:

1. -----is a measure of individual' potential for learning new skills  
(a) Intelligence Test b) Aptitude Test c) Interest Test d) Personality Test

2. The -----step of staffing process involves locating the potential candidate and inviting them to apply for the job in the organisation

(a) Recruitment b) Selection c) Training d) none of these

3. -----are designed to acquire a higher level of skill. People seeking to enter skilled jobs, to become, for example, plumbers, electricians or iron-workers are often required to undergo such training.

(a) Apprenticeship Programme b) Internship training c) Vestibule training d) Induction training

4. The workers of a factory are unable to work on new machines and always demand for help of supervisors. Supervisor is overburdened with their frequent calls.-----will solve this problem

(a) Motivation b) Compensation c) Training of workers d) Performance appraisal

5. it is described as the managerial function of filling and keeping filled the positions in the organisation structure. Identify it.

(a) Organisation Structure b) Organising c) Staffing d) Co ordination

6. Read the following statements-Assertion(A) and Reasons( R)

Assertion(A): Internal sources of recruitment may be used to a limited extent

Reason(B): For fresh talent and wider choice external sources are used

(a) (A) is correct and ( R) is incorrect

(b) (A) is incorrect and ( R) is correct

(c) Both (A) and ( R) are correct and ( R) is the correct explanation of (A)

(d) Both (A) and ( R) are correct and ( R) is not the correct explanation of (A)

7. Assertion(A): it is essential that right kind of people must be available in right number at the right time

Reason(B): if right kind of people are not available it will lead to wastage of materials, time, effort and energy

(a) (A) is correct and ( R) is incorrect

(b) (A) is incorrect and ( R) is correct

(c) Both (A) and ( R) are correct and ( R) is the correct explanation of (A)

(d) Both (A) and ( R) are correct and ( R) is not the correct explanation of (A)

8. Assertion(A): under-staffing is not good for the organisation, however over-staffing is a desirable situation

Reason(B):neither under-staffing nor over-staffing is a desirable situation

(a) (A) is correct and ( R) is incorrect

(b) (A) is incorrect and ( R) is correct

(c ) Both (A) and ( R) are correct and ( R) is the correct explanation of (A)

(c) Both (A) and ( R) are correct and ( R) is not the correct explanation of (A)

Ms.Vaishnavi recently completed her MBA in HR management.A large manufacturing company which employs 600 persons appointed her as its HR manager.Ms.Vaishnavi has been given complete charge of the company's HR dept.the company has an expansion plan in hand which may require another 400 persons for various types of additional requirements.

9. identify the function of management highlighted in the above case.

(a) Planning (b) organising © staffing (d) directing

10.identify the step of funciton of management identified in the above case.

(a) Estimating man power requirements (b) Recruitment © selection (d) Placement and orientation

11.identify the concept which will help in deciding the number of persons required

(a)workload analysis (b) workforce analysis © Human resource planning (d) Staffing

12.identify the next two steps in the function of management identified in part (a) to fulfill the additional requirements of 400 persons

(a) Recruitment, selection (b)selection ,Placement and orientation(c )Placement and orientation,Training and development (d)Training and development, performance appraisal

Read the following text and answer the following questions on the basis of the same:

Mr. VikasGoel is an H.R. Manager of "Sanduja Furniture Private Limited." At the beginning of the new year he anticipated that the company willneed 30 new additional persons to fill up different vacancies. He gave an advertisement in the newspaper inviting applications for filling up different vacant posts. As many as 120 applications were received. The same were scrutinized. Out of these, conditions of 15 applicants were not acceptable to the company.Letters of regret, giving reasons, were sent to them.Remaining candidates were called for preliminary interview. The candidates called for were asked to fill up blank application forms. Thereafter, they were given four tests. The objective of the first test was to find out how much interestthe applicant takes in hiswork. The objective of the second test was to find out 'specialization' of the applicant in any particulararea. Third test aimed at making sure whether the applicant was capableof learning through training ornot. The

purpose of the fourth test was to find out how much capability a person has to mix-up with other persons, and whether he can influence other persons and get influenced by them.

13. The purpose of the fourth test was too find out how much capability a person has to mix-up with other persons, and whether he can influence other persons and get influenced by them. Which tests is indicated in this situation.

- A. Personality Test
- B. Intelligent Tests
- C. Aptitude Test
- D. Trade Test

14. At the beginning of the new year he anticipated that the company will need 30 new additional persons to fill up different vacancies. Identify the first step of staffing.

- A. Placement and Orientation
- B. Training and Development
- C. Recruitment
- D. Estimating Manpower Requirement

15. From the given lines, 'Out of these, conditions of 15 applicants were not acceptable to the company.' Letters of regret, giving reasons, were sent to them. Which aspect of staffing is highlighted in the statement?

- A. Recruitment
- B. Selection
- C. Training
- D. Education

16. The applicants were given four tests like intelligent test to interest test after filling up blank application form. Identify which step of selection process was followed by the management.

- A. Selection Decision
- B. Selection Tests
- C. Job Offer



#### D. Medical Examination

#### ANSWERS:

1. (b) Aptitude test
2. (a) Recruitment
3. (a) Apprenticeship Programme
4. © Training of workers
5. © Staffing
6. © Both (A) and ( R) are correct and ( R) is the correct explanation of (A)
7. © Both (A) and ( R) are correct and ( R) is the correct explanation of (A)
8. (b) (A) is incorrect and ( R) is correct
9. © staffing
- 10.(a) Estimating man power requirements
- 11.(a) workload analysis
- 12.(a) Recruitment, selection
- 13.(a) Personality test
- 14.(d) Estimating manpower requirement
- 15.(b) Selection
- 16.(a) Selection test

#### THREE MARKS QUESTIONS:

1. Atlantic Pharma Incorporation, a distributor of durable medical equipment and sports medicine is currently facing problems in managing company's infrastructure and IT projects. To effectively cope with the situation, the company has created a new position of 'Senior Systems Administrator', who will be able to understand the volatile health care industry, as well as its IT environment. Since the position requires more than just technical expertise, the company has taken the following decisions, for timely fulfilment of the manpower requirement:

- 1) Assessing the new role's requirements through job description, in order to ensure the appointment of a person with the required specific set of educational qualifications, experience, personality and characteristics.

2) Hiring 'Unifold Consultants', a renowned consultancy firm which maintains a database of candidates and which will advertise the job on behalf of Atlantic Pharma Limited.

3) Adopting a deeper screening process of the candidate possessing the technical and business process knowledge. Identify and state the steps which Atlantic Pharma Incorporation has decided to carry out in order to fill the new job position introduced by the company.

ANSWER:

Steps which must be carried out by Atlantic Pharma Ltd to fill in the new job position are :

1) Estimating the Manpower Requirements-it is important to translate the manpower requirements into specific job description and the desirable profile of its occupant — the desired qualifications, experience, personality characteristics and so on.

2)Recruitment-Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.

3)Selection-Selection is the process of choosing from among the pool of prospective job candidates developed at the stage of recruitment.

2. HRA & Co is looking for a Sales Manager. It has posted an opening on its website post which it received 1000 applications. The human resource manager is suggesting to do the first step filter exercise by holding a selection test. However, not everyone is convinced with this idea. Mention any three importance of selection tests which the human resource manager can use to convince the team.

ANSWER: ANSWER: The following are the importance of conducting a selection test :

- Intelligence Tests: This is one of the important psychological tests used to measure the level of intelligence quotient of an individual.

- Aptitude Test: It is a measure of an individual's potential for learning new skills.

- Personality Tests: Personality tests provide clues to a person's emotions, reactions, maturity, value system etc.

- Trade Test: These tests measure the existing skills of the individual. They measure the level of knowledge and proficiency in the area of professions or technical training.

- Interest Tests: Every individual has a fascination for a particular kind of job than the other. Interest tests are used to know the pattern of interests or involvement of a person.

3. Examine the multifaceted advantages of external recruitment in the context of an organisation's workforce. Elaborate on how this recruitment strategy contributes to elevating overall performance and competitiveness.

ANSWER:

1. When organisations hire externally, they bring in new talent with fresh perspectives and diverse skill sets. These individuals often possess different experiences, backgrounds, and knowledge, which can inject creativity and innovation into the company's operations.
2. Hiring talent from outside the organisation can provide valuable industry insights and a competitive edge. External recruits may come from rival companies or different sectors, bringing with them knowledge of market trends, best practices, and emerging technologies.
3. External recruitment can lead to faster growth and skill development within the organisation. When experienced professionals join a new workplace, they often possess a wide range of expertise that can be quickly shared and disseminated among the existing workforce.

FOUR MARKS QUESTIONS:

1. Enumerate the limitations of using internal sources for recruitment.

ANSWER:

The limitations of using internal sources for recruitment are as follows:

- Scope for induction of fresh talent is reduced.
- Employees may become lethargic.
- New enterprises cannot use internal sources of recruitment.
- Spirit of competition among the employees may be hampered.
- Frequent transfers of employees may often reduce the productivity of the organisation.

2. Discuss any four duties to be performed by a human resource personnel.

ANSWER:

- recruitment
- analysing jobs, collecting information about jobs to prepare job descriptions
- developing compensation and incentive plans
- training and development of employees
- maintaining labour relations
- handling grievances and complaints
- providing for social security and the welfare of employees
- defending the company in lawsuits and avoiding legal complications

3. Human resource management requires many specialised activities and duties which Human Resource Manager must perform. State any four such duties.

ANSWER:

Duties performed by Human Resource Manager are:

- 1) Recruitment, i.e., search for qualified people
- 2) Analysing jobs, collecting information about jobs to prepare job descriptions
- 3) Developing compensation and incentive plans.
- 4) Training and development of employees for efficient performance and career growth.
- 5) Maintaining labour relations and union management relations.

- 6) Handling grievances and complaints.
- 7) Providing for social security and welfare of employees.
- 8) Defending the company in lawsuits and avoiding legal complications.

3. State by giving four reasons as to why staffing function must be performed efficiently by all organisations.

ANSWER:

Staffing must be performed by all organisations because

(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.

(v) improves job satisfaction and morale of employees through objective assessment and fair reward for their contribution

4. Provide a detailed explanation of each of the following steps in the selection process that can maximise the chances of potential candidates of being selected for the management position. a) Preliminary Screening b) Selection Tests c) Employment Interview d) Final Interviews and Decision-making

ANSWER:

1. Preliminary Screening: This is the initial stage of the selection process. Its purpose is to filter out candidates who do not meet the minimum qualifications and requirements for the management position. The screening helps save time and resources by focusing only on eligible candidates.

2. Selection Tests: These tests are assessments that evaluate candidates' aptitude, skills, and abilities related to the managerial role. These tests help assess a candidate's cognitive abilities, problem-solving skills, critical thinking, and domain knowledge.

3. Employment Interview: It is a crucial step in the selection process. It allows the organization to assess your communication skills, interpersonal qualities, cultural fit, and enthusiasm for the position. It also provides an opportunity to learn more about the company and the role.

4. Final Interviews and Decision-making: In the final interviews, the organization aims to narrow down the candidate pool further and make a well-informed decision about the best fit for the management position. This stage often involves interactions with senior management and decision makers.

5. Read the following text and answer the following questions on the basis of the same:

Mr. VikasGoel is an H.R. Manager of “Sanduja Furniture Private Limited.” At the beginning of the new year he anticipated that the company will need 30 new additional persons to fill up different vacancies. He gave an advertisement in the newspaper inviting applications for filling up different vacant posts. As many as 120 applications were received. The same were scrutinized. Out of these, conditions of 15 applicants were not acceptable to the company. Letters of regret, giving reasons, were sent to them. Remaining candidates were called for preliminary interview. The candidates called for were asked to fill up blank application forms. Thereafter, they were given four tests. The objective of the first test was to find out how much interest the applicant takes in his work. The objective of the second test was to find out ‘specialization’ of the applicant in any particular area. Third test aimed at making sure whether the applicant was capable of learning through training or not. The purpose of the fourth test was to find out how much capability a person has to mix-up with other persons, and whether he can influence other persons and get influenced by them.

Q.1 The purpose of the fourth test was to find out how much capability a person has to mix-up with other persons, and whether he can influence other persons and get influenced by them. Which test is indicated in this situation.

- A. Personality Test
- B. Intelligent Test
- C. Aptitude Test
- D. Trade Test

Q.2 At the beginning of the new year he anticipated that the company will need 30 new additional persons to fill up different vacancies. Identify the first step of staffing.

- A. Placement and Orientation
- B. Training and Development
- C. Recruitment
- D. Estimating Manpower Requirement

Q.3 From the given lines, ‘Out of these, conditions of 15 applicants were not acceptable to the company.’ Letters of regret, giving reasons, were sent to them. Which aspect of staffing is highlighted in the statement?

- A. Recruitment
- B. Selection
- C. Training
- D. Education

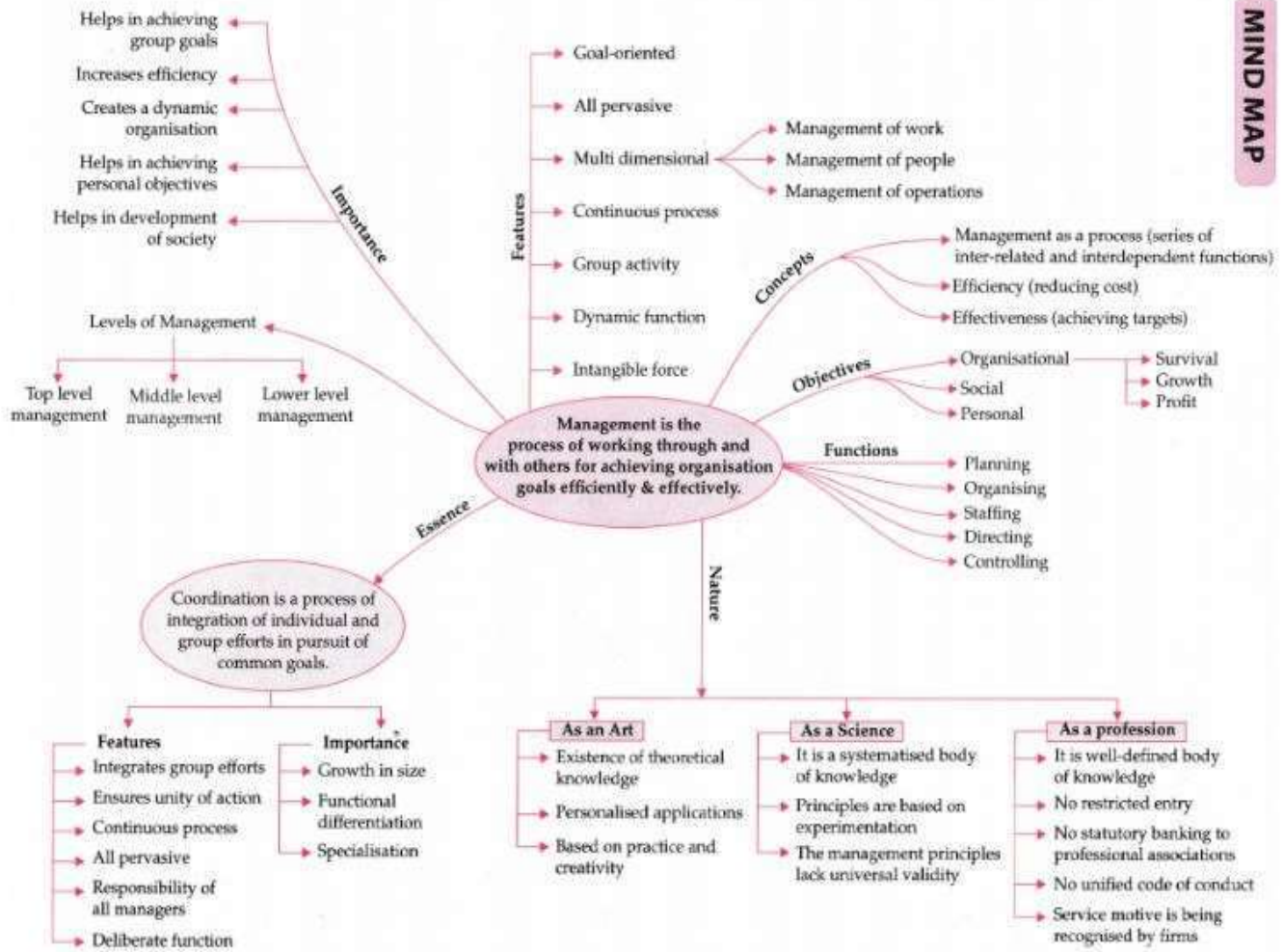
Q.4 The applicants were given four tests like intelligent test to interest test after filling up blank application form. Identify which step of selection process was followed by the management.

- A. Selection Decision
- B. Selection Test
- C. Job Offer
- D. Medical Examination

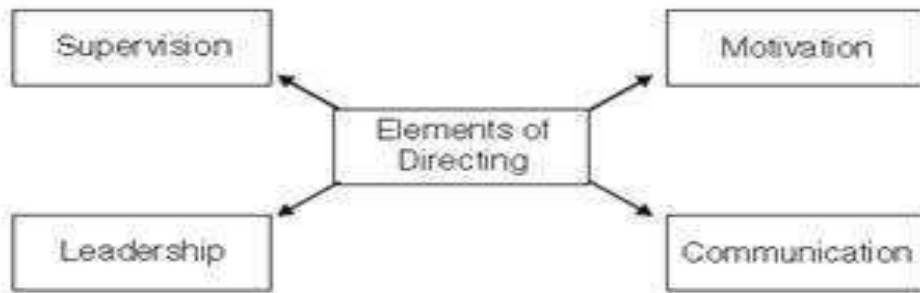
ANSWER: 1) A. Personality test 2) D. Estimating Manpower Requirement 3) B. Selection 4) E. Selection test

## CHAPTER 07: DIRECTING

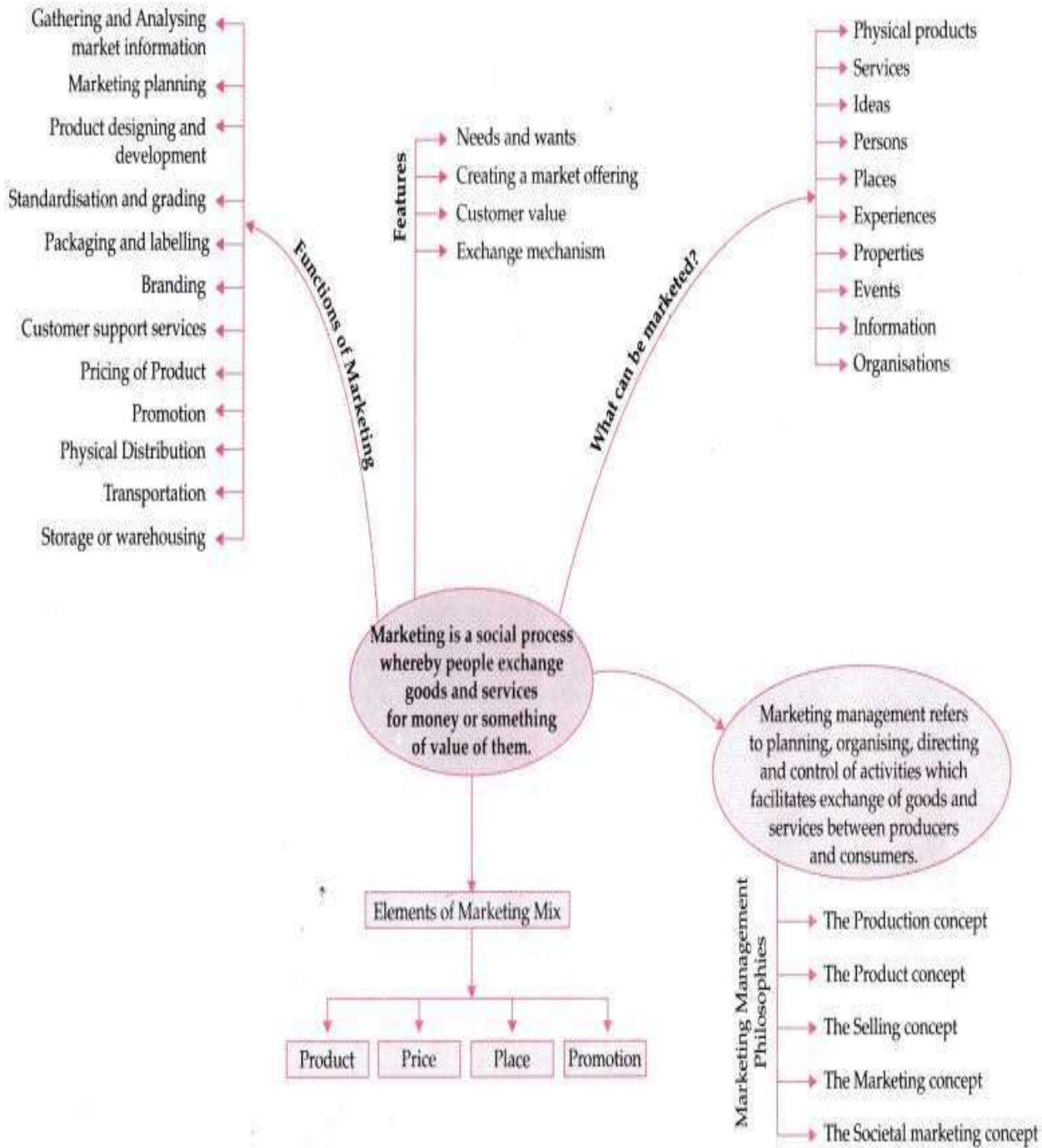
MIND MAP



## Elements of Direction







> **MEANING:** Directing as a function of management, refers to the process of instructing, guiding counselling, motivating and leading people in the organization to achieve its objectives. It does not mean only instructions but also include supervising the employees when they are performing the job, motivating them to perform more efficiently and leading them towards the achievement of organizational goal

> **FEATURES**

> **Directing initiate action:** The other functions of management prepare a setting for action, but directing initiates action in the organization.

> **Directing takes place at every level of Management:** -Every manager from top executive to supervisor performs the function of directing.

> **Directing is a continuous process of supervision, communication, leadership and motivation;** it takes place throughout the life of the organization.

> **Directing flows from top to bottom:** - It is first initiated at the top level and flows to the bottom through organizational hierarchy

> **IMPORTANCE OF PLANNING**

> **Initiates Action:** It helps to initiate action by people in the organization towards attainment of desired objectives. The employees start working only when they get instructions and directions from their superiors. It is the directing function which starts actual work to convert plans into results.

> **Integrate Employee s Efforts:** -All the activities of the organization are interrelated so it is necessary to coordinate all the activities. It integrates the activities of subordinates by supervision, guidance and counselling.

> **Means of motivation** - It motivates the subordinates to work efficiently and to contribute their maximum efforts towards the achievement of organizational goals.

> **Facilitates change:** -Employees often resist changes due to fear of adverse effects on their employment and promotion. Directing facilitate adjustment in the organization to cope with changes in the environment.

> **Stability and Balance in the organization:** -It helps to achieve balance between individual interests of employees and organizational interests.

## ELEMENTS OF DIRECTING

1. Supervision

2. Leadership

3. Communication

4. Motivation

### 1. Supervision-

Supervision means observing the subordinates at work to see that they are working in according with plans and to help them in solving their problems. The important thing in supervision is it involves face to face contact between superior and subordinates. Supervisor s position is immediately above the worker.

### 2. Leadership -

Leadership is the activity of influencing people to strive willingly for mutual objectives. Managers at all levels are expected to the leaders of their subordinates.

Features:-

- **Influence behavior:** It indicates ability of an individual to influence others.
- **Interpersonal relations:** It tries to bring change in the behavior of others.
- **Common goals:** It is exercised to achieve common goals of the organization.
- **Continuous process:** It is a continuous process.
- **Situational:** There a no particular style of leadership it is related to

particular situation.

**Importance:-**

1. **Help in guiding and inspiring employees.**
2. **Creates confidence - by recognizing the Quality and capabilities of individuals.**
3. **Handles conflicts effectively and does not allow adverse effects resulting from the conflicts.**
4. **Provides Training to Subordinates.**
5. **Secures cooperation of members of organization**
6. **Inspires productivity**
7. **Improves job satisfaction**
8. **Achievement of organizational goals**

**Leadership styles:-**

1. **Autocratic**
- 2 **Democratic or Participative**
- 3 **Free Rein or Laissez-faire**

### **3. Communication-**

**It is transfer of information from the sender to the receiver with the information being understood by the receiver.**

**Difference between Formal & Informal Communication**

<i>Basis</i>	<i>Formal Communication</i>	<i>Informal Communication</i>
1. <b>Meaning</b>	<b>within the official chain of command</b>	<b>Between individuals and groups which are not officially recognized.</b>
2. <b>Channel</b>	<b>Through a definite path</b>	<b>No definite path</b>
3. <b>Speed</b>	<b>Slow - because all information has to pass through an established chain of command</b>	<b>Very fast - Cuts across all the official channels.</b>
4. <b>Nature</b>	<b>More rigid and cannot be modified</b>	<b>Flexible and varies from individual to individual.</b>
5. <b>Expression</b>	<b>It is mostly expressed in written form.</b>	<b>It mostly tends to be oral</b>

**Barriers to Effective Communication -**

1. **Semantic Barriers - Concerned with problems and obstructions in the process of encoding or decoding of message into words or impressions Semantic barriers are as follows.**
  1. **Badly expressed message**
  2. **Symbols with different meanings.**
  3. **Faulty Translations.**
  4. **Unclear assumptions - Subject to different interpretations.**
  5. **Technical Jargon- Technical words may not be understood by the workers.**
- Psychological Barriers -**

The state of mind of both sender and receiver affect the process of communication. Psychological barriers are as follows.

1. **Premature Evaluation – Judgment before listening.**

2. **Lack of attention.**

3. **Loss by transmission and Poor Retention - When oral communication passes through various levels - destroy the structure of the message.**

4. **Distrust - If the parties do not believe each other.**

**Organizational Barriers:-**

**Factor related to organization structure.**

1. **Organizational Policy**

2. **Rules and regulations.**

3. **Status.**

4. **Complexity in organization structure.**

**Personal Barriers - of superiors and subordinates**

1. **Fear of challenge to authority.**

2. **Lack of confidence of superior on his subordinates.**

3. **Unwillingness to communicate.**

4. **Lack of Proper incentives.**

**Improving Communication Effectiveness.**

1. **Clarify the ideas before communication.**

2. **Communicate according to the needs of receiver.**

3. **Consult others before communicating.**

4. **Be aware of language, tone and content of message.**

5. **Ensure proper feedback.**

6. **Follow up communication.**

7. **Be a good listener.**

4. **Motivation**

**Meaning: - It is the process of stimulating people to act to their best ability to accomplish desired goals. It depends upon satisfying needs of people.**

**Importance -**

1. **Achievement of Organizational Goal: Motivation puts human resources into action by satisfying their needs through appropriate rewards. Motivated employees cooperate and contribute their maximum efforts towards the organizational goals.**

2. **Higher Efficiency of Employees - Depends upon their abilities and willingness to work hard. It bridges the gap between the ability to work and willingness to work and willingness always improves efficiency.**

3. **Reduction in resistance to change: -It helps to overcome resistance to change.**

4. **Stability in workforce - It brings confidence in employees and also improve their loyalty and commitment towards the organization. As a result the rates of labor absenteeism and labor turnover reduce.**

5. **Optimum Utilization of Resources - The motivated workers would handle machines and materials properly. This would ensure optimum utilization of resources and reduction of wastage.**

**Financial and Non-Financial Incentives - Incentive means all measures which are used to motivate people to improve performance.**

**Financial incentives**

**Non-Financial incentives**

**Profit-sharing**  
**Pay and Allowances**  
**Bonus**  
**Retirement Benefits**  
**Perquisites**  
**Productivity linked wage**  
**Co-partnership/stock option**  
**Employee's empowerment**

**Status**  
**Career Advancement**  
**Opportunity**  
**Job enrichment**  
**Employee Recognition programmer**  
**Employees participation in centuries**  
**Job security**

**Maslow's Need Hierarchy Theory of Motivation: -Maslow's Theory focuses on the needs as the basis for motivation**



• **MCQ'S**

1. It is very difficult to detect the source of such communication.

- (a) Upward communication
- (b) Vertical communication
- (c) Lateral communication
- (d) Informal communication

Answer: d Explanation: (d) as it leads to spreading of rumors

2. Which of the following is not a type of semantic barriers?

- (a) Badly expressed message
- (b) Unclarified assumptions
- (c) Technical jargon
- (d) Premature evaluation

Answer: d Explanation: (d) It is a type of psychological barrier

3. Which of the following is not a type of psychological barriers?

- (a) Premature evaluation
- (b) Lack of attention
- (c) Fear of challenge to authority
- (d) Distrust

**Answer: c Explanation: (c) It is a type of personal barrier**

**4. Which of the following is not a type of personal barrier?**

- (a) Fear of challenge to authority .**
- (b) Unwillingness to communicate**
- (c) Loss by transmission and poor retention**
- (d) Lack of proper incentive**

**Answer: c**

**5. Effective motivation in the organisation does not contribute towards**

- (a) Developing performance levels of employees**
- (b) Helping to reduce employee turnover**
- (c) Resistance to changes in the organisation**
- (d) All of the above**

**Answer: c**

**6. Which of the following is not an assumption of Maslow's theory?**

- (a) People's behaviour is not based on their needs.**
- (b) Satisfaction of such needs influences their behaviour.**
- (c) A satisfied need can no longer motivate a person; only next higher level need can motivate him.**
- (d) A person moves to the next higher level of the hierarchy only when the lower need is satisfied.**

**Answer: a**

**7. Which of the following is not an example of financial incentive?**

- (a) Perquisites**
- (b) Job Enrichment**
- (c) Profit Sharing**
- (d) Co-partnership**

**Answer: b**

**8. Ashutosh works as a manager in Kuber Ltd. Besides the salary, the company offers him benefits such as free housing, medical aid and education to the children, etc. Identify the type of incentive being offered to him.**

- (a) Perquisites**
- (b) Job Enrichment**
- (c) Co-partnership**
- (d) Pay and allowances**

**Answer: a**

**9. On joining Foster Public School as a Physical Education teacher, Vikram realised that he did not have any freedom to introduce any changes in the sports activities being : carried out in the school. Identify the incentive which was being ignored by the school.**

- (a) Organisational climate**
- (b) Job security**
- (c) Career advancement opportunities**
- (d) Employee recognition program**

**Answer: a**

**10. As the general manager of an e-commerce company, Gagan maintains good interpersonal relations with followers and also motivates them to contribute for y ‘ achieving organisational goals. Identify the concept being described in the above lines.**

- (a) Supervision**
- (b) Communication**
- (c) Determination**
- (d) Leadership**

**Answer: d**

**11. Which of the following is not a feature of leadership?**

- (a) It shows ability of an individual to influence others.**
- (b) It leads to achievement of organisational goals.**
- (c) Leadership is one-time process.**
- (d) It leads to desired change in the organisation.**

**Answer: c**

**12. Identify the correct sequence of steps involved in the communication process.**

- (a) Sender, Message, Encoding, Media, Decoding, Receiver, Feedback**
- (b) Sender, Decoding, Receiver, Feedback, Message, Encoding, Media**
- (c) Sender, Message, Encoding, Media, Decoding, Receiver, Feedback**
- (d) Sender, Media, Decoding, Receiver, Message, Encoding, Feedback**

**Answer: c**

**13. As an employee of an automobile company, Suraj has always been very lazy and evasive. In order to change his behaviour, his boss decided to give him an incentive. Identify the feature of motivation being described in the above lines.**

- (a) Motivation is an internal feeling.**
- (b) Motivation produces goal-directed behaviour.**
- (c) Motivation is a complex process.**
- (d) None of the above**

**Answer: b**

**14. Suman works as a Project Co-ordinator in an export house. Whenever the workload is high, she is able to convince her team by explaining to them the purpose, providing training and motivating them with additional rewards so as to be able to win their wholehearted co-operation. Identify the element of directing being described in the above lines.**

- (a) Supervision**
- (b) Motivation**
- (c) Leadership**
- (d) Communication**

**Answer: c**

**15. At support.com, there is no reward or appreciation for a good suggestion. Thus, the subordinates are not willing to offer any useful suggestions to their superiors.**

Identify the type of barrier that has been created in the firm due to this.

- a) Semantic barrier
- b) Personal barrier
- c) Organisational barrier
- d) Psychological barrier

Answer: c

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

**Choose one of the correct alternatives given below:**

16.Assertion (A) Directing involves motivation and encourages the employees to perform the tasks assigned to them.

Reason (R) Controlling involves comparison of current performance of the employees with the established standards.

17.Assertion (A):

Reason (R):

- (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 (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

18.Assertion (A):

Reason (R):

- (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 (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

19. Assertion (A):

Reason (R):

- (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 (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

20. Assertion (A):

Reason (R):

- (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 (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**

**(Question /Answers)**

**Q. 1. Ayesha Ltd. Assured their employees that in spite of recession no worker will be retrenched from the job.**

- i. Name and explain the type of incentive offered to the employees.
- ii. Explain one more incentive of the same category.

**Q. 2. Blue Birds Ltd. Offers to its employees issue of shares at a price which is less than the market price.**

- i. Name and explain the type of incentive offered to the employees.
- ii. Explain one more incentive of the same category.

**Q. 3. ABC Ltd. Is not able to achieve its objective on analyzing, they found that employees were not given their best, so he decided to announce an incentive plan, which offers various incentives to employee workers at different level for achieving their target.**

- i. Which element of directing is used by manager?
- ii. Suggest incentive suitable for:

- 1. Employees operating at lower level.
- 2. Employees operating at higher level.

**Q. 4. Mr. John faced lot of problems regarding the policy on teaching. He directly consulted the principal about his problem ignoring the Headmistress who is immediate superior of Mr. John as he feels more free to communicate with principal.**

- i. Name the pattern of communication followed by Mr. John.
- ii. State any other two patterns.

**Q 5. Is directing required at planning stage? Name the element of directing function under which:**

- i. The superiors oversee the activities of their subordinates.
- ii. The superiors assure the subordinates that their needs will be taken care of.
- iii. The superior attempts to influence the behaviour of people at work towards the realization of specified goals.
- iv. The superior share information with the subordinates in order to reach common understanding.  
(3 Marks)

**Q6. Amit and Mike are working in the same organization but in different departments. One day at lunch time Mike informed Amit that due to computerization some people are going to be retrenched from the organization.**

**Name which type of communication is this. State any two limitations of this type of communication.  
(3 Marks)**

**Q7. You are working at the middle level of management. Your superior, a top management personnel, sent a message for you which you received and well understood. Is the communication process complete? Give**

reason. (3 Marks)

**Q8. Rakesh is working under his superior Neeraj. He always communicates useful ideas and suggestions to his superior regarding reduction of cost, improvement in the product, etc. Neeraj implements his suggestions and has always found favourable results, but he never appreciates Rakesh for his suggestions. Now Rakesh decided not to communicate any suggestion or idea to Neeraj. Identify the factor which acts as a communication barrier. (1 Marks)**

**Q9 Ankur is working as a production manager in an organization. His subordinate Saurabh discussed with hi a method o production which will reduce the cost of production. But due to some domestic problems and Ankur's mind being pre- occupied he is not in a position to understand the message. Saurabh got disappointed by this. Identify the factor which acts as a communication barrier. (1 Marks)**

**Q10 Rajat a Sales Manager, achieved his sales target one moth in advance. This achievement as displayed on the notice board and the CEO of the Company awarded a certificate for the best performance to him. Name the incentive provided to Rajat. (1 Marks)**

**Q11. A behaviour study was done on total of 100 employees of an organization. Group A (of 50 employees) were appreciated by the manager for their work and initiative for new idea. All these employees were given option of flexible**

**working hours and were paid wages at a higher piece rate. On the other hand, Group B (of remaining 50 employees) was criticized for their poor performance. Their increments were stopped and they were paid wages at a lower piece rate.**

- a. Identify and explain the feature of motivation highlighted in the above case.**
- b. What type of leadership is followed by the manager? Justify your answer. (4 Marks)**

**Q. 12. In a company, Mr. Kshitij always explains management policies to workers and brings workers' problems to the notice of management. At what post does Mr. Kshitij work in this company? (1 Marks)**

**Q. 13. Prachi is working in an MNC. She has been given an option to buy the shares of the company at an amount less than the market price because of her performance as an incentive. Identify which incentive is being given to her.(1 Marks)**

**Q. 14. Ms. Snigdha, Production Manager and Mr. Sarthak, Marketing manager of an electronics company are not on talking terms with each other. Because of that they do not transfer complete information to each other.**

- a. Identify the element of directing which becomes ineffective due to the behavior of the managers.**
- b. Also, explain the factor which led to their such behavior. (3 Marks)**

**Q. 15. Huma is working in a company on a permanent basis. As per job agreement she had to work for 8 hours a day and was free to work overtime. Huma worked overtime, due to which she fell ill and**

had to take leave from her work. No one showed concern and enquired about her health. She realized that she was fulfilling only some of her needs while some other needs still remained to be fulfilled.

- i. By quoting the lines from the above para, identify the needs of Huma which she is able to fulfil.
- ii. Also explain two other needs of Huma followed by the above needs, which still remained to be satisfied.

**Q. 16.** Mr. Nath, a recently appointed production manager of Suntech 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. After analysis he found that employees were demotivated and not putting in their best for achieving the target. Mr. Nath'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 suggestion.
- Congratulating the employees for good performance.

1. Identify the functions of management highlighted in the above paragraph.
2. State the 'incentive' under which the employees are motivated.

**Q. 17. NOTICE**

A meeting of all supervisors is scheduled on 20<sup>th</sup> August, 2016

This notice was placed on the notice board in the reception area of XYZ Ltd. But it did not mention clear specification regarding the time of meeting. Which barrier of communication is referred to here? Explain any two other forms of barriers to effective communication under the same category. (5 Marks)

**Q. 18.** Mr. Sandeep is the marketing manager of a company manufacturing designer clothes. One day, in the morning while leaving home he had a quarrel with a person in his neighbourhood on some issue. That person is a criminal who could abuse his family members. Mr. Sandeep, on that day, is very worried and angry too on the behavior of the neighborhood person. On that day, a meeting was held by a team of marketing and design experts to ensure that whatever is produced is according to market demand and tastes and fashion of the customers. But Mr. Sandeep could not pay attention to the discussion between them.

- a. Identify the type of barriers to communication mentioned in the above para. Justify your answer.
- b. Explain any two such barriers to communication.

**Q. 19.** Mrs. Rajlaxmi is working as the Human Resource Consultant in a firm manufacturing cosmetic, which is facing a problem of high employee turnover. The CEO of the company has invited suggestions from her for retaining the talented employees & reducing the employee turnover. Mrs. Rajlaxmi recommends that the good employees be rewarded in a way that it creates a feeling of ownership among the employees and at the same time makes them contribute towards the growth of the organization.

- a. Identify the incentive and explain its type, which has been suggested by Mrs. Rajlaxmi to the CEO of the company.
- b. Also explain any two other incentives of the same type.

**Q. 20.** Mr. Bhuvan is the marketing manager of the company manufacturing designer clothes. One day in the morning while leaving home, he had a quarrel with the person in the neighbourhood. That person abused his family and threaten to harm the family. Mr. Bhuvan got very upset and worried. On the same day a meeting was organized in the office to finalise the design according to market demand and taste the fashion of the customers. Mr. Bhuvan could not pay attention to the discussion as he was thinking about the quarrel only.

- a. Identify the type of barrier to communication mention in the above para.
- b. State any other two barriers of same category.

**Q. 21.** Rajiv is working as Personal Manager in a company. The specialty of the company is that financial position of all the employees is good. The employees working here are honest punctual and hardworking. The CEO of the company asked him to suggest a method of motivation. The CEO asked him to suggest a method which is happily accepted by all the employees.

Rajiv spoke to many employees in this connection. Some employees suggested give more importance to individual autonomy, another suggested good performance should be appreciated another group suggested to award, certificate, trophies to recognize the good performance. Mr. Rajiv mixed all and suggested a method of motivation to CEO. The CEO happily accepted that and it was immediately implemented. Within few days the company's growth rate appeared to have become fast.

1. Identify the functions of management indicate in the above paragraph.
2. Which motivation methods were suggested by different group of employees?
3. Which motivation method combine all the above stated and was suggested by personal manager.

**Q. 22.** Pramod was a supervisor at a 'Annapurna Aata' factory. The factory was producing 200 quintals of Aata every day. His job was to make sure that the work goes on smoothly and there was no interruption in production. He was a good leader who would give orders only after consulting his subordinates and work out the policies with the acceptance of the group.

Identify and describe the leadership style being adopted by Pramod.

**Q. 23.** Neeraj, a sales representative of 'Omida Ltd' has changed seven jobs in the last one year. He is a hard working person but is not able to finalise deals with the customer due to his inadequate vocabulary and omission of needed words. Sometimes he uses wrong words because of which intended meaning is not conveyed. All this created a mis-understanding between him and his cliens.

- a. Identify the communication barrier discussed above.
- b. State the category of this communication barrier.
- c. Explain any other communication barrier of the same category.

**Q. 24.** Smita had been working as an assistant manager with 'Johnson Enterprises' for the last ten years. She was very popular amongst her colleagues because of her commitment and dedication towards the work. When the manager senior to her retired, all her colleagues thought that now Smita would be promoted. But to everyone's surprise the vacant post was filled by an outsider, Mrs. Rita. Smita felt demoralized and her performance started declining. She would abstain herself often and could not meet her targets.

Mrs. Rita was a good leader, who would not only instruct her subordinates but would also guide and inspire them. She noticed Smita's behaviour and felt that her performance could be improved. She started involving Smita in decision making- issues related to the organization and made her a part of high level joint-management committed. Smita was now punctual in office and her performance started improving.

1. Identify the function of management being performed by Rita.

2. Name the element of the above function of management which helped Rita to improve Smita's behavior.
3. State any three features of the element identified in (ii) above.

**Q. 25.** Rahim was working in an enterprise on daily wages basis. It was difficult for him to fulfill the basic needs of his family. His daughter fell ill. He had no money for his daughter's treatment. To meet the expenses of her treatment, he participated in a cycle race and won the prize money. The cycle company offered him a permanent pensionable job which he happily accepted.

- i. By quoting the lines from the above para identify the needs of Rahim that are satisfied by the offer of cycle company.
- ii. Also, explain two other needs of Rahim followed by above that are still to be satisfied.

**Q. 26.** Y Ltd. Is a bank functioning in India. It is planning to diversify into insurance business. Lately, the government of India has allowed the private sector to gain entry in the insurance business. Previously, it was the prerogative of LIC and GIC to do insurance business. But now with liberalization of the economy and to make the field competitive other companies have been given licences to start insurance business under the regulation of 'Insurance regulatory and development Authority'. Y Ltd. Plans to recruit high quality employees and agents and exercise effective direction to capture a substantial part of life and non-life insurance business.

1. Identify how the company can supervise its employees and agents effectively.
2. What financial and non-financial incentives can the company use for employees and agents separately to motivate them?
3. How can the company ensure that higher order needs i.e., esteem and self actualization as specified by Maslow are met?
4. How can the company follow formal communication system?
5. How can informal communication help to supplement formal communication?

**Q. 27.** Prateek is working in a multinational company in Noida. He was running a temperature for the last many days. When his blood was tested, he was found to be positive for malaria. He was admitted in a hospital and a blood transfusion was advised by the doctors as his condition was very serious. One of his colleagues sent a text message to his superior, Mr. B. Chatterjee. Mr. B. Chatterjee immediately sent a text message to the employees of the organization requesting them to donate blood for Prateek. When the General Manager came to know about it, he ordered for fumigation in the company premises and cleaning the surroundings.

1. From the above paragraph, quote lines that indicate formal and informal communication.
2. State any two features of informal communication.

**Q. 28.** Roshan is the chief of 'Khidmat' restaurant located in the city of Bangaluru. The place is known for its exquisite Mughlai cuisine especially mutton briyani and kababs. All the food is prepared under Roshan's purview. The various activities in the kitchen are initiated in accordance to his instructions. He is very clear and specific in issuing instructions to his subordinates in order to ensure smooth working of the department. He personally oversees the method followed by the chefs for preparation of each dish. He misses no opportunity to praise his subordinates for their good work. All his team members feel very happy and satisfied under his direction. He provides constant guidance to them in order to improve upon its taste and presentation and also encourages them to innovate and be more creative in their work.

In the above context:

1. Identify the various elements of directing mentioned in the above paragraph by quoting lines from the paragraph.
2. Describe briefly any two points to highlight the importance of directing as a function of management.

**Q. 29.** Neeraj has been working as a sewing machine operator in an export house for the past ten years. His basic work is to seam the parts of a garment together, and attach buttons, hooks, zippers, and accessories to produce clothing. Considering the fact that Neeraj is an experienced operator, he is well versed with the fundamentals of industrial production and possesses good communication skills. The plant superintendent in the factory recommends Neeraj's name to the production manager for the post of supervisor which will fall vacant after a month on the retirement of the present supervisor. Consequently, Neeraj is assigned the post of supervisor and his salary is increased accordingly. Moreover, as per the policy of the export house, he is offered free medical aid and education to his two children.

In the context of the above case:

1. Identify the type of source of recruitment used by the export house to fill up the post of supervisor. Give any two advantages of using this source.
2. Identify the types of financial incentives offered to Neeraj by quoting lines from the paragraph.

**Q. 30.** Sunidhi has started a designer studio in the basement of her residence after completing her masters in fashion designing. She has appointed ten employees to take care of the various aspects of the work. She interacts regularly with each employee to tell exactly what is expected of him/.her and what he/she needs to do to be regarded as a good performer. At the same time she allows a free work environment wherein the employees openly chit chat with each other in order to fulfil their social and emotional needs. Sometimes, these interactions also lead to spreading rumours which are not authentic.

In the context of the above case:

1. Name and explain the two types of communication being referred to in the above paragraph.
2. How does effective communication increases managerial efficiency?

**Q. 31.** Gagan has joined as a Managing Director of True Help Ltd., a company engaged in the business of providing road side assistance to the vehicle owners. He was previously working in an automobile company. As a part of the joining incentive, the company has allotted him 400 shares of the company.

In context of the above case:

1. Identify the type of source of recruitment used by True Help Ltd. to fill up the post of Managing Director.
2. Identify the type of financial incentive offered to Gagan. Also, state any one other method that can be used to offer financial incentives to the employees.

**Q. 32.** Mr. Naresh is working as a Production Manager in Vohra Ltd. His subordinates are mostly engineers and qualified technicians.

As a manager, he is very strict, does not listen to any suggestions or feedbacks given by his subordinates. He expects them to follow his instructions without any questions and does not allow them to give suggestions.

1. What leadership style does the manager follow?
2. Is such a leadership style beneficial for the company? Explain. (4 marks)

### ANSWERS

Ans 1. (i) Job security  
(ii) Explain one more incentive of the same category.

1. Employee's recognition.
2. Organizational climate.

Ans 2. (i) Co-partnership/Stock option.  
(ii) Other incentives: (a) Pay and allowance, (b) Bonus.

Ans 3. (i) Motivation is missing.  
(ii) (a) Lower level: offer monetary incentives.  
(b) Higher level: non-monetary incentive.

Ans 4. (i) Mr. John is following inverted 'V' pattern.

(ii) Other two patterns:

1. Wheel pattern, (b) Chain pattern.

Ans 5. No, directing is not required at planning stage since it is an executive function. It initiates action in the organization while other functions of management (planning, organizing, staffing and controlling) just prepare a setting for action.

1. Supervision (ii) Motivation (iii) Leadership (iv) Communication.

Ans 6. Informal Communication Limitations:

1. The grapevine/informal communication spreads rapidly and sometimes gets distorted. It is very difficult to detect the source of such communication.
2. It also leads to generate rumours. People's behavior is affected by rumours and informal discussion and sometimes may hamper work environment.

Ans 7. No, the communication process is not complete unless and until feedback is given to the superior. Feedback includes all those actions of the receiver indicating that he has received and understood the message of sender. So, I must respond to communication to improve its effectiveness, e. g., by giving a reply to letter, giving reactions to the message, etc.

Ans 8. Lack of proper incentives (Personal Barriers to Communication)

Ans 9. Lack of attention (Psychological/Emotional Barriers to Communication)

Ans 10. The incentive provided to Rajat is – 'Recognition'.

Ans 11.

1. **Motivation can be either positive or negative. Positive motivation provides positive rewards like increase in pay, promotion, recognition, etc. Negative motivation uses negative means like punishment, stopping increments, threatening, etc.**
2. **Autocratic leadership style.**

The leader's following is based on the assumption that reward or punishment both can be given depending upon the result.

**Ans 12. Mr. Kshitij is supervisor in the company as he acts as a link between workers and management.**

**Ans 13. Co-partnership/Stock option.**

**Ans 14. (a) Communication**

### **1. Distrust (Psychological barrier)**

**Distrust between sender and receiver causes failure of communication. If they do not believe each other, they cannot understand each other's message in its original sense.**

**Ans 15.**

1. **'Huma is working in a company on a permanent basis'.**

**According to above line Huma is able to fulfil her following needs:**

- a. **Physiological needs**
- (b) **Safety or Security needs**
- (ii) **Needs of Huma which still remained to be satisfied are:**

1. **Affiliation Need: It refers to the need for affection, since to belongingness, acceptance and friendship.**
2. **Esteem Need: It refers to the need for self-respect, autonomy, status, recognition and attention.**

**Ans 16.**

1. **Directing and Controlling**
2. **Employee recognition programme (non-monetary incentive)**

**Ans 17. Badly expressed message (Semantic barriers) – Use of wrong words, omission of needed words, inadequate vocabulary, etc.**

1. **Symbols with different meanings: A work may have several meanings. For example, consider these three sentences where the work 'value' is used:**

- **What is the value of this ring?**
- **I value our friendship.**
- **What is the value of learning compute skills?**



Wrong perception by the receiver leads to communication problems.

1. **Faulty translations:** Sometimes, the communications originally drafted in one language (say, English) need to be translated to the language understandable to workers (say, Hindi). If the translator is not proficient with both the languages, communication becomes ineffective.

Ans 18.

### 1. Psychological barriers.

These are related to the state of mind of both sender and receiver of communication. For example, a worried person cannot communicate properly and an angry receiver cannot understand the real meaning of message.

‘Mr. Sandeep is very worried and angry on that day. So he could not pay attention to the discussion in the meeting.’

### 1. Psychological barriers to communication:

1. **Lack of attention:** the pre-occupied mind of receiver and the resulting non-listening of message acts as a major psychological barrier.
2. **Premature evaluation:** Sometimes people form a judgement before the sender completes his message, which causes failure of communication.

Ans 19.

### 1. Financial incentive.

Co-Partnership/Stock Option

### 1. Other financial incentives:

1. **Pay and allowances:** For every employee, salary is the basic financial incentive. It includes basic pay, dearness allowance and other allowance. Pay hike and increments improve performance level of employees.
2. **Profit sharing:** Employees are given a share in the profits of the organization. This motivates them to improve their performance and contributes to increase in profits of the organization.

Ans 20.

1. **Psychological barrier Lack of attention.**
2. **(i) Premature evaluation**

**(ii) Loss by poor retention.**

Ans 21.

1. **Directing.**

2. (i) Recognition

(ii) Autonomy

1. Organizational climate.

2. (i) Ethical behavior

ii. Motivating employees

iii. Taking Suggestions from employing.

Ans 22. Democratic style of leadership.

A democratic leader favours decision making by the group. This improves the attitude of the employees towards their jobs and the organization thereby increasing their morale.

Using this style is of mutual benefit – it allows them (subordinates) to become part of the team and helps leaders (seniors) to make better decisions.

Ans 23.

1. Badly expressed message

2. Semantic barrier, which arises from problems and obstructions in the process of encoding and decoding of message into words or impressions.

3. Technical jargon; Specialists use technical language or jargon while explaining to the workings, e.g., tariff, quotas, etc. therefore, they may not understand the actual meaning of many such words.

Ans 24.

1. Directing

2. Motivation

3. Features of motivation:

1. **Motivation is an internal feeling:** The urge, desires, aspirations or needs of people, which are internal, influence human behavior.

2. **Motivation produces goal-directed behavior:** For example, if the employee is interested in promotion, it helps to produce a behavior to improve performance.

3. **Motivation can be either positive or negative:** Positive motivation provides positive rewards like increase in pay, promotion, recognition, etc. negative motivation uses negative means like punishment, stopping increments, threatening, etc.

Ans 25.

1. Needs of Rahim that are satisfied by the offer of cycle company are Physiological and safety/security needs.

'The cycle company offered him a permanent pensionable job'.

1. The other needs followed by the above stated needs that are still to be satisfied are:

1. **Affiliation/Belongingness needs:** These needs refer to the need for affection, sense of belonging, acceptance and friendship.
2. **Esteem needs:** These needs refer to the need for self-respect, autonomy status, recognition, etc.

Ans 26.

1. The company will appoint supervisors who will provide on the job training to the employees and agents. They will maintain group unity and ensure that the company gets enough insurance business.
2. To the employees, the company can give pay and allowances, bonus, retirement benefits, perquisites (e.g., car allowance), recognition, promotion, job security etc. to motivate them for higher performance.

To the agents, the company can give the following incentives:

1. Profit sharing
2. Stock option (i.e., giving company's share at a price less than market price)
3. Productivity linked salary (i.e., higher salary for getting more insurance business)
4. Participation in decision – making.

1. By giving recognition, autonomy status, etc. and providing growth and self-fulfillment opportunities, the company ensures that higher order needs—esteem and self actualization needs are met.
2. The company can follow formal communication system by ensuring that all communication flows through official channels designed in the organization chart (i.e., through Scalar chain).
3. Information communication network (i.e., grapevine) can be used by the company to transmit information to know he reactions of the employees and agents to the company's decisions and policies. Grapevine channels can carry insurance market information rapidly.

Ans 27.

1. (i) ***Informal communication:*** "One of his colleagues sent a text message to his superior, Mr. B. Chatterjee. Mr. B. Chatterjee immediately sent a text message to the employees of the organization requesting them to donate blood for Prateek."

(ii) ***Formal communication:*** "When the general manager came to know about it, he ordered for fumigation in the company premises and cleaning surroundings."

1. The features of informal communication are as follows:

1. The grapevine/informal communication spreads very fast and sometimes gets distorted.
2. It is very difficult to detect the source of such communication.

Ans 28.

1. The various elements of directing mentioned in the above paragraph are as follows:

1. **Communication:** "He is very clear and specific in issuing instructions to his subordinates in order to ensure smooth working of the department."
2. **Supervision:** "He personally oversees the method followed by the chefs for preparation of each dish."
3. **Leadership:** "He provides constant guidance to them in order to improve upon its taste and presentation and also encourages them to innovate and be more creative in their work."
4. **Motivation:** "He misses no opportunity to praise his subordinates for their good work."

1. The importance of directing as a function of management is described below:

1. **Initiates action:** Directing helps to initiate action by people in the organization towards attainment of desired objectives. It is the first execution function of management.
2. **Integrates employees' efforts:** Directing seeks to integrate the individual efforts of employees in the organization towards the realization of the organizational goals.
3. **Helps to realize their potential:** Directing provides effective guidance, motivation and leadership to the employees so as to enable them to realize their potential and capabilities. (any two)

Ans 29.

1. The internal source of recruitment has been used by the export house to fill up the post of supervisor through promotion. The two advantages of using internal source of recruitment are stated below.

1. **Employees are motivated to improve their performance:** When employees are promoted internally from within an organization, it has a positive impact on their commitment and loyalty and they tend remain satisfied with their jobs. Also, it may lead to a chain of promotion at lower levels in the organization. As a result, it motivates the employees to improve their performance through learning and practice.
2. **Internal recruitment simplifies the process of selection and placement:** The candidates can be appraised more perfectly and economically as that are already working in the organization. As the candidates are already known to the organization, it is considered to be a more reliable method of recruitment.

1. The types of financial incentives offered to Neeraj are as follows:

1. **Pay and allowances:** "his salary is increased accordingly."
2. **Perquisites:** "as per the policy of the export house, he is offered free medical aid and education to his two children."

Ans 30.

1. The two types of communication being referred to in the above paragraph are formal communication and informal communication.

1. **Formal communication:** The communication that flows through official channels designed in the organization structure is called formal communication. This communication may take place between a subordinate and superior or among same team employees or managers. Usually a written record of such communications is maintained, recorded and filed in the office. Formal communication may be further classified as – Vertical and Horizontal.
2. **Informal communication:** Informal communication is the type of communication that takes place without following the formal lines of communication. It is generally referred to as the ‘grapevine’ because it spreads throughout the organization with its branches going out in all directions in utter disregard to the levels of authority. The informal communication arises out of needs of employees to exchange their views, which cannot be done through formal channels.
1. **Effective communication increases managerial efficiency by lubricating the working of the entire organization through quick and effective performance of managerial functions. It enables the management to express the goals and targets, issue instructions, allocate jobs and responsibilities and look after the performance of subordinates.**

Ans 31.

1. **External source of recruitment has been used by True Help Ltd. to fill up the post of Managing Director.**
2. **Co-partnership/ Stock option is the type of financial incentive offered to Gagan.**

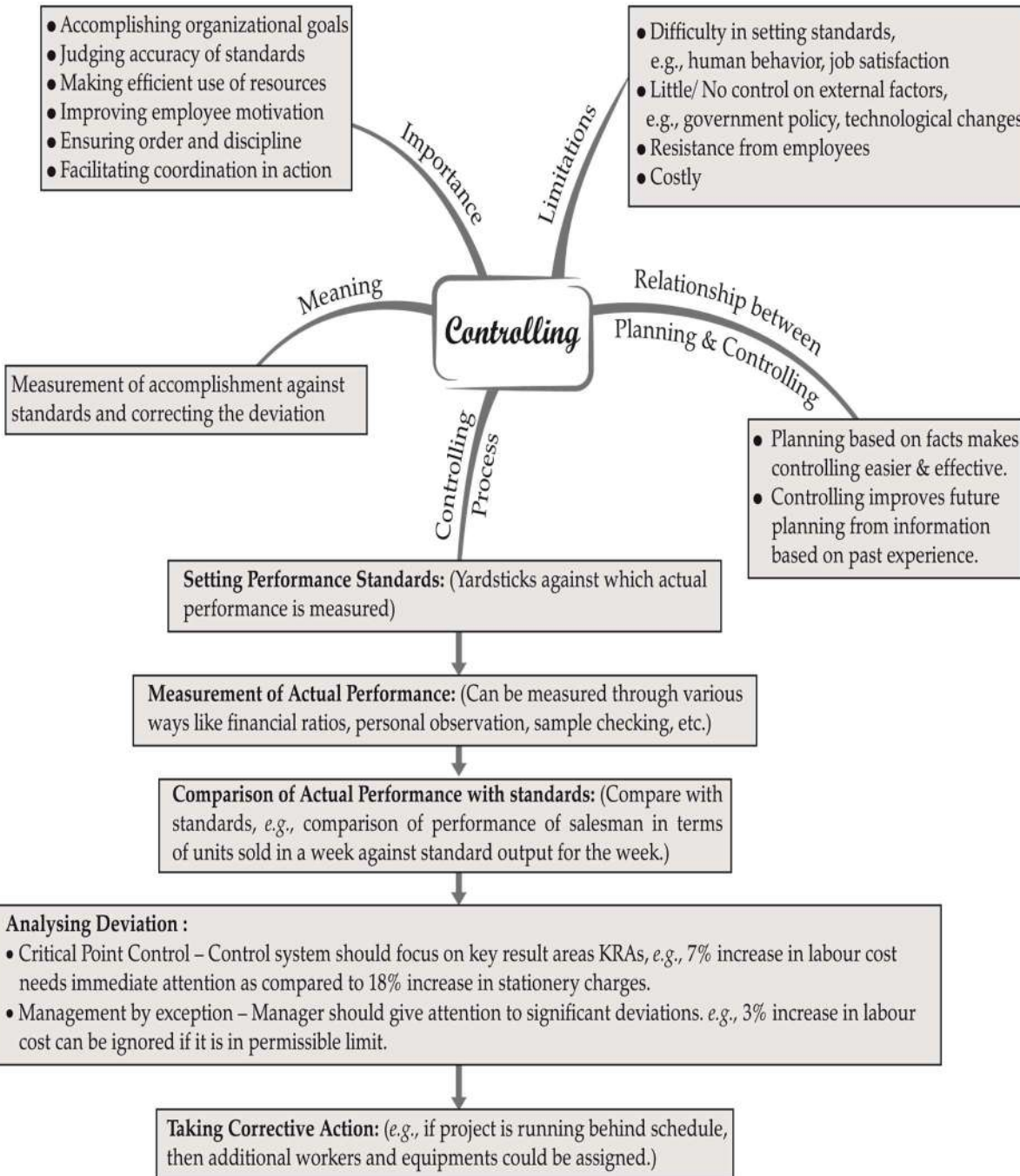
The other method that can be used to offer financial incentives to the employees is Bonus. Bonus is an incentive offered over and above the wages/ salary to the employees.

Ans 32.

1. **Autocratic leadership**
2. **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.**

**CHAPTER -8**  
**CONTROLLING**

**MIND MAP : LEARNING MADE SIMPLE**    **CHAPTER - 8**



## CONCEPT

Controlling means ensuring that activities in an organisation are performed as per the needs.

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

## DEFINITION

“Managerial Control implies the measurement of accomplishment against the standard and the correction of deviations to assure attainment of objectives according to plans” - Koontz and O’ Donnel

## FEATURES/NATURE OF CONTROLLING

- (a) Controlling is a goal-oriented function.
- (b) Controlling is an all pervasive.
- (c) Controlling is both backward looking as well forward looking function.
- (d) Controlling is a continuous function.

## 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

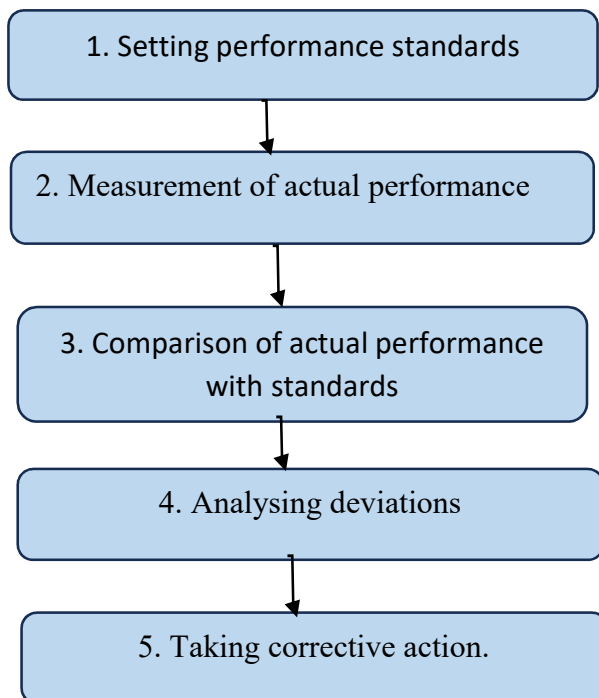
1. **Difficult to set quantitative standards :** Control system becomes less effective when standards of performance cannot be defined in quantitative terms.
2. **Little control on external factors :** Controlling function can effectively deal with internal factors. However, it is difficult to control 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 advanced, 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 forward looking function whereas, Controlling is backward looking function.** Planning is done for future. On the other hand, Controlling is like a post mortem of past activities to find out 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. **Thus, Both Planning and Controlling are forward looking and backward looking.**

## CONTROLLING PROCESS



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. Standard 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

**2. Measurement of actual performance:** In 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. Further, while measuring performance, the quantitative and qualitative aspect should be kept in mind.

**3. Comparing actual performance with standard:** The comparison of actual performance with the standard will reveal the deviation, if any. If there is match in both, then the controlling function ends there only. But, if there is mismatch, then the manager tries to find out the extent of deviation. If the deviation is minor, it should be ignored. But, if the deviation more, then timely action must be taken.

**4. Analysing deviation:** Deviation should be divided in two categories as deviations need to be attended urgently. 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 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. Managers should not waste time and energy in finding solutions for minor deviations.

**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 deviation in future.

### SUMMARY

**Meaning :** Controlling refers to comparison of actual performance with the planned performance and taking corrective actions, in case of deviations between actual and planned performance.

**Importance of Controlling:** It is an important function because of the following points:

1. Accomplishing organisational goals
2. Judging accuracy of standards
3. Making efficient use of resources
4. Improving employee motivation
5. Ensuring order and discipline
6. Facilitating coordination in action

**Limitations of Controlling:** It suffers from following limitations:

1. Difficulty in setting quantitative standards
2. Little control on external factors
3. Resistance from employees
4. Costly Affair

## Relationship between Planning and Controlling :

1. Both Planning and Controlling are interrelated and interdependent.
2. Planning is prescriptive and Controlling is evaluative.
3. Both are backward-looking as well as forward-looking functions.

**Steps in Controlling Process:** The process of controlling involves following steps:

1. Setting Performance standards
2. Measurement of actual performance
3. Comparing actual performance with standards
4. Analysing deviations

### KEY WORDS

1	<b>Controlling</b>	<ul style="list-style-type: none"><li>• Process</li><li>• Function of management</li><li>• Ensuring that activities are performed as per plans.</li><li>• Controlling completes one cycle of management process and improves planning in the next cycle.</li><li>• It should not be understood as last function of management.</li><li>• Brings to light the deviations.</li><li>• Corrective action.</li></ul>
2	<b>Relationship b/w Planning and Controlling</b>	<ul style="list-style-type: none"><li>• Planning and Controlling are inseparable twins of management.</li></ul>
	<b>Planning without Controlling is meaningless</b>	<ul style="list-style-type: none"><li>• Once a plan becomes operational, controlling is necessary to monitor the progress, discover deviations and initiate corrective measures to ensure that events conform to plans.</li></ul>
	<b>Controlling is blind without planning</b>	<ul style="list-style-type: none"><li>• If the standards are not set in advance, managers have nothing to control. When there is no plan, there is no basis of controlling.</li></ul>
	<b>Planning is pre-requisite for controlling</b>	<ul style="list-style-type: none"><li>• Controlling could not be accomplished without planning.</li></ul>

	<b>Difference b/w Planning and Controlling</b>	<ul style="list-style-type: none"> <li>• Planning is intellectual process involving thinking, articulation and analysis to prescribe appropriate course of action.</li> <li>• Planning is prescriptive.</li> </ul>	<ul style="list-style-type: none"> <li>• Controlling checks whether decisions have been translated into desired action.</li> <li>• Controlling is evaluative.</li> </ul>
	<b>Planning is looking ahead while controlling is looking back</b>	<ul style="list-style-type: none"> <li>• The statement is partially correct.</li> <li>• Plans are prepared for future and are based on forecasts about future conditions. Thus it is forward looking.</li> <li>• Controlling is like a postmortem of past activities to find out deviations from the standards. Thus, Controlling is backward looking.</li> </ul>	
	<b>Planning is backward looking</b>	<ul style="list-style-type: none"> <li>• Planning is guided by past experiences.</li> </ul>	
	<b>Controlling is forward looking</b>	<ul style="list-style-type: none"> <li>• Controlling aims to improve future performance by corrective action.</li> </ul>	
<ul style="list-style-type: none"> <li>• <b><u>Conclusion</u>- Thus Planning and Controlling, both are forward looking and backward looking functions of management.</b></li> <li>• <b>Planning and Controlling are inter-related and reinforce each other.</b></li> </ul>			
3	<b>Critical Point Control</b>	<ul style="list-style-type: none"> <li>• Key Result Areas (KRA) is set as the critical points.</li> <li>• If anything goes wrong at the critical points, the entire organisation suffers.</li> <li>• Focus on KRAs.</li> </ul>	



6. Hina Sweets is a renowned name for quality sweets since 1935. Harsh, the owner of Hina Sweets was worried as the sales had declined during the last three months. When he enquired from the Sales Manager, the Sales Manager reported that there were some complaints about the quality of sweets. Therefore, Harsh ordered for sample checking of sweets. Identify the step taken by Harsh 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

7. Om Prakash has set up a small business unit for the manufacturing of detergent. In order to market the detergent in the local residential areas, he has appointed a team of ten salesmen. Each salesman is expected to sell at least 200 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.

8. To make sure employees focus on work and follow the method of production as per plan the management of Jai 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

9. In a marketing firm, the Financial Manager 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

10. XYZ Ltd. is engaged in manufacturing machine components. The target production is 200 units per day. 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 170-180 units.

Identify the management function to rectify the above situation.

- a. Controlling**
- b. Planning
- c. Directing
- d. Organising

### **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) :** Control is exercise at all levels of management.

**Reason (R) :**

- 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.

4. Match the following :

COLUMN I	COLUMN II
a.Critical Point Control	i. Manager should give attention to significant deviations, which go beyond the permissible limit
b.Controlling	ii. Controlling is both forward-looking as well as backward-looking function
c. Management by Exception	iii.Control system should focus on key result areas

**Answer: a.iii. , b. ii. , c. i.**

5. Match the following :

COLUMN I	COLUMN II
a.Critical Point Control	i. Unrealistic standards and defective process may be the reason for occurrence of deviations
b.Taking Corrective Action	ii. Control system should focus on key result areas

c. Analysing Deviations	iii. If deviations cannot be corrected through managerial action, the standards may have to be revised
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**Answer: a.ii. , b. iii. , c. i.**

## **CASE STUDIES**

### **3–4 MARKS**

1. Babita Ltd. 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.

1. Name the function of management and identify the step in the process of this function which helped in finding out that the actual production of a worker is less than the set target.
2. 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.

**Answer :**

1. The management function is Controlling.
2. A manager has to take the following two further steps to complete the process of controlling:
  - Analysing deviations
  - Taking corrective action

2. Rajeev and Sanjeev are managers in the same organization having different units. While discussing about the function of management, Rajeev says “Planning is looking ahead whereas controlling is looking back.” But Sanjeev says, “Planning is looking back whereas controlling is looked ahead.” Both are giving reasons in favour of their statements.

Explain the possible reasons given by both and justify who is correct.

**Answer :** Rajeev who says, “Planning is looking ahead whereas controlling is looking back” must be giving the following reason:

Sanjeev who says, “Planning is looking back where as controlling is looking ahead” must be giving the following reasons.

**Conclusion:** Planning and controlling are both backward looking and forward looking functions. Hence, both of them are partially correct.

3. 'Saurashtra' 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 managements 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:

1. Identify the principle of management control adopted by the company. State the belief underlying this principle.

**Answer :** 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.'

4. D & D 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.

**Answer :** Controlling

Features of controlling:

1. Controlling is a goal-oriented function
2. Controlling is a pervasive function
3. Controlling is a continuous process
4. Controlling is both a backward looking as well as forward looking function.
5. Mr. Nath, a recently appointed production manager of Suntech 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. Nath's behavior 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.

**Answer :**

- a. Controlling and Directing
- b. Discuss “Setting up performance Standards”

**5-6 MARKS**

1. Vikas was the Chief Operating Officer 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. Vikas 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. Vikas 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.

**Answer :** Controlling; Any four points of importance of controlling.

2. 'A.S. 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 800 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 is gossiping.

1. Identify the function of management discussed above.
2. State those steps in the process of the function identified which are discussed in the above paragraph.

**Answer :** 1. Controlling

2. 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. A company 'M' Ltd. is manufacturing mobile phones both for 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, mobile market in India has grown tremendously and new player 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.

1. Identify the benefits the company will derive from a good control system.
2. How can the company relate its planning with control in this line of business to ensure that its plan are actually implemented and targets attained?
3. Give the steps in the control process that the company should follow to remove the problems it is facing.

**Answer :**

1. Importance of controlling.
2. 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.
3. Steps in the process of controlling system.

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 is "less amount many time" 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 the McDonald have the 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:

1. Name the steps involved in the controlling process which is being discussed in the above lines.
2. What do you understand by 'critical point control'? Explain.

3. How does the controlling function of management help in accomplishing organizational goals and ensure efficient use of resources?

**Answer :**

1. Analyzing deviation and taking corrective action are being discussed in the above lines.
2. 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.
3. 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. Raghav 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 bed rest. In his absence, his cousin Rohit 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 Rohit used to adopt a very strict and authoritative approach towards them.

In context of the above case:

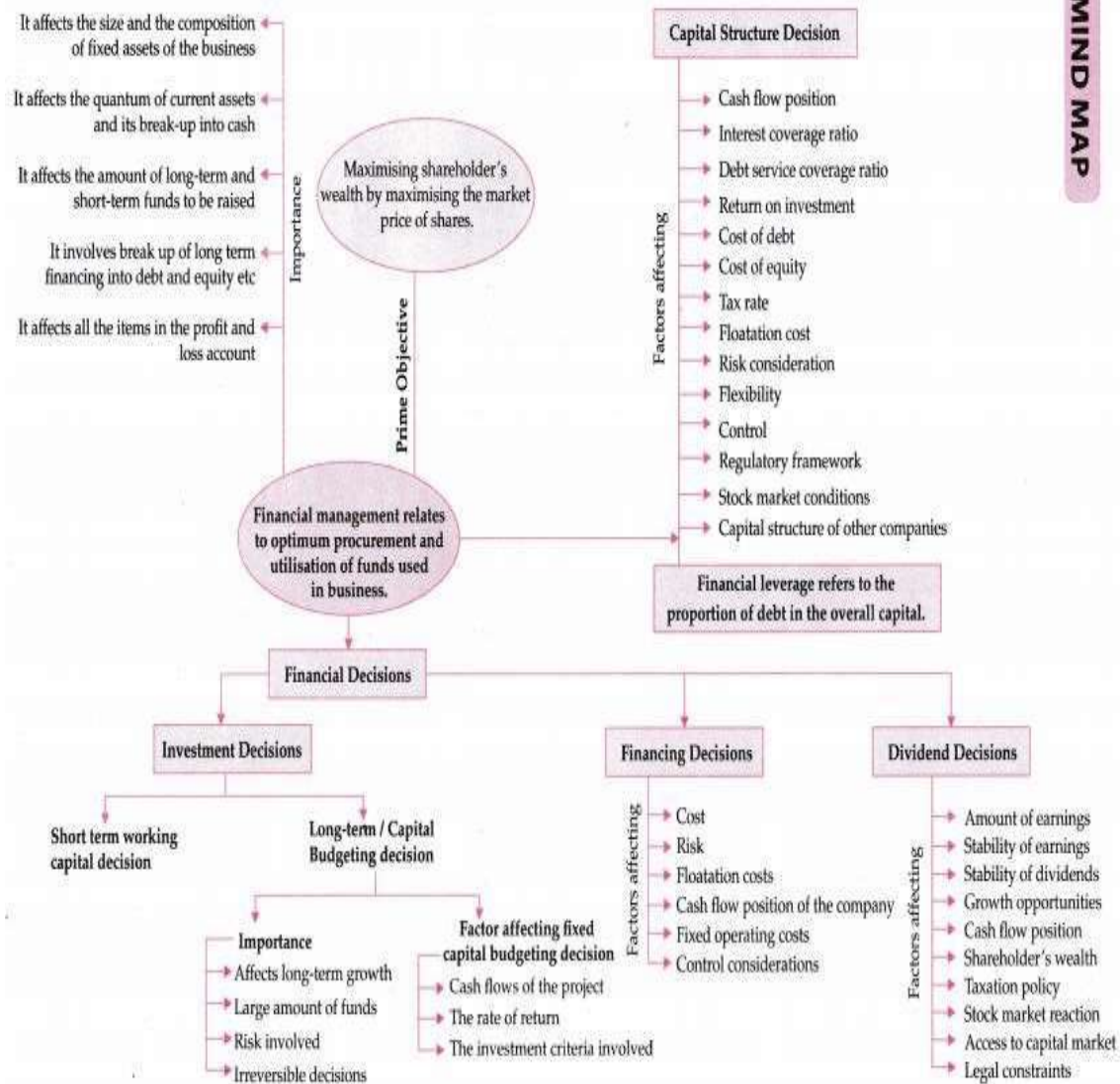
1. List any two aspects about his business that Raghav was controlling in order to make it successful.
2. Explain briefly any two points to highlight the importance of the controlling function.
3. Name and explain the style of leadership adopted by Rohit.

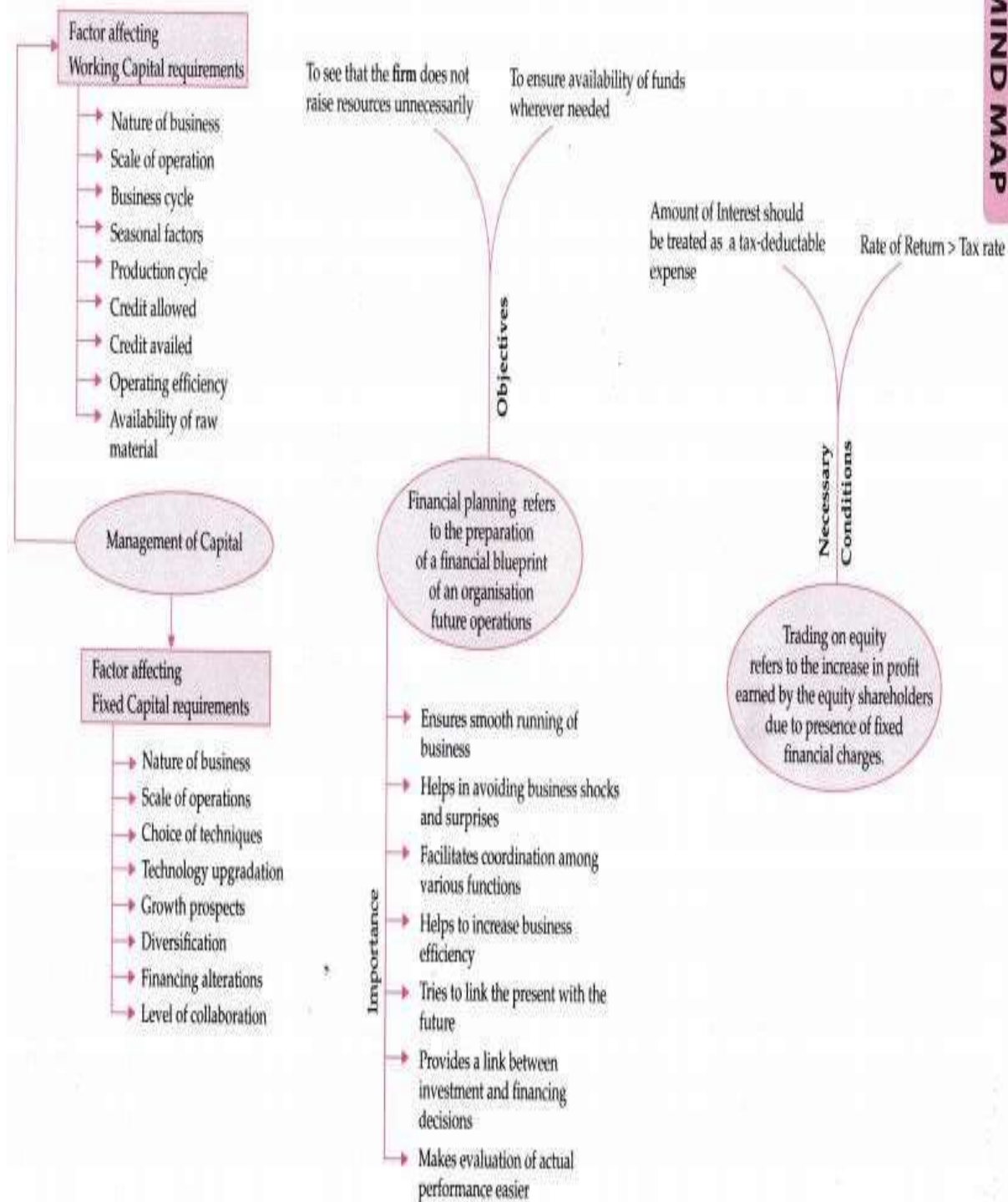
**Answer :** The two aspects about his business that Raghav was controlling in order to make it successful are listed below:

- a. A standard taste was maintained.
  - b. The orders were executed on time.
2. The two points that highlight the importance of the controlling function are listed below:
    - a. Judging accuracy of standards:
    - b. Improving employee motivation:
  3. Rohit had adopted an autocratic style of leadership. An autocratic leader expects strict compliance from his subordinates with regard to the orders and instructions given by him. Therefore, it involves only one-way communication.

## CHAPTER 09: FINANCIAL MANAGEMENT

MIND MAP





Learning Outcomes

After going through this chapter, the students will be able to:

Understand the concept of financial management.

Explain the role of financial management in an organization.

Discuss the objectives of financial management

Discuss the three financial decisions and the factors affecting them.

Describe the concept of financial planning and its objectives.

Explain the importance of financial planning.

Describe the factors determining the choice of an appropriate capital structure of a company.

Understand the concept of fixed and working capital.

Describe the factors determining the requirements of fixed and working capital.

### **FINANCIAL MANAGEMENT**

- Business requires finance for various short term and long term business activities. To meet the varied financial needs, business enterprises use different sources of finance. Each source of finance has a cost
- Therefore, it is imperative for a business enterprise to evaluate the various sources available so that finance is raised at a minimum cost and risk. The success of a business enterprise largely depends on the quality of its Financial Management.

### **Important definition**

- 1) 'Financial Management is concerned with management of flow of funds and involves decisions related to procurement of funds, investment of funds in long-term and short-term assets and distribution of earnings to the owners.'
- 2) Financial management is the business activity, which is concerned with acquisition and conservation of capital funds in meeting financial needs and overall objectives of business enterprise." Wheeler
- 3) "Financial management is concerned with managerial decisions that result in the acquisition and finance of long-term and short-term assets for the firm. As such, it deals with the situation that requires selection of specific assets or

combination of assets. The selection of specific liabilities as well as the problem of growth and size of enterprise. The analysis of these decision is based upon the expected inflow and outflow of funds and their effect upon managerial objectives".

- Phillippatus

- 4) "Financial management is the activity concerned with the planning raising, controlling and administering of funds used in the business."

Guthmann and Dougall

- 5) "Financial management relates with the arrangement of cash credit, so that organization may have the means to carry out its objectives as satisfactorily as possible."

Howard and Upton

**Financial Management is concerned with optimal procurement as well as usage of finance :**

- Optimal procurement of finance means identifying and comparing the various sources of finance in terms of cost and associated risks.
- Optimal usage means investing the procured finance in such a manner that the returns from investments exceeds the cost of procurement.
- Financial management aims at :
  - (i) Reducing the procurement cost of funds.
  - (ii) Keeping the risk under control.
  - (iii) Achieving effective deployment of such funds.
  - (iv) Ensuring availability of sufficient funds and avoiding idle finance.

• ROLE OF FINANCIAL MANAGEMENT;

- (i) The size and composition of Fixed Assets of the business. The size and composition of business assets depends on the financial decisions of a business enterprise. Over-investment fixed assets may block funds and increase the size of fixed assets which may not be healthy for business. On the other hand, too little investment

may hamper the growth of business.

For example, a capital budgeting decision to invest a sum of 2100 crore in fixed assets would cause the size of fixed assets block by this amount.

(ii) The quantum of Current Assets as well as its break-up into cash, inventories and receivables. The financial decisions about investments in fixed assets, the credit policy, inventory management etc. influence the amount of working capital required by a business enterprise.

For example, increase in the investment of fixed assets will result in higher demand for working capital or longer credit period extended to debtors will result in block of funds with debtors.

(iii) The amount of long term and short-term financing to be used. The financial management takes decision about the proportion of funds to be raised through long term and short-term sources. If a business enterprise wants to remain liquid, it will raise more funds from long term sources. The financial decision to raise funds from long term sources adversely affects the profitability of the enterprise. Therefore, financial management has to make a choice between profitability and liquidity.

For example, long term debts carry higher rate of interest payable for a long period of time. This directly affects the profits earned by the business enterprise.

(iv) Break-up of long term financing into debt, equity etc. It is the financial management which decides the proportion in which a business enterprise raises funds from debts and equity. The proportion of debt, equity share capital, preference share capital directly affects the profits and liquidity of a business enterprise.

(v) All items in the Profit and Loss Account. The financial decisions like investment in fixed assets, proportion in which funds are raised from debts and equity, the credit policy etc. directly affect the value of items appearing in the profit and loss account..

For example, huge investment in fixed assets means higher amount of depreciation or large amount of funds raised through debts will result in high interest amount in the profit and loss account.

- OBJECTIVES OF FINANCIAL MANAGEMENT;

(i) To ensure that sufficient funds are available at reasonable cost



so that the cost is minimum and returns are maximum leading to higher value addition.

(ii) To ensure that all funds are deployed or utilized in such a manner that the returns exceed the cost.

(iii) To ensure that there is enough security against funds procured by creating reserves, reinvesting profits etc.

(iv) To ensure that there are no idle funds in the enterprise as they result in increased cost, lowering the value addition.

(v) To ensure that all financial decisions are taken after considering all the possible available alternatives and selecting the best one.

## FINANCIAL DECISIONS

### 1) INVESTMENT DECISIONS:-

Investment decisions are the financial decisions taken by management to invest funds in different assets with an aim to earn the highest possible returns for the investors

It involves evaluating various possible investment opportunities and selecting the best options.

The investment decisions can be long term or short term.

Long term Investment Decisions:

Long term investment decisions are all such decisions which are related to investing of funds for a long period of time. They are also called as Capital Budgeting decisions.

#### Factors Affecting Capital Budgeting (Long Term Investment)

##### Decisions:-

(i) Cash flow of the project. Before considering an investment option, business must carefully analyses the net cash flows expected from the investment during the life of the investment. Investment should be done only if the net cash flows are more than the funds invested.

(ii) The rate of return. The rate of return is the most important factor while taking an investment decision. The investment must be done in the projects which earn the higher rate of return provided the level of risk is same.

(iii) The 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 flows during the life of investment, cost of capital etc.

- **Importance of long term investment decisions:-**

(i) They directly affect the profitability or earning capacity of the business enterprise.

(ii) They affect the size of assets, scale of operations and competitiveness of business enterprise.

(iii) They involve huge amounts of investment which remains blocked in the fixed assets for a

Long period of time.

(iv) The investments are irreversible except at a huge cost.

- Examples of capital budgeting decisions:

(i) investment in plant and machinery

(ii) purchase or takeover of an existing business firm

(iii) starting a new factory or sales office

(iv) introducing new product line

- Short term investment decisions:

Short term investment decisions are the decisions related to day to day working of a business enterprise. They are also called as working capital decisions because they are related to current assets and current liabilities like management of cash, inventories, receivable etc.

The short term decisions are important for a business enterprise because:

(i) They affect the liquidity and profits earned in the short run.

(ii) Efficient decisions help to maintain sound working capital.

## 2. FINANCING DECISIONS:-

These decisions are related to raising of finance using shareholders' funds and or borrowed funds. They involve identification of alternative sources of finance, the quantum of finance to be raised, calculation of cost of capital and related financial risk.

**Financing Decisions consider following points:**

- (i) Borrowed funds carry fixed charge in the form of interest but there is no fixed charge on shareholders' funds.
- (ii) Business has to pay interest irrespective of amount of profits earned by business but there is no commitment to pay returns on shareholders' funds.
- (iii) Borrowed funds need to be repaid at the end of a fixed period of time but shareholders' funds are repayable at the time of liquidation only.
- (iv) Borrowed funds carry financial risk in case of any default in payment but there is no risk in case of shareholders' funds.
- (v) Interest is a deductible expense but dividends are appropriation of profits.
- (vi) Floatation cost is involved in each source of finance.

**Factors affecting Financing Decision:-**

**(1) Cost. Cost of raising funds influence the financing decisions.**

A prudent financial manager selects the cheapest sources of finance.

**(2) Risk. Each source of finance has different degree of risk.**

Finance manager considers degree of risk involved in each source of finance before taking financing decision.

**(3) Floatation Costs.**

Floatation cost is the cost of raising finance. A finance manager estimates the floatation cost of

Various sources and selects the source with least floatation cost. Therefore, higher the floatation cost less attractive is the source of finance.

**(4) Cash Flow Position of the Business.** A business with strong cash flow position prefers to raise funds from debts as it can easily pay interest and the principal. Interest is a deductible expense, saves tax liability of the business making the source of finance cheaper. However, during liquidity crisis business prefers to raise funds from equity.

**(5) Level of Fixed Operating Costs.** Fixed operating costs of a

business influence its financing decisions. For a business with high operating cost, funds must be raised from equity lower debt financing would be better. On the other hand, if the operating cost is low business can afford to pay high fixed charges therefore, more of debt financing may be preferred.

(6) **Control Considerations.** Financing decisions consider the degree of control the business is willing to dilute. A company would prefer debt financing if it wants to retain complete control of the business with existing shareholders. On the other hand, a company willing to lose control will raise funds from equity.

(7) **State of Capital Markets.** Health of the capital market may also affect the financial decision. During boom period, investors are ready to invest in equity but during depression investors look for secured options for investment. Therefore it is easy for companies to raise funds from equity during boom period.

### 3. DIVIDEND DECISIONS:-

These decisions are related to distribution of share of profits amongst the shareholders in the form of dividends. Dividend decisions aim to maximize shareholders' wealth.

#### **Factors affecting Dividend Decisions:**

- (i) Business earnings
- (ii) Stability of earnings
- (iii) Stability of dividends
- (iv) Business growth opportunities
- (v) Cash flow positions
- (vi) Shareholders' preference for dividends
- (vii) Government's taxation policy
- (viii) Stock market reactions to rate of dividend
- (ix) Firm's access to capital market to raise funds
- (x) Legal constraints or provisions of Companies Act
- (xi) Contractual constraints with lenders regarding dividend payment.

#### **Financial Planning.**

Financial planning is the process of estimating financial requirements of a business, identifying the various sources to meet the

requirements and utilizing the resources in the most optimal manner.

**Financial planning involves:**

- (i) Matching of funds requirements and their availability.
- (ii) Planning capital expenditure for long term growth and investment.
- (iii) Planning day to day business operations.

**Objectives of Financial Planning:**

- (i) To ensure availability of funds whenever these are required
- (ii) To see that the firm does not raise resources unnecessarily.

**Importance of Financial Planning:**

- (i) It prepares forecasts for different situations expected in future.
- (ii) It prepares business to handle future in a better manner.
- (iii) The financial blue prints help business to coordinate various functions.
- (iv) It reduces duplication of efforts.
- (v) It links present with future.
- (vi) It links investment and financing decisions on continuous basis.
- (vii) It lays down business objectives and thus makes evaluation of actual performance easier.

**Financial Planning vs. Financial Management**

(i) Financial Planning focuses on fund requirements and their availability whereas Financial Management evaluates various investment opportunities to allocate funds.

(ii) Financial Planning aims at smooth financial operations whereas financial management aims at maximizing shareholders' wealth.

- **Capital Structure.**

It refers the mix between owners' funds and borrowed funds. It affects the profitability and the financial risk of a business.

- Financial leverage/ Gearing. It is the proportion of funds raised from debts. It can be calculated as:  
Debts /Equity or Debts/total capital employed.
- Favorable Financial Leverage means cost of capital is less than the returns on investments. Higher the financial

leverage lesser is the cost of capital and higher is the EPS.

- Unfavorable Financial Leverage means cost of capital is more than the returns on investments. It reduces EPS.
  - Lowers cost of capital
  - Increases EPS
- Makes business riskier
  - Reduces tax liability

**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 the practice followed by companies to employ cheaper funds with an aim to enhance the EPS.

#### **Factors affecting the Choice of Capital Structure:**

(1) **Cash Flow position.** Before raising finance business must consider the projected flow ensure that it has sufficient cash to pay fixed cash obligations.

(2) **Interest Coverage Rate (ICR).** It refers to the number of times a company can cover its interest obligation from the profits earned. High ICR reduces the risk of failing to meet interest obligations.

(3) **Debt Service Coverage Ratio (DSCR).** It indicates the company's ability to meet cash commitments for interest and principal amount of debt.

(4) **Return on Investment (ROI).** If a company earns high returns it has the capacity to opt for debts as a source of finance.

(5) **Cost of Debt.** A company may raise funds from debts if it has the capacity to borrow funds at a lower interest rate.

(6) **Tax Rate.** Fixed charge paid on debts is a deductible expense. It reduces tax liability. Therefore, higher tax rates attract debts as a source of finance.

(7) **Cost of Equity.** If a company has high financial risk, its shareholders may expect high rate of return resulting in increased

cost of capital

(8) **Floatation Cost.** Choosing a source of fund depends on the floatation cost to be incurred to raise such funds. Higher floatation cost makes the source less attractive.

(9) **Risk Consideration.** A company opts for debts as a source of finance depending on its operating risk and the overall business risk. Company with lesser business risk has the capacity to opt for higher debts.

(10) **Flexibility.** The choice of debts depends on the company's potential to borrow and the level of flexibility it wants to retain for choosing source of funds in future.

(11) **Control.** The choice of funds depends on the level to which the company is willing to dilute management holdings.

(12) **Regulatory Framework.** The guidelines, norms or documentation procedures influence the decision to choose source of finance.

(13) **Stock Market Conditions.** The choice of raising funds from equity may depend on the stock market conditions. Bull market phase attracts issue of shares while in bearish phase debts are an easy option.

(14) **Capital Structure of other Companies.** Capital structure of other companies in the industry may be considered as a guideline while planning a firm's capital structure but the final decision must be based on company's capacity to afford financial risk.

- [FIXED CAPITAL](#)

Funds invested in fixed assets for growth and profitability.

**Management of fixed capital:** It refers to allocation of firm's fixed capital among different projects or assets to ensure maximum profitability and growth.

-Fixed assets need to be managed because they:-

- (i) Affect long term growth.
- (ii) Involve huge amounts of investments.
- (iii) Have high financial risk.
- (iv) Are irreversible except at high cost or huge loses and wasteful

expenditure.

**Factors Affecting the Fixed Capital Requirement:**

(i) **Nature of business.** Manufacturing business requires more fixed capital as compared to trading business or a service provider.

(ii) **Scale of Operations.** Businesses operating on large scale require larger amount of fixed capital as compared to small business firms.

(iii) **Choice of Technique.** Capital intensive business organizations require more fixed capital as compared to labour intensive business firms.

(iv) **Technology Upgradation.** Organizations using assets which obsolete faster will require more fixed capital for replacements and purchase of assets with latest technology.

(v) **Growth Prospects.** Business organizations planning to diversify or enter into new markets will require larger amount of fixed capital.

(vi) **Diversification.** A business organization planning to diversify will require large amount of fixed capital to establish new factory, purchase assets etc.

(vii) **Financing Alternatives.** A business organization who does not have access to financial markets providing lease facilities as an alternative to outright purchase of fixed assets will require more fixed capital.

(viii) **Level of Collaboration.** Organizations which do not share each other's facilities will require more fixed capital in order to have their facilities.

**WORKING CAPITAL**

Funds invested in current assets. These investments facilitate smooth business operations.

**Factors affecting the Working Capital Requirement:**

(i) **Nature of business.** Manufacturing business requires more



working capital as compared to trading business or a service provider.

(ii) **Scale of Operations.** Businesses operating on large scale require larger amount of working capital as compared to small business firms.

(iii) **Business Cycle.** During boom period firms require large amount of working capital to manage the increased sales and production.

(iv) **Seasonal Factors.** Seasonal businesses require more working capital during season time.

(v) **Production Cycle.** Businesses with longer production cycles require more working capital as compared to businesses with shorter production cycles.

(vi) **Credit Allowed.** A business extending longer credit period to its buyers will need more working capital as compared to business doing cash business or offer lesser credit period.

(vii) **Credit Availed.** A business organization receiving longer credit period from their suppliers will require lesser working capital as compared to business who purchases goods for cash or receive short credit period.

(viii) **Operating Efficiency.** A business operating efficiently is able to convert current assets into cash easily and thus will require lesser working capital.

(ix) **Availability of Raw material.** A business having easy and continuous availability of raw material will not require large stock levels and thus can manage with lesser working capital.

(x) **Growth Prospects.** Firms with high growth rate targets need higher working capital to meet increased sales target.

(xi) **Level of Competition.** Tougher competition forces business to offer discounts, liberal credit and maintain high levels of stock requiring larger amount of working capital.

(xii) **Inflation.** Inflation increases prices as a result firms require larger amount of working capital to meet the same volume of

purchases and operating expenses.

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MULTIPLE CHOICE QUESTIONS (MCQs)

	QUESTION	
	The cheapest source of finance is (a) Debentures (b) Equity share capital (c) Preference share (d) Retained earnings	
	Other things remaining the same, an increase in the tax rate on corporate profits will (a) Make debt relatively cheaper (b) Make debt relatively less cheap (c) No impact on the cost of debt (d) we can't say	
	Funds raised from this source dilutes management's holding (a) Retained earnings (b) Debentures (c) Equity shares (d) Preference shares	
	Financial leverage is called favorable if (a) Return on investment is lower than cost of debt	

	<p>(b) ROI is higher than cost of debt</p> <p>(c) Debt is nearly available</p> <p>(d) If the degree of financial leverage is low</p>	
	<p>Current assets are those assets which get converted into cash</p> <p>(a) within six months</p> <p>(b) within one year</p> <p>(c) Between one and three years</p> <p>(d) Between three and five years</p>	
	<p>A fixed asset should be financed through</p> <p>(a) A long-term liability</p> <p>(b) A short-term liability</p> <p>(c) A mix of long and short-term liabilities</p> <p>(d) non</p>	
	<p>A company raises finance from 12% loan. It pays corporate tax @30%. The actual cost of capital would be</p> <p>(a)12% (b)3.6% (c)84% (d)15.6%</p>	cost
	<p>This decision affects the liquidity and short term profits of the company</p> <p>(a) Long term investment decisions</p> <p>(b) Working capital investment decisions</p> <p>(c) Financing decisions</p> <p>(d) All the above</p>	
	<p>Tax-deductible expense</p> <p>(a) Increase cost of capital</p> <p>(b) Decrease cost of capital</p> <p>(c) No impact on cost of capital</p> <p>(d) Can't say</p>	
	<p>Debts financing is better than equity if</p> <p>(a) Company has strong cash flow</p> <p>(b) Company has weak cash flow</p> <p>(c) Cash flow position does not matter</p> <p>(d) Cone of the above</p>	
ANSWER KEY		

1	A
2	A
3	C
4	B
5	B
6	A
7	C
8	B
9	B
10	A

ASSERTION-REASONING QUESTIONS (ARQs)

<u>1</u>	<p>Assertion (A): Business finance refers to the money required for carrying out business activities. Reason (R): Financing decisions involves careful selection of assets, in which funds are to be invested.</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)</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>
<u>2</u>	<p>Assertion (A): Financial management is an imaginative function. Reason (R): Financial management is one of the functional areas of management.</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)</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>
<u>3</u>	<p>Assertion (A): Shareholders Wealth Maximization (SWM) and not the profit maximization is an appropriate and operationally feasible financial management goal.</p> <p>Reason (R): There exists a principal agent relationship between the shareholders and the management of the company.</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)</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>

4	<p>Assertion (A): Primary aim of financial management is to maximize shareholder's wealth.</p> <p>Reason (R): Company's funds belong to the shareholders and the return earned by them determine their market value and price.</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)</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>Assertion (A): Effective and efficient management of finance enables the firm to prosper and grow. Reason (R): Without adequate finance, business can survive only for a short time.</p> <p>(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion</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>
6	<p>Assertion (A): Financial planning means estimating the requirements of a business and determining source of funds.</p> <p>Reason (R): Capital structure refers to the mix between owners and borrowed funds.</p> <p>(e) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(f) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)</p> <p>(g) Assertion (A) is true, but Reason (R) is false</p> <p>(h) Assertion (A) is false, but Reason (R) is true</p>
7	<p>Assertion (A): Finance is the life blood of business.</p> <p>Reason (R): Finance is very essential for the smooth running of the business.</p> <p>a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)</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>Assertion (A): A sound financial plan should be rigid.</p> <p>Reason (R): In a financing programme, flexibility for future should not be allowed.</p> <p>a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>b).Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)</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>
9	<p>Assertion (A): A company having easy access to the capital market follows a strict dividend policy. Reason(R): Such a company can raise capital by approaching the capital market.</p> <p>a)Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p>

	<p>b)Both Assertion (A) and Reason ® are true and Reason ® is not the correct explanation of Assertion (A)</p> <p>c)Assertion (A) is true but Reason ® is False</p> <p>d)Assertion (A) is False but Reason ® is True</p>
<u>10</u>	<p>10) Assertion (A): Debt is more risky as compared to Equity. Reason (R): Payment of dividend and return of principal amount is obligatory for the business in case of equity.</p> <p>a)Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>b)Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion</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>

ANSWER KEY

1	C
2	D
3	B
4	A
5	C
6	B
7	A
8	B
9	D
10	C

CASE-BASED QUESTIONS (CBQs)

Qno	Question
Case	<p>Direction: Read the following text and answer the question no. (i) to (vi) on the basis of the same.</p> <p>Raghav is trying to co-ordinate the functioning of various departments like sales and production. He has been trying to do this with the help of a concept of financial management. He quite often calls people of both departments and tells them to work within means he has even prescribed a budget for it. During the time, when he is doing a lot of analysis, he connects the decision of present with the outcomes of future. This can especially be seen in two of the prominent decisions, one is the investment and the other is the financing decision. So, the interlinking of these two decisions is assumed by him. When the year ends, it is easy for him to take some strong decisions. This happens because he is able to evaluate the performance of various departments in terms of revenue generated and the expense incurred. No business is risk proof.</p> <p>However, he knows that at least business shocks which a business can suffer can be minimized, thus laying foundation for a better future. Less involvement in the work is definitely appreciable.</p>
1	<p>Which concept of financial management has been highlighted in above case?</p> <p>(a) Financial management  (b) Capital budgeting  (c) Capital structure  (d) Financial planning</p>
2	<p>Which importance of financial planning is discussed in below lines? "Raghav is trying to coordinate the functioning of various departments like sales and production."</p> <p>(a) Helps in avoidance of business shocks and surprises.  (b) Helps in coordinating various business functions.  (c) Helps in reducing waste and duplication of efforts.  (d) Provides link between investment and financing decision</p>
3	<p>During the time, when he is doing a lot of analysis, he connects the decision of present with the outcome of future. "Which importance of financial planning is discussed in above lines?"</p> <p>(a) Helps in coordinating various business activities  (b) Helps in reducing waste and duplication of work.  (c) Tries to link between present with the future.  (d) Helps in forecasting what may happen in future under different situation.</p>
4	<p>"During the time, when he is doing a lot of analysis, he connects the decision of present with the outcome of future. "Which importance of financial planning is discussed in above lines?"</p> <p>a) Helps in coordinating various business activities  b) Helps in reducing waste and duplication of work.  c) Tries to link between present with the future.</p>

	d) Helps in forecasting what may happen in future under different situation.																		
5	"However, he knows that at least business shocks.....for a better future." Which importance of financial planning is given in above lines? a) Helps in safety of funds b) Avoidance of waste and duplication of efforts c) Helps in forecasting what may happen in future d) Helps in avoiding business shocks and surprises and helps the company in preparing for the future.																		
6	"One is the investment and the other one is financing assumed by him." Which importance of financial planning is discussed in above paragraph? a) Helps in coordinating various business functions b) Helps in linking the present with the future c) Helps in linking the investment decision with the financing decision. d) Helps in valuation of actual performance easier.																		
7	Which type of financial planning is focused in the above case? .a). Short-term financial planning b).Long-term financial planning c). Medium-term financial planning d).None of the above																		
	<table border="1"> <thead> <tr> <th colspan="2">Case study 1</th> </tr> <tr> <th>Q.NO</th> <th>ANSWER</th> </tr> </thead> <tbody> <tr> <td>(i)</td> <td>D</td> </tr> <tr> <td>(2)</td> <td>B</td> </tr> <tr> <td>(3)</td> <td>C</td> </tr> <tr> <td>(4)</td> <td>D</td> </tr> <tr> <td>(5)</td> <td>C</td> </tr> <tr> <td>(6)</td> <td>C</td> </tr> <tr> <td>(7)</td> <td>A</td> </tr> </tbody> </table>	Case study 1		Q.NO	ANSWER	(i)	D	(2)	B	(3)	C	(4)	D	(5)	C	(6)	C	(7)	A
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(6)	C																		
(7)	A																		



Case 2	<p>Direction: Read the following text and answer the question no. (1) to (vi) on the basis of the same.</p> <p>Neelabh Sarin, the finance manager and Atul Chopra the MD of Tata Ltd. were discussing regarding the source of finance to be raised for modernization of their existing plant. Quoting that 'Sensex has soared by 6,078 points in the last 4 years', Neelabh Sarin suggests that equity should be preferred while Atul Chopra wanted to opt for debt. Company has high operating cost over period.</p>
1	<p>Keeping in mind the high operating costs of the company, suggest the source of finance that should be used for modernization of existing plant.</p> <ol style="list-style-type: none"> <li>a. Equity</li> <li>b. Debt</li> <li>c. Both (a) and (b)</li> <li>d. None of these</li> </ol>
2	<p>Identify the factor highlighted in below lines which affects this decision" Sensex has soared by 6,078 points in last 4 years."</p> <ol style="list-style-type: none"> <li>A) Cash flow position</li> <li>B) Stock market condition</li> <li>C) Taxation policy</li> <li>D) Legal constraints</li> </ol>
3	<p>Stock market condition is a factor related to</p> <ol style="list-style-type: none"> <li>A) financing decision</li> <li>B) investment decision</li> <li>C) dividend decision</li> <li>D) financial planning</li> </ol>
4	<p>Which one is favorable financial leverage?</p> <ol style="list-style-type: none"> <li>A) <math>RoI &gt; \text{Rate of interest on debt}</math></li> <li>B) <math>RoI &lt; \text{Rate of interest on debt}</math></li> <li>C) Both (a) and (b)</li> <li>D) None of the above</li> </ol>
5	<p>"Neelabh Sarin, the finance manager and Atul Chopra the MD of Tata Ltd, were discussing regarding the source of finance to be raised for modernization of their existing plant." Identify the decision involved in the given lines.</p> <ol style="list-style-type: none"> <li>A) Financing</li> <li>B) Investment</li> <li>C) Dividend</li> <li>D) None of these</li> </ol>

6	<p>Higher debt-equity ratio results in</p> <p>A) lower financial risk  B) higher degree of operating risk  C) higher degree of financial risk  D) higher EPS</p>																
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	ANSWER																
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CASE BASED QUESTIONS FOR PRACTICE

- 1) **While performing the financial function every manager takes three decision. Explain those decisions.**

**Answer:** A manager take the three following decision while performing the financial function  
**Financing Decision-** This decision is about choosing the cheapest source from the amount of finance proposed from various short and long term sources.

**Investment Decision-** This is about choosing the cheapest proposal from all the available alternative proposal, which gets the highest possible return for the investors.

**Dividend Decision-** This decision is to choose between whether the the earnings should be distributed to a stockholder as a dividend or to retain the earnings to finance the long-term plans of the company.

- 2) **State the four factor which affects the working capital requirements of a company.**

**Answer:** The four factors that affect the working capital requirements of a company are as follows. Nature of Business- The primary nature of business influences the amount of nature of the business required by it. For instance, an organization involved in trading business requires a small amount of working capital as compared to the bigger organization.

The scale of Operation- A large organization requires large inventory as a working capital than the small company.

Business Cycle- When there is a growth in the economy, the production of a company increases and more working capital is required, as compared to when there is a crisis in the economy.

Seasonal Factors- In the zenith season, the demand will be high so the working capital increases as compared to the offseason.

- 3) Omnath Ltd. is engaged in the business of export of garments. In the past, the performance of the company had been upto the expectations. In line with the latest technology, the company decided to upgrade its machinery. For this, the Finance Manager, Dalmia 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. Dalmia therefore, 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 of the business. For the remaining funds he is trying to find out alternative sources from outside.

Identify the financial concept discussed in the above para. Also state the objectives to

be achieved by the use of financial concept, so identified.

**Answer:** Financial planning is the financial concept discussed in the above paragraph. The process of estimating the fund requirements of a business and specifying the sources of funds is called financial planning. It relates to the preparation of a financial blueprint of an organization's future operations. The objectives to be achieved by the use of financial concept are stated below:

- 1) To ensure availability of funds whenever required which involves estimation of the funds required, the time at which these funds are to be made available and the sources of these funds.
- 2) To see that the firm does not raise resources unnecessarily as excess funding is almost as bad as inadequate funding. Financial planning ensures that enough funds are available at right time.

**4) Explain briefly any four factors which affect the choice of capital structure of a company.**

**Answer:** The four factors which affect the choice of capital structure of a company are described below:

**Risk:** Financial risk refers to a situation when a company is unable to meet its

**Fixed financial charges.** Financial risk of the company increases with the

**Higher use of debt.** This is because issue of debt involves fixed Commitment in terms of payment of interest and repayment of capital.

**Flexibility:** Too much dependence on debt reduces the firm's ability to raise debt during unexpected situations.

Therefore, it should maintain flexibility by not using debt to its full potential.

**Interest Coverage ratio (ICR):** The interest coverage ratio refers to the number

of times earnings before interest and taxes of a company

Covers the interest obligation. This may be calculated as follows:

$ICR = EBIT/Interest$ . If the ratio is higher, lower is the risk of company failing to meet its

Interest payment obligations hence debt may be issued or vice versa. But besides interest

Payment related repayment obligations should also be considered.

Cash flow position: The issue of debt involves a fixed commitment in the

form of payment of interest and repayment of capital.

Therefore if the cash flow position of the company is weak it cannot meet

the fixed obligations involved in issue of debt it is likely to issue equity or vice versa.

**5) Shalini, after acquiring a degree in Hotel Management and Business Administration, took over her family food processing company of**

manufacturing pickles, jams and squashes. The business had been established by her great grandmother and was doing reasonably well. However, the fixed operating costs of the business were high and the cash flow position was weak. She wanted to undertake modernization of the existing business to introduce the latest manufacturing processes and diversify into the market of chocolates and candies. She was very enthusiastic and approached a finance consultant, who told her that approximately 50 lakh would be required for undertaking the modernization and expansion programme. He also informed her that the stock market was going through a bullish phase.

Keeping the above considerations in mind, name the source of finance Shaina should not choose for financing the modernization and expansion of her food processing business. Give one reason in support of your answer.

Explain any two other factors, apart from those stated in the above situation, which Shalini should keep in mind while taking this decision.

**Answer:** Shalini should not choose debt capital for financing the modernization and expansion of her food processing business because the fixed operating cost of the company is high. It cannot take the additional burden of fixed commitments in terms of payment of interest and repayment of capital by issuing debt.

The other two factors that Shalini must keep in mind while taking this decision are stated below:

**Risk:** Financial risk refers to a situation when a company is unable to meet its fixed financial charges. Financial risk of the company increases with the higher use of debt. This is because issue of debt involves fixed commitment in terms of payment of interest and repayment of capital.

**Flexibility:** Too much dependence on debt reduces the firm's ability to raise debt during unexpected situations. Therefore, it should maintain flexibility by not using debt to its full potential.

#### OTHER IMPORTANT QUESTIONS ASKED IN PREVIOUS YEARS CBSE BOARD EXAMS FOR

#### SELF PRACTICE

#### VSA (1 mark)

1) State the objective of 'Financial Management'.

(2020 C, AI 2014)

2) What is meant by 'financial management'?

(Delhi 2017)

3) Is Management concerned only with doing the right task, completing activities and achieving goals

without taking into consideration the cost benefit? Give reason in support of your answer. (AI 2016)

**SA I (3 marks)**

4) Give the meaning of Financial Management. State its main objective. (NCERT, Delhi 2019)

5) Somnath Ltd. is engaged in the business of export of garments. In the past, the performance of the

company had been upto the expectations. In line with the latest technology, the company decided to

upgrade its machinery. For this, the Finance Manager, Dalmia 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. Dalmia therefore, 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 of the business. For

the remaining funds, he is trying to find out alternative sources from outside.

Identify the financial concept discussed in the above para. Also state the objectives to be achieved by

the use of financial concept, so identified.

(Delhi 2017)

Financial Decisions: Investment, Financing and Dividend- Meaning and Factors Affecting

**6)**'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

(2020

C)

**VSA (1 mark)**

**7)** Koby Ltd. is an 87-year-old reputed consumer goods company. It is known for offering good quality

electronic products at reasonable prices. It has branches all over India. It has a large shareholder base.

The shareholders desire that some dividend is paid every year on their investments. Companies

management understands that it is important to keep the shareholders happy and satisfied. As a matter

of policy, they declare a certain amount of dividend every year out of profits rather than reinvesting

the whole as retained earnings.

Identify the factor affecting dividend decision being highlighted in the above situation. (Foreign 2019)

**8)** The size of assets, the profitability and competitiveness are affected by one of the financial decisions.

Name and state the decision.  
2016) U

(Delhi

**9)** Besides the investment decision the finance function is concerned with two other broad decision.

Name these decisions. (Delhi 2015 C)

**10)** Besides financing decision the finance, function is concerned with two other broad decisions. Name

these decisions. (Delhi 2015 C)

**11)** Besides the dividend decision, the finance function is concerned with two other broad decisions.

Name these decisions. (AI 2015 C)

**12)** What is meant by 'Financial Risk'? (AI 2014)SA I (3 marks)

**13)** State any three factors affecting the dividend decision. (2023, Term-II, 2021-22)

**14)** Give the meaning of 'Investment' and 'Financing' decisions of financial management. (AI 2014)

**15)** Give the meaning of 'Investment decision' and 'Dividend decision'. (AI 2014 C)

**16)** Explain the factors that affect capital budgeting decision. (Delhi 2014 C)

**SA II (4 marks)**

**17)** What is meant by 'Investment Decision'? State how 'Long term Investment Decision' and 'Short term

Investment Decision' affect the business. (2023)

**18)** Explain any two factors that affect the dividend decision of a company. (2021 C, 2020 C)

**19)** Explain any two factors that affect the Financing decision of a company. (2021 C)

**LA (5 marks)**



**20)** NB Ltd. is India's largest manufacturer of cement. Its operations are spread throughout the country

with 17 modern cement factories. It has a workforce of 9,000 persons.

Since its inception, the company has been a trendsetter for the cement industry. The company is

planning to grow in long-run and wants to double its capacity in next 3 years.

For this, Finance Manager has to decide about the quantum of finance to be raised from various long

term sources. For this, he needs to identify various available sources of funds and the proportion of

funds from each source.

(i) Identify the financial decision to be taken by the Financial Manager.

(ii) State any four factors which would affect the decision identified in (i) above.

**(Term-II, 2021-22)**

**21)** Anant Ltd. is a company dealing in ready-made garments from last many years. Recently, the profit

of the company have started increasing. The finance manager decided to retain the profit instead of

distributing it among shareholders.

(i) Identify and state the financial decision taken by finance manager in the above case.

(ii) state any three factors affecting the decision identified in (i) above.

**22.** Ravi has joined as a finance manager in MTA Ltd. He had to arrange funds of rupees one crore for

the company. The Chief Executive Officer of the company wants to arrange the funds by a public

issue whereas the finance manager wants to have a mix of debt and equity as this will determine the

overall cost of capital and the financial risk of the enterprise.

(i) Identify and give the meaning of the financial decision suggested by the finance manager in the

above case.

(ii) State any three factors affecting the decision identified in (i) above.

**(Term-II, 2021-22)**

23. 'A.M. Motors Ltd.' is a leading company in car manufacturing. Due to the changing environment and

initiatives taken by the Government of India, the company wants to enter into manufacturing of cars

also. For this project the company requires ₹ 2,000 crore. But before purchasing the machines

and other assets, the finance manager has to assess the degree of risk involved in the project as this

type of decision affects the earning capacity of the business over the long run. Besides this, there are

various other factors which may affect this decision of the finance manager.

(i) Identify and state the financial decision discussed in the above para.

(ii) State any two factors that may affect the decision of the finance manager identified in (i) above.

**(Term-II, 2021-22 C)**

24. 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 tonnes 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 < 1,800 crore of fixed capital and < 200 crore of working capital. To

raise the funds, the company is considering whether it should issue equity shares or 7% debentures of

< 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.

(a) Is it justified to raise funds by issuing debentures? Give reason in support of your answer.

(b) Explain the impact of issue of debentures on the risk faced by the company.

(c) Explain the impact of 'cost of debt' and 'cost of equity' on the capital structure of the company.

(2020 C)

**ET (6 marks)**

25. '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 organization 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 a loan of ₹40 lakhs 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. (Delhi 2015)

26). 'Abhishek Ltd.' is manufacturing cotton clothes. 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 organization 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 a loan of ₹50 lakhs from ICICI Bank and is bound by certain restrictions on the payment

of dividend according to the terms of the 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. (AI 2015)

27. Explain the following as factors affecting dividend decision:

(i) Stability of earnings.

(ii) Growth opportunities;

(iii) Cash flow position and

(iv) Taxation policy.  
2014)

(Delhi

9.3 Financial Planning-Concept and Importance

### **MCQ**

28. Which of the following statements 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. (2023)

**VSA (1 mark)**

29. 'XY Ltd' is registered with an authorized capital of 10 crore. The paid-up capital of the company is ' 6

crore. 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 realized that the funds raised were in excess of the actual requirement.

Identify and define the concept which was not considered by the company before deciding the

amount of funds to be raised. (Foreign 2019)

30. Name and state the aspect of financial management that enables to foresee the fund requirements both

in terms of the quantum and the timings (AI 2016)

**SA II (4 marks)**

31. Harish is working as a finance manager in 'Kozee Softwares Ltd.' He has 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

requirement 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 two objectives.

(2023)

#### 9.4 Capital Structure- Concept & Factors Determining Capital Structure

##### **MCQ**

32. 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

(2023)

33. \_\_\_\_\_ 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

(2023)

VSA (1 mark)

34. How does 'Cost of Debt' affect the capital structure of an enterprise?

(Delhi 2019)

35. Rizul Bhattacharya after leaving his job wanted to start a Private Limited Company with his son. His

son was keen that the company should 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 requirement which made Rizul Bhattacharya to choose

Furniture business over mobile phones.

(AI 2016)

36. A textile company is diversifying and starting a steel manufacturing plant. State with reason the

effect of diversification on the fixed capital requirements of the company.

(Delhi 2015 C)

37. How does 'Cost of Equity' affect the capital structure of an enterprise?

(AI 2015)

**SA I (3 marks)**

38. What is meant by 'Capital Structure'? Explain any two factors that affect the capital structure of a

Company.

(Delhi 2019)

39. The Return on Investment (ROI) of a company ranges between 10 – 12% for the past three years. To

finance its future fixed capital needs, it has the following options for borrowing debt :

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.

2018)

(AI

**SA II (4 marks)**

40. 'X Ltd.' issued 14% Debentures of ₹ 4, 00,000 and 10,000 Equity shares of ₹ 60 each. This

investment resulted in a net profit of ₹ 2,00,000 before interest and tax. The tax rate was 50%.

(a) Calculate the 'Return on Investment' and 'Earning per Share' of 'X Ltd'.

(b) State with reason whether the above example is that of favorable or unfavorable financial

leverage.

(2023)

**LA (5 marks)**

41. 'Determining the relative proportion of various types of funds depends upon various factors. Explain

any five such factors.

(Delhi

2014)

**ET (6 marks)**

42. 'Viyo Ltd., is a company, manufacturing textiles. It has a share capital of ₹60 lakh. The earning per

Share in the previous year was ₹0.50. For diversification, the company requires additional capital of ₹

40 lakh. The company raised funds by issuing 10% debentures for the same. During the current year,

The company earned profit of ₹8 lakh on capital employed. It paid tax @ 40%.

(a) State whether the shareholder gained or lost, in respect of earning per share on diversification.

Show your calculations clearly.

(b) Also, state any three factors that favor the issues of debentures by the company as part of its

Capital structure.

(Delhi 2016)

43. Explain the following as factors affecting the choice of capital structure:



- (i) Cash flow position
- (ii) Cost of equity
- (iii) Floatation costs
- (iv) Stock market conditions  
(AI 2014) R

#### 9.5 Fixed and Working Capital: Concept and Factors Affecting their Requirements

#### MCQ

44. During the Covid-19 pandemic, the restaurant industry faced many challenges. The slowdown led to

huge decrease in demand. From April 2022, the effect of Covid started reducing. The economy

started picking up and a 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.  
(2023)

#### **VSA (1 mark)**

46. ) Organizations which choose to diversify their operations require \_\_fixed capital.  
(more/less(2020 C)

47) 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 (AI 2018)

**48)** Radhika and Vani who are young fashion designers who left their job with 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 centre, they hired the first floor of 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 use by both of them without making

Separate investment, Praveen agreed to this.

Identify the factor affecting fixed capital requirements of 'Fashionate Pvt. Ltd (Delhi 2016)

**49)** 'Indian Logistics' has its own warehousing arrangements at key locations across the country. Its

Warehousing services helps business firms to reduce their overheads, increase efficiency and cut

down distribution time.

State with reason, whether the working capital requirements of Indian Logistics will be high or low.

(Delhi 2015)

OR

'Bharat Express' specializes in Courier Services, its wide range of express package and parcel services

Help business firms to make sure that the goods are made available to the customers at the right place

and at the right time.

State with reason, whether the working capital requirements of 'Bharat Express' will be higher or low.

(  
AI  
20  
15  
)

**SA I (3 marks)**

**50)** Explain any three factors that affect the working capital requirements of a company.

2019)

(NCERT, Delhi

**51).** Indian equity markets are going through a phase of boom. There is a huge growth potential for

Innovative technologies. This has resulted in lots of new ventures lying for a market share and old

Enterprises trying to keep up with the pace with which changes are taking place in the economy. This

Technological innovation has helped even smaller businesses to compete on a global scale.

Identify and explain the three factors highlighted above which affect the working capital

Requirements of such enterprises.

(Delhi

2019)

**SA II (4 marks)**

**52)** Explain the following factors affecting the working capital requirements of an enterprise:

(i) Nature of business

(ii) Availability of raw material (2023)

53. Rajesh wants to start a small factory for producing Hand Sanitizers. For establishing the plant and

Acquiring other fixed assets he needs ₹ 80 lakh. Explain any two factors which affect the requirement

of fixed capital of this company. (2021

C)

**54.)** 'R.K. Fertilizers Ltd.' has planned to set up a plant for manufacturing urea fertilizer which has very

High market potential as there is excess demand as compared to supply. The company is planning to

Operate at a higher scale which will require a bigger plant, more space, etc. The company has also

Planned to replace its plant and machinery as the same are prone to obsolescence with the change in

Technology. To meet the growing demand of fertilizers that may result in increase in profits, the

Company is also planning to diversify its operations. It wants to enter in the area of cement

Manufacturing. Thus, it is a capital-intensive project involving an investment of ₹3,000 crore.

Identify and state any five factors affecting the fixed capital requirements of 'R.K. Fertilisers Ltd.'

Discussed in the above para. (Term-II, 2021-22 C)

**55).** 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.

Inderprastha Technologies Ltd., a manufacturer of air purifiers wants to encash 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 'Inderprastha 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. (2020 C)

**ET (6 marks)**

**56).** Explain the following as factors affecting the requirements of working capital:

(i) Nature of business (ii) Scale of operations (iii) Seasonal factors (iv) Production cycle

(AI 2014)

**57.)** Explain how the following factors affecting the working capital requirements of a business:

(i) Inflation, (ii) Business cycle,(iii) Level of competition and iv).Nature of business.

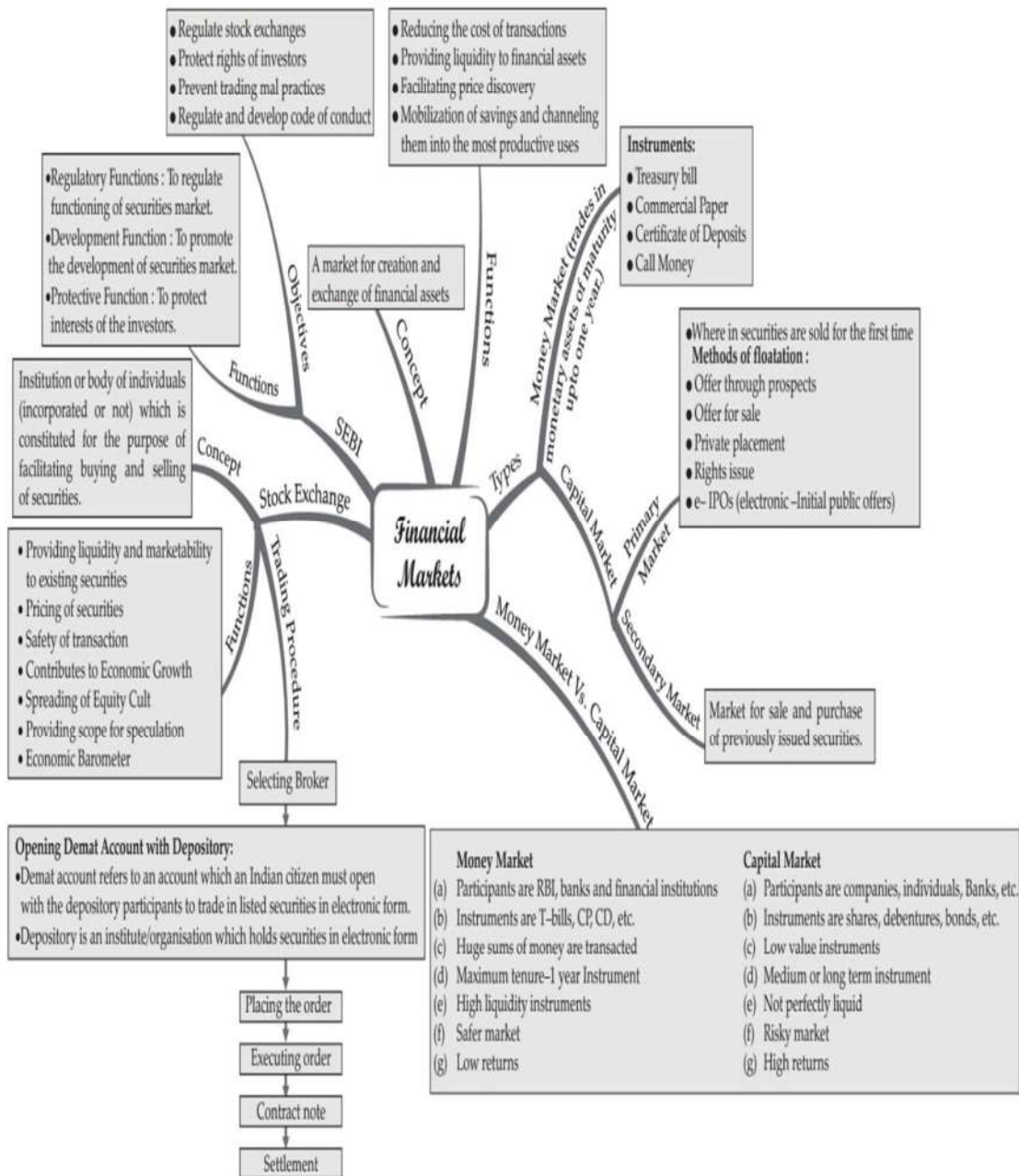
**58)** It is a process that allocates or directs funds available for investment into their most productive instrument Opportunity '.This is known as: (CBSE-2024)

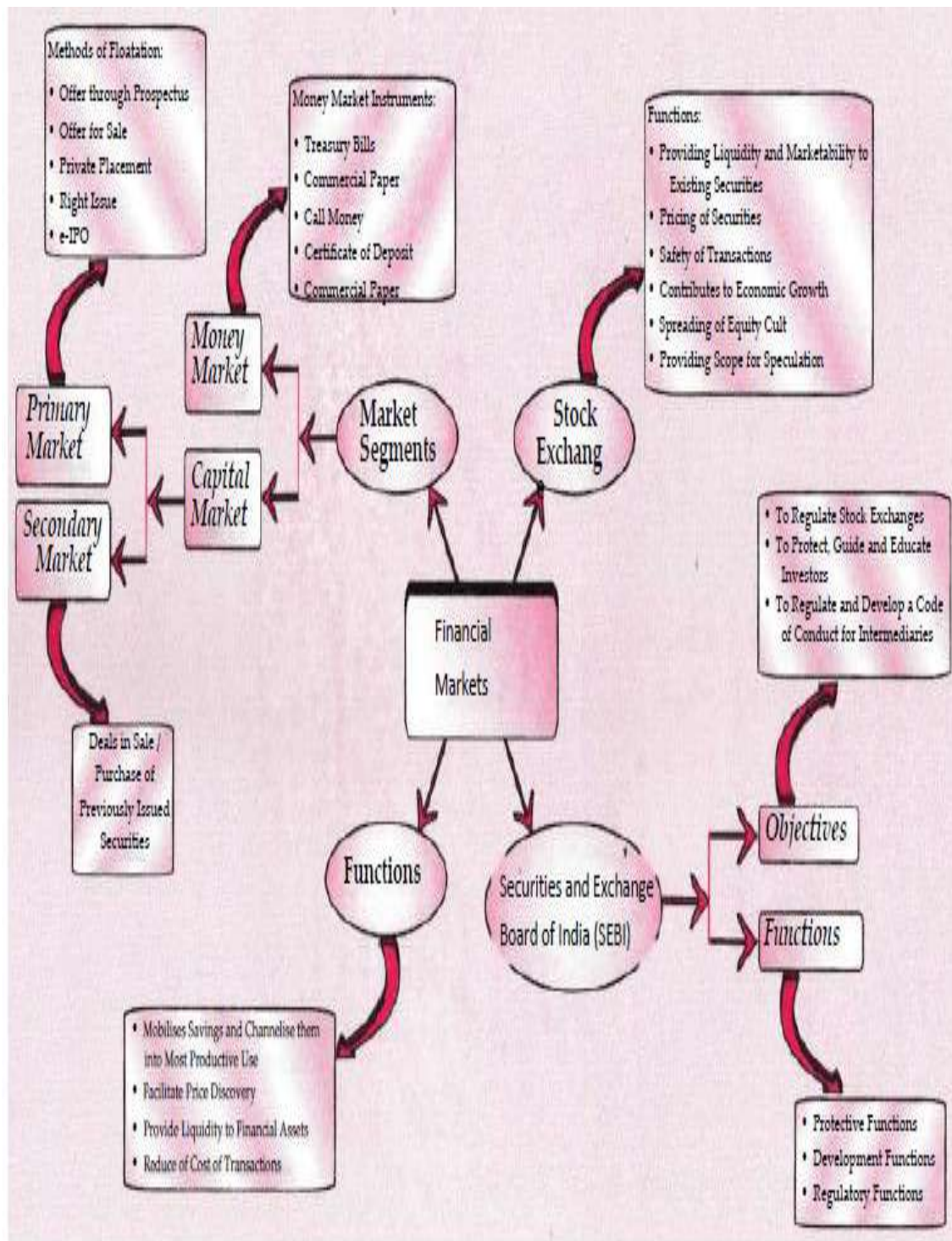
a) Financial Intermediation) Capital budgeting) Financial planning d) Allocative function

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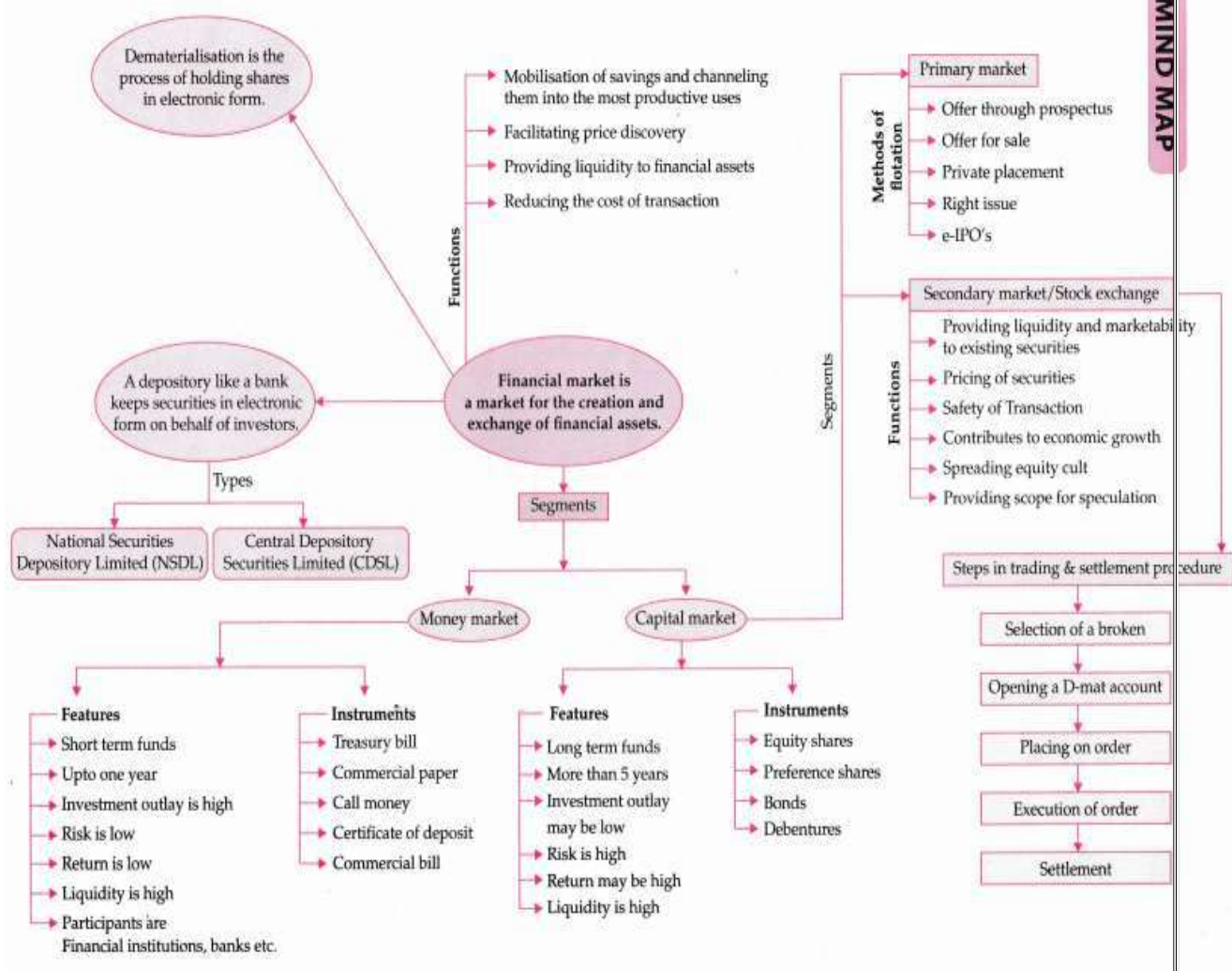
# CHAPTER 10 : FINANCIAL MARKETS

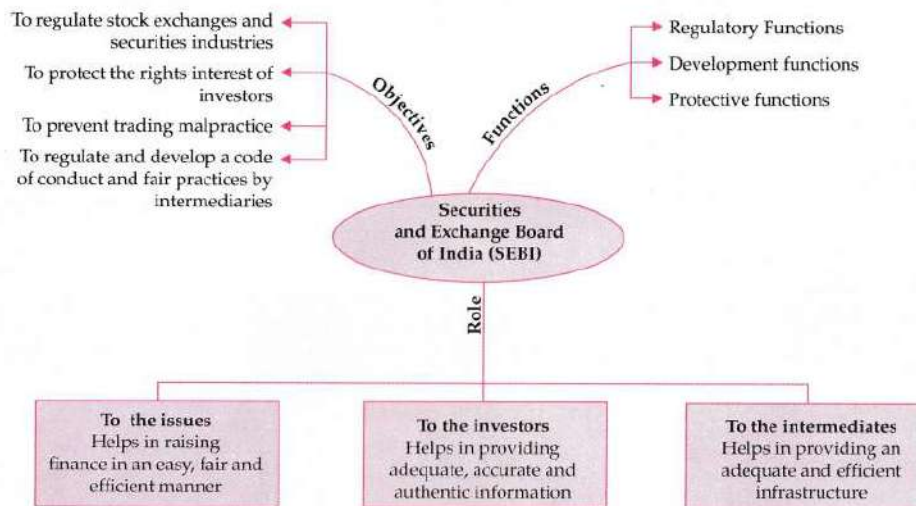
## MIND MAP : LEARNING MADE SIMPLE CHAPTER - 10











**Concept:**

- Financial Market is the market where financial assets are created and exchanged for short, medium and long terms.
- It mobilizes savings of the households into capital formation and allows the businesses to raise funds from public by issuing the securities.
- It also provides liquidity to all the financial securities.

**Classification of Financial Markets:**

- There are two types of Financial Markets; Money Market and Capital Market.
- There are various bases for this classification such as period, participants, instruments, liquidity, etc.

**Money Market:**

- The money market is a market for short term funds, which deals in monetary assets whose period of maturity is up to one year.
- Instruments like T-Bills, Commercial Papers, Certificates of Deposits, Call Money, Commercial Bills, etc. work in this market.
- Money market instruments are close substitutes for money.

**Capital Market:**

- Capital market is a market where financial securities are created and exchanged for medium and long terms only.
- It refers to facilities and institutional arrangements through which medium and longterm funds; both debt and equity are raised and invested.
- Instruments like Shares, Debentures, Bonds, etc. work here.

**Difference:**

**Money Market V/s Capital Market**

S.N.	Basis	Money Market	Capital Market
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1	Participants	RBI, financial institutions, banks, corporate, etc.	Financial institutions, banks, corporate, foreign investors and retail investors.
2	Instruments	Treasury bill, commercial paper, certificates of deposit, call money, commercial bill, etc.	Shares, debentures and bonds, etc.
3	Investment outlay	Large investment outlay.	Small investment outlay.
4	Duration	Deals in short term securities whose period of maturity is up to one year.	Deals in medium term and long term securities with period of maturity of more than one year.
5	Liquidity	Instruments enjoy higher degree of liquidity due to the Discount Finance House of India.	Instruments are considered liquid but less liquid than money market instruments.
6	Safety	Instruments are comparatively safer than capital market securities with a minimum risk of default due to the shorter duration of investment and financial soundness of the issuers.	Instruments are riskier than money market instruments.
7	Expected return	Securities yield comparatively less return due to shorter duration.	Securities generally yield a higher return than money market instruments due to longer duration.

#### Types of Capital Market:

- Capital market further can be classified into primary market and secondary market
- This classification is done due to new issues and exchange of securities.

#### Primary Market:

- Primary market is that capital market where financial securities are created.
- It deals with new securities being issued for the first time.
- It is also known as New Issues Market.

#### Secondary Market:

- Secondary market is that capital market where financial securities are exchanged.
- It is a market for the purchase and sale of existing (second hand) securities.
- It is also known as Stock Market or Stock Exchange.

#### Difference:

##### Primary Market V/s Secondary Market

S.N.	Primary Market	Secondary Market
1.	There is <b>sale</b> of securities by <b>new companies</b> or further <b>new issues</b> of securities by existing companies to investors.	There is <b>trading</b> of <b>existing</b> securities only.
2.	<b>Only buying</b> of securities takes place in the primary market, securities cannot be sold there.	Both the <b>buying</b> and the <b>selling</b> of securities can take place on the stock exchange.
3.	Securities are sold by the <b>company</b> to the <b>investors</b> directly (or through an intermediary).	Ownership of existing securities is exchanged <b>between investors</b> . The company is not involved at all.

4.	The flow of funds is from savers to investors, i.e. the primary market <b>directly</b> promotes <b>capital formation</b> .	Enhances liquidity of securities, i.e. the secondary market <b>indirectly</b> promotes <b>capital formation</b> .
5.	<b>Prices</b> of securities are determined and decided <b>by the management</b> of the company.	<b>Prices</b> are determined <b>by demand and supply</b> of the securities.
6.	There is <b>no fixed</b> geographical location.	Located at <b>specified places</b> .

### **Stock Exchange:**

- Stock Exchange is an institution which provides a platform for purchase and sale of existing securities.
- It provides various functions.

### **Functions of Stock Exchange:**

**1. Provides liquidity and marketability of existing securities-** The main function of a stock exchange is to provide a ready and continuous market for the sale and purchase of existing securities.

**2. Pricing of securities-** Share prices on a stock exchange are determined by the forces of demand and supply.

**3. Safety of transactions-** The membership of a stock exchange is well-regulated and securities are traded, cleared and settled within the regulatory framework prescribed by SEBI.

**4. Contributes to economic growth-** Savings get channelized into the most productive investment opportunity. This leads to capital formation and economic growth.

**5. Spreading of equity cult-** The stock exchanges play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

**6. Provides scope for speculation-** A certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market in a restricted and controlled manner.

### **Trading in a Stock Exchange:**

- Trading in securities is now executed through an on-line, screen-based electronic trading system.
- A stock exchange has its main computer system with many terminals spread across the country.
- Trading in securities is done through brokers who are members of the stock exchange.
- Every broker has to have access to a computer terminal that is connected to the main stock exchange.
- Business is transacted during business hours of the stock exchange, i.e. between 9:55 am and 3:30 pm, Indian Standard Time, Monday to Friday.
- It follows rolling settlement system on a **T+2 basis, i.e. transactions in securities are settled within 2 days after the trade date.**

### **Advantages of electronic trading system:**

- It ensures transparency as participants can see the prices of all securities in the market.
- It increases efficiency of information as the computer screens display information on prices.
- It increases the efficiency of operations since there is reduction in time, cost and risk of error.
- It improves the liquidity of the market as people from all over the world can buy or sell securities through brokers.

### **Dematerialisation:**

- It is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that she/he can hold it as an electronic balance in an account.
- For this, the investor has to open a 'Demat Account' with an organisation called a 'Depository'.
- This is mainly done to eliminate problems associated with share certificates or debentures held in physical form like (a) theft (b) fake/forged transfers (c) transfer delays and (d) paper work relating to share certificates, transfer, forms, etc.

#### **Demat Account:**

- It is the account where securities are held by an investor in electronic form i.e. dematerialized form under the custody of a 'Depository'.
- It is mandatory for an investor to have this account before starting trading of securities.
- This account is opened with a 'Depository' through a 'Depository Participant (DP)'.

#### **Depository:**

- A depository is an institution which holds securities like shares, debentures, bonds, mutual funds, etc. in an demat form in the Demat Accounts of the investors.
- As a bank keeps money in safe custody for customers, a depository also keeps securities in electronic form in safe custody on behalf of the investors.
- In India, there are two depositories:
  - (i) National Securities Depositories Limited (NSDL)
  - (ii) Central Depository Services Limited (CDSL)

#### **Depository Participant (DP):**

- These are the intermediaries between depositories and investors.
- These are electronically connected with the depositories and act as the contact points with the investors.
- Both the depositories (NSDL & CDSL) interact with the investors through these intermediaries only.
- DPs maintain the accounts of dematerialised shares of the investors and intimate them the status of their holding from time to time.
- Examples of DPs are banks, financial institutions, nonbanking finance corporations (NBFCs), stock brokers and clearing corporations.

#### **Trading Procedure in a Stock Exchange:**

**1. Selection of Broker-** The investor has to approach a registered broker or sub-broker and sign a broker-client agreement and a client registration form before placing an order to buy or sell securities. He has to provide certain other details and information like PAN (Permanent Account Number) (This is mandatory), Bank account details, etc.

**2. Opening of Demat Account-** The investor has to open a 'Demat' account or 'Beneficial Owner' (BO) account with a depository participant (DP) for holding and transferring securities in the demat form.

**3. Placing an Order-** The investor then places an order with the broker to buy or sell shares giving instructions about the number of shares and the price. The broker will then go ahead with the deal and issue an order confirmation slip to the investor.

**4. Matching the Order-** The broker then will go on-line and connect to the main stock exchange and match the share and best price available.

**5. Executing the Order-** When the shares can be bought or sold at the price mentioned, the order is executed electronically and the broker will issue a trade confirmation slip to the investor.

**6. Issuing Contract Note-** After the execution of trade, within 24 hours the broker will issue a Contract Note (a Unique Order Code number is printed on it), containing details of the number of shares bought or sold, the price, the date and time of deal, and the brokerage charges. Contract Note is a legal document as it helps to settle disputes/ claims between the investor and the broker.

**7. Investor to Pay Cash or Deliver Shares-** Now, the investor has to pay cash for the shares bought or to deliver the shares sold, to his/her broker.

**8. Broker to Transact with Stock Exchange-** Cash is paid or securities are delivered to the stock exchange by the broker on pay-in day, which is before the T+2 day.

**9. Settlement-** On the T+2 day, the stock exchange will deliver the shares or make payment to the other broker. This is called the pay-out day. The other broker makes payment to the investor within 24 hours of the payout day.

**10. Delivery-** The broker will make delivery of shares in demat form directly to the investor's Demat account.

### **SEBI (Securities Exchange Board of India):**

- It is an administrative body to promote orderly and healthy growth of securities and to protect the interest of investors established on April 12, 1988 by the Finance Ministry of GOI.
- It was given a statutory status on January 30, 1992 and therefore popularly known as SEBI Act, 1992
- It has its headquarters in Mumbai and regional offices at Kolkata, Chennai, New Delhi and Ahmedabad.

### **Objectives of SEBI:**

- To regulate stock exchanges and the securities industry to promote their orderly functioning.
- To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
- To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
- To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

### **Functions of SEBI:**

The SEBI performs three important functions:

**1. Regulatory functions-**These functions are performed by SEBI to regulate the business in stock Exchange:

- Registration of brokers and sub-brokers and other players in the market.
- Registration of collective investment schemes and Mutual Funds.
- Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.
- Regulation of takeover bids by companies.
- Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries.
- Levying fee or other charges for carrying out the purposes of the Act.

- Performing and exercising such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

**2. Developmental functions:** These functions are performed by SEBI to promote and develop activities in stock market:

- Training of intermediaries of the securities market.
- Conducting research and publishing information useful to all market participants.
- Undertaking measures to develop the capital markets by adapting a flexible approach.

**3. Protective functions:** These functions are performed by SEBI to protect the interest of investors and provide safety of investments:

- Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
- Controlling insider trading and imposing penalties for such practices. (Insider trading— Directors/ Promoters using inside information, e.g. bonus issue to make personal profits.)
- Undertaking steps for investor protection.
- Promotion of fair practices and code of conduct in securities market.

#### Multiple Choice Questions (MCQs)/One Mark Questions

**Q.1** Which type of securities is dealt in stock exchange?

- (a) IPO            (b) e-IPO            (c) Second hand securities            (d) Call money

**Q.2** Demat account is opened through:

- (a) Depository participant            (b) SEBI            (c) RBI            (d) NABARD

**Q.3** Training of intermediaries of securities market relates to which function of SEBI?

- (a) Regulatory            (b) Development            (c) Protective            (d) Controlling

**Q.4** Money market is a market for dealing in:

- (a) Long term fund            (b) Medium term fund  
(c) Short term fund            (d) Both (a) and (b)

**Q.5** Controlling insider trading is a:

- (a) Development function            (b) Protective function  
(c) Both (a) and (b)            (d) Regulatory function

**Q.6** Identify the function of stock exchange:

- (a) Trading and settlement procedure            (b) Dematerialization  
(c) Pricing of securities            (d) Depository participants

**Q.7** Money market deals with instruments having maturity period of:

- (a) Less than one year            (b) More than one year  
(c) Less than three years            (d) More than Three years

**Q.8** Two major classifications of financial markets are:

- (a) Money market and capital market            (b) Primary market and secondary market  
(c) Debt market and Equity market            (d) Whole sales market and retail market

**Q.9** Dinesh has 1000 equity shares of a company. He wants to sell 500 of these shares. Which market should he approach?

- (a) Secondary market (b) Primary market  
(c) Financial market (d) Money market

**Q.10** In 2nd five year plan, “Industrialisation” was the “Main Focus”. But the major problem was saving and investment. Households used to invest in GOLD & Property only. Government had to take initiative for establishing infrastructure and other basic industries. With pace of economic development, small savings were promoted by establishing an organised market. This market is regulated by SEBI and has attributed a lot in economic development. Identify the market:

- (a) Secondary market (b) Primary market  
(c) Financial market (d) Money market

**Q.11** Which one is a Regulatory function of SEBI?

- (a) Training of intermediaries of Security market  
(b) Registration of Broker and Sub- Broker  
(c) Undertaking steps for investors’ protection  
(d) Promotion of fair trade practices

**Q.12** Which one is a Development function of SEBI?

- (a) Training of intermediaries of Security market  
(b) Registration of Broker and Sub- Broker  
(c) Undertaking steps for investors’ protection  
(d) Promotion of fair trade practices.

**Q.13** Which one is a Protective function of SEBI?

- (a) Training of intermediaries of Security market  
(b) Registration of Broker and Sub- Broker  
(c) Promotion of fair trade practices  
(d) Conducting research and publishing information useful to all market participants

**Q.14 Match the following on the basis of market and its description:**

Description	Market
(i) Market where short term securities are sold	(A) Financial Market
(ii) Market for creation and exchange of financial assets	(B) Primary Market
(iii) It sells equity shares, debentures, bonds and preference shares	(C) Money Market
(iv) In this market flow of funds is from savers to investors of the company	(D) Capital Market
(a) (i)-(C),(ii)-(A),(iii)-(D),(iv)-(B)	(b) (i)-(A),(ii)-(B),(iii)-(C),(iv)-(D)
(c) (i)-(D),(ii)-(A),(iii)-(C),(iv)-(B)	(d) (i)-(B),(ii)-(A),(iii)-(D),(iv)-(C)

**Q.15 Match the tasks with the function of SEBI:**

Task	Function
1. Levying fee or other charges for carrying out the purpose of the Act.	A. Development
2. Conducting research and publishing useful information to all market participants.	B. Protective
3. Prohibition of fraudulent and unfair trade practices.	C. Regulatory
(a) 1-A, 2-B, 3-C	(b) 1-B, 2-A, 3-C



(c) 1-C, 2-B, 3-A

(d) 1-C, 2-A, 3-B

**Instructions:** Q.16 to Q.20 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):** Financial market helps to save time, efforts and money of both buyers and sellers

of a financial assets.

**Reason (R):** Financial market provides valuable information about securities being traded in the

market.

**Q.17 Assertion (A):** Capital market instruments are riskier both with respect to return and principal

repayment.

**Reason (R):** Capital market deals in medium and long-term securities.

**Q.18 Assertion (A):** Share prices on a stock exchange are determined by the forces of demand and supply.

**Reason (R):** A stock exchange is a mechanism of constant valuation through which the prices of

securities are determined.

**Q.19 Assertion (A):** Secondary market helps existing investors to disinvest and fresh investors to enter the market.

**Reason (R):** It is a market for purchase and sale of existing securities.

**Q.20 Assertion (A):** A stock exchange leads to capital formation and economic growth.

**Reason (R):** Through the process of disinvestment and reinvestment savings get accumulated at

a single place only.

#### Answer Key

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

#### Three Marks Questions

**Q.21** Sunil had misplaced his number of share certificates while shifting his house. After a long time he was able to trace his shares certificates. Now he was facing problem in selling them off. He shared his problem with one of his relatives who told him that he would now have to get his shares converted into electronic form and put it in an account.

- (a) Name the account which is required to be opened to deal in shares.
- (b) With whom will he have to open this account?
- (c) Also name two organisations which can keep those shares in electronic form.

**Ans:** (a) Demat Account

(b) Sunil will have to open Demat Account with a Depository though any depository participant.

- (c) 1.NSDL (National Securities Depositories Limited)  
2.CDSL (Central Depository Services Limited)

**Q.22** Mr. Sandeep is a holder of financial securities in Futura Limited. He wants to sell his securities to purchase new securities of another company. You are required to suggest him the markets where he can sell his securities and describe the concept.

**Ans.** Mr. Sandeep is suggested to sell his securities in Secondary Market.

**Secondary Market:** Secondary market is that capital market where financial securities are exchanged. It is a market for the purchase and sale of existing (second hand) securities. It is also known as Stock Market or Stock Exchange.

**Q.23** The Trading procedure on Stock Exchange has been replaced by online screen based electronic trading system. This is mainly done to eliminate problems like theft, fake forged transfers, transfer delays and paper work associated with share certificates or debentures in physical form. This is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that he/ she can hold it in an electronic balance in an account. This has increased the equity cult among the people.

(a) Identify and state the process mentioned above.

(b) What is the most important requirement for the process identified in (a)? State.

**Ans:** (a) **Dematerialisation:** It is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that she/he can hold it as an electronic balance in an account.

(b) **Demat Account:** It is the account where securities are held by an investor in electronic form i.e. dematerialized form under the custody of a 'Depository'.

**Q.24** The Director of Pico Limited decided to declare bonus issue of equity shares to the shareholders in its Annual General Meeting. Immediately one of the Directors purchased 20,000 shares from market @ Rs.30 per share and sold them @ Rs.100 per share as bonus issue was declared and made capital gain from it.

(a) Name the practice used by the Director taking the benefits of internal information.

(b) How does SEBI prohibit such practices?

(c) Also discuss any other such function of SEBI.

**Ans:** (a) Insider Trading

(b) It is a protective function of SEBI to control insider trading and impose penalties on the defaulters.

(c) Promotion of fair practices and code of conduct in securities market.

**Q.25** Talco Ltd. is launching a new range of snacks which are 100% fat free. Keeping in mind, the health conscious segment of market, company produced these cholesterol free snacks. For financing the production of snacks, company issued 10% debentures. Company was already burdened with fixed cost of salaries, rent and 8% debentures interest.

(a) In which market, were the debentures issued?

(b) Do you think, issue of debentures was a wise choice Y/N. Justify your answer.

(c) What could be the other sources of finance available to Talco Ltd.

**Ans:** (a) Primary Market

(b) No, because company was already burdened with fixed cost of salaries, rent and 8% debenture interest.

- (c) 1. Shares (Equity or Preference) and  
2. Retained Earnings.

### Four Marks Questions

**Q.26** Charu is a chartered accountant in Prakash Ltd. During the course of meeting with directors she came to know that as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share-market jumps up. Considering it, Charu purchased large number of company's shares before this news reached the public.

- (a) Identify type of malpractice used by Charu.
- (b) Name the authority which regulates such behaviour.
- (c) Describe any two objectives of this authority.

**Ans:** (a) **Insider Trading-** Directors/ Promoters using inside information to make personal profits.

(b) **SEBI (Securities Exchange Board of India)-** It is an administrative body to promote orderly and healthy growth of securities and to protect the interest of investors established on April 12, 1988 by the Finance Ministry of GOI. It was given a statutory status on January 30, 1992 and therefore popularly known as SEBI Act, 1992

(c) **Objectives of SEBI:**

- To regulate stock exchanges and the securities industry to promote their orderly functioning.
- To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them competitive and professional.

**Q.27** Name the institution which is a body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating and controlling the business of buying and selling or dealing in securities. Explain its functions.

**Ans:** SEBI (Securities Exchange Board of India).

#### **1. Regulatory functions**

- Registration of brokers and sub-brokers and other players in the market.
- Registration of collective investment schemes and Mutual Funds.
- Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.
- Regulation of takeover bids by companies.
- Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediaries.
- Levying fee or other charges for carrying out the purposes of the Act.
- Performing and exercising such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

#### **2. Developmental functions**

- Training of intermediaries of the securities market.
- Conducting research and publishing information useful to all market participants.
- Undertaking measures to develop the capital markets by adapting a flexible approach.

#### **3. Protective functions**

- Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
- Controlling insider trading and imposing penalties for such practices. (Insider trading— Directors/ Promoters using inside information, e.g. bonus issue to make personal profits.)
- Undertaking steps for investor protection.
- Promotion of fair practices and code of conduct in securities market.

**Q.28** A student asked teacher - “How can a company arrange for fixed capital which is to be used in long - term projects?” Teacher explained as “If company wants to have funds, it can issue shares directly to public or it can sell the whole issue to intermediaries. After subscribing the shares, shareholders are not bound to keep it with them. They can sell it in the market and get them encased.”

In the above paragraph, two kinds of capital markets are highlighted, name them and write two differences between these markets.

**Ans: Primary Market:** Primary market is that capital market where financial securities are created. It deals with new securities being issued for the first time. It is also known as New Issues Market.

**Secondary Market:** Secondary market is that capital market where financial securities are exchanged. It is a market for the purchase and sale of existing (second hand) securities. It is also known as Stock Market or Stock Exchange.

#### **Primary Market V/s Secondary Market**

S.N.	Primary Market	Secondary Market
1.	There is <b>sale</b> of securities by <b>new companies</b> or further <b>new issues</b> of securities by existing companies to investors.	There is <b>trading</b> of <b>existing</b> securities only.
2.	<b>Only buying</b> of securities takes place in the primary market, securities cannot be sold there.	Both the <b>buying</b> and the <b>selling</b> of securities can take place on the stock exchange.

**Q.29** Differentiate between Money Market and Capital Market on the following basis:

- (a) Duration
- (b) Liquidity
- (c) Safety
- (d) Expected Return

**Ans:** Differences between Money Market and Capital Market:

S.N.	Basis	Money Market	Capital Market
a	Duration	Deals in short term securities whose period of maturity is up to one year.	Deals in medium term and long term securities with period of maturity of more than one year.
b	Liquidity	Instruments enjoy higher degree of liquidity due to the Discount Finance House of India.	Instruments are considered liquid but less liquid than money market instruments.
c	Safety	Instruments are comparatively safer than capital market securities with a minimum risk of default due to the shorter duration of investment and financial soundness of the issuers.	Instruments are riskier than money market instruments.
d	Expected return	Securities yield comparatively less return due to shorter duration.	Securities generally yield a higher return than money market instruments due to longer duration.

#### **Six Marks Questions**

**Q.30** Raghu works as a waiter in a five star hotel in Mumbai. While serving the customer he overhears him at the table saying that he has made profits higher than expected by investing

in securities market. So, Raghu also decides to make a nominal investments from his savings in the stock market in pursuit of higher gains.

In context of the above case:

As a financial consultant, apprise him of the steps involved in the process of trading in stock market.

**Ans:** Raghu has to undergo the following steps:

- 1. Selection of Broker-** He has to approach a registered broker or sub-broker and sign a broker-client agreement and a client registration form before placing an order to buy securities. He has to provide certain other details and information like PAN (Permanent Account Number) (This is mandatory), Bank account details, etc.
- 2. Opening of Demat Account-** He has to open a 'Demat' account or 'Beneficial Owner' (BO) account with a depository participant (DP) for holding and transferring securities in the demat form.
- 3. Placing an Order-** He then places an order with the broker to buy shares giving instructions about the number of shares and the price. The broker will then go ahead with the deal and issue an order confirmation slip to him.
- 4. Matching the Order-** The broker then will go on-line and connect to the main stock exchange and match the share and best price available.
- 5. Executing the Order-** When the shares can be bought at the price mentioned, the order is executed electronically and the broker will issue a trade confirmation slip to him.
- 6. Issuing Contract Note-** After the execution of trade, within 24 hours the broker will issue a Contract Note (a Unique Order Code number is printed on it), containing details of the number of shares bought, the price, the date and time of deal, and the brokerage charges.
- 7. Investor to Pay Cash-** Now, Raghu has to pay cash for the shares bought to his/her broker.
- 8. Broker to Transact with Stock Exchange-** Cash is paid to the stock exchange by the broker on pay-in day, which is before the T+2 day.
- 9. Settlement-** On the T+2 day, the stock exchange will deliver the shares to the other broker.
- 10. Delivery-** The broker will make delivery of shares in demat form directly to Raghu's Demat account.

**Q.31** After doing a course in online trading, Arsh started an online portal for stock trading under the name 'Investment Guru'. He met his school friend Ajay after a long in a bank where Ajay had opened a Demat account. Arsh urged Ajay to invest in the forthcoming IPO of a blue chip companies whereas Ajay was inclined to buy existing securities of the other companies to build his investment portfolio.

In the context above case:

- (a) Identify the two different types of capital markets being referred to by quoting lines from the paragraph.
- (b) State any four differences between the two types of capital markets as identified in part (a)

**Ans:** (a) The two different types of capital market being referred to are-

- 1. Primary market:** Arsh urged Ajay to invest in the forthcoming IPO of a blue chip companies.
- 2. Secondary market:** Ajay was inclined to buy existing securities of the other companies to build his investment portfolio.

(b) Differences between primary market and secondary market:

S.N.	Primary Market	Secondary Market
1.	Securities are sold by the <b>company</b> to the <b>investors</b> directly (or through an intermediary).	Ownership of existing securities is exchanged <b>between investors</b> . The company is not involved at all.

2.	The flow of funds is from savers to investors, i.e. the primary market <b>directly</b> promotes <b>capital formation</b> .	Enhances liquidity of securities, i.e. the secondary market <b>indirectly</b> promotes <b>capital formation</b> .
3.	<b>Prices</b> of securities are determined and decided <b>by the management</b> of the company.	<b>Prices</b> are determined <b>by demand and supply</b> of the securities.
4.	There is <b>no fixed</b> geographical <b>location</b> .	Located at <b>specified places</b> .

**Q.32** Bombay Stock Exchange was established in 1815 and was Asia's first stock exchange. About 6000 companies are listed on this exchange where investors purchase and sell their securities as shares, debentures and bonds. Price of the securities is determined by forces of demand and supply. The members of exchange are called brokers. They provide safe and fair deal to their customers. The Sensex launched in 1986 is made of 30 companies and represents 13 sectors of the economy. The change in Sensex shows the growth of economy.

(a) Explain the functions of Stock Exchange, highlighted above.

(b) Also explain the remaining functions.

**Ans:** (a) **Functions of Stock Exchange highlighted above:**

**1. Provides liquidity and marketability of existing securities-** The main function of a stock exchange is to provide a ready and continuous market for the sale and purchase of existing securities.

**2. Pricing of securities-** Share prices on a stock exchange are determined by the forces of demand and supply. .

**3. Contributes to economic growth-** Savings get channelized into the most productive investment opportunity. This leads to capital formation and economic growth.

(b) **Remaining Functions of Stock Exchange:**

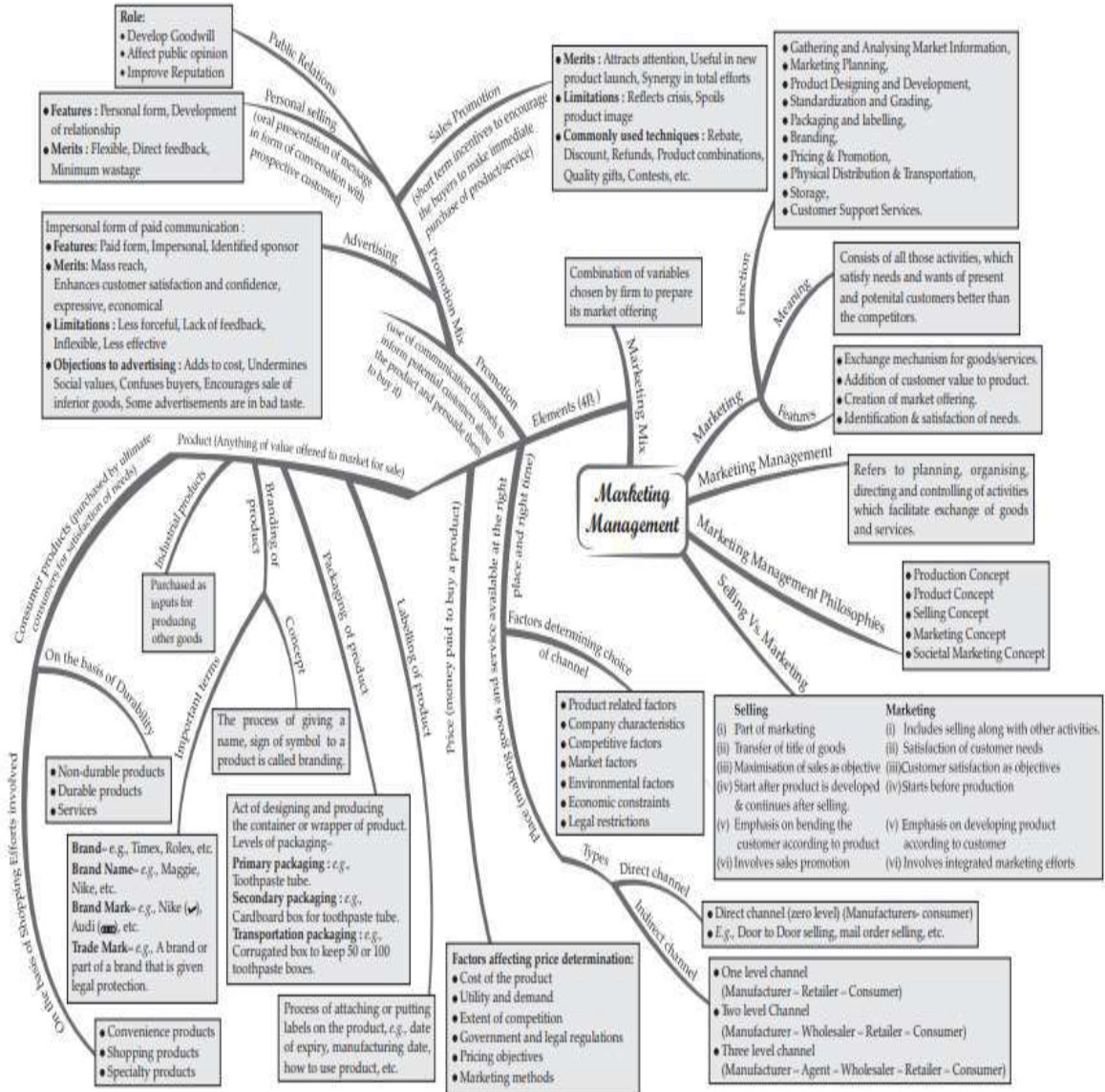
**1. Safety of transactions-** The membership of a stock exchange is well-regulated and securities are traded, cleared and settled within the regulatory framework prescribed by SEBI.

**2. Spreading of equity cult-** The stock exchanges play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

**3. Provides scope for speculation-** A certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market in a restricted and controlled manner.

# CHAPTER 11: MARKETING MANAGEMENT

## MIND MAP : LEARNING MADE SIMPLE CHAPTER - 11



Marketing

Features of marketing

**Marketing Management Philosophies**

- a) The Production concept
- b) The Product Concept
- c) The Selling Concept
- d) The Marketing concept
- e) The Societal Marketing concept

**Functions of Marketing**

- a) Gathering and Analysing Market information
- b) Marketing Planning
- c) Product Design and Development
- d) Standardisation and Grading
- e) Packaging and Labelling
- f) Branding
- g) Customer support services
- h) Pricing of the product
- i) Promotion
- j) Physical Distribution
- k) Transportation
- l) Storage and Warehousing.

**Marketing mix**

- a) Product
- b) Price
- c) Place
- d) Promotion

**Branding**

- a) Brand
- b) Brand Name
- c) Brand Mark
- d) Trade Mark

Advantages of branding to marketer

Advantages of branding to customer

Characteristics of a good brand name

**Packaging**

Level of Packaging

Primary package

Secondary Package

Transport Package

Importance of Packaging

Functions of Packaging

**Labelling**

Functions of Labelling

- A) Identify the product
- B) Describe the product
- C) Grading of products
- D) Promotion of the product
- E) Providing information required by law



## **Pricing**

Factors affecting price Determination

- a) Product cost
- b) The Utility and Demand
- c) Extent of competition in the market
- d) Government and legal Regulations
- e) Pricing Objectives
- f) Marketing Methods Used

## **Physical Distribution**

Types of Channel

Direct and Indirect

Components of physical distribution

- a) Order Processing
- b) Transportation
- c) Warehousing
- d) Inventory control**

## **Promotion**

- a) Advertising
- b) Personal selling
- c) Sales Promotion
- d) Publicity
- e) Public Relations.

Market in traditional sense – The word market is derived from a Latin word, “Marcatus”, which means a place of business, in other words, it is a location where buyers and sellers of goods assemble to facilitate exchange, market thus refers to a place. The term market used in various contexts is given below:

1. Product market (Pepper market, Vegetable market, share market etc.)
2. Geographical market – (Local market, national market, international market)
3. Based on types of buyers (Consumer market and industrial market)
4. Based on quantity of goods (Wholesale and Retail market) Market in modern sense - the term market has a wider meaning; it refers to the aggregate potential demand for a product or service.

For example, we say the market for car is booming, we are referring to the enhanced collective demand for cars.

**Marketing** – Marketing can be defined as an exchange transaction in between buyer and seller. All activities connected with transfer of goods and services from the producer to the consumer come within the purview of marketing. They include production, transportation, storage, advertising etc. Though selling and sales promotion are integral part of marketing, they are not everything, therefore marketing is a broader term and is concerned with the identification of needs and wants of consumers and finding out ways and means for satisfying them.

Definition – “Marketing is the performance of business activities that direct the flow of goods and services through producers to consumers or users.” –

**American Marketing Association According to Philip Kotler –**

“Marketing is a social process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.”

The above definition gives the following features of marketing:-

**1. Needs and Wants** – Marketing process helps the people in getting what they want. The focus of marketing is on the satisfaction of their needs and wants. A marketer’s job is to identify the needs of consumers and develop products or services accordingly.

**2. Creating a market offering** – Market offering means a complete offer of a product or service. While offering products to customers, it should include the features like size, quality, taste, price, availability etc.

**3. Customer value** – Consumer buys a product based on its value to satisfy their need. So the marketer should always add value to his products, so that the customer prefers it.

**4. Exchange Mechanism** – It refers to a process through which two or more parties come together to obtain the desired product or service from someone, in return making a payment to the other. Essential conditions in exchange mechanism are as follows:

- a. Two parties – buyer and seller.
- b. Offering something – Seller offer a product and the buyer, money.
- c. Ability to communicate – Each party should communicate and deliver the product or service.
- d. Freedom – Each party has the freedom to accept or reject the offer.
- e. Voluntary – Acceptance or rejection of the offer must not be on compulsion.

**What can be marketed?** Usually products are marketed, in marketing literature, anything that can be value to the buyer may be termed as product. It may be tangible or intangible products. It also includes person, place, event, experience, organization etc.

**Marketer or Seller** – Marketer refers to any person, who takes a lead role in the process of exchange, normally it is the seller. Consumer seeks satisfaction by consuming products and services, whereas the marketer or seller provides the satisfaction by offering products and services to satisfy the consumer’s needs.

**Functions of marketing**

**1. Gathering and analyzing market information** – This will help to identify the needs of customers and can take vital decisions. It is highly useful for analyzing opportunities, threats, strength and weakness of the firm.

**2. Marketing plan** – A proper marketing plan should be developed to achieve the marketing objectives of the firm. E.g., to increase the market share of a product in next one year by 20%.

**3. Product designing and development** – The product should be developed and designed to meet the customer needs. Marketing department should always be on the look out to make necessary changes in the product such as packing, price, size, colour, shape and design.

**4. Standardization and grading** – Standardization refers to producing goods in predetermined standards such as quality, price, packaging etc. which ensures uniformity and consistency. So that buyers need not inspect, test and evaluate such goods in their future purchases. Grading is the process of classifying products into different classes on the basis of quality, size, weight etc. It is needed in agricultural products. This helps in realizing higher price for better quality.

**5. Packaging and Labelling** – Package is a container or a wrapper or a box in which a product is enclosed. It is done for protecting the goods from damage in transit and storage, now a days it is also used to establish the brand. Labelling refers to designing and developing the label to be put on the package to give the specifications of the product in the package.

**6. Branding** – It is the process of giving a name or symbol to a product for identifying and differentiating it from the products of competitors. E.g., BMW, TATA, JIO, Pears, Coco-cola etc.

**7. Customer support service** – These are after sales services, handling customer complaints, maintenance services, technical services and customer information. All these will provide maximum satisfaction to the customers.

**8. Pricing** – Price of a product means the amount of money that have to pay to obtain a product. A sound pricing policy is an important factor for selling the products to customers. The pricing policy of a firm should attract all types of customers.

**9. Promotion** – It means informing the customers about the firm's products and persuading them to buy these products. Promotion techniques include advertising, personal selling, sales promotion and publicity.

**10. Physical distribution** – It involves planning, implementing and controlling the flow of materials and finished goods from the origin to the point of use to meet the customer requirement at a profit. A suitable distribution channel must be selected by the marketing management in this regard.

**11. Transportation** - It is an integral part of marketing as it helps in making available the product at the terminal point of consumption.

**12. Storage or warehousing** – Goods are produced in anticipation of future demand. They must be stored properly in warehouses to protect them from damages.

## **Marketing mix**

**Marketing mix** : It is the term used to describe the combination of four inputs which constitute the core of the company's marketing system, the product, the price structure, the promotional activities and the place of distribution. It is also known as four 'Ps' of marketing mix, namely Product, Price, Place (distribution) and Promotion.

Elements of marketing mix

**1. Product** – Product means goods or services or anything of value which is offered for sale in the market. It is the most important component of marketing mix, which involves planning, developing and producing the right type of goods and services needed by the consumer.

**2. Price** – The price of a product should be fixed that the firm is able to sell it profitably. It may consider credit policies, discount system, terms of delivery, payment, retail price, cost of production, competition, government regulations etc.

**3. Place** – It refers to marketing efforts undertaken to make the product available at the right time in the right place. There are products which are produced at one part of the country and it is consumed in different places during different seasons. In Kerala textile items are largely sold during Onam season, so that most of the producers will come to this place and ensure the supply of their product here and in Deepavali season they will move towards some other States. It involves two major functions: 1) Physical distribution and 2) Channels of distribution.

**4. Promotion** – Promotion means all those activities undertaken by a sales manager to inform the consumers about the product(s) of the company and persuade them to buy. He has to make the consumers know where, when and how the products are available. There are four elements which constitute promotion mix. They are advertising, personal selling, publicity and sales promotion.

## 1. PRODUCT

Product means goods or services or anything of value which is offered for sale in the market. It is the most important component of marketing mix, which involves planning, developing and producing the right type of goods and services needed by the consumer.

**Branding** It refers to the process of giving a name or sign or a symbol to a product for identifying and distinguishing it from competitors. E.g., Titan, Audi, Bata, Lifebouy, Pears etc. Terms related to branding: a. Generic name – It means the name of whole class of a product. E.g., soap, book, pen, camera, paracetamol etc. b. Brand – It is a name, term, symbol or design to identify the goods or services. E.g., Pears, Classmate, Reynolds, Canon etc. c. Brand name – It is a part of the brand consisting of a word, letter or group of these that can be pronounced. E.g., Lux, Reynolds etc. d. Brand mark – It is a part of brand that appears as a symbol, design, picture etc. which cannot be pronounced. E.g., symbol of LIC, emblem of SBI etc.

**Trade mark** – It is the legal version of a brand. It is a brand name or brand mark registered with legal authorities. When a brand name is registered, it becomes a Trade Mark. Once it is registered it is legally protected and others cannot use this as a duplicate. Advantages of branding  
To Marketers To Customers  
a. Helps to make an identity Helps in identifying the product  
b. Helps in advertising and display programs Ensures quality and confidence in the mind of customers  
c. Enables the firm to charge higher price than the competitors Status symbol  
d. Easy to introduce new product Helps to increase the level of satisfaction

### Characteristics of a good brand name

1. Short and simple – brand name should be short, easy to pronounce and to remember. E.g., Hero, Maruti, VIP, Vim etc.
2. Suggests the benefit of product and its quality. E.g., Rasika, Boost, Fair N Lovely.
3. Distinctive – It should be unique such as Liril, Sero, Titan etc.
4. Adaptable – Brand name must be suitable for packing and labeling and to suit different advertisement media and different languages.
5. Versatile – Better it is multi-purpose to adopt new products. E.g., Acer, V-guard etc.
6. Legal protection – the brand should be capable of being registered.
7. Staying power – the name chosen as brand name should not get outdated. (“3G Mobiles” is an outdated brand).

**Packaging** It refers to the designing and producing the container or wrapper of a product. It has an important role in the marketing success or failure of a product. **Levels of packaging**

1. Primary packaging – The immediate container of a product is called primary packet. e.g., the plastic cover of a shirt, tube for shaving cream, tooth paste etc. and a bottle for horlicks.
2. Secondary packaging – It gives an additional protection for the product. E.g., the card board box for a tooth paste tube.
3. Transportation packing – It is a further packaging of products for storage and transportation. E.g., a toothpaste manufacturer may send the goods to the retailers in a large box containing 100 pieces.

### **Importance of Packaging**

1. Rising standards of health and sanitation – More people prefer to buy packed goods as the chances of adulteration are minimum.
  2. It is suitable for self service outlets.
  3. Innovational opportunities – New ideas can be implemented in packaging which will increase the scope of marketing the products. E.g., soft drinks, mango juices etc. in specially designed packages (foils).
  4. Product differentiation – The colour, size, material etc. of the packages will help to identify the product and its quality up to a certain extent. E.g., Body spray, Shampoo etc.
- Functions of packaging**
1. Product identification – Packaging helps the customers to identify the product easily. E.g., Toothpaste, Soap etc.
  2. Product protection – It helps the product from breakage, leakage, contamination, evaporation, pilferage (theft) etc.
  3. Facilitating the use of the product – The size and shape of the product should be in such a way to use the product conveniently. E.g., Hand wash, Tooth paste, Powder tin etc.

4. Product promotion – Beautiful packages attracts consumers, and it serves as a promotional tool for the product as it is a silent sales man.

### **Labelling**

Labelling refers to the designing and developing the label to be put on the package. It may be attached to the product and carries information about the product and the producer in the form of a tag, sticker etc.

#### Functions of Labelling

1. Describe the product and specify its contents and it may give its usage, precautions to be taken etc.
2. Identification of product or brand
3. It also gives information about the name and address of manufacturer, net weight, MRP etc.
4. Grading of products such as Green label for 1st quality, Yellow for 2nd quality and Red for 3rd quality.
5. Helps in promotion of products - a well designed label will catch the attention of consumers. “Free Tooth Brush inside”, “Save Rs.10/-“, “Free Mobile Recharge Rs.50/-” etc.
6. Providing information required by law, e.g., statutory warning on the package of cigarette, “Smoking is injurious to health” etc.

## **2. PRICE**

Pricing – Price of a product is the amount of money paid by the buyer (or received by the seller) in consideration of purchase of a product or service. Pricing is the function of determining product value in terms of money before it is offered to consumers for sale. A good pricing policy enables a firm to achieve maximum sales revenue.

### **Factors affecting price determination**

1. Product cost – It includes cost of production, selling and distribution expenses. While fixing prices for the products or service, a margin of profit over the cost should be considered. The cost of a product consists the following:
  - a. Fixed cost – do not vary with the volume of production. E.g., Rent, salary, insurance etc.
  - b. Variable cost – Cost which vary based on the volume of production. E.g., raw material cost, labour cost, power etc. c.

Semi-variable cost – Cost which vary with the level of production, but not in direct proportion. E.g., Commission to a salesman beyond a particular level.
2. Utility and demand – Pricing is affected by the elasticity of demand. In case of inelastic demand a firm can fix a higher price and vice versa.

3. Extent of competition – If there is no competition in the market, a firm can fix the price for its product by its own, and they are the price makers. If the competition is very high in the market, the price should be fixed by considering the price of competitors, and they became the price takers

. 4. Government and legal regulations – The prices of certain products are regulated by government. E.g., cement, sugar, etc.

5. Pricing objectives – If the firm wants to maximize profit in short run, it would charge high price and if it wants to capture maximum market share for its products, it would charge only a low price. Some pricing objectives are: a. To Obtaining market share leadership b. To Survive in a competitive market c. To Attaining product quality leadership (high prices may be charged for maintaining high quality)

6. Marketing methods used – Price fixation is also affected by various elements like distribution system, advertising, sales promotion, type of packaging, credit facilities, after sales services, guarantee etc.

### **3. PLACE (PHYSICAL DISTRIBUTION)**

In order to ensure availability of products at the right Place, two factors require consideration; they are Channel of distribution and Physical distribution.

#### **A.Channels of distribution**

The path taken by the goods in their movement from the producer to the consumer is referred to as the channel of distribution.

#### **Types of channels 1.**

**Direct channel (Zero level)** – In this case, no intermediary is involved. It implied direct selling of goods to the customer. Mail order business, internet selling, door to door selling or through own retail network etc. are the examples.

**2. Indirect channels** – The manufacturer seeks the help of one or more intermediary to move the goods from the place of production to the place of consumption is called indirect network.

a. One level – Here only one intermediary is in the distribution channel, the retailer. E.g., Maruti Udyog Ltd. sells their cars through their approved retailers.

b. Two level channel – Here one more middlemen, the wholesaler joins the channel along with the retailer (2 middlemen). This channel is suitable to the products with widely scattered markets. E.g., soap, cloth, tooth paste etc.

c. Three level channel – In this channel the producer by an arrangement hands over the entire output to his selling agent in order to relieve from the problems of distribution.

#### **Factors determining choice of channels**

## 1. Product related factors

a. **Industrial goods** – Highly expensive and with a few buyers, hence direct channel is preferred.

b. **Consumer goods** – Less expensive and frequently bought, hence long network is good.  
Producer Customer Producer Retailer Customer Producer Wholesaler Retailer Customer  
Producer Agent Wholesaler Retailer Customer P R O D U C E R C O N S U M E R Direct  
Selling Retailer Wholesaler Retailer Agent Wholesaler Retailer Zero Level One Level Two  
Level Three Level

c. **Perishable goods** – Short channel is more suitable

d. **Durable goods** – Long channel is good.

e. **Unit value of product** – Cheaper goods are usually traded through long channels.

f. **Complex products** – requiring technical details such as industrial or engineering products may prefer short channels.

2. **Company characteristics** – if the company is having sufficient funds, it can go for direct selling or through short channels. Likewise, if they want to maintain a control over the channel members, short channels are better.

3. **Competitive factors** – If a competitor has selected a particular channel and they are successful, sometimes we may also follow it, whereas some other companies may avoid such channels.

4. **Market factors** – a. Size of market – Where number of buyers is small, short channel is required and for large number of customers, longer channel would give better result.

b. **Geographical concentration** – Small channel is better if the buyers are only in a particular area and if they are scattered over a large area, long channel is better.

c. **Size of order** – If the size of order and its value is high, shorter channel is good and in case of consumer goods long channel is better.

5. **Environmental factors** – A Economic condition, legal constraints etc. are considered here. For example, in case of depression period, shorter channel is preferred.

### A. Physical movement / physical distribution

Physical distribution involves the handling and movement of goods from production centre to the place of consumption. Components of Physical Distribution

1. Order processing – It begins with the receipt of an order from the customer, It involves the preparation of invoice, instructions to the warehouse keeper for dispatch, granting of credit facilities, sending bills etc. Quick processing helps to retain the customers for ever.

2. Transportation – It is the means of carrying goods and raw materials from the point of production to the point of sale. It is important because unless there is no proper movement (transportation), the sale cannot be completed.



3. Warehousing – It is inevitable factor in the movement of goods, it involves the decisions regarding type of warehouse, (i.e., own warehouse or rented warehouse), location of warehouse, cost of warehousing etc.

4. Inventory control – In order to ensure prompt supply of goods a proper inventory level must be maintained. It must not be too high or too low. High level of inventory results in blocking of capital and high management cost. Low level may lead to stock out situations.

Major factors determining inventory levels are:

a. Level of customer service – Higher the level of customer service, greater will be the need of inventories.

b. Accuracy of sales forecast – If the sales forecast is more accurate, the need for inventory can be minimized.

c. Time required to meet additional demand – If it is taking much time to meet additional or unexpected demand, the need for inventory level will be high.

d. Cost of inventory – It includes holding cost / carrying cost such as warehousing cost, blocked up capital cost etc. If the cost of inventory is high, less inventory is maintained.

#### **4. PROMOTION**

All activities connected with informing and persuading the customers are collectively known as promotion mix. It includes **Advertising, Personal selling, Sales promotion, and Public Relations.**

1. **Advertising** - Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or service of an identified sponsor. The message which is presented or disseminated is known as advertisement.

##### **Features of advertising**

a. Paid form – The sponsor or marketer bears the cost of communication.

b. Impersonality – No face-to-face contact between seller and buyer, but through a media.

c. Identified sponsor – Advertisement is done by a sponsor.

##### **Merits of advertising**

a. Mass reach – It reaches a large number of populations with the help of newspapers, television etc.

b. Enhancing customer satisfaction – They feel more comfortable and assured about quality.

c. Expressiveness – Messages can be expressed in a very attractive manner with the help of modern technology.

d. Economy – It is in the sense that, it can reach millions of people. As a result, the per unit cost becomes low.

2. **Personal Selling** - It implies a face-to-face contact or conversation between seller and buyer by which the consumers will be motivated to purchase the products.

## **Features of personal selling**

- a. Personal form – face to face contact.
- b. Development of relationship – Salesman develops a personal relationship with the customers.

## **Merits of Personal selling**

- a. Flexibility – The presentation of product can be adjusted to suit the prospective buyer.
- b. Direct feedback – Face to face communication facilitates the salesman to adapt the presentation according to the needs of customers.
- c. Minimum wastage – This strategy can be adopted only to the targeted customers; hence the company can minimize the wastes of efforts compared to advertisement.

## **Differences between Advertising and Personal Selling**

- |  |  |
|--|--|
| Advertising  | Personal Selling   |
| 1. Impersonal communication                                    | 1. Personal form of communication  |
| 2. Standardized message is transmitted                         | 2. Based on customers' needs   |
| 3. Not flexible  | 3. Highly flexible   |
| 4. Reaches many people   | 4. Limited number of people only   |
| 5. Cost per person is low                                      | 5. It is very high   |
| 6. It can cover the market in a short time                     | 6. Take a lot of time  |
| 7. Media is used such as TV, Radio etc.                        | 7. Use of salespersons   |
| 8. No direct feedback  | 8. Direct and immediate feedback is possible                                 |
| 9. Useful in consumer goods having a large number of consumers | 9. Useful in industrial products having only a limited number of customers . |

## **3. Sales Promotion –**

It refers to short-term activities, which are aimed at promoting sales such as rebates, discounts, free gifts, contests, refunds, premium etc. Sales promotion tools are designed to promote customers, middlemen and salespersons.

- a. Customers – Free samples, discounts, contests, gifts, lucky draws, etc.
- b. Middlemen – Cooperative advertising, dealer discounts, incentives, contests etc.
- c. Salespersons – Bonus, salesmen contests, special offers, etc.

## **Advantages of sales promotion**

- a. It catches the buyers' attention.
- b. Useful in new product launch.
- c. Synergy in total promotional efforts – Sales promotion supplement the personal selling and advertising efforts.

## **TECHNIQUES OF SALES PROMOTION**

1. Rebates
2. Discount
3. Refunds.
4. Product combinations
5. Quantity gift
6. Instant draws and gifts
7. **Lucky draw**
8. **Usable benefit**
9. **Full finance @ 0%**
10. **Sampling**
11. **Contests**

### **Public Relations :**

Public relation can be defined as publicity through media which is very important in present day business. It is ranked second after personal selling in promotional mix. Since they can be used very effectively to reach the most influential people, this is considered as an effective tool for promotion. Public relations tools: News, Speeches, Events, Written materials, Public service activities etc.

Merits of Maintaining good Public Relations :

- (i) Building Awareness about the product.
- (ii) Building Credibility of the product
- (iii) Stimulates Sales Force
- (iv) Lowers Promotion Costs.

Role of Public Relations

1. Press relations – Information about the organization or products needs to be presented in a positive manner in the press. Eg; Launching a new car.
2. Product publicity – A company can invite attention of the public on their products by sponsoring sports and cultural events, exhibitions etc.

**Please select one of the options given below for Question 01-05**

- (a) Both A and R are true. R is the correct explanation of A
- (b) Both A and R are true, but R is not the correct explanation of A
- (c) A is correct, but R is incorrect
- (d) A is incorrect, but R is correct

Question No – 01 Assertion (A) Market is a meeting place of both buyer and seller for exchange of goods and service.

Reason (R) It provides the buyer to choose and procure its desired products from alternative options available at a single place.

Question No – 02 Assertion (A) Marketing is a process of exchange of goods and services in the society by bringing producers to consumers.

Reason (R) It ensures high volume of sales in the market.

Question No – 03 Assertion (A) The concept of Need and Wants uses as the same in the marketing world. Reason (R) Need refers to the basic or fundamental requirements of human beings to live a comfortable life such as Food, Cloth, Water and Shelter etc.

Question No – 04 Assertion (A) Marketing is regarded as a mechanism deals in exchange of goods and services for money or money's worth.

Reason (R) Such exchange is considered as the essence of marketing.

Question No – 05 Assertion (A) Packaging ensures safety of the products.

Reason (R) It helps in promoting the product in the market.

#### **ANSWER KEY**

1. (a) Both A and R are true. R is the correct explanation of A,
2. (c) A is correct, but R is incorrect,
3. (d) A is incorrect, but R is correct,
4. (b) Both A and R are true, but R is not the correct explanation of A,
5. (b) Both A and R are true, but R is not the correct explanation of A,

#### **Case Studies: Question 1.**

Shyam bought a pain-relieving ointment after seeing it being displayed in the chemist's shop. The ointment tube was packed in cardboard box.

Q1. Identify the different levels of packaging of the pain-relieving medicine when it was purchased by Shyam. Also state the functions of packaging.

Ans: - Different levels of packaging of the pain-relieving medicine are Ointment tube; Primary packaging Cardboard box: Secondary packaging Functions of Packaging (any Three) (i) It helps in product identification.

(ii) It helps in protection of the product from spoilage, breakage, leakage, damage etc.

(iii) It facilitates use of the product to the consumers through appropriate sizes and shapes.

- (i) It helps in promotion of the product as a good package attracts the attention of the people at the time of purchase.

#### **Question 2. —**

An important task in the marketing of goods relates to designing the label as it provides useful and detailed information about the products. In the light of this statement, draw a label for —Teal and highlight the important information to be provided on it.

Ans: Student must give information such as- MRP, Date of manufacturing, Date of expiry, Brand name, Batch no., Contents, etc. on label.

### Question 3.

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) Name and explain the most used non-personal tool of promotion which is paid for by the marketer.

(iii) 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 buy 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.

Ans: (i) Synergy in Total Promotion Efforts. (ii) Advertisement. (ii) (a) Public Relation

(b) Advertisement (c) Personal Selling (d) Sales Promotion

### Question 4.

ITC started its business with Jobaico industry, later on its entered in hotel industry, consumer goods industry, stationery, etc. ITC assured quality to customer and kept company's name as its identity. This helps the customers in product identification and hence ensure quality it also built up their confidence and help in increasing their level of satisfaction.

(i) Name the element of marketing mix referred in above para.

(ii) Name the other element of marketing mix.

(iii) Name the concept which assure quality and help in identification of product.

Ans: (i) Product Mix (ii) Other element: Price mix, Place mix. (iii) Concept which help in identifying the product and assure quality is branding

### 3 / 4 MARKS SOURCE BASED QUESTIONS.

1. Jasdeep a dealer in school uniforms, decided to maximise his profit by using different aggressive promotional efforts.

a) Identify the marketing management philosophy adopted by Jasdeep

b) Explain this philosophy on the basis of (a) Main focus (b) Means and ends

Answer:

a) Selling concept

b) Main Focus: Selling existing product

Means and ends: through selling and promotional efforts and Profit through sales volume.

2. Shyam bought a pain relieving ointment after seeing it being displayed in the chemist shop. The ointment tube was packed in a cardboard box. Identify the

different levels of packaging of the pain relieving medicine, when it was purchased by Shyam. Also state the functions of packaging.

Answer:

Ointment tube : Primary Packaging

Cardboard box: Secondary packaging

Functions of packaging are: Product identifications, product protection, facilitate use, product promotion.

3. Be Natural is one of the top selling organic food brand in India. It has more than hundred products in over 16 categories including Rice and Millets, spices, Pastas, Seed and Nuts etc. the company sells its products through a person who is either an online store entrepreneur or a physical store owner or an organic store owner to sell their product.

In context of the above case:

- a) Identify the components of marketing mix being discussed above
- b) Name the important decisions related to both of these components

Answer:

- a) Product mix and Place mix
- b) Decision related to product mix – branding , packaging and labelling  
Physical movement of products.

4. Ranger India Ltd. Is an auto mobile company. It makes 1.5. Millions family cars every year. That is one car every 12 seconds. It has a sales network of company approved retailers that spreads across 600 cities.

In the context of above case:

- a) Identify the type of the channel of distribution adopted by the company
- b) Explain the market related factors that are likely to affect the decision of a marketer about the choice of channel of distribution.

Answer:

- a) Indirect Channel – Manufacturer - Retailer - Consumer
- b) 1. Size of Market 2. Geographical concentration of buyers 3.Quantity purchased.

5. Ravi has decided to set up a small factory to manufacture hand wash and toilet soaps in a rural area in Haryana . In order to promote the product initially, the company appointed a team of salesmen to sell the product door to door in the different parts of the city. In the context of the above case

- a) Identify the tools of promotion being taken in to consideration by Ravi
- b) Explain the other methods of promoting the sales of the product

Answer:

- a) Personal selling
- b) Advertising and sales promotion

#### **SOURCE BASED QUESTIONS 6 MARKS**

6. Johar, Joginder, John, and Iqbal are friends. They are operating different businesses. Each one has his/her own concept regarding operating their business. Johar believes in producing products at a large scale, thereby decreasing the average cost of products and selling them at a reasonable price. Joginder focuses on providing best quality products because he believes that a customer always wishes to buy a good quality product. The price of the product is secondary for Joginder.

John is of the belief that the most important aspect of business is sales so he undertakes aggressive selling and promotional efforts.

Iqbal believes that his firm can achieve its goals only by identifying the needs of the customer and satisfying them better than the competitors.

1. Identify and explain the Marketing concept or philosophies followed by each of them.

Answer:

Johar :The Production Concept

Joginder: The Product Concept

John: The Selling Concept

Iqbal : The Marketing Concept

Brief explanation of all four concepts.

7. Ashma purchased a bottle of tomato-sauce from the local grocery shop. The information provided on the bottle was not clear. She fell sick on consuming it. She filed a case in the district forum under consumer protection act and got relief.
- Identify the important aspect neglected by the marketer in the above case.
  - Explain briefly the functions of the aspect identified in (a) above.

Answer: a) Labelling b) provide information about the product, Identification of a product, Promotion of a product, information required by law (Brief explanation)

8. 'Nayeem' is a famous chain selling a large variety of products in the Indian market. Their products include chips, biscuits, sweets and squashes. It charges a comparatively higher price than its competitors as it sells quality products. Besides, it offers regular discounts to its customers and easy credit terms to its retailers. It has five of its own retail shops. It also sells its products through various grocery stores so that the products are made available to customers at the right place, in the right quantity and at the right time. It regularly uses different communication tools to increase its sales.

The above para describes the combination of variables used by Nayeem to prepare its market offering. Identify and explain the variables.

**Answer:**

The combination of variables used by 'Nayeem' to prepare its market offering is termed as 'Marketing Mix'. The marketing mix include the following four points:

Product

Price

Place and

Promotion.

The four ingredients of marketing mix are discussed briefly as under:

- i. **Product** . Product means anything of value that is offered to the market for sale. Product consists of the physical product, its quality, brand name, packaging and label.
- ii. **Price**. It is a value that a buyer passes on to the seller in lieu of the product or service provided.

It is a source of revenue for the seller. Price element includes Price, Discounts, Allowances, Credit Terms, etc.

- iii. **Place (or distribution)**. Place utility refers to the activities that are involved in transferring the ownership to customers and to make the product available at the right place at the right time. It includes modes of transportation, channels of distribution and inventory maintenance.
  - iv. **Promotion**. This element includes activities involved in informing and persuading the customers. Advertising, personal selling and sales promotions are different ways of promotion.
9. Remo was a pen manufacturer. He used to make ball point pens in a small factory in the basement of his house. Daily he would go to the market place and distribute pens to the retailers. Some of the pens were sold by him of his own by meeting persons on road. He had not kept any name for his pens. They were just blue, black and red pens. One of his friends suggested him to keep a good name of his pens. He kept his own name and started selling pens with the name of Remo Pens. Then there were three categories of pens – Remo Red, Remo blue and Remo black. Gradually his business started to pick up even more and he made good revenue.

1. Which function of marketing is highlighted in the above case?
2. Which element of promotion mix has been highlighted in the above case?
3. What are the two types of names do you see in the above case?
4. Which of the above two identified names was better? Why? (4)

## Answer

1. The function of marketing highlighted in the above case is



Branding (One of his friends suggested him to keep a good name for his pens).

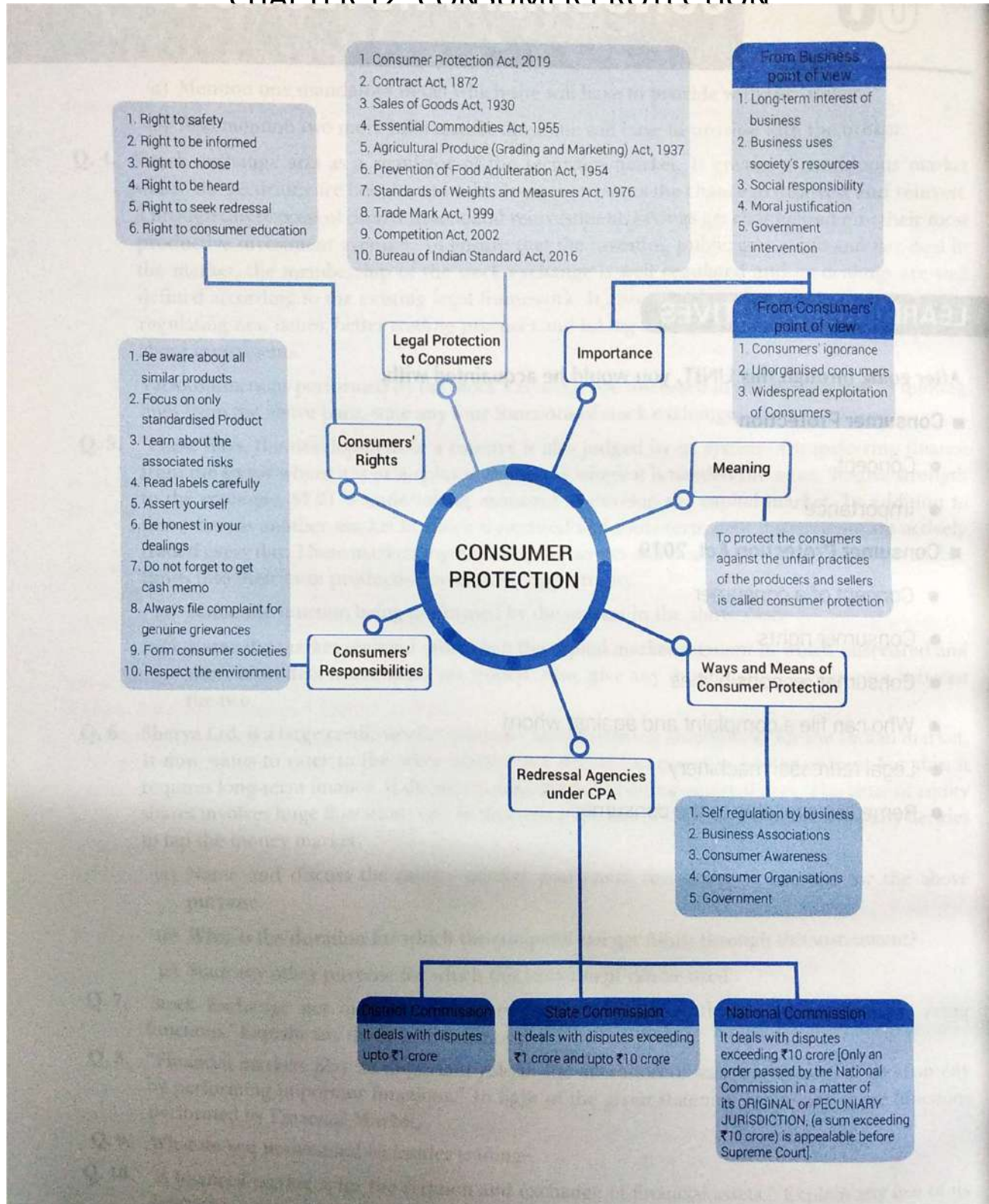
2. The element of promotion mix which has been highlighted in the above case is Personal Selling (Daily he would go to the market place and distribute pens to the retailers. Some of the pens were sold by him on his own by meeting persons on road).
  3. The two types of names you see in the above case are—  
Generic name and Brand name
  4. Brand name was better. The reason being that people can identify products.
10. Your company has set up a coconut hair oil factory in Cochin, Kerala, with a production capacity of 10 000 bottles of 100 millilitre per day . The company plans to market the hair oil with the brand name Kala Kesh. Design a label for the hair oil bottle.

Answer:

The following information is to be provided on the label in an attractive way:

- Name of the product
- Name of the manufacturer
- Address of the manufacturer
- Manufacturing date
- Expiry date
- Net weight
- Maximum retail price
- Directions for use
- Batch number .

## CHAPTER 12 · CONSUMER PROTECTION



## SUMMARY

### Importance

For businessmen: Long term interest of business.

Users Society Resources.  
Social responsibility,  
Moral justification,  
Government intervention.

For consumer: Consumer ignorance.

Unorganised consumers,  
widespread exploitation of consumers.

**Reason for complaints :** Hazardous goods/services, Deficient service, defective goods, excess price, unfair and restrictive trade practises.

### Consumer rights

- |                     |                                 |
|---------------------|---------------------------------|
| 1)Right to safety   | 2)Right to be informed,         |
| 3)Right to be heard | 4)Right to seek redressal,      |
| 5) Right to choose, | 6) Right to consumer education. |

### Responsibility of consumers

Complete knowledge about market.	Quality conscious.
Use products safely .	Insist for cash memo Bill.
Must exercise rights.	Must file a complaint.

### Legal protections

The Consumer Protection Act,2019	The Contract Act, 1932
The Standards of Weights and Measures Act,1976	The Trademark Act, 1999
The Agricultural Product Act, 1937	The Competition Act 2002
The Essential Commodities Act,1955	The Sale of Good Act, 1930
The Prevention of Food Adulteration Act, 1954	
The Bureau of Indian Standard Act, 1986	

### Ways and means of consumer Protection

Self Regulation by business,  
Business associations.  
Consumer awareness.  
Consumer organisation.  
Government Redressal agencies.

### Meaning of consumer

“Any person who buys any goods for consideration. It includes any user of goods with approval of the buyer, but it does not include a person who obtain goods for resale or any commercial purpose.”

“Any person who avails any services for a consideration. It includes any beneficiary of such services, but it does not include a person who avails such services for any commercial purpose.”

### **Consumer protection**

Consumer protection is a practise of safeguarding buyer of goods and services, and made public the against unfair practises in the marketplace. Consumer protection measures are often established by law. Such laws are intended to prevent business from engaging in fraud or specified unfair practises in order to gain an advantage over competitor or to mislead consumers. The Consumer Protection Act implemented in 1986 gives easy and fast compensation to the consumers grievances. It safeguards and encourages the consumers to speak against insufficient and flaw in goods and services.

### **Importance of consumer protection.**

#### **From the point of view of consumers.**

- 1) Consumer or Ignorance: Majority of consumers are not aware of their rights and relief available to them as result of which they are exploited. In order to save consumers from exploitation, consumer protection is needed.
- 2) Unorganised consumers: In India, consumers are still unorganised and there is a lack of consumer organisations also, does the consumer protection is required.
- 3) Widespread exploitation of consumers: Consumers are exploited on large scale by means of various unfair trade practices and consumer protection is required to protect them.

#### **From the point of. Business.**

- 1) Long term business interest: It is always in the interest of business, so keep its customer satisfied. Global competition could be won only after satisfying customers. Satisfied customers need to repeat sales and help in increasing customer base of the business.
- 2) Moral justification: It is moral duty of any business to take care of consumers interest and avoid any form of their exploitation and unfair trade practise like defective and unsafe product adulteration, false and misleading advertisement holdings, black marketing at etc.
- 3) Business uses resources of society: Every business uses the resources of society and thus it is their responsibility to work in the interest of the society.
- 4) Social responsibility: A business has social responsibility towards the various groups like owner, worker, government, customers. etc. This customer should be provided qualitative goods at a reasonable price.
- 5) Government Intervention: If a business engages in any form of unfair trade practises, then government takes action against it which adversely affect its goodwill.

### **Legal protection to the consumers.**

1) The Consumer Protection Act, 2019.

The consumer protection Act 2019 seeks to protect and promote the interest of consumer. The Act provides safeguards with the consumers against defective goods, deficient services, and unfair trade practises and other forms of their exploitations. The Act provide for setting up of the three-tier machinery consisting of District Forum, State Commission and the National Commission.

2) The Indian contract Act,1872.

The Act lays down the condition in which the promises made by the parties to a contract will be binding on each other. The Act also specified the remedies available to parties in case of breach of the contract.

3) The Sale of Goods Act, 1930.

The Act provides some safeguard and relief to the buyer of the goods in case the goods purchase do not comply with express or implied condition or warranties.

4) The Essential Commodity Act,1955 :

The act aims at controlling production supply and distribution of essential commodities, checking inflationary trends in their prices and ensuring equal distribution of essential commodities. The act also provides for actions against anti-social activities of Profiteers, hoarders and the black marketers.

5) The Prevention of Food Adulteration Act, 1954.

The Act aims to check adulteration of food articles and ensure their purity so as to maintain the public health.

6) The Standards of Weights and Measures Act, 1976.

The provisions of this Act are applicable in case of those goods which are sold or distributed by weight, measures or number. It provides protection to the consumers against the malpractice of Under-weight or under-measure of article.

7) The Trademark Act, 1999.:

This Act has repealed and replace and the Trade and the Merchandise Act Mark Act 1958. The Act prevent the use of fraudulent mark on the product and thus provide protection to the consumers against such products.

8) The Competition Act 2002.

This act has repealed and replaced the Monopolies and Restrictive trade Practise Act 1969. The Act provides protection to the consumer in case of practise adopted by the business firms which hamper competition in the market.

9) The Bureau of Indian Standard Act, 1986:

The Bureau of Indian Standards have been set up under the Act. The Bureau have two major activities formulation of the quality standard of goods and their certification through the BIS certification scheme. Manufacturers are permitted to use the ISI mark on their products only after ensuring that goods confirm to prescribe quality standard.

**Rights of consumers.**

- 1) Right to Safety: Consumer has a right to be protected against the product and services which are hazardous to health and life (should be ISI marked electronic device.)

- 2) Right to be Informed: Consumers has a right to have complete information about the product before buying it.
- 3) Right to Choose: Consumer has a right to choose any product out of available products as per his own decision-making.
- 4) Right to be Heard: Consumer has a right to file a complaint to be heard in case of dissatisfaction with the goods or services (Use of grievance cell).
- 5) Right to Seek Redressal: Consumer has the right to get relief in case the products and services fall short of his expectations or is dangerous. He may be provided with replacement /removal of defect or compensation for any loss. Various redressal Forum are set up by the government at The National and state level.
- 6) Right to consumer education :Consumer has the right to acquire knowledge and to be well informed throughout the life. He should be made aware of his rights and relief available to him in case of the products or services fall short of his expectations. The Government of India has include consumers education in their school curriculum and is making use of media to make consumers aware of their rights.

#### Consumer responsibility

1. Ask for a cash memo: On purchase of goods or services, this would serve as a proof of purchase made.
2. Be aware: About various goods and services available in the market so that the intelligent and the wise choice can be made.
3. By only standardised Goods: As they provide quality assurance. Thus, looks for ISI mark on the electrical products, FPO mark on food product, Hallmark on jewellery.
4. Following Manufacturer's instructions: Learn about the risks associated with the products and services, and use of the product safely.
5. Read labels carefully: So as to have information about price, net weight, manufacturing and expiry date etc.
6. Assert yourself: To ensure that you get a fair deal.
7. Be honest in your dealing: Choose only from legal goods and services to discourage unscrupulous practises like black marketing, hoarding, etc.
8. File a complaint in an appropriate consumer forum: In case of shortcoming in the quality of the goods purchased or services, avail. Do not fail to take an action even when the amount involved is small.
9. Forum Consumer Societies: Which would play an active part in educating consumers and safeguard their interest.
- 10: Respect to the environment: Avoid waste, littering and contributing to pollution.

#### Who can file a complaint under CPA, 2019.

- A complain before the appropriate consumer forum can be made by.
- Any consumer.
- Any registered association,
- The central or the state government
- One or the more consumer on behalf of the numerous consumers having the same interest.

- A legal heir or the representative of the deceased consumer.

### **Redressal agencies under the Consumer Protection Act, 2019**

#### 1. The district forum

District Forum are set up in each district by the state concerned the important feature are

- it consists of the president and the two members, one of whom should be a woman, duly Appointed by state government.
- It can receive consumer complaints of not more than 1 crores value.
- On receiving the complaint the district forums shall refers to complain to the opposite party concerned and send the sample of goods for the testing in the Laboratory.
- The district forum after being satisfied that the goods are defective, or there is some unfair trade practises can issue in order to the opposite party, directing him either replace or return the price or pay the compensation. In case the aggrieved party is not satisfied with the order of the district forum, he or she can apply further to the state forum within 30 days of passing an order.

#### 2. State Commission.

It is set up in each state by the govt. concerned. The salient feature are.

- Each Commission consists of a president and at least two members appointed by state government.
- The complaint of at least 1crore to 10 crore can be filed with the state Commission.
- On receiving the complaint, the State Commission can also refer the complaint to opposite party to and send the goods for testing in the laboratory.
- The State Commission, after being satisfied can order to opposite party to either replace or repair or pay compensation. In case the aggrieved party is not satisfied, they can appeal before National Commission within 30 days of passing an order.

#### 3. National Commission.

It is set up by the central government provision of the Act are:

- It consists of a president and at least four members appointed by the central government.
- All complaints are pertaining to goods and services of value more than 10 crore can be filed with the National Commission.
- One receiving the complaint, the National Commission can also refer it to the opposite party and send the goods for testing.
- The National Commission has the power to issue orders for the replace are removal and to pay the compensation for the loss.

### **Remedies available to the Consumers**

- Remove defect in the goods and deficiency in services.
- Replace defective goods with one with no defects.
- Refund price paid.
- Pay a reasonable amount of compensation for any loss or injury ruff suffered.
- Pay punitive damages in appropriate circumstances.
- Discontinued Unfair/Restricted trade practices.

- Not to offer hazardous, goods and services for sale.
- Withdrawal hazardous Good from sale
- Cease manufacturing hazardous goods.
- Pay an amount to customers Welfare Fund/ person (not less than 5%) to be utilised in the prescribed manner.
- Issue corrective advertisement to neutralise the effect of misleading ads.
- Pay, adequate cost to parties.

#### **Role of consumer organisation and NGOs.**

- Educating the journal public about the consumer rights by organising training programmes, seminars and workshops.
- Publishing periodicals and other publications to educate consumers.
- Provide legal assistance to consumers by providing legal advice etc.
- Producing films or cassettes on food, adulteration, Misuse of Drugs, etc.
- [Filing complaints in appropriate consumer courts on behalf of consumers.](#)
- [Encouraging consumers to take an action against unfair trade practises.](#)
- [Taking an initiative in filling cases in consumer court on behalf of consumers.](#)

#### Ways and Means of Consumer Protection

##### 1. Self Regulation by Business

- It is the long term interest of the business to serve the customers well.
- Socially responsible firms follow ethical standards and practices in dealing with their customers.
- Many firms have set up their customers services and grievances cells to redress the problems and grievances of their consumers

##### 2. Business associations.

- Examples of his associations of the Trade, Commerce and Business.
- Federation of Indian Chamber of Commerce of India(FCCI) and Confederation of Indian Industry(CIS).
- They let down. Their code of conduct which lay down of their members the guidelines in their dealing with their customers.

##### 3. Consumer awareness.

- A consumer, who is well informed about his right and the relief available to him would be in a position to raise his voice against any unfair trade practises or unscrupulous exploitation.

This enables them to understand their responsibilities and to safeguard their interests.

##### 4. Consumer organisations.

- Force business form to avoid malpractices and exploitation of consumers.

##### 5. Government.



▪ The most important of these regulation is a Consumer Protection Act, 2019. The Act provides for three tier-machinery at district, state and national level for redressal of consumer Grievances.

**KEY WORDS**

1. Caveat Emptor
2. Caveat venditor
3. Hoarding
4. Black Marketing
5. Grievances Redressal
6. Judicial Machinery
7. Malpractices
8. Stakeholders
9. Moral Justification
10. Unscrupulous
11. Tarnish
12. Consumers Protection Councils
13. Inflationary Trade
14. Sub standard
15. FICCI
16. CII
17. Punitive Damage
18. Three Teir Machinery

**QUESTION BANK**

**MCQ**

- 1) Consumer Protection Act 2019 has provide..... . Rights to the consumers.  
 a) 5      b) 6                      c) 8      d) no rights given
- 2)

A) Right to seek redressal.	i) Right to get heard in a consumer forum against grievances
B) Right to be heard.	ii) Right to know the MRP, The expiry date, Weight and quantity.
C) Right to be informed.	iii) Right to get relief if product falls short of his expectations

Match the following and find out correct option

a) A) i, B ii c iii    b) A ii Bi C iii    c) A iii Bii C i    d) A iii, B i , Cii

3) Who among the following is not considered consumer under Consumer Protection Act 2019?

- a) A person who buys any goods for consideration which have been paid.
- b) A person who avails of any services for a consideration which have been promised.
- c) A person who avails for a service for a commercial purpose.
- d) Any users of goods when such use is made with the approval of the buyer.

4) If any aggrieved party is not satisfied with the order of the District Commission. Then he can appeal before the state Commission within..... Days of passing of the order.

- a) 20                      b) 25                      c) 30                      d) 45

5) Assertion (A): Producers are under legal obligations to provide information on the package and label of the product.

Reason(R): Consumer does not have a right to have information about the ingredient of the product.

- a) Both assertion (A) and reason (R) are true and reason is a correct example of assertion.
- b) Both assertion (A) and reason(R) are true and reason is not Explanation of assertion.
- c) Assertion(A) is true but reason(R) is False.
- d) Assertion(A) is false and reason(R) it true.

6) Assertion (A): ISI mark is used to ensure safety of electrical goods.

Reason (R): A complaint before the appropriate consumer forum can be filed by anyone behalf of the consumer.

- a) Both assertion (A) and reason (R) are true and reason is a correct example of assertion.
- b) Both assertion (A) and reason(R) are true and reason is not Explanation of assertion.
- c) Assertion(A) is true but reason(R) is False.
- d) Assertion(A) is false and reason(R) it true.

7) Which of the following is a relief available to a consumer?

- a) To remove the defect in product.
- b) To replace the defective product.
- c) To refund the price paid for the product.
- d) All of above.

8) Garvit went to a Mobile Shop to buy a smartphone. The shopkeeper forced him to buy smartphone of a particular brand out of various available brands. which right of Garvit has been exploited.

- a) Right to choose. B) Right to be heard. C) Right to be informed. D)Right to seek redressal

9) Isha is a pure vegetarian. She went to a snacks bar and asked for Veg burger. Inspite of green Dot (signifying that it is a vegetarian product) on the packing of burgur, she found that

the burger had some non- veg content. Under which right will Isha be able to claim compensation?

- a) Right to choose    b) right to be informed
- c) right to safety    d) right to seek redressal

10) Which of the following statement is correct?

- a) District commission consists of a president and minimum two other members.
- b) state commission consist of one president and atleast four other members
- c) Orders pass by national commission in a matter of its original jurisdiction is appealable before the supreme court
- d ) All of the above.

11) Unless a consumer fulfills his....., it may not be possible for him ro enforce his right.

- a) Power            b) Responsibility            c) Right            d) Code of conduct

12) Business firms should aim at long term profit maximization through.....

- a) wealth maximization,    b) maximization of sales    c) customers satisfaction    d) none of above

13) Which consumer right is highlighted in the line “When one of my friends purchased a box of cheese from Brand X. She found a piece of stone in the cheese. She reported this to the company and later in the week company apologised and offered her a replacement.

- a) Right to be heard.
- b) Right to seek redressal.
- c) Right to consumer education.
- d) Right to safety.

### 3-4 marks Ques

- 1) Harsh asked for a bottle of mineral water from a shopkeeper. The maximum retail price printed on the bottle was Rs.12 only, whereas the shopkeeper was charging Rs. 35. In spite of many arguments the shopkeeper was not ready to sell the bottle for less than Rs. 35 Harsh was in need of it and had no option except to buy. As an aware consumers name and explain the “Right” which Harsh can excercise. (3)
- 2) Kamana purchased a medicine from Bhatia Medical Store for his son, who had high fever. Even after giving the medicine his son’s health condition did not improve and he had to be hospitalised. Doctors informed Kamana that the medicine given to his son was spurious. Kamana complaint about this to the “Bhatiya Madical” store, as a result Store decided to file complaint against the manufacturer in the consumers court.

Can “ Bhatiya Medical Stores” do this? Give reasons in support of your answer. Also explain who is a consumer as per “Consumer Protection Act 2019”. (4)

3) Sirajuddin Purchased a car for 15,00,000 from an automobile company and found that its airbags were defective. After many complaint with the company that went unheard, he filed a case in the district commission. He was not satisfied with the orders of the District Commission. He then appealed before the state commission and on being dissatisfied with the orders of state commission, he appeal before the national commission.

Suggest to him the highest authority. where he could appeal against the decision of the National Commission. (4)

4) Himesh after completing his graduation, started working with a multinational company in Delhi, but due to ill health of his parents, he had to go back to his village. There he noticed that the villagers were literate but ignorant about their rights. Many vegetable vendors were using stone as a weight to sell their vegetables. Some shopkeepers were selling food item without having ‘FPO mark’. The villagers did not find any wrong with these practises. So, to create awareness among the villagers Himesh decided to publish a weekly journal “JAN JAGRITI”. State the right of which Himesh has exercised by doing so. Other than this right explain any two rights of consumers. (4)

5) Suman wanted to purchase a sandwich toaster. She checked about the various sandwich toasters available online and compared the price so that an intelligent and wise choice could be made. Then she went to a nearby market to buy the sandwich toaster. Being an informed consumer, she looked for the correct standardisation mark. The shopkeeper showed her different toasters but was quoting a higher price than the price she had checked online. After negotiating with the shopkeeper, she was able to bring the price down. As a responsible consumer, she asked for a cash memo, against the amount paid for the product and took the toaster home. On opening the package, she found an instruction booklet, which she read carefully. Then she followed all instruction step by step and made nicely toasted paneer sandwiches for her family. (4)

- i) State any two responsibilities, which have been discharged by Suman, besides asking for a cash memo.
- ii) Explain the two rights being discussed in the above case.

#### **SIX MARKS**

1) Aman, a degree holder in entrepreneurship came to know about the. Piplantri village located in Rajasthan. In 2006, an initiative was started in which 111 trees are planted every time a girl child is born. To keep termites away from the tree, villagers have planted 2.5 million Aloe Vera planted around the trees. This has turned the village

into a Oasis, as the planting of tree lead to a higher water level. Aman decided to visit the village to start a business unit, for the processing and marketing of Aloe Vera into Juice gel, another product.

However, on visiting the village, Aman found that the villagers were suffering exploitation at the hands of the local merchants, who were engaged in unscrupulous exploitation trade practises like hoarding and black marketing of the food product and also selling unsafe and adulterated. Product to the villagers.

After looking at their plight, instead of a business organisation, he decided to set up an organisation for the protection and promotion of consumer interest of the villagers. State the function that the organisation established by the Aman will be performing (any six point). (6)

- 2) Sumit purchased an ISI mark washing machine of a famous brand MG from TG Electronics Limited. The shopkeeper asked him to wait for two days for installation of the machine. His friend Vivek was very fond of experimenting with new electronic product. He told Sumit that there is no need to wait for the company's representative to install the machine and that he could do it. So both of them installed the machine without following the manufacturer's instruction. Initially that machine worked effectively and the wash was good, but after two days the machine is started stopping in between the Wash Cycle, Sumit and Vivek tried their best to start the machine, but failed in their efforts.

Sumit therefore approach TG Electronics Limited, which refused to provide any services on the plea that the installation of the machine was not done by the company. (6)

- a. State the responsibility which Sumit had to fulfil as an aware consumer to get the service of the company.
  - b. Explain briefly any two rights which Sumit could have exercise, had he fulfilled his responsibility identify in Part (a).
- 3) 'VOICE' is an important consumer organisation. It organised workshop in the month of December in Delhi/NCR for consumer. The theme was 'Organic food from farm to plate' to spread awareness on the importance of the organic farming and to encourage the consumers to switch from the conventional food that contains chemical and pesticides to organic food. Expert speakers from the farmers community explained the harmful effect of usage of pesticide in farming and the importance of organic food. People were informed that the organisation regularly test sample to detect adulteration like the presence of heavy metals or pesticides. The result of the tests are published in their monthly magazine 'Consumers Voice', to make people aware of quality of different products. It also provides aid and the legal advice to consumers in seeking a remedy. State the functions performed by the Consumer Voice for the protection and the promotion of the consumers interest by quoting the line from the para. (6)
- 4) Anny purchased a book from Scottish Bookstore, while reading the book, she found that 10 pages were missing. She approached to the seller for book and complain about the missing pages. The seller promised that if the publisher was ready to change the

book as he would change the same. After a week, the seller informed Anny that the publisher had refused to change the book.

Where can Anny file of complaint against the seller of the book? Give reason in support of your answer. Also explain who is consumer as per “Consumer Protection Act 2019”? (6)

- 5) Hima sweet shop is well known, Mithai shop in Gurgaon, Mr Ramkiran, the owner is well respected and has a large number of loyal customers. During the Dewali he could not arrange for good quality KHOYA, in order to meet increased demand. He decided to purchase KHOYA from local sweet shop. These shop do not use good quality milk and also do not maintain cleanliness while preparing the khoya. Mr Ramkiran knew that the Koya has he has purchased is adulterated but he did not bother about quality. (6)

- i) State one responsibility of consumer while buying the sweet.
- ii) Identify Act under which consumer can file a case against Mr Ram Kiran.
- iii) Name two social Responsibility Mr Ramkiran has ignored.

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**SAMPLE PAPER I 2024-25****SUBJECT: BUSINESS STUDIES (CLASS XII)****BLUE PRINT**

<b>LESSON</b>	<b>1 MARK</b>	<b>3 MARK</b>	<b>4 MARK</b>	<b>6 MARK</b>	<b>CHO ICE</b>	<b>Total marks</b>
<b>NATURE AND SIGNIFICANCE OF MANAGEMENT</b>	<b>4</b>	<b>1</b>	<b>-</b>	<b>-</b>		<b>7</b>
<b>PRINCIPLES OF MANAGEMENT</b>	<b>-</b>	<b>-</b>		<b>1*</b>	<b>6</b>	<b>6</b>
<b>BUSINESS ENVIRONMENT</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>3</b>
<b>PLANNING</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1*</b>	<b>6</b>	<b>6</b>
<b>ORGANISING</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>		<b>7</b>
<b>STAFFING</b>	<b>-</b>	<b>1</b>	<b>1*</b>	<b>-</b>		<b>7</b>
<b>DIRECTING</b>	<b>1</b>	<b>-</b>	<b>2*</b>	<b>-</b>		<b>9</b>
<b>CONTROLLING</b>	<b>2</b>	<b>1*</b>	<b>-</b>	<b>-</b>		<b>5</b>
<b>FINANCIAL MANAGEMENT</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>-</b>		<b>10</b>
<b>FINANCIAL MARKET</b>	<b>2</b>	<b>1*</b>	<b>-</b>	<b>-</b>		<b>5</b>
<b>MARKETING</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>1</b>		<b>11</b>
<b>CONSUMER PROTECTION</b>			<b>1</b>			<b>4</b>
<b>TOTAL</b>	<b>20</b>	<b>4</b>	<b>6</b>	<b>4</b>		<b>80</b>

**KENDRIYA VIDYALAYA SANGATHAN, BENGALURU REGION**

**SAMPLE PAPER I 2024-25**

CLASS XII –  
SUBJECT: BUSINESS STUDIES

MAX MARKS: 80  
TIME : 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 a question together.**

1	Fashion House, a company with several branches all over the country needs a team of designers. Similarly, another company Heavy Tools Ltds., requires mechanical engineers with knowledge of the latest technology to develop heavy machinery tools Identify the function of management that is needed to satisfy the need of the above companies (a) Organising (b) Directing (c) Staffing (d) Controlling	1
2	Read the following statement – Assertion (A) and Reason (R)  Assertion (A) : Management is considered as an intangible force  Reason (R) : Management cannot be seen and touched but its presence can be felt  Choose one of the correct alternatives be 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) Both Assertion (A) are true but Reason (R) are false  (d) Both Assertion (A) are true but Reason (R) are true	1
3	Coordination is _____ (a) a function of management (b) essence of management	1



	(b) an Objective of management      (d) None of the above	
4	<p>The Task of management is to make people work hard towards achieving the organizations goals, by making their strength effective and their weakness irrelevant. Name the dimension of management highlighted here</p> <p>(a) Management of people      (b) Management of work (c) Management of operations      (d) None of the above</p>	1
5	<p>RBI, very often, is changing repo rate and interest rates of deposits / loans given by commercial banks to its customers. This is an example of</p> <p>a) Economic environment    b) Political environment    c) Legal environment    d) none of the above</p>	1
6	<p>Demonetisation has shown a major impact on all major sector of the economy. Choose the incorrect statement about the impact of demonetisation</p> <p>(a) Decline in cash transaction      (b) increase in bank deposits (c) Declined in real estate prices      (d) increase in financial savings</p>	1
7	<p>Read the following statement – Assertion (A) and Reason (R)</p> <p>Assertion (A) : Business environment cannot be predicted. It is highly uncertain and unpredictable</p> <p>Reason (R) : Business environment keep on changing. Sometimes, there are frequent changes in technology, tastes and preferences of consumers, etc</p> <p>Choose one of the correct alternatives be given below</p> <p>(e) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)</p> <p>(f) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)</p> <p>(g) Both Assertion (A) are true but Reason (R) are false</p> <p>(h) Both Assertion (A) are true but Reason (R) are true</p>	1
8	<p>If a firm wants to diversify its business into different product and expand to different territories, which organization structure would be suited for this firm?</p> <p>(a) Divisional structure      (b) Functional structure (c) informal structure      (d) Network structure</p>	1

9	<p>Manohar a sales manager in Essential Oils Ltd., exercise complete power and control over his subordinates. He does not like consulting his subordinate in any matter</p> <p>Which leadership style is being followed by Manohar?</p> <p>(a) Autocratic leadership                      (b) Democratic leadership (c) Free-rein leadership                      (d) Paternalistic leadership</p>	1						
10	<p>A large number of investors invest in stock market every year. In fact it is important that the brokers who act as mediators between the financial market and the investors should be properly trained. This will help them provide better services to the investors. Several steps are being taken by SEBI to ensure improvement in the conduct of various operations which take place in Capital market. In the above lines, which function of SEBI is being highlighted?</p> <p>(A) Regulatory function                      (b) Development function (c) Protective function                      (d) None of the above</p>	1						
11	<p>'Capital Market instruments are riskier both with respect to returns and principal repayment as compared to Money Market instruments'.</p> <p>This highlights the following point of difference between 'Capital Market' and 'Money Market'</p> <p>(a) Instrument    (b) Duration    (c) Safety    (d) Liquidity</p>	1						
12	<p>Sunrise Ltd earned a profit of 40, 00,000. The company wants to appropriate the profit earned. Which financial decision is suitable for such appropriation decision</p> <p>a) Financing decision    b) Invest decision    c) Dividend decision    d) All of the above</p>	1						
13	<p>Debt financing is better than equity if-</p> <p>(a) Company has strong cash flow    (b) Company has weak cash flow (c) cash flow position does not matter    (d) None of the above</p>	1						
14	<p>Match the concepts of marketing in Column I with their respective definitions in Column II</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;">Column I</th> <th style="width: 50%; text-align: center;">Column II</th> </tr> </thead> <tbody> <tr> <td>1.Product Concept</td> <td>(i) relates to maintaining high quality of the product</td> </tr> <tr> <td>2.Selling Concept</td> <td>(ii) relates to satisfying customer's needs</td> </tr> </tbody> </table>	Column I	Column II	1.Product Concept	(i) relates to maintaining high quality of the product	2.Selling Concept	(ii) relates to satisfying customer's needs	1
Column I	Column II							
1.Product Concept	(i) relates to maintaining high quality of the product							
2.Selling Concept	(ii) relates to satisfying customer's needs							

	<p>3. Marketing Concept (iii) relates to persuading buyer aggressively to buy the products</p> <p>(a) 1-i, 2-ii, 3 – iii (b) 1-ii, 2-i, 3 – iii (c) 1-iii, 2-ii, 3 – i</p> <p>(d)1-i, 2-iii, 3 – ii</p>	
15	<p>Public relations protect company's _____ in the eyes of public</p> <p>(a) Image (b) Product (c) Brand (d) Quality</p>	1
16	<p>Management by exception refers to _____</p> <p>(a) Concentrating on Significant deviations which to beyond the permissible limit, and should be brought to the notice of the managements</p> <p>(b) Focusing on the key result areas.</p> <p>(c) Comparison of actual performance with the standards</p> <p>(d) Measurement of the company's and its employees performance</p>	1
17	<p>The Production Manager of Tesla Ltd., finds out that the cost of raw material per unit is increased by Rs. 8 and there is also an increase in the courier charges by Rs. 2. The production Manager decided to focus attention on the increase the cost of raw material. The Manager followed _____</p> <p>(a) Critical point control</p> <p>(b) Management by exception</p> <p>(c) Organising</p> <p>(d) None of theses</p>	1
18	<p>Refunds, Discount and Quantity deals are techniques of _____</p> <p>(a) Branding (b) Packaging</p> <p>(c) Personal selling (d) Sale promotion</p>	1
19	<p>While the product cost se the lower limits of the price for a product, the upper limit of price which a buyer would be prepared to pay is decided by:</p> <p>(a) The utility and demand of the product</p> <p>(b) The marketing manager of the firm</p> <p>(c) The Government</p> <p>(d) The competitors of the firm</p>	1
20	<p>Which of the following statements about Advertising is incorrect</p> <p>(a) It is a personal form of communication</p> <p>(b) It is a paid form of Communication</p> <p>(c) It is a mass selling technique</p> <p>(d) It is inflexible as the message can't be adjusted to the needs of buyer</p>	1
21	<p>VIVA Ltd. was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was just sufficient to meet</p>	3

	<p>its costs. To increase the revenue, the company analysed the reasons of less revenues. After analysis the company decided:</p> <p>(i) To reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.</p> <p>(ii) To start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly.</p> <p>This will not only help in covering the risks, but also help in meeting other objectives too.</p> <p>(a) Identify and explain the objectives of management discussed above.</p>	
22	<p>Rivaado Enterprises is a company manufacturing air conditioners. The company has a functional structure with four main functions: Production, Marketing, Finance and Human Resource. As the demand for the product grew, the company decided to hire more employees.</p> <p>Identify and explain the concept which will help the Human Resource Manager in deciding the actual number of persons required in each department.</p>	3
23	<p>"Controlling is an indispensable function of management." Do you agree? Give three reasons in support of your answer.</p> <p><b>OR</b></p> <p>Explain briefly the relationship between 'planning' and controlling.</p>	3
24	<p>Few years ago, there were many malpractices and unfair trading practices like price rigging, unofficial premium on new shares etc. All these had eroded investors' confidence and multiplied their grievances. To overcome these, Government of India decided to set up a separate regulatory body for this purpose.</p> <p>(a) Name the separate body set up by the Government of India.</p> <p>(b) List its two regulatory functions.</p> <p><b>OR</b></p> <p>Recent years have seen a high rise in the number of fraudulent fund raising operations by different companies. They are making their way into the poor and middle class people by luring them with offers of high interest rates and returns. People are falling prey to such companies and their schemes. They face such risks that extend from loss of personal savings to loss of their jewellery and homes. Such frauds also have a considerable impact on economies and markets by reducing the consumer's trust and confidence in legitimate businesses. Such companies are witty and quick to alter their modus operandi to reduce the risks of law enforcement detection and investigation.</p> <p>(a) Which organisation has been set up to regulate such companies and their offers?</p> <p>(b) What are its objectives?</p>	3
25	<p>Identify the various important selection tests in the following statements.</p> <p>a) It measures an individual's potential for learning new skills and indicates a person's capacity to develop.</p> <p>b) It measures the existing skills of an individual and level of knowledge and proficiency in the areas of professions or technical training.</p>	4

	<p>c) It is a psychological test used to measure the level of intelligence quotient of an individual.</p> <p>d) It provides clues to a person's emotions, his/her reactions, maturity and value system etc.</p> <p><b>OR</b></p> <p>"Training is a lifelong necessity both for the employees as well as for the organisation." Justify the statement by giving 4 arguments in favour of the employees.</p>	
26	<p>Reema, an expert in the area of Financial Management, sent an E-mail to his subordinate Leena about a new project for a client in France. Though, the mail was in English, a language known to Leena, she was not able to understand the actual meaning of many words used in the mail. He was also not a specialist in the field of Financial Management. Not only this, some portions of the mail were translated from French to English in such a manner that many mistakes crept in, causing different meaning to the message.</p> <p>(a) Identify two specific barriers to communication in Reema's E-mail.</p> <p>(b) State any two measures which can be taken by Reema to overcome the barriers identified in part (a) above to improve in future the effectiveness of his communication.</p> <p><b>OR</b></p> <p>Ashwini was a supervisor at 'Annapurna Aata' factory. The factory was producing 200 quintals of Aata every day. His job was to make sure that the work goes on smoothly and there was no interruption in production. He was a good leader who would give orders only after consulting his subordinates and work out the policies with the acceptance of the group. Identify and describe the leadership style being adopted by Ashwini.</p>	4
27	<p>The Return on Investment (ROI) of a company ranges between 12% to 15% for the past five years. To finance its future fixed capital needs, it has the following options for borrowing debt:</p> <p>Option 'A' : Debentures with Rate of interest 10 % ;</p> <p>Option 'B' : Loan from financial institutions with Rate of interest 13%</p> <p>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.</p>	4
28	<p>Mahindra Ltd. takes a decision to raise money for long-term capital needs of business from certain sources.</p> <p>Which type of decision is indicated? Explain three factors affecting such decision.</p>	4
29	<p>Identify and explain the elements of directing mentioned below:</p> <p>(a) Mridula, a manager, has the ability to influence others to bring about a change in their behaviour.</p> <p>(b) Naresh, a managing director, declares share in the profits to the manager for their contribution to increase profits of the company.</p>	4
30	<p>Mrs. Neelima bought a hair conditioner from a Departmental Store and took the cash memo of Rs. 500 which she had paid to them. Later on, she</p>	4

	<p>found that the MRP of the hair conditioner was Rs. 400 only, but the shopkeeper had put a sticker of Rs. 500 on the original price.</p> <p>(a) Do you think that the consumer right is violated here? If yes, then name the right and explain it.</p> <p>(b) State any two responsibilities of a consumer other than the one referred here.</p>	
31	<p>Discuss the principles of Scientific management.</p> <p style="text-align: center;"><b>OR</b></p> <p>Explain the following principles of management:  (a) Scalar Chain b) Authority and Responsibility (c) Subordination of individual interest to general interest</p>	6
32	<p>Explain the steps that are required to be performed by a manager before selecting best possible course of action in planning process.</p> <p style="text-align: center;"><b>OR</b></p> <p>Explain how planning:  (a) Reduces overlapping and wasteful activities  (b) Establishes standards for controlling  (c) Facilitates decision-making</p>	6
33	<p>Read the statements given in point 1 and 2 and answer the questions that follow:</p> <p>1. It is a philosophy that implies selective dispersal of authority because it propagates the belief that people are competent and resourceful. However, it should be applied with caution.</p> <p>(a) Identify the concept of Organising being discussed above.  (b) When does an organisation feel the need to embrace this concept?  (c) Why is caution necessary for it to be applied?</p> <p>2. This type of organisation emerges spontaneously and is not deliberately created by the management.</p> <p>(a) Identify the type of organisation being discussed above.  (b) How does it help in the achievement of organisational goals?  (c) How does it help its members?</p>	6
34	<p>Ms. Maya intends to start an enterprise that produces chocolates. Initially, in order to assess the taste and preferences of the people about the chocolates, she used social media and online surveys. Thereafter, she prepared a detailed SWOT (strengths, weaknesses, opportunities and threats) analysis of her enterprise to devise a strategy that will give her an edge over the competitors.</p> <p>Based on her analysis of the market, she decided to launch sesame and jaggery based chocolates under the brand name 'Desi Delight'. She has decided to fix up the price of chocolates relatively at lower level in the beginning and later on as the demand picks up she may revise the prices.</p> <p>(a) Identify and give the meanings of the elements of marketing mix being taken into consideration by Ms. Maya.  (b) Explain briefly the functions of marketing highlighted here.</p>	6

**KENDRIYA VIDYALAYA SANGATHAN, BENGALURU REGION**

**SAMPLE PAPER I 2024-25**

CLASS XII-  
SUBJECT: BUSINESS STUDIES

MAX MARKS: 80  
TIME : 3 HOURS

**MARKING SCHEME**

Q.No.	QUESTIONS	MARKS
1	a) Organising	1
2	a) Both A and R is correct and R is the correct explanation of A	1
3	b) Is the essence of management	1
4	a) Management of people	1
5	a) Economic Environment	1
6	Declined in Real Estate prices ©	1
7	a) Both A and R is correct and R is the correct explanation of A	1
8	a) Divisional structure	1
9	a) Autocratic leadership	1
10	b) Developmental functions	1
11	c) Safety	1
12	Dividend decision C	1
13	a) Company has good cash flow	1
14	D) 1 i, 2iii, 3ii	1
15	a) Image of the company	1
16	a) Concentrating on significant changes which are beyond permissible limits	1
17	a) Critical point control	1
18	Sales promotion (d)	1
19	a) Utility and Demand of the product	1
20	a) It is a paid form of communication	1
21	(a) The objectives of management referred to are: (i) <b>Organisational Objectives:</b> These refer to the utilisation of human and material resources considering the interest of all stakeholders. The main organisational objectives are survival, profit and growth. (ii) <b>Social objectives:</b> These are the objectives, which are desired to be achieved for the benefit of the society. They involve creation of benefit for various constituents of the society.	(1.5+1.5=3)
22	<b>Workload Analysis:</b> It involves determining number and types of human resources required to perform various jobs and to achieve organisational objectives.	(1+2=3)
23	Importance of Controlling: It is an important function because of the following points : (Any 3) 1. Accomplishing organisational goals 2. Judging accuracy of standards	(1x3=3)

	<p>3. Making efficient use of resources  4. Improving employee motivation  5. Ensuring order and discipline  6. Facilitating coordination in action</p> <p><b>OR</b>  <b>Relationship between Planning and Controlling</b>  1. Both Planning and Controlling are interrelated and interdependent.  2. Planning is prescriptive and Controlling is evaluative.  3. Both are backward-looking as well as forward-looking functions.</p>	
24	<p>Securities and Exchange Board of India (SEBI)  (b) The regulatory functions of Securities and Exchange Board of India (SEBI) are:</p> <p>(i) It registers brokers, sub-brokers and other players in the market.  (ii) It registers the collective investment schemes and mutual funds.  (iii) It regulates stock brokers, portfolio exchanges, underwriters, merchant bankers and business in stock market and other securities market.  (iv) It regulates the takeover bids of companies.  (v) It undertakes inspections, enquiries and audits of stock exchange and intermediaries.  (vi) Levying fee or other charges for carrying out the purposes of the Act.  (any two)</p> <p><b>OR</b>  (a) Securities and Exchange Board of India (SEBI)  (b) The objectives of Securities and Exchange Board of India (SEBI) are:</p> <p>(i) To regulate stock exchanges and the securities industry to promote their orderly functioning.  ii) To protect the rights and interests of investors, particularly individual investors and to guide and educate them.  iii) To prevent trading malpractices and achieve a balance between self-regulation by the securities industry and its statutory regulation.  (iv) To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc. with a view to make them competitive and professional. (any two)</p>	(1+2=3)
25	<p>a. Aptitude test  b. Trade test  c. Intelligence test  d. Personality test</p> <p><b>OR</b>  <b>Career Growth:</b> Training helps employees to advance in their careers as it provides new, improved and advance knowledge and skills.  <b>2. Increased Earnings:</b> Training helps to improve the performance and productivity of workers, which help them to earn more.  <b>3. Safety of Employees:</b> The trained workers are less prone to accidents as they are more efficient to handle machines and materials.</p>	(1x4=4)



	<p><b>4. High Morale:</b> The trained employees have greater job satisfaction as they know their jobs. It helps to increase their morale.</p>	
26	<p>Two specific barriers to communication in Reema's E-mail were: <b>(i) Faulty Translations. (ii) Technical Jargon.</b> Measures to overcome communication barriers: (Any two) (i) Reema should communicate according to the needs, education and understanding levels of subordinates. (ii) She should take a proper feedback to improve the communication process and make it more responsive. (iii) She should regularly follow up communication and review the instructions given to subordinates. (iv) She should be aware of languages, tone and content of the message to make it understandable to thereceiver.</p> <p style="text-align: center;"><b>OR</b></p> <p><b>Democratic Style of Leadership:</b> A democratic leader develops action plans and makes decisions in consultation with his subordinates. • He encourages them to participate in decision-making and to give suggestions in setting goals. This style of leadership is more common now-a-days as leaders also recognise that people perform best if they have set their own objectives. • The democratic leader needs to respect the other's opinion) and support subordinates in performing their duties and achieving organisational objectives.</p>	<p>(2+2=4)</p> <p>(1+3=4)</p>
27	<p>Option 'A 'is better. This is because in this option, Return on Investment (12-15%) is higher than the Rate of interest 10%. Payable on debentures. The concept being used in taking the decision is 'Trading on Equity'! Trading on Equity refers to the use of fixed cost sources of finance in the capital structure so as to increase the return on equity shares.</p>	(1+1+2=4)
28	<p>Financing decision is about the quantum of finance to be raised from various long-term sources. It deals with determination of various sources of finance, amount to be raised from each source and the cost of each source of finance. The main sources of finance are: (1) Shareholders' or Owners' Funds: They consist of equity capital and retained earnings. (ii) Borrowed Funds: They refer to finance raised as debentures or other forms of debt.</p> <p>Factors Affecting Financing Decision: The various factors which influence the financing decisions : (Any 3 with explanation)</p> <ol style="list-style-type: none"> <li>1. Cost</li> <li>2. Risk</li> <li>3. Floatation Costs</li> <li>4. Cash Flow Position</li> <li>5. Fixed Operating Costs</li> <li>6. Control Considerations</li> </ol>	(1+3=4)

7. State of Capital Markets		
29	<p>(a) <b>Leadership:</b> Leadership is the process of influencing the behaviour of people towards achievement of organisational goals. Leadership indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organisational objectives.</p> <p>(b) <b>Motivation:</b> Motivation refers to a process of stimulating and inspiring people at work to accomplish desired goals. It is an inner psychological force, which activates and compels the person to behave in a desired manner. Providing a share in the profits of business amounts to financial incentives for the recipient.</p>	4
30	<p>Yes, the consumer right violated here is '<b>right to be informed</b>'. Consumers have the right to be informed about the quality, quantity, purity, standard and price of goods or services, so as to make the right decision and protect themselves against abusive practices. As per the laws prevalent in India, the manufacturers have to provide information about the products on its package or label.</p> <p>The two responsibilities of a consumer are:</p> <p>(i) A consumer must file a complaint in an appropriate consumer forum in case of any inadequacy in the quality of goods purchased or services availed.</p> <p>(ii) A consumer must be honest in his dealings. He must purchase only legal goods and services so that unscrupulous practices like black marketing, hoarding etc. can be discouraged.</p>	(2+2=4)
31	<p>(a) <b>Science, not rule of thumb:</b> Taylor introduced the method of scientific inquiry into the field of management practice. Taylor believed that there was only one best method to maximise efficiency that can be developed through study and analysis. The method so developed should substitute 'Rule of Thumb' throughout the organisation.</p> <p>(b) <b>Harmony, not discord:</b> Taylor emphasised that there should be complete harmony between the management and workers. Both should realise that each one is important. To achieve this state, Taylor called for complete Mental Revolution which means that management and workers should transform their thinking towards each other. According to Taylor, Scientific management has for its foundation the firm conviction that the true interests of the two are one and the same; that prosperity for the employer cannot exist for a long time unless it is accompanied by prosperity for the employees and vice-versa.</p> <p>(c) <b>Cooperation, not individualism:</b> There should be complete cooperation between the labour and the management instead of individualism. This principle is an extension of principle of "Harmony, not discord". Competition should be replaced by cooperation. Both should realise that they need each other. For this there should be an open communication system.</p> <p>Paternalistic style of management, should prevail. According to Taylor, there should be almost equal division of work and responsibility between workers and management.</p>	(1.5x4=6)

	<p><b>(d) Development of each and every person to his or her greatest efficiency and prosperity:</b> Since industrial efficiency depends to a large extent on personnel competencies so they need to take care of workers development by providing training. Each person should be scientifically selected. Then work assigned should suit her/his capabilities. Efficient employees would produce more and earn more. This will ensure their greatest efficiency and prosperity for both, company and workers.</p> <p style="text-align: center;"><b>OR</b></p> <p><b>Scalar chain (Along with diagram):</b> Scalar chain is the formal line of authority and communication from highest to the lowest ranks. Scalar Chain shows the path of flow of authority and communication.</p> <p>In normal course of formal organisation, it should not be violated. However, in case of emergency, One can directly contact with another working at same level through a Gang Plank. However, they need to inform their superiors about it later on. Gang Plank is a shorter route provided so that communication is not delayed.</p> <p>b) Meaning of authority means Right to use the resources of the organisation Right to command the subordinates in doing assigned work. Two types of authority official and personal authority. Responsibility means obligation to complete the assigned work by the superior. There should not be any excess or shortage of authority. Both authority and responsibility must be equally assigned to the employees to avoid misuse of authority because of excess authority or non completion of assigned job because of shortage of authority.</p> <p><b>(b) Subordination of individual interest to general interest:</b> Every organisation is formed with a goal. Every employee in an organisation has some individual interests also. According to this principle, the interest of an organisation should have priority over the interests of individual employees. This is because interests of the workers and stakeholders are more important than the individual interest of any one person. A manager can ensure this by his exemplary behaviour. He should not misuse his power for his individual interests but use it for the larger general interest. This will raise his stature in the eyes of workers and ensure same behaviour by them.</p>	(3 x2 =6)
32	<p><b>(a) Setting objectives:</b> Objectives or goals specify what the organisation wants to achieve. They give direction to all departments and must be stated clearly. They may be set for the entire organisation and each department within the organisation.</p> <p><b>(b) Developing premises:</b> Planning is concerned with future which is uncertain; therefore a manager has to make certain assumptions about future. Assumptions are base material upon which plans are drawn which may be in the form of forecasts, existing plans or past information about policies.</p> <p><b>(c) Identifying alternative courses of action:</b> Once objectives are set and assumptions are made, next step is to identify alternative courses of action. The course of action may be routine or innovative.</p>	(4x 1 ½= 6)

	<p>An innovative course may be adopted by involving more people and sharing their ideas.</p> <p>d) <b>Evaluating merits and demerits of each alternative courses of action</b> with reference each course of action in relation to organisation needs.</p> <p><b>OR</b></p> <p>(a) <b>Planning reduces overlapping and wasteful activities:</b> Planning serves as a basis of coordinating the activities and efforts of different divisions, departments and sections. Since planning ensures clarity in thought and action, work is carried out smoothly without interruptions.</p> <p>(b) <b>Planning establishes standards of controlling:</b> Planning provides the goals against which actual performance is measured. Through comparison, managers can know whether they are actually able to achieve the goals. Deviations, if any can be corrected. Thus planning is a prerequisite for controlling. The nature of deviations depends upon the extent of deviations from the standard.</p> <p>(c) <b>Planning facilitates decision-making:</b> Planning helps managers to look into the future and make a choice from amongst various alternative courses of action. The manager has to evaluate each alternate and select the most viable proposition.</p> <p>d) <b>Planning provides innovative ideas</b></p>	
33	<p>1. (a) The concept of Organising being discussed here is "Decentralisation".</p> <p>(b) An organisation feels the need to embrace it when it grows in size or complexity.</p> <p>(c) Caution is necessary when it is applied as it can lead to the organisational disintegration if the departments start to operate on their own guidelines which may be contrary to the interests of the organisation.</p> <p>2. (a) The type of organisation being discussed here is "Informal organisation".</p> <p>(b) It helps in the achievement of organisational goals by compensating for inadequacies in the formal organisation.</p> <p>(c) It helps to fulfil the social needs of the members and allows them to find like-minded people. It gives them a sense of belongingness in the organisation.</p>	(3+3=6)
34	<p>The elements of marketing mix being taken into consideration by Ms. Maya are <b>Product and Price</b>.</p> <p>Product mix refers to the good, service or idea which is offered for sale including the quality, features, packaging, size etc.</p> <p>Price mix is the value of a good determined by the procedures. It includes pricing policy, discount offered and terms of credit allowed.</p> <p>The functions of marketing highlighted in the given case are:</p> <p>(1) <b>Product designing and development:</b> An attractive product design is the key to effective marketing. Therefore, the product should be designed in such a way that it not only improves its performance but also gives the firm a competitive edge over its competitors.</p>	(3+3=6)

<p>(2) <b>Pricing of products:</b> Pricing is the process of fixing the price of a product or service. Prices are generally fixed by manufacturers after carefully looking into three factors, i.e., the cost of production, the demand for the product and the nature of competition. Product mix refer to the good, service or idea which is offered for sale including the quality features, packaging, size, brand, etc. Price mix is the value of product determined by the procedures. It includes pricing policy, discount offered and terms of credit allowed.</p> <p>(3) <b>Gathering and analysing market information:</b> This is the initial step of marketing, through which the important information to identify the needs and wants of the customers is collected for successful marketing of any good or service. A detailed analysis of available opportunities, threats, strengths and weaknesses is made by the organisation and what opportunity can best be pursued is identified. Gathering and analysing information helps to identify the customer's needs and preferences. It forms the basis for the product designing and development.</p>	
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**CLASS XII**  
**SAMPLE PAPER II - BUSINESS STUDIES**  
**BLUE PRINT**

SN	LESSON	1 MARK	3 MARK	4 MARK	6 MARK	CHOICE
1	NATURE AND SIGNIFICANCE OF MANAGEMENT	3	1	-	-	-
2	PRINCIPLES OF MANAGEMENT	-	-	-	1	6(1)
3	BUSINESS ENVIRONMENT	4	-	-	-	-
4	PLANNING				1	6(1)
5	ORGANISING	1	-	-	1	-
6	STAFFING	-	1	1	-	4(1)
7	DIRECTING	1	-	2	-	4(1)
8	CONTROLLING	2	1	-	-	3(1)
9	FINANCIAL MANAGEMENT	2	-	2	-	-
10	FINANCIAL MARKET	2	1	-	-	3(1)
11	MARKETING	5	-	-	1	-
12	CONSUMER PROTECTION	-	-	1	-	-
	TOTAL MARKS	20	12	24	24	80

**SAMPLE PAPER II**

**CLASS XII**

**MAX MARKS: 80**

**SUBJECT: BUSINESS STUDIES    TIME 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 a question together.**

1	A lawyer has to become a member of Bar council of India, to practice law in India. Which feature of profession is being highlighted here? a)Ethical code of conduct    b)Professional Association c)Service Motive                      d) Restricted entry	1
2	“Even where members of department willingly cooperate and work, a manager has to coordinate the efforts of different people in a conscious manner”. Identify the characteristics of coordination discussed above. a) Coordination ensures unity of action b) Coordination is a deliberate function c) Coordination is a continuous process d) Coordination is an all pervasive function	1
3	“Anyone can be called a manager irrespective of the educational qualification possessed” Identify the characteristics of the profession that Management does not fulfill in the statement being discussed above. a)Ethical code of conduct                      b)Professional Association c)Restricted Entry                                      d)Service Motive	1
4	“The current government initiated Make in India Programme which is good for the manufacturing sector” Out of the following, Identify the dimension of Business Environment quoted in the above lines. a)Economic                      b)Social                      c)Legal                      d) Political	1
5	Service sector contributes to almost half of India’s GDP but employs only one-third of its workforce. Which of the following dimensions of Business Environment is stated in the above lines? a)Economic                      b)Social                      c)Legal                      d) Political	1





13	Match the terms in Column I with their corresponding Meaning in Column II	1																
	<table border="1"> <tr> <td>1</td> <td>Fixed Capital</td> <td>a</td> <td>Investment in current assets</td> </tr> <tr> <td>2</td> <td>Working Capital</td> <td>b</td> <td>Assets which get converted in to cash or cash equivalent within one year</td> </tr> <tr> <td>3</td> <td>Fixed Assets</td> <td>c</td> <td>Assets which remain in the business for more than one year</td> </tr> <tr> <td>4</td> <td>Current Assets</td> <td>d</td> <td>Investment in long term assets</td> </tr> </table>	1	Fixed Capital	a	Investment in current assets	2	Working Capital	b	Assets which get converted in to cash or cash equivalent within one year	3	Fixed Assets	c	Assets which remain in the business for more than one year	4	Current Assets	d	Investment in long term assets	
1	Fixed Capital	a	Investment in current assets															
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3	Fixed Assets	c	Assets which remain in the business for more than one year															
4	Current Assets	d	Investment in long term assets															
	a)1d,2a,3c,4b b)1c,2d,3a,4b c)1a,2c,3b,4d d)1b, 2d,3a,4c																	
14	----- is an organization or an institution, which holds securities in electronic form, in which trading is done. a)Stock Exchange b)SEBI c)Depository d) None of the above	1																
15	Which of the following is not a Protective Function performed by SEBI a)Prohibition of fraudulent and unfair trade practices b)Conducting research and publishing information useful to all market participants c)undertaking steps for investors protection d)Promoting fair practices and code of conduct in securities market.																	
16	Cock Ltd. A fire cracker manufacturing company launched some new product on the eve of Diwali which attracted many buyer. To meet the increased demand, the company employed children from nearby villages. Although the product was in great demand appropriate safety warning for use were not mentioned on the packet that led to many accidents. Which product related decisions was not taken into to consideration by the company? a)Branding b)Sales promotion c)Packaging d)Labelling																	
17	In order to get feedback about its recently launched immunity boosting ayurvedic medicine, Cipla Ltd conducted an online survey using a questionnaire, to gather customer views and opinions. Identify the marketing function being used by Cipla Ltd. a)Gathering and analysis market information b)Product designing and development c)Customer support services d)Standardization	1																

18	Johnson Ltd has decided to offer flat 25% discount on all its products. Identify the related function of marketing being described in the above lines a)Branding b)Pricing c)Packaging d)Promotion	1
19	Muskan is engaged in manufacturing of refrigerators. She surveyed the market and found that customers need a refrigerator with a separate provision for water cooler in it. She decided and launched the same refrigerator in the market. Which marketing philosophy is being followed by Muskan a)Product concept b)Production concept c)marketing concept d)Societal marketing concept.	1
20	The process of classification of agricultural products into different groups on the basis of their important characteristics refers to which of the following marketing function? a)Standardization b)Grading c)Product designing d)None of these	1
21	Sumit has recently joined LK Ltd. A company manufacturing refrigerators. He found that his department was under staffed and other departments were not cooperating with his department for smooth functioning of the organization. Therefore, he ensured that his department has the required number of employees and its cooperation with other departments is improved a) Identify the level at which Sumit was working b) Also, state four more functions required to be performed by Sumit at his level	3
22	Max Industries wants to hire staff for its chemical division. The personnel department list out the following methods of recruitment a) Using naukri.com to search for prospective candidates. b) Consider voluntary applications received earlier from various job seekers. Identify the methods of recruitment and explain them.	3
23	State and Explain the last two steps in the process of controlling in their correct order.  (OR) As a management Guru, You know that controlling is an indispensable function of management. You have to make your team of managers understand the importance of controlling. Explain two points to support your arguments.	3
24	Stock Exchange acts as a regulator of the securities market. It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest. Though	3

	<p>this process of disinvestment and reinvestment, savings get channelized into their most productive investment avenues. To ensure that the investing public gets a safe and fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework.</p> <p>By quoting lines from the above para , State any three functions of stock exchange.</p> <p style="text-align: center;">(OR)</p> <p>Differentiate between Capital Market and Money market on the following basis</p> <ol style="list-style-type: none"> <li>a) Liquidity</li> <li>b) Safety</li> <li>c) Expected return</li> </ol>	
25	<p>Explain the following training methods:</p> <ol style="list-style-type: none"> <li>a) Trainee works under the guidance of a master worker.</li> <li>b) Trainee handles expensive and sophisticated equipments.</li> </ol> <p style="text-align: center;">(OR)</p> <p>Explain the four important Tests used for Selection of Employees.</p>	4
26	<p>In the organizational context, basic salary helps to satisfy the basic physiological needs of hunger, thirst, shelter, sleep etc. How are the remaining needs given by Maslow in his need hierarchy are satisfied? Explain briefly.</p> <p style="text-align: center;">(OR)</p> <ol style="list-style-type: none"> <li>a) Explain Stock Option and Perquisites as financial incentives.</li> <li>b) Explain Job Enrichment and Employee Empowerment as Non financial incentives.</li> </ol>	4
27	<p>Nimalan, a sales representative of Cipla Ltd. Has changed seven jobs in the last one year. He is a hard working person, but is not able to finalize deals with customers due to his inadequate vocabulary and omission of needed words. Sometimes he uses wrong words because of which intended meaning is not conveyed. All this created a misunderstanding between him and his clients.</p> <ol style="list-style-type: none"> <li>a) Identify the communication barrier discussed above</li> <li>b) State the category of this communication barrier</li> </ol> <p>Explain two other communication barrier of the same category</p>	4
28	<p>Vimal Limited is a company manufacturing cotton yarn. It has been consistently earning good profit for many years. This year too, it has been able to generate enough profit. There is availability of enough cash in the company and the good prospects for growth in future. It is a well managed organisation and believes in quality, equal employment opportunities and good the remuneration practices. It has many shareholders who prefer to receive a regular</p>	4

	<p>income from their investment. It has taken a loan of Rs.50 00 000 from SBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.</p> <p>The above discussion about the company leads to various factors which decide how much of the profit should be retained and how much has to be distributed by the company as dividend.</p> <p>Quoting the lines from the above discussion explain any four factors affecting dividend decision.</p>	
29	<p>Steelone Enterprises is manufacturing high quality steel utensils. The demand for steel utensils is rising as people are getting aware that plastic is not good for health. This has led to increase in production of steel utensils. To encourage sales, Steelone Enterprises declared a liberal credit policy which allows three months credit to its wholesale buyers. The company is also getting liberal credit terms from the suppliers.</p> <p>The company is also facing severe competition in the market.</p> <p>In the light of the above, Identify the four factors affecting working capital requirements of the company. State with reason, whether the factors as identified above, will result in high or low working capital requirement.</p>	4
30	<p>Sumana purchased a food processing machine for Rs.12 000 from Usha Mixer &amp; Grinder Ltd. She found that the machine was not working properly. Despite many complaints, the defect was not rectified by the company.</p> <ol style="list-style-type: none"> <li>Identify the consumer right that has been violated by Usha Mixer &amp; Grinder Ltd.</li> <li>Suggest the appropriate forum where Sumana can file a complaint.</li> <li>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.</li> </ol>	4
31	<p>Explain the following principles of management given by Fayol with examples.</p> <ol style="list-style-type: none"> <li>Centralization and Decentralisation</li> <li>Espirit de corps</li> <li>Order</li> <li>Unity of command</li> </ol> <p style="text-align: center;">(OR)</p> <p>Explain the Techniques of Time Study, Motion Study, Fatigue Study and Simplification and Standardization of work as enunciated by Taylor.</p>	6
32	Explain the first four steps in the process of planning	6

	(OR)	
	Explain any two features and two limitations of planning.	
33	<p>Veena is a manger in a reputed advertising company. Volume of business is increasing day- by-day. Accordingly, her workload is also increasing in the same proportion. She has almost 10 to 15 varieties of work to handle due to which she cannot concentrate on the most important matters. She requires a person who can share her burden so that she can restrict activities which she herself could do.</p> <p>a) What should Veena do to reduce her burden?  b) After the above concept. Will she be accountable for the performance of the assigned tasks?  c) Discuss the elements of given concept</p>	6
34	<p>Johar, Joginder, John, and Iqbal are friends. They are operating different businesses. Each one has his/her own concept regarding operating their business.</p> <p>Johar believes in producing products at a large scale, thereby decreasing the average cost of products and selling them at a reasonable price.</p> <p>Joginder focuses on providing best quality products because he believes that a customer always wishes to buy a good quality product. The price of the product is secondary for Joginder.</p> <p>John is of the belief that the most important aspect of business is sales so he undertakes aggressive selling and promotional efforts.</p> <p>Iqbal believes that his firm can achieve its goals only by identifying the needs of the customer and satisfying them better than the competitors.</p> <p>Identify and explain the Marketing concept or philosophies followed by each of them.</p>	6

**SAMPLE PAPER II****CLASS XII****SUBJECT: BUSINESS STUDIES****MAX MARKS: 80****TIME 3 HOURS****MARKING SCHEME**

Q	VALUE POINTS	MARKS
1	b)Professional Association	1
2	B) Coordination is deliberate function	1
3	C) Restricted entry	1
4	D) Political	1
5	A)Economic	1
6	C)Relativity	1
7	B)Constitution of the country	1
8	D)Functional Structure	1
9	A)Directing	1
10	B)Management by exception	1
11	d) Assertion is false but reason is true.	1
12	c)Investment Decision	1
13	a)1d,2a,3c,4b	1
14	c)Depository	1
15	b)Conducting research and publishing information useful to all market participants	1
16	d) Labelling	1
17	a)Gathering and analysis market information	1
18	d)Promotion	1
19	c)Marketing concept	1
20	b) Grading	1
21	a) Sumit is working at the middle level management. b) Four functions of middle level management 1. Assign necessary duties and responsibilities to department members 2. Interpret policies framed by the TLM 3. cooperate with other departments. 4. Ensure that the department has the necessary personnel.	3
22	a)Web Publishing (Brief explanation) b) Casual Callers (Brief Explanation)	3
23	Analyzing Deviations Taking corrective action.  (OR)	3

	<p>Any two importance of controlling</p> <ol style="list-style-type: none"> <li>Accomplish organizational goals</li> <li>Making efficient use of resources</li> <li>Ensuring order and discipline</li> <li>Improving employee motivation</li> <li>Judging accuracy of standards</li> <li>Facilitates co ordination in action.</li> </ol>													
24	<ol style="list-style-type: none"> <li>Disinvestment and Reinvestment – Providing Liquidity and Marketability to Existing Securities</li> <li>Safe and fair deal – Safety of Transactions</li> <li>Saving get channelized into their most productive investment avenues – Contributes to Economic Growth</li> </ol> <p>(OR)</p> <table border="1"> <thead> <tr> <th>Basis</th> <th>Capital market</th> <th>Money market</th> </tr> </thead> <tbody> <tr> <td>a)Liquidity</td> <td>Lower degree of liquidity</td> <td>Higher degree of liquidity</td> </tr> <tr> <td>b)Safety</td> <td>Riskier</td> <td>Safer</td> </tr> <tr> <td>c)Expected return</td> <td>Yield higher return</td> <td>Yield lower return</td> </tr> </tbody> </table>	Basis	Capital market	Money market	a)Liquidity	Lower degree of liquidity	Higher degree of liquidity	b)Safety	Riskier	Safer	c)Expected return	Yield higher return	Yield lower return	3
Basis	Capital market	Money market												
a)Liquidity	Lower degree of liquidity	Higher degree of liquidity												
b)Safety	Riskier	Safer												
c)Expected return	Yield higher return	Yield lower return												
25	<ol style="list-style-type: none"> <li>Apprenticeship training – Brief explanation</li> <li>Vestibule training - Brief explanation</li> </ol> <p>(OR)</p> <p>Four tests</p> <ol style="list-style-type: none"> <li>Intelligence test – Brief explanation</li> <li>Aptitude test – Brief explanation</li> <li>Personality test – Brief explanation</li> <li>Trade test – Brief explanation</li> </ol>	4												
26	<ol style="list-style-type: none"> <li>Safety and security needs</li> <li>Affiliation/belonging needs</li> <li>Esteem Needs</li> <li>Self-actualisation needs</li> </ol> <p>Brief explanation of all 4 points.</p> <p>(OR)</p> <ol style="list-style-type: none"> <li>(i) Stock option: company allot shares to employees , this creates a feeling of ownership to the employees. (ii) Perquisites: additional benefits such as housing, medical, car allowances etc.</li> <li>(i) Job Enrichment – make job interesting, give more responsibility (ii) Employee empowerment- give more powers to subordinates.</li> </ol>	4												

27	<p>a) Badly expressed message b) Semantic Barrier</p> <p>Words with different meanings, Faulty translation, Un clarified assumption, Technical jargon, body language and gesture decoding ( any two points with explanation)</p>	4
28	<p>1) Stability of Earning – consistently earning good profit 2) Cash flow position – Availability of enough cash 3) Growth Prospectus – company has growth opportunities 4) Shareholders preference - shareholders prefer to receive regular dividend</p>	4
29	<p>1. Nature of Business: This is a manufacturing company it requires more working capital 2. Credit allowed: liberal credit to customers requires more wc 3. Credit availed: liberal credit availability from supplier requires less wc 4. Scale of operations: working on a higher scale requires more wc</p>	4
30	<p>a) Right to be heard b) District Commission c) No. she can't appeal to the supreme court. The claim exceeding 10 crores can only be appealable before supreme court.</p>	4
31	<p>A brief explanation of the following principles of Fayol</p> <p>e) Centralization and Decentralisation f) Espirit de corps g) Order h) Unity of command</p> <p>(OR)</p> <p>A brief explanation of the following techniques of scientific management of F.W.Taylor</p> <p>a) Time Study, b) Motion Study, c) Fatigue Study and d) Simplification and Standardization of work</p>	6
32	<p>First four steps in planning with brief explanation.</p> <p>1. Setting objectives. 2. Developing premises. 3. Identifying alternative course of action. 4. Evaluating alternative course of action.</p> <p>(OR)</p> <p>Features of planning (any two with explanation)</p>	6



	<ol style="list-style-type: none"> <li>1. Focuses on achieving objectives</li> <li>2. Pervasive</li> <li>3. Involves decision making</li> <li>4. Primary function of management</li> <li>5. Mental exercise</li> <li>6. Futuristic</li> <li>7. Continuous</li> </ol> <p>Limitations of planning (any two points with explanation)</p> <ol style="list-style-type: none"> <li>1. Creates rigidity</li> <li>2. Reduces creativity</li> <li>3. Does not guarantee success</li> <li>4. Involves huge cost</li> <li>5. May not work in a dynamic environment.</li> </ol>	
33	<ol style="list-style-type: none"> <li>a) Delegation</li> <li>b) Yes. She is accountable for the outcome.</li> <li>c) Brief explanation of Authority, Responsibility &amp; Accountability.</li> </ol>	6
34	<p>Johar :The Production Concept  Joginder: The Product Concept  John: The Selling Concept  Iqbal : The Marketing Concept  Brief explanation of all four concepts.</p>	6

**KENDRIYA VIDYALAYA SANGATHAN, BENGALURU REGION****BUSINESS STUDIES SAMPLE PAPER III 2024-25****BLUE PRINT**

SN	CHAPTER	1 MARK	3 MARK	4 MARK	6 MARK	INTERNAL CHOICE (OR)	TOTAL MARKS
1	Nature and Significance of Management	3	1	----	----	---	6
2	Principles of Management	1	----	---	1	6(1)	7
3	Business Environment	3	----	---	---	---	3
4	Planning	--	----	---	1	6(1)	6
5	Organising	1	----	---	1	---	7
6	Staffing	---	1	1	---	4(1)	7
7	Directing	1	----	2	---	4(1)	9
8	Controlling	2	1	---	---	3(1)	5
9	Financial Management	2	----	2	---	---	10
10	Financial Markets	2	1	---	---	3(1)	5
11	Marketing	5	---	---	1	---	11
12	Consumer Protection	---	---	1	---	---	4
	<b>TOTAL MARKS</b>	<b>20</b>	<b>12</b>	<b>24</b>	<b>24</b>		<b>80</b>

**KENDRIYA VIDYALAYA SANGATHAN**

**BENGALURU REGION**

**SAMPLE PAPER=03, 2024-25**

**CLASS :12**

**MAX.**

**MARKS : 80**

**SUBJECT : BUSINESS STUDIES**

**TIME : 3**

**HRS.**

**General instructions :**

1. This question paper contains 34 questions. All questions are compulsory.
2. Question 1 to 20 carries 1 mark each.
3. Questions 21 to 24 carries 3 marks each.
4. Questions from 25 to 30 carries 4 marks each
5. Questions from 31 to 34 carries 6 marks each.

<b>S.N.</b>	<b>QUESTIONS</b>	<b>MARKS</b>
1.	Anyone can be called a manager irrespective of the educational qualification possessed.” Identify the characteristic of the profession that Management does not fulfil in the statement being discussed above. a) Ethical code of conduct b) Professional Association c) Restricted Entry d) Service Motive	1
2	Mudit is continuously shifted from one job to another in an organisation without giving him adequate time to settle down in any department. Identify the Fayol’s principle which is violated: a) Stability of Personnel b) Order c) Discipline d) Equity	1
3	Read the following statements: Assertion (A) and Reason(R). Choose the correct alternative from those given below: Assertion (A): Motivation is a complex process. Reason (R): Individuals are heterogenous in their expectations, perceptions and reactions. Alternatives: a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).	1

	<p>b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)</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>	
4	<p>'Even where members of a department willingly cooperate and work, a manager has to coordinate the efforts of different people in a conscious manner.' Identify the characteristic of coordination discussed above.</p> <p>a) Coordination ensures unity of action</p> <p>b) Coordination is a deliberate function</p> <p>c) Coordination is a continuous process</p> <p>d) Coordination is an all-pervasive function</p>	1
	<p>Identify the different dimensions of business environment for Question no. 5 to 8 based on the following statement:</p> <p><b>"The court passed an order to ban polythene bags as":</b></p>	
5	<p>Society in general is more concerned about quality of life.</p> <p>a) Social Environment</p> <p>b) Technological Environment</p> <p>c) Political Environment</p> <p>d) Economic Environment</p>	1
6	<p>The government decided to give subsidy to jute industry to promote this business</p> <p>a) Social Environment</p> <p>b) Technological Environment</p> <p>c) Political Environment</p> <p>d) Economic Environment</p>	1
7	<p>Innovative techniques are being developed to manufacture jute bags at low rates</p> <p>a) Social Environment</p> <p>b) Technological Environment</p> <p>c) Political Environment</p> <p>d) Economic Environment</p>	1
8	<p>Read the following statements: Assertion (A) and Reason(R). Choose the correct alternative from those given below: ASSERTION (A): Management is concerned with efficient use of resources. REASONING (R): For management both efficiency and effectiveness need to be balanced. Alternatives: a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).</p>	1



	DHAN LAXMI PVT. LTD. for suggesting options for the same. DHAN LAXMI PVT. LTD. suggested a list of options to the Board of Directors of the company. It was decided that for the immediate requirement of ₹1500 crores the company will give a privilege to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company. ₹4500 crores would be raised by allotment of securities to a consortium of financial institutions, instead of inviting subscription from the public by making a direct appeal to investors to raise capital. It was further decided to raise capital to the tune of ₹6000 crores through an issuing house. All these options were accepted by the Board of Directors. The Board further decided to raise ₹8,000 crores through the on-line system of the stock exchange by entering into an agreement with the exchange.	
13	Identify the method of floatation of new issues in the primary market, not taken up by ISQAA SOLAR LTD. a) Offer for sale b) Rights issue c) E-IPO d) Offer through prospectus	1
14	How much money was raised by the company through E-IPO's a) ₹8000 crores b) ₹4500 crores c) ₹20,000 crores d) ₹6000 crores	1
15	“₹4500 crores would be raised by allotment of securities to a consortium of financial institutions, instead of inviting subscription from the public by making a direct appeal to investors to raise capital.” Identify the method of floatation of new issues in the primary market being discussed above, which the company has decided to use. a) Offer for sale b) Private placement c) Right Issue d) Offer through Prospectus	1
16	“₹1500 crores the company will give a privilege to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company” Identify the method of floatation being discussed above, which the company has decided to use. a) Offer for sale b) Private placement c) Right Issue d) Offer through Prospectus	1
17.	The channel used during teleshopping is ..... (a) Zero Level Channel (b) Two Level Channel (c) One Level Channel (d) Three Level Channel	1
18.	“If production cost increases by Rs. 5, it can be ignored. “- This term comes under which category: (a) Taking Corrective Measures (b) Management by Exception (c) Critical Point Control (d) Both (b) and (c)	1
19.	Which term is called as bundle of utility?	1

	(a) Place (c) Promotion	(b) Price (d) Product	
20.	Identify the method of sales promotion. A Co. offers a 40% of extra shaving cream in a pack of 500 grams (a) Discount (b) Quantity Gift (c) Product Combination (d) Usable Benefits		1
21.	<p>“Controlling is an indispensable function of management. Without controlling the best of plans can go awry “. Do you agree? Explain any two reasons in support of your answer.</p> <p style="text-align: center;">OR</p> <p>“It is generally believed that measurement of performance should be done after the task is completed.” Identify and explain the steps in the process of the function of management being discussed above and the step followed by the same in the process.</p>		3
22.	<p>X limited is running business successfully. It uses environment friendly methods of production and is also providing employment opportunities to disadvantaged sections of society.</p> <p>(i) Identify the objective of management which it wants to fulfil by doing such activities.</p> <p>(ii) State any two other objectives that the management should fulfil.</p>		3
23.	<p>Distinguish between Capital Market and Money Market on the basis of: -1) Participants 2) Duration 3) Instrument</p> <p style="text-align: center;">OR</p> <p>Explain any three regulatory functions of SEBI</p>		3
24.	<p>‘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 for applying for jobs easier and candidate friendly.’</p> <p>Name and explain the next two steps which follow the step, in the process of the function of management being discussed above.</p>		3
25.	<p>After completing his bachelor’s in computer science, Abhijeet joined an IT consultancy firm. He observed there that the senior management more often communicated failures than successes. They rarely shared any good news related to the growth of the firm or give any recognition to its employees for their extraordinary contributions towards the firm. As a result, Abhijeet never felt encouraged enough to work up to his full potential and started exploring other avenues for employment.</p> <p>In the context of the above case:</p>		4

	<p>(i) Identify and explain the element of directing in the absence of which the employees don't feel encouraged to work.</p> <p>(ii) State any two importance of directing function.</p> <p style="text-align: center;">OR</p> <p>Define Communication.</p> <p>Identify the type of barrier mentioned through the following statements:</p> <p>(i) These are concerned with problems and obstructions in the process of encoding and decoding of messages into words or impressions.</p> <p>(ii) A worried person cannot communicate properly and an angry receiver cannot understand the real meaning of message.</p> <p>(iii) Factors relating to organization structure, authority relationships, rules and regulations may act as barriers.</p>	
26.	<p>After completing his education, Arman opened a small restaurant in a posh market to earn his livelihood. In order to attract good clientele, he decided to install two air conditioners in the restaurant. Since he didn't have sufficient funds to buy air conditioners of a good brand, he bought two air conditioners from a local manufacturer in Janakpuri, Delhi for ₹ 20,000 each. Later on, he found that the compressor of one of the air conditioner was not working properly. Despite many complaints, the defect was not rectified by the manufacturer. So, he feels very disappointed about the issue and wants to take a legal action against the manufacturer to not only get compensation but also to save other people from being duped by the local manufacturer.</p> <p>(i) Name the redressal agency to which he can approach to file complaint against the local manufacturer.</p> <p>(ii) State any three directions which the consumer court can issue to the local manufacturer after being satisfied with the genuineness of the complaint.</p>	4
27.	<p>Leadership style refers to behaviour pattern, which leader reflects in his role as a leader. On the basis of this statement discuss any two types of leadership styles, giving suitable examples.</p>	4
28.	<p>"Apparels" is India's second largest manufacturer of branded Lifestyle apparel. The company now plans to diversify into personal care segment by launching perfumes, hair care and skin care products. Moreover, it is planning to open ten exclusive retail outlets in various cities across the country in next two years.</p> <p>Identify any four factors affecting the fixed capital needs of a company.</p>	4



29.	<p>Explain 'Internship training' and 'vestibule training' and classify them as on-the-job and off-the-job methods of training</p> <p style="text-align: center;">OR</p> <p>State any four benefits of training to employees</p>	4
30.	<p>The directors of a manufacturing company are thinking of issuing Rs. 20 lacs additional debentures for expansion of their production capacity. This will lead to an increase in debt-equity ratio from 2:1 to 3:1.</p> <p>What are the factors do you think the directors should keep in view before taking the decision, name them &amp; explain any four?</p>	4
31.	<p>Explain the following techniques of Scientific Management :</p> <p>(a) Method study (b) Motion study (c) Time study</p> <p style="text-align: center;">OR</p> <p>Briefly explain the following principles of management given by Henry Fayol</p> <p>(a) Esprit de Corps (b) Unity of Direction (c) Initiative</p>	6
32.	<p>Arvind is planning to start a company manufacturing room fresheners. He intends to use natural fruit extracts for adding fragrance to them. He estimates an investment of ₹ 20 crores to set up the factory. As it is difficult for him to raise the entire capital amount alone, he gives a partnership offer to his school friend, Sanjay who is an angel investor. Sanjay, after being convinced about the feasibility of the project, accepts his offer. Sanjay tells Arvind that they should also focus on other important decisions related to the product 'room fresheners' besides deciding about its features, variety and quality. Branding is one of the important such decision.</p> <p>(i) Name and explain any other two important decisions related to a product.</p> <p>(ii) State any two features of a good brand name.</p>	6
33.	<p>Ishita works as a corporate event coordinator in an event management company. She has been made an overall official in charge for organizing a painting exhibition for one of the clients of the company. For ensuring that the exhibition takes place successfully, she identifies the various activities involved and divided the whole work into various task groups like marketing committee, decoration committees and reception committee. In order to facilitate coordination within and among committees, she appoints a supervisor of each group. Each member in</p>	6

	<p>the group is asked to report to their respective supervisors and all the supervisors are expected to work as per Ishita's orders. In the context of the above case:</p> <p>(i) Identify and explain the function of management being performed by Ishita.</p> <p>(ii) Describe briefly the steps involved in the performance of the function of management as identified in part (i) of the question.</p>	
34.	<p>In spite of best efforts of managers sometimes planning fails to achieve the desired results due to its limitations. Explain any six limitations of planning.</p> <p style="text-align: center;">OR</p> <p>"If the project is important then more alternatives should be generated and thoroughly discussed amongst the members of the organisation." Identify and explain the steps in the process of planning being discussed above. Also explain the remaining steps which will have to be carried out to complete the process</p>	6

#### MARKING SCHEME

1	c) Restricted Entry	
2	a) Stability of Personnel	1
3	a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).	1
4	b) Coordination is a deliberate function	1
5	a) Social Environment	1
6	c) Political Environment	1
7	b) Technological Environment	1
8	b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).	1
9	a) Centralisation	1
10	(C) a iii b I c ii	1
11	d) Gathering and analyzing market information	1
12	d) Controlling	1
13	d) Offer through prospectus	1
14	a) ₹8000 crores	1
15	b) Private placement	1
16	c) Right Issue	1
17	(a) Zero Level Channel	1
18	(b) Management by Exception	1
19	(d) Product	1
20	(b) Quantity Gift	1
21	Yes Reasons: (any 2)	1+1+1

	<p>1. Achieving organisational objectives: Controlling is implemented with the purpose of taking care of the organisational objectives. Controlling detects any kind of deviation and accordingly corrective actions are implemented. This helps in reducing the gap between expected and actual results and in this way helps in achieving the organisational objectives.</p> <p>2. Coping with changes: An organisation has to put up with many changes in the environment, which can be emergence of new products and technologies, change in government regulations or changes in strategies of the competitors.</p> <p>3. Efficient use of resources: Controlling allows the manager in minimising the wastage of resources and ensuring proper utilisation of the available resources that leads to effective performance by the organisation. ( any other relevant points)</p> <p style="text-align: center;">Or</p> <ul style="list-style-type: none"> <li>▪ Measurement of actual performance: After the establishment of standards, the next step is measuring the actual performance with the set standards. This can be done by opting for several methods like personal observation, sample checking, performance reports, etc.</li> <li>▪ Comparison of actual performance with standards: In this step, the actual performances are compared with the established standards. Such comparisons reveal the deviation between planned and actual results.</li> </ul>	1.5+1.5						
22	<p>i) <b>Social objectives:</b> It includes the establishment of benefit for the community. As a part of the community, every business whether it is a trade or non-trading concern has a social responsibility to meet. This applies to consistently generating financial value for many components of society. This includes using environmentally beneficial technologies of production, providing job opportunities to the disadvantaged sections of the community and furnishing the primary facilities like crèches and schools to employees</p> <p>ii) <b>Organisational Objectives:</b> Management is accountable for establishing and attaining objectives for the company. It has to deliver a variety of objectives in all operations contemplating the interest of all shareholders including, stakeholders, consumers, the government and employees. The principal objective of any company must be to use material and human resources to the maximum potential benefit, i.e., to meet the financial objectives of a firm. And, they are survival, profit and growth.</p> <p><b>Personal Objectives:</b> Establishments are made up of resources who possess different backgrounds, experiences, objectives and personalities. They all become part of the establishment to meet their several demands. These differ from economic necessities such as ambitious perks and salaries, social obligations such as equal attention and higher level demands such as individual growth and progress.</p>	1+1+1						
23	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;"></td> <td style="width: 30%;">Capital market</td> <td style="width: 30%;">Money market</td> </tr> <tr> <td>Participants</td> <td>The participants of capital market are banks,</td> <td>The participants of money market are banks, financial</td> </tr> </table>		Capital market	Money market	Participants	The participants of capital market are banks,	The participants of money market are banks, financial	1+1+1
	Capital market	Money market						
Participants	The participants of capital market are banks,	The participants of money market are banks, financial						

	<table border="1"> <tr> <td></td> <td>financial institutions, foreign investors, ordinary retail investors from public, and public and private companies</td> <td>institutions, foreign investors, and public and private companies</td> </tr> <tr> <td>Duration</td> <td>The capital market deals in securities of medium and long term.</td> <td>The money market deals in securities of short-term with a maximum tenure of one year.</td> </tr> <tr> <td>Instruments</td> <td>Some of the common instruments of a capital market are debentures, equity shares, bonds, preference shares, and other innovative securities</td> <td>Some of the common instruments of money market are Call Money, Commercial Bills, T. Bills, Commercial Paper, Certificate of Deposits, etc.</td> </tr> </table>		financial institutions, foreign investors, ordinary retail investors from public, and public and private companies	institutions, foreign investors, and public and private companies	Duration	The capital market deals in securities of medium and long term.	The money market deals in securities of short-term with a maximum tenure of one year.	Instruments	Some of the common instruments of a capital market are debentures, equity shares, bonds, preference shares, and other innovative securities	Some of the common instruments of money market are Call Money, Commercial Bills, T. Bills, Commercial Paper, Certificate of Deposits, etc.	1+1+1
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	<p style="text-align: center;">Or</p> <p>Three regulatory functions of SEBI</p> <p>a. SEBI has defined the rules and regulations and formed guidelines and code of conduct that should be followed by the corporates as well as the financial intermediaries.</p> <p>b. Regulating the process of taking over of a company.</p> <p>c. Conducting inquiries and audit of stock exchanges.</p> <p>d. Regulates the working of stock brokers, merchant brokers.( any three)</p>										
24	<p><b>Selection:</b> Selection is the process of shortlisting of potential candidates and eliminating the candidates that are not suitable for the positions available in the organisation. The purpose of selection is to hire the right candidate for the right position, which will lead to efficient running of operations for the organisation.</p> <p><b>Placement:</b> Placement refers to the process of introducing an employee to the job for which he was hired in the organisation. The employee will be provided with a basic orientation about the company and its work areas.</p>	1.5+1.5									
25	<p><b>Motivation</b></p> <p><b>Explanation:</b> Motivation Motivation can be defined as stimulating, inspiring and inducing the employees to perform to their best capacity. Motivation is a psychological term which means it can not be forced on employees.</p> <p>Importance of directing:</p> <p><b>1. Initiates Action:</b> Directing is the starting point of action. It initiates action based on planning, organising and staffing. Action is initiated when the managers provide direction to their subordinates for carrying out the task. Therefore, the directing function provides a set of guidelines to the employees on how to start working towards achieving the goals of the organisation.</p>	1 1 1+1									

	<p><b>2. Integrates efforts of employees:</b> The activities and works of the employees across an organisation are integrated towards achieving the objectives set by management. As all the activities of the organisation are integrated by directing, it leads to efficiency and effectiveness in the organisation</p> <p style="text-align: center;">Or</p> <p>Communication: Communication is a process that involves sending and receiving messages through the verbal and non-verbal methods.</p> <p>Communication is a two-way means of communicating information in the form of thoughts, opinions, and ideas between two or more individuals with the purpose of building an understanding.</p> <ol style="list-style-type: none"> <li>1.Semantic barriers</li> <li>2. Psychological barrier</li> <li>3.Organisational barrier</li> </ol>	<p>1</p> <p>1</p> <p>1</p>
26	<p>i) District forum</p> <p>ii) three directions which the consumer court can issue to the local manufacturer</p> <ol style="list-style-type: none"> <li>1. To remove the defects in goods or deficiency in services.</li> <li>2.To replace the defective product with a new one, free from any defect.</li> <li>3.To refund the price paid for the product.</li> </ol>	<p>1</p> <p>1</p> <p>1</p> <p>1</p>
27	<p><b>Autocratic/Authoritative leadership</b> Under this style, all decision-making power is vested in the leader and he exercises complete control over his subordinates.</p> <p>The leader determines the policies without consulting them and assign task to them without giving them any freedom. It is like ‘bossing people around’. It is a boss centered leadership, and is also called directive style of leadership.</p> <p>e.g. Mr Ratan, the GM of Addi Industries delegates the work to his staff Ms Ritu, Mr Saurabh, Mr Manan, according to his discretion. Here Mr Ratan is behaving as an autocratic leader.</p> <p><b>Democratic/Participative leadership</b> Under this style, leader consults his subordinates in decision-making process and works out policies with the acceptance of the group. He encourages them to give suggestions in setting goals and implementing decisions. It is group centered leadership.</p> <p>e.g. Mr Ratan realised that due to the absence of Mr Manan, the targets will not be met, so he discusses with his staff about meeting the deadline. Every body decided to do overtime and complete the task. Here Mr Ratan is behaving as a democratic leader</p> <p><b>Laissez-faire/Free-rein leadership</b> Under this style, the leader gives full freedom to the subordinates in setting goals. Such a leader avoids use of power. The leader does not interfere in the activities of the subordinates. Group members work themselves as per their own choice and competence. It is called subordinate centered leadership, e.g. The staff plans to organise a party in the honour of Mr Manan as he got promoted. Mr Ratan asks the other members of the staff to fix the venue and menu for the occasion. Here, Mr Ratan is behaving as a free-rein leader.</p> <p style="text-align: right;">( any two)</p>	<p>2+2</p>

28	<p>Factors affecting fixed capital requirement</p> <ul style="list-style-type: none"> <li>▪ Nature of business: The kind of activities a business is engaged in has an important bearing on its fixed capital requirements. On one hand a trading concern does not require to purchase plant and machinery etc. and needs lower investment in fixed assets. Whereas on the other hand a manufacturing organisation is likely to invest heavily in fixed assets like land, building, machinery and needs more fixed capital.</li> <li>▪ Scale of operations: The amount of fixed capital required by a business varies directly in proportion to its scale of business. A larger organisation operating at a higher scale needs bigger plant, more space etc. and therefore, requires higher investment in fixed assets when compared with the small organisation.</li> <li>▪ Diversification: If a business enterprise plans to diversify into new product lines, its requirement of fixed capital will increase as compared to an organisation which does not have any such plans.</li> <li>▪ Growth prospects: If a business enterprise plans to expand its current business operations in the anticipation of higher demand, its requirement of fixed capital will be more as compared to an organisation which doesn't plan to pursue any such plans.</li> </ul>	1x4=4
29	<p><b>Internship training-</b> Is a joint programme of training in which educational institutions and business firms cooperate. Selected candidates carry on regular studies for the prescribed period. Internship training can be classified as On-the-job method of training.</p> <p><b>Vestibule training-</b> 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 material, files and equipment. Vestibule training can be classified as off-the-job method of training.</p> <p style="text-align: center;"><b>Or</b></p> <p>Benefits of Training and Development to an Organisation (i) Training enhances employee productivity both in terms of quantity and quality and leading to higher profits. (ii) Training equips the future manager, who can takeover in case of emergency. (iii) Training increases employees morale and reduce absenteeism and employee turnover.</p> <p>Benefits of Training and Development to the Employee Increased performance by the individual help him to earn more. Training makes the employee more efficient to handle machines. Thus, less prone to accidents. Training increases the satisfaction and morale of employees.</p> <p style="text-align: right;">(any 4 points)</p>	<p>1.5</p> <p>0.5</p> <p>1.5</p> <p>0.5</p> <p>1x4=4</p>
30	<p>Factors affecting capital structure</p> <p><b>Creditworthiness:</b> Any company that has a reputation for paying back its loans on time will be able to raise funds on less stringent terms and at</p>	1x4=4

	<p>lower interest rates. It allows them to pay back their loans on time. The opposite is true for firms that don't have a good credit standing in the market.</p> <p><b>Risk Aptitude of the Management:</b> The attitude of a company's management also affects the proportion of debt and equity in the capital structure. Some managers prefer to follow a low-risk strategy and opt for equity shares to raise finances. Other managers are confident of the company's ability to repay big loans, and they prefer to undertake a higher proportion of long term debt instruments.</p> <p><b>Control:</b> A management that wants outside interference in its operations may not raise funds through equity shares. Equity shareholders have the right to appoint directors, and they also dilute the stake of owners in the company. Some companies may prefer debt instruments to raise funds. If the creditors get their instalments on loans and interest on time, they will not be able to interfere in the workings of the business. But if the company defaults on their credit, the creditors can remove the present management and take control of the business.</p> <p><b>State of Capital Market:</b> The tendencies of investors and creditors determine whether a company uses more debt or equity to finance their operations. Sometimes a company wants to issue ordinary shares, but no one is willing to invest due to the high-risk nature of their business. In that case, the management has to raise funds from other sources like debt markets.( any other relevant point)</p>	
31	<p><b>Method Study:</b> The purpose of the outlined study is to find out one vigorous way of performing the job. There are different ways of performing the job. To ascertain the best way, there are diverse parameters. Right from the obtainment of raw materials until the ultimate product is presented to the consumer, every pursuit is part of method research. Taylor devised the idea of the assembly line by applying the method study.</p> <p><b>Motion Study:</b> Motion study pertains to the study of movements like putting objects, lifting, changing positions and sitting etc., which are moved while doing a conventional job. Random movements are solicited to be reduced so that it takes less time to perform the job effectively.</p> <p><b>Time Study:</b> It circumscribes the conventional time taken to complete a well-defined job. Time regulating devices are used for each part of the task. The standard time is set for the entirety of the task by taking different readings. The course of time study will rely upon the frequency and volume of the task, the cycle time of the process and time measurement costs.</p> <p style="text-align: center;">Or</p> <p>(a) Esprit de Corps; Management should foster team spirit, unity and harmony among employees. Hence efforts should be made to ensure group cohesion in the organisation.</p> <p>(b) Unity of Direction: All the units of an organisation should move towards the same objectives through coordinated and focused efforts.</p>	<p>3x2=6</p> <p>3x2=6</p>

	<p>There should be only one head and one plan for a group of individuals having the same objective. Hence the unity of action is ensured through this principle</p> <p>(c) Initiative; Workers should be motivated to develop and implement improvement plans. Initiative means taking the first step with self-motivation. It entails formulating and carrying out a strategy.</p>	
32	<p>i) <b>Labelling</b> can be defined as a process of display of all the information on the packaging material or on the product itself. While labelling the product a company has to follow all the guidelines and adhere to all the legal requirements like ingredients, nutritional and safety information The details mentioned in the labelling of the product help the customer in knowing a product better and help them decide whether to buy it or not.</p> <p><b>Packaging</b> refers to the various activities that are carried out for designing and developing a suitable package for a product, which may be in the form of a container, wrapper, box, tube, plastic bottle, tetra pack or tin etc. The packaging must be properly and solidly done so that it can protect the product from contamination, leakage, evaporation, spoilage or damage during its storage, transportation and promotional activities.</p> <p>ii) (i) Simple and Short: A brand name should be simple and short so that there is no complication related to its name.  (ii) Easily Pronounceable: A brand name should be easily pronounceable e.g., : TAIA, GLUCOSE, etc.  (iii) Suggestive: Brand name should be self-explanatory thereby, suggesting the inherent quality of the product. For example: HAJMOLA indicates the curing of indigestive (any two)</p>	<p>2</p> <p>2</p> <p>2</p>
33	<p>I) Organising  Explanation: Organizing 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 together in accomplishing objectives.'</p> <p>II) Steps in the process of organising  (i) Identifying and Dividing the Work: Under organising, the very first step deals with identifying the activities and dividing them according to the defined plans. The actions are divided as per the objectives. A clear division of work is done so as to avoid any duplicity.  (ii) Creating Departments: Herein, the divided actions are further grouped into units based on the similarity in nature. That is, similar activities are grouped together. Such departmentalisation promotes specialisation. Each department specialises in a particular task. Departments can be formed on the basis of several criteria such as working profiles, regions, product, etc.  (iii) Assigning Duties: The third step under organising deals with assigning the roles and responsibilities to the personnel. Under each department work is allocated to different members as per their skill and ability. While</p>	<p>1</p> <p>1</p> <p>1x4=4</p>



	<p>assigning the duties it must be ensured that the best suited and proficient person is selected for the work.</p> <p>(iv) Establishing the Relationships: Any organisation needs a proper hierarchic structure to work efficiently. Every person should know whom he's working under and to whom he needs to report. Clear establishment of such relationships help in smooth functioning of an organisation.</p>	
34	<p>Limitations of planning:</p> <ol style="list-style-type: none"> <li>1. Planning leads to rigidity: Planning discourages individual's initiative &amp; creativity. The managers do not make changes according to changing business environment. They stop taking or giving suggestions and new ideas. Thus detailed planning may create a rigid framework in the organization.</li> <li>2. Planning may not work in dynamic environment: Planning is based on anticipation of future happenings and since future is uncertain and dynamic therefore, the future anticipations are not always true.</li> <li>3. Planning involves huge costs: When plans are drawn up, huge cost is involved in their formulation.</li> <li>4. Planning is time consuming: Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation.</li> <li>5. Planning does not guarantee success: The success of an enterprise is possible only when plans are properly drawn and implement. Sometimes managers depend on previously tried successful plans, but it is not always true that a plan which has worked before will work effectively again.</li> <li>6. Planning reduces creativity: In planning, work is to be done as per pre-determined plans. It is decided in advance what is to be done, how it is to be done and who is going to do it. Moreover, planning is done by top management which leads to reduction of creativity of other levels of management.</li> </ol> <p style="text-align: center;">Or</p> <p><b>Identifying Alternative Courses Of Action:</b></p> <p>– After setting the objectives, managers make a list of alternatives through which the org. can achieve its objectives as there can be many ways to achieve the objectives &amp; managers must know all of them.</p> <p>– E.g. Sales could be increased through any of the following ways:</p> <ul style="list-style-type: none"> <li>• By enhancing advertising expenditure</li> <li>• Appointing salesmen for door-to-door sales</li> <li>• By offering discounts</li> <li>• By adding more product lines.</li> </ul> <p><b>Evaluating Alternative Courses Of Action</b></p> <p>– Positive &amp; negative aspects of each &amp; every proposal need to be evaluated to determine their feasibility and consequences in the light of each objective to be achieved.</p> <p>– E.g. In financial plans, risk-return trade-off are imp. Riskier the</p>	<p>6x1=6</p> <p>1.5</p> <p>1.5</p>

	<p>investment, higher the returns it is likely to give. To evaluate such proposals, detailed calc. of earnings, taxes, earnings per share etc. should be done.</p> <p><b>Selecting The Best Alternative</b></p> <ul style="list-style-type: none"> <li>– Real point of decision-making→ Best plan has to be adopted and implemented.</li> <li>– The ideal plan = most feasible, profitable and with least negative consequences.</li> <li>– Most plans may not be subjected to mathematical analysis. In such cases, subjectivity &amp; manager’s experience, judgment and intuition are important to select the most viable alternative.</li> <li>– Sometimes a combination of plans may be selected instead of one best course.</li> </ul> <p><b>Implementing The Plan</b></p> <ul style="list-style-type: none"> <li>– Concerned with putting the plan into action.</li> <li>– For implementing the plans, managers start organizing &amp; assembling resources for it.</li> <li>– E.g. If there is a plan to ↑ production, then more labour, more machinery will be reqd. This step would also involve organizing for more labour and purchase of machinery.</li> </ul> <p><b>Follow Up Action</b></p> <ul style="list-style-type: none"> <li>– This involves monitoring the plans and ensuring that activities are performed according to the schedule.</li> <li>– Whenever there are deviations from plans, immediate action has to be taken to bring implementation according to the plan or make changes in the plan.</li> </ul>	<p>1</p> <p>1</p> <p>1</p>
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KVS BENGALURU REGION  
SAMPLE PAPER IV 2024-25  
SUBJECT : BUSINESS STUDIES

BLUE PRINT

SN	LESSON	1 MARK	3 MARK	4 MARK	6 MARK	CHOICE
1	NATURE AND SIGNIFICANCE OF MANAGEMENT	3	1	-	-	-
2	PRINCIPLES OF MANAGEMENT	-	-	-	1	6(1)
3	BUSINESS ENVIRONMENT	4	-	-	-	-
4	PLANNING				1	6(1)
5	ORGANISING	1	-	-	1	-
6	STAFFING	-	1	1	-	4(1)
7	DIRECTING	1	-	2	-	4(1)
8	CONTROLLING	2	1	-	-	3(1)
9	FINANCIAL MANAGEMENT	2	-	2	-	-
10	FINANCIAL MARKET	2	1	-	-	3(1)
11	MARKETING	5	-	-	1	-
12	CONSUMER PROTECTION	-	-	1	-	-
	TOTAL MARKS	20	12	24	24	80



3	<p>Efficiency means</p> <p>(a) Doing the task with minimum cost</p> <p>(b) Deriving more benefits by using less resources</p> <p>(c) Doing the task correctly</p> <p>(d) All of the above</p>	1								
4	<p>The trend of health and fitness has created a demand for products like gyms, bottled mineral water and food supplements, etc. These are examples of</p> <p>(a) Legal environment (b) Economic environment</p> <p>(c) Social environment (d) Political environment</p>	1								
5	<p>A manager in a conscious manner has to ensure that even where members of a department are willingly cooperating, coordination gives direction to the willing spirit. The characteristic of coordination being highlighted is:</p> <p>a) Coordination is the responsibility of all the managers.</p> <p>b) Coordination is a deliberate function.</p> <p>c) Coordination integrates group efforts.</p> <p>d) Coordination is a continuous process.</p>	1								
6	<p>Assertion (A): Business environment is dynamic. Reason</p> <p>(R): Business environment is highly flexible and keeps changing. (a) Both</p> <p>Assertion(A) &amp; Reason(R) are True &amp; (R)is the explanation of(A)</p> <p>(b) Both Assertion(A) &amp; Reason(R) are True &amp; (R)is not correct explanation of A</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								
7	<p>Indian ethnic wear like sarees and lehengas are in great demand in India but Italy does not have such a high demand for the same dresses.</p> <p>Identify the feature of the business environment that has been reflected here</p> <p>a) Interrelatedness (b) Uncertainty (c) Complexity (d) Relativity</p>	1								
8	<p>Choose the correct sequence of options in column II with column I.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;">Column I</th> <th style="width: 50%;">Column II</th> </tr> </thead> <tbody> <tr> <td>(A) Production</td> <td>(i) Persuading the buyer to purchase</td> </tr> <tr> <td>(B) Product concept</td> <td>(ii) Satisfying customer's needs</td> </tr> <tr> <td>(C) Selling</td> <td>(iii) Quality of the product</td> </tr> </tbody> </table>	Column I	Column II	(A) Production	(i) Persuading the buyer to purchase	(B) Product concept	(ii) Satisfying customer's needs	(C) Selling	(iii) Quality of the product	1
Column I	Column II									
(A) Production	(i) Persuading the buyer to purchase									
(B) Product concept	(ii) Satisfying customer's needs									
(C) Selling	(iii) Quality of the product									





	<p>c) Both the statements are true.</p> <p>d) Both the statements are false.</p>	
19	<p>A company's sales have been declining for the past three quarters. The manager has decided to implement a new control system to try to improve sales. Which of the following control systems would be the most effective in this situation?</p> <p>(a) A budget system that sets targets for sales and profits.</p> <p>(b) A performance appraisal system to evaluate performance of sales staff.</p> <p>(c) A quality control system that ensures products meet customers' expectations.</p> <p>(d) A survey that measures customer satisfaction with the company's products and services.</p>	1
20	<p>The difference between the current assets and current liabilities is called as a) Net Worth b) Capital Reserve c) Fixed Capital d) Working Capital</p>	1
21	<p>Keshav is working in Impetus limited, a company manufacturing air humidifiers. He found that the profits of the company had started declining from the last 6 months. Since, profit has an implication for the survival of the firm, he analyses the business environment to find out the reasons for this decline.</p> <p>a) Identify the level at which Keshav was working.</p> <p>b) Write any two functions performed by him.</p>	3
22	<p>Some learning opportunities are designed and delivered to improve the abilities, skills and abilities of employees whereas some others are designed to help the growth of individuals.</p> <p>Write any two differences (along with the basis of distinction) between the concepts discussed above.</p>	3
23	<p>Briefly explain any 3 steps of controlling <b>OR</b></p> <p>State any 3 reasons that make you feel that controlling is indispensable function of management</p>	3
24	<p>State any three regulatory functions of the Securities Exchange Board of India.</p> <p><b>OR</b></p> <p>State the protective functions of the Securities Exchange Board of India.</p>	3
25	<p>Mr. Rajah, the CEO of an IT company wants to promote a culture of innovation and sustainability in his company. He decides to launch a new division that focuses on developing eco-friendly products. To lead this initiative, he selected four individuals</p>	4



	<p>namely Neha Sharma, David Smith, Maria and John Tunica as the heads of research and development, marketing, operations and finance departments respectively.</p> <p>Name and explain the next two steps that Rajah has to follow in the staffing process after the selection of these people as the head of different departments</p> <p style="text-align: center;"><b>OR</b></p> <p>Explain the following sources of recruitment.</p> <p>a) Casual Callers                      b) Campus Placement</p>	
26	<p>What is the meaning of directing as a function of management? Write three points of importance of directing function.</p> <p style="text-align: center;"><b>OR</b></p> <p>Name the element of the directing function of management which is concerned with influencing the behaviour of others so that they contribute to the betterment of the organisation. Explain the different types of the element of directing identified above.</p>	4
27	<p>Akhila enterprises is not only giving salary to its employees but also of first bonus to them over and above the salaries to further encourage the employees it announce that it will provide a share in the profit of the company to them these incentives are helpful in increasing the purchasing power of the employees state any three incentive of the type of incentive discuss in the above paragraph.</p>	4
28	<p>Explain any four factors affecting Financing Decision</p>	4
29	<p>Explain any four factors affecting the fixed capital requirement of a company.</p>	4
30	<p>Ganesh purchased a packet potato ships of renowned brand for his daughter from a shop 4 in the nearby market. After consuming the potato ships his daughter fell sick. He filed a case with the District forum against the renowned brand. He lost the case because of a mistake that he could not provide proof of purchase. What should be kept in mind by a consumer while purchasing, using and consuming goods and services apart from avoiding the mistake committed by Ganesh, in order to enable him/her to achieve the objective of consumer protection? Enumerate any four responsibilities.</p>	4
31	<p>Name and explain the types of plans. Also state whether they are single use or standing plans.</p> <p>a) A type of plan which serves as a controlling device as well.  b) A type of plan that provides a broad contours of an organisation's business.  c) A type of plan which is a general statement that guides thinking or channelizes energies towards a particular direction.</p> <p style="text-align: center;"><b>OR</b></p> <p>Explain the following type of plans with suitable examples:</p> <p>a) Objectives                      b) Strategy                      c) Rules</p>	6

32	<p>Explain the following points of importance of Principles of management:</p> <ul style="list-style-type: none"> <li>a) Provides useful insight to managers</li> <li>b) Optimum utilisation of resources and effective administration</li> <li>c) Scientific decisions</li> </ul> <p style="text-align: center;">OR</p> <p>Identify and explain the following principles of management with a suitable example:</p> <ul style="list-style-type: none"> <li>a) An organisation must provide a right place for everything and everyone.</li> <li>b) There should be judicious imposition of punishments and penalties in the organisation.</li> </ul>	6
33	<p>A company, which manufactures a popular brand of toys, has been enjoying good market reputation. It has a functional organisational structure with separate departments for Production, Marketing, Finance, Human Resources and Research and Development. Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging.</p> <p>Prepare a report regarding organisation structure giving concrete reasons with regard to benefits the company will derive from the steps it would take.</p>	6
34	<p>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.</p> <p>As per the company policy, the products were offered at reasonable and affordable prices for targeting a mass customer base.</p> <p>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.</p> <p>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.</p> <p>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.</p>	6

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KENDRIYA VIDYALAYA SANGATHAN, BENGALURU REGION

SAMPLE PAPER IV

SUBJECT- BUSINESS STUDIES (054)

MAX.MARKS 80

**MARKING SCHEME**

Q.NO.	SUGGESTED ANSWERS	MARKS
1	(a) Both (A) and (R) are true and (R) is correct explanation of (A)	1
2	c) Technological Environment	1
3	(d) All of the above	1
4	(c) Social environment	1
5	b) Coordination is a deliberate function.	1
6	(a) Both Assertion(A) & Reason(R) are True & Reason(R)is the explanation of(A)	1
7	(d) Relativity	1
8	(b) (iv), (iii), (i), (ii)	1
9	d) Psychological barrier	1
10	(c)Analysing the deviations	1
11	(b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A)	1
12	d) Societal marketing concept	1
13	b) Unique order code	1

14	(a) Statement I is true and statement II is false.	1
15	(a) Sales Promotion	1
16	d) Demat Account	1
17	d) Public relations department	1
18	c) Both the statements are true.	1
19	(c) A quality control system that ensures products meet customers' expectations	1
20	d) Working Capital	1
21	1 MARK for Top level, one mark for each correct function performed at top level	3
22	½ mark for correct identification of training and development 1 mark each for correct difference between training and development along with the basis of difference	3
23	1 marks each for correct explanation Setting performance standards Measurement of actual performance Comparing actual with standard Analysing deviations Taking corrective action  OR 1 Mark each for importance of controlling Accomplishing organisational goals Judging accuracy of standard Efficient use of resources Ensuring order and discipline	3

	Improving employee motivation Facilitating coordination	
24	1 mark each for regulatory function Register brokers Regulates brokers Monitors take over of small companies Any other  OR 1 mark each for protective function Prohibits unfair and fraudulent trade practices Controls insider trading Investor protection Any other	3
25	½ mark each for correct heading and 1.5 mark each for explanation	4
26	1 mark for meaning and 1 mark each for correct heading	4
27	Financial incentives, 1 mark each for correct heading and explanation	4
28	Any four factors ½ mark for correct heading and ½ mark for correct explanation Cost Risk Flotation costs Cash flow position Level of fixed operating costs Structure of capital market Any other	4

29	<p>Any four factors affecting fixed capital requirement <math>\frac{1}{2}</math> mark for correct heading and <math>\frac{1}{2}</math> mark for correct explanation</p> <p>1 Nature of business</p> <p>Scale of operations</p> <p>Choice of techniques</p> <p>Technology upgradation</p> <p>Growth prospects</p> <p>Diversification</p> <p>Any other</p>	4
30	1 mark each for correct consumer responsibility	4
31	<p>a. Budget( single use) b. Strategy( standing use)</p> <p>c. Policy( single use)</p> <p><math>\frac{1}{2}</math> mark each for correct type of plan, <math>\frac{1}{2}</math> mark for single use or standing use plan and 1 mark each for explanation</p> <p>OR</p> <p>1 Mark for correct explanation and 1 mark for example( 2*3= 6)</p>	6
32	<p>2 marks each for correct explanation of each heading</p> <p>OR</p> <p>1 mark for correct identification</p> <p>a.order equity</p> <p>and 2 mark for correct explanation</p>	6
33	<p><math>\frac{1}{2}</math> mark for each correct heading and 1mark for explanation</p> <p>1.Functional specialisation</p> <p>2.Better control and coordination</p>	6

	<ul style="list-style-type: none"> <li>3. Efficiency</li> <li>4 Minimises cost</li> <li>5 Facilitates training</li> <li>6. Proper attention</li> </ul>	
34	<p>½ mark for each correct heading and 1 mark for explanation</p> <ul style="list-style-type: none"> <li>1 Gathering and analysing market information</li> <li>2. Product designing and development</li> <li>3. Standardisation</li> <li>4. Packaging and labelling</li> <li>5. Transportation</li> <li>6. Storage and warehousing</li> </ul>	6