

**KENDRIYA VIDYALAYA SANGATHAN**  
**CHENNAI REGION**  
**STUDENT SUPPORT MATERIAL**



**BUSINESS STUDIES**  
**CLASS XII**  
**2022-23**



**KENDRIYA VIDALAYA SANGATHAN,  
CHENNAI REGION**



**CHIEF PATRON**

**Ms. T. RUKMANI**

**Offg. Deputy Commissioner, KVS Chennai Region**

**PATRON**

**SHRI.P.I. THANGA RAJA**

**Assistant Commissioner, KVS Chennai Region**

**COURSE DIRECTOR**

**Mr.A. JERALD, Principal, KV No,2, Madurai**

**COMPILATION BY**

**Mrs. D. Sreelatha, PGT-Commerce, KV, IIT, Chennai**

**Mr. B.K. Athmanandam, PGT-Commerce, KV No.2, Madurai**

**CONTENT DEVELOPMENT TEAM Mrs.K.S.Shyamala, PGT-**

**Commerce, KV No.1, Madurai**

**Mr.Abdul Salam, PGT-Commerce, KV, Sulur Mr.Murugan, PGT-**

**Commerce, KV, JIPMER (Shift 1), Pondicherry Mrs.Lalini R, PGT-**

**Commerce, KV No.2, AFS, Tambaram, Chennai Mrs.Raji**

**Krishnan, PGT-Commerce, KV, CMFRI, Mandapam Mr.Cini**

**Augustine, PGT-Commerce, KV, CECRI, Karaikudi Mr.Sarath,**

**PGT-Commerce, KV, Island Grounds, Chennai**

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**BUSINESS STUDIES  
CURRICULUM  
CLASS–XII (2022-23)**

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

**3 Hours**

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	<input type="checkbox"/> Understand the concept of management. <input type="checkbox"/> Explain the meaning of 'Effectiveness and Efficiency'. <input type="checkbox"/> Discuss the objectives of management. <input type="checkbox"/> Describe the importance of management.
Management as Science, Art and Profession	<input type="checkbox"/> Examine the nature of management as a science, art and profession.
Levels of Management	<input type="checkbox"/> Understand the role of top, middle and lower levels of management
Management functions- planning, organizing, staffing, directing and controlling	<input type="checkbox"/> Explain the functions of management
Coordination- concept and importance	<input type="checkbox"/> Discuss the concept and characteristics of coordination. <input type="checkbox"/> Explain the importance of coordination.

## Unit 2: Principles of Management

Principles of Management- concept and significance	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of principles of management.</li> <li><input type="checkbox"/> Explain the significance of management principles.</li> </ul>
Fayol's principles of management	<ul style="list-style-type: none"> <li><input type="checkbox"/> Discuss the principles of management developed by Fayol.</li> </ul>
Taylor's Scientific management- principles and techniques	<ul style="list-style-type: none"> <li><input type="checkbox"/> Explain the principles and techniques of 'Scientific Management'.</li> <li><input type="checkbox"/> 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><input type="checkbox"/> Understand the concept of 'Business Environment'.</li> <li><input type="checkbox"/> 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><input type="checkbox"/> Describe the various dimensions of 'Business Environment'.</li> <li><input type="checkbox"/> Understand the concept of demonetization</li> </ul>
Demonetization - concept and features	

## Unit 4: Planning

Concept, importance and limitation	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of planning.</li> <li><input type="checkbox"/> Describe the importance of planning.</li> <li><input type="checkbox"/> Understand the limitations of planning.</li> </ul>
Planning process	<ul style="list-style-type: none"> <li><input type="checkbox"/> 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><input type="checkbox"/> Develop an understanding of single use and standing plans</li> <li><input type="checkbox"/> Describe objectives, policies, strategy, procedure, method, rule, budget and programme as types of plans.</li> </ul>

## Unit 5: Organising

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

### Unit 6: Staffing

Concept and importance of staffing	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of staffing.</li> <li><input type="checkbox"/> Explain the importance of staffing</li> </ul>
Staffing as a part of Human Resource Management concept	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the specialized duties and activities performed by Human Resource Management</li> </ul>
Staffing process	<ul style="list-style-type: none"> <li><input type="checkbox"/> Describe the steps in the process of staffing</li> </ul>
Recruitment process	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the meaning of recruitment.</li> <li><input type="checkbox"/> Discuss the sources of recruitment.</li> <li><input type="checkbox"/> Explain the merits and demerits of internal and external sources of recruitment.</li> </ul>
Selection – process	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the meaning of selection.</li> <li><input type="checkbox"/> Describe the steps involved in the process of selection.</li> </ul>
Training and Development - Concept and importance, Methods of training - on the	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of training and development.</li> </ul>

job and off the job - vestibule training, apprenticeship training and internship training	<ul style="list-style-type: none"> <li><input type="checkbox"/> Appreciate the importance of training to the organisation and to the employees.</li> <li><input type="checkbox"/> Discuss the meaning of induction training, vestibule training, apprenticeship training and internship training.</li> <li><input type="checkbox"/> Differentiate between training and development.</li> <li><input type="checkbox"/> Discuss on the job and off the job methods of training.</li> </ul>
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### Unit 7: Directing

Concept and importance	<ul style="list-style-type: none"> <li><input type="checkbox"/> Describe the concept of directing.</li> <li><input type="checkbox"/> Discuss the importance of directing</li> </ul>
Elements of Directing	<ul style="list-style-type: none"> <li><input type="checkbox"/> 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><input type="checkbox"/> Understand the concept of motivation.</li> <li><input type="checkbox"/> Develop an understanding of Maslow's Hierarchy of needs.</li> <li><input type="checkbox"/> 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><input type="checkbox"/> Understand the concept of leadership.</li> <li><input type="checkbox"/> Understand the various styles of leadership.</li> </ul>
Communication - concept, formal and informal communication; barriers to effective communication, how to overcome the barriers	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of communication</li> <li><input type="checkbox"/> Understand the elements of the communication process.</li> <li><input type="checkbox"/> Discuss the concept of formal and informal communication.</li> <li><input type="checkbox"/> Discuss the various barriers to effective communication.</li> <li><input type="checkbox"/> Suggest measures to overcome barriers to communication.</li> </ul>

### Unit 8: Controlling

Controlling - Concept and importance	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of controlling.</li> <li><input type="checkbox"/> Explain the importance of controlling.</li> </ul>
Relationship between planning and controlling	<ul style="list-style-type: none"> <li><input type="checkbox"/> Describe the relationship between planning and controlling</li> </ul>

Steps in process of control	<input type="checkbox"/> Discuss the steps in the process of controlling.
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**Part B: Business Finance and Marketing Unit 9:**

**Financial Management**

Concept, role and objectives of Financial Management	<input type="checkbox"/> Understand the concept of financial management. <input type="checkbox"/> Explain the role of financial management in an organisation. <input type="checkbox"/> Discuss the objectives of financial management
Financial decisions: investment, financing and dividend- Meaning and factors affecting	<input type="checkbox"/> Discuss the three financial decisions and the factors affecting them.
Financial Planning - concept and importance	<input type="checkbox"/> Describe the concept of financial planning and its objectives. <input type="checkbox"/> Explain the importance of financial planning.
Capital Structure – concept and factors affecting capital structure	<input type="checkbox"/> Understand the concept of capital structure. <input type="checkbox"/> Describe the factors determining the choice of an appropriate capital structure of a company.
Fixed and Working Capital - Concept and factors affecting their requirements	<input type="checkbox"/> Understand the concept of fixed and working capital. <input type="checkbox"/> Describe the factors determining the requirements of fixed and working capital.

**Unit 10: Financial Markets**

Financial Markets: Concept	<input type="checkbox"/> Understand the concept of financial market.
Money Market: Concept	<input type="checkbox"/> Understand the concept of money market.
Capital market and its types (primary and secondary)	<input type="checkbox"/> Discuss the concept of capital market. <input type="checkbox"/> Explain primary and secondary markets as types of capital market. <input type="checkbox"/> Differentiate between capital market and money market. <input type="checkbox"/> Distinguish between primary and secondary markets.



Stock Exchange - Functions and trading procedure	<input type="checkbox"/> Give the meaning of a stock exchange. <input type="checkbox"/> Explain the functions of a stock exchange. <input type="checkbox"/> Discuss the trading procedure in a stock exchange.
	<input type="checkbox"/> Give the meaning of depository services and demat account as used in the trading procedure of securities.
Securities and Exchange Board of India (SEBI) - objectives and functions	<input type="checkbox"/> State the objectives of SEBI. <input type="checkbox"/> Explain the functions of SEBI.

### Unit 11: Marketing

Marketing – Concept, functions and philosophies	<input type="checkbox"/> Understand the concept of marketing. <input type="checkbox"/> Explain the features of marketing. <input type="checkbox"/> Discuss the functions of marketing. <input type="checkbox"/> Explain the marketing philosophies.
Marketing Mix – Concept and elements	<input type="checkbox"/> Understand the concept of marketing mix. <input type="checkbox"/> Describe the elements of marketing mix.
Product - branding, labelling and packaging – Concept	<input type="checkbox"/> Understand the concept of product as an element of marketing mix. <input type="checkbox"/> Understand the concept of branding, labelling and packaging.
Price - Concept, Factors determining price	<input type="checkbox"/> Understand the concept of price as an element of marketing mix. <input type="checkbox"/> Describe the factors determining price of a product.
Physical Distribution – concept, components and channels of distribution	<input type="checkbox"/> Understand the concept of physical distribution. <input type="checkbox"/> Explain the components of physical distribution. <input type="checkbox"/> Describe the various channels of distribution.

<p>Promotion – Concept and elements; Advertising, Personal Selling, Sales Promotion and Public Relations</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of promotion as an element of marketing mix.</li> <li><input type="checkbox"/> Describe the elements of promotion mix.</li> <li><input type="checkbox"/> Understand the concept of advertising.</li> <li><input type="checkbox"/> Understand the concept of sales promotion.</li> <li><input type="checkbox"/> Discuss the concept of public relations.</li> </ul>
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**Unit 12: Consumer Protection**

<p>Concept and importance of consumer protection</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of consumer protection. Describe the importance of consumer protection. 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><input type="checkbox"/> Understand the concept of a consumer according to the Consumer Protection Act, 2019.</li> <li><input type="checkbox"/> Explain the consumer rights</li> <li><input type="checkbox"/> Understand the responsibilities of consumers</li> <li><input type="checkbox"/> Understand who can file a complaint and against whom?</li> <li><input type="checkbox"/> Discuss the legal redressal machinery under Consumer Protection Act, 2019.</li> <li><input type="checkbox"/> 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><input type="checkbox"/> Describe the role of consumer organizations and NGOs in protecting consumers' interests.</li> </ul>

Unit 13: Project Work

	<b>CHAPTER-1</b> <b>NATURE AND SIGNIFICANCE OF MANAGEMENT</b>	
	<p><b>LEARNING OBJECTIVE</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of management.</li> <li><input type="checkbox"/> Explain the meaning of 'Effectiveness and Efficiency.</li> <li><input type="checkbox"/> Discuss the objectives of management.</li> <li><input type="checkbox"/> Describe the importance of management.</li> <li><input type="checkbox"/> Examine the nature of management as a science, art and profession.</li> <li><input type="checkbox"/> Understand the role of top, middle and lower levels of management</li> <li><input type="checkbox"/> Explain the functions of management</li> <li><input type="checkbox"/> Discuss the concept and characteristics of coordination.</li> <li><input type="checkbox"/> Explain the importance of coordination.</li> </ul>	
	<p style="text-align: center;">Management is an art of getting things done through others. Management can be defined as, the process of getting things done with the aim of achieving goals effectively and efficiently.</p> <p><b>Efficiency and Effectiveness</b></p> <p>Efficiency means doing the task correctly at minimum cost while effectiveness means completing the task correctly. Although Efficiency and effectiveness are different but they are interrelated. It is important for management to be both i.e. effective and efficient.</p> <p><b>Example:</b> - If a company is producing goods with a cost price of Rs.50 with a target of producing 1,000 units in 10 days is effective and another company producing same quantity with a cost price of Rs.45 is efficiency.</p> <p><b>Characteristics of Management</b></p> <ol style="list-style-type: none"> <li>1. <b>Goal oriented Process:</b> It is a goal oriented process, which is undertaken to achieve already specified and desired objectives.</li> <li>2. <b>Pervasive:</b> Management is pervasive in nature. It is used in all types of organizations whether economic, social or political and at every level.</li> <li>3. <b>Multidimensional:</b> It is multidimensional as it involves management of Work, People and operations.</li> <li>4. <b>Continuous :</b> It is a continuous process i.e. its functions are being performed by all managers simultaneously. The process of management continue till an organisation exist for attaining its objectives.</li> <li>5. <b>Group Activity :</b> It is a group activity since it involves managing and coordinating activities of different people as a team to attain the desired objectives.</li> <li>6. <b>Dynamic function :</b> it is a dynamic function since it has to adapt to the changing environment.</li> </ol>	

**7. Intangible Force** : It is an intangible force as it cannot be seen but its effects are felt in the form of results like whether the objectives are met and whether people are motivated or not.

**Objectives of management**

(A) Organizational objectives of Survival (Earning enough revenues to cover cost); Profit (To Cover cost and risk); & Growth (To improve its future Prospects).

(B) Social Objectives of giving benefits to society like using environmental friendly practices and giving employment to disadvantaged sections of society etc.

(C) Personal Objectives because diverse personal objectives of people working in the organization have to be reconciled with organizational objectives.

**Importance of management**

(1) **Achieving Group Goals** : Management helps in achieving group goals. Managers give common direction to the individual effort in achieving the overall goal of the organisation.

(2) **Increases Efficiency** : Management increases efficiency by using resources in the best possible manner to reduce cost and increase productivity.

(3) **Creates Dynamic Organisation** : Management helps in creating Dynamic organisation which could adopt changing situations easily.

(4) **Achieving Personal Objectives** : Management helps in achieving objectives of individuals working in the organisation.

(5) **Development of Society** : Management helps in the development of society by producing good quality products, creating employment opportunities and adopting new technology.

**Management as an Art**

(1) Art refers to skilful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience. The features of art are as follows.

(2) Existence of theoretical knowledge: In every art systematic & organised study material should be available compulsorily to acquire theoretical knowledge.

(2) Personalised application: The use of basic knowledge differs from person to person and thus, art is a very personalised concept.

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

All the features of art are present in management so it can be called an art.

**Management as a science**

Science is a systematised body of knowledge that is based on general truths which can be tested anywhere, anytime. The features of science are as follows

(1) Systematised body of knowledge : Science has a systematised body of knowledge based on principles and experiments.

(2) Principles based on experiments & observation : Scientific principles are developed through experiments and observations.

(3) Universal Validity : Scientific principles have universal validity and application. Management has systematic body of knowledge and its principles are developed over a period of time based on repeated experiments & observation, which are universally applicable.

As the principles of management are not as exact as the principles of pure science, so it may be called inexact science.

### Management as a profession

Profession means an occupation for which specialised knowledge and skills are required. The main features of profession are as follows.

(1) Well defined body of knowledge : All the professions are based on well defined body of knowledge.

(2) Restricted entry : The entry in every profession is restricted through examination or through some minimum educational qualification.

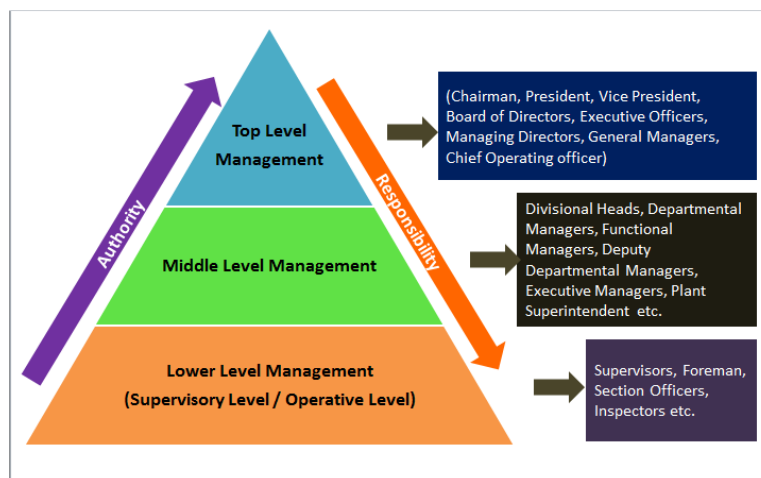
(3) Professional Associations : All professions are affiliated to a professional association which regulates entry and frame code of conduct relating to the profession.

(4) Ethical code of conduct : All professions are bound by a code of conduct which guides the behaviour of its members

(5) Service Motive : The main aim of a profession is to serve its clients.

Management does not fulfill all the features of a profession and thus it is not a full pledged profession.

**Levels of Management** : Top, Middle and Lower (operational) levels.



**Top Level** Consists of Chairperson, Chief Executive Officer, Chief Operating Officer or equivalent and their team.

Chief task is to integrate and to coordinate the various activities of the business, framing policies, formulating organisational goals & strategies.

Some of the functions of top level management are:

- (i) To determine the objectives of organizations.
- (ii) To integrate diverse elements and to coordinate the activities of different departments to overall objectives of organization.
- (iii) To frame plans and policies for the organization.
- (iv) To appoint executives for middle level.

**Middle Level**

Consists of divisional heads, Plant Superintendent and Operations Manager etc. Main tasks are to interpret the policies of the top management, to ensure the availability of resources to implement Policies & to coordinate all activities, ensure availability of necessary personnel & assign duties & responsibilities to them.

- (i) To explain the objectives and policies to lower level management.
- (ii) To ensure that their departments have necessary personnel.
- (iii) To assign necessary duties and responsibilities to them.
- (iv) To maintain coordination among different department of organization.
- (v) To submit the progress report and other information to top level management which helps in making future plans.

**Lower Level / Supervisory Level**

Consists of Foremen and supervisors etc.

Main task is ensuring actual implementation of the policies as per directions, bring workers grievances before the management & maintain discipline among the workers.

- (i) To translate the policies and decisions of top & middle management to workers.
- (ii) To make plans to distribute the work.
- (iii) To maintain quality of output, safety standards and to minimise the wastage of materials.
- (iv) To arrange necessities like tools, materials, working environment etc
- (v) To inform the higher authorities about the progress and problems of employees.

**Functions of Management** : Planning, Organizing, Staffing, Directing and Controlling.

**Planning** is deciding in advance what to do in future and how to do it.

**Organizing** is to assign duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan.

**Staffing** is finding the right people for the right job.

**Directing** is leading, influencing and motivating employees to perform the tasks assigned to them.

**Controlling** is monitoring the organizational performance towards the

	<p>attainment of organizational goals.</p> <p><b>Coordination</b> The essence of Management : Coordination is the force which synchronizes all the functions of management and activities of different departments.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> It integrates the group efforts.</li> <li><input type="checkbox"/> It ensures unity of action.</li> <li><input type="checkbox"/> It is a continuous process.</li> <li><input type="checkbox"/> It is an all pervasive function.</li> <li><input type="checkbox"/> It is a deliberate function.</li> <li><input type="checkbox"/> It is the responsibility of all managers</li> </ul>	
1.	<p><b>QUESTIONS</b></p> <p>One Mark Question</p> <p><b>1. What type of power management is?</b></p> <p>(a) Visible (b) Invisible (c) Separate (d) Collective</p> <p>ANS:- b</p>	
2	<p>Which one of the following sequence of process of management is correct:</p> <p>(a) Planning, Controlling, Organising, Staffing</p> <p>(b) Staffing, Planning, Organising, Controlling</p> <p>(c) Planning, Organising, Staffing, Controlling</p> <p>(d) Organising, Planning, Staffing, Controlling</p> <p>ANS: - C</p>	
3	<p>Management is important because:</p> <p>(a) It helps in achieving group goals</p> <p>(b) It helps in development of society</p> <p>(c) It increases efficiency</p> <p>(d) All of the above</p> <p>ANS:- D</p>	
4	<p>A _____ chain is formed from the top-level management to the lower-level <b>management.</b></p> <p>(a) Vertical (b) Thick (c) Scalar (d) Small</p> <p>ANS:-C</p>	
5	<p>“Coordination is not a separate function of management but it happens to be <b>the final truth of all functions.</b>” In what context this observation has been made?</p> <p>(a) Coordination is the essence of management</p> <p>(b) Coordination is not established automatically</p> <p>(c) Coordination is a continuously moving process</p> <p>(d) None of these</p>	

	ANS:- A	
6	<p>1. What information do we get about coordination through the medium of inter-dependence of various processes?</p> <p>(a) Meaning (b) Characteristics (c) Need (d) None of these</p> <p>ANS:- C</p>	
7	<p>Policy formulation is the function of</p> <p>(a) top level managers (b) middle level managers (c) operational management (d) all of the above</p> <p>ANS:- A</p>	
8	<p>Assertion (A): Management is a universal activity. Reason (R): Management is followed only in business organisations all over the world.</p> <p>Options:</p> <p>(i) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). (ii) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion (A). (iii) Assertion (A) is true but Reason (R) is false. (iv) Assertion (A) is false but Reason (R) is true.</p> <p>Ans. (iii)</p>	
9	<p>Assertion (A): Management helps in creating dynamic organisation. Reason (R): Management helps people to adopt changes so that the organization is able to maintain its competitive edge.</p> <p>Options:</p> <p>(i) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). (ii) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion (A). (iii) Assertion (A) is true but Reason (R) is false. (iv) Assertion (A) is false but Reason (R) is true.</p> <p>Ans: (i)</p>	
10	<p>Assertion (A): Profit is only main objective of every management. Reason (R): Profit is necessary for the existence of business.</p> <p>Options:</p> <p>(i) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). (ii) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion (A). (iii) Assertion (A) is true but Reason (R) is false.</p>	



	(iv) Assertion (A) is false but Reason (R) is true. Ans. (iv)									
11	In order to become a lawyer one has to register himself as a member of Bar Council of India. Which feature of profession is being revealed? a) Ethical code of conduct b) Restricted entry c) Service motive d) Professional association ANS:- D									
12	Which level of management is responsible to ensure their department has the necessary personnel? a) Supervisory level b) Middle level c) Operational level d) Top level ANS:- B									
13	Match the following on the basis of various functions performed by different levels of management <table border="1" data-bbox="360 1075 1286 1608"> <tr> <td>(a) Top level of management</td> <td>i) They interact with the actual workforce and pass on the instructions of middle level management to the workers.</td> </tr> <tr> <td>(b) Supervisory level of management</td> <td>ii) They assign necessary duties and responsibilities to the personnel and motivate them to achieve the objectives.</td> </tr> <tr> <td></td> <td>iii) They are responsible for all activities of the business and its impact on society.</td> </tr> <tr> <td></td> <td>iv) they see to it that their department has necessary personnel</td> </tr> </table> Ans: - a (iii), b(i)	(a) Top level of management	i) They interact with the actual workforce and pass on the instructions of middle level management to the workers.	(b) Supervisory level of management	ii) They assign necessary duties and responsibilities to the personnel and motivate them to achieve the objectives.		iii) They are responsible for all activities of the business and its impact on society.		iv) they see to it that their department has necessary personnel	
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14	Dheeraj is working as 'Operations Manager' in JK Ltd. Name the managerial level at which he is working. State any four functions he will perform as 'Operations Manager' in this company. Ans:-Dheeraj is working at middle level management									
15	The following is not an objective of Management									

	<p>(a) Earning profits  (b) Growth of the organisation  (c) Providing Employment  (d) Policy Making  Ans. (c)</p>	
16	<p>Which of the following functions of Management is concerned with finding the right people for the right Job?  (a) Planning (b) Organising (c) Staffing (d) Controlling  Ans. (c)</p>	
17	<p>Saurabh is managing director in a shoe manufacturing company. He has been doing well at this post. Under his guidance and leadership, the company has been actively achieving all the set targets as all the unrelated and diverse actions taken by different departments are given a common direction.  Identify the characteristic of management discussed in the given case.  (a) Management is a goal oriented process  (b) Management is a continuous process  (c) Management is a group activity  (d) Management is a dynamic function  Ans. (c)</p>	
18	<p>'Management cannot be seen but its presence can be felt in the way the organisation functions.'  Which characteristic of management is mentioned in the given statement.  (a) Management is multidimensional  (b) Management is all pervasive  (c) Management is an intangible force  (d) Management is a dynamic function  Ans. (c)</p>	
19	<p>Identify the nature of management when a manager applies the existing theoretical Knowledge in his own unique manner. (Choose the correct alternative)  (a) Management as a Science  (b) Management as an Art  (c) Management as a profession  (d) Management as a Discipline  Ans. (b)</p>	
20	<p>Which of the following is a feature of art?  (a) Existence of theoretical knowledge  (b) Systematised body of knowledge  (c) Service motive  (d) Ethical code of conduct  Ans. (a)</p>	

	THREE MARK QUESTIONS	
21	<p>An organization is a collection of diverse individuals with different needs. Every member of the group has a different purpose of joining the organization but as members of the organization they work towards fulfilling the common organizational goal. Bhagwati Enterprises is also such an organization. The firm deals in manufacturing of shoes. The company's margins are under pressure and the profits and market share are declining. The production department blames marketing for not meeting sales targets and marketing blames production department for producing goods, which are not of good quality meeting customers' expectations. The finance department blames both production and marketing for declining returns on investment and poor marketing. On investigation the CEO of the company Mr. Gopal Rao found that the organization was lacking an important quality of management. This managerial quality aims at securing unity of action in the realization of the common purpose. It acts as the binding force between the departments and ensures that all action is aimed at achieving the goals of the organization. On the basis of the above paragraph answer the following questions:</p> <p>(i) According to you, which characteristic of management is lacking in Bhagwati Enterprises? (Choose the correct alternative) (a) Management is multidimensional (b) Management is a continuous process (c) Management is an intangible force (d) Management is a group activity</p> <p>Ans. (d) Management is a group activity</p> <p>(ii) "This managerial quality aims at securing unity of action in the realization of the common purpose". Which managerial quality is being talked about in the given statement? (Choose the correct alternative) (a) Cooperation (b) Coordination (c) Effectiveness (d) Efficiency</p>	

	<p>Ans. (b) Coordination</p> <p>(iii) Identify the characteristic of managerial quality (identified in part (i)) . Which is discussed in the given paragraph. (Choose the correct alternative)</p> <p>(a) It integrates group efforts  (b) It ensures unity of action  (c) It is an all pervasive function  (d) It is the responsibility of all the managers</p> <p>Ans. (c) It is an all pervasive function</p>	
22	<p>Shilpa is working as a marketing head in an insurance company. She has been holding this position for long. She is an experienced manager who believes that organisations are made up of people who have different personalities, backgrounds, experiences and objectives. According to her, people become part of the organization to satisfy their diverse needs. Shilpa is of the view that all organisations have to function in an environment that is constantly changing. Hence, during the spread of Corona virus pandemic, she came up with new insurance products, which were designed as per the present needs and requirements of the customers. Soon the insurance products developed by Shilpa became a hit and the organization was able to achieve its goals. The goal of the organization which Shilpa wanted to achieve acted as a vital incentive for the continued successful operation of the enterprise. Before developing the new products, Shilpa determined in advance what is to be done and who is to do it. She set goals in advance and developed a way of achieving them efficiently and effectively.</p> <p>On the basis of the above paragraph answer the following questions:</p> <p>(i) During the spread of coronavirus pandemic, Shilpa came up with new insurance products to ensure _____ of the company in the long run.</p> <p>(a) Growth  (b) Survival  (c) Welfare  (d) Profit</p> <p>Ans. (b) Survival</p> <p>(ii) Which importance of management is mentioned in the given case. (Choose the correct alternative)</p> <p>(a) Management increases efficiency  (b) Management creates a dynamic organization  (c) Management helps in the development of society.  (d) Management helps in achieving group goals</p> <p>Ans. (b) Management creates a dynamic organization</p> <p>(iii) “Before developing the new product, Shilpa determined in advance what is to be done and who is to do it. She set goals in advance and developed a way of achieving them efficiently and effectively”.</p>	

	<p>Which managerial function is achieved by Shilpa here? (Choose the correct alternative)</p> <p>(a) Planning (b) Organizing (c) Directing (d) Controlling</p> <p>Ans. (a) Planning</p>	
23	<p>Mega Ltd was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was just sufficient to meet its costs. To increase the revenue, the company analysed the reasons of less revenues. After analysis the company decided</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. (ii) To start manufacturing solar water-heaters and reduce the production of electric water-heaters slowly. This will not only help in covering the risks, but also help in meeting other objectives too.</p> <p>(a) Identify and explain the objectives of management discussed above. (b) State any two values which the company wanted to communicate to the society.</p> <p>Ans. Mega Ltd is discussing about the achievement of ‘organisational objectives in part (i) and ‘Social objectives’ in part (ii).</p> <p>(i) (a) Organisational objectives Management is responsible for setting and achieving the organisational objectives. It achieves the objectives in such a manner that the human and financial resources are acquired, used and maintained in the most economic and efficient manner.</p> <p>Organisational objectives are survival, profit and growth.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Survival The most important objective of every business is to survive and in order to survive, it should earn enough revenue to cover its costs.</li> <li><input type="checkbox"/> Profit It is the incentive or reward for the efforts put in by an entrepreneur, moreover, it is the reason behind carrying out a business.</li> <li><input type="checkbox"/> Growth It is an extension of the objective of survival and profit.</li> </ul> <p>(b) Social objectives Since, organisations are social units, their objectives should be in line with general needs of the society. Some of the social objectives of an organisation are:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Supply of quality products.</li> <li><input type="checkbox"/> Using environmental friendly methods of production.</li> </ul>	

	<ul style="list-style-type: none"> <li>□ It should provide the employment opportunities to the disadvantaged sections of the society.</li> </ul> <p>(ii) Two values which the company wants to communicate to the society are:</p> <ul style="list-style-type: none"> <li>□ Giving employment opportunities to the people of backward area:</li> <li>□ Environment friendly by producing solar heaters and reduced production of electric heaters.</li> </ul>	
24	<p>Explain any three features of management or State any three characteristics of management</p> <p><b>Ans.</b> Features of management are as follows:  <b>(i) Goal-oriented process</b> Every organisation has a set of economic and social goals and management is meant to achieve these goals. Management ensures efficiency and economy in the utilisation of human, physical and financial resources.  <b>(ii) Group activity</b> An organisation is a group of different individuals with different skills. Management directs and uses all such skills and activities of different individuals towards the achievement of common organisational goals.  <b>(iii) Intangible force</b> Management is an intangible force as it cannot be seen but its presence can be felt, when targets are achieved as per the pre-determined plans.  <b>(iv) All pervasive</b> Management is all pervasive as it is applicable in all types of organisation, in all activities and at all levels.  <b>(v) Multi-dimensional</b> Management is multi-dimensional as it comprises of three dimensions, viz management of work, people and operations.</p>	
25	<p><b>‘Success of every organisation depends upon its management’. Explain any five reasons to justify the above statement</b></p> <p>According to Drucker, ‘Management is the dynamic life-giving element in every organisation. Without it, the resources of production remain resources’. It is the activating force that gets things done through people. ‘</p> <p>The importance of management can be understood from the following points:  <b>(i) Management helps in achieving group goals</b> An organisation sets certain goals. Management aims at achieving such goals by directing the individual efforts.  <b>(ii) Management creates a dynamic organisation</b> With the ever changing needs and demands of the environment, an organisation needs to adopt those changes. Management helps people to adopt such changes easily, so that the organisation is able to sustain successfully in the competitive market.  <b>(iii) Management increases efficiency</b> With proper planning, organising, staffing,</p>	

	<p>directing and controlling the activities of the organisation, management increases the efficiency by producing ' . maximum output with minimum cost.</p> <p><b>(iv) Management helps in achieving personal objectives</b> A manager motivates its subordinates in such a manner that it boosts their morale and able to achieve their personal objectives such as competitive salary, peer recognition, etc while contributing to the organisational objectives.</p> <p><b>(v) Management helps in development of society</b> Management in an organisation helps the society by way of supplying quality products at reasonable price. It also contributes towards society by providing basic amenities such as schools, hospitals, dispensaries etc. Moreover, it also generates employment opportunities for the disadvantaged sections of the society.</p>	
26	<p><b>Raman is working as a plant superintendent in Tifco Ltd. Name the managerial level at which he is working? State any four functions he will perform as plant superintendent in this company.</b></p> <p><b>Ans.</b> He is working at the middle level of management. He will perform the following functions:</p> <p>(a) Responsible for implementing and controlling plans and strategies developed by top management. (b) Responsible for all the activities of first line managers. (c) Interpret the plans and policies.framed by top management. (d) Ensuring necessary personnel in their departments.</p>	
27	<p>What is meant by management as an art? Explain with the help of any three features.</p> <p><b>Ans. Art is the skilful and personal application of existing knowledge to achieve desired goals. Management is said to be an art since, it satisfies the following features of an art:</b></p> <p><b>(i) Manager practices the art of management in day-to-day job of managing and enterprise on the basis of study, observation and experience.</b> <b>(ii) Because of the availability of the theoretical knowledge of management, a manager is able to apply it in a personalised manner.</b> <b>(iii) Art requires creativity, similarly manager also requires creativity to apply the acquired knowledge in a personalised and skilful manner in real situations.</b></p>	
28	<p><b>What is meant by management as a science? Explain with the help of any three features.</b></p> <p><b>Ans. Management as a Science Science</b> is the systematised body of knowledge which establishes the relationship between causes and their effects. Management is regarded as a science because of the following features of the management:</p> <p><b>(i) Existence of systematic body of knowledge</b> Like science, management has its own theory and principles that have developed over a period of time. Thus, we can say, management has a systematised body of knowledge. <b>(ii) Scientific methods of observation</b> Certain management principles are evolved from scientific methods of observation. The cause and effect relationship is the art of science but it is applicable in management also. Therefore, management principles are accurate and reliable. <b>(iii) Universally accepted principles</b> Certain management principles are universally</p>	

	valid. The established principles of modern management have universal applicability. Principle of division of labour and specialisation, unity of command, etc are accepted everywhere	
29	<p>Management is skillful and personal application of existing knowledge to achieve desired results. Explain</p> <p><b>Management as an art. It is the skillful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience.</b></p> <p><b>Art is the skillful and personal application of existing knowledge to achieve desired goals. Management is said to be an art since, it satisfies the following features of an art:</b></p> <p><b>(i) Manager practices the art of management in day-to-day job of managing and enterprise on the basis of study, observation and experience.</b></p> <p><b>(ii) Because of the availability of the theoretical knowledge of management, a manager is able to apply it in a personalised manner.</b></p> <p><b>Management as an art. It is the skillful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience.</b></p> <p><b>Art is the skillful and personal application of existing knowledge to achieve desired goals. Management is said to be an art since, it satisfies the following features of an art:</b></p> <p><b>(i) Manager practices the art of management in day-to-day job of managing and enterprise on the basis of study, observation and experience.</b></p> <p><b>(ii) Because of the availability of the theoretical knowledge of management, a manager is able to apply it in a personalised manner.</b></p>	
30	<p><b>Management is a series of continuous, inter-related functions with no pre-determined sequence'. Explain</b></p> <p>Management is considered as a series of continuous, inter-related functions with no pre-determined sequence. The management process includes planning, organising, staffing, directing and controlling functions.</p> <p>These functions are inter-related. It is clear from the following facts:</p> <p>(i) Planning is the primary function and basis for all other functions.</p> <p>(ii) Organising is creation of the organisational structure to implement the plans.</p> <p>(iii) Staffing involves filling jobs with right persons in an organisation.</p> <p>(iv) Directing is concerned with instructing, guiding and inspiring people in the organisation for achieving its planned objectives through the employees.</p> <p>(v) The controlling function ensures that action leads to desired targets.</p>	
31	<p>What is meant by coordination? How it integrates group efforts and ensures unity of action. Explain.</p> <p>Ans. <b>Coordination is the integration, synchronisation or orderly arrangement of group efforts to provide unity of action, directed towards the accomplishment of common objectives.</b></p> <p>(i) Coordination integrates group efforts <b>It integrates group efforts by unifying</b></p>	



	<p><b>diverse interests, thereby giving them a common focus to ensure that performance is in accordance with pre-determined plans.</b></p> <p>(ii) Coordination ensures unity of action <b>The purpose of coordination is to ensure unity of action for the realisation of a common purpose. It acts as the binding force between departments and ensures that all actions are aimed at achieving the goals of the organisation.</b></p>	
32	<p><b>Coordination is needed at all levels of management and is the responsibility of all managers. Explain how?</b></p> <p><b>Ans.</b> Coordination is required in all group efforts, in every organisation at all levels of management. It is not the responsibility of top management only. Managers at all levels are responsible for achieving coordinated efforts in their respective departments or units.</p> <p>The need of coordination at various levels of management may be described as follows:</p> <p><b>(i) At the top level management</b> It has to take care that there is coordination between organisational goals and the goals of the units and sub-units formed for achieving these goals.</p> <p><b>(ii) At the middle level management</b> That is the departmental managers, who have to coordinate their departmental plans with the plans of other departments. This level links the top level management with the lower level management and coordinates between them by transmission of orders downward and problems and feedback reports upward.</p> <p><b>(iii) At the lower level management</b> Coordination is required between the actual operations with the plans made and reconcile the view of management and workers.</p>	
	<b>FOUR MARK QUESTIONS</b>	
33	<p>Govinda Ltd.is a highly reputed Company.Different functions areperformed by different individuals in this company, who are boundtogether in a hierarchy of relationships. Every individual in the hierarchy is responsible for successful completion of a particular task. Mr.Gauranga is responsible for the welfare and survival of theorganization.He formulates overall organizational goals and strategies for their achievement.MR.Nityanand ensures that quality of output ismaintained, wastage of materials is minimized and safety standards aremaintained. Mr.Sanatan assigns necessary duties and responsibilities tothe personnel and motivates them to achieve desired objectives</p> <p>At what levels of management are MR.Gauranga,Mr.Nityanand and Mr.Sanatan working inGovindaLtd.? justify your answer.</p> <p><b>Ans.</b></p> <p>1. Mr.Gaurangaisworkingatthetoplevelmanagement.</p> <p>He is responsible for the welfare and survival of the organization. Heformulates overall organizational goals and strategies for their achievement.</p> <p>2. Mr.Nityanan is working at the lower level management.</p>	

	<p>He ensures that quality of output is maintained, wastage of materials is minimized and safety standards are maintained.</p> <p>Mr.Sanatan is working at the middle level management.</p> <p>He assigns necessary duties and responsibilities to the personnel and motivates them to achieve desired objectives.</p>	
34	<p><b>Is management a science? Give any three reasons in support of your answer. Ans.</b>  Yes, management is a science but not an exact science. Science is the systematised body of knowledge which establishes the cause and effects relationship. Management is regarded as a science, because the following characteristics of science are applicable to management as well.</p> <p><b>Management as a science</b> Management may be regarded as a science because it fulfils the following characteristics of science:</p> <p><b>(i) Systematised body of knowledge</b> As science, management has a systematised body of knowledge. It has its own theories and principles that have developed over a period of time. It also draws some principles from other disciplines such as economics, sociology, psychology and mathematics.</p> <p><b>(ii) Principles based on scientific observation and experiments</b> Like science, management principles are based on scientific enquiry and observations.</p> <p><b>(iii) Universal validity and application</b> Like science, principles of management are universally applicable. Thus, we can say that management is also a science. However, the principles of management are not as exact as the principles of Physics or Chemistry. Management principles are flexible and can be modified to suit different situations. Thus, management can be called as an inexact science also. In the light of both the above statement, the true nature of management can be defined as, management is both an art and a science. Principles of management constitute the science of management and the practice of management principles is the art of management</p>	
35	<p><b>‘Management is a series of continuous, inter-related functions with no pre-determined sequence’. Explain.</b></p> <p>Management is considered as a series of continuous, inter-related functions with no pre-determined sequence. The management process includes planning, organising, staffing, directing and controlling functions.</p> <p>These functions are inter-related. It is clear from the following facts:</p> <p>(i) Planning is the primary function and basis for all other functions.</p> <p>(ii) Organising is creation of the organisational structure to implement the plans.</p> <p>(ii) Staffing involves filling jobs with right persons in an organisation.</p> <p>(iv) Directing is concerned with instructing, guiding and inspiring people in the organisation for achieving its planned objectives through the employees.</p> <p>(v) The controlling function ensures that action leads to desired targets</p>	

	<p>Thus, these management functions are inter-related with no pre-determined sequence, while performing specific function.</p>	
36	<p><b>‘Lack of proper management results in wastage of time, money and efforts’.</b> In the light of this statement, explain any four points of importance of management. According to Drucker, ‘Management is the dynamic life-giving element in every organisation. Without it, the resources of production remain resources’. It is the activating force that gets things done through people. ‘</p> <p>The importance of management can be understood from the following points:</p> <p><b>(i) Management helps in achieving group goals</b> An organisation sets certain goals. Management aims at achieving such goals by directing the individual efforts.</p> <p><b>(ii) Management creates a dynamic organisation</b> With the ever changing needs and demands of the environment, an organisation needs to adopt those changes. Management helps people to adopt such changes easily, so that the organisation is able to sustain successfully in the competitive market.</p> <p><b>(iii) Management increases efficiency</b> With proper planning, organising, staffing, directing and controlling the activities of the organisation, management increases the efficiency by producing ‘. maximum output with minimum cost.</p> <p><b>(iv) Management helps in achieving personal objectives</b> A manager motivates its subordinates in such a manner that it boosts their morale and able to achieve their personal objectives such as competitive salary, peer recognition, etc while contributing to the organisational objectives.</p> <p><b>(v) Management helps in development of society</b> Management in an organisation helps the society by way of supplying quality products at reasonable price. It also contributes towards society by providing basic amenities such as schools, hospitals, dispensaries etc. Moreover, it also generates employment opportunities for the disadvantaged sections of the society</p>	
37	<p><b>‘Management is the process of working with and through others to effectively achieve organisational objectives by efficiently using limited resources in the changing environment’.</b> In the light of the above statement, explain any four features of management.</p> <p><b>Ans.</b> The main features which highlight the nature of management are as follows:</p> <p><b>(i) Management is a goal oriented process</b> Management always aims at achieving certain specified objectives. It seeks to achieve predetermined objectives through efficient use of human and non-human resources. .</p> <p><b>(ii) Management is a continuous process</b> Management is an on-going process. The management functions are simultaneously performed by all managers all the time. It involves continuous handling of problems and issues. Managers identify problems and try to solve them by taking appropriate actions on a regular basis.</p> <p><b>(iii) Management is a group activity</b> An organisation is a collection of diverse individuals with different needs. Every member of the group has a different purpose for joining the organisation but as members of the organisation, they work towards fulfilling the common organisational goal. This requires teamwork and coordination of individual efforts in a common direction.</p>	

	<p><b>(iv) Management is a dynamic function</b> Every organisation interacts with environment. In order to survive, it is necessary that an organisation must change itself according to the needs of environment.</p>	
38	<p>Ritu is the manager of the northern division of a large corporate house. At what level does she work in the organisation? What are her basic functions?</p> <p>Ritu being the manager of the northern division of the organisation is in the middle-level management. She and other managers like her act as a link between the top management and the operational management. Her main task is to oversee the implementation of the plans and policies formulated by the top management by directing and supervising the functions of the lower management.</p> <p>The following are her basic functions.</p> <p><b>(i)</b> Interpreting the policies formulated by the top management.  <b>(ii)</b> To make sure that each department under her division has the required personnel and staff for carrying out the assigned work.  <b>(iii)</b> To assign the necessary duties to the persons working in various departments.  <b>(iv)</b> To encourage and motivate the personnel towards achieving the goals.  <b>(v)</b> Coordinating with the functions of other division heads.</p>	
39	<p>Why is management considered a multi-faced concept?</p> <p><b>Ans:</b> Management is said to be multi-faceted concept as it is a complex process involving not just one but various dimensions. There are three main dimensions of management.</p> <p><b>i. Managing the Work:</b> The performance of a definite work forms the basis of an organisation. With management this work is interpreted in terms of the objectives and goals and how they are to be achieved.</p> <p><b>ii. Managing the People:</b> As the work is to be done by the people, managing the people is another important dimension of management. It involves dealing with the employees both as an individual and as groups or teams. With management their strengths are utilised and weakness are worked upon so as to achieve the desired objectives.</p> <p><b>iii. Managing the Operations:</b> Every organisation involves a production process where the inputs are transformed into a product or a service. This production process requires continuous management.</p> <p>Thus, we can say that management is a multi-faceted process covering various dimensions simultaneously.</p>	
40	<p>Coordination is the essence of management. Do you agree? Give reasons</p> <p>Coordination is indeed the essence of management. By Coordination, we mean away through which the group functions are linked up. It binds the people of the organisation and their activities to ensure a smooth functioning of the work. It is that force which unites the working and efforts of the people of the organisation towards</p>	

	<p>the common objective of the organisation. Coordination links the interrelated functions of management. It is found at every level of management. It begins right from the stage of planning where goals and objectives are set for the organisation. Coordination is then required between the stage of planning and staffing so that right kind of people are hired for the execution of the plan. Next the functions of directing and controlling must also be coordinated with each other so as to realize the achievement of desired goals.</p> <p>The following points highlight the importance of coordination in management.</p> <p><b>(a) Harmonized Goals:</b> In any organisation, growth is one of important goals. With growth of the organisation, its size increases and the number of personnel also increases. However, greater number of persons means more differences in thoughts and work habits that may lead to disharmony among people. Also, every individual will have his/her personal goals which may create hindrance in achieving the organisational goals. So, coordination is important so as to synchronize the personal and the overall goals in one direction.</p> <p><b>(b) Allotted Work:</b> Each task requires specialisation to give the requisite results. For this, every organisation hires expert for different tasks. Every specialist approaches the tasks in his own unique manner and is generally reluctant to take up any advice or suggestion form others. This may lead to diversion or conflict among various specialists in the organisation. Thus, coordination is required from an outside body such as the manager so as to integrate their opinions and thoughts.</p> <p><b>(c) Interdependence of Divisions:</b> An organisation has various departments and sub-departments such as production, sales, finance, etc. Every department works independently and with its own policies and objectives. For example, the sales department may want greater monetary incentives for its employees but the finance department may not approve of such incentives as it may lead to increase in the cost of the organisation. In this case, there arises a conflict between the two departments. Thus, here also coordination is needed to synchronise the activities of each department towards the achievement of common goals of the organisation. Hence, we see that coordination is intrinsic and imperative for management. It is the 'essence' of management.</p>	
41	<p>Shankar is the manager of a large company manufacturing garments for kids. She plans her winter collection in the month of August itself. Then, she ensures that there is adequate workforce. She continuously monitors whether production is proceeding according to plans. She asks the marketing department to prepare their promotional and advertising campaigns also.</p> <ol style="list-style-type: none"> <li>1. Identify and explain the concept of management explained in the above para.</li> <li>2. What characteristic feature does the above para highlights?</li> </ol> <p>Ans:- 1. Coordination It is the force that binds all the functions of management. It is the common thread that runs through all activities such as purchase, production, sales, finance, etc. to ensure continuity in the working of the</p>	

	<p>organization.</p> <p>2. Coordination is not a separate function of management. It is the essence of management. It is visible in all functions of management.</p> <ul style="list-style-type: none"> <li>□ Top management plans for the entire organization.</li> <li>□ According to these plans, the organizational structure is developed and staffed.</li> <li>□ In order to ensure that these plans are executed according to plans, directing is requires.</li> <li>□ Any deviation between the actual and the standard performance is corrected at the stage of controlling.</li> <li>□ Coordination is a continuous process. It begins at the planning stage and continues till controlling</li> </ul>	
42	<p><b>Keerthana Power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient to cover the costs and the risks. The demand of lanterns was increasing day by day, so the company decided to increase production to generate higher sales. For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to open schools and crèches for the children of its employees.</b></p> <p><b>1. Identify and explain the objectives of management discussed above.</b></p> <p><b>2. The company is fulfilling the organizational and social objectives of management.</b></p> <p>Ans:- The company is fulfilling the organizational and social objectives of management.</p> <p>Organizational objectives include survival, profit and growth.</p> <ul style="list-style-type: none"> <li>☑ In order to survive, Keerthana Power Ltd. earns enough revenues.</li> <li>☑ Company's profits are sufficient to the cover the costs and the risks.</li> <li>☑ Since demand for lanterns was increasing day by day and so the company decided to increase production to generate higher sales, it implies that the company exploits fully its growth potential.</li> </ul> <p>Social objectives involve the creation of benefits for the society.</p> <p>The company decided to employ people from the nearby villages as very few job opportunities were available in that area. It also decided to open schools and crèches for the children of its employees.'</p>	
43	<p><b>Anju and Manju are good friends. Considering the cast that the activities involved in managing an enterprise are common to all organizations, after completing their masters in business management, both of them take up a job at managerial level in different organizations as per their individual areas of interest. Anju tales up a marketing job in a retail company and strives to increase sales where as Manju joins an NGO and works diligently to realize its objective related to providing employment to differently abled persons. Both of them have to perform a series of continuous,</b></p>	

	<p><b>composite, but separate functions. On some days, Anju may spend more time in planning a future display layout and on another day, she may spend time in sorting out an employee’s problem. Both Anju and Manju make conscious efforts to build a feeling of team spirit and coordination among diverse individuals with different needs who work under them. The effect of their management is noticeable in their respective departments as the targets are met according to plans, employees are happy and satisfied, and there is orderliness in its functioning rather than chaos. In context of the above case: Identify the various features of management highlighted in the above paragraph.</b></p> <p>Ans. The various features of management highlighted in the above paragraph are stated below:</p> <ol style="list-style-type: none"> <li>1. Management is all pervasive:</li> <li>2. Management is a goal-oriented process:</li> <li>3. Management is a continuous process:</li> <li>4. Management is a group activity:</li> <li>5. Management is an intangible force:</li> </ol>	
44	<p>Sameer is a foreman in a factory. He directs all the members under him to follow the targets and advises them to put their efforts in the direction of the achievement of these targets. He leads, influences and motivates the workers to perform the tasks assigned to them. He encourages the employees to do their best. Sameer was assigned a target of 1,000 units in the month of July. For this he and his team had to operate on double shifts. Sameer was able to achieve the production target but at a higher production cost.</p> <p>On the basis of the above paragraph answer the following questions.</p> <p>(i) Name the function of management Sameer is performing in the above paragraph. (Choose the correct alternative)</p> <p>(a) Planning (b) Organisaing (c) Directing (d) Controlling Ans. (c) Directing</p> <p>(ii) With reference to the above case, Sameer believes in motivation, teamwork, communication and achievement of objectives. Sameer in the given case is ..... (Fill in the blank with the correct alternative)</p> <p>(a) Effective (b) Efficient (c) Cooperative (d) Goal oriented</p> <p>Ans. (a) Effective</p> <p>(iii) At which level of management, Sameer is working. (Choose the correct alternative)</p> <p>(a) Top level management</p>	

	<p>(b) Middle level management  (c) Lower level management  (d) None of the above</p> <p>Ans. (c) Lower level management</p> <p>(iv) Which of the following functions is performed by Sameer as a foreman.  (a) Interpreting the policies formed by top management  (b) Assigning necessary duties and responsibilities to the workers.  (c) Directly overseeing the efforts of the workers  (d) Coordinating the activities of different departments.  Ans. (c) Directly overseeing the efforts of the workers</p>	
	<b>Six mark questions</b>	
<p>45</p>	<p><b>Esha works as the cost and risk management head of a company in power sector. As a result of her excellent managerial competence, the company is able to reduce costs and increase productivity. The company belongs to infrastructure sector, where regular amendments are being made in the government regulations and policies. She holds regular meetings to ensure that people in her department are not only aware of the related changes but are also able to adapt to these changes effectively. This helps the company to maintain its competitive edge. She motivates and leads her team in such a manner that individual members are able to achieve personal goals while contributing to the overall organizational objective. In the process of fulfilling her duties for the growth of the organization, she helps in providing competitive services, adopting new technology, creating more employment opportunities etc. for the greater good of the people at large. In context of the above case:  Identify the various reasons that have made management so important by quoting lines from the paragraph</b></p> <p>Ans. The various reasons mentioned in the above paragraph that have made management so important are stated below:</p> <ol style="list-style-type: none"> <li>1. Management increases efficiency as it leads to reduction in costs due to optimum utilization of resources.  “As a result of her excellent managerial competence the company is able to reduce costs and increase productivity.”</li> <li>2. Management creates a dynamic organization so that it is able to incorporate the corresponding changes in its working with any change in its business environment.  “The company belongs to infrastructure sector, wherein regular amendments are made in the government regulations and policies. She holds regular meetings to ensure that people in her department are not only aware of the related changes but are also able to adapt to these changes effectively. This helps the company to maintain its competitive edge.”</li> </ol>	



	<p>3. Management helps in achieving personal objectives of the employees in the organization.          “She motivates and leads her team in such a manner that individual members are able to achieve personal goals while contributing to the overall organizational objective.”</p> <p>4. Management helps in the development of society by contributing effectively towards it is multiple ways.          “In the process of fulfilling her duties for the growth of the organization, she helps in providing competitive services, adopting new technology, creating more employment opportunities etc. for the greater good of the people at large.</p>	
46	<p><b>Bhuvan Ltd., a garment manufacturing Company set the target production of 100 garments per month at the estimated cost of Rs. 200 per garment. Mohan, a worker worked double shift and manufactured around 150 garments but at the estimated cost of Rs. 230 per garment. On the other hand, Ravi another worker focus on cost and handled resources very carefully so the manufactured 90 garments but at the estimated cost of Rs. 190 per garment. Third worker maintained the balance and achieved target of 100 garments at the estimated cost of Rs. 200 per garment.</b></p> <p><b>1. Identify the quality possessed by Ravi, Mohan and what they are lacking.</b>  <b>2. What quality is possessed by third worker?</b>  <b>3. Which worker is preferred by management?</b></p> <p>Ans.</p> <p>1. Mohan is effective but he lacks efficiency. Ravi is efficient but he lacks effectiveness.          2. Third worker is effective as well as efficient.          3. Management prefer third worker as management always insist on achievement of goal effectively as well as efficiently.</p>	
47	<p><b>Jayakrishnan is working as Head Relationship Manager in the wealth management division of a private sector bank. He has created an internal environment which is conducive to an effective and efficient performance of his team of ten relationship management executives. A typical day at work in Jayakrishnan’s life consists of a series of interrelated and continuous functions. He decides the targets for his department which are in line with the objectives of the organizations a whole. The future course of action for his team members is laid out well in advance. The various resources required by the relationship managers like a Paid with GPS system, account opening forms, brochures, details of account holders etc. are made readily available to them. The executives are given sufficient authority to carry out the work assigned to them. Jayakrishnan works in close coordination with the human Resource Manager in order to ensure that he is able to create and maintain a satisfactory and satisfied work force in his department. Through constant guidance and motivation, Jayakrishnan inspires them to realize their full potential. He offers them various types of incentives from time to time keeping in view their diverse individual needs. Moreover, he keeps a close watch on their individual</b></p>	

	<p><b>performances in order to ensure that they are in accordance with the standards set and takes corrective actions whenever needed.</b></p> <p><b>In context of the above case:</b></p> <p><b>1. Identify the concept being referred to in the following line, “He created an internal environment which is conducive to an effective and efficient performance of his team of ten relationship management executives.”</b></p> <p><b>2. Identify and describe the various functions of the concept as identified in part (a) of the question by quoting lines from the paragraph.</b></p> <p>Ans:- 1. The concept of management is being referred to in the following line, “He has created an internal environment which is conducive to an effective and efficient performance of his team of ten relationship management executives.”</p> <p>2. The various functions of the management concept mentioned in the above paragraph are listed below:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Planning:</li> <li><input type="checkbox"/> Organizing:</li> <li><input type="checkbox"/> Staffing:</li> <li><input type="checkbox"/> Directing:</li> <li><input type="checkbox"/> Controlling:</li> </ul>	
48	<p><b>‘The skillful and personal application of existing knowledge to achieve desired results is called art’. In the light of this statement, describe whether management is an art or not.</b></p> <p>Ans. Basic features of art are as follows:</p> <p>(i) Existence of theoretical knowledge.</p> <p>(ii) Personalised application.</p> <p>(iii) Based on practice and creativity.</p> <p>Management can be said an art, since it satisfies the following criteria:</p> <p>(a) A successful manager practices the art of management in the day-to-day job of managing an enterprise which is based on study, observation and experience. There are lot of literature available in various areas of management like marketing, finance and human resource which the manager has to specialise in.</p> <p>(b) There are various theories of management propounded by many management thinkers, which prescribe certain universal principles. A manager applies these scientific methods and body of knowledge to a given situation, issue or a problem in his own unique manner.</p> <p>(c) A manager applies his acquired knowledge in a personalised and skilful manner in the light of the realities of a given situation. He is involved in the activities of the organisation, studies critical situations and apply his own theories in a given situation.</p> <p>(d) Like any other art, a manager, after studying various situations, formulate his own theories for use in given situation. This gives rise to different styles of management.</p>	
49	<p><b>Coordination is not a separate function of management. It is the essence of management. Explain with the help of a suitable example</b></p>	

Ans. Coordination is a function that is inherent and pervasive. Coordination is not a separate function of management. It is the essence of management. It is needed to perform all the functions of management. They are:

(i) Coordination in planning: In planning, coordination is needed

- between overall plan of the organisation and the departmental plans.
- between objectives and available physical and human resources, e.g., coordination between production department and sales department targets.

(ii) Coordination in organising: In organising, coordination is required

- between resources of an organisation and activities to be performed.
- among authority, responsibility and accountability, e.g. if a supervisor is given responsibility to get the work done, he should also be given the authority to divide the work among his subordinates.

(iii) Coordination in staffing: in staffing, coordination is needed

- between the skills of the workers and the jobs assigned to them.
- between the efficiency of the workers and the compensation, etc, e.g. a Chartered Accountant should be given work of financial nature.

(iv) Coordination in directing: In directing, coordination is required

- among orders, instructions, guidelines and suggestions.
- between superiors and subordinates, e.g. a manager instructs the subordinates, motivates them and also supervises their work.

(v) Coordination in controlling: In controlling, coordination is required

- between the standard and the actual performance.
- between correction of deviations and achievement of objectives, e.g. If production target for workers is set as 80 units per hour while they are able to produce only 60 units per hour, then there is a need to coordinate the plans with actual performance.

Thus, coordination makes planning more purposeful, organisation well knit and control more effective. It is the key to the success of management.

(vi) Coordination is the essence of management. Management function revolves around making, arranging things, moving things in an organisation in relation to overall objective of the organisation. Thus, coordination can be considered as the

	<p>core function of management which ensures that all the factors in the business work together smoothly.</p>	
50	<p><b>Give the meaning of management and explain how it creates a dynamic organisation and helps in the development of society.</b></p> <p>Ans. Management is the process of planning, organising, staffing, directing and controlling the enterprises' resources efficiently and effectively for achieving the goals of the organisation. The traditional viewpoint of the management is concerned with the opinion that 'Management is the art of getting things done through others'. On the other hand, as per the modern concept, 'Management is a process of getting things done through others with the aim of achieving goals effectively and efficiently'. Management creates a dynamic organisation All organisations operate in a constantly changing environment. However, individuals in an organisation usually resist change. Management persuades people to adopt environmental changes so that the organisation can maintain its competitive edge.</p> <p>Management helps in the development of society Management helps to provide good quality products and services, creates employment opportunities, adopts new technology for the betterment of the people and leads the path towards growth and development.</p>	

	<p><b><u>CHAPTER 2</u></b>  <b><u>PRINCIPLES OF MANAGEMENT</u></b></p>	
	<p><b>LEARNING OBJECTIVE</b></p> <ul style="list-style-type: none"> <li>● Understand the concept of principles of management.</li> <li>● Explain the significance of management principles</li> <li>● Discuss the principles of management developed by Fayol.</li> <li>● Explain the principles and techniques of ‘Scientific Management’.</li> </ul>	
	<p><b><u>MEANING OF PRINCIPLE;</u></b> - A principle refers to a statement which reflects fundamental truth based on cause and effect relationship.</p> <p><b><u>MEANING OF MANAGEMENT PRINCIPLE;</u></b> - Management principle refers to the statement of fundamental truth which act as guidelines for taking managerial decision.</p> <p><b><u>Differences between management principle and Scientific principle;</u></b> -</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Scientific principles are rigid whereas management principles are very flexible</li> <li><input type="checkbox"/> Scientific principles are applied in absolute whereas management principles are applied with creativity as this influences the behaviour of human beings.</li> <li><input type="checkbox"/> Management principles have to keep face with the changing business environment whereas scientific principles do not change with time.</li> </ul> <p><b><u>Management vs. Values;</u></b> -</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Management principles are guidelines for managerial action whereas values are rules for behaviour of individual in society</li> <li><input type="checkbox"/> Management principles are technical in nature whereas values are ethic in nature</li> </ul> <p><b><u>How management principles are derived?</u></b></p> <p>Management principles are not derived overnight. These are developed in following two ways</p> <ol style="list-style-type: none"> <li>1. <b><u>Deep observation;</u></b> The researchers observe deeply while employees are working and note down the reactions of employees on various managerial decision</li> <li>2. <b><u>Repeated observation;</u></b> A particular statement of management expert will be repeatedly observed and tested in different</li> </ol>	

organizations. If the result is same in all organisations, the statement will be accepted as principle.

**Characteristics of Management principles: -**

**1. UNIVERSAL APPLICABILITY:**

The principles of management can be applied not only in business organisation but also in all types of organisations such as religious, social, cultural etc. irrespective of its nature and size.

**2. DEVELOPED BY PRACTICE AND EXPERIMENTS:**

The principles of management are developed by experience, collective wisdom, deep observation and repeated experimentations.

**3. FLEXIBLE:**

The principles of management cannot be applied in a rigid manner. They have to be modified Depending upon need of the situation and changes in business

**4. GENERAL GUIDELINES**

The principles are guidelines to action but do not provide readymade solutions to all managerial problems. Because, real business situations are very complex and dynamic.

Ex. Fair remuneration depends on nature, size and financial capacity.

**5. MAINLY BEHAVIOURAL**

Management principles aim at guiding and influencing the behavior of employees as well as in insist on improving relationship between superior, subordinates and all the members of organisation.

**6. CAUSE AND EFFECT RELATIONSHIP**

Many principles tell us if a particular principle is applied in a situation, what might be the effect. But accurate cause and effect relationship may be difficult to establish, because these are applied on human being. However, it helps in knowing some idea about the effect.

**SIGNIFICANT OF MANAGEMENT PRINCIPLES**

**1. PROVIDES USEFUL INSIGHTS TO MANAGERS**

Management principles improve knowledge, ability and understanding of managers under various managerial situations. The effects of these principles help the managers to learn from their mistakes. As such, the efficiency of managers increases.

**2. OPTIMUM UTILISATION OF RESOURCES**

Principles equip the managers to foresee the cause and effect relationship of their decision. As such, the wastages associated with trial and error method can be overcome. Further, scientific principles

suggest to cut down the wasteful movements and setting up standard time to complete a task. So, by saving time, energy and efforts, activities can be made economical

### **3. SCIENTIFIC DECISION**

The management principles enable the managers to approach various problems systematically and scientifically. Because, it is based on facts, thoughtful, justifiable, realistic and subject to evaluation. Decisions taken on the basis of management principles are free from bias and prejudice.

### **4. MEETING CHANGING ENVIRONMENT REQUIREMENTS**

Although, the principles are general guidelines, but they are modified and as such help managers to meet changing requirements of the environment.

Ex:- the principle of division of work has been extended in modern times whereby the companies are specializing in their core competency and divesting non core businesses.

### **5. FULFILLING SOCIAL RESPONSIBILITY**

Management principles also guide the managers to perform social responsibilities. Because, business is a creation of society and using resources of society. So it must do something for society.

Ex. Principle of remuneration, equity.

### **6. MANAGEMENT TRAINING, EDUCATION AND RESEARCH**

Professional courses such as BBA and MBA teach management principles as part of their education and training program. Further, management principles stress on scientific judgments and logical thinking. As a result, these principles act as base of doing research and development in management studies. Because, they have provided new ideas and imagination

#### **FAYO L'S P RINCIP LES O F M ANAG EM ENT**

- **LIFE PERIOD----- 1841-1925**
- **FRENCH MANAGEMENT THEORIST**
- **THEORIES RELATED TO SCIENTIFIC ORGANISATION OF LABOUR**
- **GRADUATED IN 1860 IN MINING ENGINEERING**
- **IN 19<sup>TH</sup> YEAR OF HIS AGE, HE JOINED AS AN ENGINEER IN A MINING COMPANY**
- **BECAME MD AFTER 28 YEARS EXPERIENCE.**

**HE HELD MD POST FROM 1888 TO 1918HE HOLD MD POST FROM 1888 TO 1918**

#### **FAYO L'S 14 P RINC IP LES O F M ANAG EM ENT**

	<p>1. <b><u>DIVISION OF WORK:-</u></b> According to this principle, the whole work must be divided into small units and instead of assigning the whole work to one person, unit of work should be assigned to one person according to the capability, qualification and experience of the person. When a person is performing a part of job again and again, he will become perfect and specialized in doing that and the efficiency level will improve.</p> <p style="padding-left: 40px;">Fayol advocates that this principle will be applicable in all types of jobs such as technical, managerial and skilled.</p> <p>2. <b><u>PRINCIPLE OF AUTHORITY AND RESPONSIBILITY:-</u></b> Authority means power to take decision. Responsibility means obligation to complete the job assigned on time. According to this principle, there must be balance between the authority and responsibility. Excess authority without matching responsibility may lead to misuse of resources and excess of responsibility without matching authority will not allow the worker to complete his job on time.</p> <p>3. <b><u>PRINCIPLE OF DISCIPLINE:-</u></b> Discipline refers to strict obedience to general rules and regulations for systematic working in an organisation. Fayol insists that discipline can be maintained in the organisation through effective supervision at every level, clear and fair agreement between superior and subordinates and judicious sanction of punishments</p> <p>4. <b><u>PRINCIPLE OF UNITY OF COMMAND:-</u></b> According to this principle, an employee should receive orders and instructions from one boss only because if he is receiving orders from more than one boss then he will get confused and will not be able to understand that whose orders must be executed first. Further, he will get a chance of excuse by saying that he was busy in executing the orders of other boss.</p> <p style="padding-left: 40px;">Ultimately, the avoidance of unity of command may result in ego-clash among the superiors and difficulty in maintaining discipline.</p> <p>5. <b><u>UNITY OF DIRECTION:-</u></b> - All the units of an organisation should be moving towards the same objectives through coordinated and focused efforts. Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination. EG. Organisation producing</p>	
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different lines of products—cosmetics, medicines and confectionary items.

6. **SUBORDINATION OF INDIVIDUAL INTEREST TO GENERAL INTEREST:**

- According to this principle, the interest of organisation must supersede the interest of individuals. If the objectives of individual are in the same direction of organisation, then there is no problem. But if the objectives of both the groups are in different directions, then manager must try to reconcile individual interest with organisational goal. If it is not possible, the individual goal must be sacrificed.

Ex. Manager should not fall into temptation of misusing his powers for individual/family interest at the cost of general interest of the organisation.

7. **PRINCIPLE OF REMUNERATION OF PERSONS.** The overall pay and compensation should be fair to both employees and the organisation. The wages should give employees at least a reasonable standard of living. The fair wages is determined according to the following

- \* keeping in mind the minimum wage act of govt.
- \* The wages and salaries paid by the competitors
- \* Financial capacity of the concern

Ex. In case of more profits, instead of giving extra profits to shareholders, some part must be given to employees also in the form of bonus.

8. **PRINCIPLE OF CENTRALISATION AND DECENTRALISATION:-**

Centralization refers to concentration of authority of power in few hands at top level. Decentralisation refers evenly distribution of power at every level of management.

According to Fayol, a company must not be completely centralized or completely decentralized but there must be combination of both depending upon nature and size of organisation.

In general, large org. has more decentralization than small org. Further, if employees are efficient and competent, then org. can have more decentralization

9. **PRINCIPLE OF SCALAR CHAIN:** Scalar line of authority of chain of superiors from highest to lowest rank. Fayol, insists that this chain must be chain means followed strictly and every communication must pass through every key of this chain. No skipping of any one key should be allowed. Following diagram helps us to understand better.

In the above chain, if E wants to communicate with O, he

has to go through chain i.e. D-C-B-A-L-M-N, to avoid any communication gap.

But, Fayol permits a short cut only in case of emergency situations. It means if E wants to pass any urgent information to O, then chain can be bypassed by making direct contact

(E-O). Such short cut is called as Gang Plank.

10. **PRINCIPLE OF ORDER:** - Order refers to orderly arrangement of men and materials. People and materials must be in suitable places at appropriate time. A place for everything and everything should be in its proper place. Like that every employee should be always available at allotted place or cabin. This principle ensures that wastage of time will be avoided in search of any material or any person so that smooth and systematic working in organisation will be achieved.

11. **PRINCIPLE OF EQUITY:** - Equity refers to kind, fair and just treatment to employees. There should not be any discrimination on the basis of sex, religion, language, caste, belief, nationality etc. Employees will work with loyalty and devotion only when they are treated with equal justice.

E.g. The rules for granting medical leave should be same to all employees in organisation.

12. **STABILITY OF PERSONNEL:-** According to this principle, employees should not be transferred frequently without any proper reason. Because it takes some time to a person to learn and get settled on a job. Before he gets settled, if he is transferred, then he will not be able to contribute his best for organisation.

Further the management must provide the feeling of job security among the employees. Because, with the feeling of insecurity, employees cannot contribute their maximum.

According to Fayol, the employee turnover should be minimized to maintain organisational efficiency by way of avoiding frequent transfer and feeling of insecurity.

13. **PRINCIPLE OF INITIATIVE:** - Fayol suggested that employees in the organisation must be encouraged to take some initiative in making and executing plan by way of welcoming suggestions, ideas and opinions of employees. Suggestions which result in substantial cost or time reduction should be rewarded.

But, it does not mean going against the established practices in the company.

14. **ESPRIT DE CORPS:-** Esprit de corps means “Union is Strength”. Management should promote a team spirit and harmony among employees. A manager should replace “I” with “WE” in all his conversations. Management must develop a feeling of belongingness among the employees as they must feel themselves as members of organization’s team and not as individuals.

**SCIENTIFIC MANAGEMENT**

**MEANING OF SCIENTIFIC MANAGEMENT**

Scientific management means application of science for each and every element of management through scientific tools, scientific method and trained personnel in order to increase the output efficiently  
Taylor defines scientific management as “knowing exactly what you want men to do and seeing that they do in the best and cheapest way”.

**PRINCIPLES OF MANAGEMENT**

1. Science, not rule of thumb
2. Harmony, not discord
3. Co-operation, not individualism
4. Development of workers to their greatest efficiency and prosperity.

**SCIENCE, NOT RULE OF THUMB:-** According to this principle, Taylor insists

that each job performed in the organisation should be based on scientific enquiry and not on intuition, experience and hit and miss methods. Rule of thumb means dictatorship of managers whereas scientific decisions are based on cause and effect and scientific measurement of methods.

Taylor believed that there was only one best method to maximize efficiency. This method can be developed through study and analysis.

**HARMONY, NOT DISCORD:** - Generally, workers always feel that they are underpaid, exploited and are overburdened with work. Like that, management always feels that workers are good for nothing. In this principle, Taylor insists that there is need for both the groups to change their attitudes for each other which is called as Mental Revolution the workers and mgt. develop positive thinking for each other and work with harmony and avoid discord. To achieve this principle, mgt. should share the gains with workers to make workers contribute to their best level. Taylor feels that prosperity for the employees cannot exist unless it is accompanied by prosperity for the employees.

**COOPERATION, NOT INDIVIDUALISM:** - According to this principle, work must be carried on with cooperation, mutual confidence and understanding between labour and the management. Management should value the constructive suggestions of employees by way of rewarding them. If any important decisions are taken, workers should be taken into confidence.

## **DEVELOPMENT OF WORKERS TO THEIR GREATEST EFFICIENCY AND**

**PROSPRITY:-** Industrial efficiency depends upon the efficiency of workers. Each person should be scientifically selected and work assigned should suit his/her physical, mental and intellectual capabilities. Further, to increase the efficiency of workers, best method to be developed as well as they should be given required training from time to time.

So, this principle helps the efficient employees to produce more and earn more.

### **TECHNIQUES OF SCIENTIFIC MANAGEMENT**

- 1. Method study
- 2. Time study
- 3. Motion study
- 4. Fatigue study
- 5. Differential piece wage system
- 6. Standardisation
- 7. Simplification
- 8. Functional foremanship

**METHOD STUDY:-** The method study means a study which is conducted to find out the one best method of performing the job which keeps production cost minimum and makes optimum use of resources of the organisation

Taylor suggested that all the possible methods must be analyzed right from the procurement of raw materials till the final product is delivered. And then, the method which brings maximum quality and satisfaction of the customer must be selected.

**TIME STUDY:-** Time study means a study which determines the standard time scientifically to perform the job. Taylor suggested observing the performance of average workers with stop watch and noting down the time taken by him. The same observation should be done at least 100 times and then average standard time to perform the job to be determined. The objectives of Time Study are

- (a) To determine standard time required to perform a job
- (b) Setting up standard target for workers
- (c) Determining the number of workers required to perform a job
- (d) Categorizing the workers in efficient and inefficient

**MOTION STUDY:-** Motion study refers to the science of eliminating wastefulness resulting from unnecessary, ill-directed and inefficient motions. Taylor suggested observing the movements of an average worker while doing the job. The same observation is to be repeated with 100 workers and note down the motions of each person. Finally, all the movements will be classified into productive and unproductive and make the strategy to cut down the unproductive motions.

**FATIGUE STUDY:-** Fatigue study refers to the study which determines how long a worker will work continuously without affecting his health and efficiency.

Person is bound to get tired when he is performing a job for long time. So, rest interval is needed. Fatigue study gives a scientific approach to determine such rest period and its frequency. So, the objective of fatigue study is

- (a) to find out the frequency of rest intervals
- (b) to find out the duration of rest intervals

**DIFFERENTIAL PIECE WAGE SYSTEM:-** Taylor suggested that the company should fix the standard outputs scientifically on the basis of time and motion studies. The workers who are producing standard units or more than standard units will get higher wage rate whereas the workers producing less than standard units will get lower wage rate.

This technique insists on the following: -

- (a) Paying different rate of wage to efficient and inefficient employees
- (b) Extra wages paid to efficient employees will motivate them to remain efficient as well as motivate inefficient employees to become efficient.
- (c) Maximization of production.

**STANDARDISATION:-** Standardisation refers to the process of setting standards for every business activity. Standardisation of output is possible only if standard is maintained strictly relating to the selection of raw materials, tools, equipments, machines, methods and working conditions. The objectives of this technique are

- (a) to reduce a given line of product to fixed types, sizes and characteristics
- (b) to establish interchange ability of manufactured parts and products
- (c) to maintain quality standards in materials
- (d) to establish standards of performance of men and machines

**SIMPLIFICATION:-** Simplification aims at eliminating unnecessary diversity of products, sizes and dimensions. Because, more varieties mean more inventory, more types of machines, more labour cost etc. So, this technique results in savings of cost of labour, machines and tools as well as fuller utilization of equipments.

**FUNCTIONAL FOREMENSHP:-** In this technique, Taylor suggested the division of factory in two departments i.e. planning dept. and production dept. As one supervisor cannot be expert in every aspect of work, Taylor stressed on minimum eight specialists (i.e. four in planning and four in production) to supervise and give orders to workers. Each boss will be specialized in one aspect of work so that there will be definite assurance of specialization.

<u>QUESTIONS</u>		
	ONE MARK QUESTION	MARKS
1	<p>Q1. Who is considered as father of scientific Management?</p> <p>A.F.W Taylor B. Henry Fayol C. Gilberth D.Koontz</p> <p>Ans. A</p>	1
2.	<p>“One head One plan” is concerned with the following principle of Fayol</p> <p>A. Unity of command B. Unity of Direction C. Fair remuneration D. Division of work</p> <p>Ans .B</p>	1
3.	<p>The principles of management can be changed according to the prevailing situation in organisation. This shows that management principles are</p> <p>A.Flexible B.Behavioral C. Scientific D. Universal</p> <p>Ans A</p>	1
4.	<p>“ Panchayats in our country have been given more powers to decide and spend funds granted to them by the government for welfare of villages. Identify the principle of management highlighted in the statement</p> <p>A. Equity B. Centralisation and decentralisation C. Authority and Responsibility D.Espirit De corps</p> <p>Ans.B</p>	1
5.	<p>Administrative principles were given by-</p> <p>(A) FW Taylor (B) Henry Fayol (C) Abraham maslow (D) w w Taylor</p> <p>Ans. Henry Fayol</p>	1

6.	<p>Which foreman is keeping the machinery and tools ready for operation by workers:  (a) repair Boss  (b) gang Boss  (C) speed boss  (D) inspector</p> <p>Ans. Gang Boss</p>	1										
7.	<p>violation of Principle of Esprit de Corps leads to -  A) minimising labour turnover  B) sales turnover  C) need for using penalties  D) disorder</p> <p>Ans. Need for using penalties</p>	1										
8.	<p>Which principle prevents dual subordination  A) unity of command  B) unity of direction  C) order  D) equity</p> <p>Ans. Unity of command</p>	1										
9.	<p>Match the principles of management given under B with suitable statements given under A</p> <table border="1" data-bbox="386 1226 1230 1625"> <thead> <tr> <th data-bbox="386 1226 808 1268">A</th> <th data-bbox="808 1226 1230 1268">B</th> </tr> </thead> <tbody> <tr> <td data-bbox="386 1268 808 1352">1. Minimising employee turnover</td> <td data-bbox="808 1268 1230 1352">a. Equity</td> </tr> <tr> <td data-bbox="386 1352 808 1436">2. Kindness and justice in behaviour of managers</td> <td data-bbox="808 1352 1230 1436">b. Fair Remuneration</td> </tr> <tr> <td data-bbox="386 1436 808 1520">3. Fair Pay and compensation</td> <td data-bbox="808 1436 1230 1520">c. Subordination of individual to general interest</td> </tr> <tr> <td data-bbox="386 1520 808 1625">4. Priority of organisational interest over individual interest</td> <td data-bbox="808 1520 1230 1625">d. Stability of tenure of personnel</td> </tr> </tbody> </table> <p>ANS: 1.d 2.a 3.b 4.c</p>	A	B	1. Minimising employee turnover	a. Equity	2. Kindness and justice in behaviour of managers	b. Fair Remuneration	3. Fair Pay and compensation	c. Subordination of individual to general interest	4. Priority of organisational interest over individual interest	d. Stability of tenure of personnel	1
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3. Fair Pay and compensation	c. Subordination of individual to general interest											
4. Priority of organisational interest over individual interest	d. Stability of tenure of personnel											
10.	<p>What is the meaning of the universality of the principles of management?  (a) Applicable to all the fields (b) Applicable no where  (c) Applicable only to business (d) Applicable only to non-business field</p> <p>ANS A</p>	1										

11.	<p>Which of the following, according to Foyal, happens to be the meaning of the division of work?</p> <p>(a) Equitable division of the whole work among the persons available  (b) Alloting a specific part of the whole work to every person  (c) Both the above  (d) None of the above</p> <p>ANS B</p>	1
12.	<p>‘Three subordinates- S1, S2 and S3 receive orders from M1’. In such a situation which principle of management is being observed?</p> <p>(a) Equity ( b) Order  (c) Unity of command (d) Unity of direction</p> <p>ANS C</p>	1
13.	<p>A purchase manager of a company has to purchase 500 tonnes of raw material. Apart from the other suppliers in the market, his son also supplies that raw material. The manager purchases the raw material from the firm of his son at a rate higher than the market rate, which principle of management has been violated by this situation?</p> <p>(a) Unity of command  (b) Unity of direction  (c) Subordinating personal interest to general interest  (d) Equity</p> <p>ANS C</p>	1
14.	<p>‘A proper place for everything and everything in its right place’, with which order is this statement connected as explained in the principle of order?</p> <p>(a) Material (b) Social  (c) Both the above (d) None of the above</p> <p>ANS A</p>	1
15.	<p>Which one is not the Henry Fayol’s principle of management:</p> <p>(a) Division of Work (b) Differential wages  (c) Scalar chain (d) Equity</p> <p>ANS B</p>	1
16.	<p>Assertion: Though Taylor’s focus was from the viewpoint of improving workers efficiency &amp; that of Fayol’s from improving mangers efficiency yet both are complementary to each other contributing to overall improvement of the organization.  Reason: Both are like two sides of the same coin.  Find the correct option:</p> <p>A. Both are correct B. Both are incorrect  C. A is correct but R is false D. R is correct but A is false</p>	1



17.	<p>In what two departments did Taylor divide the work of a factory manager?</p> <p>(a) Department of Planning and Production  (b) Department of Planning and Finance  (c) Department of Planning and Marketing  (d) Department of Planning and Research</p> <p>ANS A</p>	1
18.	<p>Which management expert is talked about mental revolution?</p> <p>(a) Fayol (b) Taylor  (c) Hamman (d) None of the above</p> <p>ANS B</p>	1
19.	<p>Scientific management brings:</p> <p>(a) Social change (b) Economic change  (c) Mental change (d) Industrial change</p> <p>ANS C</p>	1
20.	<p>How are principles of management formed?</p> <p>(a) In a laboratory (b) By experiences of managers  (c) By experiences of customers (d) By propagation of social scientists</p> <p>ANS B</p>	1
21.	<p>Which of the following statements best describes the principle of 'Division of Work'?</p> <p>(a) Work should be divided into small task  (b) Labour should be divided  (c) Resources should be divided among jobs  (d) It leads to specialisation</p> <p>ANS D</p>	1
22.	<p>Which of the following statements is FALSE about Taylor and Fayol?</p> <p>(a) Fayol was a mining engineer whereas Taylor was a mechanical engineer  (b) Fayol's principles are applicable in specialised situations whereas Taylor's principles have universal application  (c) Fayol's principles were formed through personal experience whereas Taylor's principles were formed through experimentation  (d) Fayol's principles are applicable at the top level of management whereas Taylor's principles are applicable at the shop floor</p> <p>ANS B</p>	1

23.	Soniya Ltd. was engaged in the business of manufacturing auto components. Lately, its business was expanding due to increased demand for cars. The competition was also increasing. In order to keep its market share intact, the company directed its workforce to work overtime. But this resulted in many problems. Due to increased pressure of work the efficiency of workers declined. Sometimes, the	3
	<p>subordinates had to work for more than one superior. The workers were becoming indiscipline. The spirit of teamwork, which had characterized the company previously, had begun to wane. Identify any three principles of management (as given by Henry Fayol) which were beginning violated, quoting the lines from the above case.</p> <p>Ans.</p> <ol style="list-style-type: none"> <li>1. Unity of command “Sometimes, the subordinates had to work for more than one superior.’</li> <li>2. Discipline ‘The workers were becoming indiscipline.’</li> <li>3. Espirit de corps</li> </ol>	
24.	<p><b>In Sameer Ltd., an employee has the objective of maximizing his salary, but the organizational objective is to maximize output at competitive cost. There was some dispute on this for a while. Eventually, the organization’s interest was given priority over employees’ interest. Name the principle related to this situation. Explain</b></p> <p>Ans. Principle of subordination of individual interest to general interest.</p> <p>According to this principle, the interest of organisation must supersede the interest of individuals. If the objectives of individual are in the same direction of organisation, then there is no problem. But if the objectives of both the groups are in different directions, then manager must try to reconcile individual interest with organisational goal. If it is not possible, the individual goal must be sacrificed.</p> <p>Ex. Manager should not fall into temptation of misusing his powers for individual/family interest at the cost of general interest of the organisation.</p>	3

25.	<p><b>Neeraj is selected for the post of software developer in an IT Company. On the first day of his joining Mehul, his project manager tells Neeraj that during the course of his work he will come across many such opportunities which may tempt him to misuse his powers for individual or family's benefit at the cost of larger general interest of the company. In such situations, he should rather exhibit exemplary behavior as it will raise his stature in the eyes of the company. Also, for interacting with anyone in the company on official matters, he should adopt the formal chain of authority and communication.</b></p> <p><b>In context of the above case:</b></p>	3
	<p><b>1. Identify and explain the various principles of management that Mehul is advising Neeraj to follow while doing his job.</b></p> <p><b>2. List any two values that Mehul wants to communicate to Neeraj.</b></p> <p><b>Ans.</b></p> <p><b>1. The various principles of management that Mehul is advising Neeraj to follow while doing his job are as follows:</b></p> <p><b>Subordination of Individual Interest to General Interest:</b></p> <p><b>Scalar Chain:</b></p> <p><b>2. The two values that Mehul wants to communicate to Neeraj are:</b></p> <p><b>Honesty</b></p> <p><b>Self restraint</b></p>	
26.	<p><b>Chennai Ltd is manufacturing files and folders from the old clothes to discourage use of plastic files and folders. For this, they employ people from nearby villages where very less job opportunities are available. An employee, Harish, designed a plan for the cost reduction but it was not welcomed by the production manager. Another employee gave some suggestion for improvement in design, but it was also not appreciated by the production manager.</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>State the principle of management described in the above para.</b></li> <li><input type="checkbox"/> <b>Identify any two values that the company wants to communicate to the society.</b></li> </ul> <p><b>Ans (i) Initiative</b> Henry Fayol suggested that work should be encouraged to develop and carry out their plans for improvements. Initiative means taking the first step with self-motivation.</p> <p><b>(ii) Values which the company wants to communicate to the society are:</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Creation of job opportunities.</b></li> <li><input type="checkbox"/> <b>Concern for environment.</b></li> </ul>	3

27.	<p><b>Name and explain the principle of management according to which a manager should replace 'I' with 'We' in all his conversation with workers?</b></p> <p><b>Ans.</b> Esprit de corps It is the principle of management, according to which a manager should replace 'I' with 'We' in all his conversation with workers. The phrase 'esprit de corps' means the spirit of loyalty and devotion which unites the members of the group. According to Fayol, management should promote a team spirit of unity</p>	3
	<p>and harmony among employees. A manager should replace 'I' with 'We' in all his conversation with workers to foster team spirit. This will give rise to a spirit of mutual trust and belongingness among team members.</p>	
28.	<p><b>Name and explain the principle of management which requires judicious application of penalties by the management.</b></p> <p><b>Ans.</b> Discipline According to Fayol, discipline is obedience, application and outward mark of respect. It is the obedience to organisational rules and employment agreement which are necessary for the working of the organisation. According to Fayol, discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties.</p>	3
29.	<p><b>Give three points reflecting the features of management principles.</b></p> <p><b>Ans.</b> Management principles are (any three): (i) Universal in application. (ii) General guidelines. (iii) Flexible and can be applied differently under different conditions. (iv) Formed by practice and experimentation. (v) Establish cause and effect relationships.</p>	3
30.	<p><b>Which technique of Taylor suggests that each worker should be supervised by specialists? Give the designations of any four specialists suggested by him.</b></p> <p><b>Ans.</b> The technique of functional foremanship suggests that each worker should be supervised by specialists. These specialists' designations are follow. (i) Instruction Card Clerk (ii) Route Clerk (iii) Time and Cost Clerk (iv) Disciplinarian</p>	3

31.	<p>An organization follows the principles of management. What are the adverse effects of each of the following principles of management on the organization?</p> <p>(i) Unity of Command (ii) Order (iii) Stability of tenure of personnel</p> <p><b>Ans. Adverse effects of said principles are:</b> (i) Unity of Command: <b>If this principle is followed, work gets delayed which results in wastage of time and cost.</b> (ii) Order: <b>It creates boredom among the employees due to rigidity provided by this principle.</b></p>	3
	<p>(iii) Stability of personnel: <b>If employees are not rotated on different jobs frequently, they can specialize only in a small part of the whole process of production and thus can never become versatile.</b></p>	
32.	<p>Explain the following principles of Fayol with the help of one example of each.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Division of work</li> <li><input type="checkbox"/> Unity of direction</li> </ul> <p><b>ANS:- (i) Division of work</b> Every employee should be assigned only one type of work. It means that total work is divided into small tasks/jobs and a trained specialist performs each job. The objective of division of labour derive the benefits from the principle of specialisation which can be applied to all work. For example, publishing of a book involves several operations like computer typing of text material, proof reading, printing, binding, etc. All the operations are performed by different people who are experts in their respective field.</p> <p><b>(ii) Unity of direction</b> ‘One unit and one plan’ for the group of activities having the same objective. This principle 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. For example, the mission of a company is to provide quality products at an affordable prices to the customers. This should serve as a direction for all the departments, namely, purchasing, financing, quality control and marketing.</p>	3

33.	<p><b>How do management principles ensure optimum utilization of resources and effective administration?</b></p> <p><b>Ans.</b> In every organization, 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 resources can be achieved minimum resources 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 organizational objectives and not personal preferences.</p>	3
4.	<p><b>Explain the Principle of centralization and decentralization. –</b></p> <p><b>Ans.</b> Centralization means concentration of authority in the hands of few people at the top, whereas decentralization means appropriate distribution of power at every level of management. According to Fayol, company must be properly balanced i.e. it should neither be completely centralized nor d e c e n t r a l i z e d . There must be some element of both depending upon the profile of the organization. The panchayat system in our country is a very good example of decentralization at the national level.</p>	3
35.	<p><b>Ms. Raju and Mr. Manu are Data Entry Operators in a company having same educational qualifications. Raju is getting Rs. 5,000 per month and Manu Rs. 6,000 per month as salary for the same working hours. Which principle of management is violated in the case? Name and explain the principle.</b></p> <p><b>Ans.</b> The principle of 'equity' is violated in this case. According to this principle, employees should be given kind, fair and just treatment and there should not be any discrimination based on caste, creed, color, sex etc. Apparently, Raju is getting less salary which is against this principle.</p>	3

36.	<p>Nutan Tiffin Box service was started in Mumbai by Mumbai dabbawalas. The Dabbawalas who are the soul of entire Mumbai aim to provide prompt and efficient services by providing tasty homemade Tiffin to all office goers at right time and place. The service is uninterrupted even on the days of bad weather, political unrest and social disturbances. Recently they have started online booking system through their website 'mydabbawals.com'. Owing to their tremendous popularity amongst the happy and satisfied customers and members, the dabbawalas were invited as guest lecturers by top business schools. The Dabbawalas operate in a group of 25-30 people along with a group pleader. Each group teams up with other groups in order to deliver the Tiffin on time. They are not transferred on frequent basis as they have to remember the addresses of their customers. They follow certain rules while doing trade-No alcohol during working hours; No leave without permission; Wearing of white cap &amp; carrying ID cards during business hours. Recently on the suggestion of a few self motivated fellow men, the dabbawalas thought out and executed a plan of providing food left in Tiffins by customers to slum children. They have instructed their customers to place red sticker if food is left in the Tiffin, to be fed to poor children later.</p> <p>1. State any one principle of management given by Fayol &amp; one characteristic of management mentioned in the above case.</p>	4
	<p>2. Given any two values which the Dabbawalas want to communicate to the society.</p> <p>Ans.</p> <p>1. Principles of management (any one)</p> <ul style="list-style-type: none"> <li>Stability of Personnel</li> <li>Initiative</li> <li>Discipline</li> <li>Esprit de corps</li> </ul> <p>Characteristic of management (any one)</p> <ul style="list-style-type: none"> <li>Goal oriented</li> <li>Group activity</li> </ul> <p>2. Values that have been communicated by the Dabbawalas: (any two)</p> <ul style="list-style-type: none"> <li>Fulfilling social responsibility;</li> <li>Empathy towards disadvantaged children;</li> <li>Team work (or any other suitable value)</li> </ul>	

37.	<p>Nikita and Salman completed the MBA and started working in a multinational company at the same level. Both are working hard and are happy with their employer. Salman had the habit of backbiting and wrong reporting about his colleagues to impress his boss. All the employees in the organization knew about it. At the time of performance appraisal the performance of Nikita was judged better than Salman. Even then their boss, Mohammed Sharif decided to promote Salman stating that being a female Nikita will not be able to handle the complications of a higher post.</p> <p>1. Identify and explain the principle of management which was not followed by this multinational company.</p> <p>2. Identify the values which are being ignored quoting the liens the above para.</p> <p>Ans.</p> <p>1. The principle violated is EQUITY. It advocates that there should be no discrimination against anyone on account of sex, religion, language, caste, belief, nationality etc. It emphasizes kindness and justice in the behavior of managers towards the workers to ensure loyalty and devotion.</p> <p>2. The valuation which are being ignored are:</p> <ol style="list-style-type: none"> <li>1. Good human behavior because 'Salman had the habit of backing and wrong reporting about his colleagues to impress his boss.'</li> <li>2. Gender Equality because 'Their boss decided to promote Salman stating that being a female Nikita will not be able to handle the complications of a higher post.'</li> </ol>	4
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38.	<p>ABC Ltd. is engaged in producing electricity from domestic garbage. There is almost equal division of work and responsibility between workers and management. The management even takes workers into confidence before taking important decisions. All the workers are satisfied as the behavior of the management is very good.</p> <p>1. State the principle of management described in the above para. 2. Identify any two values which the company wants to communicate to the society.</p> <p>Ans.</p> <p style="padding-left: 40px;">1. The principle of Taylor described in the above para is Cooperation, Not Individualism.</p> <p>It states that there should be complete cooperation between the labour and the management. Competition should be replaced by cooperation.</p> <p>2. Values which the company wants to communicate to the society are:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Good behaviour in human interaction.</li> <li><input type="checkbox"/> Concern for the environment.</li> </ul>	4
39.	<p>Kushal Ltd. is a leading automobile company in which the various departments are setting up their own objectives without paying any interest to the organizational objectives.</p> <p>1. Which aspect of management the company is lacking? What will be its impact on the organization? 2. Identify the principle of management which has been overlooked by this organization. 3. State any two values neglected by the people of this organization.</p> <p>Ans.</p> <p>1. The company is lacking 'Coordination'. Its different departments like production, marketing, etc. do not coordinate their work. In the absence of coordination, there will be overlapping and chaos instead of harmony and integration of activities. The company will fail to achieve its objectives.</p> <p>2. Subordination of individual interest to general interest.</p> <p>3. Values:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Mutual cooperation</li> <li><input type="checkbox"/> Unity of action</li> <li><input type="checkbox"/> Optimum utilization of resources</li> </ul>	4

40.	<p><b>Khandelwal Ltd., a tyre manufacturing concern has been established for more than ten years. Having made good profits in the past, company wanted to expand further and hence did not declare bonus for the previous year. The workers got agitated and trade union declared strike and demanded bonus and other facilities. The management decided not to give into their demands.</b></p> <p><b>1. Which principle of scientific management is overlooked in the given case?</b></p> <p><b>2. State any two values overlooked/ignored by the management in the above case.</b></p> <p>Ans.</p> <p>1. Harmony, not Discord</p> <p>2. Values overlooked are:</p> <ul style="list-style-type: none"> <li>☑ Mutual understanding</li> <li>☑ Empathy</li> <li>☑ Peace and stability</li> <li>☑ Law and Order</li> <li>☑ Sense of belongingness</li> </ul>	4
41.	<p>Give positive effects of the principle of 'discipline'.</p> <p>Ans. <b>Positive effects of the principle of 'discipline' are as under:</b></p> <ul style="list-style-type: none"> <li><b>i) Improves efficiency of the employees.</b></li> <li><b>ii) Systematic work in the organization.</b></li> <li><b>iii) Ensuring that penalties are imposed judicially.</b></li> </ul>	4
42.	<p><b>Explain any two of the following Fayol's principles of management with examples</b></p> <p><b>(i) Unity of direction                      (ii) Equity</b>  <b>(iii) Esprit de corps                        (iv) Initiative</b></p> <p><b>Ans. (i) Unity of direction</b> 'One unit and one plan' for the group of activities having the same objective. This principle 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.</p> <p>For example, the mission of a company is to provide quality products at an affordable prices to the customers. This should serve as a direction for all the departments, namely, purchasing, financing, quality control and marketing.</p> <p><b>(ii) Equity</b> The principle of equity implies a sense of fairness and justice to all workers working in an organisation. Observance of equity alone would make workers loyal and devoted to the organisation. Equity does not mean equal salary to a peon and supervisor. But equity</p>	4

	<p>means application of same disciplinary rules, leave rules, etc irrespective of their grade, position and gender, language, religion or nationality, etc.</p> <p>For example, the rules for granting medical leave to an employee should be same irrespective of their position grade or gender.</p> <p><b>(iii) Esprit de corps</b> This principle states that union is strength. It refers to team spirit, i.e. harmony in the work group and mutual understanding among the workers. A group of workers holding hands and standing in union, leads to the achievement of goals efficiently. Unity among the personnel can be accomplished through proper communication and coordination, e.g. in a cricket team, we need allrounder players, they are good in batting, bowling, fielding, etc as the competition is tough and inooler for a team to perform such kinds of players are required.</p> <p><b>(iv) Initiative</b> It means freedom to think out and execute a plan. The principle of initiative implies that the managers of an undertaking should encourage its subordinates to take some initiative in thinking out and executing plans. By encouraging initiative, the management can motivate employees to work better and harder, e.g. a manager of XYZ Ltd is being encouraged by his superior to take decisions openly and.execute the plans accordingly for the betterment of the organisation</p>	
43.	<div data-bbox="349 1060 998 1417" data-label="Image"> </div> <p><b>In this picture the supervisor instructs the worker to keep the tools in proper place. What principle is applied here, explain.</b></p> <p>ANS: The principle of Order is mentioned here</p> <p><b>Order</b></p> <p>☞☞<i>The principle of 'Order' states that there should be a place for everything and everyone in an organisation and that thing or person should be found in its/ his allotted place.</i> Essentially, it means <b>orderliness</b>.</p> <p>☞☞According to <b>Fayol</b>, "people and materials must be in suitable places at appropriate time for maximum efficiency.</p>	4

<p>44.</p>	<p><b>Karan Nath took over 'D' north Motor Company' from his ailing father three months ago. In the past the company was not performing well. Karan was determined to improve the company's performance. He observed that the methods of production as well as selection of employees in the company were not scientific.</b></p> <p><b>He believed that there was only one best method to maximise efficiency. He also felt that once the method is developed, the workers of the company should be trained to learn that 'best method'.</b></p> <p><b>He asked the production manager to develop the best method and carry out the necessary training. The production manager developed this method using several parameters right from deciding the sequence of operations, place for men, machines and raw materials till the delivery of the product to the customers. This method was implemented throughout the organisation. It helped in increasing the output, improving the quality and reducing the cost and wastage.</b></p> <p><b>Identify and explain the principles and the technique of scientific management followed by the production manager in the above case.</b></p> <p><i>Ans. Following are the principles of scientific management followed by the production manager in the above case:</i></p> <p>(i) Science, not rule of thumb.  (ii) Development of each and every person to his/her greatest efficiency and prosperity.</p>	<p>4</p>
<p>45.</p>	<p><b>Scientific Management means knowing exactly what you want men to do and seeing that they do it in the best and the cheapest way.' Taylor developed various techniques for application of Scientific Management principles and was able to achieve a three-fold increase in productivity in Bethlehem Steel Company, where he worked. One of the techniques helps to determine the number of workers to be employed; frame suitable incentive schemes and labour costs. Another technique recognises those workers who are able to accomplish/exceed the fair day's work and is based on the premise that efficiency is the result of the joint efforts of the managers and the workers.</b></p> <p><b>Quoting the lines from the above paragraph, identify and explain the two techniques of Scientific Management.</b></p> <p><b>Ans. <u>Time Study</u></b>  <i>'One of the techniques helps to determine ... labour costs.'</i>  <u>Differential Piece Wage System</u></p>	<p>4</p>

	<p>'Another technique recognises those workers who are able to accomplish/exceed the fair day's work and is based on the premise that efficiency is the result of the joint efforts of the managers and the workers.'</p>	
46.	<p>Rajveer works as a plant superintendent in a carpet making factory. In order to complete the Export orders on time, the production manager asks him to make the workers work over time whereas the finance manager is strictly against this practice because it will increase the cost of production. Moreover, Rajveer feels that since the company is manufacturing handmade carpets as well as machine made carpets there is a lot of overlapping of activities. Therefore, there should be two separate divisions for both of them wherein each division should have its own in charge, plans and execution resources.</p> <p>In context of the above case:</p> <ol style="list-style-type: none"> <li>1. Identify and explain the principle of management which is being violated.</li> <li>2. Also identify the principle of management that Rajveer feels should be implemented in the factory.</li> <li>3. Give any two differences between the principle of management as identified in part (a) and part (b) respectively.</li> </ol> <p>Ans.</p> <p>The principle of management which is being violated in stated below:</p> <ol style="list-style-type: none"> <li>1. Unity of command:</li> <li>2. Unity of direction:</li> </ol>	4
47.	<p>Gurpreet is running a retail mart in Varanasi to provide various types of products of daily use under one roof to the buyers. The employee turnover in his business is very high and he is perpetually on a look out for new staff. The fact of the matter is that he lacks managerial skills and assigns work to his employees on adhoc basis without letting them settle down in a specific work. This approach of his creates a sense of insecurity among the employees and they tend to leave the job very quickly. However, he is a very god fearing person and offers fair wages to his employees so they can afford a reasonable standard of living. In context of the above case:</p> <ol style="list-style-type: none"> <li>1. Identify and explain the principle of management which Gurpreet is unable to apply and is perpetually on look out for new staff.</li> <li>2. "He is a very god fearing person and offers fair wages to his employees so they can afford a reasonable standard of living." Name and explain the relevant principle of management will have been brought into effect by Gurpreet.</li> </ol>	4

	<p>Ans.</p> <p>1. Stability of Personnel; 2. Remuneration of Employees:</p>	
48.	<p>XY ltd is a famous service provider, Mr. Lakshay Wadhwa is its Managing Director. He continuously motivates his Research and Development department that new and latest methods of doing work must be explored. The provisions have also been made to give reward to those employees who will participate in a particular exploration. He also believes that two groups working on managerial and non-managerial posts each are similar to two wheels of an organisational vehicle. If this vehicle (organisation) is to be driven in a right way then both the wheels should be properly aligned. Mr. Lakshay is a successful leader. Among his employees, he has instilled the feeling that no decision will be taken without consulting the subordinates. To excel and surpass the other companies in this field is the main motive of Mr. Lakshay. Paying attention to training is the secret of the company.</p> <p>Identify the four principles of Scientific Management highlighted in the above para by quoting the lines.</p> <p style="text-align: center;"><b>Ans. (i) Science, not Rule of Thumb</b></p> <p>‘He continuously motivates his Research and Development department that new and latest methods of doing work must be explored.’</p> <p style="text-align: center;"><b>(ii) Harmony, not Discord</b></p> <p>‘If this vehicle (organisation) is to be driven in a right way then both the wheels should be properly aligned.’</p> <p style="text-align: center;"><b>(iii) Cooperation not Individualism</b></p> <p>‘Among his employees he has instilled the feeling that no decision will be taken without consulting the subordinates.’</p> <p><b>(iv) Development of Each and Every Person to his/her Greatest Efficiency and Prosperity.</b></p> <p>‘Paying attention to training is the secret of the company.’</p>	6

49.	<p><b>Explain the technique ‘Functional Foremanship’.</b></p> <p><b>Ans.</b> Functional foremanship is the extension of the principle of specialization. This technique emphasizes on the separation of planning from execution. To facilitate it, Taylor suggested setting up of “planning in charge” and “production in charge”.</p> <p><b>FUNCTIONAL FOREMANSHIP</b></p> <p><b>Planning Incharge:</b> The main function of “planning in charge” is to plan all aspects of a job to be performed. It consists of four positions:</p> <p><b>(i) Route clerk:</b> He determines the sequence to perform various mechanical and manual operations.</p> <p><b>(ii) Instruction card clerk:</b> He issues instructions to the workers to be followed by them.</p> <p><b>(iii) Time and cost clerk:</b> He is concerned with the framing of time schedule on the basis of determined route. Also, he keeps the record of the cost of operations.</p> <p><b>(iv) Disciplinarian:</b> He is concerned with the coordination in each job from planning to successful execution. He enforces rules and regulations and maintains discipline.</p> <p><b>Production Incharge:</b> It consists of following four specialists who are concerned with the execution of plans.</p> <p><b>(i) Speed Boss:</b> He checks whether work is progressing as per schedule. He ensures timely and accurate completion of jobs.</p> <p><b>(ii) Gang Boss:</b> He arranges machines, materials, tools, and equipments properly so that workers can proceed with their work.</p> <p><b>(iii) Repair Boss:</b> He ensures that all machines, tools, equipments are in perfect working order.</p> <p><b>Inspector:</b> He ensures that the work is done as per the standards of quality set by planning department</p>	6						
50.	<p><b>Taylor’s principles of scientific management and Fayol’s principles of management are mutually complementary.” Do you agree with this view? Give any four reasons in support of your answer.</b></p> <p><b>Ans.</b> Yes, Taylor’s principles of scientific management and Fayol’s principles of management are mutually complementary because of the following reasons:</p> <table border="1" data-bbox="345 1665 1268 1837"> <thead> <tr> <th data-bbox="345 1665 521 1734">Basis</th> <th data-bbox="521 1665 915 1734">Taylor</th> <th data-bbox="915 1665 1268 1734">Fayol</th> </tr> </thead> <tbody> <tr> <td data-bbox="345 1734 521 1837">1. Personality</td> <td data-bbox="521 1734 915 1837">Taylor was a scientist</td> <td data-bbox="915 1734 1268 1837">Fayol was a practitioner</td> </tr> </tbody> </table>	Basis	Taylor	Fayol	1. Personality	Taylor was a scientist	Fayol was a practitioner	6
Basis	Taylor	Fayol						
1. Personality	Taylor was a scientist	Fayol was a practitioner						

2. Perspective	Taylor's principles & techniques are based on bottom upward approach	Fayol's principles are based on top downward approach
3. Scope and Applicability	Taylor's principles & techniques are relevant mainly with respect to production activities	Fayol's principles have wider relevance in all functional areas
4. Focus	Taylor's principles & techniques are focused on workers' efficiency and production.	Fayol's principles are focused on improving overall management efficiency.
5. Modifications	Taylor's techniques are more specific in nature and should be applied without any modification and only in specific conditions	Fayol's principles are more general in nature & can be applied in most of the organizations with some modifications.
6. Expression	Taylor expressed his thoughts and views under the theory of scientific management	Fayol expressed his ideas as the general theory of management.

51.	<p>Rajat joined as a CEO of Bharat Ltd., a firm manufacturing computer hardware. On the first day he addressed the employees. He said that he believed that a good company should have an employee suggestion system and he wished to minimise employee turnover to maintain organisational efficiency. He informed all employees that he would ensure that all agreements were clear, fair and there was judicious application of penalties. However, he said that he believed that lazy personnel should be dealt with sternly to send the message that everyone was equal in the eyes of management. Also that we would want to promote a team spirit of unity and harmony among employees, which would give rise to a spirit of mutual trust and belongingness among team members and eventually minimise need for using penalties. He told all present that the interests of the organisation should take priority over the interests of any one individual employee.</p> <p>(a) Identify and briefly explain any four principles of management given by Fayol, which Rajat highlighted in his address to the employees.</p>	6
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	<p><b>(b) Also state two values that Rajat wanted to spread in the organisation</b></p> <p>Ans. (a) Following are the principles of management highlighted by Rajat in his address to the employees :</p> <ul style="list-style-type: none"> <li>(i) Initiative</li> <li>(ii) Stability of tenure of personnel</li> <li>(iii) Discipline</li> <li>(iv) Equity</li> <li>(v) Espirit de Corps</li> <li>(vi) Subordination of Individual Interest to General Interest</li> </ul> <p>(b) Following are the values that Rajat wanted to spread in the organisation : (any two)</p> <ul style="list-style-type: none"> <li>(i) Responsibility (ii) Discipline</li> <li>(iii) Conflict resolution (iv) Good behaviour in human interaction</li> <li>(v) Team work</li> </ul>	
52.	<p>Explain the principles of management given by F W Taylor</p> <p><b>Principles : <u>PRINCIPLES OF SCIENTIFIC MANAGEMENT</u></b></p> <ol style="list-style-type: none"> <li>1. Science, not rule of thumb</li> <li>2. Harmony, not discord</li> <li>3. Co-operation, not individualism</li> <li>4. Development of workers to their greatest efficiency and prosperity.</li> </ol> <p><b><u>SCIENCE, NOT RULE OF THUMB</u></b>:- According to this principle, Taylor insists that each job performed in the organisation should be based on scientific enquiry and not on intuition, experience and hit and miss methods. Rule of thumb means dictatorship of managers whereas scientific decisions are based on cause and effect and scientific measurement of methods.</p> <p>Taylor believed that there was only one best method to maximize efficiency. This method can be developed through study and analysis.</p> <p><b><u>HARMONY, NOT DISCORD</u></b>: - Generally, workers always feel that they are underpaid, exploited and are overburdened with work. Like that, management always feels that workers are good for nothing. In this principle, Taylor insists that there is need for both the groups to change their attitudes for each other which is called as Mental Revolution. The workers and mgt. develop positive thinking for each other and work with harmony and avoid discord. To achieve this principle, mgt. should share the gains with workers to make workers contribute to their best level. Taylor feels that prosperity for the employees cannot exist unless it is accompanied by prosperity for the employees.</p> <p><b><u>COOPERATION, NOT INDIVIDUALISM</u></b>: - According to this principle, work</p>	6

	<p>must be carried on with cooperation, mutual confidence and understanding between labour and the management. Management should value the constructive suggestions of employees by way of rewarding them. If any important decisions are taken, workers should be taken into confidence.</p> <p>e that, workers should desist from going on strike and making unnecessary demands. Instead, there should be open communication system.</p> <p><b><u>DEVELOPMENT OF WORKERS TO THEIR GREATEST EFFICIENCY AND PROSPRITY:-</u></b> Industrial efficiency depends upon the efficiency of workers. Each person should be scientifically selected and work assigned should suit his/her physical, mental and intellectual capabilities. Further, to increase the efficiency of workers, best method to be developed as well as they should be given required training from time to time.</p>	
53.	<p>What are the significance of management</p> <p>Ans <b><u>1. PROVIDES USEFUL INSIGHTS TO MANAGERS</u></b>  Management principles improve knowledge, ability and understanding of managers under various managerial situations. The effects of these principles help the managers to learn from their mistakes. As such, the efficiency of managers increases.</p> <p><b><u>2. OPTIMUM UTILISATION OF RESOURCES</u></b>  Principles equip the managers to foresee the cause and effect relationship of their decision. As such, the wastages associated with trial and error method can be overcome. Further, scientific principles suggest to cut down the wasteful movements and setting up standard time to complete a task. So, by saving time, energy and efforts, activities can be made economical</p> <p><b><u>3. SCIENTIFIC DECISION</u></b>  The management principles enable the managers to approach various problems systematically and scientifically. Because, it is based on facts, thoughtful, justifiable, realistic and subject to evaluation. Decisions taken on the basis of management principles are free from bias and prejudice.</p> <p><b><u>4. MEETING CHANGING ENVIRONMENT REQUIREMENTS</u></b>  Although, the principles are general guidelines, but they are modified and as such help managers to meet changing requirements of the environment.  Ex:- the principle of division of work has been extended in modern times whereby the companies are specializing in their core competency and divesting non core businesses.</p> <p><b><u>5. FULFILLING SOCIAL RESPONSIBILITY</u></b></p>	6

	<p>Management principles also guide the managers to perform social responsibilities. Because, business is a creation of society and using resources of society. So it must do something for society. Ex. Principle of remuneration, equity.</p> <p><b><u>6. MANAGEMENT TRAINING, EDUCATION AND RESEARCH</u></b></p> <p>Professional courses such as BBA and MBA teach management principles as part of their education and training program. Further, management principles stress on scientific judgments and logical thinking. As a result, these principles act as base of doing research and development in management studies. Because, they have provided new ideas and imagination</p>	
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**CHAPTER-3**  
**BUSINESS ENVIRONMENT**

<b><i>Gist of the lesson</i></b>	<b><i>Learning outcomes</i></b>
Business Environment- concept and Importance	<input type="checkbox"/> Understand the concept of 'Business Environment'. <input type="checkbox"/> Describe the importance of business environment
Dimensions of Business Environment- Economic, Social, Technological, Political and Legal Demonetization - concept and features	<input type="checkbox"/> Describe the various dimensions of 'Business Environment'. <input type="checkbox"/> Understand the concept of Demonetization
<b><i>CONTENT</i></b>	

***Meaning:***

'Business environment mean the sum total of those factors which influence the business 'The business cannot control these factors.

***Specific force:***

Forces that affect all the firms of an industry separately.

'Eg:- customers, suppliers, competitive firms , industry etc.

***General force:***

'Forces that affect all the firms of an industry equally. '

Eg :- political, legal technological, social situations .

***Features of business environment***

1. Totality of external forces - it is the total of all things outside the business

2. Specific and general forces - it includes both specific and general forces. specific forces affects the firm separately where as general forces affects all the firms of an industry

	<p>3. Inter-relatedness - The different factors of business environment are inter-related. Any change in one factor affects the other factors</p> <p>4. Complexity - it creates complexity to understand the factors combined affect on business.</p> <p>5. Uncertainty - The change is the factors cannot be predicted therefore it is largely uncertain. 6. Dynamic nature - environment is a mixture of many factors which keeps on changing. So business environment is dynamic</p> <p>7. Relativeness – it changes from one country to another and one region to another</p>
	<p><b>Importance of business environment:</b></p> <ol style="list-style-type: none"> <li>1. It enables the firm to identify opportunities: <ul style="list-style-type: none"> <li><input type="checkbox"/> Opportunities means positive external changes that help a firm to improve performance</li> <li><input type="checkbox"/> They should identify it first and make use of it</li> </ul> </li> <li>2. It helps the firm to identify threats <ul style="list-style-type: none"> <li><input type="checkbox"/> Threats are external factors which effect the business</li> <li><input type="checkbox"/> Managers should identify threat as early warning signals</li> </ul> </li> <li>3. It helps in tapping useful resources: <ul style="list-style-type: none"> <li><input type="checkbox"/> Firm uses the resources of environment and provides goods and services to the same environment</li> </ul> </li> <li>4. Coping with rapid changes: <ul style="list-style-type: none"> <li><input type="checkbox"/> factors in environment changes quickly</li> <li><input type="checkbox"/> managers should understand the changes and develop suitable course of action</li> </ul> <p style="margin-left: 40px;">It helps in planning and policy formulation</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Knowledge about the environment helps to plan and make policy.</li> </ul> </li> <li>5. It helps in planning and policy formulation: <ul style="list-style-type: none"> <li><input type="checkbox"/> Knowledge about the environment helps to plan and make policy.</li> </ul> </li> </ol>
	<p><b>Dimension of business environment</b></p>

1. ECONOMIC ENVIRONMENT: - .

Economic system	Influence freedom
Economic policies	policies such as export import policy taxation policy etc.
Economic condition	related with development of country e.g rate of interest, foreign trade

2. SOCIAL ENVIRONMENT:-

'Originates and develop in society 'Includes customs, fashion tradition hopes etc.

3. LEGAL REGULATORY ENVIRONMENT:-

'It relates to rules and regulation framed by the government 'Acts passed by government may effect the business

4. POLITICAL ENVIRONMENT:-

'It relates to the ideologies of various parties

5. TECHNOLOGICAL ENVIRONMENT:-

'it includes the discovery of new methods and implementation.

**Demonetisation- Concept**

- The Government of India, made an announcement on November 8, 2016.
- The two largest denomination notes, Rs.500 and Rs.1,000 were 'demonetised'.
- It is the act to cease a currency unit or put an official stop on its status as a legal tender.
- Ceasing to be legal tender except for a few specified purposes such as paying utility bills.

**Features**

- Demonetisation is viewed as a tax administration measure.  
As the people with accumulated black money are left with no other option, but to declare their cash holdings and pay taxes at a penalty rate.
- Demonetisation also indicates that tax evasion  
Intentionally avoiding tax will not be tolerated

<b>one mark questions:</b>							
1.	“Some environmental forces have impact on all business organizations and thus may affect an individual organization only indirectly.” Name the environmental forces.						
2.	“Reserve bank of India reviews its monetary policy periodically and makes changes if required.” which dimension of business environment is this action related?						
3.	Geeta publishing House, a book publishing company, identifies CBSE New design paper as an opportunity early and publishes its books as per the changed CBSE pattern much before its competitors. Which business environment importance is being identified by Geeta Publishing House?						
4.	“Even after opening up of the Indian economy in 1991, foreign companies found it extremely difficult to cut through the bureaucratic red tape to permit for doing business in India, which created a negative impact on business.” Identify the dimension of the business environment which led to the creation of the negative impact on business.						
5.	<p>What is included in Legal environment of business?</p> <ul style="list-style-type: none"> <li>a. Technological upgradation</li> <li>b. Political instability</li> <li>c. Rules passed by the government</li> <li>d. None of the above</li> </ul>						
6.	<p>Match the following:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Column 1</th> <th>Column 2</th> </tr> </thead> <tbody> <tr> <td>1. Lifestyle and values</td> <td>a. Economic environment</td> </tr> <tr> <td>2. Payment through e- wallet</td> <td>Legal environment</td> </tr> </tbody> </table>	Column 1	Column 2	1. Lifestyle and values	a. Economic environment	2. Payment through e- wallet	Legal environment
Column 1	Column 2						
1. Lifestyle and values	a. Economic environment						
2. Payment through e- wallet	Legal environment						

		3. Rise in inflation	c. Technological environment	
		d. Statutory warning on advertisement	d. Social environment	
7.	<p>_____ Represents the customs and traditions, values, cultures, social trends, beliefs, norms and ethics of a society in which business enterprises operate. The components of social environment are customs traditions, social expectations, lifestyles, values, literacy level.</p> <p>(a) Economic environment  (b) Social environment  (c) Political environment  (d) Legal environment</p>			
8.	<p>“Shifts in demand from vacuum tube to transistors, from steam locomotives to diesel and electric engines, from fountain pens to ballpoint, from propeller airplanes to jets, have all been responsible and creating new business”. Which component of business environment highlighted in aforesaid statement?</p> <p>(a) Economic environment  (b) Social environment  (c) Technological environment  (d) Legal environment</p>			
9.	<p>“Even after opening up of our economy in 1991, foreign countries found it extremely difficult to cut through the bureaucratic red tape to get permission for doing business in India”. Which component of business environment is highlighted in aforesaid statement?</p> <p>(a) Economic environment  (b) social environment  (c) Political environment  (d) Legal environment</p>			
10.	<p>Since more number of people has become more beauty and health conscious, our economy has witnessed an unprecedented surge in the number of health and beauty spas and wellness clinics. Related feature of business environment being described in the above lines is —</p> <p>(a) Totality of external forces</p>			



	<p>(b) Dynamic nature</p> <p>(c) Interrelatedness</p> <p>(d) Relativity</p>
11.	<p>The government of India, made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, Rs500 and Rs1000, were 'demonetised' with immediate effect, ceasing to be legal except for a few specified purposes such as paying utility bills. This led to _____ of the money in circulation invalid</p> <p>(a) 36%</p> <p>(b) 86%</p> <p>(c) 68%</p> <p>(d) 56%</p>
12.	<p>_____ refer to the positive external trends or changes that will help a firm to improve its performance.</p> <p>(a) Opportunities</p> <p>(b) Threats</p> <p>(c) policies</p> <p>(d) procedures</p>
13.	<p>It is interesting to know that the menu items of the multinational food chains are customized to suit the taste of the local people in the region. KFC, fast food major adopted globalization strategy in Indian markets. The company changed its products menu to accommodate the new delicacies given the different taste of population in the country. Company has even reduced the product price by close to 20% to suit Indian pockets.</p> <p>Identify the feature of business environment discussed above.</p>
14.	<p>Assertion (A):</p> <p>Turbulent market conditions, less brand loyalty, division and subdivision of market are just a few of the images to describe business environment.</p> <p>Reason(R) :</p> <p>Business environment is getting dynamic where changes are taking place at a slow pace.</p> <p>(a) Both Assertion (A) and Reason (R) is the correct explanation of Assertion(A).</p>

- (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.

15.



Which dimension of business environment does the above picture indicates?


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

16. The Reserve Bank of India reduces CRR(cash reserve ratio) by 0.5% to control recession. This is related to which dimension of business environment?

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

17. Match the following

COLUMN 1	COLUMN 2
Grabs the opportunities before the competitors	helps in tapping useful resources
It acts as a basis for deciding future course of action making.	first mover advantage
	helps in planning and policy making

	<p>(a)A-3, B-1  (b)A-2, B-3  (C)A-3,B-2  (D)A-2,B-1</p>
18.	<p>Assertion</p> <p>(A) Reservation of jobs for backward classes as per the constitution of India affects the business environment.</p> <p>Reason</p> <p>(R)Various elements of legal dimenstions affect the business environment.</p> <p>a) Both Assertion (A) 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</p>
19.	 <p>The presence of women in the workforce shows an equal status for women in the organisation. Identify the component of social environment</p> <p>(a) Political environment  (b) Economic environment  (c) Social environment  (d) Legal environment</p>

20. "Increase in the life expectancy of people and increased awareness of healthcare have increased the demand for many health products and services like diet coke, fat-free, cooking oil and health resorts. New health products and services have in turn, change people's lifestyles." Which features of business environment has been highlighted in the aforesaid statement?

- (a) Interrelatedness
- (b) Dynamic nature
- (c) Complexity
- (d) Relativity

Answers

1. General forces
2. Economic environment
3. Identifying the opportunities and getting the first mover advantage
4. political environment
5. Rules passed by the government
6. 1-d,2- c,3-a,4-b
7. (b) Social environment
8. (c) Technological environment
9. (c) Political environment
10. (c) Interrelatedness
11. (b) 86%
12. (a) Opportunities
13. Relative
14. (c) Assertion (A) is true but Reason (R) is false
15. Political environment
16. Economic environment
17. (b) A-2, B-3
18. a) Both Assertion (A) and Reason (R) is the correct explanation of Assertion (A).
19. (c) Social environment
20. (a) Interrelatedness

<b>3 mark questions</b>	
1.	<p>Two big Bollywood movies were scheduled to be released on the same date. But ,at the last moment, realease of one movie had to be postponed due to opposition by a group of people because of some unethical content in the movie. The loss suffered by the postponed movie provided opportunity for the released movie to earn maximum profits.</p> <p>(a Which charecteristics of business environment is highlighted in the given case ?</p> <p>(b) Identify and explain the dimension of business environment which led to the postponement of movie.</p>
2.	<p>Lately many companies have planned for significant ivestment in organised retailing in India. Several factors have prompted their decisions in this regard customer income is increasing. People have developed a taste for better quality products even though they may have to pay more.The government permitted cent percent Foreign direct investment in some sectors of retailing.</p> <p>Identify the changes in business environment under different dimensions by quoting the lines from the above para.</p>
3.	<p>Banking sector reforms have led to easier credit terms and better service. This is an example of a key component of business environment. Name the component and explain in brief.</p>
4.	<p>ABC Limited is a cosmetic company. It is targeting customers in the medium- income group so as to increase its turnover and is projecting to capture a revenue of around of Rs.20 crore by the end of the year.it came across the few new entrance in the cosmetic market with the same customer base focus. To maintain its postion and safeguard its revenue interest, it employeed its best professionals in the field of marketing, finance and technology to come up with solutions . on their advice, ABC Ltd. Decided to expand its operations to cross border places, new techniques employed to manufacture cosmetics that can reduce the cost of production in other countries .</p> <p>Which features of Business Environment are high lighted in the case above?</p>
5.	<p>With changes in the consumption habits of people, Neelesh, who was running a sweet shop, shifted to the chocolate business. On the eve of Diwali, he offered chocolates in attractive packages at reasonable</p>

	<p>prices. He anticipated huge demand and created a website chocolove. com for taking orders online. He got a lot of orders online and earned huge profits by selling the chocolate.</p> <p>Identify and explain the dimensions of business environment discussed in the above case.</p>
6.	<p>‘Accent Electronics Ltd.’ was operating its business in Malaysia. The company started exporting its products to India when the Prime Minister announced relaxation in import duties on electronic items. The company appointed retailers in India who had direct online links with the suppliers to replenish stocks when needed.</p> <p>Identify and explain the dimensions of business environment discussed in the above case.</p>
7.	<p>As per the directions issued by the Supreme Court, the government passed an order to ban the sale of tobacco products within the area of 200 meters of all educational institutions as:‘Its consumption is injurious to health’.People are becoming more conscious about health and fitness. This indicates the government’s attitude towards this business.</p> <p>Identify the business environment under three different dimensions by quoting from above paragraph.</p>
8.	<p>Post demonitisation in a further push to cashless economy, the Central cabinet has recently approved the ordinance for paying wages via electronic means. Accordingly, the government approved to Amend Section 6 of the Payment Of Wages Act 1936, to allow employers of certain industries to make payment through the electronic mode and cheques . The new ordinance will be applicable to the public sector.</p> <p>Identify the various dimensions of business environment which relate to the above mentioned case.</p>
9.	<p>Define the term ‘Business Environment’.</p> <p>Explain the terms ‘Threats’ and ‘Opportunities’ by quoting lines from the paragraph.</p>
10.	<p>Eco-friendly products are gaining power as the consumers’ awareness about environmental issues has increased over the years and they are conscious about choosing products that do not have adverse effects on the environment. They are now more conscious about the carbon emission and climate change effects, and want themselves to be ‘seen’ as a green advocate among their peers. In such a scenario, it has become a challenge for the companies as they have to not only</p>

	<p>meet the needs of the consumers but also ensure that their products are safe and environment friendly. As a result, there is growing need for better and advanced technologies to work as a catalyst in this regard.</p> <p>Identify the relevant feature of business environment being discussed above.</p> <p>Describe briefly any three points which highlight the importance of business environment and its understanding by managers.</p>
11.	<p>Postage stamps have been unveiled to commemorate 140 years of existence of the country's first stock exchange the Bombay Stock Exchange (BSE). The setting up of BSE is considered to be the greatest revolution that took place in the financial markets in India as it acts as a key driver for economic growth of a country. This is due to the fact that there exists a strong correlation between economic growth and capital accumulation. In the context of the above case: Identify the dimension of business environment of India being referred here.</p> <p>State any three factors which broadly affect the dimension of business environment of India as identified in part (a) of the question.</p>
12.	<p>A recent rate cut in the interest on loans announced by the banks encouraged Amit, a science student of Progressive School, to take a loan from State Bank of India to experiment and develop cars to be powered by fuel produced from garbage. He developed such a car and exhibited it in the Science Fair organised by the Directorate of Education. He was awarded the first prize for his invention.</p> <p>Identify and explain the dimensions of business environment discussed in the above case.</p>
	<b>ANSWERS-3 marks</b>
1)	<p>(a) Relative concept – it changes from one country to another and one region to another</p> <p>(b) Social environment</p>
2)	<p>Dimensions of business environment :</p> <p>Economic environment – ‘Customer income is increasing.’</p>

	<p>(a) Social environment – “People have developed a taste for better quality products even though they may have to pay more.”</p> <p>(b) Political environment “ the government permitted cent percent foreign direct investment in some sectors of retailing.”</p>
3)	<p>This is an example of “ economic environment” of the business. Economic environment represents the nature of an economy, its policy and system. It covers gross national product, productivity employment rates , balance of payments, tax rates, interest rates and consumer income and debt.</p>
4)	<p>The influence of economic and technological dimensions is highlighted in the above case. Features of the business environment are highlighted below:</p> <ul style="list-style-type: none"> <li>i) Uncertainty- because ABC Ltd. Has to change its plan due to change in the environment</li> <li>ii) Dynamic- because ABC Ltd. Decided to adopt the changes to survive in the environment , e.g. technological upgradation</li> <li>iii) Relativity- because ABC Ltd. Is moving to cross border places to increase the customer base and it understands that different places inherit different cultures and entering to new area can increase its customer base.</li> </ul>
5)	<p>The various dimensions of business environment being referred to in the above case are as follows:</p> <p>Social environment: Social Environment includes the social forces like customs and traditions, values, social trends, society’s expectations from business, etc.</p> <p>Technological environment: Technological Environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.</p>
6)	<p>The various dimensions of business environment being referred to in the above case are as follows:</p>



	<p>Political Environment: Political Environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.</p> <p>Technological Environment: Technological Environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.</p>
7)	<p>The various dimensions of business environment being referred to the in the above case are as follows:</p> <p>Legal Environment: "As per the directions issued by the Supreme Court.'</p> <p>Political Environment: "The government passed an order to ban the sale of tobacco products within the area of 200 meters of all educational institutions."</p> <p>Social Environment: "Its consumption is injurious to health and people are becoming more conscious about health and fitness."</p>
	<p>The various dimensions of business environment which relate to the above mentioned case stated below</p> <p>Political environment</p> <p>Legal environment</p> <p>Technology environment</p>
9)	<p>The term 'Business Environment' means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.</p> <p>The term 'Threats' refers to the external environment, trends and changes that will hinder a firm's performance.</p> <p>"Through an analysis report of the business environment, it has been brought to his notice that in the coming years, shopping at a mall will not be a necessity for the buyers as purchases can be made online from anywhere and at any time with ease and at the consumer's convenience. Hence, malls will have to provide much</p>

	<p>more than shopping to be able to attract customers.”</p> <p>The term ‘opportunities’ refers to the positive external trends or changes that will help a firm to improve its performance.</p> <p>“As a result, the company gains enormously by getting the first mover advantage.”</p>
10)	<p>Inter-relatedness is the relevant feature of business environment which is being discussed above.</p> <p>The three points which highlight the importance of business environment and its understanding by managers are described below:</p> <p>It enables the firm to identify opportunities and getting the first mover advantage: The dynamic business environment provides numerous opportunities for a business to evolve as per the changing needs. Therefore, early identification of the forthcoming opportunities helps an enterprise to be the first to exploit them instead of losing them to the competitors. It helps the firm to identify threats and early warning signals: Sometimes the changes in the external environment may pose as a threat and hinder a firm’s performance. An awareness about the business environment helps the managers to identify such threats on time and take necessary decisions and action. It helps in tapping useful resources: As 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.</p>
11)	<p>Economic environment is the dimension of business environment of India being referred here.</p> <p>The three factors which broadly affect the economic environment of India are stated below:</p> <p>Stage of economic development of the country.</p> <p>The economic structure in the form of mixed economy which recognises the role of both public and private sectors.</p> <p>Economic planning, including five year plans, annual budgets, and so on.</p>
12)	<p>The various dimensions of business environment being referred to in the above case are as follows:</p>

	<p>Economic Environment: It comprises of factors that can affect management practices in a business enterprise includes interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee etc.</p> <p>Technological Environment: It includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.</p>
	4 Mark question
1)	Explain the features of demonetisation.
2)	<p>The government encourage foreign companies in invest in some sectors of retailing the argument is</p> <p>(a) Customer can purchase the products from these companies as their income are raising</p> <p>(b) It will increase innovations which will provide new ways of producing goods</p> <p>This will ultimately improve the quality of life.</p> <p>Identify and explain the 'Business Environment' under four different dimensions quoting the lines from the above description.</p>
3)	<p>With change in the consumption habits of people , Neelesh, who was running a sweet shop shifted to chocolate business. On the eve of diwali, he offers chocolates in attractive packages at resonable prices. He anticipated huge demand and created a website chocolove.com for taking orders online. He got lot of orders online and earned huge profit by selling chocolates. Identify and explain the dimensu\ions of business environmen discussed in the above case</p>
4)	<p>Naman and Govind after finishing their graduation under vocational stream decided to start their own travel agency which will book Rail Tickets and Air Tickets on commission basis. They also thought of providing tickets within ten minutes through the use of internet. They discussed the idea with their Professor Mr. Mehta who liked the idea and suggested them to first analyse the business environment which consists of investors', competitors and other forces like social, political etc. that may affect their business directly or indirectly. He further told them about the technological improvements and shifts in consumer preferences that were taking place and hence they should be aware of the environmental trends and changes which may hinder their business performance. He emphasised on making plans keeping in mind the threat posed by the</p>

	<p>competitors, so that they can deal with the situation effectively. This alignment of business operations with the business environment will result in better performance.</p> <p>Identify and state the component of business environment highlighted in the above Para.</p> <p>State any two features of business environment as discussed by Professor Mehta with Naman and Govind. Also state two points of importance of business environment as stated by Professor Mehta in the above situation.</p>
5)	<p>As a result of the decision by Britain to exit to European Union the new trade agreements will come into force from the EU as it accounts for 35-40% of auto component exports from India. Tata Motors owned Britain's largest carmaker Jaguar Land Rover (JLR) has been in Britain for three decades and makes 4,75,000 cars a year in the country of which most of them are exported inside the European Union and beyond. JLR estimates that their annual profit could be cut by one billion pounds (\$1.47 billion) by the year 2020.</p> <p style="padding-left: 40px;">In the context of the above case:</p> <p style="padding-left: 40px;">Explain why are all the elements of business environment considered to be closely interrelated?</p> <p style="padding-left: 40px;">Name any two related dimensions of the business environment.</p>
6)	<p>The organic food market in India is growing at 25-30 per cent which reflects a clear shift in consumer tastes and preferences. The current growth in the organic food market is driven by multiplicity of factors like rising health consciousness, changing lifestyles, increase in disposable income and growing availability of organic food products in shopping malls, retail outlets and online. In context of the above case:</p> <p style="padding-left: 40px;">Identify and explain the features of business environment being referred to here.</p> <p style="padding-left: 40px;">By quoting phrases from the paragraph identify the various components of general forces which have led to a growth in the organic food market.</p>
7)	<p>Bharat is running an ice cream parlour in a local market. Keeping in mind the changing perceptions about health among the people, one of his employee Abhiraj suggests to him that</p>

	<p>they should introduce a range a flavoured yogurt. Bharat accepts his suggestion as a result both the image and the profitability of his business increases. In the context of the above case: Identify the feature of management which is being highlighted. State the related dimension of the business environment. Name and explain the related principle of general management.</p>
8)	<p>Identify dimensions of business environment related to following situations:</p> <ul style="list-style-type: none"> <li>(a) Internet advertising has become very prevalent now. Most products are being promoted through use of electronic media.</li> <li>(b) Demand to reserve job for minorities and women.</li> <li>(c) Cigarette packets and cigarette advertisements have to carry the statutory warning that “Smoking is injurious to health”</li> <li>(d) The health – and – fitness trends have been a boom for health clubs and health food industries.</li> </ul>
9)	<p>After completing her MBA, Beni took up a job with a multinational company named Fortio. The company paid good salaries and perks to its employees. The wages were within the paying capacity of the company that provided the employees with a reasonable standard of living. The company also had a good work-culture and the behaviour of superiors was very good towards their subordinates. Beni was very happy in this organisation but due to long working hours, she did not have time to cook her meals. She had to depend upon outside food which was deteriorating her health. She observed that this problem was faced by many of her colleagues, not only in her company but also in many other companies. This was because of increase in the number of working women and non- availability of hygienic home-cooked food. She identified this as a great opportunity and decided to give up her job to supply packaged home-cooked food to office-goers at a reasonable price. At the end of the day, she also distributed the leftover food to the nearby night-shelters.</p> <p style="padding-left: 40px;">State the dimension of business environment being discussed above.</p> <p style="padding-left: 40px;">State the principle of management being followed by Fortio.</p> <p style="padding-left: 40px;">Identify any two values being communicated by the company to society in above case.</p>

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

The name and taste of Coca-cola is known to almost each and every individual in India as well as throughout the world. This carbonated soft drink holds the most market share in the soft drink market and got itself a special seat in each and every gathering. The Coca-Cola Company has on occasion introduced other cola drinks under the coke name. The most common of these are diet coke, along with others including caffeine free coca-cola, diet coke caffeine free, coca-cola zero sugar, coca-cola cherry, coca-cola vanilla and the list goes on. It has capitalized on each and every opportunity to market itself effectively and place itself in the middle of every gathering. The main reason for such an outstanding placement of product goes to the way they have established the connection between every occasion and the need for coke to be present there, product design and creative advertising.

i). In the context of the above given case, identify one valid importance of business environment.

- a) Enables a firm to identify opportunities and getting first mover advantage
- b) Uncertainty
- c) Delay in action
- d) Pervasive function

ii). Identify the features of business environment which the coca-cola company managed to get in their favour.

- a) Complex
- b) Specific and general forces
- c) Futuristic
- d) Mental exercise

iii). Which Business environment did coca-cola majorly tap into?

	<p>A) Technological environment  B)Social envrionment  c) Political environment  d) economic environment</p> <p>iv. Which of the following is not a product of COCA-COLA?  a)Diet coke caffeine free  b)coca-cola zero sugar  c)coca-cola avocado  d)coca-cola cherry</p>
12)	<p>The court passed an order that all schools must have water purifiers for the school children as: Society in general is more concerned about the quality of life. Innovative techniques are being developed to manufacture water purifiers at competitive rates. Incomes are rising and children are drinking purified water at their homes as well. The Government is also showing a positive attitude towards the business of water purification.</p> <p>Identify the different dimensions of business environment by quoting from the above details.</p>
	<p><b>Answers-4 marks</b></p>
1)	<ul style="list-style-type: none"> <li><input type="checkbox"/> Demonetisation is viewed as a tax administration measure. As the people with accumulated black money are left with no other option, but to declare their cash holdings and pay taxes at a penalty rate.</li> <li><input type="checkbox"/> Demonetisation also indicates that tax evasion. Intentionally avoiding tax will not be tolerated</li> <li><input type="checkbox"/> Demonetisation also led to tax administration channelizing. It increases in the savings in the bank deposits as the people need to deposit their cash holdings in the bank, so as to get it exchanged with new currency. Demonetization create a less-cash or cash-lite economy</li> </ul>

2)	<p>Economic Environment: it refers to all those economic factors, which have a bearing on the functioning of a business enterprises“Customer can purchase the products from these companies as their income are raising”</p> <p>Political Environment: political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.</p> <p>“The government encourage foreign companies in invest in some sectors of retailing”</p> <p>Technological Environment: It includes the discovery of new methods od producing goods and services, new techniques of operating business, innovations aand improvements in existing methods etc.</p> <p>“It will increase innovations which will provide new ways of producing goods”</p> <p>Social Environment: it includes all factors which socially affect a business enterprises.</p> <p>“This will ultimately improve the quality of life.”</p>
3)	<p>social environment: it includes all factors which socially affect a business enterprises like customs and traditions, values , social trends and society’ expectations from business.</p> <p>Technological environment: It includes the discovery of new methods od producing goods and services, new techniques of operating business, innovations aand improvements in existing methods etc.</p>
4)	<p>Technological Environment is the component of business environment highlighted in the above Para.</p> <p>Technological Environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.</p> <p>The two features of business environment as discussed by Professor Mehta with Naman and Govind are as follows:</p> <p>Dynamic nature: It is dynamic in nature and keeps on changing due to technological upgradations, shifts in consumer preferences or increase in competition in the</p>



	<p>market. Inter-relatedness: All the elements of business environment are closely interrelated. Therefore, any change in one element may necessitate corresponding changes in the other elements as well. The two points of importance of business environment as stated by Professor Mehta in the above situation are described below:</p> <p>It enables the firm to identify opportunities and getting the first mover advantage:</p> <p>The dynamic business environment provides numerous opportunities for a business to evolve as per the changing needs. Therefore, early identification of the forthcoming opportunities helps an enterprise to be the first to exploit them instead of losing them to the competitors. It helps the firm to identify threats and early warning signals: Sometimes the changes in the external environment may pose as a threat and hinder a firm's performance. An awareness about the business environment helps the managers to identify such threats on time and take necessary decisions and action.</p>
5)	<p>All the elements of business environment are considered to be closely interrelated as any change in one of them may necessitate a series of changes in other dimensions as well.</p> <p>The related dimensions of the business environment are Political and Legal.</p>
6)	<p>The features of business environment being referred to in the above case are as follows:</p> <p>Dynamic nature: It is dynamic in nature and keeps on changing due to technological upgradations, shifts in consumer preferences or increase in competition in the market.</p> <p>Inter-relatedness: All the elements of business environment are closely interrelated. Therefore, any change in one element may necessitate corresponding changes in the other elements as well. The various components of general forces which have led to a growth in the organic food market are as follows:</p> <p>Social: "rising health consciousness, changing lifestyles" Economic: "increase in disposable income"</p> <p>Technological: "growing availability of organic food products in shopping malls, retail outlets and online."</p>

7)	<p>The feature of management which is being highlighted is Dynamic.</p> <p>The related dimension of the business environment is Social. The related principle of general management is Initiative.</p> <p>Initiative means taking the first step with self-motivation. The workers should be encouraged to develop and carry out their plans for improvement. Suggestion system should be adopted in the organization.</p>
8)	<ul style="list-style-type: none"> <li>a) Technological Environment</li> <li>b) Economic Environment</li> <li>c) Legal Environment</li> <li>d) Soial Environment</li> </ul>
9)	<p>The dimension of business environment being discussed above is Social.</p> <p>Social Environment includes the social forces like customs and traditions, values, social trends, society's expectations from business, etc. The principle of management being followed by Fortio is 'Remuneration of employees'. Remuneration of employees: The overall pay and compensation should be fair to both employees and the organization. The employees should be paid fair wages, which should give them at least a reasonable standard of living. At the same time it should be within the paying capacity of the company i.e. remuneration should be just and equitable.</p> <p>The values being communicated by the company to the society are:</p> <p>Justice</p>
10)	<ul style="list-style-type: none"> <li>I. A</li> <li>II. A</li> <li>III. B</li> <li>IV. C</li> </ul>
12)	<p>The various dimensions of business environment being referred to the in the above case are as follows:</p>

	<p>Legal Environment: "The court passed an order that all schools must have water purifiers for the school children."</p> <p>Social Environment: "Society in general is more concerned about the quality of life."</p> <p>Political Environment: "The government is also showing a positive attitude towards the business of water purifiers."</p> <p>Technological environment: "Innovative techniques are being developed to manufacture water purifiers at competitive rate."</p> <p>Economic Environment: "Incomes are rising and children are drinking purified water at their homes as well."</p>
	<b>6 marks</b>
1.	<p>'Konark Ltd' is an electronic goods manufacturing enterprise situated in Shivpuri, Madhya pradesh. It is earning a very low revenue in comparison to a competing electronic goods manufacturing enterprise, 'Nova Ltd'. Situated in Mumbai. Both Konark's and Nova's operations are affected directly by the investors, customers, competitors and suppliers, which are unique to their respective locations. In addition to this, individual firms of this field are affected indirectly by the factors like the money supply in the economy, composition of the families, the technological changes, etc.</p> <p>(a) Identify and state the feature of the concept discussed in the above paragraph.</p> <p>(b) Also, state any four points of importance of this concept.</p>
2.	<p>Nacto is a mid size pharma manufacture. It is a market leader in the domestic Oncology segments. Nacto has presence in niche therapeutic areas and sells products in more than 40 countries. Nacto prides itself in "Resisting the usual" by identifying and pursuing products with large and sustainable revenue potential as against the competitive companies. In Indian market, it offers 20 oncolgy medicines (i.e) 9 for blood cancers, 11 for solid tumors and 14 medicines in other therapeutic classes.</p> <p>Nacto is among the first to launch Sofosbuvir and Ledipasvir combo drug for hapatitis C, this has put Nacto in driver's seat in hepatitis C market in India. Nacto would generate Rs.7247 millions</p>

	<p>and Rs. 8382 Million from domestic sales of these medicines during year 2017 and year 2018 respectively. Additionally, Nacto has been aggressively filing for product registrations of its hepatitis C medicines in various countries which not only improve present performance but also continuous to succeed in the long run</p> <p>On the basis of the given information identify and explain the main benefits of understanding bussiness environment discuss in the above case.</p>
3.	<p>In a major step to check black money, prime minister shri Nrendra Modi on 8<sup>th</sup> November , 2016 announced demonetisation of Rs.500 and Rs. 1,000 currency notes with effect from midnight, will be invalid in a major assault on black money, fake currency and corruption . in his televised address to the nation , Modi said people holding notes of Rs. 500 and Rs.1,000 can depoist the same in their bank and post office accounts from November 10 till December 30. This Big Bang announcement is likely to have the impact on sectors such as real estate, where the highest component of black money exist.</p> <p>On the basis of the above information answer the following questions:</p> <p>a) Identify and state the important concept effecting business environment.</p> <p>b) State the fetures of the concept identified in the part (a)</p> <p>c) Sate the aim of the concept idenfied in the part (a).</p>
4.	<p>The market for Herbal cosmetics in India is growing at a remarkable pace of 15-20% per annum. This clearly indicates that today’s aware and educated consumer knows what is good for him and what is not. His tastes and preferences are undergoing a major change. The growth in the Herbal cosmetics market is due to a many of factors like rising heealth consciousness, changing lifestyles, Increase in dispoable income and growing availability of Herbal cosmetics products in shopping malls ,reatail outlets and online.</p> <p>On the basis of the given information, Answer the following questions:</p> <p>(a) Identify and Explain the features of business environment being reflected above.</p> <p>(b) By quoting lines from the paragraph identify the various components of general forces which have led to this change.</p>

5.	<p>'Wadhwa Ltd' decided to start its new venture in Delhi. For this, they needed to understand the business environment of the area. It was realised by the company that the business environment of Delhi was very hard to understand unless and until it was divided into different business dimensions like social, economic, political, legal and technological. After understanding the business situations the company started to study the close links between different elements of business environment. They gave a proper shape to their research and the business got started with full force. Later they realised that the products they were selling in Delhi were more fit for the American culture and decided to start a new branch in New York where the demand of their products was very high from the first day. The company came to be recognised and in few years became a global brand. The reason for its success in different countries was the adaptability it showed in meeting the changing environment. The company keeps track of all happening and does a periodic survey of the choices of the customers.</p> <p>Identify and explain the four characteristics of business environment highlighted in the above case by quoting the lines.</p>
6.	<p>Direction -Read the following text and answer the question number (i – iv) on the basis of the same.</p> <p>The government all over the world are becoming more and more cautious towards the environment. To ensure the same, recently, many state governments pass an order to ban polythene bags since these are non-biodegradable. As a result, the government also decided to give a subsidy to jute industry (bags). The minister said in the statement that they believe it will be helpful as income of people are rising and people can afford jute bag.</p> <p>After this subsidy, Aman saw great potential in jute multi-pocket bags business which was not established yet in India but had been flourishing in UK where he studied during his graduation. He launched the product and his business started to boom. So, more companies entered into the market with other articles and improvisations.</p> <p>i) Which business dimension is highlighted in the line, "As a result, the government also decided to give a subsidy to jute industry (bags),"</p>

a) Legal

b) Political

c) Economic

d) Social

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

a) Legal

b) Political

c) Economic

d) Social

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

a) Identify opportunities

b) Tapping useful resources

c) Coping with rapid changes d) Assisting

in planning

iv) what does identifying opportunities mean for the company?

A) Refer to external env. trends and changes that hinder firm's performance

B) Assemble various resources

C) Convert input resources into output

D) First to exploit opportunities

	<p>v) Which merits of business environment is highlighted in the lines,” he launched the product and his business started to boom. So more companies entered into the market with other articles and improvisation.”</p> <ul style="list-style-type: none"> <li>a) Identify oppurtunities</li> <li>b) Identify threats</li> <li>c) Assisting in planning</li> <li>d) Coping with rapid changes</li> </ul> <p>vi) Which dimensions of business environment is highlighted in the given lines,” to ensure the same many state government passed an order to ban polythene bags since these are non biodegradable,”?</p> <ul style="list-style-type: none"> <li>a) Political</li> <li>b) Legal</li> <li>c) Technological</li> <li>d) Economic</li> </ul>
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1.	<p>ANSWERS-6 marks</p> <p>1. Business environment includes  Specific force – customers, investors, competitors  General force – Money supply technological changes etc.,  Specific force directly effect the functioning of an enterprise while general force effect the functioning of all the business enterprises.</p> <p><b>Importance of business environment:</b> (ANY FOUR)</p> <ol style="list-style-type: none"> <li>1. It enables the firm to identify opportunities: <ul style="list-style-type: none"> <li><input type="checkbox"/> Opportunities means positive external changes that help a firm to improve performance</li> <li><input type="checkbox"/> They should identify it first and make use of it</li> </ul> </li> <li>2. It helps the firm to identify threats</li> </ol>
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		<ul style="list-style-type: none"> <li><input type="checkbox"/> Threats are external factors which effect the business</li> <li><input type="checkbox"/> Managers should identify threat as early warning signals</li> </ul> <p>3. It helps in tapping useful resources:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Firm uses the resources of environment and provides goods and services to the same environment</li> </ul> <p>4. Coping with rapid changes:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> factors in environment changes quickly</li> <li><input type="checkbox"/> managers should understand the changes and develop suitable course of action</li> </ul> <p>5. It helps in planning and policy formulation</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Knowledge about the environment helps to plan and make policy.</li> </ul> <p>5. It helps in planning and policy formulation:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Knowledge about the environment helps to plan and make policy.</li> </ul>	
2.		<p>The main benefits of understanding bussiness environment are:</p> <ul style="list-style-type: none"> <li>i) Helps in policy formulation :Since environment is a source of both oppurtunities and threats, its understanding is the basis of planning and policy formulation.</li> <li>ii) Helps in improving performance Enterprise that monitor and adapts to changes happening in the environment not only improve its present performance but also continue to succeed in the long run.</li> <li>iii) Enables the firm to identify the oppurtunities and getting the first mover advantage: with the careful analysis of the business environment , an enterperise can identify the positive oppurtunities for business.early identification of the opportunities helps it in taking the first mover advantage in competition</li> </ul>	
3.		<p>(a) Demonietisation:It is the act to cease a currency unit or put an official stop on its status as a legal tender.</p> <p><b>(b) Features</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Demonetisation is viewed as a tax administration measure.</li> </ul>	



		<p>As the people with accumulated black money are left with no other option, but to declare their cash holdings and pay taxes at a penalty rate.</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Demonetisation also indicates that tax evasion Intentionally avoiding tax will not be tolerated</li> <li><input type="checkbox"/> Demonetisation also led to tax administration channelizing It increases in the savings in the bank deposits as the people need to deposit their cash holdings in the bank, so as to get it exchanged with new currency.</li> <li><input type="checkbox"/> Demonetisation create a less-cash or cash-lite economy</li> </ul> <p>(C ) The aim of demonetization was to curb the correction counterfeiting the use of high denomination notes for illegal activities and accumulation of black money generated by income that has not been declared to the tax authorities.</p>	
4.		<p>(a)Features of business environment</p> <ul style="list-style-type: none"> <li>(i) Dynamic</li> <li>(ii) Uncertain</li> <li>(iii) Complex</li> </ul> <p>(b)Components of general environment</p> <ul style="list-style-type: none"> <li>(i) Social environment</li> <li>(ii) Economic environmrnt</li> </ul>	
5.		<p>(a) Complexity It was realised... Technological.</p> <p>(b) Interrelatedness.</p>	

6.	<p>After understanding... Elements of business environment.</p> <p>(c) Relativity.</p> <p>Later they realised... very high from the first day.</p> <p>(d) Dynamic nature.</p> <p>The reason ... changing environment.</p>
	<p>Ans i)- b ii) -c iii)-a iv) —d v)-b vi)-b</p>

**Key words**

S.No.	CONCEPTS	KEYWORDS
1.	Business Environment	Sum total of all individuals and forces.
2.	Importance of business environment	<input type="checkbox"/>
	a. First mover advantage	<input type="checkbox"/> Early identification of opportunities. First to exploit opportunities.

	b. Identify threats and early warning signals	<p>Threats refer to external env. trends and changes that hinder firm's performance.</p> <p>Environmental awareness.</p>
	c. Tapping useful resources	<p>Assemble various resources.</p> <p>Convert input resources into output.</p>
	d. Coping with rapid changes	<p>Turbulent market conditions, Less brand loyalty,</p> <p>Fragmentation (division) of markets.</p> <p>Increasing dynamic environment.</p> <p>Examine environment and develop suitable course of action.</p>

Deciding future course of action (planning).

Training guidelines for decision making

(policy).

Think afresh about how to deal with

situation.

e. Assisting in planning and policy formulation

f. Improving performance

Continuous monitoring of environment.

Understanding business environment to make a difference in performance.

3. Dimensions of business environment

a. Economic

Interest rates, price, income, rate of growth.

b. Social

Life expectancy, birth rate/death rate, quality of life, population shifts, family, habits, traditions, values, education, literacy rate.

c. Technological

New methods/techniques, new ways of production, scientific improvements and innovations.

d. Legal

Legal Act, Court order, legal regulations, statutory warning on products like cigarettes or tobacco etc.

e. Political

Government policies, elected government decisions, political conditions, attitude of government etc.

	4.	Demonetization	The act of scrapping a currency unit of its status as legal tender	
	5.	Features		
		1. Tax administration measure.	People with black money to pay taxes as penalty  <input type="checkbox"/>	
		2. Tax evasion	Intentionally avoiding tax will not be tolerated	
		3. Channelizing	Depositing savings to the bank	
		4. Less-cash or cash-lite economy	channeling more savings through the formal financial system and improving tax compliance.	

## CHAPTER - 4

### PLANNING

#### **Learning Outcomes**

Understand the concept of planning.

Describe the importance of planning.

Understand the limitations of planning

Describe the steps in the process of planning.

Develop an understanding of single use and standing plans

Describe objectives, policies, strategy, procedure, method, rule, budget and programme as types of plans.

Planning means deciding in advance what is to be done, when is to be done, how is to be done and by whom is to be done. So that it is a process of thinking before doing.

#### Features of Planning

1. Planning Focuses on objectives – Every organization has its own objectives and every plan must contribute towards the accomplishment of these objectives.
2. Planning is the primary function of management – Planning is the first function of management. All other functions are performed to implement the plan.
3. Planning is pervasive – Planning is required at all levels of management, top management undertakes long range plans, middle management is concerned with departmental plans and the lower level management is related to short term plans.
4. Planning is continuous – Planning is an on-going process. Usually a plan is prepared for a specific period of time. At the end of the period a new plan is prepared in accordance with the requirement of future condition

5. Planning is futuristic – Planning is looking ahead and preparing for the future. Hence forecasting is the essence of planning. E.g. Keeping an umbrella in our bag with us foreseeing the chance of rain.

6. Planning involves decision making – If there are various alternatives to achieve an objective, then we have to select the best one (decision making) only after proper analysis

7. Planning is a mental exercise – Planning is an intellectual process which involves foresight, imagination and judgment.

#### Importance of Planning

1. Planning provides direction – Planning provides direction for action. This ensures effective implementation of plans and direction of effort towards attainment of objectives.

2. Planning reduces uncertainty – Planning enables an organization to cope up with uncertainty and change. With the help of planning, an enterprise can predict future events and make due provisions for them.

3. Planning reduces overlapping and wasteful activities – Planning co-ordinates the activities of individuals and departments in an orderly manner, which will help to avoid wasteful activities.

4. Planning promotes innovation and creativity – Planning is a process of thinking in advance; there is a scope for finding better methods for productivity. This makes the managers innovative and creative.

5. Planning facilitates decision making – Planning helps in decision making by selecting the best alternative among the various alternatives.

6. Planning establishes standards for control – Plans serve as standards for evaluation of performance. It will help to ensure proper control by comparing the actual performance with the standard performance.

#### Limitations of Planning

1. Rigidity (inflexibility) – Planning restricts the individual skill, initiative and creativity, because employees are required to work strictly in accordance with the plans.
2. Planning may not work in dynamic environment – The scope for planning is limited up to a certain extent especially in the organizations having rapid changing situations
3. Planning reduces creativity – Managers at middle and lower levels are just implementing the plans formulated by the top management, thus it reduces the creativity among them.
4. Huge Cost – Planning is a very expensive and time consuming process which involves the collection of data, analysis, interpretation etc. Hence it is not suitable for quick decisions as well as for small concerns.
5. Time consuming – Sometimes plans to be drawn up take so much time, but there is no much time left for their implementation.
6. Does not guarantee success – Planning may create a false sense of security in the organization that everything is going smooth; it affects independent thinking and creativity of managers

#### **Planning Process (Steps in Planning)**

1. Setting the objectives – The first step in planning is the establishment of objectives. The objectives must be clear and specific. The objective of the entire organization is laid down first, and then it is broken down into departments and individuals.
2. Develop Planning Premises – Planning is done for the future which is uncertain, certain assumptions are made about the future environment. These assumptions are known as planning premises.

3. Identifying alternatives – There are alternative ways for achieving the same goal. For example, to increase sales, different ways are there, like advertisement, reducing prices, improve quality etc.

4. Evaluating alternatives – The positive and negative aspects of each alternative should be evaluated based on their feasibility and consequences.

5. Selecting the best alternative – After analysing the merits and demerits of each alternative, the most appropriate one is to be selected by evaluating cost, risk, benefit to organization etc.

6. Implementation of plans – Implementation means putting plans into action to achieve the objective.

7. Follow Up – Plans are to be evaluated regularly to check whether they are proceeding in right way, shortfalls can be located and remedial actions can be taken well in advance.

#### Types of Plans

Plans can be classified into single-use plans and standing plans.

Single use plan – It is developed for a one-time event or project. The duration of such plan may depend upon the type of project, may be for one day, a week or a month such as organizing an event, a seminar, a conference etc. Single use plans include Budgets, Programmes.

Standing plan – It is used for activities that occur regularly over a period of time. It is usually developed once but is modified from time to time to meet business needs as required. Standing plans include Policies, Procedures, Methods and Rules.

1. Objectives – Objectives are the ends towards which an activity is aimed. They are the results to be achieved.

2. Strategy – It is a comprehensive plan for accomplishing an organization's objectives by considering the business environment.

3. Policy – It is a general statement or guideline in decision making to various managers. It defines the limit within which decisions can be made. E.g. "Promotion is based on merit only" states that while taking decision on promotion, merit will be the sole criterion.



4. Procedure – Procedure consists of sequence of routine steps performed in a chronological order to carry out activities.

5. Rule – Rule is a specific statement that specifies clearly what is to be done or not to be done.

6. Method – Method is the prescribed way or manner in which a task has to be performed.

7. Programme – Programmes are detailed statement about a project.

8. Budget – It is a plan which states the expected results of a given period in numerical terms.

1 Mark Questions:

1. Which of the following statements is false?

- (a) Planning reduces creativity.
- (b) Planning is economical.
- (c) Planning is a mental exercise.
- (d) Planning focuses on achieving objectives.

Ans. (b)

2. "Each alternative course of action has many variables which have to be weighed against each other." Identify the step of planning function of management highlighted above

- (a) Setting Objectives
- ( b) Developing Premises
- (c) Identifying alternative courses of action
- (d) Evaluating alternative courses

Ans:(d)

3. "This is the real point of decision making. The best plan has to be adopted and implemented." Identify the step of planning function of management highlighted above.

(a) Evaluating alternative courses

(b) Selecting an alternative

(c) Implementing the plan

(d) Follow-up action

Ans:(b)

4. "This is the step where other managerial functions also come into the picture. This step would also involve organising for labour and purchase of machinery." Identify the step of one of the functions of management highlighted above.

(a) Implementing the plan

(b) Evaluating alternative courses

(c) Selecting an alternative

(d) Follow-up action

Ans:(a)

5. Following are the steps of Planning Process. Arrange them in correct sequence:

(i) Developing premises

(ii) Identifying alternative courses of action

(iii) Setting objective

(iv) Evaluating alternative courses

Ans:(iii,i,ii,iv)

6. Planning is an intellectual activity of thinking rather than doing. Which feature of planning is highlighted in this statement?

(a) Planning focuses on achieving objectives.

(b) Planning is futuristic.

(c) Planning involves decision making.

(d) Planning is a mental exercise.

Ans:(d)

7. Prem the Managing Director of Swasthi Ltd, retired after 33 years of service. The responsibility was given to Raj. Raj realised that there was lot of rivalry, confusion and misunderstanding among the departmental heads. He detected inefficiencies, took corrective measures and developed a master plan for the organisation to follow. This served as a basis for coordinating the activities of all departments, led to clarity of thought and action and work got off to a smooth start.

The point of importance of planning discussed above is:

(a) Planning reduces overlapping and wasteful activities.

(b) Planning establishes standards for controlling

(c) Planning reduces the risks of uncertainty.

(d) Planning promotes innovative ideas.

Ans: (d)

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

a) Controlling

(b) Planning

(c) Organising

(d) Directing

Ans: (b)

9. Bright Ltd. has a plan of increasing profits by 20%. It has devoted a lot of time and money to this plan. But the competition starts increasing, so it could not change its plan to beat its competitors because huge amount of money had already been devoted to the pre-decided plan. It caused losses to the company.

Identify the limitations of planning highlighted in the above case.

(a) Planning is a time consuming process.

(b) Planning leads to rigidity.

(c) Planning reduces creativity

(d) Planning is a costly process.

Ans: (a)

10. Bhavana Limited is a well-established International Camera Company. It was pioneer in introducing product like non-digital 'aim and shoot' cameras. After tasting success in the previous project, they introduced wide array of products in DSLR cameras. Their products range from 20 to 250 mega pixels digital cameras. With the advancement of technology, they planned to make huge investment in developing and selling even higher resolution digital cameras. The made a budget allocation of 1,000 crore in developing it. The company has started working on this improved product. It is a lengthy process of research and development. It may take 2 to 3 years to actually start production. In the meantime, one of its competitors moved a step forward and developed and marketed mirror-less cameras in the market. It resulted in heavy losses to Bhavana Limited. Identify the limitation of planning from the above para.

(a) Planning involves huge cost.

(b) Planning is time-consuming.

(c) Planning may not work in a dynamic environment.

(d) All the above

Ans: (c)

11. Given below are two statements. One is Assertion (A) and another is Reason (R):

Assertion (A): Planning essentially involves looking ahead and preparing for future through forecasting. Reason (R): Forecasting helps to anticipate future events and drawing up of plans.

In the context of the above statements, identify the correct option:

(a) Both Assertion (A) and Reason (R) are correct.

(b) Assertion (A) is correct, but Reason (R) is incorrect.

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

(d) Both Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A).

12. Read the following statements-Assertion (A) and Reason (R):

Assertion (A): Planning is basically an intellectual activity of thinking rather than doing Reason (R): Planning requires application of the mind involving foresight, intelligent imagination and sound

(a) Both Assertion (A) and Reason (R) are true.

(b) Both Assertion (A) and Reason (R) are false.

(c) Assertion (A) is true and Reason(R) is false.

(d) Assertion (A) is false and Reason(R) is true.

13. Read the following statements-Assertion (A) and Reason (R):

A): Planning requires wishful thinking.

Reason (R): Planning is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken.

(a) Both Assertion (A) and Reason (R) are true.

(b) Both Assertion (A) and Reason (R) are false.

(c) Assertion (A) is true and Reason(R) is false.

(d) Assertion (A) is false and Reason(R) is true.

14. Read the following statements-Assertion (A) and Reason (R):

Assertion (A): Planning is an exclusive function of top management.

Reason (R): Planning is done by the top management; rest of the members just carry out orders.

(a) Both Assertion (A) and Reason (R) are true.

(b) Both Assertion (A) and Reason (R) are false.

(c) Assertion (A) is true and Reason(R) is false.

(d) Assertion (A) is false and Reason(R) is true..

15. For the following statements, choose the correct option:

Statement 1: Objectives represent the end point of planning.

Statement II: A strategy provides the broad contours of an organization's business. Choose the Correct option from the options given below:

- (a) Statement 1 is correct and Statement II is not correct.
- (b) Statement II is correct and Statement I is not correct.
- (c) Both the Statements I and II are correct.
- (d) Both the Statements I and II are not correct.

16. Statement I: Premises are the base material upon which plans are to be drawn.

Statement II: To see whether plans are being implemented and activities are performed according to schedule is part of the planning process.

Choose the correct option from the options given below:

- (a) Statement 1 is correct and Statement II is not correct.
- (b) Statement II is correct and Statement I is not correct.
- (e) Both the Statements I and II are correct.
- (d) Both the Statements I and II are not correct.

17. For the following statements, choose the correct option:

Statement I: Single-use plans include budgets, programmes and projects.

Statement II: Standing plans include policies, procedures, methods and rules.

Choose the correct option from the options given below:

- Statement I is correct and Statement II is not correct.
- Statement II is correct and Statement I is not correct.
- Both the Statements I and II are correct.
- Both the Statements I and II are not correct

18. Which of the following is not a limitation of planning?

- (a) Leads to rigidity

(b) Reduces creativity

(c) Is futuristic

(d) Is time consuming

19. Which of the following is not a step in the process of planning?

(a) Making assumptions about the future.

(b) Evaluating different proposals in light of the objectives to be achieved.

(c) Allocation of jobs to members of each department.

(d) Seeing whether activities are performed as per schedule or not.

20. Match the following:

(i) The end point of planning	(a) Method
(ii) A comprehensive plan for accomplishing an organisation's objectives	(b) Objective
(iii) General statements that guide thinking or channelize energies towards a particular direction	(c) Strategy
(iv) It provides the prescribed ways or manner in which a task has to be performed considering the objective	(d) Policy

- (i) – (b), (ii) – (c), (iii) – (d), (iv) – (a)
- (i) – (a), (ii) – (b), (iii) – (c), (iv) – (d)
- (i) – (d), (ii) – (c), (iii) – (b), (iv) – (a)
- (i) – (c), (ii) – (d), (iii) – (a), (iv) – (b)

**3Marks:**



1. Khushi a home science graduate from a reputed college has recently done a course in cooking. She wished to start her own venture with a goal to provide healthy food at reasonable price. She discussed her idea with her teacher who encouraged her after analysing various options for starting a business venture. This 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 short listed options.

- Name the function of management being discussed above.
- State any two characteristics of the function of management discussed above.

Ans. Function of management is Planning

#### Features of Planning

- Planning is the primary function of management
- Planning is pervasive
- Planning is a continuous process

2. An auto company, C Ltd is facing a problem of declining market share due to increased competition from other new and existing players in the market. Its competitors are introducing lower priced models for mass consumers who are price sensitive. For quality conscious consumers, the company is introducing new models with added features and new technological advancements.

- Prepare a model business plan for C Ltd meet the existing challenge. You need not to be very specific about quantitative parameters. You may specify which type of plan you are preparing and explain it.

Ans. Strategy as a type of plan made by C Ltd.

3. Name and explain type of plan is being discussed in the following cases :-

- A company has set target to Rs. Generate sales Rs. 2 crores
- Mr. Dinesh, the HR manager, grants one of his assistant 15 days paid leave even after instating of the assistant for 30 days leave. He said the company cannot allow leave more than 15 days.

Ans. 1. Objective/Budget

2. Policy/Rule

4. ABC Ltd. has a plan of increasing profits by 20%. It has devoted a lot of time and money to this plan. But the competition starts increasing, so it could not change its plan to beat its competitors because huge amount of money had already been devoted to the pre- decided plan. It caused losses to the company. Explain any two limitations of planning highlighted in the above case.

Ans. Two limitations of planning

a) Planning is a time consuming process

b)planning leads to rigidity

5. "Planning may not work in a dynamic environment. "Explain.

Ans. The business environment is dynamic, nothing is constant. The environment consists of a number of dimensions, economic, political, physical, legal and social dimensions. The organisation has to constantly adapt itself to changes. It becomes difficult to accurately assess future trends in the environment .Planning cannot foresee everything and thus, there may be obstacles to effective planning

6.A company is manufacturing garments. The manager wants to increase profits by purchasing new high-speed machines or increasing the sale price or using waste material in manufacturing stuffed toys. He decided that using waste material' to increase the profit is the best solution for him. Identify the function of management involved and state any two importance of identified function.

Ans. (a) Planning

i). Planning provides direction

ii)Planning promotes innovation and creativity

iii). Planning reduces overlapping and wasteful activities

7." Planning always reduces creativity". Comment.

Ans. The top management undertakes planning for the organisation as a whole. Usually, the rest of the members just implement these plans. As a consequence, middle management and other decision makers are neither allowed deviate from plans nor are they permitted to act on their own. Thus, much of the initiative or creativity inherent in them also gets lost or reduced

8. Mahima Limited is a well-established International Camera Company. It was pioneer in introducing product like non-digital 'aim and shoot' cameras. After tasting success in the previous project, they introduced wide array of products in DSLR cameras. Their products range from 50 to 450 mega pixels digital cameras. With the advancement of technology, they planned to make huge investment in developing and selling even higher resolution digital cameras. The made a budget allocation of 1,000 crore in developing it. The company has started working on this improved product. It is a lengthy process of research and development. It may take 2 to 3 years to actually start production. In the meantime, one of its competitors moved a step forward and developed and marketed mirror-less cameras in the market. It resulted in heavy losses to Mahima Limited. Identify the limitation of planning from the above para.

Ans.(a) Planning involves huge cost.

(b) Planning is time-consuming.

(c) Planning may not work in a dynamic environment.

9. Enumerate six points of importance of planning.

Ans. Planning provides direction.

2. Planning reduces uncertainty.

3. Planning reduces overlapping and wasteful activities.

4. Planning promotes innovation and creativity

5. Planning facilitates decision making.

6. Planning establishes standards for control

10. Planning involves decision making". Explain.

Ans. Planning is essentially a process of making choice from among various alternatives. There will be no need for planning, if there is only one course of action, because there will be no choice. Hence need for planning depends on the availability of alternatives. A manager, after examining and evaluating the various alternatives, chooses the most appropriate one.

11. Enumerate the steps involved in the planning process.

Ans. Steps of planning are as follows:

- (i) Setting up of objectives
- (ii) Developing premises.
- (iii) Identifying alternative courses of action.
- (iv) Evaluating alternative courses
- (v) Selecting an alternative.
- (vi) Implementation of plan.
- (vii) Follow up

12. 'Planning is the primary function on of management'. Comment.

Ans. Every management starts with planning. All other functions like organizing, staffing, directing and controlling are based on planning. It precedes the execution of all other managerial functions and allows mangers to organized, staff, direct and control the activities in a better way so as to achieve organizational goals. All the activities are created

in such a way that plans are easily carried out. This is also referred to as primacy of planning.

**4 Marks**

1. Rahul decided to start a desert cooler manufacturing business. He sets the target of earning 20% profit on sales in the first year. He was very much concerned about the future prospects of the business, which were uncertain. For this, he gathered information from the potential market and analyzed that the demand for wall mounted coolers is increasing day by day. He used this information as the base for future planning. On the basis of the gathered information, he called a meeting in the following week to find new methods to achieve the objective.

a) Identify the function of management involved in the above case.

b) Enumerate the first three steps, which have been followed by Rahul that are related to the process of one of the functions of management by quoting lines from above.

Ans.(a) Planning

(b) (i) Setting objectives

ii) Developing premises

iii) Identifying alternative courses of action.

2. Explain any four limitations of planning.

Ans. limitations of planning are:

i) Leads to rigidity,

ii) May not work in a dynamic environment

iii) Reduces creativity

- iv) Involves huge costs
- v) Time consuming process
- vi) Does not guarantee success.

3. Mega Ltd. holds an Annual Management Programme every year in the month of March in which the top managerial personnel formulate plans for the next year by analysing and predicting the future to meet future events effectively. As they are responsible for providing direction to the organisation, facts are thoroughly checked through scientific calculations. Detailed plans are prepared after discussion with professional experts. Preliminary investigations are also undertaken to find out the viability of the plan. Since it is an intellectual activity requiring intelligent imagination and sound judgement, it is mainly done by the top management. Usually rest of the members just implement the plans. Middle level managers are neither allowed to deviate from the plans nor are they permitted to act on their own. The top management ensures that the expenses incurred in formulating the plans justify the benefits derived from them.

State two limitations and two features of planning discussed above.

Ans. Two limitations of planning discussed above are:

- (i) Planning reduces creativity
- (ii) Planning involves huge costs

Two features of planning discussed above are:

- (i) Planning is futuristic
- (ii) Planning is a mental exercise

4. Identify and explain the type of plan and state whether they are Single use or Standing plan:

- (a) A type of plan which serves as a controlling device as well.
- (b) A plan based on research and analysis and is concerned with physical and technical tasks

Ans. a) Budget – Single use plan (Explain)

- Method – A standing plan(Explain)

5. Having transformed 2,500 Kirana stores across eight cities into virtual super markets, the start-up Kiwi Mart further decided in advance, to collaborate with 15,000-20,000 store owners in top 30 cities of the country by the end of this year. The company has set its eye on digitizing over 1,00,000 kirana stores over next 18-24 months.

i) Identify the step in the process of one of the functions of management discussed above

ii) Explain next three steps Kiwi Mart is going to do. .

Ans. i) Setting Objectives

ii) a) Developing Premises

(b) Identifying alternative courses of action

(c) Evaluating alternative courses

6. Matta Auto Ltd. is manufacturing different types of commercial vehicles. Their sales were rupees two hundred crores in the previous year. The company decided to increase sales by 20% during the current year. It conducted internal as well as external audits for the same. Through internal audit, they analysed the strengths and weaknesses of the business across all departments. External audit focused on the opportunities and the threats in the constantly changing business environment. Thus, a comprehensive plan was prepared taking into consideration the business environment and the necessary resources were allocated to achieve the target. The company directed its offices throughout the country to follow the plan. The company's commitment to develop effective plans to achieve a consistent increase in sales has ensured its continual growth over the past one decade. of plans discussed above.

Ans. a) Objectives

b) Strategy

7. Explain any four features of planning.

Ans. 1. Planning Focuses on objectives – Every organization has its own objectives and every plan must contribute towards the accomplishment of these objectives.

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

3. Planning is pervasive – Planning is required at all levels of management, top management undertakes long range plans, middle management is concerned with departmental plans and the lower level management is related to short term plans.

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

8. Explain first four steps in planning.

Ans. 1. Setting the objectives – The first step in planning is the establishment of objectives. The objectives must be clear and specific. The objective of the entire organization is laid down first, and then it is broken down into departments and individuals.

2. Develop Planning Premises – Planning is done for the future which is uncertain, certain assumptions are made about the future environment. These assumptions are known as planning premises.

3. Identifying alternatives – There are alternative ways for achieving the same goal. For example, to increase sales, different ways are there, like advertisement, reducing prices, improve quality etc.

4. Evaluating alternatives – The positive and negative aspects of each alternative should be evaluated based on their feasibility and consequences.

9. Why is planning considered as a mental exercise?

Ans. Planning is an intellectual activity requiring application of the mind, imagination and sound judgment. It is a thinking function rather than a doing function as it determines the actions to be



taken. Moreover, planning requires logical and systematic thinking based on the analysis of facts and figures.

10. What do you mean by planning premises?

Ans. Planning premises are assumptions relating to future conditions and events which are likely to have an effect on achievement of goals. These are the bases upon which the entire structure of planning is built. Every plan is drawn with certain assumptions. To make planning effective, it is necessary that the premises should be based on accurate forecasts, existing plans or any past information about policies etc. For example, demand for a product, cost of raw materials, interest rates, state of technology, intensity of competition, government policies etc.

11. Explain the following plans.

a) Policy b) Procedure c)Rule d)Method

Ans.a).Policy – It is a general statement or guideline in decision making to various managers. It defines the limit within which decisions can be made. E.g. “Promotion is based on merit only” states that while taking decision on promotion, merit will be the sole criterion.

b). Procedure – Procedure consists of sequence of routine steps performed in a chronological order to carry out activities.

c). Rule – Rule is a specific statement that specifies clearly what is to be done or not to be done.

d). Method – Method is the prescribed way or manner in which a task has to be performed .

12. Rahul decided to start a desert cooler manufacturing business. He sets the target of earning 20% profit on sales in the first year. He was very much concerned about the future prospects of the business, which were uncertain. For this, he gathered information from the potential market and analyzed that the demand for wall mounted coolers is increasing day by day. He used this information as the base for future planning. On the basis of the gathered information, he called a meeting in the following week to find new methods to achieve the objective.

a) Identify the function of management involved in the above case.

b) Enumerate the next three steps, which have been followed by Rahul that are related to the process of one of the functions of management.

Ans. (a) Planning

(b) (i) Identifying alternative courses of action.

(ii) Evaluating alternative courses of action.

iii) Selecting an alternative.

6 Marks

1. After completing her studies in product design, Sarah wishes to start her own business to design products to cater to the mobility and communication requirements of persons with special needs.

She told her friend that she wanted to focus on supplying high quality and affordable products on

“no profit – no loss basis”. The Unique Selling Proposition (U.S.P) of the products will be sensitivity to challenges and needs of the differently abled. She has to follow a series of steps to attain her predetermined objectives.

In the above lines, Sarah has discussed about one of the functions of management. Identify the function and state its steps in chronological order other than the one discussed in the above para.

Ans. Planning.

Steps in the process of Planning are:

(i) Developing Premises which involves making assumptions about future, upon which plans are to be withdrawn.

(ii) Identifying alternative courses of action which may be used to achieve the set objectives.

(iii) Evaluating alternative courses of action

(iv) Selecting the best alternative which involves scrutinizing the feasibility and consequences of each alternative before a choice is made.

(v) Implementing the plan which involves seeing whether plans are put into action.

(vi) Follow up which involves seeing that activities are performed according to plans.

2. Hari set up a telecom business in Kerala with an ambitious target of reaching out to 90% of the Indian population within one year. He chose this business on the belief that the demand for data services will increase 4 times within the next 2-3 years. To fulfill such an ambitious target, he had to either acquire an existing telecom business or collaborate or go independent aggressively in the light of tough competition. He assessed the proposals of different companies vis-à-vis earnings per share, taxes, dividends paid etc. and their future projections knowing fully well that the projections may change if the country's economic policies get modified.

The above paragraph discusses some of the steps of one of the functions of management. By quoting the lines from the above paragraph, explain these steps in chronological order.

Ans.(i) Setting objectives

*Hari set up a telecom business in Kerala with an ambitious target of reaching out to 90% of the Indian population within one year*

(ii) Developing premises

*He chose this business on the belief that the demand for data services will increase 4 times within the next 2-3 years*

(iii) Identifying alternative courses of action

*To fulfil such an ambitious target, he to either acquire an existing telecom business or collaborate or go independent aggressively in the light of tough competition'*

(iv) Evaluating alternative courses

*He assessed the proposals of different companies vis-à-vis earnings per share, taxes, dividends paid etc. and their future projections knowing fully well that the projections may change if the country's economic policies get modified"*

3. Explain the importance of Planning.

Ans. 1. Planning provides direction – Planning provides direction for action. This ensures effective implementation of plans and direction of effort towards attainment of objectives.

2. Planning reduces uncertainty – Planning enables an organization to cope up with uncertainty and change. With the help of planning, an enterprise can predict future events and make due provisions for them.

3. Planning reduces overlapping and wasteful activities – Planning co-ordinates the activities of individuals and departments in an orderly manner, which will help to avoid wasteful activities.

4. Planning promotes innovation and creativity – Planning is a process of thinking in advance; there is a scope for finding better methods for productivity. This makes the managers innovative and creative.

5. Planning facilitates decision making – Planning helps in decision making by selecting the best alternative among the various alternatives.

6. Planning establishes standards for control – Plans serve as standards for evaluation of performance. It will help to ensure proper control by comparing the actual performance with the standard performance.

4. If there is a plan to increase production then more labour, more machinery will be required. This step in the process of planning will involve organising for labour and purchase of machinery.

a) Identify and explain the step in the planning process being discussed above.

b) Explain three steps to be performed before the identified step.

Ans. a) Implementing the plan: It means putting the plan into action. This is the step where other managerial functions also come into the picture. This step would also involve organising for labour and purchase of machinery.

b)i) Identifying alternative courses of action: As there may be many ways to achieve the objectives, all the alternative courses of action should be identified and thoroughly discussed.

ii) Evaluating alternative courses of action: The positive and negative aspects (ie., feasibility and consequences) of each

ii) Selecting an alternative which involves scrutinizing the feasibility and consequences of each alternative before a choice is made. This is the real point of decision-making. The best plan would be the most feasible, profitable and with least negative

5. Identify and explain the types of plan:

(i) It may consist of identifying steps, procedures required for opening a new department to deal with other minor work.

(ii) It is a statement of expenses, revenue and income for a specified period.

(iii) It specifies the organisation's response to a certain situation.

(iv) It describes the specified steps to be followed in particular circumstances.

Ans. i) Programme

ii) Budget

iii) Policy

iv) Procedure

6. Explain any four features of planning.

Ans. Features of Planning

1. Planning Focuses on objectives – Every organization has its own objectives and every plan must contribute towards the accomplishment of these objectives.

2. Planning is the primary function of management – Planning is the first function of management. All other functions are performed to implement the plan.
3. Planning is pervasive – Planning is required at all levels of management, top management undertakes long range plans, middle management is concerned with departmental plans and the lower level management is related to short term plans.
4. Planning is continuous – Planning is an on-going process. Usually a plan is prepared for a specific period of time. At the end of the period a new plan is prepared in accordance with the requirement of future condition
5. Planning is futuristic – Planning is looking ahead and preparing for the future. Hence forecasting is the essence of planning. E.g. Keeping an umbrella in our bag with us foreseeing the chance of rain.
6. Planning involves decision making – If there are various alternatives to achieve an objective, then we have to select the best one (decision making) only after proper analysis
7. Planning is a mental exercise – Planning is an intellectual process which involves foresight, imagination and judgment.

### **Key Words**

Planning-Planning can be defined as setting objectives for a given time period, formulating various courses of action to achieve them, and then selecting the best possible alternative from among the various courses of action available.

Objectives or Goals-Objectives or goals specify what the organisation wants to achieve, i.e. end point of planning or the end result of activities.

Planning Premises - Planning is concerned with the future, which is uncertain. Therefore, the manager is required to make certain assumptions about the future, which are considered to be the base material upon which plans are to be drawn. These assumptions are called 'planning premises

Follow-up action-It means to see whether plans are being implemented and activities are performed according to plans.

Planning is pervasive - It means that planning is required at all levels of management as well as in all departments of the organisation.

Single-use Plan - A single-use plan is developed for a one-time event or project. Single-use plans include Budgets, Programmes and Projects.

Standing plans-A standing plan is used for activities that occur regularly over a period of time. Standing plans include Policies, Procedures, Methods and Rules.

Objectives-Objectives are the end points which are numerically expressed, that the management seeks to achieve

Strategy-A strategy is a comprehensive plan for accomplishing an organisation's objectives taking business environment into consideration

Policy-Policy is a general guideline that guides thinking or channelizes energies towards a particular direction.

Procedure-Procedure consists of sequence of routine steps performed in a chronological order to carry out activities. It details the exact manner in which any work is to be performed.

Method-Method is the prescribed way or manner in which a task has to be performed taking into consideration the objective of the organisation.

Rule-A rule is a specific statement that specifies clearly what is to be done or not to be done.

Budget-A budget is a statement of expected results for a given future period expressed in numerical terms, e.g. Sales budget, Cash budget, etc.

Programme-Programmes are detailed statements 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.



## CHAPTER- 5

### ORGANISING

#### **Learning Outcomes**

- Understand the concept of organising as a structure and as a process.
- Explain the importance of organising
- Describe the steps in the process of organising
- Describe functional and divisional structures of organisation
- Explain the advantages and suitability of functional and divisional structure
- Understand the concept of formal and informal organisation
- Discuss the advantages, disadvantages of formal and informal organisation
- Understand the concept of delegation
- Describe the elements of delegation
- Appreciate the importance of delegation
- Understand the concept of decentralisation
- Explain the importance of decentralisation
- Differentiate between delegation and decentralisation

Organising: It is the process of identifying and grouping different activities in the organization and bringing together the physical, financial and human resources to establish most productivity relations for the achievement of specific goals of an organization.

According to Theo Haimman, " Organising is the process of defining and grouping the activities of the enterprise and establishing authority relationships among them"

**Process of Organising:** Identification and division of work, departmentalisation, assignment of duties, establishing reporting relationship.

#### **Steps in the process of organising:**

- a. **Identification and division of work:** The total work is identified and divided into various activities

- b. **Departmentalisation:** Work of same nature is grouped together and assigned to a particular department.
- c. **Assignment of Duties:** The responsibility of each individual or post decided
- d. **Establishing reporting relationship:** Each individual should know from whom he has to take orders and to whom he is accountable. It helps in coordination among various departments.

**Importance of organising:**

- a. Benefits of specialization
- b. Clarity in working relationships
- c. Optimum utilization of resources
- d. Adaptation to changes
- e. Expansion and Growth
- f. Development of personnel
- g. Effective administration

**Organisational Structure:** It can be defined as the framework within which managerial and operating tasks are performed

**Functional structure:** A functional structure is an organisational structure that groups similar or related jobs together.

**Advantages of Functional structure:**

- a. Functional specialisation
- b. Effective control and coordination
- c. Improves Efficiency
- d. Avoids duplication
- e. Ease in Training
- f. Proper Attention

**Disadvantages' of Functional structure:**

- a. Functional Empire

- b. Difficulty in coordination
- c. Conflict of Interest
- d. Inflexibility
- e. Difficult to hold Accountable

**Divisional structure:** The organisation structure comprises of separate business units or divisions are created when product expansion, diversification, manufacturing and marketing are being done.

**Advantages of Divisional structure:**

- a. Product specialisation
- b. Greater Accountability
- c. Flexibility
- d. Expansion and Growth

**Disadvantages of Divisional structure:**

- a. Departmental conflicts
- b. Costly
- c. Ignore organizational Interest

**Difference between Functional structure and Divisional structure**

Basis	Functional structure	Divisional structure
Formation	Departments are created on the basis of functions	Departments are created on the basis pf a product
Specialisation	Functional specialisation is attained	Product specialisation is attained
Responsibility	Fixation of responsibility is difficult	Fixing responsibility is easy
Cost	Economical, as duplication of work is not there	Costlier, as there is duplication of resources and work

**Formal Organisation:** it refers to the organization structure which is designed by the management to accomplish a particular task.

**Features**

- a. It is deliberately designed by the top management to facilitate smooth functioning of the organization
- b. It specifies the relationships among various job positions. This clarifies who has to report to whom
- c. It places more emphasis on work rather than interpersonal relationships
- d. It is a means to achieve the objectives as it lays down rules and procedures for their achievement.
- e. It coordinates the efforts of various departments.

**Advantages of Formal organization:**

- a. Fixation of Responsibility
- b. Clarity of Duties
- c. Unity of command
- d. Helpful in Achieving objectives

**Disadvantages of Formal organization**

- a. Delay in Action
- b. Lack of initiative
- c. Ignore the Human elements

**Informal Organisation:** It refers to a network of social relations, which emerges on its own due to formal roles and relationships among people.

**Features:**

- a. It originates from within the formal organisation as a result of personal interaction among employees
- b. It emerges spontaneously and is not deliberately created by the management

- c. The standards of behaviour evolve from group norms
- d. Independent channels of communication are developed by group members

**Advantages of Informal organisation:**

- a. Faster communication
- b. Fulfils Social needs
- c. Helps in achieving organizational objectives

**Disadvantages of informal organisation:**

- a. Spread of Rumours
- b. Resistance to change
- c. Pressure of Group Norms

Difference between Formal Organisation and Informal organisation

Basis	Formal organisation	Informal organisation
Origin	Arises as a result of company rules and policies	Arises as a result of social interaction
Authority	Arises by virtue of position in management	Arises out of personal qualities
Behavior	It is directed by rule	There is no set behavior pattern
Leadership	Managers are leader	Managers may or may not be leader

**Delegation of Authority:** It is the transfer of authority from superior to subordinate, entrustment of responsibility and creation of accountability for performance.

**Features of Delegation**

- a. It is downward transfer of authority from a superior to subordinate

- b. There is a control of the officer over subordinates in delegation
- c. Subordinates are required to work as per the order and instructions given to him by the original officers
- d. Authority, responsibility and duty are clearly specified

### **Elements of Delegation of Authority**

- a. **Authority:** It refers to the right of an individual to command his subordinates and to take action within the scope of his position. It flows downward
- b. **Responsibility:** it is the obligation of a subordinate to properly perform the assigned duty. It flows upward, i.e. a subordinate will always be responsible to his superior
- c. **Accountability:** It implies being answerable for the final outcome. It flows upward as subordinate will be accountable for his superior

### **Importance of Delegation of Authority**

- a. Effective management
- b. Employee Development
- c. Motivation of Employees
- d. Facilitates organizational Growth
- e. Basis of Management Hierarchy

**Centralisation of authority:** It refers to concentration of the decision-making power at the top level of management

**Decentralisation of authority:** It refers to systematic delegation of authority through all the levels of management and in all the departments except that which can be exercised only at central points.

### **Importance of Decentralisation:**

- a. Develops initiative among subordinates
- b. Develop Managerial Talent for Future
- c. Quick Decision-making
- d. Relief to top management

### Difference between Delegation and Decentralisation

Basis	Delegation	Decentralisation
Purpose	To lessen the burden of the manager	To increase the role of the subordinates in the organization by giving them more autonomy
Scope	It has narrow scope as it is limited to superior and his immediate subordinate	It has wider scope as it implies extension of delegation to the lowest level of management
Status	It is a process followed to share tasks	It is the result of the policy decision of top management

### Objective Questions – 1 ( 1Mark )

1. .... is the process by which the manager brings order out of chaos, removes conflict among people over work or responsibility sharing and creates an environment suitable for teamwork?

Planning	Organising
Staffing	Controlling

**Ans: Organising**

2. .... Ensures that the heads of separate business units in the organization are responsible for profit or loss of their unit and have authority over it.

Divisional Structure	Span of management
Functional structure	Hierarchy of management

**Ans: Divisional structure**

3. The main purpose of ..... is involvement of all the employees working at different level.

Delegation	Formal organisation
Centralisation	Divisional organisation

**Ans: Decentralisation**

4. Mrs Sarala has joined a new organization named as Coalistic Ltd. On her first day office, she analysed that there were no different departments assigned for various product lines. She observed a separate

team structure for each of them and also that they functioned independently of one another. From her analysis, what can we make out of the Coalistic Ltd?

Functional form of organization	Divisional structure is the way of the organization
Company follow the informal structure	Observation can be made out of her analysis

**Ans: Divisional structure is the way of the organization**

5. .... gives shape to the organisation structure.

Extent of delegation	Span of management
Cooperation of employees	Planning

**Ans: Extent of delegation**

6. The management of hierarchy can be looked upon as a chain of communication in ..... Organization because every decision is taken by the top management the flow of information is slow as it has traversed many levels. Response also takes time. This reduces the speed of decision making and makes it difficult for an enterprise to adapt to dynamic operating conditions.

Centralised	Decentralised
Free	All

**Ans: Centralised**

7. .... is the process a manager follows in dividing the work assigned to him so that he performs that part which only he because of his unique organizational placement, can perform effectively and so that he can get others to help with what remains.

Organisational structure	Span of management
Delegation	Centralisation

**Ans: Delegation**

8. In a decentralised organization, personal supervision by a superior is generally replaced by other forms of control such as:

Critical point control	Control by Exception
Return on Investment	None of these

**Ans: Return on Investment**



9. As an organization grows in size and complexity there is a tendency to move towards decentralized decision making because .....

Employees have more knowledge about operations	People are competent, capable and resourceful
Recognize the decision makers need for autonomy	All of these

**Ans: Employees have more knowledge about operations**

10. Sankaran runs a chain of low cost fashion wear in various parts of the country. As the taste and preferences of the consumers vary from one region to another, He hires competent, capable and resourceful managers and gives them an opportunity to work independently at local level. At the same time, they are expected to assume the responsibility for the effective implementation of their decision with regard to various aspects like colours, textures, design etc. related to the garments. Identify the concept described in the above lines.

Delegation of authority	Decentralisation
Both (a) and (b)	None of the above

**Ans: Decentralisation**

**Objective Questions – 2 ( 1 Mark )**

11. To make the sports day of the school successful the headmaster of the school divided all the activities into task groups each dealing with a specific area like holding of events, arrangement of medals, refreshments etc. Each group was placed under the overall supervision of a senior teacher. The physical education teacher was made responsible for holding different events, the home science teacher for refreshments and the maths teacher for medals. Which function of management is performed by headmaster in doing so?

Organising	Staffing
Directing	Planning

**Ans: Organising**

12. In an electronic goods manufacturing company, there are four activities: marketing, production, Finance and personnel. The general manager is planning to structure the organization. Which type of organization structure should be adopted?

	Centralised organisation		Diviisional organisation
	Functional organisation		Decentralised organisation

**Ans: Functional organization**

13. Kavitha Ltd. has been awarded recently with the “Best Employer of the year Award ‘the company has believed in the idea and suggestions of its employees. There is selective dispersal of decision-making authority at all levels. There is no delay in delivery of orders to customers due to prompt decisions taken by employees. Identify the concept of management followed by the company.

	Responsibility		Authority
	Delegation		Centralisation

**Ans; . Decentralisation**

14. After completing a course in journalism, when Akila joined a publication company, she was assigned a challenging media coverage project by her superior. This helped to boost her self-esteem and improve her confidence from day one. Identify the point of importance related to the concept being described in the above line.

	Facilitates the growth of an organisation		Motivatio of employees
	Facilitates better coordination		All of the above

**Ans; . Motivation of employees**

15. Organising helps in creating a hierarchical order thereby enabling the fixation of responsibility and specification of the extent of authority to be exercised by an employer. Identify the relevant point of importance of organizing.

	It brings clarity in working relationships		It ensures optimum utilization of resources
	provides benefits of specialisation		Effective administration

**Ans: It brings clarity in working relationships**

16. Formal training plays an important part in equipping subordinates with skills that help them rise in the organization but equally important is the experience gained by handling assignments independently.

Identify the concept of management highlighted in the phrase “experience gained by handling assignments independently”?

Training	Development
Delegation	Dentralisation

**Ans; . Decentralisation**

17. Match Column I (steps in the process of organizing) with Column II

Column I	Column II
Identification and division of work	Allocation of work as per the competence of employees
Departmentalisation	Creation of accountability
Assignment of duties	Grouping of similar tasks
Establishing authority responsibility relationship	Avoiding duplication of work and sharing burden

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

**Ans: C (iv) (iii) (i) (ii)**

18. Match the concept of management in Column I with their respective explanation in Column II

Column I	Column II
Organisational structure	number of subordinates under a superior
Centralisation	the framework within which managerial and opening tasks are performed

	Span of management		optional policy decision of the top management
--	--------------------	--	--

- |     | A     | B     | C     |
|-----|-------|-------|-------|
| (A) | (i)   | (ii)  | (iii) |
| (B) | (i)   | (iii) | (ii)  |
| (C) | (ii)  | (iii) | (i)   |
| (D) | (iii) | (ii)  | (i)   |

**Ans: C (ii) (iii) (i)**

19. **Assertion (A):** Decentralisation is extending delegation to the lowest level of management

**Reason (R) :** Decentralisation refers to delegation of authority throughout all the levels of the organization

Choose the correct option:

- A. Both (A) and (R) are correct
- B. (A) is correct and (R) is incorrect
- C. Both (A) and (R) are incorrect
- D. (A) is incorrect and (R) is correct

**Ans: B (A) is correct and (R) is incorrect**

20. **Assertion (A):** Delegation does not mean abdication

**Reason (R):** Accountability cannot be delegated

Choose the correct option:

- E. Both (A) and (R) are correct
- F. (A) is correct and (R) is incorrect
- G. Both (A) and (R) are incorrect
- H. (A) is incorrect and (R) is correct

**Ans: D (A) is incorrect and (R) is correct**

21. Span of management refers to .....

	Number of managers		Length of term for which a manager is appointed
	Number of subordinates under a superior		Number of members in top management

Ans: . **Number of subordinates under a superior**

22. Grouping of activities on the basis of product lines is a part of .....

	Delegation		Divisional organisation
	Functional organisation		Autonomous organisation

Ans: **Divisional organization**

23. Grouping of activities on the basis of functions is a part of .....

	centralised Organisation		Divisional organisation
	Functional organisation		Centralised organisation

Ans: **Functional organisation**

24. For delegation to be effective, it is essential that responsibility should be accompanied with necessary ...

	Authority		Mannpower
	Incentives		Promotions

Ans: **Authority**

**25. Refer to the extract given below and choose the correct option to answer the following.**

Kavita was the managing Director of a restaurant in Chennai called 'healthy Kitchen'. The restaurant was doing well and the volume of work started increasing slowly and steady. Kavita was not able to manage all the work on her own. The increasing magnitude of work made it impractical for her handle it all by herself. Moreover, her objective is to open more branches of this restaurant at different places. She appointed Ravi, as a General manager of 'Healthy Kitchen' . Chennai and gave him the right to command his subordinate and to take action within the scope of his position. For smooth running of the restaurant, she also gave him authority to hire and train the staff as per the requirements. Kavita was satisfied with the work of Ravi and was able to open other branches of the restaurant in Bangalore and Hyderabad also.

1. 'She appointed Ravi, as a General Manager of 'Healthy Kitchen' Chennai and gave him the right to command his subordinates and to take action within the scope of his position'. Which concept is being used by Kavita here?

	centralisation		Delegation
	Controlling		Directing

2. Which of the following is shared through the concept used here?

	Authority		Information
	Responsibility		Resources

3. Which of the following is the aim behind using the concept here?

	Facilitate of Growth		Employee Development
	Effective management		Motivates Employees

4. Which statement regarding the concepts is false?

	Does not mean abdication		Hellps in expansion of an organization
	It is the key element in effective organisation		It is an optional policy

Ans: 1. **Delegation**

2. **Authority**

3. **Effective management**

4. **It is an optional policy**

### Very Short Answer (3 Marks)

1. "Delegation of authority undoubtedly empowers an employee to act for his superior, but the superior, but the superior would still be accountable for the outcome. Explain the elements of delegation of authority discussed above.

Ans: Three elements are;

- a. **Authority:** It refers to the right of an individual to command his subordinates and to take action within the scope of his position. It flows downward
- b. **Responsibility:** it is the obligation of a subordinate to properly perform the assigned duty. It flows upward, i.e. a subordinate will always be responsible to his superior

- c. **Accountability:** It implies being answerable for the final outcome. It flows upward as subordinate will be accountable for his superior

2. Distinguish between formal and informal organization on any three.

Basis	Formal Organisation	Informal organisation
Origin	Arises as a result of company rules and policies	Arises as a result of social interaction
Authority	Arises by virtue of position in management	Arises out of personal qualities
Behavior	It is directed by rule	There is no set behavior pattern
:Leadership	Managers are leader	Managers may or may not be leader

3. How does decentralisation motivate employees and promotes initiative and creativity?

Ans:

A decentralised organization improves motivation of employees because it encourages lower levels to take decisions without seeking approval from higher levels. It gives employees a sense of importance, recognition and responsibility.

A decentralised organisation also promotes initiative and creative. Manager with greater degree of autonomy take initiative and develop better ingenious ways of doing work. Thereby creativity and experimentation are encouraged.

4. Roasted Coffee Corporation is a coffeeshouse chain operating in 7 states in India. Through its effective organisational structure. It has grown despite pressure from competitors in the national market.

The company has a purchase and production department, supply chain management and logistic department, Brand management department and sales department.

This structure has facilitated operational efficiency, as employees became specialists within their own realm of expertise. They could be imparted specialized training as the focus was on limited range of skills.

Identify the organisational structure of Roasted coffee corporation. State any three advantages of such

organisational structure other than those discussed in the question.

Ans:.

### **Functional Structure.**

#### **Advantages of Functional structure:**

- i. Functional specialisation
- ii. Effective control and coordination
- iii. Improves Efficiency
- iv. Avoids duplication

5. A company is manufacturing washing machines. There is a well defined system of jobs with a clear and definite authority, responsibility and accountability in the company. But people are not allowed to interact beyond their officially defined roles. As a result the company is not able to adapt to the changing business environment. The workforce is also not motivated due to lack of special interaction. The company is facing problems of procedural delays and inadequate recognition to creative talents.

- i. Suggest how the organisation can overcome the problems faced by it
- ii. Give any three benefits it will derive from your suggestion.

Ans: **Informal Organisation:** It refers to network of social relations, which emerges on its own due to formal roles and relationships among people.

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

- i. It originates from within the formal organisation as a result of personal interaction among employees
- ii. It emerges spontaneously and is not deliberately created by the management
- iii. The standards of behaviour evolve from group norms
- iv. Independent channels of communication are developed by group members

#### **Advantages of Informal organisation;**

- i. Faster communication
- ii. Fulfils Social needs
- iii. Helps in achieving organisational objectives



6. 'Organising involves a series of steps in order to achieve the desired goals'. Explain these steps.

Ans:

**Steps in the process of organising:**

- i. **Identification and division of work:** The total work is identified and divided into various activities
- ii. **Departmentalisation:** Work of same nature is grouped together and assigned to a particular department.
- iii. **Assignment of Duties:** The responsibility of each individual or post decided
- iv. **Establishing reporting relationship:** Each individual should know from whom he has to take orders and to whom he is accountable. It helps in coordination among various departments.

7. Differentiate between Functional structure and Divisional structure.

Ans:

Basis	Functional structure	Divisional structure
Formation	Departments are created on the basis of functions	Departments are created on the basis pf a product
Specialisation	Functional specialisation is attained	Product specialisation is attained
Responsibility	Fixation of responsibility is difficult	Fixing responsibility is easy
Cost	Economical, as duplication of work is not there	Costlier, as there is duplication of resources and work

8. "Organisation is the harmonious adjustment of specialised parts for the accomplishment of some common purpose or purposes." In the light of the statement explain any four points of importance of organising.

**Importance of organising:**

- a. It leads to specialisation by a systematic allocation of jobs resulting in reduced workload and enhanced productivity.

- b. It leads to clarity in working relationships by specifying who is to report to whom.
- c. It leads to clarity in working relationships by specifying who is to report to whom
- d. It helps in adaptation to change by allowing the organisation structure to be suitably modified paving the way for a smooth transition.
- e. It helps in effective administration by providing a clear description of jobs and working relationships.
- f. It helps in development of personnel by delegation of work to subordinates.

9. What is meant by 'Functional Structure' of an organisation? State its any two advantages.

Ans.

A functional structure is an organisational structure formed by grouping of jobs of similar nature under major functions and organising these as separate departments.

**Advantages of Functional structure:**

- a. It leads to occupational specialisation since emphasis is placed on specifications.
- b. It promotes control and coordination within a department because of similarity in the tasks being performed.
- c. It increases managerial and operational efficiency resulting in increased profit.
- d. It lowers cost as it reduces duplication of effort.
- e. It makes training of employees easier as it focuses on a limited range of skills

10. Explain the concept of 'Functional Structure'. Also, explain any four disadvantages of functional structure.

**Functional structure:** It refers to grouping of jobs of similar nature under major functions and organising these as separate departments.

**Limitations of Functional Structure are:**

- a. Creation of functional empires where less emphasis is placed on overall objectives of the enterprise and more on the objectives pursued by a functional head.
- b. It is coordination as information has to be exchanged across functionally differentiated departments.

- c. Inter-departmental conflicts may arise when the interest of two or more departments are not compatible.
- d. Inflexibility as people with the same skills and knowledge may develop a narrow Perspective.

**Short Answer type (4 Marks)**

11. What is meant by 'Divisional Structure' of an organisation? For which type of business enterprise is this form of structure most suitable? State any four advantages of this form of organisational structure.

**Ans.:** Divisional structure is an organisation structure comprising of separate business units or divisions, created on a certain basis, e.g. product manufactured.

**Advantages of Divisional structure:**

- a. Product specialisation helps in the development of varied skills in a divisional head and this prepare him for higher positions.
- b. Divisional heads are accountable for profits, as revenues and costs related to different departments can be easily identified and assigned to them.
- c. It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.
- d. It facilitates expansion and growth as new divisions can be added without interrupting existing operations by merely adding another divisional head and staff for the new product line.

12. What is 'formal organisation'? List any two advantages of formal organisation.

**Ans.** Formal organisation refers to the organisation structure which is deliberately created by the management to accomplish a particular task. It specifies clearly the boundaries of authority and responsibility and there is systematic co-ordination among the various activities to achieve organisational goals.

**Advantages of Formal organisation:**

- a. It is easier to fix responsibility since mutual relationships are clearly defined.
- b. It avoids duplication of effort since there is no ambiguity in the role that each member has to play.

- c. It maintains unity of command through an established chain of command.
- d. It leads to accomplishment of goals by providing a framework for the operations to be performed.
- e. It provides stability to the organisation because there are specific rules to guide behaviour of employees.

13. What is meant by 'Informal Organisation'? State its any two advantages.

**Ans.**

- a. Informal organisation is a network of personal and social relations which emerges spontaneously from within the formal organisation as people associate with one another beyond their officially defined roles. It has no written rules, is fluid in form and scope and does not have fixed lines of communication.

**Advantages of informal organisation:**

- a. It leads to faster spread of information as well a quick feedback.
- b. It fulfils the social needs of the members.
- c. It contributes towards fulfilment of organisational objectives by compensating for inadequacies in the formal organisation

14. What is meant by 'Delegation'? State any four points which highlight the importance of delegation in an organisation.

**Ans.** 'Delegation is the entrustment of responsibility and authority to another and the creation of accountability for performance.'

**Importance of delegation of authority:**

- a. It helps in effective management as the managers get more time to concentrate on important matters.
- b. It helps in development of employees as the employees get more opportunities to utilize their talent.
- c. It helps to motivate employees as the employees feel encouraged and try to improve their performance further.

d. It facilitates growth by providing a ready workforce to take up leading positions in new ventures.

15. "If we delegate the authority, we multiply it by two, if we decentralise it, we multiply it by many."

In the light of this statement explain any three points of importance of decentralisation.

**Importance of decentralisation:**

- a. It gives relief to the top management as, when the subordinates are given the freedom to act, the top management gets more time to devote on important policy decisions rather than handling operational decisions.
- b. It develops initiative amongst subordinates by promoting self-reliance and confidence among them. This is because when lower managerial levels are given freedom to take their own decisions they learn to depend on their own judgment.
- c. It develops managerial talent for the future by giving the subordinates a chance to prove themselves, thus, creating reservoir of qualified manpower to fill up challenging positions in future.

16. Samir Gupta started a telecommunication 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 its products went up.

To increase production the company decided to recruit additional employees. Samir Gupta, who was earlier taking all decisions for the company had to selectively disperse the authority. He believed that subordinates are competent, capable and resourceful and can assume responsibility for 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.

**Ans a. Decentralisation.**

“Samir Gupta, who was earlier taking all decisions for the company had to selectively disperse the authority. He believed that subordinates are competent, capable and resourceful and can assume responsibility for effective implementation of their decisions.”

**b. For importance of Decentralisation.**

1. Develops initiative among subordinates
2. Develop Managerial Talent for Future
3. Quick Decision-making
4. Relief to top management

17. ‘Alag Creations’ is a leading mobile manufacturing company. It has, with the help of proper delegation, enabled the existence of proper workforce to take up leading positions in several challenging projects. The company has been in news for good reasons related with innovation. Due to proper delegation, they have been able to properly define the relationships between superior and the subordinates at the various levels leading to the creation of a strong management structure. Due to proper delegation, there is no overlapping of duties and duplication of efforts as there is clarity of working relationship. The company is acting as a role model for other players in the industry. The productivity of the company has improved as it is very well organised. Specific jobs are done by specific employees resulting in increase in efficiency at per person level. The company is now thinking of going global and has recently opened a branch in London. However, the conditions there are going to be different. It is expected that keeping in mind the strong organising of the company, it will be able to modify its superiority there also. Recently meeting is held by the top management. It is decided that the company will go for a major shift in policy decision and involve the supervisory level of management in decision making as the size of the company is growing. So, it will require more participation from the employees up to the supervisory level.

- a. Identify the three points of importance of Delegation highlighted above by quoting the lines.
- b. Identify the two points of importance of Organising highlighted above by quoting the lines.
- c. Identify and state the concept of management highlighted in the last para of the above case.

**Ans.**

- (a) 1. Facilitation of growth. 'It has ... challenging projects.'
- 2. Basis of management hierarchy. 'Due to proper ... strong management structure.'
- 3. Better coordination. 'Due to proper delegation, there is no overlapping ... working relationships.'
- (b) 1. Benefits of specialisation. Specific jobs ... per person level.'
- 2. Adaptation to change 'It is expected ... there also.'
- (c) Decentralisation.

18. In a school fete, the whole activity is divided into task groups each dealing with a specific area like the food committee, the decoration committee, the ticketing committee and so on. These are under the overall supervision of the official in-charge of the event. Coordinating relationships are established among the various groups to enable smooth interaction and clarity about each group's contribution towards the event. Various groups to enable smooth interaction of management highlighted above.

- a. Identify and state the function of management highlighted above.
- b. State the steps involved in the function of management identified in para(a) by quoting the lines from the above paragraph.

Ans:

- a. Organising: It means identifying and grouping different activities in the organization and bringing together the physical, financial and human resources in order to establish most productive relations for the achievement of specific goal of organization.
- b. The following steps emerge in the process of organizing:
  - i. Identification and division of work  
".....the whole activity is divided into task groups...."
  - ii. Departmentalisation/Departmentation  
"..... each dealing with a specific area....."
  - iii. Assignment of duties  
"..... the food committee, the decoration committee, the ticketing committee...."

Are under the overall supervision of the official in-charge of the event.....”

iv. Establishing reporting relationships

“..... Coordinating relationship are established .....clarity about each group’s contributions towards the event.”

19. Anitha, Madhan and Maran have decided to start a business of manufacturing toys. They identified the following main activities which they have to perform: (i) purchase of raw materials, (ii) Purchase of machinery, (iii) Production of Toys, (iv) Arrangement of finance, (v) Sale of Toys, (vi) Identifying the area where they can sell their Toys and (vii) Selection of employees.

In order to facilitate the work they thought that four managers should be appointed to look after (a) Production, (b) Finance, (c) Marketing, (d) Personnel

- a. Identify the function of management involved in the above mentioned para
- b. Quote the lines from the above para which help you in identifying this function.
- c. State the steps followed in the process of this function of management

Ans:

- a. Organising
- b. ‘They identified the following main activities which they have to perform’  
‘In order to facilitate the work, they through those four managers should be appointed to look after. (a) Production, (b) Finance, (c) Marketing, (d) Personnel’.
- c. Steps in organizing Process:
  - (i). Identifying and dividing the work into manageable activities.
  - (ii) Departmentalisation/Departmentation where activities of a similar of a nature are grouped together
  - (iii). Assignment of duties to job position
  - (iv). Establishing reporting relationships so that each individual known from whom he has to take orders and to whom he is accountable.



20. Ravikumar, aged 49 is working in an aviation company. He is the senior-most employee in his division. He is even senior to the division manager, Manaputti. Ravikumar one of the most committed, capable and hard-working employees. As a result of his abilities and seniority, he generally received the work assignments of his choice. Although there was no formal designation of various special projects assigned to Ravikumar, he handled them as a matter of routine. A problem developed when an able and intelligent person Nagaraj, aged 33, was appointed by Manaputti. Nagaraj previous three years' experience in the closely related work, made it possible for him to catch on to the routine work of his new job more rapidly than was customary for a new employee. On several occasions, manaputti noticed the job more rapidly than was customary for a new employee. On several occasions, manaputti noticed the tension developing between the two employees. However, he didn't want to get involved in their personal issues as long as the work was completed effectively and efficient by them. One day, the tension between them reached the boiling point and Ravikumar complained to Manupuuti stating that his duties were being largely taken over by Nagaraj. Manupuut issued the order stating the clear allocation of the jobs and related duties between the two. He further clarified the working relationship between them by specifying who was to report to whom. This helped in reducing the workload, enhancing productivity and removing ambiguity.

- (i). identify and state the step of organizing process which has not been carried out properly and contributed to this problem
- (ii). State the two steps of the organizing process which have been taken by Manaputti to respond to the complaint of Ravikumar
- (iii). Also state two points of importance of organizing as reflected in the above case.

Ans:

- (i) Assignment of Duties: Defining the work of different job position and allotting the work according to the skills of the employees
- (ii). Manupautti responded to the complaint of Ravikumar by
  - a. Assigning the duties
  - b. Establishing reporting relationship
- (iii) (a). Clarity in working relationship
- (b). Benefits of specialization

(c). Effective management

21. A company, which manufactures a popular brand of Toys, has been enjoying good market reputation. It has 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

- a. Identify the type of the organizational structure the company should adopt with diversification. Give reasons in support of your answer
- b. State any four benefits the company will derive from the organizational structure identified in part(a)

Ans:

- a. **Divisional structure:** Since the company is diversifying into manufacture of new rang of electronic toys, it needs to add more employees, create more departments and introduce new levels of management
- b. The business will get the following benefits by adopting the divisional structure.
  - i. All activities associated with one product group can be easily coordinated. So, the product specialization will be achieved.
  - ii. Decision making is faster and effective as there is no interdependence of departments.
  - iii. The performance of each product can be easily assessed so that it is possible to hold a particular department accountable for non-accomplishment of objectives and appropriate remedial action can be taken it facilitates expansion and growth as new divisions can be added without interrupting the existing operation

### Long Answer (6 Marks)

22. Kiran Industries is a company manufacturing office furniture. The company chose to diversify its operation to improve its growth potential and increase market share. As the project was important many alternatives were generating for the purpose and were thoroughly discussed amongst the members of the organization. After evaluating the various alternatives, Shivakumar, the Managing Director of the company decided that they should add 'Home Interiors and Furnishing' as a new line of business activity.

- a. Name the framework, which the diversified organization should adopt, to enable it to cope with the emerging complexity? Give one reason in support of your answer.
- b. State any two limitations of this framework.

Ans:

Divisional structure will enable Kiran Industries to cope up with the emerging complexity as

- a. New diversions can be added without interrupting the existing operations by merely adding another divisional head and staff for the new product line.
- b. Divisional heads are accountable for profits, as revenues and costs related to different divisions can be easily identified and assigned to them.

**The two limitations of this structure are:**

1. Providing each division with separate set of similar resources increases expenditure.
2. Managers in each department focus on their own product without thinking they all the part of one common organization. Conflicts may arise among different divisions with reference to allocation of funds.

23. A truck manufacturing company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing department is located at Faridabad. Which type of organizational structure should it adopt to achieve its target? Give reason. State any four Advantages of this organization structure.

Ans:

The company should adopt 'Functional structure' since it manufactures trucks only (a single product). The company has separate departments like manufacturing unit (Gurgaon), marketing and sales department (Faridabad), etc. that means, the size of the organization is large, it has diversified

activities and operations require a high degree of specialization. So, it should adopt functional structure.

By adopting functional structure, the company gets the following

**Advantages.**

- a. Efficiency in operations is possible as all jobs are performed by the specialists continuously.
- b. An individual manager becomes familiar with the type of task to be performed as all tasks are related to one function only. So, he can supervise and guide the employees efficiently.
- c. As all the departments are interdependent in functional structure, coordination can be easily ensured. For e.g. activities of sales dept. depends the performance of production department
- d. It leads to minimal duplication of efforts which results in economies of scale and lowers in cost. So, the managerial efficiency will be achieved
- e. It makes training of employees easier as the focus is only on a limited range of skills

24. 'Shan Spices Its. Are the manufactures of different food specific spices like Rajma masala, Cholley Masala, Aaloo parantha Maslala etc. Mr Raghav, the owner of the company has created different departments for purpose, production, marketing, finance and human resource. There are thirty employees working in the organization. Planning is of paramount importance to the company as Mr Raghav believes that effective planning leads to achievement of organizational objectives. So, in order to make employees focus on objectives, he issued instructions that during working hours only official matters will be discussed. He made certain rules and code of conduct for the employees to follow, according to which employees are not allowed to visit and talk to the employees of other departments except for official work. He emphasized on work performance which resulted in smooth functioning of the organization.

- a. Identify and state the type of organization mentioned in the above para
- b. State one feature of the concept identified in para (a) as mentioned in the above para
- c. What was the purpose behind the formulation of rules for the employees that restricted their personal communication with the employees of other departments?

Ans:

- a. **Formal Organisation:** it refers to the organization structure which is its electric appliances manufacturing factory in a backward area of Himachal Pradesh where subsidies are provided by the government and labour is available at cheaper rate
- b. Focus on objective and work performance
- c. Avoidance of the emergence of informal organization which may obstruct the fulfilment of organizational goals.

25. AVC Ltd, set-up its electric appliances manufacturing factory in a backward area of Himachal Pradesh where subsidies are provided by the government and labour is available at cheaper rates.

AVC Ltd. was able to produce its products at low cost thereby generating enough profits in the first year itself. It was because of the fact that the limits of authority and responsibility of the employees were clearly defined and the activities of various departments were coordinated and integrated. The production Manager of the company also came to know about the availability of raw material at cheaper rates from a vendor. For this he wrote a letter to the Managing Director of the company for getting sanction. But because of procedural delays in getting this sanction and procuring funds from the Finance Manager, the order could not be placed.

- a. Identify the type of organization that led to procedural delays and because of which the company could not get the advantage of procuring raw material at cheaper rates.
- b. State any three of the type of advantages of organization identified in (a) above other than those discussed in the above case.

Ans:

- a. Formal organization

Advantages of Formal Organisation

- i. It is easier to fix responsibility since mutual relationship are clearly defined
- ii. There is no chance of duplication or overlapping of work because work is systematically divided among various departments and employees.
- iii. Unity of command is maintained as it defines superior subordinate relationship
- iv. It leads to achieve organisational objective by ensuring that each employee knows the role he has to play

26. Progress Ltd. is facing difficulties in introduction of machinery of latest technology as they are facing resistance from the informal groups who are pressurizing the members to work against organizational interest. As the Human Resources manager of the company would you advise the management of the company to confront them or given them some other suggestion to deal with the informal groups.

Ans:

- a. It would be in the best interest of the organization if the existence of such groups is recognized and the roles that their members play are identified
- b. The knowledge of such groups can be to gather their support and consequently lead to improved organizational performance. Such groups can also provide useful communication channels
- c. Instead of confronting them, the management should take skilfully take advantages of both formal and informal organization so that work continues smoothly.

27. Ramakrishna is the General Manager of Gagan Ltd. Ramakrishna is facing lot of problems on the issues relating to some sales policies. The organization has an aim to increase sales by 20% and return on Investment by 10%. Instead of talking to the sales Department he directly consulted his boss Akila about the problem. He talked to his freely and did not follow strict rules and regulations relating to formal line of communication.

- a. Identify the type of organization.
- b. State any three of the type limitations of organization identified in (a) above other than those discussed in the above case.

Ans:

- a. Informal organization
- b. Limitations of Informal organization
  - i. It does not follow scalar chain so there can be faster spread of communication
  - ii. It gives due importance to psychological and social need of employees which motivate the employees.

iii. The top level managers can come to know the real feedback of employees on various policies and plans.

28. ABC Ltd. is, manufacturing shoes. Their business has been doing well as their organization specifies how much work should a worker do and in what manner. It follows a rigid structure which has been deliberately planned and created by top management for the coordination of activities. But in spite of all these, there are procedural delays.

- a. Identify the type of organization
- b. Explain three disadvantages of mentioned Para (a)

Ans:

- a. Formal organization
- b. Disadvantages of Formal organisation
  - i. It is easier to fix responsibility since mutual relationship are clearly defined There is no chance of duplication or overlapping of work because work is systematically divided among various departments and employees.
  - ii. Unity of command is maintained as it defines superior subordinate relationship
  - iii. It leads to achieve organisational objective by ensuring that each employee knows the role he has to play

29. Explain when and why the need is felt for having a framework, within which managerial and operating tasks are performed to accomplish desired goals. Name this 'framework' also.

Ans: Organisational structure is the framework within which managerial and operating tasks are performed to accomplish the desired goals. An organisational structure is needed for a new organization to clarify define the lines of authority and responsibility. Similarly, whenever an organisation grows in size or faces any environmental changes, the organisational structure is to be reframed so as to have better coordination and to function smoothly.

The need for proper organisational structure is felt because:

- a. It helps in smooth flow of communication in the organisation
- b. It ensures better coordination and control of business operation.

30. Sherya runs a lock manufacturing factory. He wants to expand his business. For expansion, he contemplates to enter into the manufacturing of locks for cars as an ancillary. By doing this, his company will be able to provide many products to car manufactures.

Which type of organizational structure will he choose for his factory and why/ state any five advantages of this organisational structure.

Ans: Shreya, who runs a lock manufacturing factory, wants to expand by manufacturing car locks as an ancillary company. In this case, divisional organisational structure will be more appropriate. The following are the reasons for the same.

- a. It facilitates effective coordination between functions associated with a particular product line.
- b. It is easy to add a new division without interruption in the existing operation in this type of organisation
- c. The performance of each unit can be easily assessed

**The advantages of divisional structure are**

- i. All the activities associated with one product or product group can be easily integrated and coordinated.
- ii. Decision-making is faster and effective
- iii. It ensures a steady growth of each product line.

31. State the features of 'Formal organisation'.

Ans:

- a. It is deliberately designed by the top-level management for smooth functioning of the organisation
- b. It specifies the relationship among various job position and clarifies authority, responsibility and relationship among them
- c. It coordinates the work of various departments of the organisation
- d. It determines the scalar chain of communication in the organisation and clarifies who has to report to whom
- e. It places more emphasis on work rather inter-personal relationships.

32. State any three features of Informal organisation.



- a. It originates from within the formal organisation when people interest beyond their officially defined roles
- b. It does not have a define structure.
- c. It emerges spontaneously and is not deliberately created by the management
- d. There is free flow of communication as no definite path is there
- e. The standards of behaviour are set up as per the group norms
- f. There is no set of written rules which makes the structure very flexible
- g. The membership of this organisation is voluntary and there is free entry and exit.

33. "Authority can be delegated but accountability cannot". Explain the statement.

Ans:

According to the principle of absoluteness of accountability, authority can be delegated but responsibility cannot be delegated by a manager. The manager remains responsible or accountable to his own superior for the tasks which he may assign to his subordinates. In other words, the manager cannot escape from responsibility for any default on the part of his subordinates. The process of delegation does not relieve the manager of his own responsibility and accountability. Every superior is responsible for the acts of his subordinates to whom he delegates authority for any work. For example, if the foreman fails to get 100 units produced by the workers in any day, he is responsible to his superior. He cannot escape by saying that the workers were at fault. Similarly, the factory manager remains accountable to his superior for the work he entrusted to his foreman. He cannot escape from responsibility by passing on the blame to his foreman

KEY TERMS:

**Organising:** Organising is the process of dealing of defining and grouping the activities of the enterprise and establishing authority relationships among them.

**Departmentalisation:** Once work has been divided into small and manageable activities then those activities which are similar in nature are grouped together. This grouping process is called departmentalisation.

**Organisation structure:** The organisation structure can be defined as the framework within which managerial and operating tasks are performed

**Span management:** It refers to the number of subordinates that can be effectively managed by a superior

**Functional Structure:** A functional structure is an organisational design that groups similar or related functions/jobs together e.g., marketing, finance, production etc.

**Divisional structure:** A divisional structure is the organisation structure which comprises of separate business units or divisions. Generally, manpower is grouped on the basis of different products manufactured. For example, a large company may have divisions like cosmetics, clothing etc.

**Formal Organisation:** It refers to the organisation structure which is designed by the management to accomplish a particular task. It specifies clearly the boundaries of authority and responsibility and responsibility and there is a systematic coordination among the various activities to achieve organisational goals.

**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.

**Delegation:** It refers to the transfer of authority from a superior to a subordinate, the entrustment of responsibility and the creation of accountability for performance, which helps a manager to extend his area of operations.

**Authority:** It refers to the right of an individual to command his subordinates and to take action within the scope of his position.

**Responsibility:** Responsibility is the obligation of a subordinate to properly perform the assigned duty

**Accountability:** Accountability implies being answerable to properly perform the assigned duty

**Decentralisation:** It refers to systematic delegation of authority through all the all the levels of management and in all the department except that which can be exercised only at central points.

## **CHAPTER - 6**

### **STAFFING**

#### **Learning Outcomes:**

- Understand the concept of staffing
- Explain the importance of staffing
- Understand the specialised duties and activities performed by Human Resource Management.
- Describe the steps in the process of staffing
- Understand the meaning of recruitment
- Discuss the sources of recruitment
- Explain the merits and demerits of internal and external sources of recruitment
- Understand the meaning of selection
- Describe the steps involved in the process of selection
- Understand the concept of training and development
- Appreciate the importance of training to the organisation and to the employees
- Discuss the meaning of induction training, vestibule training, apprenticeship training and internship training
- Differentiate between training and development
- Discuss on the job and off the job method of training

Concept: In simple words, finding the right people for the right job is called Staffing.

#### **Importance**

Proper staffing ensures following benefits to the organisation:

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 ensure optimum utilisation of human resources.
5. Improves job satisfaction and morale of employees through objective assessment and fair reward for their contribution.

#### **Steps in Staffing Process**

1. **Estimating Manpower Requirements:** It means estimating the number and types of

persons required in the organisation.

2. **Recruitment:** Recruitment is the process of searching for prospective employees and stimulating or encouraging them to apply for jobs in the organisation.
3. **Selection:** Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job.
4. **Placement and Orientation:** Placement refers to the employee occupying the position or post for which he has been selected. Orientation refers to the process of introducing the newly selected employees to their superiors, subordinates and colleagues and familiarising them with the rules and policies of the organisation.
5. **Training and Development:** Training is the process of increasing the knowledge, skills and abilities of employees for doing a specific job. Development refers to the learning opportunities designed to help the employees to grow. It involves growth of an individual in all respects like personality, maturity, etc.
6. **Performance Appraisal:** Performance appraisal means evaluating an employee's current and/or past performance as against certain pre-determined standards.
7. **Promotion and Career Planning:** It includes all activities associated with promotion of employees.
8. **Compensation:** Compensation refers to all forms of pay or rewards given to employees.

### **Components of Staffing**

1. **Recruitment:** it refers to the process of searching for prospective employees and encouraging them to apply for jobs in the organization
2. **Selection:** It is the process of identifying and choosing the best person out of a number of prospective candidates for a job.
3. **Training:** it refers to a process of increasing the knowledge, skills and abilities of employees for doing a particular job.

**Recruitment:** it refers to the process of searching for prospective employees and encouraging them to apply for jobs in the organization

### **Sources of Recruitment**

- a. Internal Sources: It refers to making use of existing staff to fill up vacant jobs
- b. External Sources: it refers to searching for the employees from the sources outside the organization.

**Types of internal sources:**

- a. Promotion
- b. Transfer

**Advantages of internal sources of Recruitment**

- a. Motivation to Employees to Improve their Performance
- b. Less Expensive
- c. Simple Process.
- d. A Tool of Training.
- e. No Over or Under Staffing

**Disadvantages of internal sources of Recruitment**

- a. Not Suitable for a New Organisation.
- b. Lack of Fresh Talent.
- c. Lack of Competition
- d. Low Productivity
- e. Conflict.

**External sources of Recruitment**

- a. **Direct Recruitment** Under this method, a notice is placed on the notice board of the enterprise specifying the details of the jobs available. Job seekers assemble outside the premises of the organisation on a specific date and selection is done on the spot.
- b. **Advertisement** - Advertising in newspapers and trade journals is a common method of encouraging people to apply for jobs.
- c. **Employment Exchange** - These are run by government and help to match personnel demand and supply by serving as a link between job seekers and employers

- d. **Labour Contractors** - They maintain close contacts with labourers and they can provide large number of workers at short notice.
- e. **Web Publishing** - Internet is becoming a common source of recruitment these days. There are many websites like naukri.com, monster.com, etc. which are designed to provide information to both job seekers and employers
- f. **Casual Callers** - Many business organisations keep a database of unsolicited applicants in their files. Such files can be recalled to fill the current vacant positions
- g. **Placement Agencies and Management Consultants** - These provide a nationwide service in matching personnel demand and supply. They compile the bio-data of large number of candidates and provide them to organisation on demand. Such agencies charge a fee for the service they provide to organisations. They help organisations to recruit technical, professional and managerial personnel easily.
- h. **Campus Recruitment** - Many organisations maintain a close link with universities, vocational and management institutes, in order to recruit fresh talent and qualified personnel. On one hand, it gives good opportunities to freshers to be employed in reputed firms and on the other hand, provide qualified manpower in a cost-effective way.
- i. **Advertising on Television** - Advertising through television allows enterprises to reach a large number of people, providing detailed information regarding the job as well as the company

#### **Advantages of External sources of Recruitment**

- a. Qualified Personnel
- b. Wider Choice.
- c. Fresh Talent.
- d. Competitive Spirit

#### **Disadvantages of External sources of Recruitment**

- a. Dissatisfaction Among Existing Staff
- b. Lengthy Process.
- c. Expensive Process.

**Selection:** It is the process of carefully screening the candidates, so as to identify and choose the most suitable person for the job.

According to David and Robbins, “Selection is a managerial decision process as to predict which job applicants will be successful if hired

**Selection Process**

- a. Preliminary Screening
- b. Selection or Employment Tests
  - i. Intelligence Test
  - ii. Aptitude Test
  - iii. Personality Test
  - iv. Trade Test
  - v. Interest Test
- c. Employment or Selection Interview
- d. Reference and Background Checks
- e. Selection Decision
- f. Medical Examination
- g. Job Offer
- h. Contract of Employment

**Difference between Recruitment and Selection**

Basis	Recruitment	Selection
Purpose	It aims to create a large pool of application	It aims to ensure that competent candidate is employed
Nature	It is a positive process as it encourages people to apply for job	It is a negative process as it rejects more proportion of candidates
Process	It is a simple process as candidates are not required to cross many hurdles	It is a complex process as candidates are required to cross several hurdles

Stage	It precedes selection process	It starts after recruitment
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**Training;** It is a process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased. The important methods of training can be broadly classified as

**Development:** It refers to the learning opportunities designed to help the employees to grow. It covers not only the activities which improve performance but also those which help to develop the personality of the employee.

**Importance of Training and Development to an Organisation**

- a. It enhances employee productivity both in terms of quantity and quality, leading to higher profits.
- b. It equips the future manager, who can takeover in case of emergency.
- c. It increases employee’s morale, reduces absenteeism and employee turnover.
- d. It avoids wastages of efforts and money.
- e. It helps in obtaining effective response to fast changing environment.

**Importance of Training and Development to the Employee**

- a. Increased performance by an individual helps him to earn more.
- b. Training makes the employee more efficient to handle machines. Thus, less prone to accidents.
- c. Training increases the satisfaction and morale of employees.
- d. Improved skills and knowledge leads to better career of the individual.

**Difference between Training and Development**

Basis	Recruitment	Selection
<b>Meaning</b>	Training is a process of increasing knowledge and skills.	Development is a process of learning and growth.
<b>Use/Depth of Knowledge</b>	It is to enable the employee to do the job better.	It is to enable the overall growth of the employee.



<b>Orientation/Focus</b>	Training is a job-oriented process. It seeks to improve the performance of employees on their current jobs.	Development is a career-oriented process. It seeks to develop competence among employees for handling higher level jobs in future.
<b>Duration/Process</b>	Training is a short-term process. Its duration is fixed.	Development is an ongoing process and includes training.

**Methods of Training:**

The various methods of training can be classified into two broad categories

- a. **On-the-Job Training Methods:** Under these methods, the employee is given training while he is actually working. In other words, it means *“Learning while Doing”*. Popular on-the-job training methods are
  - i. **Apprenticeship Training:** People who want to enter skilled trade like electrician, plumber, mechanic, etc, are sent for apprenticeship training. The trainee is put under the guidance of a master worker for a prescribed period of time
  - Internship Training: Internship is a joint programme of training in which educational institutes and business enterprises collaborate. The aim of this training is to maintain a good balance between theoretical and practical knowledge
  - ii. **Induction or Orientation Training:** Induction training means introducing the selected employee to his superiors, subordinates and the colleagues and familiarising him with the rules and policies of the organisation. Duration: A few hours to a few days.
- b. **Off-the-Job Training Methods:** Under these methods, training is given away from the actual work place. In other words, it means *“Learning before doing.”*
  1. **Vestibule Training:** Under this method, an attempt is made to duplicate as closely as possible materials, equipment, methods and conditions as found in real work place.

### Difference between Training and Development

Basis	Training	Development
Meaning	Training is a process of increasing knowledge and skills.	Development is a process of learning and growth
Use/Depth of Knowledge	It is to enable the employee to do the job better.	It is to enable the overall growth of the employee.
Orientation/Focus	Training is a job-oriented process. It seeks to improve the performance of employees on their current jobs.	Development is a carrier-oriented process. It seeks to develop competence among employees for handling higher level jobs in future.
Duration/Process	Training is a short-term process. Its duration is fixed.	Development is an ongoing process and includes training.

### Difference between on the job and off the job training

Basis	on the job	off the job training
Place	It is conducted in the employee's own work environment	It is conducted outside the work environment away from the work place
Economy	It is economical/cheaper	As it is highly systematized, it is expensive
Problems	Problems faced on the job are dealt immediately in the training programme itself	Problems are left unanswered during the training programme

### Objective Questions: 1 (1 Mark )

1. .... Is a managerial decision-making process as to predict which job applicants will be successful if hired?

	Recruitment		Orientation
	Training		Selection

**Ans: Selection**

2. Employment exchange run by the government are regarded as a good source of recruitment for:

	Casual vacancies of semi-skilled		Filling the senior positions of industry as well as commerce
	Unskilled and skilled operative jobs		Technical, professional and managerial jobs

**Ans: Unskilled and skilled operative jobs**

3. Sarala Ltd. a cellular network company approached quick consultants Pvt Ltd. for recruitment of top level executive placements. Quick consultants Pvt Ltd. Advertised the jobs on [www.naukri.com](http://www.naukri.com) on behalf of Sarala Ltd. The recruitment method followed by Sarala Ltd is.

	Advertisement		Management consultants
	Placement Agencies		Web-publishing

**Ans: Management consultants**

4. .... Provide a nationwide service in matching personnel demand and supply. They compile bio-data of a large number candidates and recommend suitable names to their clients. They charge fee for their services. They can even entice the needed top executives from other companies by making the right offers.

	Management consultants		Placement Agencies
	Labour contracts		Recommendation of Employees

**Ans: Placement Agencies**

5. There is method of training in which actual work environments are created in a classroom and employees use the same materials, files and requirement. This is usually done when employees are required to handle sophisticated machinery and equipment.

	Apprenticeship programmes		Inernship
	Vestibule training		Induction training

**Ans: Vestibule training**

6. ....refers to an assessment of the number and type of human resources necessary for the performance of various jobs and accomplishment of organisational objective

	Performance based direct financial payment		Workload analysis
	Training		Selection

**Ans: Workload analysis**

7. Training is provided to employees on the actual machines, but away from actual work floor is known as vestibule training. It is provided where the employees are supposed to work on

	Sophisticated Machinery		Clients
	Outdated technology		None of the above

**Ans: Sophisticated Machinery**

8. The employers of 'Food Darbar,' a restaurant, are trained through a structured programme that provides training in each area within the restaurant. The trainees learn the skills necessary for running each of the 12 workstations in the restaurant, from taking orders to the cooking area. This enables the employees to gain a broader understanding of all parts of the business and how the restaurant functions as a whole. The employers of 'Food Darbar,' a restaurant, are trained through a structured programme. The trainee gets fully involved in the department's operations and also gets a chance to test her won aptitude and ability. When employees are trained by this method, the organisation finds it easier at the time of promotions, replacements or transfers. In context of the above case, name the type of training which 'Food Darbar' provides to its employees.

	Induction		Vestibule
	job rotation		ssroom

**Ans: Job rotation**

9. Staffing function has assumed greater importance these days because of .....

	Rapid advancement of technology		All of these
	Complicated behavior of human beings		Increasing size of organisation

Ans: **All of these**

**Objective Type questions -2 ( 1Mark )**

10. .... Recognises the importance every single person employed by an organization.

	Organsng		Stafing
	Directing		Motivatin

Ans: Staffing

11. What people seek is not simply a job but a career, everyone must have the opportunity to rise on the top. The best way to evaluate their performance through.....

	Training and Developent		Prootion and career plannin
	Both (a) an (b)		Compenstion

Ans: **Both (a) and (b)**

12. .... Means evaluating an employee’s current and past performance as against certain pre-determined standards.

	Controllin		Control bysupervision
	Supervisio		Performance ppraisal

Ans: **Performance Appraisal**

13. “It become necessary for all organization to address career related issues and promotional avenues for their employees. Manager must encourage employees to grow and realize their full potential”

	Training and Development		Promotion and career planning
	Directing		Motivation

Ans: **B Promotion and Career planning**

14. Which of the following is not direct financial payment as a part of compensation given to employees?

	Wages and salaries		Incentives
	Employer paid vacation		Commission

Ans: **Employer paid vacation**

15. Madhan is a HR manager in Kaveri construction Ltd. he is paid an annual salary of Rs 10,00,000. He is also given company shares at a price less than the market price.

Which of the following method of compensation is used by company to pay to its HR manager?

	Time based direct financial payment		Performance based direct financial payment
	Time based pay plus incentives		Time based pay as well as performance based financial incentives

Ans: **Time based pay plus incentives**

16. .... means determining the number and types of personnel required to fill various positions in the organization

	Recruitment		Selection
	Staffing		Human resource planning

Ans: **Human resource planning**

17. The practice of direct recruitment is followed usually for:

	Casual vacancies of unskilled or semiskilled jobs		Senior positions of industry as well as commerce
	Recruiting technological, professional and managerial personnel		Highly educated people

Ans: **A Casual vacancies of unskilled or semiskilled jobs**

18. .... Specialise in middle level and top-level executive placement.

	Campus recruitment		Employment Exchange
	Management consultants		Placement agencies

Ans: **C. Management consultants**

19. .... is the one of the important psychological tests used to measure the level IQ of an organization.

	Trade Test		Interest test
	Aptitude test		Intelligence test

Ans: **Intelligence test**

20. Which of the following is not a benefit of training and development to the employees?

	Increased performance help to earn more		Increase the satisfaction and morale of employees
	More efficient to handle the machine		Enhance employee productivity

Ans **D Enhance employee productivity**

21. **Directions :** There are two statements marked a Assertion (A) and Reason (R) Read the statements and choose the appropriate option from the option:

- 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.

I. **Assertion (A)** Staffing is primarily concerned with finding the right person for the right position for the right position at the right time.

**Reason (R)** By placing the right person at the right job. It ensures better performance.

**Ans: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)**

II. **Assertion (A)** Recruitment may be defined as the process of searching for prospective

employees and stimulating them to apply for jobs in the organization.

**Reason (R)** Objective of recruitment is to create a pool of prospective candidates, for the best selection of candidate.

**Ans: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)**

III. **Assertion (A)** Staffing ensures the continuous survival and growth of the enterprise

**Reason (R)** Staffing helps in creating new jobs everywhere as employees may leave the organization off and on.

**Ans: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)**

IV. **Assertion (A)** Selection is the process of carefully screening the candidates

**Reason (R)** Recruitment leads to optimum use of resources.

**Ans: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)**

22. Read the following text and answer the question. (i) to (vi) on the basis of the same

The Taj Group is recognized for Indian values such as respect, humility, consideration of others, discipline and honesty. Its recruitment looks for favourable character traits like respect for elders, cheerfulness and neediness. The selected candidates are sent to the nearest of six residential Taj Group Skill-Certification centers. Managers go through for 18 months classroom training and on-the-job operations training. The Taj Group's training programmes not only motivate employees, but they also create a favourable organizational culture. Shreenivasan, the senior Vice president of human Resources for the Taj Group, notes, "if you empower employees to take decisions as agents of the customer, it energises them and makes them feel in command"

i. Which function of management is highlighted in the above case?

	Planning		Organising
	Staffing		Controlling

Ans: **Staffing**



ii. Which type of selection test, The Taj Group must be focusing at?

	Intelligence test		Personality test
	Aptitude test		Trade test

Ans: **personality test**

iii. Which stage of staffing process is not mentioned in the case study?

	Recruitment		Selection
	Training		Performance appraisal

Ans: **Performance appraisal**

iv What kind of training the managers of hotel Taj have to go through/

	On-the-Job		Off-the -job
	Both (a) and (b)		None of these

Ans: . **Both (a) and (b)**

V “The selected candidates are sent to the nearest of residential Taj Group skill-certification centres”. Which type of on-the-job/off-the-job training is mentioned in these lines?

	Internship		Vestibule
	Apprenticeship		Induction

Ans: **Apprenticeship**

vi Which benefits of employees training to the organization is highlighted in the above case study.

	Avoids wastage of efforts and money		Obtaining effective response to fast changing environment
	Increases employee morale		Equip future manager

Ans: . **Increases employee morale**

23. Match the following;

- I Am Interior decorator      a. Intelligence test
  - II A computer operator      b. Trade test
  - III A public dealing officer      c interest test
  - IV A school teacher      d. personality test
- a. (I - c) , (II- b), (III - d), (IV - a)      c. (I - d) , (II- b), (III - c), (IV - a)
- b. (I - a), (II – b), (III – d), (IV – c)      d. (I - b), (II - a), (III - d), (IV - c)

**Ans: a. (I - c) , (II- b), (III - d), (IV - a)**

**Very Short Answer question ( 3 Marks )**

24. ‘Internal sources of recruitment are better than external sources of recruitment’. Do you agree with this statement? Give two reasons in support of your answer.

Ans: Yes I agree with this statement

The use of internal sources of recruitment has the following advantages.

- a. Motivation to Employees to Improve their Performance
- b. Less Expensive
- c. Simple Process.
- d. A Tool of Training.
- e. No Over or Under Staffing

25. Distinguish between on the job training and off the job training

<b>Basis</b>	<b>on the job</b>	<b>off the job training</b>
Place	It is conducted in the employee’s own work environment	It is conducted outside the work environment away from the work place
Economy	It is economical/cheaper	As it is highly systematized , it is expensive
problems	Problems faced on the job are dealt immediately in the training programme itself	Problems are left unanswered during the training proframme

26. How is training of employees beneficial for the organization? State by giving any four reasons  
 'Training is necessary activity in all organization. It plays a large part in determining the efficiency of the organization. Benefits of training to the organization

Ans:

- a. Enhances employee productivity both in terms of quantity and quality, leading to higher profits.
- b. It equips the future manager, who can takeover in case of emergency.
- c. It increases employee's morale, reduces absenteeism and employee turnover.
- d. It avoids wastages of efforts and money.
- e. It helps in obtaining effective response to fast changing environment.

27. Distinguish between training and Development

Basis	Training	Development
Meaning	Training is a process of increasing knowledge and skills.	Development is a process of learning and growth
Use/Depth of Knowledge	It is to enable the employee to do the job better.	It is to enable the overall growth of the employee.
Orientation/Focus	Training is a job-oriented process. It seeks to improve the performance of employees on their current jobs.	Development is a career-oriented process. It seeks to develop competence among employees for handling higher level jobs in future.
Duration/Process	Training is a short-term process. Its duration is fixed.	Development is an ongoing process and includes training.

28. State the steps in the selection procedure after the employment interview and before the job offer are.

Ans:

- i. Reference and Background Checks
- ii. Selection Decision
- iii. Medical Examination

29. Ashish, the marketing head, Raman, the Assistant Manager and Jyoti, the human Resource manager of 'Senor Enterprises Ltd'. Decided to leave the company.

The chief Executive officer of the Company called Jyoti, the Human Resource manager, and requested her to fill up the vacancies before leaving the organisation. Informing that her subordinate Miss Akila was very competent and trustworthy, jyoti suggested that if she could be moved up in the hierarchy, she would do the needful. The chief Executive officer agreed for the same. Miss Akila contacted 'Keith Recruiters' who advertised for the post of marketing head for 'Senor Enterprises Ltd'. They were able to recruit a suitable candidate for the company.

Raman's vacancy was filled up by screening the database of unsolicited applications lying in the office.

- a) Name the internal/External sources of recruitment used by 'Senor Enterprises Ltd'. To fill up the above stated vacancies
- b) Also state any one merit of each of the above identified source of recruitment.

Ans:

- a) Senor Enterprises Ltd recruitment Miss Akila as the Human Resource Internal Manager through internal sources. She is promoted to this post For marketing head, the company used service of placement agencies and management consultants Further, for the post of Assistant manager, the company used callers as external source of recruitment
- b) Internal sources of recruitment have the merit of economy of time and cost. External recruitment through placement agencies recommends suitable names to their clients. External recruitment through casual caller has a merit that it reduces cost of recruitment in comparison to other external source.

30. 'Providing for social security and welfare of employees' is one of the specialised activities performed by Human Resource management. Mention any two other specialised activities of Human Resource Management.

Ans: The specialised activities performed by human resource management are:

- a) Developing compensation and incentive plans
- b) Analysing jobs, collecting information about jobs to prepare job description
- c) Handling grievances and complaints
- d) Defending the company in law suits and avoiding legal complications
- e) Training and development of employees for efficient performance and career growth

31. How are employees motivated to improve their performance when the organisation uses internal sources of recruitment? State

Ans: When the organisation uses internal sources of recruitment, the employees are motivated to improve their performance, as a promotion to a higher level may also lead to a chain of promotions at the lower levels in the organisation. It helps to increase the commitment and loyalty of the employees toward their work.

32. Ramesh , a chief Manager in a company, using highly sophisticated machine and equipments wants that every employee should be fully trained before using the machines and equipments. Suggest and describe the best method of training that Ramesh can be use for training of the employees.

Ans; Ramesh can use Vestibule Training method to train the employees. Under this method replica of actual work environment is created and the employees are trained on the same equipments, machines files and material, on which they will be working in the real work situations. Thus, the workers get trained to use and handle sophisticated machinery without creating any damages to them.

33. "Internal sources of recruitment are better than external sources of recruitment ". Explain any three reasons in support of this statement.

Ans:

- a. It motivates the employees to improve their performance level. Promotion at a higher level may lead to a chain of promotions at the lower levels in the organisation, which motivates the employees to work with commitment and loyalty.
- b. It simplifies the process of selection and placement. The person recruited is already known to the organisation and can be evaluated economically and accurately.
- c. Induction training is not needed when a person is internally recruited as he is already familiar with the vision and plans of the organisation.
- d. Through this method, the workforce in the surplus departments can be shifted to the department having shortage of staff.
- e. This method is much simpler and cheaper than external recruitment.

**Short Answer( 4 marks )**

34. State any four merits of external sources of recruitment.

- a) Qualified Personnel: Requisite type of personnel having the required qualifications training and skills are available through the external sources.
- b) Wider Choice: External sources provide a wider choice of personnel to choose from
- c) Fresh Talent: the entry of fresh talent into the organisation is encouraged. New employees bring new ideas to the organisation.
- d) Competitive Spirit: the internal employees aspiring for higher positions prepare themselves for improving their performance to compete with the outsiders for higher jobs.

35. Why Staffing is considered an important function of management in all types of organisation?

State any four reasons.

Ans: the points which highlight the importance of staffing are;

- a) It helps in discovering and obtaining competent personnel for various jobs
- b) It ensures higher performance by putting the right person at right job
- c) It ensures continuous survival and growth of the enterprise through the succession planning

d) It improves the level of job satisfaction and morale of the employees through objective assessments and offering fair rewards for their contribution.

36. "External sources of recruitment are considered better than internal sources". Give any four reasons in support of this statement.

Ans: The advantages of External sources of recruitment are:

- a) Qualified Personnel: Requisite type of personnel having the required qualifications training and skills are available through the external sources.
- b) Wider Choice: External sources provide a wider choice of personnel to choose from
- c) Fresh Talent: the entry of fresh talent into the organisation is encouraged. New employees bring new ideas to the organisation.
- d) Competitive Spirit: the internal employees aspiring for higher positions prepare themselves for improving their performance to compete with the outsiders for higher jobs.

37. State the various steps in the process of staffing function of management.

Steps in Staffing Process

1. Estimating Manpower Requirements: It means estimating the number and types of persons required in the organisation.
2. Recruitment: Recruitment is the process of searching for prospective employees and stimulating or encouraging them to apply for jobs in the organisation.
3. Selection: Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job.
4. Placement and Orientation: Placement refers to the employee occupying the position or post for which he has been selected. Orientation refers to the process of introducing the newly selected employees to their superiors, subordinates and colleagues and familiarising them with the rules and policies of the organisation.
5. Training and Development: Training is the process of increasing the knowledge, skills and abilities of employees for doing a specific job. Development refers to the learning

opportunities designed to help the employees to grow. It involves growth of an individual in all respects like personality, maturity, etc.

6. Performance Appraisal: Performance appraisal means evaluating an employee's current and/or past performance as against certain pre-determined standards.

38. What is meant by "Recruitment"? Explain external sources of recruitment of Employees

**Recruitment:** it refers to the process of searching for prospective employees and encouraging them to apply for jobs in the organization

#### **External sources of Recruitment**

- a. **Direct Recruitment** - Under this method, a notice is placed on the notice board of the enterprise specifying the details of the jobs available. Job seekers assemble outside the premises of the organisation on a specific date and selection is done on the spot.
- b. **Advertisement** - Advertising in newspapers and trade journals is a common method of encouraging people to apply for jobs.
- c. **Employment Exchange** - These are run by government and help to match personnel demand and supply by serving as a link between job seekers and employers
- d. **Labour Contractors** - They maintain close contacts with labourers and they can provide large number of workers at short notice.
- e. **Web Publishing** - Internet is becoming a common source of recruitment these days. There are many websites like naukri.com, monster.com, etc. which are designed to provide information to both job seekers and employers
- f. **Casual Callers** - Many business organisations keep a database of unsolicited applicants in their files. Such files can be recalled to fill the current vacant positions

39. Mr Murthy is the Human Resources manager of CMC Hospital in Vellore. He has to appoint nurse for the hospital. Since patients in the hospital are of different type, he wants to find out the candidates' maturity and emotions in dealing with the patients. He also wants to know about the candidates' ability to make decisions.

Explain two types of test that Mr Murthy can use to meet his requirements.

Ans: Following are two selection tests that Mr Murthy can use to meet his requirement.



- a. **Intelligence Test:** This psychological test can be conducted to measure the level of intelligence quotient of an individual. It shows the ability of a person to make decision and judgements
- b. **Personality Tests:** It indicates a person's emotion, reaction, maturity and value system, etc. These tests analyses to overall personality of a person.

40. Explain the following methods of training:

- a. Vestibule training
- b. Apprenticeship training

Ans:

- a. **Vestibule Training:** Under this method, an attempt is made to duplicate as closely as possible materials, equipment, methods and conditions as found in real work place.
- b. **Apprenticeship Training:** People who want to enter skilled trade like electrician, plumber, mechanic, etc, are sent for apprenticeship training. The trainee is put under the guidance of a master worker for a prescribed period of time.

41. Mayank, the director of a company, is planning to manufacture stuffed toys for utilising waste material of one of his garments factories. He decided that this manufacturing unit will be set up in a rural area, so that people living in rural areas can have job opportunities. For this he selected Arbaaz, Kriti, Lata and Ritik as heads of Sales, Accounts, and Purchase and Production departments respectively. They were differently abled but intelligent and creative persons in designing. State the next three steps Mayank has to follow in the staffing process after selecting heads of different departments.

Ans:

The next three steps that Mayank has to follow in the staffing process after selecting heads of different departments are:

- a. **Placement and orientation:** Placement refer to occupying of position by the employee for which he has been selected. Orientation refers to introducing the selected employee to other employees and familiarising him with the rules and policies of the organisation.

**b. Training and development:** Training is the process of increasing knowledge and skills to perform specific jobs. Development is the process of enabling the overall growth of the employees.

**c. Performance Appraisal:** Performance-Appraisal means evaluating an employee's current and /or past performance as against certain predetermined standards.

42. Ganesh was concerned about the sedentary lifestyle people are leading nowadays. Their dependency on outside food is also increasing because corporate work culture demands working till late night at offices. So, he decided to start a restaurant, 'Healthy Eating Point' to provide healthy food options to customers. After completing planning and organizing functions, he identified the various job positions that are required to be filled i.e. a General Manager, an Accountant, two Chefs, two boys for serving the food in the restaurant and three boys for home delivery of food. He decided that his father, Karan would be the General Manager of the restaurant. He would be paid ` 50,000 per month for his services. His father requested him to appoint his friend's son, Prem as an accountant who is well qualified for this post. Ganesh agreed to this proposal. Earlier, Prem had a business of providing unskilled workers to different organisations from remote areas of the country. Prem took permission from Ganesh to continue with the old business. Ganesh happily agreed and asked him to provide five boys for serving and delivering the food. For the appointment of the two Chefs, Ganesh approached a renowned Hotel Management Institute and was satisfied with the Chefs provided by the institute.

(a) Quoting the lines from the above paragraph, explain the two sources of recruitment being used by Ganesh for filling up the various job positions.

(b) Also, give the meaning of the function of management discussed in the Above case

Ans

(a) Sources of recruitment being used by Ganesh for filling up the various job positions are: *(Any two)*

I. Recommendation of employees. *'His father requested him to appoint his friend's son Prem as an accountant who is well qualified for this post.* In this source of recruitment, applicants are introduced by present employees or their friends and relatives. Such employees are likely to

be good employees as their background is sufficiently known.

- II. Labour Contractors. 'Earlier, Prem had a business of providing unskilled workers to different organisations from remote areas of the country.' It is a source of recruitment in which the labour contractor maintains a close contact with the labourers and can provide the required number of unskilled workers at short notice.
- III. Campus Recruitment. 'For the appointment of the two Chefs, Ganesh approached a renowned Hotel Management Institute and was satisfied with the Chefs provided by the institute.' It is a source of recruitment in which organisations maintain a close liaison with educational institutions like universities, vocational schools and management institutes to recruit qualified personnel for technical, professional and managerial jobs.

(b) The function of management discussed above is Staffing which means Filling and keeping filled the positions in the organisation structure.

43. Xeno Ltd. is a global information technology consulting company with 45,000 employees serving over 600 clients in 23 countries. Its Chief Executive Officer, Mr Neil Suman guided the company through two decades of diversification and growth to emerge as one of the leading Indian companies in the software industry. The company has set standards in ensuring the best training opportunities for its employees. The Project Guidance Program is a 52 day structured training program offered to all recruits of varied backgrounds to be trained on essential behavioural and technical skills that prepares them to work in live customer projects. These recruits are hired from universities and management institutes for technical, professional as well as managerial jobs. It is to help the new employees in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business.

- A. Identify the external sources of recruitment used by the company to hire new employees.
- B. Explain the method of training used by the company to train employees selected by the source of recruitment identified in part (a)
- C. State two ways in which the Project Guidance Program can benefit Xeno Ltd.

Ans:

a). Campus Recruitment

b) Induction Training: It is a type of training given to help the new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business.

c). Ways in which Project Guidance Program can benefit Xeno Ltd.:

- I. Avoiding wastage of efforts and money as training is systematic learning, better than hit and trial methods
- II. Enhancing employee productivity both in terms of quantity and quality leading to higher Profits
- III. Equipping the future manager to take over in an emergency.
- IV. Reducing employees' turnover as it increases employee morale and reduces absenteeism.

Helping the organisation in obtaining effective response in a fast-changing environment

44. The workers of 'Vyam Ltd.' are unable to work on new and hi-tech machines imported by the company to fulfil the increased demand. Therefore, the workers are seeking extra guidance from the supervisor. The supervisor is overburdened with the frequent calls of workers. Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently? Also state any three benefits that the workers will derive by the decision of the supervisor.

Training of employees/Vestibule training/Off the job training.

Benefits the workers will derive by the decision of the supervisor: (any three)

It helps in promotion and career growth due to improved skills and knowledge.

- i. It helps them to earn more due to improved performance.
- ii. It reduces accidents as the employees are more efficient to handle machines.
- iii. It increases the morale of the employees as the employees are more satisfied.

45. 'New range' is a chain of departmental stores in India with 56 outlets. It sells the best products at the lowest price. The Human Resource department takes care to select, train, motivate and retain the employees. Currently, it has 170 full time employees and 30 part time employees. For top-level management, employees are recruited through private consultants. These professional recruiters can entice the needed top executives from other companies by making the right offers.

Employees appointed at the entry level are recruited through walk-in. For that, a notice is placed on the notice board specifying the details of the jobs available. 'Newrange' also encourages present employees or their friends and relatives to refer candidates. They also visit some of the reputed educational institutions to hire some of the most talented and promising students as its employees. 'Newrange' shifts workforce from surplus departments to those where there is shortage of staff instead of laying them off. Explain the various internal and external sources of recruitment used by 'Newrange' to recruit its employees

Ans: **Sources of recruitment used by 'Newrange'**

**External**

- a. Placement Agencies and Management Consultants.
- b. Direct Recruitment.
- c. Recommendations of Employees.
- d. Campus Recruitment.

**Long Answer (6 Marks)**

46. 'Entertainment India Ltd.' has been incorporated with the objective of entertaining people by organising festivals, programmes and other similar events depicting the rich cultural heritage of the country. The company management has renowned personalities from the field of art, literature and culture. They decided to give a platform to young budding musicians, poets and artists. The company decided its organisations structure by grouping similar jobs together. Thereafter, the heads of different departments were also appointed. Nisha, one of the heads, did an analysis of the number, type and qualification necessary for people to be appointed. The information generated in the process of writing the job description and the candidate profile was used to develop 'Situations vacant' advertisement. This was published in print media and flashed in electronic media. This brought in a flood of response. Explain the other steps which Nisha has to perform to complete the process being discussed above.

Ans:

Other steps which Nisha has to perform to complete the process being discussed above are

- a. Selection:
- b. Placement and Orientation.

- c. Training and Development.
- d. Performance Appraisal
- e. Promotion and career planning.
- f. Compensation.

47. 'Move with Pace Ltd.' is a progressive company with very good human resource records.

Recently it created a pool of prospective candidates for jobs to be given in various departments. The company is always willing to dispense its human resource duties properly. Various job positions exist in the company. The company makes it mandatory for the human resource department to prepare job descriptions so that necessary information about the jobs could be created. For its decent human resource practices, the company has won several awards. It knows that the most important asset of an organisation is its image and to protect it, the company is always ready to do extra efforts. Last year when a few groups filed a complaint against the company, it made great efforts to fight legally and came out victorious. There is a very good set up to promote the interests of the employees. In order to give them a familiar environment the company promotes various informal organisations and proper celebration of all festivals. It is very responsive towards its workers and always attends to their problems. There is a special cell in the Human Resource department which is very responsive to all the complaints made by all the employees regardless of the level at which they work. Recently, national newspaper made a very favourable mentioning of the lack of strikes in the company as the management-labour relations are very good and a lot of importance is given to the demands of the labour unions. A very peaceful environment exists in the organisation. Identify the various duties of the Human Resource department highlighted in the above case by quoting the lines.

- i. Recruitment.

*'Recently ... various departments.'*

- ii. Analysing jobs and collecting information about jobs to prepare job description.

*'The company ... could be created.'*

iii. Defending the company in law suits and avoiding legal complications.

*'Last year ... came out victorious.'*

iv. Providing for social security and welfare of employees.

*'In order ... celebrations of all festivals.'*

v. Maintaining labour relations and union management relations.

*'Recently a national newspaper ... labour unions.'*

48. In 'Little Angels School', the Principal has decided to improve the performance of teachers through proper motivation. She has planned to promote some of the goodperforming teachers to the post of head of departments in their respective wings. The adjoining school, after having been informed about this, decides to do the same but the problem with them is that the school is new and there is no scope of filling the higher slots with the teachers of the school as all of them are new.

This school then goes for external sources of recruitment. For it, two sources are checked:

- a. They check the data of people who applied for the jobs of teachers but were unable to make it. There was a chance that these people could be easily recruited since they were interested in the jobs last year
  - b. They approach a government office for this purpose. Here in this government agency, link between job seekers and job providers is matched and people who are unemployed get registered for skilled as well as unskilled jobs. Mr. Harish, a friend of the Principal, is a factory owner. He told her that finding people for jobs is easy for his factory as he generally requires unskilled-labour. Daily notification is put outside the factory building and people apply and get selected on the spot
- a. Identify and state the source of recruitment which is attempted by the Principal of 'Little Angels School' by quoting the lines.
  - b. Identify the limitation of one of the sources of recruitment which is discussed in the last part of first paragraph of the above case by quoting the line.
  - c. Identify the two external sources of recruitment checked by the adjoining school by quoting the lines. Which external source of recruitment is applied by the friend of

the Principal? State.

- d. Which external source of recruitment is applied by the friend of the Principal? State.

**Ans:**

- a. Internal source of recruitment.

*'She has planned ... respective wings.'*

- b. Limitation of internal sources of recruitment - Not suitable for a new organisation.

*'The school is new ... are new.'*

- c. (i) Casual callers.

*'They check ... last year.'*

- (ii) Employment exchange.

*'This government ... unskilled jobs.'*

- d. Direct recruitment.

*'... as he ... selected on the spot.'*

49. Gaurav, an HR professional of Naunidh Tyres had conducted an interview of 100 different professionals. In the second round, he had taken the selection tests of candidates. What was the reason behind conducting the selection test and state two advantages and disadvantages of such tests?

**Ans.** Selections tests are conducted to measure certain characteristics like intelligence, personality and skills of an employee. It is a popular technique of measuring the skills of employees.

Tests offer the following benefits in employee selection

- I. Tests provide a good basis for measuring a candidate's suitability for the job
- II. Tests are useful in checking and verifying the claims made by the candidate about his qualifications and experience.

**Tests suffer from the following limitations**

- I. Tests are not always the reliable indicators of knowledge and skills of a candidate.
- II. Tests may be unfair to candidates belonging to economically and socially backward



sections of society. Sometimes tests may lead to discrimination between one candidate and another

50. Vandana Public School had a vacancy of a Maths teacher. They were looking for a smart and creative teacher having a drive for excellence. An advertisement was given in all leading dailies. Since the response was huge, the school examined all the application forms and rejected the candidates who did not have the necessary qualifications. Thereafter, a test was conducted to measure the existing skills of the candidates. After that it was followed by a formal in-depth conversation with the Principal of the school and a panel of Math's experts.

- a) Explain the steps that have been performed by Vandana Public School in the process of identifying and choosing the best candidate.
- b) Give the name and also the meaning of the test which was conducted by the school.

Ans: The steps that have been performed by Vandana Public School in the process of identifying and choosing the best candidate

- i. **Preliminary Screening** It helps the manager to eliminate unqualified or unfit job seekers, based on the information supplied in the application forms.
- ii. **Selection Tests** A selection is a mechanism that attempts to measure certain characteristics of individuals. These characteristics range from aptitudes, such as manual dexterity, to intelligence to personality, etc. Selection test include different types of tests such as intelligence test, aptitude test, personality test, trade test, interest test, etc.
- iii. **Employment Interview:** It is a formal, in- depth conversation, conducted to evaluate the applicant's suitability for the job. Through an interview, an interviewer seeks to obtain maximum information about the interviewee and the interviewee seeks information about the job and the company. In the given case, Vandana Public School conducts a formal in-depth conversation with the principal and a panel of Math's experts.

b) The test which was conducted by the school is called 'trade test'. It is a test used to measure the existing skills of an individual to perform a job.

51. HR Manager of Gangotri Ltd. is frequently receiving the calls from workers that the new machine, which was installed last week is complicated to handle. The workers are unable to operate new machine. Briefly explain how a manager can resolve this issue?

Ans: HR Manager should make the schedule and provide training to the workers as training will help in following ways

- a. Training improves skills and knowledge of the employees which leads to better career of the employees.
- b. Training makes employee more efficient to handle machines thus, less chance of accidents.
- c. Training increases the satisfaction and morale of employees and thus, builds confidence in them.

Vestibule training is highly suited in this case as in this method; training is given on the same equipment but away from actual workplace. This method will be extremely useful as the employees will be able to handle expensive and sophisticated machines Under expert guidance.

52. 'Moga Industries Ltd'. Approached a well established university in the city of Madurai to recruit qualified personnel for various technical and professional jobs. They selected Tanya, Ritu, Garima and Chetan for various vacancies in the organisation.

After the selection and placement 'Moga Industries Ltd'. Felt the need to increase the skills and abilities, and the development of positive attitude of the employees to perform their specific jobs better. The company also realised that learning new skills would improve the job performance of the employees. Hence, the company decided to take action for the same.

- a) Name the step of the staffing process regarding which the company decided to take action
- b) State the benefits of the action to 'Monga Industries Ltd'

Ans:

- a. The company has decided to provide Training and Development to the employees.
- b. The benefits of the training to 'Monga Industries Ltd' are

- i. Economic operations; Trained personnel will make economic and efficient use of resources such as men, money, material and machines. It leads to the reduction in the cost of production per unit. There will be a great savings as training reduces wastage and spoilage. This will result in economic operations. Thus, training expenditure is treated as an investment in human resources.
- ii. Increase in productivity: Training helps to improve employee's knowledge and skills, which in turn increases the quality and quantity of production. Higher productivity means higher profitability for the organisation
- iii. High motivation and Morale; Training reduces the rate of labour turnover and absenteeism and increases job satisfaction. This improves staff morale and self-esteem. With the help of training, employees are able to direct the staff towards management philosophy, mission, attitudes, work ethics team work and great cooperation and loyalty.

53. There are two vacancies for the post of Assistant manager in 'Gyan Electric private Ltd. Barth 'the Human resources Managers identified one candidate 'Vivek from within the organisation and promoted him to the post of Assistant Manager. For another post, the Manager 'Barth 'took help of a placement agency and selected 'Sagam. After six months, Barth observed that 'Vivek''s performance was much better than 'Sagam' performance though 'Vivek' was less qualified than Sagam. hence, Barth decided that in future he will not make any appointment with the help of an outside source.

Explain any four reasons on the basis of which 'Barth' would have taken the above decision

Ans: Barth took the above decision because of the following reasons.

- a) Internal source of recruitment motivates the employees to improve their performance level. Promotion at a higher level may lead to a chain of promotions at the lower levels in the organisation, which motivates the employees to work with commitment and loyalty.
- b) Internal source of recruitment simplifies the process of selection and placement. The person recruitment is already known to the organisation and can be evaluated economically and accurately
- c) Induction training is not needed when a person is initially recruited as he is already familiar with the vision and plans of the organisation

- d) Through internal source of recruitment, the workforce in the surplus departments can be shifted to the department having shortage of staff.
- e) Internal source of recruitment is much simpler and cheaper than external recruitment.

54. After passing his secondary school examination, David left the school at the age of 15 years and started getting training under his father. His father, a renowned electrician, had worked for many companies. He everyday started accompanying his father on work and watched him carefully while working. David was a good learner and learnt the techniques of work quickly. Now his father started passing on the tricks of the trade to David. With the passage of time David acquired a high level skill and became a well-known electrician at Indore. Big business-houses started calling him for electrical-wiring.

- a) Name the method of training discussed in the above para
- b) State any three benefits which David could get on being trained

Ans;

- a) The method of training is Apprenticeship Training
- b) Three benefits of training to David are:
  - i. Better career can be achieved through improved skills and knowledge
  - ii. The earning increases due to higher productivity
  - iii. Efficiency in handling the machines reduces the chances of accidents
  - iv. Increases job satisfaction and motivates the employees.

#### KEY TERMS

**Staffing:** Staffing is that part of the process of management which is concerned with obtaining, utilising and maintaining a satisfactory and satisfied work force.

**Human Resource Management (HRM):** it includes many specialised activities and duties which the human resource personnel must perform, e.g. recruitment, analysing jobs, developing compensation and incentive plans, training and development of employees, maintaining labour relations and union management relations. etc.

**Estimating manpower requirements:** It means knowing how many persons are needed and of what type (i.e., educational qualification, skills, prior experience, personality characteristic, etc.) in the organisation to fill the various job position created while designing the organisational structure

**Workload Analysis:** it is assessment of the number and type of human resources necessary for the performance of various jobs and accomplishment of organisational objectives.

**Work force Analysis:** It is an assessment of the number and type of human resources available for the performance of various jobs and accomplishments of organisational objectives

**Recruitment:** it is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation

**Selection:** It is process of identifying and choosing the best person out of a number of prospective candidates for a job

**Placement:** It refers to the employee occupying the position or post for which the person has been selected

**Orientation:** It refers to introducing the selected employees to other employees and familiarising him with the rules and policies of the organisation

**Training:** It is the process by which aptitudes, skills and abilities of employees to perform specific jobs are increased. It is a process of learning new skills and application of knowledge. It attempts to improve the performance of employees on the current job or prepare them for any intended job.

**Development:** It refers to the learning opportunities designed to help employees grow. It means growth of an individual in all respect.

**Performance appraisal:** It means evaluating an employee's current and /or past performance as against certain predetermined standards.

**Promotion:** It refers to being placed in position of increased responsibility. They usually mean more pay, responsibility and job satisfaction.

**Compensation;** It refers to all forms of pay or rewards going to employees. It may be in the form of direct financial payments like wages, salaries, incentives, commissions and bonuses and indirect payments like employer paid insurance and vacation

**Transfers:** It involves shifting an employee from one job to another, one department to another or from one shift to another, without a substantive change in the responsibility and status of the employee. It may lead to changes in duties and responsibility, working conditions etc., but not necessarily salary.

**Promotion:** It refers to shifting an employee to a higher position, carrying higher responsibilities, facilities, status and pay.

**Direct Recruitment:** Under the direct recruitment, a notice is placed on the notice – board of the enterprises specifying the details of the jobs available. Job-seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot. The practice of direct recruitment is followed usually for casual vacancies of unskilled or semi-skilled jobs.

**Casual caller:** Many reputed business organisations keep a database of unsolicited applicants in their office. Such job seekers can be a valuable source of manpower. A list of such job-seekers can be prepared and can be screened to fill the vacancies as they arise.

**Labour contractors:** Labour contractors maintain close relations with labourers and they can provide the required number of unskilled workers at short notice. Workers are recruited through labour contractors who are themselves employees of the organisation

**Employment Exchange:** it is run by Government and is regarded as a good source of recruitment for unskilled and skilled operative jobs. In some cases, compulsory notification of vacancies to employment exchange is required by law.

**Web publishing:** Internet is becoming a source of recruitment these days. There are certain websites specially designed and dedicated for the purpose of providing information about both job seekers and job openings e.g. [www.naukri.com](http://www.naukri.com)

**Placement agencies:** placement agencies provide a nationwide service in matching personnel demand and supply. These agencies compile bio-data of a large number of candidates and

recommend suitable names to their clients. Such agencies charge fee for their services and they are useful where extensive screening is required.

**Management consultants:** Management consultancy firms help the organisations to recruit technical professional and managerial personnel. They specialise in middle level and top level executive placements.

**Campus Recruitment:** Recruitment from educational institutions such as college and institutes of management and technology etc.

**Preliminary screening:** It helps the manager eliminate unqualified or unfit job seekers based on the information supplied in the application forms.

**Selection Test:** A employment test is a mechanism (either a paper and pencil test or an exercise) that attempts to measure certain characteristics of individuals. These characteristics range from aptitudes, such as manual dexterity to intelligence to personality

**Intelligence Test:** These tests used to measure the level of intelligence quotient of an individual. It is an indicator of a person's learning ability or the ability to make decisions and judgements.

**Aptitude Test:** It is measure of individuals potential for learning new skills. It indicates the person's capacity to develop

**Trade Test:** It measure the existing skills of the individuals. The measure the level of knowledge and proficiency in the area of professions or technical training.

**Personality Test:** personality test provides clues to a person's emotions, her reactions, maturity and value system etc.

**Interest Test:** Interest tests are used to know the pattern of interests or involvement of a person

**Employment Interview:** Interview is a formal, in-depth conversation conducted to evaluate the applicant's suitability for the job.

**Reference and background check:** Many employers request names, address and telephone numbers of references for the purpose of verifying information and, gaining additional information

on an applicant. Previous employers known persons, teachers and university professors can act as reference.

**Medical Examination:** After the selection decision and before the job offer is made., the candidates is required to undergo a medical fitness test. The job offer is given in the candidates being declare fit after the medical examination.

**Job offers:** It is made through a letter of appointment/confirm his acceptance. Such a letter generally contains a date by which the appointee must report on duty.

**Contract of Employment:** It includes job title, duties, responsibilities, date when continuous employment starts and the basis for calculating services, rates of pay, allowances, hours of work, leave rules, sickness, grievance's procedures, disciplinary procedure, work rules, termination of employment etc.

**Apprenticeship Training programme:** Apprenticeship Training is a method of training in which the trainee is kept under guidance of the master worker for a prescribed period of time. It is designed to acquire a higher level of skill. People who want to enter skilled trades e.g. Plumbers, electrician, iron workers, motor mechanic etc. are often required to undergo such training.

**Internship Training:** Internship Training is a joint programme of training between educational institutions and business firms. Besides carrying out regular studies, the trainees also work in some in some factory or office to acquire practical knowledge

**Vestibule Training:** It is a method of training which is conducted on the equipment & machines they will be using. Bur the training is conducted away from actual work place. It is used where the employees are required to handle sophisticated machinery.

**Induction Training:** It is a type of training given to help the new employee in settling down quickly into the job by becoming familiar with the people, the surroundings, the job and the business.



## CHAPTER -7

### DIRECTING

#### GIST OF THE LESSON

- Concept and Importance
- Elements of Directing
- Motivation - concept, Maslow's hierarchy of needs, Financial and non-financial incentives
- Leadership - concept, styles - authoritative, democratic and laissez faire
- Communication - concept, formal and informal communication; barriers to effective communication, how to overcome the barriers.

Directing is the key element of management process. The execution of plans is accomplished by directing the people what to do and seeing that they do it to the best of their ability. It is through directing that managers get the work done through people. It is the process around which all performance revolves.

**Directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objective.**

#### Features

- (i) Directing **initiates action**; while other functions prepare the setting for action directing makes it happen.
- (ii) Directing takes place **wherever superior-subordinate relations exist**.
- (iii) Directing is a **continuous process** which takes place throughout the life of the organization.
- (iv) Directing **flows from top level to bottom level** through organizational hierarchy. It is a function of superior because a superior has to motivate, guide, supervise and issue instructions to his subordinates and not vice-versa.

#### IMPORTANCE OF DIRECTING

1. Initiates action – Directing helps to initiate action by people in the organization towards the achievement of desired objectives.

2. Integrates Employees' Efforts – Directing integrates employees' efforts in such a way that every individual effort contributes to the organizational performance.
3. Means of motivation – Directing guides employees to fully realize their potential by motivating them and providing effective leadership.
4. Directing facilitate changes – Effective directing helps to reduce resistance to changes in a dynamic environment through motivation, communication and leadership.
5. Provides stability and balance in the organization – Directing fosters cooperation and commitment among the people and helps to bring stability and balance in the organization.

#### ELEMENTS OF DIRECTING

1. Motivation
2. Leadership
3. Communication

**Motivation** refers to the process of stimulating and inspiring people at work to accomplish desired goals.

**Leadership** indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organizational goals.

**Communication** refers to a process of exchange of ideas, views, facts, feelings etc. between two or more persons to reach common understanding.

#### ELEMENTS OF DIRECTION

Directing may broadly be grouped into four categories which are called as elements of directing. They are as follows:

1. Motivation
2. Leadership
3. Communication

## **MOTIVATION**

### **Meaning:**

Motivation can be defined as stimulating, inspiring and inducing the employees to perform to their best capacity of to act in a desired manner to achieve organizational goals.

### **Important terms related to motivation:**

1. **Motive:** a motive is an inner state or desire arises out of needs of an individual which energizes him to move towards achievement of goal. It causes restlessness. Ex. Individual search for food to fulfill the motive of hunger (other examples such as thirst, security, affiliation, comfort etc.)
2. **Motivation:** It is a process of inducing people to perform to their best ability to accomplish goal.
3. **Motivators:** Motivators are the techniques used to motivate the people in an organization. Ex. Pay, Bonus, Promotion, Recognition, Respect, Praise etc.

### **Features of motivation or Nature of motivation or Characteristics of motivation**

1. **Motivation is a psychological phenomenon:** Motivation is an internal feeling which cannot be forced on employees. Such internal feelings (i.e. need, desire etc.) influence human behaviours to behave in a particular manner. Ex. Desire to have new home, urge for owning motorbikes, etc.
2. **Motivation produces goal directed behaviour:** Motivation induces people to behave in such a manner so that they can achieve their goal. Motivated person need no supervision. Ex. If a person has a motive to get promotion, he will work efficiently.
3. **Motivation can be either positive or negative:** To induce a person to act in a desired way, manger may use either positive motivators or negative motivators depending upon the situations. Examples of positive motivation are Increment, Bonus, Promotion, Respect, Recognition etc. If employees do not improve with positive motivation, then the manager may use negative motivation such as warning, memo, stopping increments, demotion, etc.
4. **Motivation is a complex process:** In order to motivate people, a manager must understand various types of human needs and then identify the need of each human being which is a difficult task. The manager has to apply different approaches to satisfy them because any type of motivation may not have uniform effect on all the members. Some get satisfied with

monetary incentives, some with non monetary and some others with negative motivators. So, motivation is a complex process.

### **Process of motivation:**

The process of motivation can be understood from the following steps.

1. **Unsatisfied need:** Motivation process begins with the unsatisfied need in a human being.
2. **Tension:** The presence of unsatisfied need automatically gives the individual tension.
3. **Drive:** The tension creates urge for looking various alternatives to satisfy the urge or drive.
4. **Search behaviour:** After searching for alternatives, the human being starts behaving according to chosen option.
5. **Satisfied need:** After behaving in a particular manner, then he evaluates that whether the need is satisfied or not.
6. **Reduction of tension:** After fulfilling the need, the tension gets reduced.

But the motivation process does not end by satisfaction of one need. After satisfying one need, another need develops in human being. It is never ending process.

### **Importance of motivation:**

1. **It sets in motion the actions of employees:** Without motivation, employees try to perform minimum activities. But, motivation fills in the desire to perform to their maximum level. The motivated employees make best use of the resources.
2. **Improves efficiency and performance level:** The motivated employees start performing the job to the best of their ability with minimum wastage of time and resources. Motivation bridges the gap between the ability to work and willingness to work which lead to increase the efficiency.
3. **Motivation helps to change negative attitudes to positive:** If the worker is not rewarded properly, he may have negative attitudes towards his work. Such negative can be slowly changed into positive attitudes by the manager through positive encouragement, rewards, praise for the good work done etc.
4. **Helps to reduce employee turnover:** If managers identify motivational needs of employees and provide suitable incentives, employees may not think of leaving the organization. So, motivation helps to save the cost involved on new recruitment and training and retain the talented people.

5. **Helps to reduce absenteeism**: Some important reasons for absenteeism are bad working conditions, lack of recognition, inadequate rewards, poor relations with supervisors and colleagues etc. Through sound motivational system, all these deficiencies can be removed and work becomes pleasure to the workers.
6. **Reduction in resistance to change**: The motivated employees show less resistance in accepting the changes introduced in organization. Because, through motivation, manager can convince the employees that proposed changes will bring additional rewards to them.

### **M a s l o w ' s   N e e d   H i e r a r c h y   T h e o r y**

Since the motivation is a complex process, many researchers have studied and developed some theories which help to understand about motivation phenomenon. Among these, Maslow's need hierarchy theory is considered fundamental.

Maslow has given a sequence of hierarchy of needs in the following way:

1. **Physiological Needs**: These needs include basic requirements for survival and maintenance of human life such as Air, Food, Water, Shelter, Clothing, Sex etc. These needs have to be satisfied repeatedly. Organisation can satisfy these needs by way of providing basic monetary incentives i.e. salary and allowances.
2. **Safety and Security Needs**: Once the present day physiological needs are fulfilled then the people start thinking about their future as they want to secure their future. The security needs can be classified into Physical security and Economic security. These needs consist of safety from illness, accident, fire, money needed to meet future physiological needs. Organisation can satisfy these needs by providing job security, stability of income, pension plans, provident fund, gratuity etc.
3. **Social Needs/ Affiliation/ Belonging Needs**: These needs consist of love, affection, companionship, friendship, sense of belongingness etc. These needs can be satisfied by the organisation through encouraging team work, arranging formal and informal get-togethers, maintaining cordial relations etc.
4. **Esteem Needs**: These needs include status, attention, recognition, self respect etc. These needs are more common in higher level employees. Esteem needs can be satisfied through various non-monetary rewards such as promotion, appreciation, recognition of good work done, employees participation in management etc.
5. **Self Actualization Needs**: It is the highest level of need in the hierarchy. It refers to the drive to become what one is capable of becoming and reaching to aim of your life. These needs include growth further and further, self-fulfillment, achievement of goal. These needs can be fulfilled by providing tough and challenging job to the employees.

## **Financial and Non-financial incentives**

Incentive means all measures which are used to motivate people to improve performance. These incentives may be broadly classified as financial and non financial.

### **Financial Incentives or Monetary incentives:**

The reward or incentive which can be calculated in terms of money is known as monetary incentive. These incentives are offered to employees who have more physiological, social and security need active in them. The various types of financial incentives are discussed below:

1. **Pay and allowance**: For every employee, salary is the basic monetary incentive. It includes basic pay, dearness allowance and other allowances, regular increments etc.
2. **Profit sharing**: Under this scheme, the companies fix a percentage of profit and if the profit exceeds that percentage then the surplus profit is distributed among the employees. It encourages the employees to work efficiently.
3. **Co-partnership/ Stock option**: Under this scheme, employees are offered the shares of the company at a price which is lower than market price. The allotment of shares creates a feeling of ownership to the employees and makes them to contribute for the growth of the organisation.
4. **Bonus**: Bonus is a one-time extra reward offered to the employees for sharing high performance every year. Bonus is also given in the form of free trips to foreign countries, paid vacation, offering any gifts or gold etc.
5. **Commission**: It is the common incentive offered to employees working under sales department. In addition to the fixed salary, they are provided commission on the basis of the amount of sale. The income of the sales person is directly linked with the efforts put in by them.
6. **Suggestion reward system**: Here, the employees are given reward if the organisation gains with the suggestion offered by the employees such as cost saving technique, increasing quality etc.
7. **Productivity linked with wage incentives**: This system offers higher wages for more productivity (e.g. Differential piece rate system). Several wage incentive plans aim at linking payment of wages to increase in productivity
8. **Retirement benefits**: These include Pension, provident fund, gratuity etc provided to motivate the people
9. **Perks/ Fringe benefits/ Perquisites**: This is a type of monetary incentive which is not given in money but in kinds. These include medical facility, free education for children, housing facility, providing car, garden, servants etc.

### **Non- monetary incentives:**

The reward or incentives which are provided to satisfy the psychological, social and emotional needs of the employees are called as Non-monetary incentives. Otherwise, the incentives which cannot be calculated in terms of money are known as non-monetary incentives. The common types of non-monetary incentives are discussed below:

1. **Status**: Status means the ranking of positions or special authority or prestige in the organisations. Esteem and psychological needs can be satisfied by offering higher status to employees.
2. **Organisational climate**: It refers to relations between superior and subordinates. A positive approach adopted by manager creates better organisation climate whereas negative approach may spoil the climate.
3. **Career Advancement**: Managers must provide promotional opportunities to employees. Employees should be provided the opportunities to improve their skills which help them for promotion. Promotion works as a tonic which induces people to perform to their best level.
4. **Job enrichment**: Employees may get bored by performing routine job. They enjoy doing jobs which offer them variety and opportunity to show their skill. So, by offering interesting jobs, challenging jobs, autonomy to perform job, the organisation should motivate the employees. The job itself should be a good motivation to the employees.
5. **Employees Recognition**: Recognition means acknowledgment with a show of appreciation which satisfies the ego of the subordinates. Whenever the positive attitudes are shown by the subordinates, they have to be recognized through congratulation, displaying in the notice board, issuing certificate, distributing compliments etc.
6. **Job Security**: Job security means giving permanent or confirmation letter. Employees want certain stability about future income so that they do not feel worried and work with greater zeal.
7. **Employee's participation**: It means involving employees in decision making of the issues related to them. Employees follow the decision more sincerely when these are taken in consultation with them. So, companies form joint management committee, works committees etc.

## LEADERSHIP

### MEANING

Leadership is the process of influencing the behaviour of people by making them strive voluntarily towards achievement of Organisational goals. Leadership indicates the ability of an individual to maintain good interpersonal relations with followers.

### Features of Leadership

1. Leadership indicates ability of an individual to influence others
2. Leadership tries to bring change in the behaviour of others.
3. Leadership indicates interpersonal relations between leaders and followers.
4. Leadership is exercised to achieve common goal of the organisation
5. Leadership is a continuous process.

### Importance of Leadership

The significance of leadership can be understood by learning following points:

1. **Helps in inspiring and guiding the employees**: The leaders have direct contacts with the subordinates and they always motivate the employees for higher performance. Leaders also act as guides as whenever the employees are in trouble.
2. **Secures co-operation of the members of organisation**: Leaders try to secure the willing cooperation of the employees as they develop feeling of initiative and enthusiasm in the employees. The leaders can convince the subordinates that they can achieve their goal only when the team goal is achieved.
3. **Creates confidence**: Generally, employees fail to realize their abilities. By way of recognizing the hidden talent and qualities of the employees, the leaders try to boost up their confidence level. This will lead to provide psychological support and confidence in the employees.
4. **Improves productivity**: Leaders develop co-operation, confidence and motivation among the employees which results in maximum utilization of physical, financial and human resources.
5. **Improves job satisfaction**: The job satisfaction depends not only on monetary compensation but also on working conditions and behaviour of managers towards their employees. Leadership ensures that managers follow such a pattern which is acceptable to all the subordinates. Further, leadership guides the employees in taking right decision at the time of stressful situation which also brings job satisfaction to employees.
6. **Improves team spirit**: The team spirit depends upon mutual trust, friendliness, co-operation and liking of subordinates for each other. No doubt, the leadership ensures all the above said factors through its charismatic characteristic.



## **LEADERSHIP STYLE**

Depending on the use of authority, there are three basic styles of leadership:

- (i) Autocratic
- (ii) Democratic
- (iii) Laissez-faire

### **(i) Autocratic or Authoritarian leader**

An autocratic leader gives orders and expects his subordinates to obey these orders. In this style of leadership, communication is one way and the leader does not change his opinion. This leadership style is effective in getting productivity. Quick decision making is also facilitated.

### **(ii) Democratic or Participative leader**

A Democratic leader will develop action plans and makes decisions in consultation with his subordinates. He will encourage them to participate in decision making.

### **(iii) Laissez faire or Free-rein leader**

Such a leader does not believe in the use of power unless it is absolutely essential. The followers are given a high degree of freedom to formulate their own objectives and ways to achieve them.

## **COMMUNICATION**

### **Meaning**

The word communication has been derived from the Latin word "Communis" which implies common understanding.

Communication is a process of exchange of ideas, view, facts, feelings etc. between or among people to create common understanding.

### **Elements of communication process**

The steps in the process of communication are explained below:

1. **Sender:** The communication process begins when the sender gets some idea which he wants to share with someone (receiver)
2. **Message:** It is the content of ideas, feelings, suggestions, order etc. intended to be communicated.
3. **Encoding:** It is the process of converting message into symbols such as words, pictures, gestures etc.
4. **Transmission (Media):** After encoding, the sender selects appropriate medium (i.e. letter, telephone, meeting, internet etc.) to transfer the encoded message to receiver.
5. **Receiver:** After transmission, the encoded message reaches the receiver
6. **Decoding:** After receiving message, the receiver decodes the message that is he reads or listens the message and tries to understand the meaning of message in the same way expected by the sender.
7. **Feedback:** After understanding message, the receiver sends his response to the sender indicating that he has understood message of sender.

### **Importance of Communication**

1. **Acts as a basis of co-ordination:** Through communication only, the objective and goals of the organisation are made clear to every employee. Communication provides co-ordination among departments, activities and persons by explaining about Organisational goals, the mode of their achievement and interrelationship between different individuals.
2. **Acts as basis for decision making:** Whenever the managers are taking decisions they keep in mind positive or negative aspects. The accurate information regarding positive and negative comes only through communication.
3. **Helps in smooth working of an enterprise:** All interactions in organisation depend upon communication. Smooth working of an enterprise is possible only when there is no communication gap. Right from establishing of enterprise till its survival, communication is essential.
4. **Increase managerial efficiency:** The management conveys the goals, targets, issues instruction, allocates jobs and responsibilities and look after the performance of subordinates. Communication is involved in all these aspects. The communication lubricates the entire organisation and keeps the organisation at work with efficiency.
5. **Promotes co-operation and industrial peace:** Through two-way communication process, managers try to develop mutual understanding between management and workers. Further, the subordinates and superior can discuss their problems, grievances and aspirations through smooth flow of communication. Thus, co-operation brings peace in the organisation.

6. **Establishes effective leadership**: Communication is the basis of leadership. While influencing people, leader should possess good communication skills. Effective communication helps to influence subordinates.
7. **Boost morale and provides motivation**: In the motivation process, the superiors try to analyze the needs of subordinates and needs can be recognized only when there is smooth flow of communication. Through communication, it is more convenient to offer financial and non financial incentives. Further, the job satisfaction and the morale of the employees depend on the smoother communication.

### **Forms of Organisational communication**

There are two forms of organisational communication:

1. Formal communication
2. Informal communication

**1. Formal communication**: Formal communication refers to official communication taking place in the organisation. Exchange of information related to official matter such as assignment of task, fixing of responsibilities, granting authority, setting up targets, objectives etc. are taking place in formal communication. It is generally takes place in the written form such as issue of notice, letter, memo, document etc.

Formal communication may be further classified as

- a. Vertical communication
- b. Horizontal communication

**(a) Vertical communication**: Vertical communication flows vertical i.e. upwards or downwards through formal channels. Upward communications refer to flow of communication from subordinate to superior (e.g. application for grant of leave, submission of progress report, request for grants etc.) whereas downward communication indicates communication from a superior to subordinate (e.g. sending notice to employees to attend a meeting, or4dering subordinates to complete an assigned work, passing on guidelines framed by top management etc.

**(b) Horizontal or lateral communication**: It takes place between the persons working at the same level of authority. For example, a production manager may contact marketing manager to discuss about schedule of product delivery, product design, quality etc.

**2. Informal communication**: The communication between different members of organisation who are not officially attached to each other is known as informal communication. Generally, the social interactions, friendly talks and non-official matters are discussed in the informal communication.

Informal communication is called as a **Grapevine communication**. Because, there is no fixed source of information under informal communication and information can move in any direction. Further, there is no fixed direction or path for the flow of information. The information moves in a very vague, confusing and zigzag manner.

### **Barriers to communication**

Some times the message sent by sender does not reach the receiver in the same manner as expected by the sender. This filtration, misrepresentation of communication may cause misunderstanding. Therefore, it is important for a manager to identify these barriers and take measures to overcome these.

The barriers can be grouped in following categories:

1. Semantic Barriers
2. Psychological Barriers
3. Organisation Barriers
4. Personal Barriers

1. **Semantic Barriers**: Sometimes the same words and sentences can be understood differently by different people in the organisation which means difference in the understanding levels of employees;

Following are the main causes for semantic problem;

1. **Badly expressed message**: Some times due to lack of vocabulary manager may use wrong words, omission of needed words. Due to this the manager may fail to convey the same meaning to his subordinates.
2. **Symbols with different meanings**: Sometimes a word may have different meanings. Receiver may understand the other meaning.
3. **Faulty translations**: Some times the workers do not understand the language which is used by manager so workers may get it translated wrongly. Due to wrong translation there may be transfer of wrong message.
4. **Unclear assumptions**: Sometime the worker may misinterpret the assumptions. For example, take care of goods may be understood as take care of quality of goods.
5. **Technical jargon**: While explaining to subordinates many specialized experts use technical words which may not be understood by the workers.
6. **Body language and gesture decoding**: Along with verbal communication another important mode of communication is body language and gestures shown by person who is talking. If

the verbal communication is not matching with the body language, then workers may get confused and misunderstand the meaning.

7.

2. **Psychological Barriers**: The state of mind has great influence over the information and its reflection. Some of the psychological barriers to effective communication are discussed below:

1. **Premature evaluation**: Sometimes people evaluate the meaning of message before the sender completes the message. The receiver may have some personal prejudice against the sender. He may resist change.
2. **Lack of attention**: It means when receiver does not pay complete attention to the message as a result communication becomes ineffective. The reason can be preoccupied mind of receiver.
3. **Loss by transmission and poor retention**: When communication passes through various levels, this results in filtering or loss of information. In case of oral information sometimes manager may not be able to retain all information for a longer time.
4. **Distrust**: Distrust between communicator and receiver also acts as a barrier to effective communication. They may not understand each other's message in the original sense and they do not give much importance to the information.

3. **Organisational barriers**: Some of the organisational barriers are discussed below:

1. **Organisational policy**: If organisational policy does not support free flow of information it may result in barriers.
2. **Rules and regulations**: Rigid rules, regulations may also create barriers as following rules may lead to red tapism, delay of action and delay in movement of information.
3. **Status difference**: Sometimes the people working at higher level do not believe in the information supplied by the lower level employees as they feel how would he know about my job and who is he to give me suggestions.
4. **Complex organisation**: When the information passes through various levels then there can be screening or filtering of information at different levels.
5. **Organisational facilities**: In large organisation free and effective flow of communication is possible only when some facilities like social get together, complaint box, task force etc. exist. In absence of such facilities there can be delay and barrier to effective communication.

4. **Personal Barriers**: Some of the personal barriers are discussed below:

1. **Lack of confidence of superior in his subordinates**: If superiors have no confidence and trust in their subordinates then they pay no attention to their advice, opinion or suggestions.
2. **Lack of incentives**: If there is no incentive for communication then subordinates may not take initiatives to give suggestions.
3. **Fear of Authority**: Sometimes superiors conceal and hide information if they have fear of losing their authority over the subordinates.

### **Improving communication effectiveness**

All organisations face barriers to effective communication. By using following measures they can overcome such barriers:

1. **Clarify the idea before communication**: In the first place we must be clear about what we want to communicate. The message can be conveyed properly only if it is clearly formulated in the mind of the communicator. The message should be encoded in direct and simple language so that the receiver is able to understand it without much difficulty.
2. **Communication according to the need of the receiver**: Whenever we communicate we must keep in mind the needs of the receiver of the message or it should be our effort to see that whatever message or information we send across must be of value to receiver.
3. **Consult others before communicating**: Before communicating the message it is advisable to consult others. If plans are developed with consultation and involvements of subordinates, they will accept it with full cooperation.
4. **Use of proper language, tone and contents of message**: For an effective communication the words, tone and symbols used in message must be selected very carefully. The language used should not offend the sentiments of listener.
5. **Proper feedback**: Communication is complete only when the message is understood by the receiver. Feedback also provides opportunity for suggestions and criticism.
6. **Communication for the present as well as for future**: Communication must meet the need of present organisation as well as for future organisation. There must be consistency in the past, present and future communication.
7. **Follow up communication**: There should be proper follow up of the information given by manager to subordinate. This follow up helps to remove hurdles, misunderstanding of instructions given by manager to subordinates.
8. **Good listener**. The sender must listen to receiver's words alternatively; on the other hand receiver must also listen with due attention. Patient and attentive listening solve many problems.

9. **Open mind:** The parties to communication must have open mind. They should not try to withhold information for their personal interest. They should not react before receiving and listening the full message.

**Completeness of message:** A message is effective only when it is given completely. The receiver should not be left guessing. It may lead to misunderstanding. A complete message carries all necessary facts and figures.

### **COMPETENCY BASED QUESTIONS**

1.The process of converting the message into communication systems is known as

- (a) Decoding
- (b) Encoding
- (c) Media
- (d) Noise

Ans: Encoding

2.Which of the following is a financial incentive?

- (a) Job enrichment
- (b) Organisational climate
- (c) Job security
- (d) Retirement benefits

Ans: Retirement benefits

3.These barriers are related to the state mind of both the sender and the receiver of communication.

Identify

- (a) Organisational barriers
- (b) Personal barriers
- (c) Semantic barriers
- (d) Psychological barriers

Ans: Psychological barriers

4. Yasmin is trying to understand the message sent by Nita by reading his gestures. What is Yasmin doing here?

- (a) Encoding
- (b) Feedback
- (c) Decoding
- (d) Noise

Ans: Decoding

5. Mr. Ravi, the production, manager of 'Development Ltd.' Plans to replace the old machinery with lease latest one. All the workers are comfortable in operating the old machinery therefore resisted to change. However, Mr. Ravi decided to demonstrate the working of new machinery and inform workers about its need and advantages. On attending the demonstration, workers were satisfied and happily accepted the change.

Which importance of directing is reflected in the above case?

- (a) Brings stability and balance in the organisation
- (b) Guides employees
- (c) Integrates employees' efforts
- (d) Facilitates introduction of change

Ans: Facilitates introduction of change

6. Arrange the following steps in the process of motivation in a proper order

- (a) Drives
- (b) Tension
- (c) Search Behaviour
- (d) Unsatisfied Need
- (e) Satisfied Need

Ans: d, b, a, c, e

7. Absence of social and culture gathering and lack of transparency in operations of an organisation pose barrier to effective communication. Identify the barrier.

- (a) Unclarified assumptions
- (b) Rules and regulations
- (c) Lack of proper incentives



(d) Organisational facilities

Ans: Organisational facilities

8. (i) Lakshay was not able to concentrate in the meeting being held by his boss.

(i) Jatin was talking to the workers in a language that they did not follow.

(ii) Raghav thinks that he is very high above his subordinates and never allows his subordinates to express their feelings.

(iii) My boss does not have enough confidence once and my colleague Varun.

Identify the different barriers in the order mentioned above.

(a) Psychological, Semantic, Personal and Organisational

(b) Psychological, Personal, Semantic and Organisational

(c) Psychological, Organisational, Personal and Semantic

(d) Psychological, Semantic, Organisational and Personal

Ans: d

9. A Manager can motivate his employees with only positive motivation.

(a) True

(b) False

Ans: False

10. Semantic barriers are related to the state of mind of both the sender and the receiver of communication.

(a) True

(b) False

Ans: False

11. Match the columns on the basis of 'Features of motivation' by using the given options:

Column 1

Column 2

1. Any type of motivation may not have effect on all the members

A. Motivation produces goal directed uniform behaviour

B. Motivation is a complex process

2. The urge, drives, desires, aspirations,

Striving or needs of human being

C. Motivation is an internal feeling

Influence human behaviour

Choose the correct option:

- (a) 1 – C, 2 – A
- (b) 1 – B, 2 – C
- (c) 1 – B, 2 – A
- (d) 1 – A, 2 – B

Ans: b

12. Match the columns on the basis of 'Elements of Directing' by using the given options:

Column 1

Column 2

- 1. It means the process of making  
Subordinate to act in a desired manner  
to achieve organisational goals.
- 2. It is the process of influencing the behaviour  
of people by making them strive  
voluntarily towards achievement of  
organisational goals.

- A. Motivation
- B. Leadership
- C. Communication

Choose the correct option:

- (a) 1 – A, 2 – B
- (b) 1 – B, 2 – A
- (c) 1 – C, 2 – A
- (d) 1 – B, 2 – C

Ans: b

13. Match the types of barriers under the category which they fall by using the given options:

Column 1

Column 2

- 1. Badly expressed message

- A. Psychological barrier

- 2. Distrust
- 3. Faulty translation
- 4. Complexity in organisational structure

- B. Organisational barrier
- C. Semantic barrier
- D. Organisational barrier

Choose the correct option:

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

Ans: a

14. Maslow defines one of the needs in the need hierarchy as the “desire to become everything one is capable of becoming.” Identify the need.

Ans. Self-actualisation needs.

15. ‘This incentive is offered over and above the wages/ salary to the employees.

Ans. Bonus.

16. Under this leadership style, a leader consults his subordinates and takes decisions according to majority opinions. Name it.

Ans. Democratic or participative.

17. Give two examples of downward communication.

Ans. (a) Sending notice to employees to attend a meeting.

(b) Ordering subordinate to complete an assigned work.

18. Suggest any two measures to improve effectiveness of communication.

Ans. (a) Clarify the ideas before communication.

(b) Communicate according to the needs of receiver.

19. Which function of management is known as ‘management in action’?

Ans. Directing.

20. Why is it said that 'Motivation is a complex process'? State.

Ans. Motivation is a complex process because any type of motivation may not have a uniform effect on all the members.

### **SHORT ANSWER TYPE QUESTIONS**

1. In an organisation all the employees take things easy and are free to approach any one for minor queries and problems. It has resulted in loss of secrecy and confidential information being leaked out. What system do you think the manager should adopt to improve communication?

Ans. In the given situation, informal communication system is followed in the organisation. The manager should adopt the system of 'formal communication' to deal with the situation, where communication will take place following the chain of command through prescribed channel only. Therefore, employees cannot approach any one for minor queries and problems. Formal communication system will ensure confidentiality of information because communications are recorded and filed in the office by responsible manager. Formal communication does not generate rumours.

2. Ms. Riya is working as the Human Resource Consultant in a firm manufacturing cosmetics, which is facing a problem of high employee turnover. The CEO of the company has invited suggestions from her for retaining the talented employees and reducing the employees' turnover. Ms. Riya 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 organisation.

(a) Identify the incentive and explain its type, which has been suggested by Ms. Riya to the CEO of the company.

(b) Also explain any two other incentives of the same type.

Ans. (a) Financial incentive and explain its type, which has been suggested by Ms. Riya to the CEO of the company.

(b) The other financial incentives are:

(i) Productivity linked wages incentives.

(ii) Bonus.

3. 'SSL Ltd' has the policy of providing incentives in the form of monetary terms. It knows that in order to improve their needs, the company has come up with a plan of giving more wages to workers who perform beyond a set standard. By the end of the year the company has some other plans. It wants to give an incentive to the workers over and above the wages. The workers have started putting more efforts. The company has announced that after the month of March it will be giving shares to the exceptional employees in the profits of the company. The company is hoping to get a good response from the employees from this announcement in terms of better performance and contribution.

(a) Identify the category of incentives highlighted in the above case.

(b) Identify and state the types of these highlighted in the above case by quoting the lines.

Ans. (a) Financial incentives.

(b) (i) Productivity linked wage Incentives.

*'The company ... beyond a set standard.'*

(ii) Bonus.

*'It wants ... over and above the wages.'*

(iii) Profit sharing.

*'The company has announced ... profit of the company.'*

4. Kashish started working in a toy manufacturing company. He was very devoted towards his job. However, whenever he used to communicate with his subordinates they were unable to understand him. The reason behind this problem was that he himself was unsure about the concept he used to explain to the subordinates. This problem was taking place on a daily basis. One day he got an order from his senior to fly to London for a project meeting. There he started explaining his concept to others but there were many aspects which the team of London wanted to explain to him. He was more concerned to others but there many aspects which the team of London wanted to explain to him. He was more concerned about speaking than giving them time to speak their minds. This resulted in the failure of the meeting which was

very important for the company. When Kashish returned back to his home town he was sad. In this hopelessness he forgets to review the instructions he had given to his subordinates about a very important programme to be organised back in his home town. Definitely Kashish is facing problems related with communication effectiveness.

Identify and state the three measures to improve communication effectiveness which have been neglected by Kashish by quoting the lines.

Ans. (a) Clarity the ideas before communication.

*'The reason ... to the subordinates.'*

(b) Be a good listener.

*'He was more concerned ... speaking their minds.'*

(c) Follow up communication.

*'He forgot to review ... home town.'*

5. Asmi 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.

Ans. (i) Job security

(ii) Explain one more incentive of the same category.

a) Employee's recognition.

b) Organizational climate.

6. Blue Bell 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.

Ans. (i) Co-partnership/Stock option.

(ii) Other incentives: (a) Pay and allowance, (b) Bonus.

7. 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.

Ans. (i) Motivation is missing.

(ii) (a) Lower level: offer monetary incentives.

(b) Higher level: non-monetary incentive.

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

(i) The superiors assure the subordinates that their needs will be taken care of.

(ii) The superior attempts to influence the behavior of people at work towards the realization of specified goals.

(iii) The superior share information with the subordinates in order to reach common understanding.

Ans. 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.

(i) Motivation (ii) Leadership (iii) Communication.

9. Amit and Mitu are working in the same organization but in different departments. One day at lunch time Mitu 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.

Ans. Informal Communication

Limitations:

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

10. You are working at the middle level of management. Your superior, top management personnel sent a message for you which you received and well understood. Is the communication

process complete? Give reason.

Ans. 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.

11. 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.

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

12. Ankur is working as a production manager in an organization. His subordinate Saurabh discussed with him a method of 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.

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

13. Rajat a Sales Manager achieved his sales target one month in advance. This achievement was 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.

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

14. A behavior 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.

Ans.



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.

15. 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.

Ans. Co-partnership/Stock option.

16. Ms. Singhal, 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 behavior.

Ans. (a) Communication

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.

17. Hania 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. Hania 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 Hania which she is able to fulfill.

**(ii)** Also explain two other needs of Hania followed by the above needs, which still remained to be satisfied.

Ans.

**(i)** 'Hania is working in a company on a permanent basis'.

According to above line Hania is able to fulfill her following needs:

(a) Physiological needs (b) Safety or Security needs

(ii) Needs of Hania which still remained to be satisfied are:

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

18. 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.

Ans.

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

19.

#### 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.

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

(a) 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 computer skills?

Wrong perception by the receiver leads to communication problems.

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 incomplete.

20. 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 neighborhood 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 neighbor 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.

1. Identify the type of barriers to communication mentioned in the above para. Justify your answer.

2. Explain any two such barrier to communication.

Ans.

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.'

2. Psychological barriers to communication:

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

### **CASE BASED QUESTIONS -LONG ANSWER TYPE QUESTIONS**

1. Nayana, who was the branch head of a bank, started a suggestion box system where the employees could drop their suggestions. Similarly, a complaint box was made which people could drop their complaints without even mentioning their names meeting used to take place every week on Saturday for ensuring proper communication among the employees so that they could make their points and suggestions openly. A few weeks ago Nayana was transferred to a different branch. A new manager, who is not dynamic and capable like Nayana is unable to use the system which was designed by her like weekly meeting, suggestion box, etc. This has led to creation of gap in the communication in the branch between the manager and other employees.

- (a) Identify the communication barrier discussed above.
- (b) State the category of this communication barrier.

Ans. (a) Organisational facilities- In large organisation free and effective flow of communication is possible only when some facilities like social get together, complaint box, task force etc. exist. In absence of such facilities there can be delay and barrier to effective communication.

(b) Organisational barrier- The factors related to organisation structure, authority relationships, rules and regulations etc act as barriers to effective communication.

2. Harish is the owner of an electronics showroom. He wants an experienced Sales Manager and Account Manager. For this he gives an advertisement. Thirty people apply for this job. He selects the two best persons out of a number of prospective candidates for a job. Harish gives sales target to sales target one month in advance. His achievement was displayed on the notice board and a certificate for the best performance was awarded to him by the owner of the showroom.

- (a) Name the source of recruitment which is used by Harish to fill the above posts by quoting the line from the question. Also state any one advantage of using this source of recruitment.
- (b) Which test during selection process help Harish to measure the existing skills of the candidate.
- (c) Name the type of incentive awarded by Harish to a sales manager.
- (d) Which need of a sales manager according to the Maslow's Need Hierarchy theory of Motivation is satisfied by giving such type of incentives.

Ans. (a) External source of recruitment – 'He want an experienced Sales Manager and Account Manager. For this he gives an advertisement.'

Advantage: Qualified Personnel.

- (b) Trade test.
- (c) Employee recognition programmes.
- (d) Esteem need.

3. 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 indicated in the above paragraph.
2. Which motivation methods were suggested by different group of employees?
3. Which motivation method combines all the above stated and was suggested by personal manager?

Ans.

1. Directing.
2. (i) Recognition  
(ii) Autonomy
3. Organizational climate.  
(i) Ethical behavior  
(ii) Motivating employees  
(iii) Taking Suggestions from employing.

4. 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.

Ans.

1. Directing

2. Motivation

3. Features of motivation:

- a) Motivation is an internal feeling: The urge, desires, aspirations or needs of people, which are internal, influence human behavior.
- b) Motivation produces goal-directed behavior: For example, if the employee is interested in promotion, it helps to produce a behavior to improve performance.

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.

5. 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.

Ans.

- 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.

6. Sunita 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 chat with each other in order to fulfill their social and emotional needs. Sometimes, these interactions also lead to spreading rumors 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 effective communication does increase managerial efficiency?

Ans.

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

b) *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.

2. 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.

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## CHAPTER - 8

### CONTROLLING

#### GIST OF THE LESSON

Controlling – Concept and Importance

Relationship between Planning and Controlling

Steps in process of Control.

#### DEFINITION:

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 to stop those reasons so that in future there is match between actual and planned performance.

#### IMPORTANCE OF CONTROLLING:

1. **Accomplishing organisational goals:** Controlling function ensures that all the activities in the organisation take place according to plan and if there is any deviation, timely action is taken and keeps them on the right track so that organisational goals might be achieved.
2. **Judging accuracy of standards:** Through strategic controlling, we can easily judge whether the standards or target set are accurate or not. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards according to changes.
3. **Making effective use of resources:** In controlling, each activity is performed in accordance with predetermined norms. 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. It keeps the employees under check and helps to minimize dishonest and fraud behaviour of employees. Now-a-days, computer monitoring system is contributing a lot to the controlling function.



6. **Facilitates coordination in action:** The activities of each department and employee are governed and controlled by pre-determined standards which are well coordinated with one another. So, control provides unity of direction.
7. **Controlling helps in improving the performance of the employees:** Controlling can be exercised on employees' performance through following measures
  - (a) **Self-appraisal report:** Employees are asked to prepare a report of their performance and to explain whether their performance is as per plan or not.
  - (b) **Performance appraisal report:** The superiors continuously monitor and observe the employees when they are performing the job and then prepare the report of their achievement

As the employees know that their promotions, increments, bonus etc. will be depending on the basis of these reports, they will try to maximize their performance.

8. **Controlling helps in minimizing the errors:** An effective controlling system helps in minimizing the errors by continuous monitoring and check. The managers try to detect the error on time and take remedial steps to minimize the effect of error.

### **RELATIONSHIP BETWEEN PLANNING AND CONTROLLING**

The controlling function compares actual performance with the planned performance and if there is no planned performance then controlling manager will not be able to know whether the actual performance is O.K or not. The base for comparison is given by planning to controlling function.

On the other hand, the planning function also dependent on controlling function as plans are not made only on papers but these have to be implemented. In this regard, the controlling function makes sure that everyone follows the plan strictly.

So, both the functions are interlinked and interdependent and must support each other.

### **PLANNING AND CONTROLLING ARE FORWARD LOOKING FUNCTIONS**

Planning involves looking in advance and making policies for the maximum utilisation of resources in future. Plans are made for future that is why it is considered as forward looking function.

Generally, people believe that controlling is a backward looking function as it looks back to the performance which is already achieved and compare with plan. But, controlling does not get

ended here only. It further involves finding the reasons for deviation and suggesting preventive measures to bring back the actual performance in relation to planned performance. So, the controlling function makes sure that in future actual performance and output match with the planned performance. Therefore controlling is also a forward looking function like planning.

### **CONTROLLING PROCESS**

Controlling is a systematic process involving the following steps:

1. Setting up standard performance
2. Measuring of actual performance
3. Comparison of actual performance with standards
4. Analyzing deviations
5. Taking corrective action

The above steps in the process of controlling have been discussed below:

1. **Setting up standard performance:** Standard means the yardstick against which actual performance is measured. Following points to be kept in mind before setting the standard.
  - As far as possible standards must be set up in numerical or measurable term, i.e. Standard sale – Rs.20 lakhs, Standard Profit – Rs.4 lakhs, Reduction in cost by 5%.
  - Sometimes standards may also be set in qualitative terms, i.e. improving goodwill and motivation level of employees.
  - 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. Performance must be measured periodically in short period of time.
3. **Comparing actual performance with standard:** Comparison becomes easier when the standards are set in quantitative terms. The comparison of actual 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 is more, then timely action must be taken.
4. **Analyzing deviation:** Deviation should be divided in two categories as
  - Deviations need to be attended urgently.

- Minor or insignificant deviations

Below mentioned two ways are to be applied during the analyzing of 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 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. Taking corrective measures may involve training of employees, assigning of additional workers and equipment, change in the quality of materials, repair or replace the machinery, improving physical conditions of work.

### **COMPETENCY BASED QUESTIONS**

1. Standards can be set in

- (a) Qualitative terms
- (b) Quantitative terms
- (c) Both (a) and (b)
- (d) None of the above

Ans:c

2. Management by exception differentiates between

- (a) Standards and outputs
- (b) Planned and actual
- (c) Critical and simple problems
- (d) Input and output

Ans:c

3. Critical point control focuses on

- (a) Every task
- (b) Financial areas
- (c) Key result area
- (d) Planning areas

Ans:c

4. Measurement of employees performance can be done by

- (a) Increasing the market share of the company
- (b) Gross profit ratio
- (c) Return on investment
- (d) Performance report

Ans:d

5. Among the following which one standard can be maintained in marketing?

- (a) Cost
- (b) Flow of capital
- (c) Advertising expenditure
- (d) Liquidity

Ans:c

6. Match the Column- I with Column- II on the basis of 'Process of Controlling' by using the options given below the Column:

Column I

- A. Setting performance standards
- B. Measurement of actual performance
- C. Analysing deviations
- D. Taking corrective actions

Column II

1. Performance should measure in objective and reliable manner.
2. Standards are criteria against which actual performance would be measured.
3. When deviations goes beyond permissible limit.
4. Critical point control and management by exception are used.

Ans:A-2, B-1, C-3, D-4

7.What is the first step in the process of controlling?

- (a) Measurement of actual performance
- (b) Comparing actual performance with standards
- (c) Setting performance standards
- (d) Analysing deviations

Ans:c

8.What will be the corrective action for defective material?

- (a) Change in quantity
- (b) Change in price
- (c) Change the quality specification for the material used
- (d) None of these

Ans:C

9.Setting a standard time, say 5 hours to perform a task is an example is

- (a) Qualitative standards
- (b) Quantitative standards
- (c) Both (a) & (b)
- (d) None of the above

Ans:b

10. What should be done in case when deviation cannot be corrected through managerial action?

- (a) Revise project
- (b) Change the management team
- (c) Revise standards
- (d) None of these

Ans:c

11. Management of Customer Satisfaction Ltd. replaced the old machinery with latest one to overcome quality issues. Which step in the process of controlling is highlighted by this statement?

- (a) Analysing deviation
- (b) Measurement of actual performance
- (c) Comparing actual performance with standards
- (d) Taking corrective action

Ans:d

12. 'Planning in the absence of controlling is meaningless.' What does this statement indicate in respects of both ?

- (a) Only planning is essential
- (b) Only controlling is essential
- (c) Both are essential
- (d) Both are unnecessary

Ans:c

13.Deviation means the difference between actual and desired performance.

- (a) True
- (b) False

Ans:a

14. 'Labour absenteeism' is a standard that can be used by a company to evaluate the performance of its marketing department.

- (a) True
- (b) False

Ans:b

15. Match the 'Causes of Deviation' with correction action by using the options given:

Column I

- 1. Defective machinery
- 2. Defective Process

Column II

- A. Modify the existing process
- B. Improve the physical condition of work
- C. Repair the existing machine or replace the Machine if it can't be repaired.

Choose the correct option:

- |       |   |
|-------|---|
| 1     | 2 |
| (a) C | A |
| (b) B | C |
| (c) B | A |
| (d) A | B |

Ans:a

16. Why is it said that Controlling is a continuous activity?

Ans. Controlling is said to be a continuous activity as it involves a constant review of actual performance to ensure that organisational activities are performed as per the plans.

17. How does Controlling help in efficient utilisation resources?

Ans. Controlling ensures that work is performed in accordance with pre-determined standards in terms of quality, quantity and cost. It helps to prevent misuse and wastage of resources.

18. Why is it said that 'Planning without controlling is meaningless'?

Ans. Planning without controlling is meaningless because once a plan becomes operational, controlling is necessary to monitor the progress, measure it, identify and analyse deviations and initiate corrective action to ensure that events conform to plans.

19. Give an example of quantitative standards.

Ans. Target sales volume of Rs. 20 Lakhs per month.

20. Give an example of qualitative standards

Ans. Improving customer satisfaction in McDonalds by setting maximum standard waiting time, say, 10 minutes.

### **CASE BASED QUESTIONS**

#### **SHORT ANSWER TYPE QUESTIONS**

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.

Ans.

1. The management function is controlling.

“Comparing actual performance with standards” is the step involved in the process of controlling which helped in finding out that the actual production of a worker is less than the set target.

2. A manager has to take the following two further steps to complete the process of controlling:
  - a) Analyzing deviations
  - b) 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.

Ans. 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. Sigma 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 is 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 concept of management control adopted by the company. State the belief underlying this principle.

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. Anubhav has set up an export house after completing his masters in fashion designing. As the quality of the garment depends on the quality of raw materials used, he assures that the fabric meets the requirements by conducting a series of tests for the fabrics like shrinkage test, testing



colour

fastness to washing, colour fastness to light, colour fastness to perspiration etc. through laboratory tests. Later on, at the production areas, fabric inspection is also conducted by stopping the production process. The tests help to detect the deviations and also take corrective action. Moreover, the ensures that complete training about production work was given to every worker at the time of joining his export house.

In context of the above case:

1. Identify the function of management being performed by Anubhav by conducting tests to assure for the quality of the garments manufactured in his export house.
2. Briefly explain the term 'deviations.'
3. Give any three advantages of giving training to the employees.

**Ans.**

1. Controlling is the function of management being performed by Anubhav by conducting tests to assure for the quality of the garments manufactured in his export house.
2. The term 'deviations' refers to the difference between the actual performance and planning performance. If the actual performance is more than the planned performance, it may be said to be positive in nature or vice-versa.
3. The benefits of training of development to an organization are as follows:
  - a) Training imparts systematic learning to the employees thereby helping to avoid wastage of efforts and money and is considered better than the hit and trial method.
  - b) It increases the employees' productivity both in terms of quantity and quality, leading to higher profits.

Training increases the morale of the employees and reduces absenteeism and employee turnover.

5. You are the manager of Bharti Chemicals Ltd. it is reported to you that postal expenses have increased by 10% over standard rates and cost of raw materials has increased by 2%. Which of the two deviations will be more critical to you?

**Ans.** Increase in cost of raw materials by 2% is more critical. (Critical Point Control)

6. Surbhi Ltd. produces safety pins on a mass scale. The company's policy is that at most 25 units of the daily production could be defective. Over a three months period, it has been observed that 8% - 10% of the production is defective. The cause of deviation found is defective machinery. What corrective action should be taken by the management?

**Ans.** Repair the existing machine or replace the machine if it cannot be repaired.

7. Ajith and Ajay are good friends. They decide to set up a digital printing press together as both of them are computer wizards. They plan to offer various types of printed products including labels, manuals, marketing material, memo pads, business order forms, T-shirts, mugs etc. They set standards for every aspect of their work in order to create an efficient working environment. As per the standards, an average person types between 38 and 40 words per

minute. Keeping this in mind, they engage two typists Saju and Raju and assign them work accordingly. Within two days, they realize the output in terms of typing work done by Raju is too less as compared to the desired output. On inspecting, Atul finds out that Raju's typing speed is between 18 and 20 words per minute only. But Raju exhibits great skills in designing work and is a good human being. Hence, Atul and Ajay decide to retain him for doing creative work and appoint a new typist.

In context of the above case:

1. Identify and explain the function of management being discussed here.
2. List the steps involved in the function of management as identified in part (a). Also, quote the lines from the paragraph relating to each step.

Ans.

1. Controlling is the function of management being discussed here.
2. The steps involved in the process of controlling which are discussed in the above paragraph are:
  - a) Setting standards of performance:
  - b) Measurement of actual performance:
  - c) Comparison of actual performance with the standards:
  - d) Analyzing deviations:
  - e) Taking corrective action:

8.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.

**Ans.**

Controlling

Features are:

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

9. '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. Ans.

1. Controlling

2. Steps discussed in the above paragraph are:

- a) Setting performance standards
- b) Measurement of actual performance
- c) Comparing actual performance with the standards
- d) Analyzing deviations for their causes.

10. 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 is 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.

1. Ans. Explain the 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. Explain steps in the process of controlling system.

### **CASE BASED QUESTIONS- LONG ANSWER TYPE QUESTIONS**

1. Alpha Ltd. was manufacturing Auto spare parts. To improve the efficiency of employees the company provided training to their employees by inviting an expert who demonstrated the whole process of manufacturing. The expert quoted that all deviations cannot be controlled, so manager must know which deviation in key areas must be attended urgently as compared to deviation in non-key area. He also suggested that human beings are bound to make mistakes as manager should not take strict action on every minute mistake of workers, rather he can fix a range of deviation and take action if deviation is above the specified large.

1. Identify the functions of management referred above.
2. Name the two ways of analyzing deviation mentioned above.
3. Name the method of training used by the company.

1. Staffing and controlling

2. (i) critical Point Control

(ii) Management by exception

### 3.Apprenticeship method of training

2. 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 “fewer amounts much 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 4<sup>o</sup> 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?

Ans.

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:

3. 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.

1. 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.

3. Attisa was a firm manufacturing jute lamp shades. It uses left over jute pieces from various jute factories to manufacture economical lamp shades which are supplied to various hotels in nearby towns: it employs men and women from nearby villages as workers for creating good lamp shade designs.

Attisa is not able to meet its targets. Nithish, the supervisor of the company, was told to analyze the reasons for the poor performance. Nithish found following problems and suggested certain solutions in the working of the business. The number of workers employed was less than what was required for the work. As a result, the existing workers were overburdened. The firm decided to search for new workers and it asked the present employees to introduce candidates or recommend their friends and relatives to the firm. This enabled the firm in “putting people to jobs” and assured attainment of objectives according to plans.

1. Identify the functions of management being performed by the firm in the above situation.
2. Name the concept and its source used by the firm to attract more workers for the firm.

By Attisa.

**Ans.**

1. Staffing and Controlling
2. Recruitment, External Source of Recruitment (Recommendations of employees)

4. Vi Ltd. is manufacturing mobile phones both for domestic Indian market and for export. It had enjoyed a substantial market share and also had a loyal customer following. But lately it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also, the mobile market in India has grown tremendously and new players have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problem it is facing.

- a. Suggest any two benefits the company will derive from a good control system.
- b. Give the steps that the company should follow to remove the problem it is facing.

a. Accomplishing organisational goals: Controlling function ensures that all the activities in the organisation take place according to plan and if there is any deviation, timely action is taken and keeps them on the right track so that organisational goals might be achieved.

Judging accuracy of standards: Through strategic controlling, we can easily judge whether the standards or target set are accurate or not. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards according to changes.

b. Analyzing deviation: Deviation should be divided in two categories as

- Deviations need to be attended urgently.
- Minor or insignificant deviations

Below mentioned two ways are to be applied during the analyzing of 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 management. Managers should not waste time and energy in finding solutions for minor deviations.

2. 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. Taking corrective measures may involve training of employees, assigning of additional workers and equipment, change in the quality of materials, repair or replace the machinery, improving physical conditions of work.

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**CHAPTER -9**  
**FINANCIAL MANAGEMENT**

**Learning Objectives:**

- Understand the concept of financial management.
- Explain the role of financial management in an organisation.
- 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.
- Understand the concept of capital structure.
- 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

**Meaning of Financial Management**

Financial management is the activity concerned with the planning, organising, controlling and administering of funds used in the business. It is concerned with optimal procurement as well as usage of finance. It aims to reduce the cost of funds. It also aims at ensuring availability of enough funds whenever required as well as avoiding idle finance.

**Objectives of Financial Management**

*Primary Objective:*

**Wealth Maximization:** Main objective of financial management is to maximize shareholder's wealth. The market price of a company shares is linked to three basic financial decisions and shareholder's wealth maximization.

Wealth of shareholders = number of shares x market price per share.

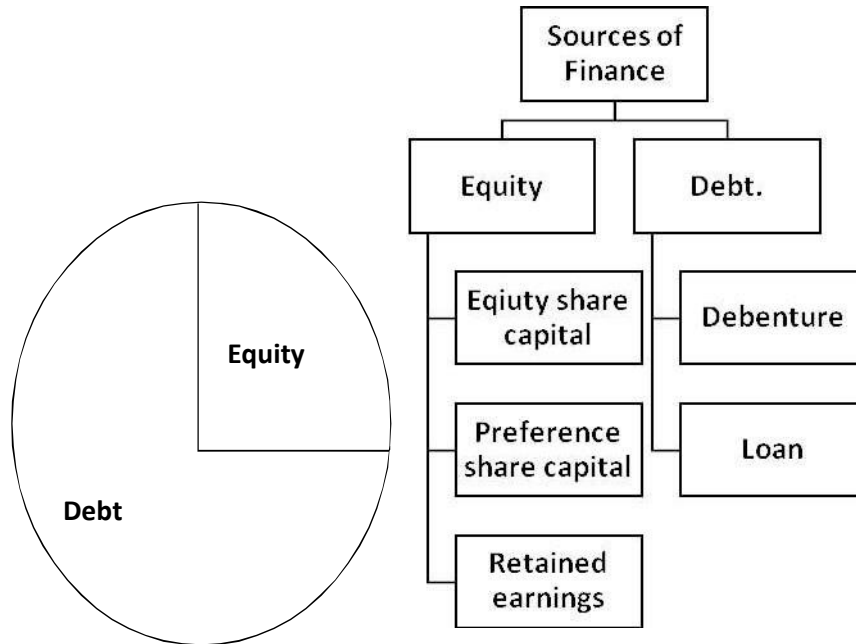
**Other objectives:**

1. To procure sufficient funds for the organization: Adequate and regular supply of funds is to be maintained for smooth operations of the business.
2. To ensure effective utilization of funds.
3. To ensure safety of funds: The chances of risk in investments should be minimum possible.

**Financial Decisions:**

- A. **FINANCING DECISION:** Deciding how much amount is to be arranged from which source.





#### **Factors Affecting Financing decision:-**

**1. Cost of raising finance:** - The cost of raising finance from various sources is different and finance

managers always prefer the source with minimum cost

**2. Risk involved:-**The risk associated with each of the sources is different.

**3. Flotation costs:-** Higher the floatation cost, less attractive the source.

**4. Cash flow position of the company:** - A strong cash flow position may make debt financing

more viable than funding through equity.

**5. Fixed Operating Costs:** - If a company is having high fixed operating cost then they must prefer

owner's fund because due to high fixed operational cost, the company may not be able to pay

interest on debt securities.

**6. Control consideration:** - If existing shareholders want to retain the complete control of business

then they prefer borrowed fund securities to raise further fund.

## **FINANCIAL PLANNING**

The process of estimating the fund requirement of a business and specifying the sources of funds is called financial planning.

### **Objective of financial Planning-**

To ensure availability of funds whenever these are required.

To see that firm does not raise resources unnecessarily.

### **Importance of Financial Planning**

- a) Makes the firm better prepared to face the future
- b) Helps in avoiding Business Shocks and Surprises
- c) Coordinate various functions
- d) Proper utilization of finance
- e) Link present with future
- f) Link between Investment and Financing Decision

## **CAPITAL STRUCTURE**

**Capital structure** refers to the optimal mix between owner's funds and borrowed funds. It will be said to be optimal when the proportion of debt and equity is such that it results in an increase in the value of the equity share. The proportion of debt in the

overall capital of a firm is called Financial Leverage or Capital Gearing. When the proportion of debt in the total capital is high then the firm will be called highly levered firm but when the proportion of debts in the total capital is less, then the firm will be called low levered firm

### **Factors affecting Capital structure or financing decision**

- 1. Trading on Equity:** It refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest. Trading on equity happens when the rate of earning of an organisation is higher than the cost at which funds have been borrowed and as a result equity shareholders get higher rate of dividend per share.
- 2. Cash Flow Position:** In case a company has strong cash flow position then it may raise finance by issuing debts, as they are to be paid back after some time and interest has to be paid on debt.
- 3. Interest Coverage Ratio:** It refers to the number of times earning before interest and taxes of a company covers the interest obligation. High interest coverage ratio indicates that company can have more of borrowed funds. Formula for calculating ICR =  $EBIT / \text{interest}$ .
- 4. Return on Investment:** If return on investment is higher than the rate of interest on debt then it will be beneficial for a firm to raise finance through borrowed funds.
- 5. Floatation Cost:** The cost involved in issuing securities such as brokers commission, under writer's fees, cost of prospectus etc. is called floatation cost.
- 6. Risk:** The risk associated with different sources is different. More risk is associated with borrowed funds as compared to owner's fund as interest is paid on it and it is to be repaid also, after a fixed period of time or on expiry of its tenure

## **B. INVESTMENT DECISION**

It relates to how the firm's funds are invested in different assets. Investment decision can be long-term or short-term. Long term investment decision is called capital budgeting decision as they involve huge amounts of funds and are irreversible except at a huge cost.

### **Factors affecting Investment Decisions:**

**1. Cash flows of the project:** The series of cash receipts and payments over the life of an investment proposal should be considered and analysed for selecting the best proposal.

**2. Rate of Return:** The expected returns from each proposal and risk involved in them should be taken into account to select the best proposal.

**3. Investment Criteria Involved:** The various investment proposals are evaluated on the basis of capital budgeting techniques. These involve calculations regarding investment amount, interest rate, cashflows, rate of return, risk involved in project etc.

### **INVESTMENT DECISION INVOLVES INVESTMENT IN: 1. FIXED CAPITAL**

#### **2. WORKING CAPITAL**

##### **Fixed Capital**

Fixed capital refers to investment in long-term assets. Investment in fixed assets like land, plant and machinery for longer duration and they must be financed through long-term sources of capital.

## **Factors Affecting Requirement of Fixed Capital**

**1. Nature of Business:** Manufacturing concerns require huge investment in fixed assets

& thus huge fixed capital is required for them but trading concerns need less fixed capital as they are not required to purchase plant and machinery etc.

**2. Scale of Operations:** An organization operating on large scale requires more fixed capital as compared to an organization operating on small scale.

**3. Choice of Technique:** An organization using capital intensive techniques requires more investment in plant & machinery as compared to an organization using labour intensive techniques.

**4. Technology upgradation:** Organizations using assets which become obsolete faster require more fixed capital as compared to other organizations.

**5. Growth Prospects :** Companies having more growth plans require more fixed capital. In order to expand production capacity more plant & machinery are required.

## **Working Capital**

Working Capital refers to the capital required for day to day working of an organisation. Every business organisation needs to invest in current assets, which can be converted into cash or cash equivalents within a period of one year. They provide liquidity to the business. Working capital is of two types - Gross working capital and Net working capital. Investment in all the current assets is called Gross Working Capital whereas the excess of current assets over current liabilities is called Net Working Capital.

$$\text{Networking Capital} = \text{Current Assets} - \text{Current Liabilities}$$

## **Factors affecting the requirement of working capital:-**

1) **Nature of business:** -the requirement of working capital depends on the nature

of business. Manufacturing business requires more amount of working capital because it takes lot of time in converting raw material into finished goods while trading business requires less amount of working capital.

2) **Scale of operation:** -Business operating on larger scale requires more funds to maintain the high quantum of inventory, debtors or meet day to day expenses as compared to small scale business.

3) **Business Cycle fluctuation:** -Different phases of business cycle affect the requirement of working capital by a firm. In case of boom, there is increase in production and scales leading to the increased requirement for working capital whereas the requirements for working capital reduce during depression.

4) **Seasonal factors:** - Many businesses may have high level of activity during specific period of time which may be referred as season time. Therefore, during peak season the level of activity is high, leading to increased need of working capital as compared to the capital during lean period.

5) **Technology and production cycle:** - If a company is using labour intensive technique of production then more working capital is required because company needs to maintain enough cash flow for making payments to labour.

6) **Inflation:** - If there is increase or rise in price then the price of raw material and cost of labour will rise, it will result in an increase in working capital requirement.

**C. Dividend decisions:** - It refers decisions related to amount of profit/surplus to be distributed among shareholders and how much amount of profit/surplus keep aside as retained earnings.

#### **Factors affecting Dividend Decision**

1. **Earnings :** Companies having high and stable earning could declare high rate of dividends as dividends are paid out of current and past earnings.
2. **Stability of Dividends:** Companies generally follow the policy of stable dividend. The dividend per share is not altered/changed in case earnings change by small proportion

or increase in earnings is temporary in nature **Cash Flow Positions:** Dividends involve an outflow of cash and thus, availability of adequate cash is foremost requirement for declaration of dividends.

3. **Preference of Shareholders:** In case shareholders desire for dividend then company may go for declaring the same. There are always some shareholders who depend upon a regular income from their investments.
4. **Taxation Policy:** A company is required to pay tax on dividend declared by it. If tax on dividend is higher, company will prefer to pay less by way of dividends whereas if tax rates are lower then more dividends can be declared by the company.

**Key terms:**

Financial blueprint of operations — Financial planning.

Decisions affecting liquidity and profitability of a business — Shortterm investment decisions.

Decisions affecting financial risk and profitability of a business — Capital structure decisions.

Long term investment decisions — Capital budgeting decisions

Proportion of debt and equity — Capital structure

Cheapest source of finance — Debt

Risk free source of finance — Equity

Decisions relating to disposal of profits — Dividend decision

Decision relating to quantum of funds to be raised from various long term sources  
— Financing decision

Most suitable combination of owners funds and borrowed funds to generate higher EPS  
— Trading on equity/Financial leverage.

## MCQ, OTQ, COMPETENCY BASED, SOURCE BASED QUESTIONS

1. Name the process that enables the management to foresee the fund requirements, both the quantum as well as the timing.

- (a) Financial management
- (b) Capital budgeting decisions
- (c) Dividend decision
- (d) Financial planning

**Answer: (d)**

2. It is essentially the preparation of a financial blueprint of an organisation's future operations. Identify the related concept.

- (a) Financial management
- (b) Financial planning
- (c) Capital budgeting decisions
- (d) Dividend decision

**Answer: (b)**

3. HCL Company's finance manager has decided to retain its entire profit to meet financial requirement for its growth. Name the type of decision involved.(Dividend)

- (a) Financing Decision
- (b) Financial planning
- (c) Capital budgeting decisions
- (d) Dividend decision

**Answer: (d)**

4. Companies with a higher growth pattern are likely to:

- (a) pay lower dividends
- (b) pay higher dividends
- (c) dividends are not affected by growth considerations
- (d) none of the above

**Answer: (a)**

5. Financial leverage is called favourable if:



- (a) Return on Investment is lower than the cost of debt
- (b) Return on Investment is higher than the cost of debt
- (c) Debt is easily available
- (d) If the degree of existing financial leverage is low

**Answer: (b)**

6. Match the following:

Column I	Column II
1) Financing	i) Rate of Return
2) Investment	ii) Legal constraint
3) Dividend	iii) Fixed operating cost

- (a) i, ii, iii
- (b) iii, i, ii
- (c) ii, iii, i
- (d) iii, ii, i

**Answer: (b)**

7. ROI of a company is 12%. To finance its project, it has four borrowing options.

- (a) Rate of interest 9%
- (b) Rate of interest 13%
- (c) Rate of interest 12%
- (b) Rate of interest 12.5%

Which option is better?

**Answer: (a)**

8. Higher debt equity ratio results in

- (a) Lower financial risk
- (b) higher operating risk
- (c) higher financial risk
- (d) higher EPS

**Answer: (c)**

9. True/False, give reason in support of your answer.

1. Companies with higher growth potential pay lower dividends.
2. An 'Advertising agency' needs to have large fixed capital.
3. Trading on equity takes place when ROI is less than the rate of interest.
4. Capital budgeting decisions are very crucial for any business.
5. If cash flow position of a company is weak more debt financing is not recommended.

**Answer:**

1. True because it needs funds for expansion/growth of company.
  2. False because it is a service Co. & need not maintain any inventory.
  3. False because E.P.S. will be low. ROI should be more than rate of interest.
  4. True because they are irreversible.
  5. True. It will be difficult for a company to pay interest on time, hence more risk.
10. HCL Company's finance manager has decided to retain its entire profit to meet financial requirement for its growth. Name the type of decision involved. (Dividend)
- (1)
11. Tata sons has debt equity ratio of 4:1 and Bajaj has 1:1 debt equity ratio. Name the advantage, Tata sons may have over Bajaj .(Trading on equity)

11. Tata sons has debt equity ratio of 4:1 and Bajaj has 1:1 debt equity ratio. Name the advantage, Tata sons may have over Bajaj .(Trading on equity)

(1)

12. Dabur India has decided to increase credit limit and duration of credit to its customers to boost its sales. Name the type of decision involved. (working capital)

(1)

13. A Decision is taken to distribute certain parts of profit to shareholders after paying tax. What is this decision called? (Dividend decision)

(1)

14. Which type of company is in a position to declare high dividends?

(1) (Company with good profits and reserves, steady return]

15. ABC Ltd. has debt equity ratio of 3:1 whereas XYZ Ltd. has debt equity ratio of 1:1. Name the advantage of ABC Ltd. will have over XYZ Ltd., when the rate of interest is lower than the rate of return on investment of the company.

a) Trading on equity

b) Low risk

c) Low cost of equity

d) Greater flexibility

Ans : a) Trading on equity

15. High \_\_\_\_\_ Ratio indicates better ability to meet cash commitments and consequently, the company's potential to increase debt component in its capital surface/

a) Working Capital

b) Debt Equity

c) Debt Service

d) None of these

Ans c) Debt Service

16. \_\_\_\_\_ refers to a situation when a company is not able to meet its fixed financial obligations.

(a) Financial leverage (b) Financial risk

(c) Financial planning (d) None of these

Ans: (b)

17. Long term growth is the importance of \_\_\_\_\_.

a) Working Capital

b) Financial management

c) Capital budgeting decision

d) Financial Planning

Ans (c)

18 Financial leverage is called favourable if:

(a) Return on investment is lower than the cost of debt.

(b) ROI is higher than the cost of Debt.

(c) Debt is easily available

(d) If the degree of existing financial leverage is low.

Ans: (b)

19. Higher debt – equity ratio results in:

(a) lower financial risk

(b) higher degree of operating risk

(c) higher degree of financial risk

(d) higher EPS.

Ans: (c)

20. Choose the correct option to match the column:

1. Net working capital            i) how much of profits will be distributed

2. Dividend Decision ii) Proportion of debt is total capital

3. Financial Leverage iii) excess of current assets over current liabilities

4. Trading on equity            iv) Increase in shareholders wealth due to debt/loan in capital employed.

a) (ii),(i),(iv),(iii)

b) (iv),(ii),(i),(iii)

c) (iii),(i),(ii),(iv)

d) (ii),(i),(iii),(iv)

Ans: (c)

21. Match the correct option to match the column:

1. Fixed capital requirement  
is longer

i) If production cycle is . . .

2. Fixed capital requirement  
is less

ii) If credit is availed by the  
firm

3. Working capital requirement  
is more

iii) If it is trading concern

4. Working capital requirement  
concern is less

iv) If it is capital intensive

a) (iv),(iii),(i),(ii)

b) (iv),(i),(iii),(ii)

c) (iii),(iv),(ii),(i)

d) (ii),(i),(iii),(iv)

Ans: (a)

22. 'Temptations' is a food joint in Imperial Mall in Bengaluru. It is becoming popular among students and working people due to health on-the-go dishes on its menu like 'Panner 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

Ans: (a)

23. Bharti Ltd. is a leading mobile company. It is planning to acquire Queen Ltd's (its close competitor) business worth Rs. 1,000 crore. Which financial decision is involved in it? Explain it. (Investment)

(3)

24. Chandra Ltd. is a manufacturer of Laptops. It made a profit of 1000 crores. The director have proposed a dividend of 38%. As a finance manager of the company.

What factors would you consider while formulating a dividend policy of the company?

(Any four)

(4)

25. Pankaj is engaged in Warehousing - Business Identify the working capital requirements of Pankaj stating the reason in support of your answer. Pankaj is also

planning to start his Transport business. Explain any two factors that will affect his fixed capital requirements. (2+2)

26. How does financial management help in maximisation of shareholders' wealth?

(Taking right financial decisions)

27. "During annual general meeting of Prakash Ltd. CEO, Mr. Rajnesh put the expansion plan for the coming year before shareholders and asked for suitable source of finance to finance manager. Finance manager Mr. Kant proposed issue of debentures than equity with a plan that they can be paid back whenever requirement of funds is over"

In the above paragraph, which component affecting financing decision has been highlighted?

Explain the component. (Flexibility)

(3)

28. Jai Bharat Company Ltd. is an auto part supplier company in Guru Gram, Haryana. Its business is spread over several cities. The CEO of company wants to open a factory in Gujrat near Tata Motors Ltd. but due to recession for the last two years, its business is facing slowdown. Company needs capital. Rakesh Gupta is CA and financial advisor of the company. He opines that during recession profit falls and investors prefer to invest in debentures to earn fixed income. Therefore, the company should issue debentures

In this paragraph, which factor affecting financing decision has been highlighted? Explain

(State of capital market).

(3)

29. State any three objectives of financial management.

1. To maximise shareholders wealth

2. To ensure effective utilization of funds.

3. To ensure safety of funds: The chances of risk in investments should be minimum possible.

30. XL Company's finance manager has decided to retain its entire profit to meet financial requirement for its growth. Name the type of decision involved. State any two factors affecting that decision.

Dividend decision.

Factors affecting the decision are:

1. **Stability of Dividends** : Companies generally follow the policy of stable dividend. The dividend per share is not altered/changed in case earnings change by small proportion or increase in earnings is temporary in nature
2. **Cash Flow Positions**: Dividends involve an outflow of cash and thus, availability of adequate cash is foremost requirement for declaration of dividends.
3. **Preference of Shareholders**: In case shareholders desire for dividend then company may go for declaring the same. There are always some shareholders who depend upon a regular income from their investments.

31. What is financial planning? State any two of its objectives.

3m

The process of estimating the fund requirement of a business and specifying the sources of funds is called financial planning.

Objective of financial Planning-

To ensure availability of funds whenever these are required.

To see that firm does not raise resources unnecessarily.



32. Viyo limited is a company manufacturing textile. It has a share capital of Rs.60 lakhs. The earning per share in the previous year was Rs.0.50. For diversification, the company requires additional capital of Rs.40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of Rs.8 lakhs on capital employed. It paid tax @ 40%. The face value of the share is Rs.100. State whether the shareholders gained or lost in respect of earning per share on diversification. Show your calculations clearly.

(4)

33. "Ranbaxy Ltd. has been earning handsome profits since last 15 years. Company enjoy fair goodwill in the market, so company can easily arrange debt as well equity from the market, whenever needed. Therefore company

decided to declare dividend with a hike of 15% from, last year."

Which two components affecting dividend decision have been highlighted in the above paragraph.

(2+2)

(i. Stability of earning ii. Access to capital markets)

34. Name and explain the factor due to which a petro chemical company requires much higher investment in fixed capital than an information technology company. However both may generate same amount of revenue . (Nature of business)

(3)

35. REI Agro Food Ltd 'is a famous multinational company. Mr. S.K.Nagiis its finance manager. He is making efforts to increase the market value of capital invested by the equity shareholders. He already knew it could be possible only when price of the shares increases and price of shares increase only if financing, Investment and dividend decisions are taken optimally. He did the same and achieved success

Which decision of financial management has been referred here? Explain

(3) (financial decision)

36. Indian equity markets are going through a phase of boom. There is huge growth potential for innovative technologies. This has resulted in lots of new ventures vying for a market share and old enterprises trying to keep even smaller business to compete on a global scale.

Identify and explain the three factors highlighted above which affect the working capital requirements of such enterprises

Ans: (i) Business cycle

(ii) Growth Prospects

(iii) Level of competition

37) 'There is no restriction on payment of dividend by a company.' Comment.

Ans:) The given statement is false. There are legal and Contractual Constraints on the payment of dividend by a company.

Legal Constraints: Certain provisions of the companies Act place restrictions on payouts as dividend. Such provisions must be adhered to while declaring the dividend.

Contractual Constraints: While granting loans to a company. Sometimes the lender may impose certain restrictions on the payment of dividends in future The companies are required to ensure that the dividend does not violate the terms of the loan agreement in this regard

38) "A capital budgeting decision is capable of changing the financial fortunes of a business." Do you agree? Give reasons for your answer?

6m

Ans: A long term investment decision is called capital budgeting decision. These are very crucial for any business as they influence its earning capacity and they are capable of changing the financial fortunes of business. The following points elaborate the reasons for it:

(a) **Long term growth**: The capital budgeting decisions affect the long term growth of the company. As funds invested in long term assets bring return in future and future prospects and growth of the company depends upon these decisions only.

(b) **Large amount of funds involved**: It involves huge amount of funds and if wrong proposal is selected it may result in wastage of huge amount of funds

(c) **Risk involved**: The fixed capital decision involves huge funds and also big risk because the return comes in long run and company has to bear the risk for long period of time till the returns start coming

(d) **Irreversible decision**: Capital budgeting decisions can not be reversed or changed overnight. As these decisions involve huge funds and heavy cost and going back or reversing the decision may result in heavy loss and wastage of funds.

39) Explain the term 'Trading on equity'. Why, when and how it can be used by a company? 6m

Ans: Trading on equity refers to the situation of favourable financial leverage. When the profit earned by equity shareholders increases due to the presence of fixed financial charges like interest, it is called trading on equity

This leverage is possible when the rate of return on investment is more than the cost of debt. With the higher use of debt, the different between return on investment and cost of debt increases the EPS. The following illustration shows the concept

Company X needs a total fund of Rs 30 Lakhs. Consider three situations involving the following combination of debt and equity

Case I No debt was issued

Case II 10% debentures of Rs 10,00,000 was issued

Case III 10% debentures of Rs 15,00,000 was issued

Remaining funds were produced by the issue of share capital. EBIT is Rs 4,00,000 and tax rate is 50%

<b>PARTICULARS</b>	<b>Case I</b>	<b>Case II</b>	<b>Case III</b>
EBIT	4,00,000	4,00,000	4,00,000
Interest	Nil	1,00,000	1,50,000
EBT	4,00,000	3,00,000	2,50,000
Tax	2,00,000	1,50,000	1,25,000
Profit after tax	2,00,000	1,50,000	1,25,000
No of shares of Rs 100 each	30,000	20,000	15,000

EPS	Rs 6.67	Rs 7.5	Rs 8.33
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The increase in EPS from Rs 6.67 to Rs 7.5 in Case I and II and then further to Rs 8.83 in Case III shows that company is employing trading on equity to Increase return on equity by using more debt in its capital structure.

40) Explain the meaning of Fixed Capital. Briefly explain any four factors that determine the fixed capital of a company.

6m

Ans : Fixed capital involves allocation of firm's capital to long term assets or projects. Managing fixed capital is related to investment decision and it is also called capital budgeting which affects the growth and profitability of the company. It includes the purchase of land, building, plant and machinery, change of technology, expenditure on research and development etc.

Factors affecting fixed capital are:

**(a) Nature of business:** A manufacturing company needs more fixed capital as compared to a trading company, as trading company does not need plant, machinery etc.

**(b) Scale of operations:** The companies which are operating at large scale require more fixed capital as they need more machineries and other assets whereas small scale enterprises need less amount of fixed capital.

**(c) Technique of production:** Companies using capital-intensive techniques require more fixed capital whereas companies using labour-intensive techniques require less fixed capital because capital-intensive techniques make use of plant and machinery

**(d) Growth prospects:** Companies which are expanding and have higher growth plan require more fixed capital as to expand they need to expand their production capacity and this require more plants and machineries which means more fixed capital

41) How do 'Choice of Technique' and 'Nature of Business' affect the 'Fixed Capital' requirements of a company? Explain.

Ans: **Choice of Technique:** Higher investments in fixed assets is required for a company which employs capital intensive technique of production is compared to firms which use labour intensive techniques of production.

**Nature of business:** A manufacturing company needs more fixed capital as compared to a trading company, as trading company does not need plant, machinery etc.

42) Neelabh is engaged in transport business in Delhi. His buses are generally used for the tourists going to Jaipur and Agra. Identify the working capital requirements of Neelabh. Neelabh also wants to expand and diversify his transport business. Explain any five factors determining the working capital requirements of the company. Working capital requirements would be less as he is engaged in service industry.

1. Nature of business: -the requirement of working capital depends on the nature of business. Manufacturing business requires more amount of working capital because it takes lot of time in converting raw material into finished goods while trading business requires less amount of working capital.
2. Scale of operation: -Business operating on larger scale requires more funds to maintain the high quantum of inventory, debtors or meet day to day expenses as compared to small scale business.
3. Business Cycle fluctuation: -Different phases of business cycle affect the requirement of working capital by a firm. In case of boom, there is increase in production and scales leading to the increased requirement for working capital whereas the requirements for working capital reduce during depression.
4. Seasonal factors: - Many businesses may have high level of activity during specific period of time which may be referred as season time. Therefore, during peak season

the level of activity is high, leading to increased need of working capital as compared to the capital during lean period.

5. Technology and production cycle: - If a company is using labour intensive technique of production then more working capital is required because company needs to maintain enough cash flow for making payments to labour.

43. 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.

- (a) Identify the financial concept discussed in the above para.  
(b) Also state the objectives to be achieved by the use of financial concept, so identified.

6m

**Answer:**

- (a) 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 organisation's future operations.
- (b) The objectives to be achieved by the use of financial concept are stated below:  
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.

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.

44. 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:

$$\text{ICR} = \text{EBIT} / \text{Interest.}$$

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.

45. Which decision is concerned with rising of finance using shareholders' funds or borrowed funds? Identify and describe the financial decision involve in this decision.



Explain any four factors affecting that decision.

Financing decision: -

This decision concerned with raising of finance using shareholders fund or borrowed fund. It involves identification of various sources of finance and the quantum of financeto be raised from long term and short term sources.

Factors affecting the financing decision.

1. Cost: - cost of raising fund influences the financing decisions. A prudent financial manager selects the cheapest source of finance.

2. Risk: - Debt capital is most risky and from the point of view of risk it should not be used.

3. flotation cost: - From the point of view of floating costs, retained profit is the most appropriate source. Therefore, it should be made.

4. Cash Flow position: - If the cash flow position of the company is good, the payment

of interest on the debt and the refund of capital can be easily made. Therefore, in order to advantage of cheap finance, debt can be given priority.

46. Radha is an enterprising businesswoman who has been running a fishery for the past ten years. She has saved Rs. 10 Lakhs from her business. She shared with her family her desire to utilize this money to expand her business. Her family members gave her different suggestions like buying new machinery to replace the existing one, acquiring altogether new equipment with latest technology, opening a new branch of the fishery in another village and so on. Since these decisions are crucial for her business, involve huge amount of money and are irreversible except at huge cost, Radha wants to analyse all aspects of the decision, before taking any step.

i) Identify and explain the financial decision to be taken by Radha.

(ii) Also explain briefly any two factors that affect this decision.

Answer:

Investment decision/ Capital budgeting decision Investment

Capital budgeting decision involves deciding about how the funds are invested in different assets so that they are able to earn the highest possible return for their investors.

Factors that affect capital budgeting decision are:

(a) Cash flows of the project (b) Rate of return of the project. (c) Investment criteri

**CHAPTER-10**  
**FINANCIAL MARKET**

**CONCEPT OF FINANCIAL MARKET**

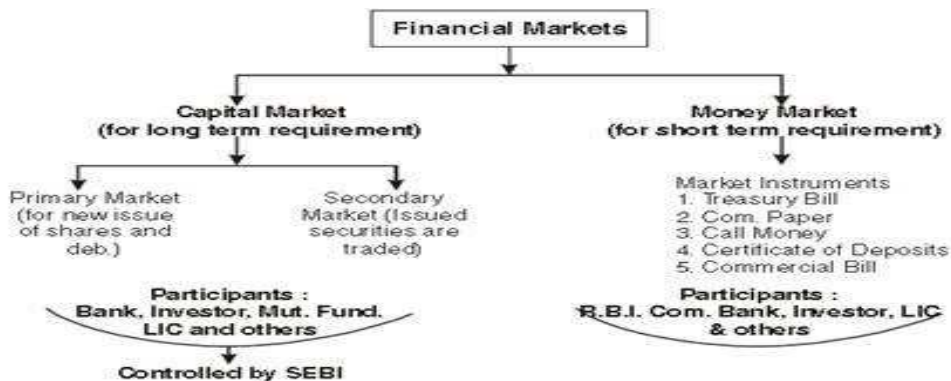
Financial market is a market which facilitates creation of assets and exchange of securities to provide short, medium and long term business financ

**FUNCTIONS OF FINANCIAL MARKET**

Financial markets play an important role in the allocation of scarce resources in an economy by performing the following four important functions.

- 1. Mobilisation of savings and channelizing them into the most productive uses:** Financial markets facilitates the transfer of savings from the savers to the investors. They help people to invest their savings in various investments and earn income and capital appreciation. Investors use the mobilised fund for productive purpose.
- 2. Facilitating price discovery:** Price of anything depends upon the demand and supply factors. Demand and supply of financial assets and securities in financial markets help in deciding the prices of various financial securities; where business firms represent the demand and the households represent the supply.
- 3. Providing liquidity to financial assets:** Liquidity refers to the ease with which an asset or security can be converted into ready cash. Financial markets facilitate easy purchase and sale of financial assets (shares, debentures etc.,). So these financial assets can be easily converted into cash whenever required.
- 4. Reducing the cost of transactions:** Financial markets provide valuable information about the financial assets to buyers and sellers, it helps to save time, effort and money of both the buyers and sellers of a financial asset.

**Classification of Financial Markets**



**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.

### **Money Market Instruments**

#### **1. Treasury Bills:**

- a) They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds.
- b) They are issued at a price which is lower than their face value and are repaid at par. They are issued in the form of promissory note.
- c) They are available for a minimum amount of Rs.25000 and in multiples thereof.
- d) They are also known as Zero Coupon Bonds.
- e) They are negotiable instruments i.e. they are freely transferable.

#### **2. Commercial Paper:**

- a) It is issued by large credit worthy companies to raise short term funds at lower rates of interest than market rates.
- b) It is a short term unsecured promissory note.
- c) They are freely transferable with a fixed maturity period of 15 days to one year.
- d) It is issued to raise short term funds for seasonal and working capital needs. companies also use this instrument for purposes such as bridge financing (to meet the floatation cost).

#### **3. Call Money:**

- a) Call Money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio as per RBI.
- b) It is short term finance repayable on demand, with a maturity period of one day to 15 days.
- c) The interest rate paid on call money loans is known as the call rate.

#### **4. Certificate of Deposit:**

- a) It is an unsecured instrument issued by Commercial Banks & Financial Institutions.

b) It is issued to individuals, Corporations and companies for raising money for a short period ranging from 91 days to one year.

c) It is issued during periods of tight liquidity (when the deposit growth of banks is slow but the demand for credit is high).

### **5. Commercial Bill:**

a) It is a bill of exchange used to finance the credit sales of firms.

b) A seller of the goods draws the bill on the buyer when goods are sold on credit. When the bill is accepted by the buyer it is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill maturity.

c) When a trade bill is accepted by a commercial bank it is known as a commercial bill.

### **CAPITAL MARKET**

It is a market which deals in medium and long term securities with a maturity period of more than one year.

### **Distinction between Capital Market and Money Market.**

Basis	Money Market	Capital Market
Participants	RBI, banks, financial institutions and finance companies.	Financial institutions, banks, corporate entities, foreign investors.

Instruments	Treasury bills, trade bills reports, commercial paper and certificates of deposit.	Equity shares, debentures, bonds and preference shares.
Investment outlet	Requires a huge investment outlet. e.g., treasury bills require a minimum amount of ₹25,000 and its multiples thereof.	Requires a small investment outlet as unit value of securities is very low i.e., ₹10 or ₹100.
Duration	Deals in short- term securities with maturity period of less than one year or even a single day.	Deals in medium and long-term securities with a maturity period of more than one year.
Liquidity	Instruments are highly liquid as there is a ready market for the sale, purchase or discounting of instruments.	Instruments are liquid as they can be easily traded in stock exchange but comparatively less liquid.
Safety	Instruments are safe because of shorter duration of investment.	Instruments are risky because of the longer duration of investment both in terms of returns and repayment.
Expected Return	Money market securities yield comparatively less return on investment due to shorter duration.	Capital market securities yield higher returns due to longer duration.

The capital market can be divided into two parts:

1. Primary Market
2. Secondary Market

### **Primary Market**

Primary market deals with the securities which are issued for the first time in the market and is also known as new issues market.

Banks, financial institutions, insurance companies, mutual funds and individuals are the main participants in the primary market.

### **Methods of Floatation**

**1.Offer through prospectus:** The public companies issue prospectus to raise funds from the public by issuing financial instruments like shares, debentures, etc., through an advertisement in the newspaper and magazines.

**2.Offer for sale:** Public companies offer securities for sale to the brokers or issuing houses at an agreed price and in turn, these intermediaries resell them to the investing public.

**3.Private placement:** Private placement means issue and allotment of shares to the selected individuals and companies privately and not to the general public through public issue.

**4.Rights issue:** Rights issue refers to issue of new shares to the existing shareholders in accordance to the terms and conditions of the company.

**5.e-IPOs:** A company can raise funds by issuing capital to the public through the online system of stock exchange and this is called an initial public offer (IPO).

### **Secondary Market**

Secondary market is a market which deals with the sale and purchase of existing securities. It is also called the stock market or stock exchange.

It provides opportunities of disinvestment and reinvestment to investors by exchange of securities.

### **Difference between Primary and Secondary Market:**

Basis	Primary Market	Secondary Market
Nature of Securities	Securities issued for the first time.	Sale and purchase of securities which already exist.
Process of Transactions	Issue directly to investors or through an intermediary.	Ownership changes between brokers.
Capital Formation	Promotes direct capital formation.	Promotes indirect capital formation.
Trading of securities	Only buying of securities.	Buying and selling of securities.

Price Determination	Decided by management of the issuing company.	Determined by market forces of demand and supply.
Location	No geographical boundaries.	Located at a specific place.

## Stock Exchange

A stock exchange is an institution which provides a platform for buying and selling of existing securities. Stock exchanges help companies to raise finance, provide liquidity and safety of investment to the investors and enhance the credit worthiness of individual companies.

### FUNCTIONS OF STOCK EXCHANGE

**1. Providing liquidity and marketability to existing securities:** Stock exchange provides a continuous market for sale and purchase of existing securities.

**2. Pricing of securities:** Price of anything depends upon the demand and supply factors. Demand and supply of financial assets and securities in stock exchange help in deciding the prices of various financial securities; where business firms represent the demand and the households represent the supply.

**3. Safety of transaction:** SEBI and stock exchanges impose strict rules and regulations on members (brokers). So brokers can't involve in any fraudulent activities. This ensures that the investing public gets a safe and fair deal on market.

**4. Contributes to economic growth:** Through the Process of disinvestment and reinvestment (trading) stock exchanges channelize savings into most productive investments contributing to capital formation and economic growth.

**5. Spreading of equity cult:** stock exchanges educate investors and ensure wider share ownership.

**6. Providing scope for speculation:** Speculation means investment in stocks (shares and debentures) in the hope of gain. The stock exchange provides sufficient scope within the provisions of law for speculative activity.

### Trading and Settlement Procedure

**In traditional time:** Outcry or auction system.

**In modern time:** Electronic trading system for screen based trading. In this system transactions are carried on the computer screen and both the parties are able to see the prices of all shares going up and down all the time during business hours of the stock exchange. On the other hand, nowadays all buying and selling of shares and debentures are done through a computer terminal.

**The following steps are involved** in the screen-based trading for buying and selling of securities:



**1. Selection of broker:-** If an investor wishes to buy or sell any security he has to first approach a registered broker or sub-broker and enter into an agreement with him. He has also to provide certain other details and information. These include: PAN number ,Birth date, address, qualifications, occupation, residential status, bank account information etc.

**2. Opening Demat Account:** It involves opening a demat account with a depository participant.

**3. Placing the order:** As next step, the investor has to place an order with the appointed broker to trade in securities giving him clear instructions regarding number and price at which securities must be traded.

4. Executing the order: The broker will buy or sell the securities as per the instructions of the investor.

**5. Settlement:** After the trade has been executed, within 24 hours the broker issues a Contract Note. This note contains details of the number of shares bought or sold, the price, the date and time of deal, and the brokerage charges. A Unique Order Code number is assigned to each transaction by the stock exchange and is printed on the contract note.

Now, the seller has to deliver the shares sold or the investor has to pay cash for the shares bought. This is called the pay-in day.

On the T+2 day, the exchange will deliver the share or make payment to the other broker. This is called the pay-out day. The broker then has to make payment/ make delivery of shares to the party concerned within 24 hours of the pay-out day.

**Dematerialisation:-** It refers to the process of cancelling the physical form of securities and converting them into electronic form.

**Depository:** Just like a bank keeps money in safe custody for customers, a depository also is like a bank and keeps securities in electronic form on behalf of the investor. On the other hand it is an organization which provides an electronic storage system to store electronic forms of securities. In the depository a securities account can be opened, all shares can be deposited, they can be withdrawn/ sold at any time.

There are two depositories:

NSDL: National Securities Depositories Limited.

CDSL: The Central Depository Services Limited.

**Depository Participants:** The depository participant (DP) serves as an intermediary between the investor and the Depository (NSDL or CSDL) who is authorised to maintain the accounts of

dematerialised shares. Financial institutions, banks, clearing corporations, stock brokers and non-banking finance corporations are permitted to become depository participants.

**Securities and Exchange Board of India (SEBI):-** The Securities and Exchange Board of India was established by the Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. The Securities and Exchange Board of India was established by the Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection.

**Objectives of SEBI :**The overall objective of SEBI is to protect the interests of investors and to promote the development of, and regulate the securities market.

- 1.To regulate stock exchanges and the securities industry to promote their orderly functioning.
- 2.To protect the rights and interests of investors, particularly individual investors and to guide and educate them.
- 3.To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.
- 4.To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

### **FUNCTIONS OF SEBI**

SEBI performs the task of regulation and development of the securities market. The functions performed by SEBI are:

#### **Regulatory Functions:**

- 1.Registration of brokers and sub brokers and other players in the market.
- 2.Registration of collective investment schemes and Mutual Funds.
- 3.Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.
- 4.Regulation of takeover bids by companies.
- 5.Calling for information by undertaking inspection, conducting enquiries and audits of stock exchanges and intermediate.
- 6.Levying fee or other charges for carrying out the purposes of the Act.

7. Performing and exercising such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

**Development Functions:**

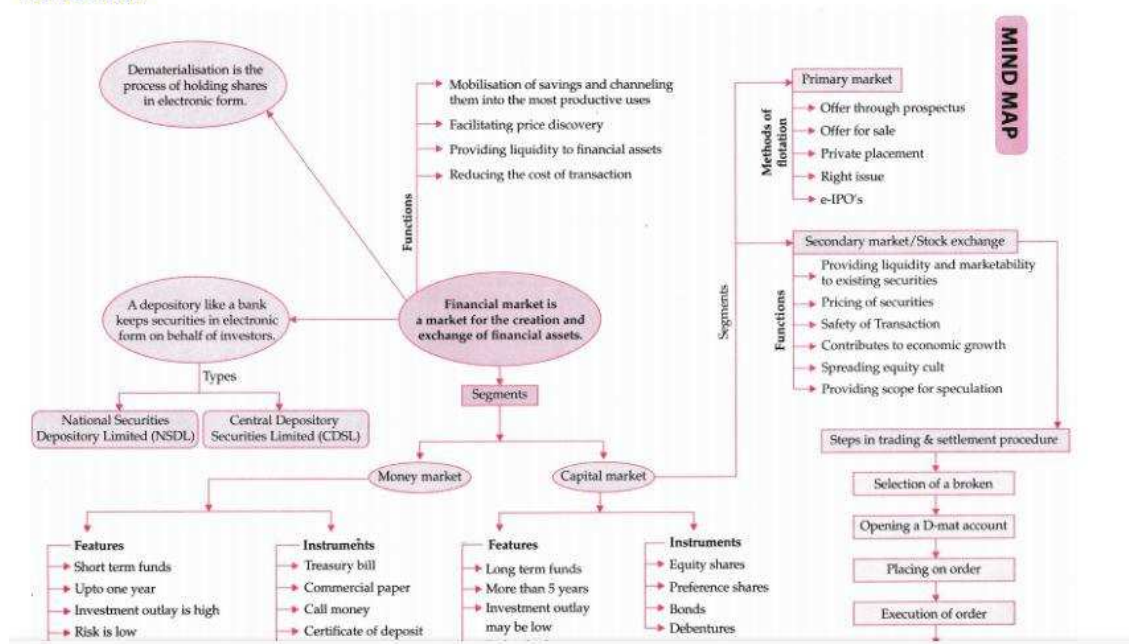
1. Training of intermediaries of the securities market.
2. Conducting research and publishing information useful to all market participants.
3. Undertaking measures to develop the capital markets by adapting a flexible approach.

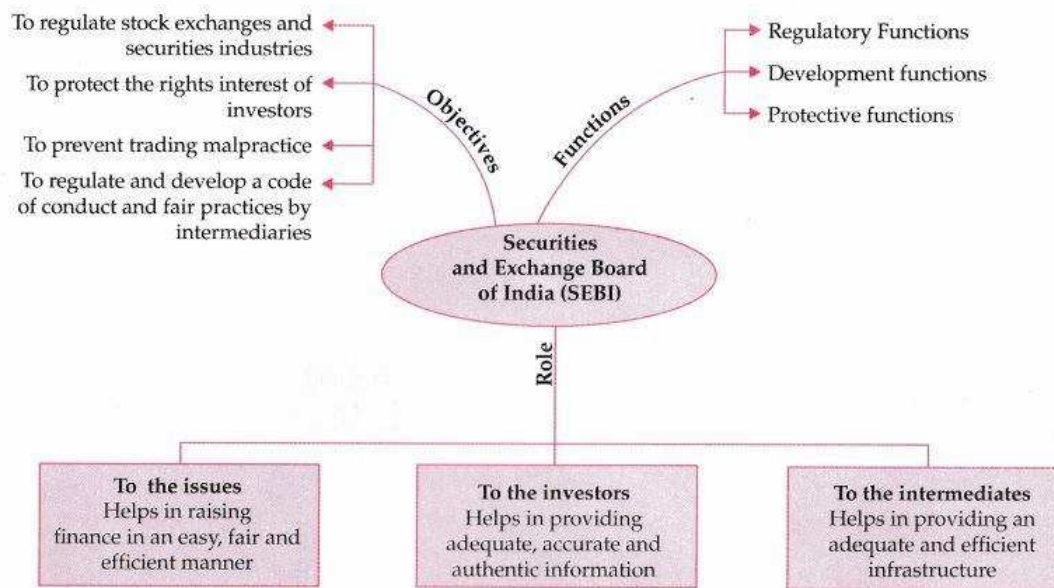
**Protective Functions:**

1. Prohibition of fraudulent and unfair trade practices like making misleading statements, manipulations, price rigging etc.
2. Controlling insider trading and imposing penalties for such practices.
3. Undertaking steps for investor protection.
4. Promotion of fair practices and code of conduct in securities market.

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**MIND MAP**





## QUESTIONS

### I- OBJECTIVE TYPE QUESTIONS

1. After the trade has been executed, the broker issues a Contract Note to the investor within \_\_\_\_\_.

- (a) 52 hours
- (b) 24 hours
- (c) 48 hours
- (d) 12 hours

Answer (b) 24 hours

2. On this day, the exchange will deliver the share or make payment to the other broker, \_\_\_\_\_.

- (a) Pay-in day
- (b) Pay-out day
- (c) Transaction day
- (d) None of the above

Answer: (b) Pay-out day

3. The mandatory detail that an investor has to provide to the broker at the time of opening a Demat account is \_\_\_\_\_.

- (a) Date of birth and address
- (b) PAN number
- (c) Residential status (Indian/NRI)
- (d) Bank account details.

Answer: (b) PAN number

4. Identify the correct sequence of steps to be followed in the trading procedure at the Stock Exchange.

- (a) Opening a trading account and Demat account, Placing an order, Settlement of order, Execution of order
- (b) Settlement of order, Opening a trading account and Demat account, Placing an order, Execution of order
- (c) Opening a trading account and Demat account, Placing an order, Execution of order, Settlement of order
- (d) Placing an order, Opening a trading account and Demat account, Execution of order, Settlement of order

Answer: (c) Opening a trading account and Demat account, Placing an order, Execution of order, Settlement of order

5. It serves as an intermediary between the investor and the depository who is authorised to maintain the accounts of dematerialised shares.

- (a) Depository participant
- (b) Depository
- (c) Stock exchange
- (d) None of the above

Answer: (a) Depository participant

6. One of the common irregularities noted by the Securities and Exchange Board of India during the inspection of a stock exchange was that it was dealing with unregistered sub-brokers. Identify the related function of the Securities and Exchange Board of India \_\_\_\_\_.

- (a) Regulatory function
- (b) Protective function

(c) Developmental function

(d) None of the above

Answer: (a) Regulatory function

7. Stock exchanges provide an opportunity for investors to disinvest and invest. Identify the related function of the stock exchange.

(a) Providing scope for speculation

(b) Providing liquidity and marketability to existing securities

(c) Pricing of security

(d) Spreading of the equity cult

Answer: (b) Providing liquidity and marketability to existing securities

8. Stock Exchange works as a mechanism for the valuation of securities through the forces of demand and supply. Identify the related function performed by the stock exchanges.

(a) Providing liquidity and marketability to existing securities

(b) Safety of transaction

(c) Pricing of security

(d) Spreading of the equity cult

Answer: (c) Pricing of security

9. Under this method of floatation in the primary market, a subscription is invited from the general public to invest in the securities of a company through the issue of advertisement.

(a) Private placement

(b) Offer through a prospectus

(c) Offer for sale

(d) All of the above

Answer: (b) Offer through a prospectus

10. They can be issued to individuals, corporations, and companies during periods of tight liquidity when the deposit growth of banks is slow, but the demand for credit is high.

(a) Commercial papers

(b) Call money

(c) Commercial bill

(d) Certificate of deposit

Answer: (d) Certificate of deposit

11. A company can raise capital through the primary market in the form of \_\_\_\_\_.

(a) Equity shares

(b) Preference shares

(c) Debentures

(d) All of the above

Answer: (d) All of the above

12. It is a short-term, negotiable, self-liquidating instrument that is used to finance the credit sales of firms.

(a) Commercial bill

(b) Commercial papers

(c) Call money

(d) None of the above

Answer: (a) Commercial bill

13. It is a method by which banks borrow from each other to be able to maintain the cash reserve ratio.

(a) Commercial bill

(b) Commercial papers

(c) Call money

(d) None of the above

Answer: (c) Call money

14. Who issues a treasury bill?

(a) Any nationalised bank

(b) Any private sector bank

(c) Reserve Bank of India

(d) All of the above

Answer: (c) Reserve Bank of India

15. It is a market for short-term funds that deals in monetary assets whose period of maturity is up to one year.

- (a) Primary market
- (b) Secondary market
- (c) Capital market
- (d) Money market

Answer: (d) Money market

16. "SEBI conducts research and publishes information useful to various capital market participants". Name the function of SEBI which is highlighted by this statement.

Answer : Development function.

17. \_\_\_\_\_ are example of financial assets.(Shares and treasury bills/Land and building)

Answer: Shares and treasury bills

18.The companies which cannot bear the expenditure of public issue ,use the method of private placement.(True/False).

Answer: True

19.Assertion(A): Government of India decided to set up a separate regulatory body known as Securities and Exchange Board of India.

Reason(R) : SEBI was set up to prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.

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

Answer(a)

20.Statement-I Screen -based trading system cuts down on time, cost and risk of error as well as on the chances of fraud.

Statement-II: An insider is a chef, who is working in the house of a managing Director of a company.



Choose the correct option from the options given below:

- a. Statement I is true and II is false
- b. Statement II is true and I is false
- c. Both the statements are true
- d. Both the statements are false

Answer(a)

21. Anbu Ltd., a reputed cement manufacturer needs Rupees twenty five crores as additional capital to expand its business. Jalal the MD of the company, wanted to raise funds through equity. On the other hand the Finance Manager, Azis said that the public issue may be expensive on account of various mandatory and non- mandatory expenses. He suggested to allot shares to institutional investors, so that additional expenditures can be reduced. His idea was accepted and finally shares was allotted to institutional investors. Name the method through which the company decided to raise additional capital.

Ans: 'Private Placement' is the process of raising the additional cash.

22. An investor wanted to invest 23,000 in Treasury Bills for a period of 91days. When he approached the Reserve Bank of India for this purpose he came to know that it was not possible. Identify the reason why the investor could not invest in the Treasury Bill.

Ans: The investor was unable to purchase a Treasury Bill because they can only be purchased for a minimum of Rs 25,000 and in multiples of that amount.

23. \_\_\_\_\_ is the kind of issue in which shares are offered to existing shareholders.

Ans: Right Issue.

24. Nigam Ltd., a reputed industrial machines manufacturer, needs Rupees thirty five crores as additional capital to expand the business. Mr. Premji the Chief Executive Officer (CEO) of the company wants to raise funds through equity. The Finance Manager, Mr. Guhan, suggested that the shares may be sold to the investing public through intermediaries, as the same will be less expensive. His idea was accepted.

Name the method through which the company decided to raise additional capital.

Ans: The method through which the company decided to raise additional capital is 'Offer for Sale'.

25. Rahul's father has gifted her the shares of a large cement company with which he had been working. The securities were in physical form. He already has a bank account and does not possess any other forms of securities.

He wished to sell the shares and approached a registered broker for the purpose. Mention one mandatory detail which He will have to provide with the broker.

Answer: Rahul will have to give his Permanent Account Number (PAN) to the broker as it is mandatory as per law.

## II COMPETENCY BASED QUESTIONS (3 MARK QUESTIONS)

**Q.1.** The Return on Investment (ROI) of a company ranges between 10-11% 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 reasons in support of your answer, Also state the concept being used in taking the decision. (3)

Answer: Option A is better than Option B for the company to finance its future fixed capital needs.

Reason: In Option A, Rate of return on investment (10-11%) which is greater than the Rate of interest on borrowings (9%), Whereas in option B the cost surpasses the rate of return.

Concept used: Trading on equity

Trading on equity is a financial process in which debt produces gain for shareholders of a company. Trading on equity happens when a company incurs new debt using bonds, loans, bonds or preferred stock. Company usually go this way to boost earning per share.

**Q 2.** "Efficient functioning of the stock exchange creates a conducive climate for an active and growing primary market for new issues as well as for an active and healthy secondary market." In

the light of this statement explain any three functions of a stock exchange.  
(3)

**Answer:** The functions of Stock Exchange are:

It provides liquidity and marketability to existing securities.

The forces of supply and demand determine the price of securities.

It ensures transaction security by allowing transactions to take place within an  
existing legal framework.

It contributes to economic growth by promoting capital formation in an indirect  
manner.

It allows for speculation within the confines of the law.

**Q.3.** "It is a market for short-term funds'. Which market is highlighted here? Also state any two features of the particular market. (3)

**Answer: Money Market.**

Two features of money market are described below:

It is a market for short term funds whose maturity period is up to one year.

The main participants are institutional investors, the cost of securities may be high so investment in the money market requires huge capital outlay.

**Q.4.** Sha Ltd. is a company operating in Himachal. It is an export- oriented unit, dealing in carpets. The floods in the area have created many problems for the company. Many craftsmen and workers have been dislocated and raw material has been destroyed. The firm is therefore, unable to get an uninterrupted supply of raw materials and the duration of the production cycle has also increased. To add to the problems of the organisation, the suppliers of raw materials who were earlier selling on credit are asking the company for advance payment or cash payment on delivery. The company is facing a liquidity crisis. The MD of the company feels that taking a bank loan is the only option with the company to meet its short-term shortage of cash.

As a finance manager of the company, name and explain the alternative to bank borrowings that the company can use to resolve the crisis (3).

**Answer:**

Commercial Papers may be used by Sha Ltd. as it is a popular short term instrument which is issued by large and credit worthy companies. The instrument is an unsecured promissory note and is

freely transferable by endorsement. Its maturity period may range from a fortnight to a year. It is sold at discount and redeemed at par.

**Q.5.** Rehman works as a manager in a software company. He opened a Demat account with a broking house in order to trade in securities with the money he received as his first performance bonus. Since then he has been very active in stock trading under the guidance of a stock broker. However, when he was hospitalised for a few days this year, his wife received several calls from the his stock broker for permission to transact on Rehman's behalf. Though she told him to wait till her husband had recovered, the stock broker went ahead and executed the transactions. When Rehman got home from hospital, he discovered that the unauthorised transactions had led to a loss for him.

Rehman complained to the broking house, but they claimed he had authorised the transactions. Keeping in view, the guidelines issued by the National Stock Exchange that he had read in the national newspaper Rehman demanded proof and threatened to file a complain. Since, the broking house had no evidence that the deals had been authorised they made good the loss that Rehman had incurred due to the transactions.

In the context of the above case:

What is a Demat account?

Who is acting as the depository participant for Rehman?

Name the document that is legally enforceable and helps to settle the claims between the investor and the broker. (3)

**ANSWER:**

A Demat account is an account used for holding securities in electronic form.

The Broking house is acting as the depository participant for Rehman.

A contract note is a legally enforceable document that helps to settle the claims between the investor and the broker.

**Q.6.** Naveen got a gift of Rs. 48,000 from his Uncle . On the advice of his father, he visits a nearby bank to open a Fixed deposit account in his name with the prize money. His sister Subiksha accompanied him to the bank. On reaching the bank, he notices big banners which are placed within the premises containing information about the various arrangements through which corporates may raise their capital through the bank. Being a finance graduate, Subiksha explains to Naveen that banks play the role of the financial intermediary by helping in the process of channelizing the savings of the households into the most profitable business ventures.

In context of the above case: .

Name another financial intermediary that helps in the process of channelizing the savings of the households into the most productive use.

Also, outline any two functions of another financial intermediary as identified in part (1).  
(3)

**Answer:**

Financial markets is the other financial intermediary that helps in the process of channelizing the savings of the households into the most productive use.

The two functions of financial market are as follows:

It helps to determine the price for the financial asset in a particular financial market through the market forces of demand and supply.

It provides liquidity to the financial assets by providing ready markets wherein the securities can be converted into cash or vice versa easily.

**Q.7.** Tharn visits a nearby branch of 'Bagya Bank' to withdraw Rs. 15 lakhs from his account . In the bank he observes that a large number of customers are present to make cash with drawls, probably because it is an auspicious time to make purchases. After sometime, he overhears one of the bank staff members telling his colleague that, "Today 'Bagya Bank' is likely to fall short of cash and to make up for the deficit and maintain its cash reserve ratio it will have to approach another bank." In context of the above case:

Identify the instrument that 'Bagya Bank' will use to meet its short term requirements of funds.

State any three features of the instrument as identified in the above paragraph. (3)

**Answer:**

Call money is the instrument used by 'Bagya Bank' to meet its short term requirements of funds.

Three features of call money are as follows:

Call money is an instrument through which one bank may borrow money from another bank to maintain the cash reserve ratio as per the guidelines of RBI.

Its maturity period may be from a single day to a fortnight.

The rate at which the interest is paid on call money is called call rate.

**Q 8.** The stock market regulator, Securities and Exchange Board of India (SEBI), has initiated a certification programme for all market intermediaries. Under this programme, people associated with stock markets in any way, will have to obtain a qualifying certificate from the regulator.The National Institute of Securities Market (NISM), a trust formed by SEBI, is tasked with the certification programme.

In the context of the above case:

Identify the type of function performed by SEBI.

Outline any two reasons for setting up SEBI.

(3)

Answer:

Developmental function is being carried out by SEBI by starting a certification programme for all market intermediaries.

SEBI was set up as a regulatory body by the government for the following reasons:

To curb malpractices in the financial market.

To enhance the confidence of the investors by ensuring fair, efficient and transparent dealings.

## **II COMPETENCY BASED QUESTIONS (4 MARK QUESTIONS)**

**Q.1.** These days, the development of a country is also judged by its system of transferring finance from the sector where it is in surplus to the sector where it is needed most. To give strength to the economy, Government of India through SEBI is undertaking measures to develop the capital market. In addition to SEBI there is another market in which unsecured and short-term debt instruments are actively traded everyday. These markets together help the savers and investors in directing the available funds into their most productive investment opportunity.

(a) Name the function being performed by the market in the above case.

(b) Also, explain briefly three other functions performed by this market. (4)

**Ans: (a) Allocative function**

**Ans: (b) Functions performed by Financial Markets**

a) Establishes the price: It provides a platform for the interaction of the demand and the supply of funds, thereby helping in determining the price of the asset being traded.

b) Facilitates liquidity: By trading (sale and purchase of assets) in the financial market, it provides liquidity to the assets, allowing them to be easily changed into cash or cash equivalents.

c) Reduces the cost of transaction: It provides useful information about the various securities that are traded. As a result, it aids in the reduction of transaction costs in terms of time, effort, and money for both buyers and sellers.

**Q.2.** Cyrus Ltd. issued prospectus for the subscription of its shares for Rs. 600 crores in 2021. The issue was oversubscribed by 5 times. The company issued shares to all the applicants on pro-rata basis. Later SEBI inspected the prospectus and found some misleading statement about the

management of the company in it. SEBI imposed a penalty of Rs. 5 crores and banned its three executive directors for dealing in securities market for three years.

Identify the function and its type performed by SEBI in the above case. Also state the remaining points of the same function identified. (4)

**Answer:**

Protective function has been performed by SEBI in the above case. And the type of Protective function is Prohibition of fraudulent and unfair trade practices.

- \* Controlling insider trading and imposing penalties for such practices.
- \* Undertaking steps for investor protection.
- \* Promotion of fair practices and code of conduct in securities market.

**Q.3.** Mary's grandmother who, was unwell, called her and gave her a gift packet. Mary opened the packet and saw many crumpled share certificates inside. Her grandmother told her that they had been left behind by her late grandfather.

As no trading is now done in physical form, Mary wants to know the process by adopting which she is in a position to deal with these certificates.

Identify and state the process.

Also, give two reasons to Mary why dealing with shares in physical form has been stopped. (4)

**Answer:**

Dematerialisation refers to the process of holding securities in electronic form.

The two problems of holding shares in physical form are as follows:

When the shares certificates are held in physical form, there is danger of loss or theft.

There is risk of forgery, as the buyer may be delivered fake certificates.

**Q.4.** Aparna Air Ltd. is a large creditworthy company that manufactures aircraft for the Indian companies. It now wants to supply aircrafts to other countries and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost, the company decides to tap the money market.

a) Name and explain the money-market instrument the company can use for the above purpose.

b) What is the duration for which the company can get funds through this instrument?

c) State any other purpose for which this instrument can be used (4)

**ANSWER:**

a) Commercial Papers can be used for Bridge financing by Aparna Air Ltd. as it is issued by large and credit worthy companies. The instrument is in the form of an unsecured promissory note and is freely transferable by endorsement. It is sold at discount and redeemed at par.

b) Its maturity period may range from 15 days to a year.

c) It is also used to meet the short term seasonal and working capital requirements of a business enterprise.

**Q.5.** G XX Ltd. is one of the top suppliers of security software products and solutions in India with a market share of over 10% in the retail segment. Its customers includes people from all sections of the society i.e. both households and corporates. Its unique threat detection system works to detect security threats including virus attacks in real time to protect users' IT assets across varied platforms and devices. The company has an established track record of growth and financial performance. At present the company operates only through its website. The company now intends to launch a range of computer accessories and plans to market it by opening its own retail outlets. So, the board of directors of the company have decided to only raise capital for the first time through an issue of shares, but at the same time they do not wish to get into the hassles of launching a public issue of shares.

In context of the above case:

A) Name and explain the way through which the company can raise finance by allotting securities to selective individuals and institutions only.

B) Can the company also raise capital through a right issue? Why or why not? Give a reason to justify your answer. (4)

**Answer:**

A) The company can raise finance by allotting securities to selective individuals and institutions only through Private Placement. It is a relatively economical way of raising money as it helps to save time, cost and money involved in the process of issuing securities.

B) No, the company cannot raise capital through a right issue as it is issuing securities for the first time. A rights issue is a pre-emptive right given only to the existing shareholders to subscribe to the securities of the company as per its terms and conditions.

**Q.6.** Ramesh is one of the EO's of V Square Land Promoters Ltd.. The company has recently witnessed a steady fall in its revenue and the value of its assets due to the consistent increase in the interest rate of Housing Loan. The periodical financial results of the company were to be declared in a fortnight time. Ramesh, being an insider, had access to unpublished price sensitive information related to it. Consequently, he sells a major portion of his holdings in an anticipation of a fall in the market price of the shares of the Company subsequent to the announcement of periodical financial results of the company. Moreover, he doesn't inform The Securities and



Exchange Commission (SEC) about the dealings.

On conducting a probe, Securities and Exchange Board Of India (SEBI) finds Ramesh guilty of insider trading. As per law, company directors, officials or any individual with a stake of 10% or more in the company are considered to be insiders and they are required to report their insider transactions within two business days of the date the transaction occurred.

In context of the above case:

State the objective of SEBI.

Identify the type of function performed by SEBI by quoting lines from the paragraph.

(4)

**Answer:**

(a) To regulate stock exchanges and the securities industry to promote their orderly functioning.

(b) To protect the rights and interests of investors, particularly individual investors and to guide and educate them.

(c) To prevent trading malpractices and achieve a balance between self regulation by the securities industry and its statutory regulation.

(d) To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

2. Regulatory function is being performed by SEBI: "On conducting a probe Securities and Exchange Board of India (SEBI) finds Ramesh guilty of insider trading."

**Q.7.** Vimala is a professor in a reputed business institute. While explaining the procedure of stock exchange trading, she shared with her students that many years back she had bought 500 shares of a leading textile company. As per the settlement procedure she paid for the shares and received the share certificates in physical form. However, when she had sent those certificates to the company to get them endorsed in her name, she was informed by the company that those certificates were duplicate.

Therefore, in order to protect the investors from many such malpractices, now only screen-based trading is done and dematerialisation is compulsory.

In context of the above case:

What is screen based trading?

Give the meaning of 'dematerialisation'. State any two of its advantages. (4)

**Answer:**

Screen-based trading refers to the process of buying or selling securities online.

Dematerialisation refers to the process of holding securities in electronic form. The two advantages of Dematerialisation as follows:

The securities in the demat account can be offered as security to raise loans.

Since the shares certificates are not held in physical form, there is no danger of loss, theft or forgery.

### III- COMPETENCY BASED QUESTIONS (6 MARK QUESTIONS)

**Q.1.** Mrs. Santhi was the chairman of 'Co-op Bank'. The Bank was earning good profits. Shareholders were happy as the bank was paying regular dividends. The market price of the shares was also steadily rising. The bank announced its takeover of 'Town Bank'. Mrs. Santhi knew that the share price of Co-op Bank would rise on this announcement. Being a part of the bank, She was not allowed to buy shares of the bank. She called one of her rich friends Nimesh and asked him to invest Rs. 10 crores in the shares of her bank, promising him the capital gain.

As expected, the share prices went up by 30% and the market price of Nimesh's shares was now Rs. 13 crores. He had earned a profit of Rs 3 crores. He gave Rs. 1.5 crore to Mrs.Santhi and kept Rs.1.5 crore with him. On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity. SEBI imposed a heavy penalty on Santhi. By quoting the lines from the above para identify and explain any two functions that were performed by SEBI in the above case.

(6)

**Answer:** SEBI's two functions in this scenario are as follows:

**Regulatory Functions:** It monitors and regulates the Indian capital and securities market while ensuring to protect the interests of the investors, formulating regulations and guidelines.

**Protective Functions:** SEBI is primarily set up to protect the interests of investors in the securities market.

The following are the lines from the paragraph that show the functions that were done.

**Regulatory Functions:** 'On regular inspection and by conducting enquiries of the brokers involved'

**Protective Functions:** 'SEBI imposed a heavy penalty on Santhi'

**Q.2.** The Managing Director of a company wants to modernize the company completely by making a public issue of Shares. He wishes to approach the stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares. Advise the company whether to approach the stock exchange or a consultant for new public issue of shares and why? Also advise

about the different methods which the company may adopt for the new public issue of shares.  
(6)

**Answer:** Because the company wishes to undertake a new public issue of shares to upgrade, the Managing Director should approach the consultant for the new public issue of shares. It is because the company wants to issue new shares, and in the stock exchange only existing securities are traded.

The techniques that the corporation may use for the fresh public offering of shares are as follows:

a) Right Issue: Because the corporation looks to be an established company seeking to modernize its plant and machinery, it is required by statute to offer these shares first to current shareholders in proportion to their ownership. If existing shareholders do not want to take these shares, the corporation can use the additional procedures listed below.

b) Public Offer via Prospectus: After issuing a prospectus, the corporation can directly offer its shares to the general public.

c) Offer for sale: In this situation, an intermediary purchase all of the company's shares at a predetermined price and resells them to investors at a higher price.

d) Private Placement: in this situation, an intermediary purchases the company's shares but only sells them to a select few.

**Q.3.** Avasthy Ltd.” was established to deal in shares, debentures and bonds. It was registered as a stock broker with National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) to trade in securities listed at these exchanges. It is also a depository participant with CDSL and NSDL. In the first four years, it developed its business successfully. After that the composition of Board of Directors changed. Some customers complained to the customer care centre of the company that shares purchased by them and for which the payment has been duly made, were not transferred to their D’mat Accounts by “Avasthy Ltd” . The executive of customer care centre promised the aggrieved customers that their shares will be transferred to their respective D’mat Accounts very soon. But the company delayed the matter and didn’t transfer the shares of the customers to their D’mat Accounts. This eroded investors confidence and multiplied their grievances.  
(6)

a) Identify the step of trading procedure in a stock exchange which has not been followed by “Avasthy Ltd” .

b) Name the Apex statutory body of capital market to whom customer can complain to redress their grievances.

c) Write trading procedure in buying and selling of securities.

**ANSWER:**

a) The step of trading procedure in a stock exchange which has not been followed by the company is settlement i.e. the delivery of shares through the D'emat Account of the broker to D'emat account of the investors.

b) The Securities and Exchange Board of India (SEBI) is the Apex statutory body of capital market to whom customer can complain to redress their grievances.

c) Refer trading procedure in study material.

**Q.4.** Incorporated in 1990, Saroma Dairy Ltd., is one of the leading manufacturers and marketers of dairy-based branded foods in India. In the initial years, its operations were restricted only to collection and distribution of milk. But, over the years it has gained a reasonable market share by offering a diverse range of dairy based products including fresh milk, flavoured yogurt, ice creams, butter milk, cheese, ghee, milk powders etc. In order to raise capital to finance its expansion plans, Saroma Dairy Ltd. has decided to approach capital market through a mix of Offer for sale of Rs. 8 crores shares and a public issue of Rs. 20 crores shares.

In context of the above case:

a) Name and explain the segment of capital market being approached by the company.

b) Identify and explain the two methods of floatation used by the company to raise the required capital.

c) Give one difference between them.

**Answer:**

a) Primary market is the segment of capital market being approached by the company. It is also known as the new issue market as the securities are issued for the first time by the companies through this market.

b) The two methods of floatation used by the company to raise the required capital are – Issue through prospectus and Offer for sale (Explanation in study notes).

c) In case of issue through prospectus, the company approaches the members of the general public directly by issuing a prospectus whereas in case of Offer for sale, the company approaches

members of the general public indirectly through intermediaries like issuing houses, stock brokers etc.

**Q.5.** The SEBI has imposed a penalty of Rs. 7,269.5 crore on Pearls Agrotech Corporation Limited (PACL) and its four directors — Tarlochan Singh, Sukhdev Singh, Gurmeet Singh and Subrata Bhattacharya who had mobilised funds from the general public through illegal collective investment schemes in the name of purchase and development of agriculture land. While imposing the penalty, the biggest in its history, Securities and Exchange Board of India (SEBI) said the company deserved “maximum penalty” for duping the common man. Its Prevention of Fraudulent and Unfair Trade Practices Regulations provides for “severe to severe penalties” for dealing with such violations. As per SEBI norms, it can impose a penalty of Rs. 25 crore or three times of the profit made by indulging in fraudulent and unfair trade practices and in the present case, the regulator has imposed a fine equivalent to three times of the illicit gains. In the context of the above case:

a) State the objectives of setting up SEBI.

b) Identify the type of function performed by SEBI by quoting lines from the paragraph.  
(6)

**Answer:**

a) The objective of setting up SEBI are outlined below:

To prevent trading malpractice in the securities markets.

To protect the rights and interest of investors, and to guide and educate them.

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.

To regulate stock exchanges and the securities market to promote their orderly functioning.

b) Protective function is performed by SEBI: “The SEBI has imposed a penalty of Rs. 7,269.5 crore on Pearls Agrotech Corporation Limited.”

**Q.6.** After doing a course in online trading, Venkat started an online portal for stock trading under the name ‘Prosperous Group’. He met his school friend Ashwin after a long time in a bank where Ashwin had come to open an account. Venkat urged Ashwin to invest in the forthcoming IPO of a blue chip companies whereas Ashwin was inclined to buy existing securities of the other companies to build his investment portfolio.

In context of the above case:

a) Identify the two different types of capital market being referred to by quoting lines from the para.

b) State any four differences between the two different types of capital markets as identified in part (6).

**Answer:**

a) The two different types of capital market being referred to are-

Primary Market: “Venkat urged Ashwin to invest in the forthcoming IPO of a blue chip companies.”

Secondary Market: “Ashwin was inclined to buy existing securities of the other companies to build his investment portfolio.”

b) Differences between Primary Market and Secondary Market:

S. No	BASIS	PRIMARY MARKET	SECONDARY MARKET
1.	Meaning	It is the new issue market.	It is the market for old securities.
2.	Aspects	Only buying of securities takes place.	Both buying and selling of securities takes place.
3.	Price	Prices of the securities are determined by the company.	Prices of the securities are determined by the forces of demand and supply.
4.	Parties involved	It involves dealings between the company and investors	It involves dealings between the two investors.

**Q.7.** Prabu works as a waiter in a five star hotel in Mumbai. While serving the customer he overhears him at the table saying that the he has made profits higher than expected by investing in securities market. So, Prabu also decides to make a nominal investment 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 buying and selling of Securities.

(6)

**Answer:**

Prabu will have to initiate the following steps for trading through a Demat system:

He will have to first open a Demat account with a depository participant (DP) who may either be a bank, broker or financial services company by furnishing certain details and information about himself including PAN number, date of birth, bank account details, income details etc.

If he plans to buy shares through a public offer he will have to give details of his Demat account, bank account etc. On allotment the shares will be directly credited to his account.

If he decides to buy shares otherwise, he will have to instruct his broker with the details about the name of the company, number of shares, price etc. The transaction will be executed through the depository participant and he will have to make payment for them within T + 2 days.

On contrary, whenever he decides to sell shares, he will have to instruct his broker with the details about the name of the company, number of shares, price etc. The transaction will be executed through the depository participant and his account will be debited accordingly. He will receive the payment in T + 2 days.

**Q.8.** The Bombay Stock Exchange (BSE) is Asia's first stock exchange and the world's 11th largest stock exchange. It became the first stock exchange to be recognized by the Indian Government under the Securities Contracts Regulation Act. Its automated, screen-based trading platform called BSE On-Line Trading (BOLT) had a capacity of 8 million orders per day. The BSE has also introduced a centralized exchange-based internet trading system, BSEWEBx.co.in to enable investors anywhere in the world to trade on the BSE platform.

In context of the above case:

- a) Name the organisation that regulates the working of stock exchanges in India.
- b) State any three functions performed by stock exchanges.
- c) Give any two advantages of screen-based trading. (6)

**Answer:**

a) Securities And Exchange Board of India (SEBI) regulates the working of stock exchanges in India.

b) Three functions performed by stock exchanges are as follows:

Ensures liquidity and marketability of existing securities by providing a ready and continuous market for the sale and purchase of securities.

Helps in determining the prices of the securities through the forces of demand and supply.

It provides a legal framework for fair and safe dealings.

c) Two advantages of screen-based trading are as follows:

As the investors get access to the stock market during real time, there is complete transparency in the dealings.

It provides a common platform for exchange of securities thereby increasing the efficient transactions by saving time, effort and money.

**Q.9.** Agarwal is one of the India’s most trusted brands in Indian sweets and snacks segment. The company has branches in Delhi, Agra, Madra, and Mumbai. Agarwa has its own retail chain stores and a range of restaurants in these cities. Now, the company plans to extend its business in 25 more cities in India. In order to raise the funds, its directors have decided to float a public issue through prospectus. Besides, it intends to raise money to meet the floatation costs in terms of brokerage, underwriting commission, advertising etc.

In context of the above case:

- a) What is the other name used for the funds required to meet floatation costs?
- b) Describe briefly the short term instrument popularly used by the companies to raise for the funds required to meet floatation costs. Who can issue them?
- c) Distinguish between the two types of financial markets that the company intends to approach to meet its financial needs. (6)

**Answer:**

- a) Bridge financing is the other name used for the funds required to meet floatation costs.
- b) Commercial Papers issued by large and credit worthy companies. The instrument is in the form of an unsecured promissory note and is freely transferable by endorsement. It is sold at discount and redeemed at par. Its maturity period may range from a fortnight to a year. It is also used to meet the short term seasonal and working capital requirements of a business enterprise. For example it is used for the purpose of bridge financing.
- c) Capital Market and Money Market.

Differences between Primary Market and Secondary Market:

Differences between Capital Market and Money Market:

S. No	Basis	Capital Market	Money Market
1.	Duration	It is a market for long term funds.	It is a market for short term funds whose maturity period is upto one year.
2.	Participants	The main participants in capital market are banks, financial institutions, corporate bodies, foreign investors and retail investors.	The main participants are institutional investors.
3.	Investment outlay	Since, the cost of securities may be low, investment can be made in the capital market can be with less capital.	Since the cost of securities may be high, investment in the money market requires huge capital outlay.
4.	Liquidity	The securities in capital market enjoy good liquidity.	The securities in money market enjoy high liquidity as The Discount Finance House of India works as a compulsory market maker.



5.	Risk and return	The instruments in capital market carry high risk as the expected return is high on them.	The instruments in money market carry low risk as the expected return is low on them.
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## CHAPTER-11

### MARKETING MANAGEMENT

Marketing is a social process where in people interact with others, in order to persuade them to purchase a product or a service, rather than forcing them to do so.

#### **Features of Marketing**

**1. Needs and Wants:** The process of marketing helps individuals and groups in obtaining what they need and want. Needs are basic to human beings and do not pertain to a particular product. Wants, on the other hand, are culturally defined objects that are potential satisfiers of needs.

**2. Creating a Market Offering:** Market offering refers to a complete offer for a product or service, having given features like size, quality, taste, etc; at a certain price; available at a given outlet or location and so on.

**3. Customer Value:** A product will be purchased only if it is perceived to be giving greatest benefit or value for the money. The job of a marketer, therefore, is to add to the value of the product so that the customers prefer it in relation to the competing products and decide to purchase it.

**4. Exchange Mechanism:** Exchange refers to the process where two or more parties used to come together in order to get the desired goods or service from someone while in exchange for something. For example, money is the medium of exchange used to purchase or sell a product or service. The following conditions needs to be met in order for an exchange to take place:

- a. There must be at least two parties.
- b. providing something of value to the other party
- c. communication
- d. freedom to accept or reject offer

#### **Marketing Management Philosophies**

In order to achieve desired exchange outcomes with target markets, it is important to decide what philosophy or thinking should guide the marketing efforts of an organisation.

**1. The Production Concept:-** It was believed that profits could be maximised by producing at large scale, thereby reducing the average cost of production. It was also assumed that consumers would favour those products which were widely available at an affordable price.

Thus, availability and affordability of the product were considered to be the key to the success of a firm.

**2. The Product Concept:-** The emphasis of the firms shifted from quantity of production to quality of products. Thus, product improvement became the key to profit maximisation of a firm, under the concept of product orientation.

**3.The Selling Concept:-**In this concept the focus of business firms shifted to pushing the sale of products through aggressive selling techniques with a view to persuade, lure or coax the buyers to buy the products. Making sale through any means became important.

**4. The Marketing Concept:-** Marketing orientation implies that focus on satisfaction of customer's needs is the key to the success of any organisation in the market.

**5. The Societal Marketing Concept:-** The societal marketing concept is the extension of the marketing concept. Apart from the customer satisfaction, it pays attention to the social, ethical and ecological aspects of marketing.

**Functions Of Marketing:-** From the view point of management function, number of activities are involved, which have been described as below:

**1. Gathering and Analysing Market Information:** One of the important functions of a marketer is to gather and analyse market information.

**2. Marketing Planning:** Second step of a marketer is to develop appropriate marketing plans so that the marketing objectives of the organisation can be achieved. For example, if a marketer wants to increase his market share in the next year, his marketing plan should include various aspects such as a plan for increasing production levels, product promotion, and so on.

**3. Product Designing and Development:** The design of the product contributes to making the product attractive to the target customers. A good design can improve performance of a product and also give it a competitive advantage in the market

**4. Standardisation and Grading: Standardisation** refers to producing goods of predetermined specifications. Standardisation ensures the buyers that goods conform to the predetermined

standards of quality, price and packaging and reduces the need for inspection, testing and evaluation of the products.

**Grading** is the process of classification of products into different groups, on the basis of some of its important characteristics such as quality, size, etc.

**5. Packaging and Labelling:** Packaging refers to designing and developing the package for the products that protects it from damage, spoilage, breakage, and leakage. Labelling refers to designing and developing the label to be put on the package. Packaging and labelling have become so important in modern day marketing that these are considered as the pillars of marketing.

**6. Branding:-** Brand name helps in creating product differentiation, i.e., providing basis for distinguishing the product of a firm with that of the competitor, which in turn, helps in building customer's loyalty and in promoting its sale.

**7. Customer Support Services:** Customer support services are extremely effective at increasing prospective customer sales and developing brand loyalty for a product.

It aims to provide maximum customer satisfaction while also building brand loyalty.

Examples include sales services, customer complaints and adjustments, credit services, maintenance services, technical services, and consumer information.

**8. Pricing of Product:** Price of product refers to the amount of money customers have to pay to obtain a product. The price of a product/service is related to its demand. The price should be set after considering all of the factors that influence the price of the product.

**9. Promotion:** Promotion of products and services involves informing the customers about the firm's product, its features, etc., and persuading them to purchase these products. The four important methods of promotion include advertising, Personal Selling, Publicity and Sales Promotion.

**10. Physical Distribution:** The two major decision areas under this function are

(a) the channels of distribution or marketing intermediaries to be used (e.g. wholesalers, retailers).

(b) Physical movement of the product from the point of manufacture to the point of consumption.

**11. Transportation:** Transportation involves physical movement of goods from one place to the other. A marketing firm has to analyse its transportation needs after taking into consideration

various factors such as nature of the product, cost and location of target market and take decisions in respect of mode of transportation to be chosen and other related aspects.

**12. Storage or Warehousing:** Usually there is a time gap between the production or procurement of goods and their sale or use. In order to maintain smooth flow of products in the market, there is a need for proper storage of the products.

## Marketing Mix

The marketing mix refers to the ingredients or the tools or the variable which the marketer mixes in order to interact with a particular market.

According to Philip Kotler, “Marketing mix are the set of – marketing tools that firm uses to pursue its marketing objectives in the target market.”

### Elements of a Marketing Mix



**1.Product** : Product means goods or services or ‘anything of value’, which is offered to the market for sale. Product or goods can be classified in two categories.

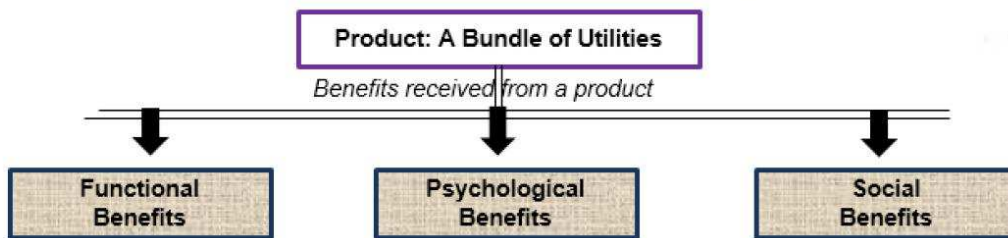
(i) Consumer goods (ii) Industrial goods

**2. Price:** Price is the amount of money customers have to pay to obtain the product.

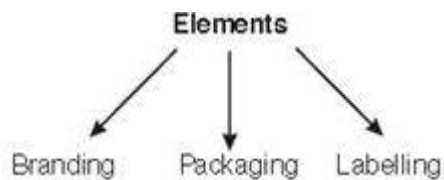
**3. Place:** Place or Physical Distribution include activities that make firm's products available to the target customers.

**4. Promotion:** Promotion of products and services include activities that communicate availability, features, merits, etc., of the products to the target customers and persuade them to buy it.

### I.PRODUCT



**Product Mix:-** It refers to important decisions related to the product such as quality of product, design of product, packing of product etc.



**(i) Branding:-** A brand is a name, term, sign, symbol, design or some combination of them, used to identify the products (goods or services) of one seller and to differentiate them from those of the competitors. Brand is a comprehensive term, which has two components—brand name and brand mark.

**Brand Name:** That part of a brand, which can be spoken, is called a brand name. In other words, brand name is the verbal component of a brand.

**Brand Mark:** That part of a brand which can be recognised but which is not utterable is called brand mark. It appears in the form of a symbol, design, distinct colour scheme or lettering.

**Trade Mark:** A brand or part of a brand that is given legal protection is called trademark.

## **Characteristics of Good Brand Name**

- (i) The brand name should be short, easy to pronounce, spell, recognise and remember .
- (ii) A brand name should suggest the product's benefits and qualities.
- (iii) A brand name should be distinctive.
- (iv) The brand name should be adaptable to packing or labelling requirements, to different advertising media and to different languages.
- (v) It should be sufficiently versatile to accommodate new products, which are added to the product line.
- (vi) It should be capable of being registered and protected legally.
- (vii) Chosen name should have staying power i.e., it should not get out of date.

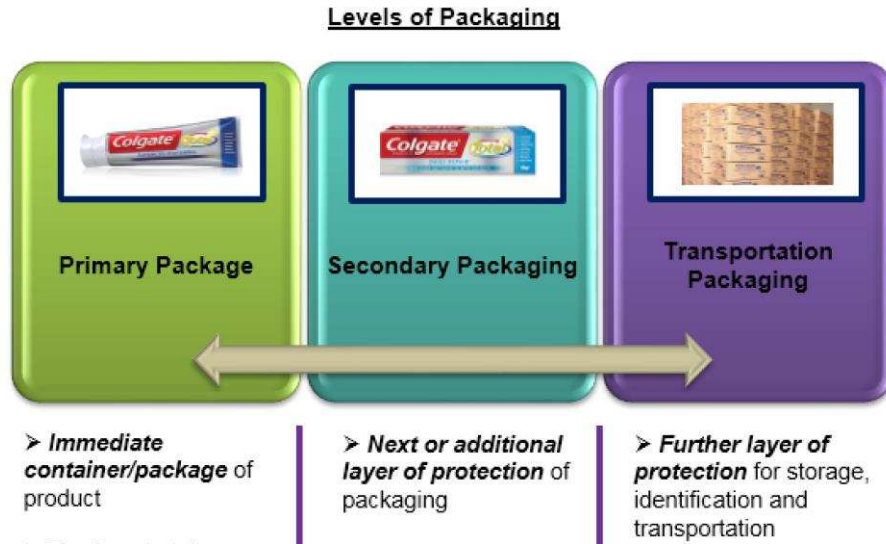
**Packaging:-** Packaging refers to the act of designing and producing the container or wrapper of a product.

### **Levels of Packaging**

**1. Primary Package:** This is the product's immediate container/covering, such as toffee in a wrapper, a match box, a soap wrapper, and so on.

**2. Secondary Package:** It's all about additional layers of protection that are kept until the product is ready for use, such as a red cardboard box for Colgate toothpaste.

**Transportation Package:** refers to additional packaging components required for storage, identification, and transportation, such as putting a package of toffees into cardboard boxes for storage at a manufacturer's warehouse and transportation.



### Functions of Packaging

- ❑ **Product Identification:** Packaging aids in product identification.
- ❑ **Product Protection:** The primary function of the packaging is to protect the product.
- ❑ **Facilitating Product Usage:** It makes transportation, stocking, and consumption easier.
- ❑ **Product Promotion:** Packaging makes sales promotion easier.
- ❑ **Rising Health and Sanitation Standards:** It is believed that there is minimal adulteration in packaged goods.
- ❑ **Self-Service Outlets:** Good and appealing packaging can help to promote a product.
- ❑ **Opportunities for Innovation:** Packaging innovation has increased the shelf life of products. For example, tetra packs for milk.
- ❑ **Product Differentiation:** The color, size, material, and other characteristics of packaging influence customers' perceptions of the product's quality.

### Labelling

Labelling is the process of affixing identification marks to a package. Labels are information carriers that provide information such as the name of the product, price of the product, name of the



manufacturer, contents of the product, expiry and manufacturing date, general information for use, weight, and so on.

### **Labels Perform Following Functions:**

**1. Identify the product:** It assists customers in identifying the product among the various types of products available.

**Describe and specify the product's contents:** The manufacturer provides all information regarding the product's contents, etc.

**3. Product grading:** With the help of labels, products can be classified into different categories based on quality, nature, and so on.

**4. Aids in product promotion:** Attractive and colourful labels excite customers and entice them to purchase the products. For example, 40 percent extra free, as stated on detergent, buy two get one free, and so on.

**5. Providing legal information:** There is a legal requirement to print the batch number, maximum retail price, weight/volume etc., on all products.

## **II. Pricing**

### **Meaning of Price:**

It is considered as the sum of the values that customers exchange for the benefit of owning or using the product. Price can thus be defined as the sum of money paid by a buyer (or received by a seller) in exchange for the purchase of a product or service.

### **Factors Determining Price Determination:**

#### **1. Product Cost:**

- Price should cover all costs and aim to earn a reasonable profit above and beyond the cost.
- It takes into account the costs of manufacturing, distribution, and sale of the product.
- Costs establish the floor price, or the lowest price at which the product can be sold.

#### **2. Utility and Demand:**

- The utility provided by the product as well as the demand for the product determine the maximum price that a buyer will be willing to pay for that particular product. The buyer may be ready to pay up to the point where the utility from the product is at least equal to the sacrifice made in terms of the price paid.
- According to the law of demand, consumers buy more at a lower price.

**3.Extent of Competition in Market:**

- The price will tend to reach the upper limit in case there is lesser degree of competition while under conditions of free competition(high competition), the price will tend to be set at the lowest level. Before setting prices, competitors' prices and anticipated actions must be considered.

**4. Government and Legal Regulations:** In order to protect the interest of public against unfair practices in the field of price fixing, Government can intervene and regulate the price of essential commodities.

**5.Pricing Objectives**

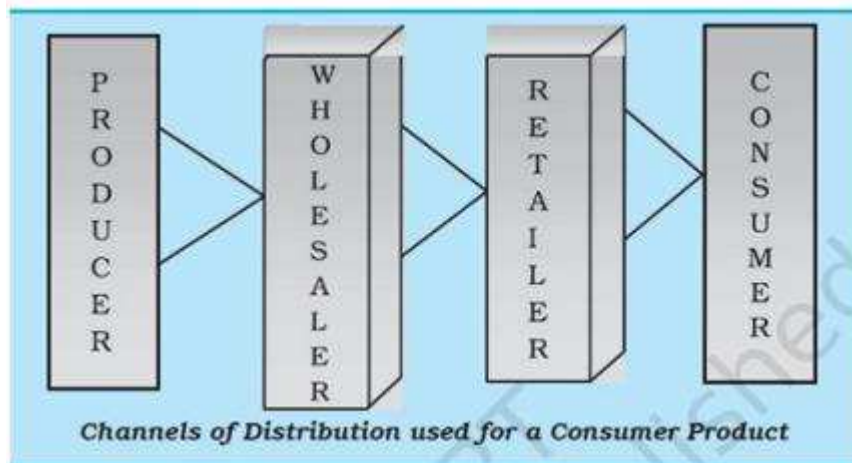
- The marketing firm's goal is to maximize profits. Pricing objectives can be determined in both the short and long run. If the company wants to maximize profits in the short run, it will charge the highest price for its products. However, in order to maximize its total profit in the long run, it would choose a lower per unit price in order to capture a larger share of the market and earn greater profits through increased sales.

**6. Marketing Methods Used:**

- Other marketing elements such as distribution system, sales promotion efforts, packaging type, product differentiation, credit facility, and so on all have an impact on the price fixing process.

**III. Physical Distribution**

The movement of goods from place of production to the place of distribution is referred to as physical distribution. Through this component of marketing mix, the goods and services are made available at right place, at right time to right people.



Important activities involved in the physical distribution include transportation, warehousing, material handling, and inventory control. These activities constitute major components of physical distribution.

#### **Components of Physical Distribution:-**

- 1. Order Processing:** A good physical distribution system should provide for an accurate and speedy processing of orders, in the absence of which, goods would reach the customers late or in wrong quantity or specifications. This would result in customer dissatisfaction.
- 2. Transportation:** Transportation is the means of carrying goods and raw materials from the point of production to the point of sale. It is important because unless the goods are physically made available, the sale cannot be completed.
- 3. Warehousing:** Warehousing refers to the act of storing and assorting products in order to create time utility in them. The need for warehousing arises because there may be difference between the time a product is produced and the time it is required for consumption.

**4. Inventory Control:** A very important decision in respect of inventory is deciding about the level of inventory. Higher the level of inventory, higher will be the level of service to customers but the cost of carrying the inventory will also be high. Thus, a balance is to be maintained in respect of the cost and customer satisfaction.

**Channels of Distribution:** Consists of a network of firms, individuals, merchants, and functionaries who assist in the transfer of title of a product from the producer to the end consumer.

#### **Types of Channels:**

##### **Direct Channel ( Zero Level)**

The manufacturer and the customer establish a direct relationship. The manufacturer directly sells items to the customer. For example, mail order, internet, and door-to-door sales.

##### **Indirect Channel**

The distribution network is referred to as indirect when a producer uses one or more intermediaries to move goods from the point of production to the point of sale.

**1. Manufacturer-Retailer-Customer (One Level Channel):-**Between the manufacturers and the customers, one intermediary, namely retailers, is used. Typically used for high-end items such as watches, appliances, automobiles (Maruti Udyog), and so on.

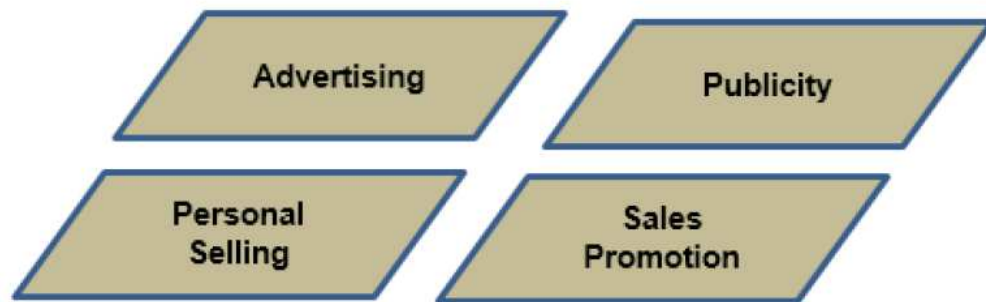
**Manufacturer-wholesaler-Retailer-customer (Two Level Channel):-**This channel is primarily used for consumer goods distribution. Typically used for consumer goods such as soaps, salt, and so on.

**3. Manufacturer → Agent → Wholesaler → Retailer → Customer (Three Level Channel):-**Manufacturers use their own selling agents or brokers in this case, who connect them with wholesalers, then retailers, and finally consumers.

## **IV. PROMOTION**

**Promotion:-** Promotion refers to the use of communication with the twin objective of informing potential customers about a product and persuading them to buy it.

**Promotion Mix:-** Promotion mix refers to combination of promotional tools used by an organisation to achieve its communication objectives. Various tools of communication are used by the marketers to inform and persuade customers about their firm's products. **These include: (i) Advertising, (ii) Personal Selling, (iii) Sales Promotion, and (iv) Publicity.**



**(i)Advertising:-** Advertising is perhaps the most commonly used tool of promotion. It is an impersonal form of communication, which is paid for by the marketers (sponsors) to promote some goods or service.

The important distinguishing features of advertising are as follows:

(i) Paid Form: Advertising is a paid form of communication.

(ii) Impersonality: There is no direct face-to-face contact between the prospect and the advertiser

(iii) Identified Sponsor: Advertising is undertaken by some identified individual or company, who makes the advertising efforts and also bears the cost of it.

**(ii) Personal Selling:-** Personal selling involves oral presentation of message in the form of conversation with one or more prospective customers for the purpose of making sales. It is a personal form of communication.

### **Features of Personal selling :-**

(i) Personal Form: In personal selling a direct face-to-face dialogue takes place that involves an interactive relationship between the seller and the buyer.

(ii) Development of Relationship: Personal selling allows a salesperson to develop personal relationships with the prospective customers, which may become important in making sale.

**(iii) Sales Promotion:-** Sales promotion refers to short- term incentives, which are designed to encourage the buyers to make immediate purchase of a product or service. These include all promotional efforts other than advertising, personal selling and publicity, used by a company to boost its sales.

Sales promotion activities include offering cash discounts, sales contests, free gift offers, and free sample distribution. Sales promotion is usually undertaken to supplement other promotional efforts such as advertising and personal selling.

**(iv) Public Relations** Managing public opinion of an organisation is an important task which can be performed by the marketing department. The business needs to communicate effectively to customers, suppliers, and dealers, since they are instrumental in increasing the sales and profit.

public relations involve a variety of programmes designed to promote or protect a company's image and its individual products in the eyes of the public.

**Role of Public Relations:-** The public relations department performs five functions:

**1.Publicity:** Publicity is similar to advertising, in the sense that it is a non-personal form of communication. However, as against advertising it is a nonpaid form of communication. Publicity generally takes place when favourable news is presented in the mass media about a product or service.

**2. Press Release:** A press release is an announcement of an event, performance, or other newsworthy item issued to the press by an organization's public relations professional. It is written in the form of a positive story with an appealing heading so that the media can quickly grasp and spread the message.

**3. Corporate Communication:** The image of the organization is promoted through newsletters, annual reports, brochures, and other means.

**4. Lobbying:** The organization maintains cordial relations with government officials and ministers in charge of corporate affairs, industry, and finance in regard to business and economic policies.

**5. Counselling:** The public relations department advises management on general issues affecting the public and the company's position.

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## QUESTIONS

### I OBJECTIVE TYPE QUESTIONS

1. With which element is exchange mechanism related?

- (a) Publicity
- (b) Marketing
- (c) Advertising
- (d) Branding

**Answer: (b) Marketing**

2. Which one of the following is a marketing management philosophy?

- (a) Societal marketing concept
- (b) Distribution concept
- (c) Direct marketing concept
- (d) Channel concept

**Answer: (a) Societal marketing concept**

3. Which one of the following factors is not relevant to price fixation?

- (a) Obtaining market leadership

- (b) Age of an organisation
- (c) Value for money
- (d) Product differentiation

**Answer: (b) Age of an organisation**

4. For heavy equipment, which of the following channels is more relevant?

- (a) Zero-level
- (b) One-level
- (c) Two-level
- (d) Three-level

**Answer: (a) Zero-level**

5. Which one of the following promotion tools has mass reach?

- (a) Advertising
- (b) Personal selling
- (c) Sales promotion
- (d) Public relations

**Answer: (a) Advertising**

6. Mail order selling is a \_\_ channel of distribution.

- (a) Direct
- (b) Indirect
- (c) Direct and Indirect
- (d) Sole

**Answer: (a) Direct**



7. \_\_\_\_ is the deliberate action of an organisation for promoting goodwill between itself and the society.

- (a) Marketing mix
- (b) Advertising
- (c) Public relations
- (d) Selling

**Answer: (c) Public relations**

8. \_\_\_\_ ensures that products reach the ultimate customers from the manufacturers.

- (a) Selling
- (b) Marketing
- (c) Physical distribution
- (d) Sales promotion

**Answer: (c) Physical distribution**

9. Marketing is called a \_\_\_\_ process because it involves interaction of buyers and sellers.

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

**Answer: (b) Social**

10. Registering a trademark gives to the users.

- (a) Finance
- (b) Fame

- (c) Protection
- (d) Information

**Answer: (c) Protection**

11. Within 2 years of its inception, Bhagya Limited has created a very positive reputation about itself and its products in the eyes of general public by participating extensively in various social welfare programs. Identify the component of promotion mixing described in the given lines.

- (a) Advertising
- (b) Personal selling
- (c) Public relation
- (d) Sales promotion

**Answer: (c) Public relation**

12. Under which of the following conditions does a business need not maintain high level of inventory?

- (a) When higher level of customer services need to be provided
- (b) When high degree of accurate sales forecast can be made
- (c) When the responsiveness of the distribution system is low
- (d) All of the above

**Answer: (b) When high degree of accurate sales forecast can be made**

13. Shajitha is planning to set up a small manufacturing unit for manufacturing eco-friendly packaging material. She has decided to market her products through the conventional channel of distribution, which involves wholesalers and retailers. Identify the channel of distribution being adopted by the company.

- (a) Zero level channel
- (b) One level channel

- (c) Two level channel
- (d) Three level channel

**Answer: (c) Two level channel**

14. Under which of the following situations is a company not likely to fix a lower price for its product?

- (a) When the competition has introduced a substitute product
- (b) If the demand for a product is inelastic
- (c) When the company wants to attain market share leadership
- (d) When the demand for the product is low

**Answer: (b) If the demand for a product is inelastic**

15. There is personal communication in case of advertising.(True/False)

**Answer: False; there is impersonal communication.**

16. Marketing mix is a blend of multiple financial decisions. .(True/False)

**Answer: False; marketing mix is a blend of product, price, physical distribution and promotion decisions.**

17. \_\_\_\_\_ concept is based on those companies who believe in this philosophy that quality of goods or services of good standard can easily attract customers.

- (a) Marketing concept
- (b) Production concept
- (c) Product concept
- (d) Selling concept

**Answer: (c) Product concept**

18. \_\_\_\_\_ is the process of classification of products into different groups on the basis of some of its important characteristics.

- (a) Grading
- (b) Packaging
- (c) Standardization
- (d) Branding

**Answer: (a) Grading**

19. Packaging is important not only for protection of the product but also serves as \_\_\_\_\_.

- (a) Quality product
- (b) Complex graphics
- (c) Promotional tool
- (d) Promotion budget

**Answer: (c) Promotional tool**

20. Which of the following is not the function of packaging?

- (a) Product protection
- (b) Pricing objectives
- (c) Promotion
- (d) Product identification

**Answer: (b) Pricing objectives**

21. Statement-I: Promotion mix is the combination of promotional tools used by an organisation to persuade customers to buy its products.

Statement-II: Advertisement is one of the four elements of Promotion Mix.

Choose the correct option from the options given below:

- a. Statement I is true and II is false
- b. Statement II is true and I is false
- c. Both the statements are true
- d. Both the statements are false

**Answer: (c) Both the statements are true**

22. Beauty Products Ltd.' is a natural and ethical beauty brand famous for offering organic beauty products for men and women. The company uses plant based materials for its products and is the No. 1 beauty brand in the country. It not only satisfies its customers but also believes in overall protection of the planet.

Identify the marketing management philosophy being followed by 'Beauty Products Ltd.'

**Answer: Societal marketing philosophy**

23. A TV manufacturing company is spending substantial amount of money to persuade the target customers to buy its T.V. sets through advertisements, personal selling and sales promotion techniques. Identify the element of marketing mix referred here.

**Answer: Promotion.**

## II COMPETENCY BASED QUESTIONS (3 MARKS)

**Q.1.** Arul is very thirsty. He is in the middle of a desert. Soon he finds a cold drinks' shop. He goes and purchases three bottles and drinks them to satisfy his thirst. After drinking the cold drink he realises that it has been developed after analyzing the needs and preferences of the potential customers. On observing the outer side of the bottle he finds details like contents, flavour, size, prize, etc.

a)What is 'Cold Drink' and 'Thirst' here in relation to each other?

b)Identify one feature of marketing which has been highlighted here?

c) How is cold drink a good market offer here? (3)

**ANSWER: ‘**

a) Cold Drink’ is ‘want’ here and ‘Thirst’ is ‘need’.

b) .One feature of marketing which is highlighted here is ‘Creating a Market Offering’. On observing the outer side of the bottle he finds details like contents, flavour, size, prize, etc.

c) A cold drink is a good market offer as it has been developed after analyzing the needs and preferences of the potential customers.

**Q.2.** A garment manufacturing company has decided to identify the needs of the customers to start successful marketing of the garments produced by it and for this the company is doing SWOT analysis (Strength, Weakness, Opportunity and Threat Analysis). The company is pursuing its objectives with full efforts. It has decided to make a blueprint for the amount of production it will do, the efforts behind promotion it will put and all other major actions it will undertake to achieve its objectives. However, the company has one weak area which it would like to improve. The physical movement for its prepared garments was not proper last year and the company wants to ensure it is done properly this year. For this thing to be done properly it has created a separate department. Hope the company does better in future.

Which functions of marketing have been highlighted in the above case? (3)

**Answer:**

The functions of marketing highlighted in the above case are:

**a) Gathering and analysing market information.** A garment manufacturing company has decided to identify the needs of the customers to start successful marketing of the garments produced by it and for this company is doing SWOT analysis (Strength, Weakness, Opportunity and Threat Analysis).

**b) Marketing Planning.** It has decided to make a blueprint for the amount of production it will do, the efforts behind promotion it will put and all other major actions it will undertake to achieve its objectives.

**c) Transportation.** The physical movement of its prepared garments was not proper last year and the company wants to ensure it is done properly this year.

**Q.3.** Balu is a distributor of tea to far off places. He has opened a company which deals in tea selling. He has categorized his tea to be sold into three categories: Green, Yellow and Red. His brother Amirthya on the other hand is running a mobile manufacturing company. His company strictly produces mobile according to the predetermined specifications. The mobiles of each variety are of same size, looks and performance.

a) In the above case which function of marketing has been highlighted?

b) Name the four advantages of the above highlighted function. (3)

**Answer:**

a) In the above case the function of marketing which has been highlighted is 'Standardisation' and 'Grading'.

b) The advantages of Standardisation are:

- The buyers get standard quality products which are according to the given standards.
- The time of buyer is saved as there is no need to inspect the product.

The advantages of Grading are:

- Grading helps in categorizing products which are not produced as per standards for example natural products like Wheat, Rice, Tea etc.
- Grading helps in getting good price for premium quality products and saves time of seller as well as buyer.

**Q.4.** 'Jasmin' is a company which sells beauty products. The company has been the market leader in this segment for the last ten years. However, the sales of its fairness cream have come down due to cases of allergic reactions reported by the users from different parts of the country. The company has been able to make amendments to the formula to make their product safe for everybody. Its incapability to communicate with its customers has resulted in the loss of its brand value.

1. Which element of promotion mix should the company use to regain its lost image?
2. Discuss two marketing objectives of this element (3)

**Answer:**

1. The element of promotion mix which the company should use is Public Relations.
2. The two marketing objectives of Public relations are:
  - Stimulating sales force. When the sales force is convinced about the good quality of the product they find it easy to convince the potential buyers to buy it.
  - Lowering promotion costs. Public relations acts as a cost effective supplement to advertising. Thus it helps in reducing the overall burden of cost of the company.

### **III COMPETENCY BASED QUESTIONS (4 MARKS)**

**Q.1.** Vishnu is the CEO of a mobile manufacturing company. The mobile phones manufactured by the company come under the 'fragile category'. He has to ensure that the product reaches the end customer all over the country. To do this he ensures proper movement of the mobile phones from the place of manufacturing to the points of selling.

1. Identify the component of physical distribution discussed in the above case.
2. What are the factors affecting Inventory control? (4)

**Answer:**



1. The component of physical distribution discussed in the above case is Transportation.
2. The factors affecting Inventory control are:
  - Level of services to be provided to the customer. When a firm wants to provide high level of services to the customers, it keeps high inventory.
  - Correctness of sales forecast. The level of correctness of sales forecast decides the level of inventory to be maintained. High level of inventory leading to wastage may occur due to over/ wrong estimation.
  - Costs associated with high inventory. High level of inventory means additional costs in the form of rent, maintenance, etc.

**Q.2.** Manesh, a teacher of a private school has purchased a luxury car. He is from a middle class family. There were many reasons which stimulated him to take this expensive decision of life. His friends are from rich backgrounds and have access to all luxuries in their lives. In order to gain importance in his friends circle he knew he will have to purchase a car which improves his stature in their eyes. His mother thinks that his son's decision was not good. She considers it as wastage of money. She thinks that the purpose of a car is only as a transportation vehicle. However, the views of his wife differ to that of her mother's. She thinks that since he has purchased this car his confidence level has gone high and he is mentally more equipped as he can rely on his car for several benefits like transportation, prestige, self esteem etc. Definitely people have their different perceptions to a situation. Similar is the case with his family members.

1. In the above case which concept of marketing has been highlighted throughout the paragraph?
2. Which benefits have been highlighted in the above case related to the concept in the previous part of this question? (4)

**ANSWER:**

1. The concept of marketing which is highlighted in the above case is 'Product is a bundle of utilities'.
2. The benefits highlighted in the above case are:

- **Social benefit.** In order to gain importance in his friend circle he knew he will have to purchase a car which improves his stature in their eyes.
- **Functional benefit.** She thinks that the purpose of a car is only as a transportation vehicle.
- **Psychological benefit.** She thinks that since he has purchased this car his confidence level has gone high and he is mentally more equipped as he can rely on his car for several benefits like transportation, prestige, etc.

**Q.3.** 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 (When he had kept no name for his pens and was just selling them as pens) and Brand name (When he had kept the name of his pens as Remo pens).
4. Brand name was better. The reason being that people can identify products with their makers only by a name which helps in association with the product; a generic name can't differentiate between two makers.

#### **IV COMPETENCY BASED QUESTIONS (6 MARKS)**

**Q.1.** Ginika, Tanish and Rohit were friends from college days and now they are doing different kinds of business. They regularly meet and discuss their business ideas and exchange notes on customer satisfaction, marketing efforts, product designing, selling techniques, social concerns etc.

In one of such meetings, Ginika drew the attention of Tanish and Rohit towards the exploitation of consumers. She told that most of the sellers were exploiting the consumers in various ways and were not paying attention towards the social, ethical and ecological aspects of marketing, whereas she was not doing so. Tanish told that they were under pressure to satisfy the consumers, but stated that the consumers would not buy or not buy enough unless they were adequately convinced and motivated for the same.

Rohit stressed that a company cannot achieve its objectives without understanding the needs of the customers. It was the duty of the businessmen to keep consumer satisfaction in mind because business is run by the resources made available to them by the society. He further stated that he himself was taking into consideration the needs of the customers. Identify the various types of thinking that guided Ginika, Tanish and Rohit in the marketing efforts of their business. Also, state one more feature of the various types of thinking identified that is not given in the above para. (6)

**Answer:**

Various types of thinking that guided the marketing efforts were:

**Ginika** – Societal marketing concept/ thinking/ philosophy. **Additonal Feature.** Societal marketing concept or philosophy aims at identifying the needs and wants of the target market and delivering the desired customer satisfaction in an effective and efficient manner so that a business is able to take care of the long term well-being of the consumers and the society.

**Tanish** -Selling concept/thinking/philosophy. **Additonal Feature.** Firms following this philosophy undertake aggressive selling and promotional efforts to make customers buy their products.

**Rohit** – Marketing concept/ thinking/philosophy. **Additonal Feature.** Firms following this concept or thinking take all the decisions from the point of view of statisfaction of customers. It involves development of products for satisfying needs of the target market better than the competitors.

**Q.2.** Amithavalli was a student of Commerce batch. Her father was a farmer who grew different varieties of rice and was well-versed about various aspects of rice cultivation. He was also selected by the government for a pilot-project on rice cultivation. As a project-work in Business Studies she decided to study the feasibility of marketing good quality rice at a reasonable price. Her father suggested her to use the internet to gather customers' views and opinions. She found that there was a huge demand for packaged organic rice. She knew that there were no predetermined specifications in case of rice because of which it would be difficult to achieve uniformity in the output. To differentiate the product from its competitors, she gave it the name of 'Kongu Organic Rice' and classified it into three different varieties namely—Popular, Classic and Supreme, based on the quality. She felt that these names would help her in product differentiation. Explain the three functions of marketing, with reference to the above paragraph. (6)

**Answer:**

Three functions of marketing referred in the given paragraph are as follows:

**1. Analysing and gathering market information.** It is an important function from marketing view point. It is essential for the marketer to identify the needs of the customers and to take various decisions for successful marketing of goods and services. It helps the marketer in an analysis of several opportunities as well as threats along with the strengths and weaknesses of the business enterprise.

**2. Standardisation and Grading.** Standardisation is the process of setting certain standards for the product to provide it uniformity and consistency. It aims at providing good quality of products to the customers to enhance their level of satisfaction.

Grading refers to classifying the product into different groups as per certain predetermined standards. It is necessary for products not having any predetermined specifications.

**3. Branding.** It is the process of providing a name to the product so that it can be distinguished easily from other similar products available in the market. It helps the customer in identifying the product. It also helps in promoting the sales and building customer loyalty. A brand name can either be generic or specific. A marketer has to decide the branding strategy of the product carefully so it brings in more sales for the business enterprise.

**Q.3.** '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. (6)

**Answer:**

The combination of variables used by 'Nayeem' to prepare its market offering is termed as 'Marketing Mix'. The marketing mix includes the following four points:

- Product
- Price
- Place and
- Promotion.

The four ingredients of marketing mix are discussed briefly as under:

1. **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.
2. **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.
3. **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.
4. **Promotion.** This element includes activities involved in informing and persuading the customers. Advertising, personal selling and sales promotions are different ways of promotion.

**Q.4.** Armada Cables' deals in cables of all varieties. Recently it has launched a new product to increase its revenue and take the company to a new height. The company is confused about keeping the price of a newly launched cable which is meant for all types of household works. In order to beat the competition it has decided to keep the prices low as there is tough competition in the market. The company has got a contract from a government institution. This institution works for non-profit motive and whosoever works for them will have to work at subsidized rates so the company will have

to take less money but will get tax benefits; the impact on the organisation will be that it will have to provide cables at a low price to support government initiative. However, the prime objective of company otherwise is profit maximization. For its metro cities based customers the company has decided to adopt various methods like improvement in quality of salesmen, innovation in packaging, liberal credit terms, etc. Whatsoever the conditions the company can't go beyond a level as far as pricing is concerned. One such reason is the amount of funds it puts both in the fixed capital like plant & machinery or working capital like wages of labourers which fixes the lowermost limit of the price. The management of the company has recently come to know about a great opportunity arising in Europe for it. It has been contacted by Europe based contractors who are making world class buildings around the globe. They require the cables in high quantity and the requirement is so high that they are ready to pay double the price provided the cables are made available to them within a short period of time. However, the management of the company has decided that in this case they can lower the prices of the cables. This has been done keeping in mind the presence of other European competitors who can lower the prices of their cables in order to survive in the market. Identify the various factors affecting price determination in the above case.(6)

**Answer:**

The various factors affecting price determination in the above case are as follows:

1. **Extent of competition in the market.** In order to beat the competition it has decided to keep the prices low as there is tough competition in the market.
2. **Government and legal regulations.** This institution works for non-profit motive and whosoever works for them will have to work at subsidized rates so the company will have to take less money but will get tax benefits; the impact on the organisation will be that it will have to provide cables at a low price to support government initiative.
3. **Marketing methods used.** For its metro cities based customers the company has decided to adopt various methods like improvement in quality of salesmen, innovation in packaging, liberal credit terms, etc.
4. **Product cost.** One such reason is the amount of funds it puts both in the fixed capital like plant & machinery or working capital like wages of labourers which fixes the lowermost limit of the price.

5. **Utility and demand.** They require the cables in high quantity and the requirement is so high that they are ready to pay double the price provided the cables are made available to them within a short period of time.
6. **Pricing objectives.** This has been done keeping in mind the presence of other European competitors who can lower the prices of their cables in order to survive in the market.

**Q.5.** A company was marketing 'water purifiers' which were very popular due to their quality and after sales services provided to the customers. The company was a leading company in the market and earning huge profits. Because of huge profits the company ignored the after sales services. As a result, its relations with the customers got spoiled and the image of the company was damaged in the public. Top management became concerned when the profits for the current quarter fell steeply. On analysis it was revealed that ignoring the after sales services was its reason. Therefore, the company took all possible measures to protect and promote its favorable image in the eyes of the public. As a result, the goodwill of the company improved in the society.

1. Name and state the communication tool used by the marketer in the above case to improve its image.
2. Also explain role of the tool as identified in part (a). (6)

**Answer:**

1. The communication tool used by the marketer is public relation.  
Public relations refers to a variety of programmes to promote and protect a company's image or its products in the eyes of the public.
2. Role of public relations:
  - **Press relations.** The Public Relations Department of an organization remains in touch with the media to pass on true facts and positive information about the company. It helps the firm in creating a favourable image of the organization among the general public.



- **Product publicity.** The Public Relations Department of the firm publicizes their new products through sponsoring events. For this purpose, company participates in sports and cultural events, like, exhibitions, news, conferences and seminars.
- **Corporate communication.** In order to promote its favourable image a firm communicates with employees as well as with employers and the public through various corporate tools like reports, newsletters, brochures, articles, etc. The executives of a firm conduct speeches and converse with the general public at trade fairs or other events.
- **Lobbying.** It involves maintaining good and healthy relationship with government officials and various ministers in charge of finance, industry and corporate affairs. The government's policies are often guided by the opinion of big business houses. The public relation departments try to manipulate various government regulations that can have a major impact on business and its functioning.
- **Counselling.** To create a positive image of the company, the Public Relations Department guides the management on general issues. The company can enhance its goodwill through charity, contributing towards education, health and other issues associated with general public interest.

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## CHAPTER-12

<b>CONSUMER PROTECTION</b>	
Gist of the lesson	Learning outcomes
Concept and importance of consumer protection	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of consumer protection.</li> <li><input type="checkbox"/> Describe the importance of consumer protection.</li> <li><input type="checkbox"/> Discuss the scope of Consumer Protection Act, 2019</li> </ul>
<p>The Consumer Protection Act, 2019:</p> <p>Meaning of consumer</p> <p>Rights and responsibilities of consumers</p> <p>Who can file a complaint?</p> <p>Redressal machinery</p> <p>Remedies available</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Understand the concept of a consumer according to the Consumer Protection Act, 2019.</li> <li><input type="checkbox"/> Explain the consumer rights</li> <li><input type="checkbox"/> Understand the responsibilities of Consumers</li> <li><input type="checkbox"/> Understand who can file a complaint and against whom?</li> <li><input type="checkbox"/> Discuss the legal redressal machinery under Consumer Protection Act, 2019.</li> <li><input type="checkbox"/> Examine the remedies available to the consumer under Consumer Protection Act, 2019.</li> </ul>
Consumer awareness - Role of consumer organizations and Non-Governmental Organizations (NGOs)	Describe the role of consumer organizations and NGOs in protecting consumers' interests.
<b>Content</b>	

## The Consumer Protection ACT, 2019

- The Consumer Protection Act of 2019 aims to safeguard and promote consumers' interests by

resolving their complaints in a timely and cost-effective manner. It came into force on July 20<sup>th</sup> 2020.

- It covers the entire country of India, except the State of Jammu and Kashmir.
- It applies to all types of enterprises, whether they are manufacturers or traders, and whether they sell goods or services, including e-commerce companies.
- The Act gives consumers specific rights in order to empower them and defend their interests.

A 'consumer' is generally understood as a person who uses or consumes goods or avails of any service.

Under the Consumer Protection Act 2019, a consumer is a person who buys any goods or avails services for a consideration, which has been paid or promised, or partly paid and partly promised, or under any scheme of deferred payment. It includes any user of such goods or beneficiary of services if such use is made with the approval of the buyer. It applies to both offline and online transactions through electronic means or by teleshopping or direct selling or multilevel marketing. However, any person who obtains goods or avail services for resale or commercial purpose is not treated as a consumer and is outside the scope of Consumer Protection Act 2019.

CCPA- The New Act provides power to Central Government to establish Central Consumer Protection Authority (CCPA) to regulate matters relating to violation of rights of Consumers, unfair trade practices and false or misleading advertisements which are prejudicial to the interests of public and Consumer and to promote, protect and enforce the rights of Consumer as a Class.

### ***Consumer Rights***

1. Right to Safety:

Consumers have the right to be safeguarded against items and services that are harmful to their health and well-being. The consumers are righteous to get quality products, and they can also demand quality assurance from the seller for the same. Such as ISI, FPO, AGMARK, Hallmark etc are quality marks for industrial items, food products, agricultural products, gold respectively.

2. Right to be Informed:

Before purchasing a product, the consumer has the right to get complete information about it, regarding the quality, quantity, ingredients, purity, price etc.

3. Right to Choose:

Consumers have the right to choose any product from the available options based on their own preferences. Hence no seller has the right to influence the consumer into purchasing a certain product through unacceptable means.

4. Right to Seek Redressal:

If a product or service fails to meet the consumer's expectations or is dangerous, the consumer has the right to seek redressal. The consumer may be entitled to a replacement or repair of the problem, as well as reimbursement for any losses.

5. Right to Consumer Education:

Consumers have the right to learn and be well-informed throughout their lives. He should be informed of his rights and remedies in the event that the goods or service does not meet his expectations. The Indian government has integrated consumer education in school curriculum and is using the media to educate consumers about their rights. For example, efforts like Jaago Grahak Jaago is one such measure to educate the consumers

6. Right to be Heard:

The consumer has the right to provide his opinion regarding the product and services, as well as he has the right to be heard in such cases.

Hence the consumer has a right to file a complaint if he thinks that his rights have been violated. Also, various consumer cells have been opened up in India so as to provide them the right to be heard.

***Consumer Responsibilities:***

In addition to exercising his rights, a consumer should also keep in mind his responsibilities while purchasing, using and consuming goods and services.

- (i) Be aware about various goods and services available in the market so that an intelligent and wise choice can be made.
- (ii) Buy only standardised goods as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewelry, etc.
- (iii) Learn about the risks associated with products and services, follow manufacturer's instructions and use the products safely.
- (iv) Read labels carefully so as to have information about prices, net weight, manufacturing and expiry dates, etc.
- (v) Assert yourself to ensure that you get a fair deal.
- (vi) Be honest in your dealings. Choose only from legal goods and services and discourage unscrupulous practices like black-marketing, hoarding, etc.
- (vii) Ask for a cash memo on purchase of goods or services. This would serve as a proof of the purchase made.
- (viii) File a complaint in an appropriate consumer forum in case of a shortcoming in the quality of goods purchased or services availed. Do not fail to take an action even when the amount involved is small.
- (ix) Form consumer societies which would play an active part in educating consumers and safeguarding their interests.
- (x) Respect the environment. Avoid waste, littering and contributing to pollution.

	<p><b>"Unfair contract"</b> – It means a contract between a manufacturer or trader or service provider on one hand, and a consumer on the other, having such terms which cause significant change in the rights of such consumer, including the following, namely:</p> <p>—</p> <p>A. Requiring manifestly excessive security deposits to be given by a consumer for the performance of contractual obligations.</p> <p>B. Imposing any penalty on the consumer, for the breach of contract thereof which is wholly disproportionate to the loss occurred due to such breach to the other party to the contract.</p> <p>C. Refusing to accept early repayment of debts on payment of applicable penalty; or d. Entitling a party to the contract to terminate such contract unilaterally, without reasonable cause.</p> <p>D. Permitting or has the effect of permitting one party to assign the contract to the detriment of the other party who is a consumer, without his consent.</p> <p>E. Imposing on the consumer any unreasonable charge, obligation or condition which puts such consumer to disadvantage</p>
	One mark questions
1.	<p>Yash had severe pain in his throat, so he called up the doctor and asked for a telephonic advice. The doctor prescribed him a sachet of Throat Reliever Hot Sip. He asked his servant to get a sachet from a local chemist with a cash memo. After consuming the sachet, he started feeling more ill, so he picked up the empty sachet and started reading the label. To his utter dismay, the sachet had already expired last month. Which of the following remedies is not available to him any longer as a consumer?</p> <p>(a) To withdraw the hazardous goods from sale.</p> <p>(b) To replace the defective product with a new one.</p> <p>(c) To refund the price paid for the product.</p>

	(d) To pay a reasonable amount of compensation for any loss suffered by the consumer due to the negligence of the opposite party.
2.	<p>Due to the negligence of the doctors, Johar passed away within a week's time after his surgery of the spine. Which of the following parties can not file a case in this regard?</p> <p>(a) The consumer  (b) Any registered consumers' association  (c) A legal heir or representative of a deceased consumer  (d) All of the above</p>
3.	<p>When Aaradhya, inspite of paying the full price of the plot as per the terms and conditions of the allotment letter, was not given the possession of the plot by the builder, she filed a case in the State Commission. Identify the right of consumers being exercised in the given case.</p> <p>(a) Right to safety  (b) Right to be heard  (c) Right to seek redressal  (d) Right to consumer education</p>
4.	<p>A popular Nationalised bank has been fined ₹8 lakh by the country's highest consumer court, National Consumer Disputes Redressal Commission (NCDRC), for not sharing complete insurance policy details with a customer. The bank has been ordered to pay the full amount as compensation to the customer. Identify the right of consumers being violated in the given case.</p> <p>(a) Right to be heard  (b) Right to seek redressal  (c) Right to information  (d) Right to safety</p>
5.	<p>Naina, her husband and her two minor daughters were travelling from Mumbai to Delhi, availing a company's flight services in 2018. The airlines had issued boarding passes to all of them. Naina claimed in her plea that the airlines left all her family at the Mumbai Airport without informing them, despite their being in the airport premises.</p>

	<p>The family had to stay in a hotel and purchase new tickets the next day. The State Consumer Disputes Redressal Commission (SCDRC). on hearing the plea, asked an airline company to pay ₹50,000 to Naina and her family. Identify the right of consumers being exercised in the given case.</p> <p>(a) Right to safety  (b) Right to be heard  (c) Right to seek redressal  (d) Right to consumer education</p>
6.	<p>Which of the following types of cases are filed in the State Commission?</p> <p>(a) When the value of the goods or services in question, along with the compensation claimed, exceeds ₹20 lakhs but does not exceed ₹1 crore.  (b) When the value of the goods or services in question, along with the compensation claimed, exceeds ₹1 crore but does not exceed ₹10 crores.  (c) When the value of the goods or services in question, along with the compensation claimed, exceeds ₹40 lakhs but does not exceed ₹1 crore.  (d) None of the above</p>
7.	<p>Which of the following statements is true with regard to the State Commission?</p> <p>(a) It consists of a President and not less than two other members, one of whom should be a woman.  (b) The members are appointed by the State Government concerned.  (c) A complaint can be made to the appropriate State Commission when the value of the goods or services in question, along with the compensation claimed, exceeds ₹1 crore but does not exceed ₹10 crores.  (d) All of the above</p>
8.	<p>In case a consumer is not satisfied with the order passed in the State Commission, he can further make an appeal in the National Commission within a time period of</p> <p>(a) 10 days  (b) 20 days</p>



	<p>(c) 30 days</p> <p>(d) 45 days</p>
9.	<p>If any of the parties are not satisfied by the order of District Commission can appeal against such order to the State Commission on the grounds of facts or law within a period of ----- days from the date of order.</p> <p>(a) 10 days</p> <p>(b) (b) 20 days</p> <p>(c) 30 days</p> <p>(d) 45 days</p>
	<p>Read the following text and answer the following questions on the basis of the same:</p> <p>Shobha purchased an ISI marked Heater from Highway Appliances. She made Cash Payment. But failed to get a Cash Memo. While making use of the heater she observed that it was not working properly. She contacted the shopkeeper immediately and told him the problem. Shopkeeper paid no hear to her complaint. Rather he marked that the heater was not bought from his shop. Shobha had no evidence of proving that the heater was purchased from his shop only. She discussed the problem with her friend Reva who advised her to approach Consumer Forum and lodge the complaint. Shobha was convinced with the idea of lodging the complaint against the shopkeeper but due to lack of cash memo it was difficult for her to proceed.</p>
10.	<p>Identify the Right of the consumer as referred to in the above paragraph.</p> <p>A. Right to be Informed</p> <p>B. Right to Safety</p> <p>C. Right to be Heard</p> <p>D. Right to Choose</p>
11.	<p>Identify the responsibility of the consumer referred in the above case.</p> <p>A. Quality Conscious</p> <p>B. Must Obtain Cash Memo</p> <p>C. Cautious Consumer</p>

	D. Ready to Lodge Complaint
12.	<p>Shobha cannot lodge a complaint against the shopkeeper .Why?</p> <p>A. She do not have the right</p> <p>B. She was aware of the fact</p> <p>C. She do not have the Cash Memo</p> <p>D. She was happy with the product.</p>
13.	<p>Consumer Protection Act is significant to</p> <p>A) Immovable Goods</p> <p>B) Movable Goods</p> <p>C) Particular Goods and Services</p> <p>D) All Goods and Services</p>
14.	<p>Within how many days does the opposite party have to answer after they are informed about the complaint?</p> <p>A) 30</p> <p>B) 5</p> <p>C) 20</p> <p>D) 15</p> <p>ANS (A)</p>
15.	<p>When the seller manipulates the price, it is known as</p> <p>A) Caveat Emptor</p> <p>B) Unfair trade practices</p> <p>C) Restricted trade practices</p> <p>D) None of the above</p>
16.	<p>Who is a consumer as per Consumer Protection Act 2019?</p> <p>a) A person who obtains goods free of charge</p> <p>b) Who avails services free of charge</p> <p>c) Who obtains goods for resale or for any commercial purposes</p> <p>d) Online transactions through electronic me</p>
17.	Who is a consumer?

18.	Appeal can be filed after settlement through mediation. (True/False)
19.	In which forum is it compulsory to have a female member? A) National commission B) State commission C) District commission D) All of the above
20.	Which of the following forum can reappoint the same person as its member? A) National commission B) State commission C) District commission D) None of the above
	3 marks question
1.	Manu bought a packet of chips from a local shopkeeper and found that the ingredients given on the label were not legible. He complained about it to the company. The company sent a written apology stating that they will make sure that existing packets are withdrawn from the market and new packets with legible labels are soon made available. Explain the consumer right which Manu exercised.
2.	Mahesh always went to a specific shop to buy all consumable and non-consumable goods. In this shop, a variety of products of different brands were displayed nicely and the sales person available also gave good sales presentations if required. But this shop was quite far-off from his residence. His friend Anirudh always wondered why Mahesh wastes so much time in going to that shop whereas there were many big brand shops situated near his residence having consumable and non-consumable goods. Anirudh asked Mahesh the reason of going to that particular shop. Mahesh told that he was exercising one of his rights which he could not exercise in nearby big brand shops. State the consumer's right which Mahesh had exercised and explain it.
3.	On Monika's birthday, her mother gave her a pair of gold earrings. After one month, Monika observed that the earrings were losing their shine. She checked the mark on the

	<p>earrings and found that it was not a proper Hallmark and her mother had been cheated by the shopkeeper. So, she filed a complaint in the District Forum which rejected it. Not satisfied by the decision of the district Forum, she was very much disturbed and after two months, she decided to appeal further.</p> <p>Can Monika appeal against the decision of the district forum? Give reason in support of your answer.</p>
4.	<p>Reena purchased one liter of pure ghee from a shopkeeper. After using it, she had doubts that it was adulterated. She sent it for a laboratory test which confirmed that the ghee was adulterated. State any three reliefs available to Reena if she complains and the consumer court is satisfied about the genuineness of the complaint.</p>
5.	<p>Vastra Ltd.' is engaged in the manufacturing of apparel. Over the years, it has become a popular brand due to its good product quality and exclusive designing. The company plans to open its own retail showrooms in metropolitan cities in India. In order to meet its financial needs, it has offered for subscription an IPO of Rs. 4 lakh equity shares in the price band of Rs. 430 – Rs. 445 each. As per the guidelines of SEBI, the company has provided a complete disclosure of the relevant details in its prospectus.</p> <p>Identify and explain the right of the consumer being fulfilled by the directives of SEBI in the abovementioned case.</p>
6.	<p>Youth Organisation (YO) organised a visit of its members to an old age home to inculcate the habit of social work among them. The visit revealed that the living conditions of the inmates of the old age home were not hygienic. So, the YO members decided to clean the premises. During their cleanliness drive, they realised that the old age home also required pest control. But some of the inmates of old age home were reluctant for it because they believed that the pest control may create health problems for them. YO, therefore decided to provide ethical, safe and odorless pest control. They showed to the inmates of old age home a pamphlet of the proposed pest control product which promised easy, inexpensive and long-lasting pest control. The inmates</p>

	<p>happily agreed and the pest control was carried out. It worked for a fortnight but to their dismay the effect started wearing off. YO contacted the pest control company which kept on postponing their visit. After waiting for a month, YO filed a case in the consumer court.</p> <p>The consumer court was satisfied about genuineness of the complaint and issued necessary directions to the pest control company.</p> <p>State any three directions that might have been issued by the court.</p>
7.	<p>Jagadish purchased a pack of sweets for his son from a shop in the nearby market. After consuming those sweets, the condition of his son deteriorated and he had to be hospitalized. Later on through a laboratory test, it was certified that the sweets were adulterated.</p> <ol style="list-style-type: none"> <li>1. State any one precaution that he should have taken while purchasing packed sweets.</li> <li>2. Name the appropriate redressal agency that he can approach in case he decides to file a case against the shopkeeper.</li> <li>3. Write any one remedies available to him.</li> </ol>
8.	<p>Abhishek bought a bottle of disinfectant spray from the nearby market. It had a knob which was to be opened in a particular way. However, there was no instruction on its package in this regard. Therefore, when he tried to open the knob in a casual way, some of the spray flew in his eyes. This affected his vision.</p> <p>In context of the above case:</p> <ol style="list-style-type: none"> <li>1. Explain the rights of consumer being violated by the company.</li> <li>2. State any two directions which the consumer court can issue to the company after being satisfied with the genuineness of the complaint.</li> </ol>
9.	Can a consumer complaint be resolved through mediation?
10.	What are Consumer Disputes Redressal Agencies?
11.	What is CCPA?
12.	What if the consumer is not satisfied with the order of the Consumer commission?
13.	What is an unfair contract under Consumer Protection Act, 2019?

14.	What is a misleading advertisement under Consumer Protection Act, 2019?
	Answers-one mark
1.	(b) Because he has already consumed the product
2.	(a) Because he is dead
3.	(b) Right to be heard
4.	(c) Right to information
5.	(c) Right to seek redressal
6.	(b) When the value of the goods or services in question, along with the compensation claimed, exceeds ₹1 crore but does not exceed ₹10 crores.
7.	(d) All of the above
8.	(c) 30 days
9.	(d) 45 days
10.	B. Right to Safety
11.	B. Must Obtain Cash Memo
12.	C. She do not have the Cash Memo
13.	D) All Goods and Services
14.	A) 30
15.	C) Restricted trade practices
16.	d) Online transactions through electronic means
17.	As per Consumer Protection Act 2019, the expression “buys any goods” and ‘hires or avails any services” includes offline or online transactions through electronic means or by teleshopping or direct selling or multi-level marketing.
18.	False
19.	D) All of the above
20.	D) None of the above
	3 marks – Answers
1.	Right to be heard has been exercised by Manu. The consumer has the right to provide his opinion regarding the product and services, as well as he

	<p>has the right to be heard in such cases. Hence the consumer has a right to file a complaint if he thinks that his rights have been violated. Also, various consumer cells have been opened up in India so as to provide them the right to be heard.</p>
2.	<p>Right to choose has been exercised by Mahesh. Consumers have the right to choose any product from the available options based on their own preferences. Hence no seller has the right to influence the consumer into purchasing a certain product through unacceptable means.</p>
3.	<p>No, Monika will not be able to appeal further in the State commission. This is because two months have already passed and the appeal had to be filed within 45 days of the passing of the order by the District Forum.</p>
4.	<p>The reliefs available to Reena are listed below:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> To withdraw the hazardous goods from sale.</li> <li><input type="checkbox"/> To provide replacement for the defective product.</li> <li><input type="checkbox"/> To refund the price paid for the product, or the charges paid for the service.</li> <li><input type="checkbox"/> To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to the negligence of the marketer.</li> </ul>
5.	<p>The Right to information is being fulfilled by the directives of SEBI in the above mentioned case.</p> <p>According to the Right to information, the consumer has the right to get complete information about the product that he/she may propose to buy including its contents, date of manufacture and expiry, maximum retail price, quantity, directions for use etc. Moreover, as per law, it is mandatory for the marketers to provide complete information about the product/service to buyers.</p>

6.	<p>The directions that might have been issued by the court are as follows:(any three)</p> <p>Reliefs available to a consumer</p> <ol style="list-style-type: none"> <li>a. To remove the deficiency in service.</li> <li>b. To refund the charges paid for the service.</li> <li>c. To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to the negligence of the opposite party.</li> <li>d. To discontinue the unfair/restrictive trade practice and not to repeat it in the future.</li> <li>e. To pay any amount (not less than 5% of the value of the defective goods or deficient services provided), to be credited to the Consumer Welfare Fund or any other organisation/person, to be utilised in the prescribed manner.</li> </ol>
7.	<ol style="list-style-type: none"> <li>1. Jagadish should have checked for the quality assurance mark like FPO /FSSAI on its label while purchasing the food product.</li> <li>2. District Forum</li> <li>3. To refund the price paid for the product, or the charges paid for the service.</li> </ol> <p>Or To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to the negligence of the opposite party.</p>
8.	<p>The two rights of consumer being violated in the above case are Right to information and Right to safety.</p> <p>Right to Safety: Consumers have the right to be safeguarded against items and services that are harmful to their health and well-being. The consumers are righteous to get quality products, and they can also demand quality assurance from the seller for the same. Such as ISI, FPO, AGMARK, Hallmark etc are quality marks for industrial items, food products, agricultural products, gold respectively.</p> <p>Right to be Informed: Before purchasing a product, the consumer has the right to get complete information about it, regarding the quality, quantity, ingredients, purity, price etc</p> <ol style="list-style-type: none"> <li>2. The two directions which the consumer court can issue to the company after being satisfied with the genuineness of the complaint are as follows: <ol style="list-style-type: none"> <li>a) Not to offer hazardous goods for sale.</li> </ol> </li> </ol>



	b) To pay a reasonable amount of compensation for any loss or injury suffered by the consumer due to the negligence of the marketer.
9.	Yes. Either at the first hearing after admission, or at later stage if the District Commission is of the view that, there exists an element of settlement, can refer the complaint to Mediation with the consent of the parties. Also, parties at any stage of the complaint can opt for settlement through mediation.
10.	These are quasi-judicial bodies established under the Act to provide simple, speedy and inexpensive redressal to the grievances of the consumers. These have been established at three levels: District, State and National known as: <ul style="list-style-type: none"> <li>• District Consumer Disputes Redressal Commission or District Commission</li> <li>• State Consumer Disputes Redressal Commission or State Commission</li> <li>• National Consumer Disputes Redressal Commission or National Commission.</li> </ul>
11.	The New Act provides power to Central Government to establish Central Consumer Protection Authority (CCPA) to regulate matters relating to violation of rights of Consumers, unfair trade practices and false or misleading advertisements which are prejudicial to the interests of public and Consumer and to promote, protect and enforce the rights of Consumer as a Class.
12.	Any consumer who is aggrieved by the order of a commission can prefer an appeal in the higher commission within a period of forty-five days from the date of the order. The appeal can be preferred <ul style="list-style-type: none"> <li>• against order of the District Commission before the State Commission within 45 days.</li> <li>• against order of the State Commission before the National Commission within 45 days.</li> <li>• against order of the National Commission before the Supreme Court within 45 days.</li> </ul>
13.	Write any three - "Unfair contract" means a contract between a manufacturer or trader or service provider on one hand, and a consumer on the other, having such terms which cause

	<p>significant change in the rights of such consumer, including the following, namely:</p> <p>—</p> <p>A. Requiring manifestly excessive security deposits to be given by a consumer for the performance of contractual obligations.</p> <p>B. Imposing any penalty on the consumer, for the breach of contract thereof which is wholly disproportionate to the loss occurred due to such breach to the other party to the contract.</p> <p>C. Refusing to accept early repayment of debts on payment of applicable penalty; or d. Entitling a party to the contract to terminate such contract unilaterally, without reasonable cause.</p> <p>D. Permitting or has the effect of permitting one party to assign the contract to the detriment of the other party who is a consumer, without his consent.</p> <p>E. Imposing on the consumer any unreasonable charge, obligation or condition which puts such consumer to disadvantage</p>
14.	<p>Misleading advertisement" in relation to any product or service, means an advertisement, which—</p> <p>A. Falsely describes such product or service.</p> <p>B. Gives a false guarantee to, or is likely to mislead the consumers as to the nature, substance, quantity or quality of such product or service.</p> <p>C. Conveys an express or implied representation which, if made by the manufacturer or seller or service provider thereof, would constitute an unfair trade practice.</p> <p>D. Deliberately conceals important information</p>

**Suggested Question Paper Design Business Studies (Code No. 054) Class XII (2022-23)****March 2023 Examination****Marks: 80****Duration: 3 hrs.**

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


**PRACTICAL DETAILS**  
**ASSESSMENT**

Allocation of Marks = 20 Marks

The marks will be allocated under the following heads:

1	Initiative, cooperativeness and participation	2 Mark
2	Creativity in presentation	2 Mark
3	Content, observation and research work	4 Marks
4	Analysis of situations	4 Marks
5	Viva	8 Marks
	<b>Total</b>	<b>20 Marks</b>

	<p>CLASS XII</p> <p>BUSINESS STUDIES</p> <p>CBSE SAMPLE QUESTION PAPER 2022-23</p> <p>MM – 80</p> <p>TIME: 3 HOURS</p>	
	<p>General instructions :</p> <ol style="list-style-type: none"> <li>1 This question paper contains 34 questions.</li> <li>2. Marks are indicated against each question.</li> <li>3. Answers should be brief and to the point.</li> <li>4. Answers to the questions carrying 3 marks may be from 50 to 75 words.</li> <li>5. Answers to the questions carrying 4 marks may be about 150 words.</li> <li>6. Answers to the questions carrying 6 marks may be about 200 words.</li> <li>7. Attempt all parts of the questions together.</li> </ol>	
1.	<p>Rishabh joined an entertainment company Avtaar, as a creative head. As a manager looking after the creative unit of the company, one of the functions he has to perform is the process of organizing. Which step of the process will he need to perform after identifying and dividing the work that has to be done in accordance with previously determined plans?</p> <ol style="list-style-type: none"> <li>a) Identification and division of work</li> <li>b). Departmentalisation</li> <li>c). Assignment of Duties</li> <li>d). Establishing Reporting Relationships</li> </ol>	1
2.	<p>Which characteristic of the business environment is highlighted when changes are taking place too frequently and it becomes difficult to predict the future?</p> <ol style="list-style-type: none"> <li>a). Uncertainty</li> <li>b). Complexity</li> <li>c). Inter-relatedness</li> <li>d). Relativity</li> </ol>	1
3.	<p>Aarohan Ltd. is a company manufacturing automobiles where division of work into key areas includes production, purchase, marketing, accounts and personnel. Which of the following is a disadvantage of the organization structure of Aarohan Ltd.?</p> <ol style="list-style-type: none"> <li>a). It may lead to increase in cost</li> <li>b). Managers may gain power and assert independence and ignore organization interests.</li> <li>c). It ensures that different functions get due attention.</li> <li>d). Heads do not get training for top management positions.</li> </ol>	1

4.	 <p>Identify the dimensions of the business environment illustrated by the picture given above in which Sapna who has joined the workforce recently is working on an accounting software.</p> <ul style="list-style-type: none"> <li>a. Technological and social.</li> <li>b. Technological and political</li> <li>c. Political and economic</li> <li>d. Social and legal</li> </ul>	1
5.	<p>Identify the reason which makes management important in the light of the fact that it is generally seen that individuals in an organization resist change, as a change often means moving from a familiar, secure environment into a newer and a more challenging one.</p> <ul style="list-style-type: none"> <li>a. Management helps in achieving group goals.</li> <li>b. Management creates a dynamic organization</li> <li>c. Management increases efficiency</li> <li>d. Management helps in the development of society.</li> </ul>	1
6.	<p>The government of India made an announcement regarding Demonetization of the Indian economy on November 8, 2016 with profound implications for it. The process which put restrictions on convertibility of domestic money and bank deposits was meant to create a less-cash economy. One argument against the cash-lite economy is that:</p> <ul style="list-style-type: none"> <li>a).Internet connectivity is a prerequisite</li> <li>b).More people will be introduced into the formal economy.</li> <li>c).Financial saving will increase</li> <li>d).Tax evasion will be reduced</li> </ul>	1

7.	<p>Airlines will be able to offer the benefit of lower pricing to customers on sectors/routes due to the decision of the civil aviation ministry to remove price caps from August 31, 2022. This can help an airline to do better performance if they take early decisions regarding future courses of action after understanding and doing analysis. Which importance of business environment and its understanding by managers is not highlighted above:</p> <ul style="list-style-type: none"> <li>a. It helps in improving performance</li> <li>b. It helps in assisting in planning and policy formulation</li> <li>c. It helps in tapping useful resources</li> <li>d. It enables a firm to identify opportunities and get first mover advantage.</li> </ul>	1
8.	<p>Allo a mobility platform is in the process of laying off 400-500 employees in a move aimed at driving cost efficiency. Which objective of management will the firm not be able to achieve by carrying out this process.</p> <ul style="list-style-type: none"> <li>a) Efficiency</li> <li>b) Social</li> <li>c) Profit</li> <li>d) Survival</li> </ul>	1
9.	<p>Radha started a home cooked food delivery Dabba service. Her mother, who is a great cook, decided to help her. They relied on friends and family for orders and then on word of mouth. As a step in the process of ensuring that activities are performed as per her plan of supplying healthy, good quality, reasonable food and earning profit, she decided to keep both qualitative and quantitative benchmarks towards which she would strive to work. A function of management is being discussed above. An important characteristic of this function of management is :</p> <ul style="list-style-type: none"> <li>a. It is the first function of management</li> <li>b. It is the Last function of management</li> <li>c. It is both forward looking and backward looking.</li> <li>d. It is required only in business organizations.</li> </ul>	1
10.	<p>Raman and Vasudev were two employees who were embezzling an import-export company in Varanasi where they were working. The finance manager of the company Sampat Singh became suspicious of the two employees when he realized that their activities were not being performed as per the plans. He installed a software program that could secretly log every single stroke of the suspects' computer keys and send an encrypted email report to the Cyber police. The police were able to catch the two dishonest employees red handed and arrest them. Identify the function of management being discussed above.</p> <ul style="list-style-type: none"> <li>a. Staffing</li> <li>b. Coordination</li> <li>c. Controlling</li> <li>d. Organizing</li> </ul>	1
11.	<p>Name the outcome of the function of management which includes designing of roles to be filled by suitably skilled people and defining the inter relationship between roles so that ambiguity in performance of duties can be eliminated.</p> <ul style="list-style-type: none"> <li>a. Organization structure</li> </ul>	1





	Exchanges	
17.	<p>One of the following is considered to be an extension of the marketing concept, which apart from customer satisfaction pays attention to ethical and ecological aspects of marketing. Identify the concept.</p> <p>a. Selling concept</p> <p>b. Product concept</p> <p>c. Production concept</p> <p>d. Societal Marketing concept</p>	
18.	<p>While the product costs set 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. 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>	
19.	<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 the buyer.</p>	
20.	<p>Arrange the steps involved in trading procedure at the stock exchange in correct sequence :</p> <p>i) Settlement of order</p> <p>ii) Opening of Demat Account</p> <p>iii) Placing of order</p> <p>iv) Execution of order</p> <p>a) (ii) ; (iv);( iii);(i)    b) (ii) ;(i) ;(iii);(ii)</p> <p>c) (iii);(ii);( ii);(i)    d) (ii);(iii);(iv);(i)</p>	
21.	<p>Top management plans for the entire organization. According to these plans the organizational structure is developed and staffed. In order to ensure that these plans are executed according to plans, directing is required. Any discrepancies between actual and realized activities are then taken care of at the stage of controlling. Name and explain the process highlighted above which started at the planning stage itself and is implicit and inherent in all the functions of management in an organization.</p>	3

22.	Mrs. Ahilya Pasi is the Principal of a prestigious school in New Delhi. The school has a vacancy of a headmistress/headmaster of the junior wing of the school. The senior teachers of the school have the opinion that only internal candidates should be considered for this post. However, Mrs. Pasi and the management would like to invite applications from external sources too. Briefly explain any three justifications the management can provide to convince the staff for inviting applications of external candidates for the vacant post.	3
23.	<p>Explain “Critical point control” with respect to Analyzing deviations, a step in the process of controlling. Give a suitable example.</p> <p style="text-align: center;">OR</p> <p>Explain “Management by exception” with respect to Analyzing deviations, a step in the process of controlling. Give a suitable example.</p>	3
24.	<p>State any three objectives of the Securities Exchange Board of India.</p> <p style="text-align: center;">Or</p> <p>State any three functions performed by the stock exchange.</p>	3 3
25.	<p>Enumerate any four benefits of the process by which the aptitudes, skills and abilities of employees to perform specific jobs are increased.</p> <p style="text-align: center;">OR</p> <p>Name the mechanism that attempts to measure certain characteristics of individuals in the process of identifying and choosing the best person out of the number of prospective candidates for the job. Enumerate any three of its types.</p>	4
26.	<p>State any four barriers to communication which are concerned with problems and obstructions in the process of encoding and decoding the message into words or impressions.</p> <p style="text-align: center;">OR</p> <p>State any four barriers to communication which are related to authority relationships, rules and regulations of the company.</p>	4
27	In Saarthak Steel several initiatives have been taken to further improve the motivation levels of employees through designing jobs that include greater variety of work content, providing certain stability about future income and work, providing fringe benefits like housing, medical aid, etc., allotment of shares in line with various incentives. Identify and briefly explain the incentives being given by the organization to the employees.	4
28.	State any four factors affecting the financial decision that is concerned with raising of finance using shareholders’ funds and borrowed funds.	4

29.	<p>Krish limited is in the business of manufacturing and exporting carpets and other home décor products. It has a share capital of ₹ 70 lacs at the face value of ₹ 100 each. Company is considering a major expansion of its production facilities and wants to raise ₹ 50 lacs. The finance manager of the company Mr. Prabhakar has recommended that the company can raise funds of the same amount by issuing 7% debentures. Given that earning per share of the company after expansion is ₹ 35 and tax rate is 30%, did Mr. Prabhakar give a justified recommendation? Show the working.</p>	4
30.	<p>Mayank purchased a pack of chocolates of a renowned brand for his daughter from a shop in the nearby market. After consuming the chocolates, 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 Mayank, in order to enable him/her to achieve the objective of consumer protection? Enumerate any four points.</p>	4
31.	<p>Briefly explain any three of the following techniques of Scientific Management as given by F.W. Taylor:</p> <ol style="list-style-type: none"> <li>a. Method study</li> <li>b. Functional foremanship</li> <li>c. Standardization</li> <li>d. Differential piece wage system</li> </ol> <p style="text-align: center;">OR</p> <p>Briefly explain any three of the following principles of management given by Henry Fayol:</p> <ol style="list-style-type: none"> <li>a. Unity of command</li> <li>b. Equity</li> <li>c. Remuneration</li> <li>d. Initiative</li> </ol>	6
32.	<p>‘The pros and cons of each alternative need to be weighed.’ Name and briefly explain the logical steps in the process of planning which are followed by a manager before performing the step highlighted in the above statement.</p> <p style="text-align: center;">OR</p> <p>Briefly explain the next three steps in the process of planning which the manager will have to have to follow after using conjecture about what might happen in the future.</p>	6
33.	<p>Jojo and Jojo is a company known for its consumer business of baby oil and bandages, but many people do not know that the company also runs a medical device and diagnostics business, as well as a pharmaceutical company. With more than 1,80,000 employees worldwide the company has chosen to share decision making authority with lower levels and place it nearest to the point of action. Therefore the response does not take time. This</p>	6

	<p>propagates the belief that people are competent, capable and resourceful who can get a chance to prove their abilities. And enables the company in identifying those executives who have the necessary potential to become dynamic leaders, so that the checking required on decisions taken by lower levels of management is the least. This makes it possible to evaluate performance at each level and each department can be individually held accountable for their results.</p> <p>By quoting the lines given above identify and briefly explain the benefits of the concept discussed above.</p>	
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 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

CBSE MARKING SCHEME

BUSINESS STUDIES

2022-23

	<b>Answers</b>	<b>Marks</b>
1	b) Departmentalization	1
2	a) Uncertainty	1
3	d) Heads do not get training for top management positions.	1
4	a) Technological and Social	1
5	b) Management creates a dynamic organization	1
6	a) Internet connectivity is a prerequisite	1
7	c) It helps in tapping useful resources	1
8	b) Social	1
9	c) It is both forward looking and backward looking	1
10	c) Controlling	1
11	a) Organization structure	1
12	d) Both the statements are false	1

13	(a) (ii), (iii), (i)	1
14	b) Unique order code	1
15	d) physical distribution	1
16	( C )Securities Exchange Board of India performs the regulatory function of controlling insider trading and imposing penalties for such practices.	1
17	d ).Societal Marketing concept	1
18	(a) Utility and demand of the product	1
19	a) It is a personal form of communication	1
20	d). (ii);(iii),(iv);(i)	1
21	Coordination The process by which a manager synchronizes the activities of different departments is known as coordination. Coordination is the force that binds all the other functions of management. It is the common thread that runs through all activities. It is implicit and inherent in all functions of an organization.	1 (1X2)
22	Merits of external sources: (Any three) 1. Qualified personnel: By using external sources of recruitment, the management can attract qualified and trained people to apply for vacant jobs in the organization. 2. Wider choice: When vacancies are advertised wisely, a large number of applicants from outside the organization can apply. The management has a wider choice while selecting the people for employment. 3. Fresh Talent: The present employees may be insufficient or they may not fulfill the specifications of the jobs to be filled. External recruitment provides wider choice and brings new blood in the organization. 4. Competitive spirit: If a company taps external sources, the existing sources, the existing staff will have to compete with the outsiders. They will work harder to show better performance.	(1X3=3)  ½ mark for the heading and ½ for the explanation
23	Critical point control: It is neither economical nor easy to keep a check on each and every activity in an organization. Control should therefore focus on key result areas which are critical to the success of an organization.	(2+1 = 3)

	<p>These KRAs are set as the critical points. If anything goes wrong at the critical points, the entire organization suffers. For instance, in a manufacturing organization, an increase of 5% in the labour cost may be more troublesome than a 15% increase in postal charges.</p> <p style="text-align: center;">OR</p> <p>Management by Exception: Management by exception, which is often referred to as control by exception, is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing. Thus, only significant deviations which go beyond the permissible limit should be brought to the notice of the management. For instance, if the plans lay down 2% increase in labour cost as an acceptable range of deviation in a manufacturing organization, only an increase in labour cost beyond 2% should be brought to the notice of the management. However, in case of major deviation from the standard (say, 5%), the matter has to receive immediate action of management on a priority basis.</p>	(2+1=3)
24	<p>Following are the objectives of SEBI : ( any three)</p> <ol style="list-style-type: none"> <li>1. To regulate stock exchanges and the securities industry to promote their orderly functioning</li> <li>2. To protect the rights and interests of investors, particularly individual investors and to guide and educate them.</li> <li>3. To prevent trading malpractices and achieve a balance between self-regulation by the securities industry and its statutory regulation.</li> <li>4. 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.</li> </ol> <p style="text-align: center;">OR</p> <p>Following are the functions of stock exchange: (any three)</p> <p>(i) Providing liquidity and marketability to existing securities.</p> <p>(ii) Pricing of securities on the stock exchange is determined by the forces of demand and supply.</p> <p>(iii) Safety of transaction is ensured as membership of a stock exchange is well regulated and its dealings are well defined.</p> <p>(iv) Contributes to economic growth through the process of disinvestment and reinvestment.</p> <p>(v) Spreading of equity cult by ensuring wider ownership by way of regulating new issues.</p> <p>(vi) Providing scope for speculation by ensuring speculative activity within the</p>	<p>(1x3)</p> <p>1 mark for each correct statement.</p> <p>(1x3)</p> <p>1 mark for each correct statement.</p>

	provisions of law for it to take place in a restricted and controlled manner.	
25	<p>The benefits of training to an organization are as follows:(any four)</p> <p>(i) Training is a systematic learning, Always better than hit and trial methods which lead to wastage of efforts and money?</p> <p>(ii) It enhances employee productivity both in terms of quantity and quality, leading to higher profits.</p> <p>(iii) Training equips the future manager who can take over in case of emergency.</p> <p>(iv) Training increases employee morale and reduces absenteeism and employee turnover.</p> <p>(v) It helps in obtaining an effective response to a fast changing environment – technological and economic.</p> <p style="text-align: center;">OR</p> <p>Selection test</p> <p>Types of tests are: ( any three)</p> <p>a. Intelligence test is one of the important psychological tests used to measure the level of intelligence quotient of an individual and is an indicator of a person’s ability or the ability to make decisions and judgments.</p> <p>b. Aptitude test is a measure of an individual's potential for learning new skills and indicates the person’s capacity to develop.</p> <p>c. Personality tests provide clues to a person’s emotions, her reactions, maturity, and value system and probe the overall personality.</p> <p>d. Trade tests measure the existing skills of the individual, level of knowledge and proficiency in the area of professions or technical training.</p> <p>e. Interest tests are used to know the pattern of interests or involvement of a person.</p>	<p>(1X4=4)</p> <p>1</p> <p>(1X3=3)</p>



26	<p>Semantic barriers (Any four):</p> <ol style="list-style-type: none"> <li>1. Sometimes intended meaning may not be conveyed by a manager to his subordinates due to badly expressed messages which may be on account of inadequate vocabulary, usage of wrong words, omission of needed words, etc.</li> <li>2. A word may have different meanings and the receiver has to perceive one such meaning for the word used by the communicator.</li> <li>3. If the translator is not proficient with both the languages, mistakes may creep in causing different meanings to communication.</li> <li>4. Some communications may have certain assumptions which are subject to different interpretations.</li> <li>5. It is usually found that specialists use technical jargon while explaining to persons who are not specialists in the concerned field and therefore they may not understand the actual meaning of many words.</li> </ol>	4
	<p>6. If there is no match between what is said and what is expressed in body movements, communications may be wrongly perceived.</p> <p style="text-align: center;">OR</p> <p>Organizational barriers (Any four):</p> <ol style="list-style-type: none"> <li>1. If organizational policy either explicit or implicit is not supportive to free flow of communication it may hamper effectiveness of communications.</li> <li>2. Rigid rules and regulations, cumbersome procedures may be a hurdle to communication, as communications through prescribed channels may result in delays.</li> <li>3. Status of superior may create psychological distance between him and his subordinates.</li> <li>4. Complexity in the organization caused by the number of managerial levels may delay and distort the communication as the number of filtering points is more.</li> <li>5. If facilities like frequent meetings, suggestion box, and complaint box, social and cultural gathering, transparency in operations, etc, for smooth, clear and timely communications are not provided, communications may be hampered.</li> </ol>	(1X4=4) 1 mark for each correct statement
27	<p>Incentives being given by the organization to the employees are:</p> <ol style="list-style-type: none"> <li>1. Job enrichment: Job enrichment is concerned with designing jobs that include greater variety of work content, require higher level of knowledge and skill; give workers more autonomy and responsibility; and provide opportunity for personal growth and a meaningful work experience.</li> <li>2. Job security: Employees want their jobs to be secure. They want certain stability about future income and work so that they do not feel worried about these aspects and work with greater zeal.</li> <li>3. Perquisites: In many companies perquisites and fringe benefits are offered such as car allowance, housing, medical aid and education to the children, etc., over and above the salary.</li> <li>4. Co-partnership/stock option: Under these incentive schemes, employees are offered company shares at a set price which is lower than market price. Sometimes, management may allot shares in line of various incentives payable in cash.</li> </ol>	(1X4=4) ½ mark for the heading and ½ mark for the explanation

28	<p>Following are the factors affecting capital structure of a company : (Any four)</p> <ol style="list-style-type: none"> <li>1. Size of the projected Cash flows must be considered before borrowing.</li> <li>2. Interest Coverage Ratio refers to the number of times earnings before interest and taxes of a company covers the interest obligation.</li> <li>3. Debt Service Coverage Ratio takes care of the deficiencies referred to</li> </ol>	<p>(1X4=4)</p> <p>1 mark for each correct statement</p>
	<p>in the interest coverage ratio.</p> <ol style="list-style-type: none"> <li>4. More debt can be used if debt can be raised at a lower rate</li> <li>5. A higher Tax Rate makes debt relatively cheaper and increases its attraction vis-a-vis equity.</li> <li>6. Process of raising resources also involves some cost which may affect the choice between debt and equity and hence capital structure.</li> <li>7. If a firm's business risk is lower, its capacity to use debt is higher and vice versa.</li> <li>8. To maintain flexibility the firm must maintain some borrowing power to take care of unforeseen circumstances.</li> <li>9. Capital Structure of other companies is a useful guideline in the capital structure planning.</li> <li>10. Stock Market Conditions often affect the choice between debt and equity.</li> <li>11. Every company operates within a regulatory framework provided by the law.</li> <li>12. Control as a factor also influences the choice between debt and equity especially in companies in which the current holding of management is on a lower side.</li> <li>13. If the ROI of the company is higher, it can choose to use trading on equity to increase its EPS.</li> <li>14. When a company increases debt, the financial risk faced by the equity shareholders increases consequently their desired rate of return may increase.</li> </ol> <p style="text-align: center;">OR</p> <p>Factors affecting financing decision: (Any four)</p> <ol style="list-style-type: none"> <li>1. A prudent financial manager would normally opt for a source which is the cheapest.</li> <li>2. The risk associated with each of the sources is different.</li> <li>3. Higher the floatation cost, less attractive the source.</li> <li>4. A stronger cash flow position may make debt financing more viable than funding through equity.</li> <li>5. If a business has high fixed operating costs, it must reduce fixed financing costs.</li> <li>6. Issues of more equity may lead to dilution of management's control over the business.</li> <li>7. Health of the capital market may also affect the choice of source of funds.</li> </ol>	

29	<p>Earnings per share = ₹ 35</p> <p>EPS = Earning after tax / No.of equity shares</p> <p>35= Earning after tax / 70,000</p>	3
	<p>Earning after tax = ₹ 24,50,000</p> <p>Interest= 50,00,000 x7/100 = ₹. 3,50,0000</p> <p>Let the Earning before tax (EBT) = x</p> <p>EBT- Tax= EAT</p> <p>X-0.30 x= 24,50,000</p> <p>0.70 x = 24,50,000</p> <p>x= 24,50,000/0.70</p> <p>x= 35,00,000</p> <p>Earning before tax = ₹. 35,00,000</p> <p>EBIT = Earning before tax + Interest</p> <p>= 35,00,000 + 3,50,000</p> <p>= ₹. 38,50,000</p> <p>ROI= EBIT/total Investment × 100= 38,50,000 / 1,20,00,000 × 100 = 32.08%</p> <p>As ROI (32.08%) &gt; Rate of interest (7%). The company can choose to use trading on equity to increase its EPS. The finance manager was justified in making this recommendation.</p>	1

30	<p>A consumer should keep in mind the following responsibilities while purchasing, using and consuming goods and services (Any four)—</p> <p>(i) Be aware about various goods and services available in the market so that an intelligent and wise choice can be made.</p> <p>(ii) Buy only standardized goods as they provide quality assurance. Thus, look for ISI mark on electrical goods, FPO mark on food products, Hallmark on jewelry, etc.</p> <p>(iii) Learn about the risks associated with products and services, follow manufacturer's instructions and use the products safely.</p> <p>(iv) Read labels carefully so as to have information about prices, net weight, manufacturing and expiry dates, etc.</p> <p>(v) Assert yourself to ensure that you get a fair deal.</p> <p>(vi) Be honest in your dealings. Choose only from legal goods and services and discourage unscrupulous practices like black-marketing, hoarding, etc.</p> <p>(viii) File a complaint in an appropriate consumer forum in case of a shortcoming in the quality of goods purchased or services availed. Do not fail to take an action even when the amount involved is small.</p> <p>(ix) Form consumer societies which would play an active part in educating consumers and safeguarding their interests.</p> <p>(x) Respect the environment. Avoid waste, littering and contributing to pollution.</p>	(1x4=4)
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<p>31</p>	<p>Techniques of Scientific Management given by F.W.Taylor:</p> <p>Method Study</p> <p>The objective of method study is to find out one best way of doing the job. There are various methods of doing the job. To determine the best way there are several parameters. Right from procurement of raw materials till the final product is delivered to the customer every activity is part of method study. Taylor devised the concept of assembly line by using method study. Ford Motor Company used this concept very successfully. Even now auto companies are using it.</p> <p>The objective of the whole exercise is to minimize the cost of production and maximize the quality and satisfaction of the customer. For this purpose many techniques like process charts and operations research etc. are used.</p> <p>For designing a car, the assembly line production would entail deciding the sequence of operations, place for men, machines and raw materials etc. All this is part of method study.</p> <p>(b) Functional foremanship is an extension of the principle of division of work and specialization to the shop floor. Each worker will have to take orders from these eight foremen in the related process or function of production. Foremen should have intelligence, education, tact, grit, judgment, special knowledge, manual dexterity, and energy, honesty and good health. Since all these qualities could not be found in a single person, Taylor proposed eight specialists. Each specialist is to be assigned work according to her/his qualities. For example, those with technical mastery, intelligence and grit may be given planning work. Those with energy and good health may be assigned execution work</p> <p>( c ) Standardization refers to the process of setting standards for every business activity; it can be standardization of process, raw material, time, product, machinery, methods or working conditions. These standards are the benchmarks, which must be adhered to during production. The Objective Of</p> <p>(i) To reduce a given line or product to fixed types, sizes and characteristics.  (ii) To establish interchangeability of manufactured parts and products.  (iii) To establish standards of excellence and quality in materials.  (iv) To establish standards of performance of men and machines</p> <p>(d) Taylor was a strong advocate of a piece wage system. He wanted to differentiate between efficient and inefficient workers. The standard time and other parameters should be determined on the basis of the work- study discussed above. The workers can then be classified as efficient or inefficient on the basis of these standards. He wanted to reward efficient workers. So he introduced different rates of wage payment for those who performed above standard and for those who performed below standard.</p>	<p>(3X2=6)</p> <p>(3X2=6)</p>
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OR

Principles of Management given by Henry Fayol:

(a) Unity of Command: According to Fayol there should be one and only one boss for every individual employee. If an employee gets orders from two superiors at the same time the principle of unity of command is violated. The principle of unity of command states that each participant in a formal organization should receive orders from and be responsible to only one superior. Fayol gave a lot of importance to this principle. He felt that if this principle is violated "authority is undermined; discipline is in jeopardy, order disturbed and stability threatened". The principle resembles military organization. Dual subordination should be avoided. This is to prevent confusion regarding tasks to be done. Suppose a sales person is asked to clinch a deal with a buyer and is allowed to give a 10% discount by the marketing manager. But the finance department tells her/ him not to offer more than a 5% discount. Now there is no unity of command. This can be avoided if there is coordination between various departments.

b) Equity: Good sense and experience are needed to ensure fairness to all employees, who should be treated as fairly as possible," according to Fayol. This principle emphasizes kindness and justice in the behavior of managers towards workers. This will ensure loyalty and devotion. Fayol does not rule out use of force sometimes. Rather he says that lazy personnel should be dealt with sternly to send the message that everyone is equal in the eyes of the management. There should be no discrimination against anyone on account of sex, religion, language, caste, belief or nationality etc. In practice we can observe that now a days in multinational corporations people of various nationalities work together in a discrimination free environment. Equal opportunities are available for everyone in such companies to rise.

( c ) Remuneration of Employees: The overall pay and compensation should be fair to both employees and the organization. The employees should be paid fair wages, which should give them at least a reasonable standard of living. At the same time it should be within the paying capacity of the company. In other words, remuneration should be just and equitable. This will ensure a congenial atmosphere and good relations between workers and management. Consequently, the working of the company would be smooth.

(d) Initiative: Workers should be encouraged to develop and carry out their plans for improvements according to Fayol. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan. It is one of the traits of an intelligent person. Initiative should be encouraged. But it does not mean going against the established practices of the company for the sake of being different. A good company should have an employee suggestion system whereby initiative/suggestions which result in substantial cost/time reduction should be

<p>32</p>	<p>Steps in the process of planning to be followed by a manager before performing the step of evaluation of alternatives:</p> <p>Setting Objectives: The first and foremost step is setting objectives. Every organization must have certain objectives. Objectives may be set for the entire organization and each department or unit within the organization. Objectives or goals specify what the organization wants to achieve. It could mean an increase in sales by 20% which could be the objective of the entire organization. How all departments would contribute to the organizational goals is the plan that is to be drawn up. Objectives should be stated clearly for all departments, units and employees. They give direction to all departments. Departments/ units then need to set their own objectives within the broad framework of the organization’s philosophy. Objectives have to percolate down to each unit and employees at all levels. At the same time, managers must contribute ideas and participate in the objective setting process. They must also understand how their actions contribute to achieving objectives. If the end result is clear it becomes easier to work towards the goal.</p> <p>(ii) Developing Premises: Planning is concerned with the future which is uncertain and every planner is using conjecture about what might happen in future. Therefore, the manager is required to make certain assumptions about the future. These assumptions are called premises. Assumptions are the base material upon which plans are to be drawn. The base material may be in the form of forecasts, existing plans or any past information about policies. The premises or assumptions must be the same for all and there should be total agreement on them. All managers involved in planning should be familiar with and use the same assumptions. For example, forecasting is important in developing premises as it is a technique of gathering information. Forecasts can be made about the demand for a particular product, policy change, interest rates, prices of capital goods, tax rates etc. Accurate forecasts therefore become essential for successful plans.</p> <p>(iii) Identifying alternative courses of action: Once objectives are set, assumptions are made. Then the next step would be to act upon them. There may be many ways to act and achieve objectives. All the alternative courses of action should be identified. The course of action which may be taken could be either routine or innovative. An innovative course may be adopted by involving more people and sharing their ideas. If the project is important, then more alternatives should be generated and thoroughly discussed amongst the members of the organization.</p> <p style="text-align: center;">OR</p> <p>The next three steps are :</p> <p>i) Identifying alternative courses of action: Once objectives are set, assumptions are made. Then the next step would be to act upon them. There</p>	<p>(2X3=6)</p> <p>½ mark for heading and 1½ mark for the explanation</p> <p>(2X3=6)</p> <p>½ mark for heading and 1½ mark for the explanation</p>
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	<p>may be many ways to act and achieve objectives. All the alternative courses of action should be identified. The course of action which may be taken could be either routine or innovative. An innovative course may be adopted by involving more people and sharing their ideas. If the project is important, then more alternatives should be generated and thoroughly discussed amongst the members of the organization.</p> <p>ii) Evaluating alternative courses: The next step is to weigh the pros and cons of each alternative. Each course will have many variables which have to be weighed against each other. The positive and negative aspects of each proposal need to be evaluated in the light of the objective to be achieved. In financial plans, for example, the risk-return trade-off is very common. The more risky the investment, the higher the returns it is likely to give. To evaluate such proposals detailed calculations of earnings, earnings per share, interest, taxes, dividends are made and decisions taken. Accurate forecasts in conditions of certainty/uncertainty then become vital assumptions for these proposals. Alternatives are evaluated in the light of their feasibility and consequences.</p> <p>(iii) Selecting an alternative: This is the real point of decision making. The best plan has to be adopted and implemented. The ideal plan, of course, would be the most feasible, profitable and with least negative consequences. Most plans may not always be subjected to a mathematical analysis. In such cases, subjectivity and the manager's experience, judgment and at times, intuition play an important part in selecting the most viable alternative. Sometimes, a combination of plans may be selected instead of one best course. The manager will have to apply permutations and combinations and select the best possible course of action.</p>	
33	<p>Importance of Decentralization:</p> <ol style="list-style-type: none"> <li>1. "Response does not take time". Quick decision making- In a decentralized organization since decisions are taken at levels which are nearest to the point of action and there is no requirement for approvals from many levels, the process is much faster.</li> <li>2. "Who can get a chance to prove their abilities". Develops managerial talent for the future- Decentralization gives managers a chance to prove their abilities and creates a reservoir of qualified manpower that can be considered to fill up more challenging positions through promotion.</li> <li>3. "Identifying those executives who have the necessary potential to become dynamic leaders". Develops initiative among subordinates- Decentralization helps to promote self-reliance and confidence amongst the subordinates. It also keeps them in a state wherein they are constantly challenged and have to develop solutions for the various problems they encounter.</li> <li>4. "This makes it possible to evaluate performance at each level and each department can be individually held accountable for their results."</li> </ol>	<p>(11/2X4=6)</p> <p>(½ mark for quoting+½ mark for identification+½ mark for explaining)</p>



	Better control- Feedback from levels helps to analyze variances and improve operations.	
34	<p>Functions of marketing, apart from the ones Choco Ltd is already performing: (Any four)</p> <ol style="list-style-type: none"> <li>1. Gathering and analyzing market information: This is necessary to identify the needs of the customers and make various decisions for the successful marketing of the products and services. This is important for making an analysis of the available opportunities and threats as well as strengths and weaknesses of the organization and help in deciding what opportunities can best be pursued by it.</li> <li>2. Product designing and development: The design of the product contributes to making the product attractive to the target customers. A good design can improve performance of a product and give it a competitive advantage in the market.</li> <li>3. Standardization: Standardization refers to producing goods of predetermined specifications which help in achieving uniformity and consistency in the output</li> <li>4. Packaging and labeling- Packaging refers to designing and developing the package for the products. Labeling refers to designing and developing the label to be put on the product.</li> <li>5. Transportation- Transportation involves physical movement of goods from one place to another. As generally the users of products particularly consumer products are wide spread and geographically separated from the place where they are produced.</li> <li>6. Storage and warehousing- In order to maintain smooth flow of products in the market, there is a need for proper storage of the products. Further there is need for storage of adequate stock of goods to protect against unavoidable delays in delivery or to meet out contingencies in the demand. Ram Kumar the CEO of Sabarmati Enterprises in a meeting with the middle management of the company advised that the personal goals of the people should be reconciled with the organizational objectives for harmony in the organization. Briefly explain the objective of management that he was referring to.</li> </ol>	<p>(1½ X 4 =6)</p> <p>(½ mark for heading and 1 mark for the explanation)</p>

**SAMPLE QUESTION PAPER No. 1 2022-23**

**CLASS: XII**

**TIME: 3 HOURS**

**SUB : BUSINESS STUDIES**

**MAX.MARKS: 80**

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**GENETAL INSTRUCTIONS:**

1. This Question paper contains 34 Questions
  2. Marks are indicated against each question
  3. Answers should be brief and to the point
  4. Answers to the questions carrying 3 marks may be from 50 to 75 words
  5. Answers to the questions carrying 4 marks may be about 150 words
  6. Answers to the questions carrying 6 marks may be about 200 words
  7. Attempt all parts of the questions together
- 

1. Organizing leads to a systematic allocation of jobs amongst the workforce that further results in enhanced productivity.

Which importance of organizing is discussed in the given sentence?

- (a) Effective administration                      (b) Benefits of specialization  
(c) Optimum utilization of resources      (d) Adaptation to change

(1)

2. Which one is an example of economic environment?

- (a) Changes in technology                      (b) Expectations of society  
(c) Change in exchange rate                      (d) change in governments rules and regulations

(1)

3. Shreya Ltd. has been awarded recently with the 'Best Employer of the Year Award'. The company has believed in the ideas and suggestions of its employees. There is selective dispersal of decision making authority at all levels. There is no delay in delivery of orders to customers due to prompt decisions taken by employees.

Identify the concept of management followed by the company

- (a) Delegation                                      (b) Decentralization  
(c) Departmentalisation                      (d) None of the above                      (1)

4. Banking sector reforms have led to easier credit terms and better services. This is an example of a key component of the Business environment. Name this component.

- (a) Economic environment                      (b) Social environment  
(c) Political environment                      (d) Legal environment                      (1)

5. Gaurav is a managing director in a publishing house. He has been doing well at this

post. Under his guidance and leadership, the company has been actively achieving all the set targets and all the diverse actions taken by different departments are given a common direction

Identify the characteristic of management which is discussed in the given statement.

- (a) Management is a goal-oriented process  
(b) Management is a continuous process

- (c) Management is both goal-oriented process and group activity.
- (d) Management is a group activity

(1)

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

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

(1)

7. Geetha Publishing House, a book publishing company, identifies 'CBSE New Design of Question Paper' as an opportunity early and publishes its books as per the changed CBSE pattern much before its competitors. Which environment awareness is being identified by Geetha Publishing House??

- a. It helps in improving performance
- b. It helps in assisting in planning and policy formulation
- c. It helps in tapping useful resources
- d. It enables a firm to identify opportunities and get first mover advantage

(1)

8. In the first year of operation the revenues generated by Max industries from sale of its products are just sufficient to cover the cost of production. Which organizational objective is met in the given case?

- (a) Survival
- (b)Growth
- (c)Profit
- (d)Social

(1)

9. While scrutinising the production records, it is found that in a particular batch the rejection rate was 5% against the set standard of 2%. The management found out that this was due to negligence of quality control staff. This action is part of which step in controlling process:

- (a) Measurment of acutal performance
- (b) Comparing actual performance with standards
- (c) Analysing deviations
- (d) Taking Corrective action

(1)

10. Textile manufacturer Super textiles reported 43% fall in its profits in the fourth quarter ended 31 March 2019, which is beyond the acceptable range 25% decided by the company This was due to higher fuel cost and lower yield on account of demonetization. The company aims to implement cost saving measures by restructuring contracts and its business processes to meet its targets in the future.

Name the function of management discussed above

- (a) Staffing
- (b) Coordination
- (c) Controlling
- (d)Organizing

(1)

11. It provides the framework which enables the enterprise to function as an intergrated unit by regulating and coordinating the responsibilities of individuals and departments. Identify it (1)

- a. Organization structure
- b. Delegation of authority
- c. Decentralization
- d. controlling

12. Directions: In the given questions ( ), a statement of assertion followed by a statement of reason is given. Choose the correct answer out of the following choices.

- (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.

Assertion (A): Labelling act as a silent salesman

Reason (R): It helps in promotion of products by attracting the attention of customers and providing required information (1)

13. Match the various terms of Financial Markets Column - I with their respective Statements in Column II

	Column – I		Column - II
a	Financial market	i	It is also known as the Stock market
b	Primary market	ii	It is a market for creation and exchange of financial assets.
c	Secondary market	iii	It is also known as New issue market

- (a) (ii), (iii), (i)
- (c) (iii), (ii), (i)

- (b) (i), (iii), (ii)
- (d) (i), (ii), (iii)

14. Refer to the extract given below and choose the correct option to answer the following:

Sumita is a professor in a reputed business institute. While explaining the procedure of stock exchange trading she shared with her students that many years back she had bought 200 shares of a leading automobiles company. As per the settlement procedure she paid for the shares and received the share certificates in physical form. However when she had sent those certificates to the company to get them endorsed in her name, she was informed by the company that those certificates were duplicate. She explained the students that in order to protect the investors from many such malpractices now only screenbased trading system is executed and dematerialization of securities is compulsory. For this every investor must have a demat account.

The organization which help the investors to hold securities in dematerialized form is:

- (a) Stock Broker
- (b) Depository
- (c) SEBI
- (d) NSE

(1)

15. Which marketing management philosophy had a main focus on customers' need and well being of the society?

- (a) Production Concept                      (b) Sales Concept  
(c) Marketing Concept                      (d) Societal Marketing Concept                      (1)

16. With which element is exchange mechanism related?

- (a) Publicity                                      (b) Marketing  
(c) Advertising                                      (d) Branding                                      (1)

17. Arrange the steps involved in trading procedure at the stock exchange in correct sequence:

i) Settlement of order

ii) Opening of Demat Account

iii) Placing of order

iv) Execution of order

- a) (ii) ; (iv);( iii);(i)                      b) (ii) ;(i) ;(iii);(ii)  
c) (iii);(ii);( ii);(i)                      d) (ii);(iii);(iv);(i)                      (1)

18. Which one of the following promotion tools has mass reach

- (a) Advertising                                      (b) Personal selling  
(c) Sales promotion                                      (d) Public relation                                      (1)

19. Which one of the following factors is not related to price fixation

- (a) Obtaining market leadership                      (b) Age of the organization  
(c) Value for money                                      (d) Product differentiation                                      (1)

20. Which of the following statements is incorrect?

- a. Providing liquidity to securities is one of the functions of stock exchange  
b. Process of holding shares in electronic form is known as Dematerialization  
c. Securities Exchange Board of India performs the regulatory function of controlling insider trading and imposing penalties for such practices.  
d. Capital market consists of Commercial banks, Development banks and stock exchanges (1)

21. A firm plans in advance and has a sound organizational structure with efficient supervisory staff and control system. On several occasions, it finds that plans are not being adhered to. It leads to confusion and duplication of work.

- (a) Identify which process of management is not adhered to  
(b) Identify and explain the feature of this process.                                      (3)

22. Define training. Name and explain the two broad categories of imparting training.                                      (3)

23. Mr. Singh opened a fast-food joint in south extension, New Delhi. His food became popular and his joint started attracting a large number of customers. During lunch hours customers had to wait in queue for their turn. It resulted in some of the customers going to other catteries. Mr.Singh observed this and

decided to find a solution to the problem. He observed that the time taken between placing an order and getting the food was approximately 10 – 12 minutes although he had claimed it to be 8 minutes. He installed CCTV in the kitchen and observed that employees attend to their personal phone calls and gas burners remained idle due to inefficient working habits.

If employees adhere to the standard time norm it will result in efficient use of resources and more revenue to the firm. As a result, he banned the use of mobile phones during working hours.

- (a) Identify the function of management followed by Mr.Singh.
- (b) Explain briefly the two steps undertaken by him in the process of that function.

**(OR)**

**(3)**

Babita limited is engaged in manufacturing machine components. The target of production is 150 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 100 and 110 units per worker.

- (a) Name the function of management.
- (b) Identify and explain 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 and state the next two steps after the step identified in part (b)

24. What is meant by money market? Name any two participants of money market.

**(OR)**

**(3)**

State any three Regulatory functions of SEBI.

25. Resolutions private limited is a publishing company. Its book on Business studies for class XII is in great demand. As a result, the employees in the marketing department are always racing against time. The employees have to work overtime and even on holidays to cater to the demand.

Managers in the marketing department are under stress as they have to handle more than two territories. The work stress has led to dissatisfaction among the employees and managers.

- (a) Name and explain the step of staffing process which has not been performed properly.
- (b) State the next two stages immediately following the step identified in part (a). (4)

26. The workers of 'orange limited' are unable to work on new and high tech machines imported by the company to fulfil the increased demand. Therefore the workers are seeking extra guidance from the supervisor.

The supervisor is overburdened with the frequent calls of the workers.

Suggest how the supervisor by increasing the skills and knowledge of workers can make them handle their work independently?

Also state any three benefits that the workers will derive by the decision of the supervisor.

**(4)**

27. In an organization, Employees always feel that they are under enormous unnecessary stress as the manager does not provide any information about future plans but simply instructs them what to do. He also does not listen to any of the suggestions given by the subordinates.

Identify and explain the type of leadership style with diagram followed by the manager in the above situation.

**(4)**

28. The directors of Gama limited have decided to modernize the plant and machinery at an estimated cost of Rs 1 crore but are in a fix whether to issue equity shares or debentures for

this purpose. As a finance manager of the company, advise the directors whether to issue equity shares or debentures in the interest of the company and why?

(OR)

Viyo limited is a company manufacturing textile. It has a share capital of Rs.60 lakhs. The earning per share in the previous year was Rs.0.50. For diversification, the company requires additional capital of Rs.40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of Rs.8 lakhs on capital employed. It paid tax @ 40%. The face value of the share is Rs.100.

State whether the shareholders gained or lost in respect of earning per share on diversification.

Show your calculations clearly.

(4)

29. Briefly explain any four factors affecting the Capital Budgeting decisions.

4)

30. Radha purchased some house hold goods from a general store. After reaching home she found a face cream which had not been billed. After checking the date of expiry and other details she started using it. But her face burnt after using the cream.

Where should Radha file a complaint? Justify your answer. Under the consumer protection Act 1986, who can file a complaint?

(OR)

(4)

Mr. Aditya, a consumer purchased medicines by neglecting of collecting cash memo as well as noticing the date of expiry.

(a) Identify the concept which has been neglected by Mr. Aditya from the above lines.

(b) Also, Give three more points of the aspect identified in part (a)

31. Flavours limited was engaged in the business of making handmade chocolates. Lately the business was expanding due to good quality and reasonable prices. As the demand was increasing, Flavours limited decided to explore bakery products as well. In order to make bakery products, the company directed its workforce to work overtime but this resulted in multiple problems.

Due to increased pressure the efficiency declined and the workers had to take orders from more than one superior. Workers were overburdened and their health was also affected. Gradually, the quality of products begins to decline and market share also went down. The company realized that they had implemented changes without waiting for the required infrastructure.

Identify and explain the Principles/Techniques of Taylor/Fayol referred to in the above para. (6)

32. "Planning is of vital importance in the management process". Do you agree? Explain in brief any six reasons in support of your answer.

OR

(6)

Planning does not give guarantee to success. In the light of this statement, explain any four limitations of Planning

33. Maslow's need hierarchy is considered fundamental to the understanding of motivation. Explain the theory of need hierarchy in motivation with diagram. (6)

34. Ashima 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 the relief

- (a) Identify the important aspect neglected by the marketer in the above case.
- (b) Explain briefly the functions of the aspect identified in (a) above.

**OR**

Hayaram 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 and 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 Hayaram to prepare its market offering. Identify and explain the variables. (6)

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CLASS: XII

TIME: 3 HOURS

SUB : BUSINESS STUDIES

MAX.MARKS: 80

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

21. (a) Problem arises due to lack of coordination

(b) coordination is a pervasive function: it is required at all levels and all functions of management due to interdependent nature of activities. It integrates different departments and different levels. In the absence of coordination there is confusion and duplication of work instead of harmony and integration of activities. (1+2)

22. Training is the systematic development of knowledge, skills and attitudes required by an individual to perform adequately a given task (1 mark)

There are various methods of training. However the two broadly classified categories are

1. On the job training : When training is imparted to the employees at their place of work while working is known as on the job training. It is a method of learning while doing.
2. Off the job training : when training is provided to the workers away from their workplace it is known as off the job training. It is a method of learning before doing. (2 Marks)  
(1+2 Marks)

23. (a) Controlling (1 Mark)

(b) The two steps undertaken by Mr. Singh in the controlling process are

1. Ascertaining deviation
2. Analyzing and taking corrective action. (2 Marks) (1+2 Marks)

OR

(a) Controlling (1)

(b) Comparing the actual performance with the standard performance— 1 mark

The next two steps --- Analysing deviations and Taking corrective action- 1 mark

24. Money market: Money market is a market in which short term funds having tenure of less than one year are borrowed and lent.

It enables the raising of short-term funds for meeting temporary shortages of cash and obligations.

It also allows temporary deployment of excess funds for earning returns. (1 Mark)

The main participants are

1. Reserve bank of India
2. Commercial banks
3. Non-banking finance company
4. State government
5. Large corporate houses
6. Mutual funds.

(Any two carries 2 marks)

(1 +2 marks)

( OR)

Regulatory functions of SEBI

1. To regulate business in stock exchanges
2. To register and regulate the working of intermediaries
3. To regulate take over of companies (1\*3 = 3 Marks)

25. Estimating of manpower requirements: it involves determining the number and type of employees required. It would necessitate work load analysis and work force analysis. (2 Marks)

Recruitment and selection are the next two stages

Recruitment: it is a process of searching for perspective employees and stimulating them to apply for the job.

Selection: It is a process of choosing the most suitable candidates to fill the vacant position in the organization (2 Marks) (2 + 2 Marks)

26. Through training the supervisor can increase the skills and knowledge of workers and make them handle their work independently.

Benefits of training:

1. Increased earning Training helps the employees to acquire the required skill and hence helps them to earn more.
2. Safety of employees: Training makes the employee more efficient to handle machines and hence reduces the chances of occurrence of accidents
3. Better chance of promotion: Training employees improves the quality of performance and help them in advancing in the organization structure through promotion (1 + 3 = 4 Marks)

27. Autocratic/authoritative style of leadership is being followed by the manager in the above situation.

1 mark

1. Authoritative leadership style is a style where the leader withholds decision making power
2. He takes all the decisions and demands unquestioned obedience
3. There is only one-way communication. It is a leader centred leadership style.

This style is mostly followed in small organizations.

Explanation of Autocratic leadership carries 2 mark

Diagram carries 1 mark

(1+2+1 =4)

28. Being the finance manager of the company, I will suggest the Directors to issue equity shares to raise Rs.1 Crore for modernization of plant and machinery.

The merits are

1. Unlike debentures by issuing equity shares funds can be raised without creating any charge on fixed assets
2. There is no fixed liability to pay dividend on equity shares.
3. There is no obligation of refunding equity share capital during the life time of the company. It is a permanent capital of the company. (1+3 = 4 Marks)

OR

Calculation showing earning per share on diversification \_\_\_\_\_

(4)m

Equity share capital	Rs.60,00,000
10% debentures	Rs.40,00,000
Total investments	Rs.1,00,00,000
Profit before interest and tax	Rs.8,00,000
Less : 10 % interest on debentures	Rs.4,00,000
Profit before tax	Rs.4,00,000
Less tax @ 40%	Rs.1,60,000
Profit after interest and tax	RS.2,40,000
EPS = 2,40,000/60,000 = Rs. 4	Shareholders gain

Factors affecting capital budgeting decision:

- (a) **Long term growth:** The capital budgeting decisions affect the long term growth of the company. As funds invested in long term assets bring return in future and future prospects and growth of the company depends upon these decisions only.
- (b) **Large amount of funds involved:** It involves huge amount of funds and if wrong proposal is selected it may result in wastage of huge amount of funds

(c) **Risk involved:** The fixed capital decision involves huge funds and also big risk because the return comes in long run and company has to bear the risk for long period of time till the returns start coming

(d) **Irreversible decision:** Capital budgeting decisions can not be reversed or changed overnight. As these decisions involve huge funds and heavy cost and going back or reversing the decision may result in heavy loss and wastage of funds

Reasons:

(1\*4=4Marks)

29. No. Radha cannot file a complaint as she does not fulfill her responsibility of collecting a cash memo for the purchase of face cream)

For stating No carries 1 mark and justification carries 1 mark (1+1= 2 marks)

Under the consumer protection Act 1986 a complaint can be filed by

1. Any consumer
2. One or more consumers on behalf of numerous consumers having the same interest
3. A legal heir or representative of a deceased consumer. ( Any two carry 2 marks)

(OR)

Stating Responsibilities of consumer as a concept carries 1 mark

Mentioning three more responsibilities of a consumer carry 3 marks (1+3=4)

30. Unity of command

1. An employee should receive orders and instructions from only one superior.
2. Helps in maintaining discipline and easy to fix responsibilities
3. No ego clashes between superiors

Fatigue study

1. It helps in determining the time, interval and frequency of rest periods so that workers can work with their full capacity
2. It will help one to regain stamina and work again with the same capacity
3. This will result in increased productivity. (1\*6=6 Marks)

31. Importance of planning

1. Provides direction for achieving objectives
2. Takes care of future uncertainties
3. Promotes efficiency by reducing overlapping and wasteful activities
4. Promotes innovative ideas
5. Facilitates decision making
6. Facilitates control (1\*6= 6 marks)

OR

- a) No guarantee of success:
- b) Planning involves huge cost
- c) Planning leads to rigidity
- d) Planning may not work in a dynamic environment

(4 X 1 ½ = 6 marks)

32. Maslow an American Psychologist classified human needs into five categories in order of priority
1. Physiological needs
  2. Safety or security needs
  3. Social or affiliation or belongingness needs
  4. Esteem needs
  5. Self-actualization needs (Explanation)

(1\*5 = 5 Marks)

Diagram carries 1 mark  
(5+1=6 marks)

33. Labelling

Functions of labelling:

1. Identification of product
2. Helps in product promotion
3. Providing information required by law
4. Describes the product and its contents
5. Grading of the products.

(1 + 1\* 5 = 6 Marks)

(OR)

The combination of variables used by Hayaram to prepare its market offering is

1. Product
  - a. It refers to goods or services of value which is offered to the market for exchange
  - b. It involves decisions about product planning and development
2. Price
  - a. It is that element of marketing mix which involves decisions regarding pricing objectives
  - b. Under this marketing mix decisions regarding basic price, discounts, allowances, terms of payments etc., are taken.
3. Place
  - a. Place aims at making the firms products available to the targeted customers.
  - b. Important decisions like channels of distribution , selection of intermediaries etc., are taken
4. Promotion
  - a. It refers to all the activities aimed at increasing the sales of the product .
  - b. It regularly uses different communication tools to increase its sales.

(1 ½ x 4 = 6 Marks)

CLASS XII

BUSINESS STUDIES

SAMPLE QUESTION PAPER No. 2 2022-23

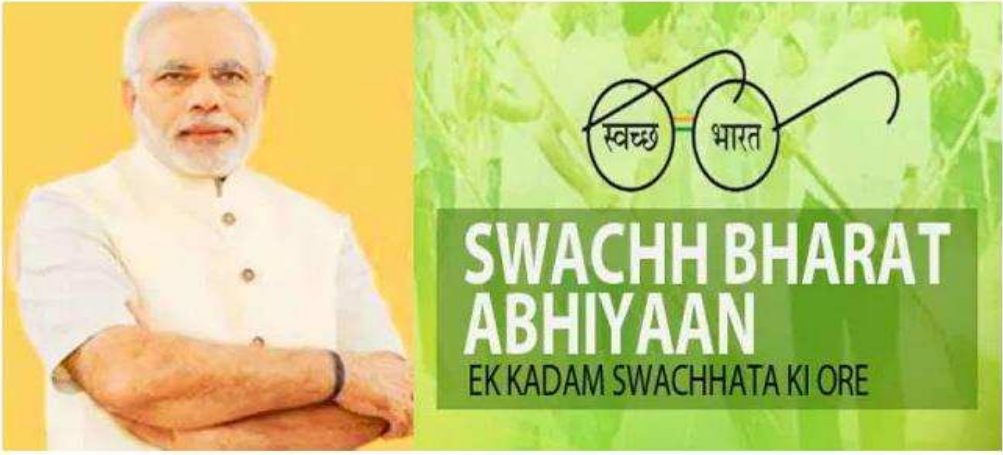
MM – 80

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 the questions together.

1.	<p>Policy formulation is the function of-</p> <ul style="list-style-type: none"> <li>i. Top level managers</li> <li>ii. Middle level managers</li> <li>iii. Lower level manager</li> <li>iv. All of the above</li> </ul>	1
2.	<p>Management should find one best way to perform a task which technique of scientific management is defined in their sentence?</p> <ul style="list-style-type: none"> <li>a)Time study</li> <li>b)Motion study</li> <li>c)Fatigue study</li> <li>d)Method study</li> </ul>	1
3.	<p>With the introduction of Photostat Machines in the market, the carbon paper industry was adversely affected. Which component of environment was responsible for it?</p> <p>(a) Economic (b) Political (c) Technological (d) All the above</p>	1

4.	 <p style="text-align: center;">382</p> <p>Identify the Business Environment does the above picture indicates</p> <p>a) Legal Environment b) Social Environment c) Political Environment d) Economic Environment</p>	1
5	<p>Demonetization does not associate with</p> <p>i)controlling inflation ii)Tax collection iii)cash inflows iv)move to digital currency</p>	1
6	<p>Which is not a standing plan?</p> <p>i)programme ii) rules iii)policy iv)method</p>	1
7	<p>The form of organisation known for giving rise to rumours is called.</p> <p>(i).Centralised Organisation (ii).Decentralised Organisation</p>	1

	(iii).Formal Organisation (iv).Informal Organisation	
8	What kind of test will not be primarily be used while selecting a fashion designer? i)trade test ii)interest test iii)intelligence test iv)personality test	1
9	Find the odd one i)promotion ii)campus recruitment iii)employment exchange iv)casual callers	1
10	Which of the following is a financial incentive? (i). Promotion (ii). Stock option (iii).Job security (iv).Employee participation	1
11	Which one of the following is not an element of direction (i).Motivation (ii)Communication (iii).Delegation (iv).Leadership	1
12	Which cannot be the techniques for measurement of performance: i)personal observation ii)sample checking iii)performance reports iv)management by exception	1



13	<p>(I) Training is job-oriented and development is career oriented.</p> <p>(II) Scope of training is broad and that of development is limited. Above both statements are:</p> <p>(a) True</p> <p>(b) False</p> <p>(c) Statement (I) is True and Statement (II) is False.</p> <p>(d) Statement (I) is False and Statement (II) is True.</p>	1
14	<p>The cheapest source of finance</p> <p>(i). Debentures</p> <p>(ii). Equity share of capital</p> <p>(iii). Preference share</p> <p>(iv). Retained earnings</p>	1
15	<p>Higher debt equity ratio results in</p> <p>i) lower financial risk</p> <p>ii) higher degree of operating risk</p> <p>iii) higher degree of financial risk</p> <p>iv) higher EPS</p>	1
16	<p>The settlement cycle in NSE is.</p> <p>(i). T+5</p> <p>(ii). T+3</p> <p>(iii). T+2</p> <p>(iv). T+1</p>	1
17	<p>Primary and secondary markets</p> <p>i) compete with each other</p> <p>ii) complement each other</p> <p>iii) function independently</p> <p>iv) control each other</p>	1
18	<p>Which is not the method of floatation?</p>	1

	<p>i)private placement</p> <p>ii)offer for sale</p> <p>iii)E-IPOs</p> <p>iv)issue of bonus shares</p>	
19	<p>Societal marketing concept is the extension of</p> <p>i)Marketing concept</p> <p>ii) product concept</p> <p>iii)price concept</p> <p>iv)production concept</p>	1
20	<p>The quality certification mark used in case of food products.</p> <p>a)ISI b)Hallmark c)FPO d)None of the above</p>	1
21	<p>Suhasini a home science graduated 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 with her teacher who encouraged her after analysing various options for starting her business ventures they shortlisted the option to sell readymade and ready to make vegetable shakes and sattu milkshakes then they both weighted the pros and cons of both the short listed options.</p> <p>(a).Name the functions of management being discussed above.</p> <p>(b). Also briefly discuss two limitations.</p>	3
22	<p>Explain the elements of delegation</p> <p>Or</p> <p>Explain three difference decentralisation or Delegation of authority.</p>	3
23	<p>Lakhan, an expert in the area of Financial Management, sent an e-mail to his subordinate Thomas about a new project for a client in France. Though, the mail was in English, a language known to Thomas, he 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 one specific barriers to communication in Lakhan's e-mail.</p>	3

	(b) State any two measures which can be taken by Lakhan to overcome the barriers identified in part (a) above to improve in future the effectiveness of his communication.	
24	<p>Rudrakshi Ltd. is engaged in manufacturing high end luxury pens. The target production is 700 units daily. The company had been successfully attaining this target until three months ago. Over the last few month, it has been observed that daily productions varies between 600-650 units.</p> <p>I. Identify the function of management, which has been highlighted in the above context.</p> <p>II. Quote and explain any two steps involved in the process of the function identified above.</p>	3
25	<p>“The overall objective of SEBI is to protect the interest of investors and to promote the development of, and regulate the securities market.”</p> <p>In light of the given statement, state any two objectives of SEBI.</p> <p style="text-align: center;">OR</p> <p>state any three functions of financial market</p>	3
26	<p>Explain any four importance of directing</p> <p style="text-align: center;">Or</p> <p>Explain any four financial incentives</p>	4
27	<p>The financial manager of best foods Limited has two options to raise a capital of Rs.80 lacs.</p> <p>Option 1: issue 8 lakh equity shares of Rs.10 each</p> <p>option 2:issue 6 lakh shares of rupees 10 each and Rs.20 lakh through loan from SBI @10% interest.</p> <p>The company is expecting a return of 20% on the capital employed. The rate of tax is 30%.</p> <p>According to you which of the two options should the financial manager choose and why? Show your workings clearly.</p>	4
28	<p>The state government has banned the sale of shampoo manufactured by Divyanjali Private Limited . This action has come into force, subsequent to a investigation undertaken by the NGO”upharr”which revealed the presence of some harmful chemicals in the product.</p>	4

	<p>a. Name any two other parties who can file a case against the company in this regard.</p> <p>b. name and explain the right of consumers being propagated in the above case</p>	
29	<p>Explain the features of coordination</p> <p style="text-align: center;">Or</p> <p>Explain the features of management</p>	4
30	<p>Mr. Rohit is into transport business. His buses are hired by schools for transportation of students. He is willing to expand and diversify his business to inter-state transportation purposes.</p> <p>Explain any four factors that will affect his fixed capital requirements.</p>	4
31	<p>Sindhu Ayurved Ltd, a new and leading manufacturer of herbal and ayurvedic medicines and grocery products has captured a large share of the market in a short span of time. The research and development department of the company spends considerable time and effort in developing eco-friendly, chemical free and healthy alternatives for a variety of products of daily use, like toothpaste, biscuits, noodles, soaps, detergent etc. Their business orientation differs from competitors who are short sighted and serve only consumer's needs. Sindhu Ayurved Ltd. considers larger issues of long term social welfare paying attention to social ethical and ecological aspects of marketing.</p> <p>Identify and explain the marketing management philosophy adopted by Sindhu Ayurved Ltd and also explain any other philosophy other than the above mentioned.</p> <p style="text-align: center;">Or</p> <p>As a project work in business studies subject the commerce students of creative public school thought of setting up a recycling plant to recycle all the waste papers from the school and prepare register and exercise books to be used by the school students. They approached the principal who not only appreciated the idea of the students but also give them the concern for the same .</p> <p>a) Explain the elements of promotion mix</p>	6
32	<p>As the vice principal of a school, Mrs. Reshma tends to adopt a scientific approach to every element of the work being carried out in the school. In order to decide upon the theme of school annual day program suggestion from all the staff members were encouraged. Then it was collectively decided that a play based on the seven wonders of the world would be showcased. It was further decided that each class from 6<sup>th</sup> standard to 12<sup>th</sup> standard will</p>	6

	<p>present one of the wonders of the world .the topics were assigned to each class coordinator on the basis of draw. There after all the class teachers of different sections a particular class were advised to work under leadership of their class coordinator. There was a spirit of unity and harmony and all the members supported each other. With mutual trust and sense of belonging, the programme was systematically planned and executed.</p> <p>Identify and explain the principles of management applied for the success of the programme.</p> <p style="text-align: center;">Or</p> <p>Radhika opens a jewellery showroom in Jaipur after completing a course in jewellery designing. She has employed eleven persons in her showroom. For greater productivity, she divides the work into small tasks and each employee is trained to perform his/her specialised job. The sales persons are allowed to close a deal with a buyer by giving a maximum of 10% discount, whereas the decision to give any further discount rests with Radhika as the final authority. In the earlier days of starting of the business, five of her 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, after six months when the business was doing well, she awarded a cash bonus to each of these employees to honour her commitment. However, when it comes to settling the conflicts among her employees, she tends to be more biased towards her female employees.</p> <p>In context of the above case:</p> <ul style="list-style-type: none"> <li>• Identify and explain the various principles of management that are being applied by Radhika by quoting lines from the paragraph.</li> <li>• Identify and explain the principle of management which is being violated by Radhika by quoting lines from the paragraph.</li> </ul> <p>State any one effect of the violation of the principle of management by Radhika as identified in part (b) of the question.</p>	
33	Explain any four advantages of functional organisation structure	6
34	<p>A public transport corporation has hired 2000 buses for the different routes for the passengers of metropolitan city. In order to fill vacancies, it advertised in the newspaper and number of applicants applied for the same. The company has to now undertake the process of selection to identify and select the best.</p> <p>Explain the first four steps involved in the process.</p>	6

**ANSWER KEY FOR SAMPLE QUESTION PAPER 2**

Q.NO	ANSWER KEY	MARKS
1.	Top level management	1
2.	Method study	1
3.	Technological	1
4.	Political Environment	1
5.	cash inflows	1
6.	Programme	1
7.	Informal Organisation	1
8.	interest test	1
9.	Promotion	1
10.	Stock option	1
11.	Delegation	1
12.	management by exception	1
13.	(c) Statement (I) is True and Statement (II) is False	1
14.	Retained earnings	1
15.	higher degree of financial risk	1
16.	T+3	1
17.	complement each other	1
18.	issue of bonus shares	1
19.	Marketing concept	1
20	FPO	1
21	<ul style="list-style-type: none"> <li>• Planning</li> <li>• Any two limitations</li> </ul>	1 +2
22	<p>There are three elements of delegation</p> <p>1.Responsibility-refers to assignment of job to a subordinate.</p>	1+1+1

	<ul style="list-style-type: none"> <li>• Authority-it refers to the power to take decision</li> <li>3.accountability-it refers to the answerability of the subordinates to his superiorfor his work.</li> </ul> <p>OR</p> <ol style="list-style-type: none"> <li>1.nature</li> <li>2. freedom in action</li> <li>3.status</li> <li>4.scope</li> <li>5. purpose (ANY THREE)</li> </ol>	
23	<p>Two specific barriers to communication in Lakhan’s e-mail were:</p> <ul style="list-style-type: none"> <li>• Faulty translations</li> <li>• Technical jargon</li> </ul> <p>Measures to overcome communication barriers: (Any two)</p> <ul style="list-style-type: none"> <li>• Lakhan should communicate according to the needs, education and understanding levels of subordinates.</li> <li>• He should take a proper feedback to improve the communication process and make it more responsive.</li> <li>• (iii) He should regularly follow up communication and review the instructions given to subordinates.</li> <li>• (iv) He should be aware of languages, tone and content of the message to make it understandable to the receiver.</li> </ul>	1+2
24	<p>(i) Controlling</p> <p>(ii) Following are the first four steps involved in the controlling process:-</p> <p>(a) Setting Performance Standards: The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Thus, standards serve as benchmarks towards which an organisation strives to work. Standards can be set in both quantitative as well as qualitative terms.</p> <p>(b) Measurement of Actual Performance: Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. There are several techniques for measurement of performance. These include personal observation, sample checking, performance reports, etc. As far as</p>	3

	<p>possible, performance should be measured in the same units in which standards are set as this would make their comparison easier.</p> <p>(c) Comparing Actual Performance with Standards: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms.</p> <p>(d) Analysing Deviations: Some deviation in performance can be expected in all activities. It is, therefore, important to determine the acceptable range of deviations. Also,</p> <p style="text-align: center;">390</p> <p>deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas.</p>	
25	<p>Objectives of SEBI:</p> <ol style="list-style-type: none"> <li>1. To regulate stock exchanges and the securities industry to promote their orderly functioning.</li> <li>2. To protect the rights and interests of investors, particularly individual investors and to guide and educate them.</li> <li>3. To prevent trading malpractices and achieve a balance between self- regulation by the securities industry and its statutory regulation.</li> <li>4. 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</li> </ol> <p>OR</p> <ol style="list-style-type: none"> <li>1. Mobilisation of savings and channeling them into the most productive uses.</li> <li>2. Facilitating price discovery</li> <li>3. Providing liquidity to financial assets.</li> </ol>	1+1+1
26	<p>Importance of directing</p> <ol style="list-style-type: none"> <li>1. initiates action</li> <li>2. integrates employees efforts</li> </ol>	1+1+1+1



	<p>3. means of motivation</p> <p>4. facilitates changes</p> <p>Or</p> <p>Financial incentives</p> <ul style="list-style-type: none"> <li>• Bonus</li> <li>• 2. Profit sharing</li> <li>• 3. Retirement benefits</li> <li>• Co partnership</li> <li>• Perquisites(anyfour)</li> </ul>																																										
27	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 35%;">Option 1</th> <th style="width: 35%;">Option 2</th> </tr> </thead> <tbody> <tr> <td>Share capital</td> <td>80,00,000</td> <td>60,00,000</td> </tr> <tr> <td>Loan (rate of int@10)</td> <td></td> <td>20,00,000</td> </tr> <tr> <td>Total capital</td> <td>80,00,000</td> <td>80,00,000</td> </tr> <tr> <td>PBIT</td> <td>16,00,000</td> <td>16,00,000</td> </tr> <tr> <td>INT</td> <td></td> <td>2,00,000</td> </tr> <tr> <td>PBT</td> <td>16,00,000</td> <td>14,00,000</td> </tr> <tr> <td></td> <td>391</td> <td></td> </tr> <tr> <td>TAX@30%</td> <td>4,80,000</td> <td>4,20,000</td> </tr> <tr> <td>PAT</td> <td>11,20,000</td> <td>9,80,000</td> </tr> <tr> <td>No of shares</td> <td>8,00,000</td> <td>6,00,000</td> </tr> <tr> <td>Earnings</td> <td>1.4</td> <td>1.63</td> </tr> <tr> <td colspan="3"> <p>Second option gives more earning per share</p> </td> </tr> </tbody> </table>				Option 1	Option 2	Share capital	80,00,000	60,00,000	Loan (rate of int@10)		20,00,000	Total capital	80,00,000	80,00,000	PBIT	16,00,000	16,00,000	INT		2,00,000	PBT	16,00,000	14,00,000		391		TAX@30%	4,80,000	4,20,000	PAT	11,20,000	9,80,000	No of shares	8,00,000	6,00,000	Earnings	1.4	1.63	<p>Second option gives more earning per share</p>			Working 3 marks +1 mark for correct option
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28	<p>Any consumer</p> <p>Any registered consumers association</p> <p>(any other)</p> <p>Right to safety</p>			2+2																																							

29	<p>Features of coordination</p> <ul style="list-style-type: none"> <li>• Coordination integrates group efforts</li> <li>• It ensures unity of action</li> <li>• It is continuous process</li> <li>• It is pervasive function</li> <li>• It is a deliberate function</li> <li>• It is the responsibility of all the managers</li> </ul> <p>Or</p> <p>Features of management</p> <ul style="list-style-type: none"> <li>• It is a goal oriented process</li> <li>• It is all pervasive</li> <li>• It is multi dimensional</li> <li>• It is a continuous process</li> <li>• It is group activity</li> <li>• It is a dynamic function</li> <li>• It is intangible</li> </ul>	1+1+1+1
30	<p>Factors affecting fixed capital requirements are: (any four)</p> <ol style="list-style-type: none"> <li>i. Scale of operations</li> <li>ii. Financing alternatives</li> <li>iii. Growth prospects</li> <li>iv. Nature of Business</li> <li>v. Diversification</li> <li>vi. Level of Collaboration</li> <li>vii. Technology Upgradation</li> <li>viii. Financing Alternatives</li> </ol>	1+1+1+1
31	<p>Marketing philosophy</p> <p>Societal marketing concept</p> <p>Product concept, production concept, selling concept</p> <p>Or</p> <ol style="list-style-type: none"> <li>a) Advertising</li> <li>b) Personal selling</li> <li>c) Sales Promotion</li> </ol>	<p>(2=2=2)</p> <p>Or</p>

	d) Public relation	
32	<ul style="list-style-type: none"> <li>• Initiative</li> <li>• Division of work</li> <li>• Espirit de corps</li> </ul> <p>OR</p> <p>The various principles of management that are being applied by Radhika are listed below:</p> <ul style="list-style-type: none"> <li>• <b>Principle of Division of Work:</b> According to Fayol, “The intent of division of work is to produce more and better work for the same effort. Specialisation is the most efficient way to use human effort.” He advocates that the principle of division of work is applicable to all kinds of work both technical as well as managerial. “For greater productivity, she divides the work into small tasks and each employee is trained to perform his/her specialised job.”</li> <li>• <b>Principle of Centralisation and Decentralisation:</b> The concentration of decision-making authority is called centralisation whereas its dispersal among more than one person is known as decentralisation. According to Fayol, “There is a need to balance subordinate involvement through decentralisation with managers’ retention of final authority through centralisation.” “The sales persons are allowed to close a deal with a buyer by giving a maximum of 10% discount, whereas the decision to give any further discount rests with Radhika as the final authority.”</li> <li>• <b>Principle of Discipline:</b> Discipline refers to the obedience to organisational rules and employment agreement which are necessary for the working of the organisation. According to Fayol, discipline requires good superiors at all levels, clear and fair agreements and judicious application of penalties. “Therefore, after six months when the business was doing well, she awarded a cash bonus to each of these employees to honour her commitment.”</li> </ul> <p>1. The principle of management which is being violated by Radhika is Equity.</p> <p style="text-align: center;">393</p> <p>2. According to Fayol, “Good sense and experience are needed to ensure fairness to all employees, who should be treated as fairly as possible.” This principle emphasizes on kindness; and justice in the behaviour of managers towards workers. The managers should not discriminate against anyone on account of gender, religion, language, caste, belief or nationality etc.</p>	2+2+2

	<p>“However, when it comes to settling the conflicts among her employees, she tends to be more biased towards her female employees.”</p> <p>One effect of the violation of the Principle of Equity is that it may lead to job dissatisfaction among the male workers.</p>	
33	<p>The functional structure has many advantages to offer.</p> <p>Important among them are as follows:</p> <p>(a) A functional structure leads to occupational specialisation since emphasis is placed on specific functions. This promotes efficiency in utilisation of manpower as employees perform similar tasks within a department and are able to improve performance.</p> <p>(b) It promotes control and coordination within a department because of similarity in the tasks being performed.</p> <p>(c) It helps in increasing managerial and operational efficiency and this results in increased profit.</p> <p>(d) It leads to minimal duplication of effort which results in economies of scale and this lowers cost.</p> <p>(e) It makes training of employees easier as the focus is only on a limited range of skills.</p> <p>(f) It ensures that different functions get due attention.</p>	1.5x4
34	<p>Following are the steps involved in the selection process:-</p> <p>(i) Preliminary Screening: Preliminary screening helps the manager eliminate unqualified or unfit job seekers based on the information supplied in the application forms. Preliminary interviews help reject misfits for reasons, which did not appear in the application forms.</p> <p>(ii) Selection Tests: An employment test is a mechanism (either a paper and pencil test or an exercise) that attempts to measure certain characteristics of individuals. These characteristics range from aptitudes, such as manual dexterity, to intelligence to personality</p> <p>(iii) Employment Interview: Interview is a formal, in-depth conversation conducted to evaluate the applicant's suitability for the job. The role of the interviewer is to seek information and that of the interviewee is to provide the same.</p>	Each point with correct explanation 1.5 mark each

Though, in present times, the interviewee also seeks information from interviewer.

(iv) Reference and Background Checks: Many employers request names, addresses, and telephone numbers of references for the purpose of verifying information and, gaining additional information on an applicant. Previous employers, known persons, teachers and university professors can act as references.

(v) Selection Decision: The final decision has to be made from among the candidates who pass the tests, interviews and reference checks. The views of the concerned manager will be generally considered in the final selection because it is he/she who is responsible for the performance of the new employee.

(vi) Medical Examination: After the selection decision and before the job offer is made, the candidate is required to undergo a medical fitness test. The job offer is given to the candidate being declared fit after the medical examination.