



केन्द्रीय विद्यालय संगठन
KENDRIYA VIDYALAYA SANGATHAN



KENDRIYA VIDYALAYA SANGATHAN,
GUWAHATI REGION

STUDY MATERIAL

SESSION – 2022-23

CLASS –XII

SUBJECT – BUSINESS STUDIES

SUBJECT CODE – 054

PREPARED UNDER THE GUIDANCE OF:
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2	Principles of Management	Mrs. Monidipa Deb	KV Maligaon	Mr. Arvind Kumar Maurya
3	Business Environment	Mr. T Bablu Kumar Singh	KV North Lakhimpur	Ms. Satyavrat
4	Planning			
5	Organising	Ms. Satyavrat	KV CRPF Amerigog	Mr. T Bablu Kumar Singh
6	Staffing	Ms. Neha Gupta	KV Borjhar	Ms. Satyam
7	Directing	Ms. Satyam	KV Narangi	Ms. Neha Gupta
8	Controlling	Ms. Neelam Sharma	KV IIT Guwahati	Mr. Santosh Kumar
9	Financial Management	Mr. Santosh Kumar	KV IOC Noonmati	Ms. Neelam Sharma
10	Financial Markets	Mr. Naba Kr Deka	KV AFS Digaru	Mr. Mohan Upadhyay
11	Marketing Management	Mr. Mohan Upadhyay	KV Jagiroad	Mr. Naba Kr Deka
12	Consumer Protection			
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BUSINESS STUDIES (CODE 054)
CLASS–XII (2022-23)

Theory: 80 Marks
Project: 20 Marks

3 Hours

Units		Periods	Marks
Part A	Principles and Functions of Management		
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	
	Total	110	50
Part B	Business Finance and Marketing		
9	Financial Management	20	15
10	Financial Markets	18	
11	Marketing Management	30	15
12	Consumer Protection	12	
	Total	80	30
Part C	Project Work (One)	30	20

Part A: Principles and Functions of Management

Unit 1: Nature and Significance of Management

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

Unit 2: Principles of Management

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

Unit 3: Business Environment

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

Unit 4: Planning

Concept, importance and limitation	<ul style="list-style-type: none">• Understand the concept of planning.• Describe the importance of planning.• Understand the limitations of planning.
Planning process	<ul style="list-style-type: none">• Describe the steps in the process of planning.

Single use and standing plans.
Objectives, Strategy, Policy,
Procedure, method, Rule, budget and
Programme

- Develop an understanding of single use & standing plans.
- Describe objectives, policies, strategy, procedure, method, rule, budget and programme as types of plans.

Unit 5: Organising

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

Unit 6: Staffing

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

Unit 7: Directing

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

Unit 8: Controlling

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

Part B: Business Finance and Marketing

Unit 9: Financial Management

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

Capital Structure – concept and factors affecting capital structure	<ul style="list-style-type: none"> Understand the concept of capital structure. Describe the factors determining the choice of an appropriate capital structure of a company.
Fixed and Working Capital - Concept and factors affecting their requirements	<ul style="list-style-type: none"> Understand the concept of fixed and working capital. Describe the factors determining the requirement of fixed and working capital.

Unit 10: Financial Markets

Financial Markets: Concept	<ul style="list-style-type: none"> Understand the concept of financial market.
Money Market: Concept	<ul style="list-style-type: none"> Understand the concept of money market.
Capital market and its types (primary and secondary)	<ul style="list-style-type: none"> Discuss the concept of capital market. Explain primary & secondary markets as types of capital market. Differentiate between capital market & money market. Distinguish between primary & secondary markets.
Stock Exchange - Functions and trading procedure	<ul style="list-style-type: none"> Give the meaning of a stock exchange. Explain the functions of a stock exchange. Discuss the trading procedure in a stock exchange. Give the meaning of depository services and demat account as used in the trading procedure of securities.
Securities and Exchange Board of India (SEBI) - objectives and functions	<ul style="list-style-type: none"> State the objectives of SEBI. Explain the functions of SEBI.

Unit 11: Marketing

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

Unit 12: Consumer Protection

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

Unit 13: Project Work

Suggested Question Paper
Design Business Studies
(Code No. 054) Class XII
(2022-23)

March 2023 Examination

Marks: 80

Duration: 3 hrs.

SN	Typology of Questions	Marks	Percentage
1	Remembering and Understanding: 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	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way	19	23.75%
3	Analysing, Evaluating and Creating: 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%
	Total	80	100%

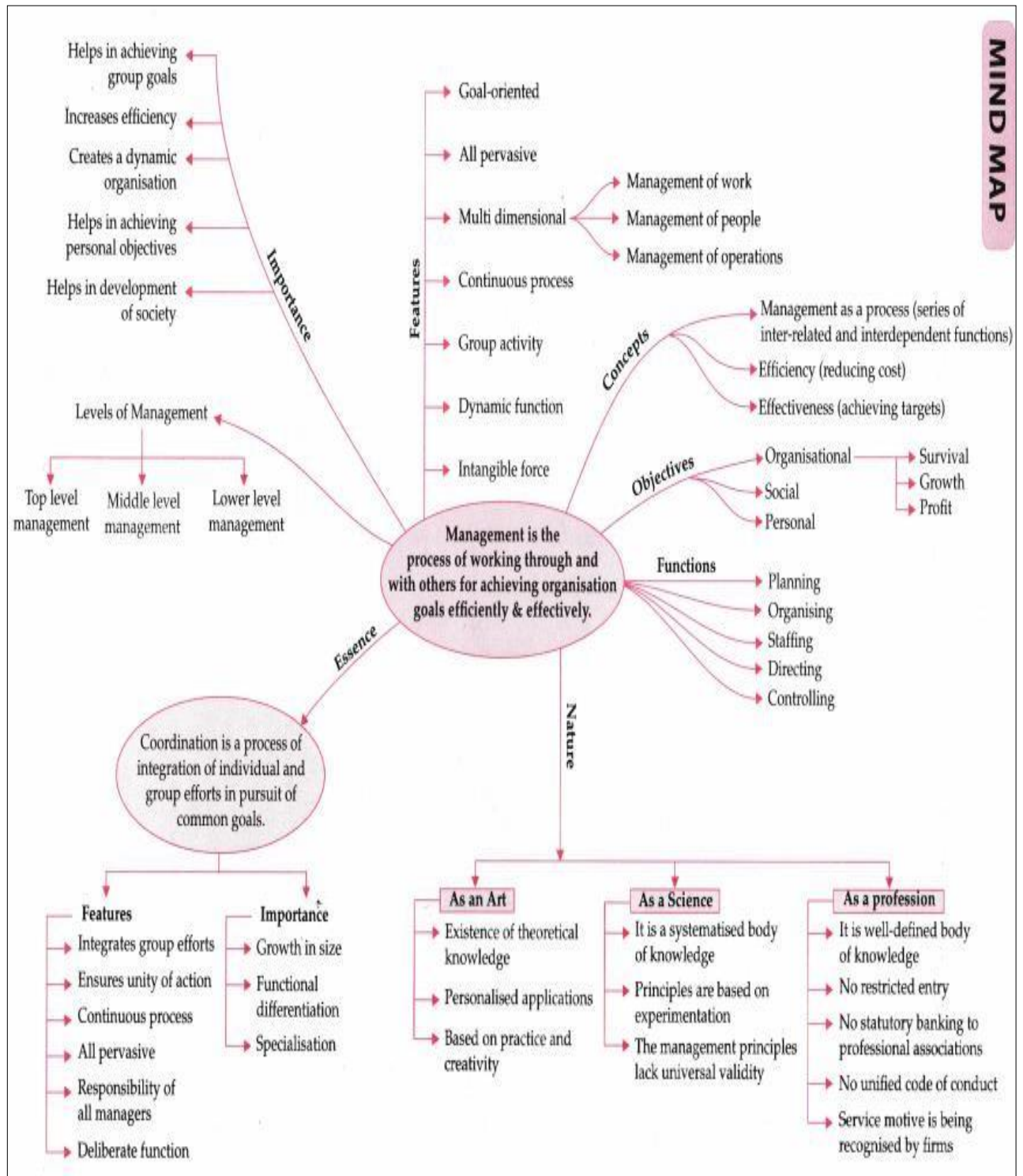
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CHAPTER -1

NATURE AND SIGNIFICANCE OF MANAGEMENT

MIND MAP:



Meaning of Management:

Management is the process of planning, organizing, staffing, directing and controlling the efforts of the organizational members by using all the other available resources to achieve the organization.

Definition of management:

Management is an art of getting things done with and through others. Management can be defined as, the process of getting things done with the aim of achieving organizational goals effectively and efficiently.

Efficiency and Effectiveness:

Efficiency (completing the work at low cost) means doing the task correctly at minimum cost through optimum utilization of resources while effectiveness (Completing the work on time) is concerned with end result means completing the task correctly within stipulated time.

Although efficiency and effectiveness are different yet they are inter related. It is important for management to maintain a balance between the two

Effectiveness	Efficiency
Completion of work on time	Completion of work with minimum cost

CHARACTERSTICS OF MANAGEMENT: -

The features or characteristics of management:

- (1) Management is a process (involves all the activities: planning, organizing, staffing, directing and controlling)
- (2) Management is all pervasive/universal-(it is applied and required everywhere not only in business activities)
- (3) Management is a group activity-(performed together by all the levels for different purpose.)
- (4) Management is continuous-(ongoing process, after completion of one plan, planning continuous for future)



(5) Management is Dynamic-(changes should be brought with changing environment)

(6) Management is intangible-(cannot be seen but can be felt in the environment)

OBJECTIVES OF MANAGEMENT

Personal/ Human Objective	Organization al/ Economic Objective	Social Objective
Good working conditions	Survival	Quality products
Competitive salary	Profit	Reasonable prices
Training and development	Growth	Employment opportunities

Importance of Management:

(1) Achieving Group Goals: Management creates team work and coordination in the group. Managers give common direction to individual efforts in achieving the overall goals of the organization.

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

(3)Creates Dynamic organization: Management helps the employees overcome their resistance to change and adapt as per changing situation to ensure its survival and growth.

(4)Achieving personal objectives: Management helps the individuals achieve their personal goals while working towards organizational objectives.

Nature of Management:

Management as an Art:

- (1) Existence of theoretical knowledge.
- (2) Personalized application of knowledge.
- (3) Based on practice and creativity.

Management as a science:

- (1) Possession of systematized body of knowledge.
- (2) Principles based on experimentation.
- (3) Universal validity of principles.

Management as a Profession:

- (1) Specialized knowledge and skill.
- (2) Restricted entry.
- (3) Professional Association.

(4) Ethical code of conduct.

LEVELS OF MANAGEMENT:

(1) Top level management (2).Middle level management (3).Lower level management.

FUNCTIONS:

TOP LEVEL MANAGEMENT;- It consists of managers of the highest level of hierarchy, e.g. chief executives, board of directors, etc. the main function of top-level managers are ;

- (1) To establish and describe the overall objectives of the organization.
- (2) To plan, organize and exercise control over the middle and lower level of management.
- (3) To decide about the overall budget of the organization and budgets of the different departments.

MIDDLE LEVEL MANAGEMENT;- It consists of departmental heads of the organization. The functions of middle level managers are;

- (1) To interpret policies, prescribe procedures and methods in different areas to achieve the medium terms, short term and departmental objectives.
- (2) To assist the top management by periodic submission of reports, data and other important information.
- (3) To recruit and motivate the employees in the department to achieve the goal.

LOWER/SUPERVISORY LEVEL MANAGEMENT; - These managers rank at lowest level in the organizational hierarchy. It consists of foremen, supervisors, etc. the main function of lower level managers are;

- (1) To translate the intermediate plan of middle level management into day-to-day operating plans.
- (2) To direct the operating employees by assigning jobs, evaluating and correcting there work performance.
- (3) To arrange necessary raw material, tools and other facilities.
- (4)To ensure implementation of work as per instructions, orders and standards.

FUNCTIONS OF MANAGEMEN:

1. PLANNING: Planning refers to the future course action, which is determined in advance by setting the objectives of enterprise and how to accomplish these objectives.

2. ORGANISING: Establishing an organizational structure and distributing the authority and responsibility among different people to execute the plan.

3. STAFFING: It is the third function of management. It refers to recruiting, appointing the employees, training, development and taking care of their grievances.

4. DIRECTING: Directing refers to giving directions or instructions to employees by guiding and motivating them.

5. CONTROLLING: It is the last function of manager, in which actual performance is measured to compare with planned performance to take follow up action and to know the deviation, if any.

COORDINATION:

The process of synchronisation or integration of activities of different departments is known as coordination. It is an integral part of management, which is required in all functions of management.

COORDINATION: THE ESSENCE OF MANAGEMENT

It is considered as the essence of management because

1. Coordination is needed to perform all functions of management.
2. Coordination is required at all level of management.
3. Coordination is the most important function of management.

IMPORTANCE OF COORDINATION:

1. Growth in size.
2. Functional differentiation.
3. Specialization

QUESTIONS AND ANSWER (MCQ)

(1) Which of the following is not a separate function of management?

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

(2) Efficiency means.....

- (a) doing the tasks correctly (b) doing the tasks with minimum cost
(c) deriving more benefits by using less resources (d) All of the above

(3) In order to be successful, an organisation must change itself and its goals according to the needs of the environment. Regarding this we have the example

of McDonalds, the fast food giant made major changes in its menu to be able to survive in the Indian market.

Identify the characteristics of management mentioned in the above case.

- (a) Management is an intangible force. (b) Management is a dynamic function.
(c) Management is a group activity. (d) Management is a continuous process

(4) A petrol pump needs to be managed as much as a hospital or a school. What managers do in India, the USA, Germany or Japan is the same. How they do it may be quite different. This difference is due to the differences in culture, tradition and history. Identify the characteristics of management that has been mentioned here.

- (a) Management is a goal oriented process (b) Management is all pervasive
(c) Management is multi-dimensional (d) Management is a continuous process

(5) Identify the nature of management when it is practised as personal application of existing knowledge to achieve desired results.

- (a) Management is an art (b) Management is a profession
(c) Management is a science (d) Management is both an art and a science

(6) Identify the nature of management when it is said to be a systematised body of knowledge that explains certain general truths.

- (a) Management as a science (b) Management is an art
(c) Management is a profession (d) Management is both an art and a science

(7) Management is:

- (a) An art (b) A science
(c) Both art and science (d) Neither (a) nor (b)

(8) Name the level of management at which the managers are responsible for implementing and controlling the plans and strategies of the organisation.

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

(9) Policy formulation is the function of:

- (a) Top level managers (b) Middle level managers
(c) Operational management (d) All of these

(10) “Coordination is not a separate function of management but it happens to be the final truth of all functions.” In what context this observation has been made?

- (a) Coordination is the essence of management
(b) Coordination is not established automatically
(c) Coordination is a continuously moving process

(d) None of these

MCQ ANS: 1. (c), 2. (b), 3. (b), 4. (b) 5. (a) 6.(a) 7.(c) 8.(b) 9.(a) 10. (a)

3 and 4 marks questions and answer:

Q No 1. Management is a complex activity that has three main dimensions. Explain these dimensions.

ANS. Management is a complex activity that has three main dimensions. The following are the three main dimensions of management:

1. Managing the work: With management, the work of an organisation is interpreted in terms of the objectives and goals achieved owing to the work. Management also specifies the guidelines regarding how these objectives can be achieved.

2. Managing the people: Managing the people implies dealing with the employees both as individuals and as a group such that their strengths are utilised and their weaknesses are identified.

3. Managing the operations: The production process where the inputs are transformed into a product or a service requires continuous management in order to ensure the utilisation of the resources efficiently and effectively.

Q No 2 Ashutosh Goenka was working in 'Axe Ltd.', a company manufacturing air purifiers. He found that the profits had started declining from the last six months. Profit has an implication for the survival of the firm, so he analysed the business environment to find out the reasons for this decline.

(a) Identify the level of management at which Ashutosh Goenka was working.

(b) State three other functions being performed by Ashutosh Goenka.

ANS. (a) Ashutosh Goenka was working at 'top level management'. (1 mark)

(b) Any three functions performed at top level management (3 marks)

Q No 3 "Sonu Nigam" the famous playback singer always spends time for practice and adds his creativity in his singing. Like Sonu Nigam, Mr. Rajiv, manager of Headlines Ltd. uses his creativity and practice management principles under different situations to manage the business. The employees are happy and satisfied as he every day reward employees for their punctuality and efficiency.

1. Identify the nature of management highlighted above.
2. Name other two aspects of nature of management.

ANS.

1. Nature of management highlighted above is “Management as an Art”
2. The other two aspects of nature of management are:
 - a. Management as Science.
 - b. Management as Profession

Q No 4. Mr Rajesh is a Finance Manager in a Ltd company,

- a) Identify that at which level of management Mr Rajesh is working?
- b) Write any three functions to be performed by Rajesh.

ANS: a) Middle level of Management.

b)

- i. Interpretation of policies framed by top level management.
- ii. Motivating the persons to perform to their best abilities.
- iii. Finding out or recruiting, selecting and appointing the required employees.

5 and 6 marks questions and answer:

Q No 1 Yash Ltd. is facing a lot of problems these days. It manufactures electronic goods like washing machines, microwave ovens, refrigeration and air-conditioners. The company's margins are under pressure and the profits and market marketing department blames production department for producing goods, which are not of good quality to meet customers' expectations. The finance department blames both production and marketing departments for declining return on investment and bad marketing.

1. What quality of management do you think the company is lacking? Justify your answer.
2. State the importance of the concept identified in (1). (5 mark)

Ans.1.Coordination: because production, marketing and finance departmental efforts are not coordinated for achieving organizational objectives harmoniously. As a result, the company's profits and market share are declining.

1. **Growth in size:** The need of coordination increases with the increase in the size of organisation because in large organisation there are more no. of persons

working and more no. of activities being performed. So it is required to integrate and synchronise their efforts towards common goal.

2. Functional differentiation: A number of departments, divisions and sections are there in an organisation, which are interlinked and interdependent. Therefore it is required to bring the activities of different departments and sections together.

3. Specialization: There are a number of specialists working in an organisation, so there is need to coordinate the activities of all the specialists in a common direction to achieve the objectives.

Q No.2 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 takes 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 specially abled persons. Both of them have to perform a series of continuous, 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 by quoting lines from it.

ANS: The various features of management highlighted in the above paragraph are stated below:

- (1) **Management is a process** (involves all the activities: planning, organizing, staffing, directing and controlling)
- (2) **Management is all pervasive/universal**-(it is applied and required everywhere not just in business activities)
- (3) **Management is a group activity**-(performed together by all the levels for different purpose.)
- (4) **Management is continuous**-(on-going process, after completion of one plan, planning continues for future)

(5) **Management is Dynamic**-(changes should be brought with changing environment)

(6) **Management is intangible**-(cannot be seen but its effect can be felt in the environment)

Q No 3. “Science is a systematic body of knowledge that explains certain general truths and the operation of general laws” In the light of this statement, describe management as a science.

ANS: In science organised and systematic study material is available to acquire the knowledge of science. Like science in management also organised and systematic study materials are available to possess the knowledge of principles and theories of management developed through observation and experiments. Therefore like science management also has the following features.

Management as a science:

- (1) Possession of systematized body of knowledge.
- (2) Principles based on experimentation.
- (3) Universal validity of principles.

Q No 4. Name the process of designing and maintaining an environment in which individuals work together in group efficiently accomplishing selected aims. Also describe the function of the process identified above.

ANS;

Name of the process: Management

Functions of management:

1. **PLANNING:** Planning refers to the future course action, which is determined in advance by setting the objectives of enterprise and how to accomplish these objectives.
2. **ORGANISING:** Establishing an organizational structure and distributing the authority and responsibility among different people to execute the plan.
3. **STAFFING:** It is the third function of management. It refers to recruiting, appointing the employees, training, development and taking care of their grievances.
4. **DIRECTING:** Directing refers to giving directions or instructions to employees by guiding and motivating them.
5. **CONTROLLING:** It is the last function of manager, in which actual performance is measured to compare with planned performance to take follow up action and to know the deviation, if any.

Practice Questions:

Q1. Alisha is one of the most successful managers of her company 'Roma ltd'. She uses her creativity and initiatives in handling challenging situations at work. The knowledge gained by her in her student days at a renowned management institution as well as through her observation and experience over the year is applied by Alisha in a skilful manner in the context of the reality of a given situation. She always keeps her knowledge updated.

- a) Which nature of the management is highlighted in the above description?
- b) State any three features of the aspect of management identified above.

Q 2. "Management has involved like a discipline. There are number of books on management. Students are learning from their books various theories and principle of management. The principles and theories of management are based on the truth and logical observation ".

- a) Identify the nature of management discussed in the above statement.
- b) State any three features of the aspect of management identified above

Q3. Riya Sharma has recently joined Maurya Ltd, a company manufacturing refrigerator .She found that her department was under staffed and other department were not cooperating with her department for smooth function of the organization. Therefore, she ensured that her department has the required number of employees and its cooperation with other department is improved.

- (i) Identify the level at which Riya Sharma was working .
- (ii) Also, state their more functions required to be performed by Riya Sharma

Q4. What do you mean by management? Explain any four point which highlight the importance of management.

Q5. "Coordination is regarded as an essence of management rather than a separate function of management" Do you agree with this statement? Give reasons.

CHAPTER-2

PRINCIPLES OF MANAGEMENT

Meaning: Management principle is a broad and general guideline for decision making and behaviour.

Nature of management principles:

(1) Universal Applicability

Principles of Management are applicable at all levels of an organisation and in all types of organisations.

(2) General Guidelines

Principles of Management provide broad guidelines to solve business problems in general.

(3) Formed by practice and experimentation

The principles of management are formed on the basis of experiences, observations and analysis of events in the past.

(4) Flexible

The principles of management are flexible in nature which managers may use at their discretion and maybe modified by managers as per prevailing situation.

(5) Mainly Behavioural

Principles of Management though explain the relationship between human and material resources but they influence human behaviour the most while accomplishing organisational goals.

(6) Cause and effect relationship

Principles of management intent to provide the cause and effect relationship of the principles if applied in a specific situation.

(7) Contingent

The application of principles of management are dependent on situations and time at which such situations happen.

Significance/ Importance of Management Principles:-

- a) These provide the managers with useful insights into reality.
- b) These help in optimum utilization of resources and effective administration.
- c) These help managers to take realistic, timely, thoughtful, logical decisions.
- d) These help in meeting changing environment requirements.
- e) These help in fulfilling social responsibility.
- f) These are used as a basis for management training, education and research.

Scientific Management: Meaning

Scientific management means knowing exactly what you want men to do and seeing that they do it in the best and the cheapest way.

Principles of scientific management (Taylor)

- 1) Science, not rule of thumb:** Taylor believed that there was only one best method to maximize efficiency, which can be developed through scientific study.
- 2) Harmony, not discord:** Taylor insisted on mental revolution which means complete change of attitude and outlook of workers and managers towards for each other. This would lead to complete harmony between managers and workers.
- 3) Cooperation, not individualism:** Taylor insisted that work must be carried on in co-operation with manager and workers, with mutual confidence and understanding for each other. Workers should be given participation in decision making by the management. Workers should not go on strikes and lockouts as that would hamper work in the organisation.
- 4) Development of each and every person to his/her greatest efficiency and prosperity:** The employees should be scientifically selected. They should be given required training and work should be allotted according to physical, mental and intellectual capabilities of a worker.

Taylor's Techniques of Scientific Management

1) Functional Foremanship

As per this technique, the planning and execution should be treated as two separate functions and each function should be handled by a separate in-charge. Each in-charge must be assisted by four specialized personnel who would give instructions to workers.

Assistants of Planning in-charge would be-

- i- Instruction card clerk- For drafting instructions for workers.
- ii- Route clerk- To specify the production route.
- iii- Time and cost clerk- For preparing time and cost sheet.
- iv- Disciplinarian- For maintaining discipline in the factory.

Assistants of Production in-charge would be-

- i-Speed boss- Will ensure that jobs is completed accurately and on time.
- ii- Gang boss- Responsible to keep machines and tools ready for operations.
- iii-Repair boss- Responsible for keeping the machines and tools in proper working conditions
- iv-Inspector- Responsible to maintain the quality of work.

2) Standardisation and Simplification of work

Standardisation of work means setting standards with respect to process followed, time taken, raw material used, working conditions for each business activity.

Objectives of standardisation:

- To produce products of fixed types, sizes and characteristics.
- To establish interchangeability of manufactured parts and products.
- To establish standards of excellence and quality in materials.

-To establish standards of performance of men and machines.

Simplification of work means simplifying work by eliminating needless varieties, sizes, dimensions etc. of products produced to utilize resources optimally and reduce labour and overhead costs.

3) Method Study

Finds the best possible way of doing a particular job.

Decides sequence of operations and placement of human and physical resources while producing goods.

Aims to minimize cost of production and maximize efficiency, quality, productivity and customer satisfaction.

4) Motion Study: It is a study of movements undertaken while doing a job like lifting, putting objects, sitting and changing positions etc. It designs the best method to perform repeated jobs. It eliminates unnecessary movements to complete the task in minimum time with greater efficiency.

Body motions can be (i) productive motions (ii) incidental motions and (iii) unproductive motions. Through motion study the unproductive motions can be eliminated.

5) Time Study

It determines the standard time for performing a well-defined job or a repeated activity.

Standard time is fixed by using the average of time taken to perform same activity several times.

6) Fatigue Study

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

7) Differential Piece Wage System

It suggests that a standard output should be decided and workers should be paid wages at different rates according to their performance. This will help to recognize efficient and inefficient workers. Efficient workers will be rewarded with more earnings and less efficient ones will be encouraged to give their best efforts in future.

Mental Revolution:

It involves a complete change in the attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions & workers should work with devotion and loyalty.

Instead of fighting over distribution of profits, they must focus attention on increasing it.

Fayol's Principles of Management-

1) Division of work: - Whole work should be divided into small tasks / units; each task should be assigned to one person according to the capability, qualification and experience of the person.

2) Authority and responsibility: - Authority means the power to take decisions. Responsibility means obligation to complete the job assigned on time. Fayol suggested that there must be a balance between authority and responsibility.

3) Discipline:-It means obedience to organizational rules and employment agreement.

4) Unity of command:-An employee should receive orders / instructions from one and only one boss/ superior and should be accountable to one superior only.

5) Unity of direction:-All the units of an organisation should be moving towards the same objectives through coordinated and focused efforts.

6) Subordination of Individual Interest to General Interest:- The interest of the organisation must supersede the interest of individuals or employees.

7) Remuneration of employees: - Remuneration of employees should be just and equitable to provide maximum satisfaction to the employees as well as employer.

8) Centralisation and Decentralisation:-Centralisation refers to concentration of authority or power in few hands at the top level. Decentralisation means evenly distribution of power at every level of management. There must be combination of both depending upon the nature and size of the organisation.

9) Scalar chain: - The formal line of authority from highest to lowest rank are known as scalar chain. It suggests that communication from top to bottom should follow the official lines of command. Gang plank is a shorter route to be used in case of emergency and has been provided so that communication is not delayed.

10) Order: - It means there should be a fixed place for every person and everything in the organization and each person and everything should be at its definite place.

11) Equity: - Equity means no discrimination on account of sex, religion, language, caste, belief or nationality etc.

12) Stability of Tenure of personnel: - It discourages frequent termination and transfer. Employees should not be moved from their positions frequently, they should be given reasonable time to show results.

13) Initiative: - Initiative refers to taking the first step with self-motivation. The employees in the organisation must be given an opportunity to take some initiative in making and executing a plan.

14) Espirit de corps:-Fayol emphasises the need for team work, spirit of unity and harmony among employees. A manager should replace 'I with We'.

Very short answer/short answer type questions (1 marks)

Q1) What do you mean by principles of management?

Ans: Principles of management are general guidelines for managerial actions.

Q2) Why do principles of management provide general but not specific solutions to managerial problems?

Ans: This is because each managerial situation is complex, unique and specific to that particular organisation. Sometimes even similar situations may have different effects.

Q3) Why are the principles of management called behavioural in nature?

Ans: The principles are said to be behavioural in nature because they influence human behaviour, provide better understanding of situations and help in decision making process.

Q4) What is optimum utilisation?

Ans: Optimum utilisation means using the resources in such a manner that it results in maximum output and minimum wastage.

Q5) What is the main objective of scientific management principle?

Ans: To increase industrial efficiency.

Q6) Name the various work study techniques developed by Taylor.

Ans: Method Study, Motion Study, Fatigue Study and Time Study.

Q7) What does 'Rule of thumb' mean?

Ans: 'Rule of thumb' means following hit and trial methods to solve problems.

Q8) What was Taylor's suggestion to improve industrial efficiency and productivity?

Ans: Division of work into smaller tasks and each task to be performed by specialised work force.

Q9) List the names of foremen who assist the production incharge in a factory.

Ans: Speed boss, Gang boss, Repair boss and Inspector.

Q10) State one benefit of standardisation.

Ans: Enables production of same quality of products.

Q11) State one benefit of simplification.

Ans: Optimum utilisation of resources.

Q12) Name the work study which advocates that workers must get rest period at regular intervals.

Ans: Fatigue Study.

Q13) Name the scientific technique which helps to differentiate between efficient and inefficient workers.

Ans: Differential Piece Wage rate system.

Q14) State the main objective of motion study.

Ans: To eliminate unproductive movements.

Q15) Name the principle of management which states that work should be divided into smaller tasks.

Ans: Division of work.

Q16) Name the principle which states that a subordinate must receive orders from only one boss.

Ans: Unity of command.

Q17) This principle states that people, materials and tools must be kept at suitable places to gain maximum efficiency. Name the principle.

Ans: Principle of order.

Q18) Identify the principle of management being violated here:

a) Raghu receives orders from the planning incharge as well as the production incharge.

b) Mr Nitin, the HR manager grants his assistant 10 days paid leave for going on a holiday but rejects Rohit's leave application for appearing in an exam.

c) Manav, a Sales Manager sells product only to those customers from whom he can receive incentive. He makes no efforts to increase sales among other customers.

Ans: a) Unity of Command.

b) Principle of equity.

c) Subordination of individual interest to general interest.

Q19) Books are found in the library, attendance register in office, staff details in accounts office. Identify the management principle being followed.

Ans: Principle of order.

Multiple Choice Questions: (1 marks)

Q1) A worker directly contact to CEO of the company with a complaint regarding working condition in the factory. Which of the following principle is being violated here?

(a) Unity of command

(b) Scalar chain

(c) Unity of direction

(d) Discipline

Answer-(b) Scalar chain.

Q2) Nimita and Salim completed their MBA and started working in multinational companies at the same level. Both are working hard and are happy with their employer. Salim had the habit of backbiting and wrong reporting about his colleagues to impress his boss. All the employees in the organisation knew about it. At the time of performance appraisal the performance of Nimita was judged better than Salim. Even then their boss, Mohammed Shaif decided to promote Salim stating that being a female Nimita will not be able to handle the responsibilities of a higher post. Identify the principle of management which is not followed by the multinational company.

(a) Unity of command

(b) Scalar chain

(c) Principle of Equity

(d) Discipline

Answer-(c) Principle of Equity

Q3) She/he keeps machines, materials, tools etc. ready for operations by concerned workers.

Whose work is described by this sentence under functional foremanship?

(a) Gang Boss

(b) Repair Boss

(c) Speed Boss

(d) Disciplinarian

Answer- (a) Gang Boss

Q4) Assertion (A): Techniques are procedures or methods which involves series of steps to be taken to reach the desired goals.

Reason (R) Principles are the guidelines to take decisions or action while practicing techniques.

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

Answer- (a) Both (A) and (R) are true and (R) is the correct explanation of (A)

Q5) Which of the following statements best describes the principle of 'Division of work'.

- a) Work should be divided into smaller tasks
- b) Labour should be divided
- c) Resources should be divided among jobs
- d) None of the above

Answer-a) Work should be divided into smaller tasks.

Q6) Under Differential Piece Wage system a standard task is established with the help of:

- a) Motion and method study
- b) Time study and fatigue study
- c) Time and motion study
- d) None of the above

Answer-c) Time and motion study.

Q7) ----- is the scientific technique which insists on hiring specialised persons or experts for each job.

- a) Functional Foremanship
- b) Standardisation and simplification of work
- c) Fatigue study
- d) Motion study

Answer-a) Functional foremanship.

Q8) -----refers to taking the first step with self-motivation.

- a) Initiative
- b) Subordination of individual interest to general interest
- c) Equity
- d) Discipline

Answer-a) Initiative

Short answer type questions (3/4 marks)

Q. 1. In your school, you observe that books are kept in office, chalks in the library and office records in the staff room.

- a. Which principle of management is violated here and why?
- b. How will that affect the achievement of school objectives?
- c. As a manager, what steps will you take to rectify the shortcomings?

Ans. a. The principle of 'Order' because things are not kept at their proper place.
b. In the absence of orderliness, school objectives will not be achieved efficiently and effectively as a lot of time will be wasted in searching the required materials.
c. Things should be placed at appropriate places to achieve maximum efficiency within given time framework.

Q2. Neeraj is selected for the post of software developer in an IT Company. On the first day of his joining, Mehul, his project manager tells Neeraj that during the course of his work he will come across many such opportunities which may tempt him to misuse his powers for individual or family's benefit at the cost of larger general interest of the company. In such situations, he should rather exhibit exemplary behaviour as it will raise his stature in the eyes of the company. Also, for interacting with anyone in the company on official matters, he should adopt the formal chain of authority and communication.

In context of the above case:

Identify and explain the various principles of management that Mehul is advising Neeraj to follow while doing his job.

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

1. Subordination of Individual Interest to General Interest.
Explain the meaning as discussed earlier.
2. Scalar Chain.
Explain the meaning of this principle as discussed earlier.

Q. 3. S 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 subordinates had to work for more than one superior. The workers were becoming indisciplined. 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 lines from the above case.

Ans.1. Unity of command- "sometimes, the subordinates had to work for more than one superior.'

2. Discipline- 'The workers were becoming indisciplined.'

3. Esprit de corps-‘The spirit of teamwork, which had characterized the company previously, had begun to wane.’

Case studies/Long answer type questions (6 marks)

Question 1.

Mohit, after completing his entrepreneurship course from Sweden returned to India and start a coffee shop ‘Aroma Coffee Can’ in a famous mall in New Delhi. The speciality of the coffee shop was the special aroma of coffee and a wide variety of flavours to choose from. Somehow, the business was neither profitable nor popular. Mohit was keen to find out the reason. He appointed Sandhya, an MBA from a reputed college, as a Manager to find out the causes for the same. Sandhya took feedback from the clients and found out that though they loved the special unique aroma of coffee but were not happy with the long waiting time being taken to process the order. She analysed & found out that there were many unnecessary obstructions in between which could be eliminated. She fixed a standard time for processing the order. She also realised that there were some flavours whose demand was not enough. So, she also decided to stop the sale of such flavours. As a result within a short period Sandhya was able to attract the customers.

Identify & explain any two techniques of scientific management used by Sandhya to solve the problem.

Answer:

The two techniques of scientific management used by Sandhya to solve the problem are: (any two)

(a) *Time study*: It seeks to determine the standard time taken to perform a well-defined job. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes and determine labour costs. By using time measuring devices for each element of task the standard time is fixed for the whole of the task by taking several readings.

(b) *Simplification (Standardisation and Simplification)*: Simplification aims at eliminating superfluous diversity of products in terms of varieties, sizes and dimensions. It not only helps to reduce inventories but also save cost of labour, machines and tools. Thus it helps to increase turnover by ensuring optimum utilisation of resources.

(c) *Motion study*: Motion study refers to the study of movements of limbs of a worker while doing a particular task. It seeks to divide all such movements into three categories namely; motions which are required, motions which are unnecessary, motions which are incidental. Thus, motion study helps to eliminate unnecessary movements of a work and enables him to complete the given task efficiently.

Question 2.

Delicious Tiffin Box service was started in Mumbai by the Mumbai Dabbawalas. The Dabbawalas who are the soul of entire Mumbai aim to provide prompt and efficient services by providing tasty home-made tiffin to all office goers at the 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 'mydabbawala.com'. Owing to their tremendous popularity amongst the happy and satisfied customers and members, the Dabbawalas were invited as guest lecturer by top business schools. The Dabbawalas operate in a group of 25-30 people along with a group leader. Each group teams up with other groups in order to deliver the tiffins 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 leaves without permission; wearing white caps and 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.

State and explain the principles of management given by Fayol as highlighted in the above paragraph. Also quote lines from the paragraph.

Answer:

The relevant principle of management given by Fayol is:-

Stability of Personnel: The employee turnover should be minimized to maintain organizational efficiency. Personnel should be selected and appointed after due and rigorous procedure. After placement, they should be kept at their post for a minimum fixed tenure so that they get time to show results. Any deviation in this regard will create instability or insecurity among employees. They would tend to leave the organisation.

'They are not transferred on frequent basis as they have to remember the addresses of their customers.'

Discipline: It means obedience to organizational rules and employment agreement

Initiative: Initiative refers to taking the first step with self-motivation. The employees in the organisation must be given an opportunity to take some initiative in making and executing a plan.

'They follow certain rules while doing trade—no alcohol during working hours; no leaves without permission; wearing white caps and carrying ID cards during business hours.'

Espirit de corps: Fayol emphasises the need for team work, spirit of unity and harmony among employees. A manager should replace 'I with We'.

'The Dabbawalas operate in a group of 25-30 people along with a group leader. Each group teams up with other groups in order to deliver the tiffins on time.'

Initiative: Initiative refers to taking the first step with self-motivation. The employees in the organisation must be given an opportunity to take some initiative in making and executing a plan.

‘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. ‘

Question 3.

As students of a management course Karan and Kunal were asked to prepare a project report on applicability of principles of management in real business situations. In order to conduct the survey, Kunal had selected an outlet of a popular chain of fast food restaurant whereas Karan visited a nearby departmental store. When Kunal presented his report to the class, Karan realised that their observations were matching on various grounds. In both the business units, work is divided into smaller tasks and each is performed by a trained employee. A set of rules are predetermined and communicated to the employees for compliance and there is a fixed place for everything and all employees have been allotted individual space. Moreover, the managers encourage a spirit of mutual trust and belongingness among the employees so that the need for imposing penalties is reduced.

In context of the above case:

Identify and explain the various principles of management being described above.

Answer:

The various principles of management being described above are as follows:

- 1) Principle of division of work: The main objective of this principle is to produce more and better work for the same effort through specialisation.
- 2) Principle of discipline: It refers to obedience to organisational rules and employment agreement which are necessary for smooth functioning of the organisation.
- 3) Principle of order: People and materials must be in proper place at appropriate time for maximum efficiency.
- 4) Principle of esprit de corps: Management should promote team spirit, unity and harmony among its employees.

Practice Questions:

Q1) Name the scientific technique which insists on paying higher wages to efficient employees.

Q2) Which principle of management suggests that employees should not leave the organisation frequently?

Q3) Mr. Mukesh used to manufacture shoes by employing labour who were easily available. When his son after completing his MBA joined the business, he analysed that if we use capital intensive method by using a machine, it will reduce the cost and the quality of shoes will also improve.

1. Which technique of scientific management is used by his son?
2. What is the objective of that technique?

Q4) Principles of management equip the managers to foresee the cause and effect relationship of their decisions and actions so that the wastages associated with a trial and error approach may be overcome. Point out some more importance of the principles of management.

Q5) Explain the following principles of management:

- a) Discipline b) Order c) Authority and responsibility d) Scalar chain.
- b)

Q6) Explain the role of gang boss and route clerk in functional foremanship.

Q7) If students face any problem in school/class they file a complaint with their class teacher and if required class teacher discusses the matter with the Vice-Principal. If the issue is extremely serious the matter is discussed with the Principal for his suggestions. Which principle of management is being discussed here? Explain it with its exception.

UNIT-3: BUSINESS ENVIRONMENT

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

Features/ Characteristics/Nature of Business Environment-DISTURC

D-Dynamic Nature

I-Inter-relatedness

S-Specific and general forces

T-Totality of external forces

U-Uncertainty

R-Relativity

C-Complexity

Importance of business environment-CPT TOP

- a) It enables the firm to identify opportunities and getting the first mover advantage.
- b) It helps the firm to identify threats and early warning signals.
- c) It helps in tapping useful resources.
- d) It helps in coping with rapid changes.
- e) It helps in assisting in planning and policy formulation.
- f) It helps in improving performance

Elements or Dimensions of Business Environment -STEP L

S- Social Environment

The social environment of business includes the social forces like customs and traditions, values, social trends, society's expectations from business etc. Traditions define social practices that have lasted for centuries.

For Example:-Diwali, Id, Christmas and Guru Parv in India.

T- 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.

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

E-Economic Environment

Interest rates, inflation rates, change in income of the people, stock market and the value of rupee are some of the economic factors that can affect management practices in a business enterprise.

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.

L-Legal Environment

Legal environment includes various legislations passed by the government administrative orders issued by government authorities, court judgments as well as the decisions rendered by the various commissions and agencies at every level of the government centre, state or local.

Demonetisation

Demonetisation can be defined as an economic policy where a certain currency unit ceases to be recognised or used as a legal tender. In other words, the act to cease a currency a unit or put an official stop on its status as a legal tender is called demonetisation

Impact of Demonetisation

1. Money/Interest Rates

- (i) Decline in cash transactions.
- (ii) Bank deposits increased.
- (iii) Increase in financial savings.

2. Private Wealth: Declined since some high demonetised notes were not returned and real estate price fell.

3. Public Sector Wealth: No effect

4. Digitisation: Digital transactions amongst new users (Rupay/Aadhar Enabled Payment System (AEPS)).

5. Real Estate Prices - declined.

6. Tax Collection -Rise in income tax collection because of increased disclosure.

Very Short Answer Questions (1 mark)

1. Which environment prohibits the advertisement of alcoholic beverages?

Ans. Legal Environment.

2. 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

Ans: Economic Environment

3. Demand for reservation in jobs for minorities refers to an example of key component of general environment of business. Name this component.

Ans: Social Environment.

4. The understanding of business environment enables the firm to identify opportunities. What is meant by opportunities here?

Ans: Opportunities here refer to the favourable condition in the organization environment.

5. In the year 2006, Centre for Science and Environment (CSE) claimed to have found pesticides in Pepsi Co. and Coco Cola soft drink 50 times more than permissible health limit. These companies' sales being adversely affected in that year. This is the effect of which environment?

Ans. This is the effect of Legal environment.

6. What is meant by 'Business Environment'?

Ans. Business environment means the sum total of all the forces, factors and institutions which are external to a business enterprise and beyond its control but which exercise tremendous influence on the working and growth of the business enterprise.

7. State the difference between Specific and General environment.

Ans. Specific environment of business include investors, customers, competitors and suppliers which directly affect the functioning of a business unit whereas General environment includes social, economic, political, legal and technological conditions which indirectly affect the operations of a business unit

8. Business Environment includes both 'specific and general forces'. List any four specific and general forces.

Ans. Specific forces include investors, customers, competitors and suppliers. General forces include social, economic, political, legal and technological conditions.

9. “Business environment differs from country to country and even region to region.” Which feature of Business Environment is highlighted by this point?

Ans. Business Environment is a relative concept

10. ‘The understanding of Business Environment enables the firm to identify opportunities and threats.’ What do ‘opportunities’ and ‘threats’ mean here?

Ans. ‘Opportunities’ means the positive external trends or changes that will help a company to improve its performance. On the other hand, ‘threats’ means the external environment trends and changes that will hinder a firm’s performance.

11. The Indian Government has banned the advertisement of alcoholic products.’ Identify the dimension of Business Environment highlighted in the given statement.

Ans. Legal Environment.

12. ‘Demand for reservation in jobs for minorities’ refers to an example of key component of General environment of business. Name the component.

Ans. Social Environment.

13. Business environment consists of five important dimensions including economic, _____, social, _____ and Political.

Ans. Technological, Legal

MCQs

1. The growing awareness about healthcare has led to an increase in the demand for healthcare products and services in the country. Identify the feature of business environment being described in the above case.

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

Answer: **(d) Interrelatedness**

2. ‘Twinkle Stars’ is a well-known resort for organising parties, especially for children. However, in past 6 months its popularity has reduced considerably as a new resort with better ambience and facilities has opened within its vicinity.

Name the related feature of business environment which has influenced the business of 'Twinkle Stars' adversely.

- (a) Totality of external forces
- (b) Dynamic nature
- (c) Interrelatedness
- (d) Uncertainty

Answer: **(b) Dynamic nature**

3. Any kind of external devices, like compact discs (CD's) for computer, have become obsolete. Google, with its Google Drive service, Apple with its iCloud offering, enables the users store documents, photos, music and movies on web-based servers. Identify the feature of business environment being described in the above lines.

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

Answer: **(b) Dynamic nature**

4. According to the United Nations Environmental Agency, the world produces around 300 million tons of plastic each year, half of which constitutes single-use items. Ford is recycling over one billion plastic bottles every year to develop elements of the car's interior, reducing the amount of plastic ending up in a landfill. The American car maker has revealed that their Romanian-built Eco Sport SUVs' carpets are made using 470 recycled single-use plastic bottles. The process for making Ford Eco Sport carpets involves shredding bottles and their caps into tiny flakes and then heating them to 260° C. Identify the related dimension of business environment

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

Answer: **(c) Technological dimension**

5. Digi Locker is the country's first secured cloud-based platform for the storage, issuance and verification of documents with the Driving Licence & Vehicle Registration System of the Road Transport Ministry. The integration of a government department with Digi Locker since its launch last year is one of the biggest of its kind. It will spare 1 people the trouble of carrying licences & vehicle

papers, which can be accessed on phones using the Digi Locker app. Identify the related dimension of business environment.

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

Answer: **(b) Technological dimension**

6. 'Yo Tummy' began its business by offering the classic combo of hamburgers and fries. But over time, their customers wanted healthier foods, so 'Yo Tummy' responded and began offering healthy alternatives such as salads, fruits, wraps and oatmeal. If 'Yo Tummy' hadn't responded, they may have lost customers that wanted to eat healthier foods. The above case highlights one of the points related to the importance of business environment and its understanding by managers. Identify it.

- (a) It helps in coping with rapid changes.
- (b) It helps in improving performance.
- (c) It helps the firm to identify threats and early warning signals.
- (d) It enables the firm to identify opportunities and getting the first mover advantage.

Answer: **(a) It helps in coping with rapid changes.**

7. 'Balaji Store', which is located in the centre of the city is a big shop of the commodities of daily use. The owner of this shop Mr Naresh Aggarwal, has very good relations with his customers, suppliers and competitors. He knows it that if his customers are dissatisfied with him, its negative impact will be there only on him and not on the other firms. Therefore, he takes full care of their requirements. Similarly, Mr Aggarwal also knows that if there is any change in the customs as well as in the technology, its impact will be there not only on him but also on all the firms of his industry. No firm has control over such changes, even then Mr Aggarwal remains on guards against them. The above event is dependent on one of the 'features of business environment'. Recognise this feature.

- (a) Dynamic Nature
- (b) Inter-relatedness
- (c) Totality of External Forces
- (d) Specific and General Forces

Answer: **(d) Specific and General Forces**

8. 'Your Departmental Store' is a big shop of the articles of daily use. It is situated in the centre of the city, and is running successfully for the last many years. On getting influenced by the success of this store, five more stores got established around it. As a result, the competition increased. On the other hand, because of the very good economic condition of the country, the income of the people got increased. Now, there was a change in their demand, and they started asking for the newer and newer products. Meanwhile, there were elections in the country and there was a change of government at the centre. The new government has adopted a tough attitude towards business. On account of all these reasons, it has become difficult to run the store successfully.

Which particular feature of business environment in the above event has been described?

- (a) Relativity
- (b) Uncertainty
- (c) Complexity
- (d) Inter-relatedness

Answer: (c) **Complexity**

9. Miss Aarika Goyal is working as the C.E.O. in a company. She lays a special emphasis on the fact that the company continues to always have sweet relations with its customers. Besides, to have a close eye on the business environment she considers as the secret of any business. Recently, she noticed that the government was preparing a policy to invite the foreign companies. The government planned to give them several concessions. Miss Goyal saw through the government intention and started preparing herself for it.

Identify the point of 'importance of business environment' from the incident stated above?

- (a) It helps the firm in identifying the threats and early warning signals.
- (b) It enables the firm in identifying opportunities and getting the first mover advantage.
- (c) It helps in tapping useful resources.
- (d) It helps in coping with rapid changes.

Answer: (a) **It helps the firm in identifying the threats and early warning signals**

10. After obtaining the Post Graduate degree in the subject of 'Business Environment', Mr Saksham Miglani was appointed as the Manager in a company. He noticed that the market changes taking place very fast were having a negative impact on the company. Taking advantage of his academic ability, he made a

thorough study of the business environment. Based on his study, he prepared a formula to cope with the rapid changes taking place. Within no time, the negative impact on the company of the changes taking place disappeared. Now, the company is running successfully.

Identify the point of importance of the business environment in the above event.

- (a) It helps the firm in identifying the threats and early warning signals.
- (b) It enables the firm in identifying opportunities and getting the first mover advantage.
- (c) It helps in tapping useful resources.
- (d) It helps in coping with rapid changes.

Answer: **(d) It helps in coping with rapid changes.**

11. The present government wants to give the skilled youth full opportunity to come forward. The government's intention is that the youth should display their skill by coming forward. In order to make their skill fully realise, the government launched the 'Start up India Scheme'. Mainly, in this scheme it is declared that the person who brings something new related to business (as new process, new article, new service, etc.) will be helped by the government in several ways. The youngmen understood this scheme and took full advantage from it. Nowadays they have got employment for themselves as well as are providing employment to several other unemployed young men.

Identify the factor of business environment to which the above stated event is related.

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

Answer **(d) Political Environment**

12. Which of the following is an example of social environment?

- (a) Money supply in the economy
- (b) Consumer Protection Act
- (c) The Constitution of the country
- (d) Composition of family

Answer **(d) Composition of family**

13. Which of the following best indicates the importance of business environment?

- (a) Identification
- (b) Improvement in performance
- (c) Coping with rapid changes
- (d) All of them

Answer **(d) All of them**

14. Which of the following is not a characteristic the business environment?

- (a) Uncertainty
- (b) Employees
- (c) Relativity
- (d) Complexity

Answer **(b) Employees**

15. 'The attitude of the government officials towards business may have either positive or negative impact upon business'. Which factor of general environment of business is highlighted by this statement?

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

Answer **(b) Political environment**

16. Environment is a source of various resources for running a business. To engage in any type of activity, a business enterprise assembles various resources called inputs like Money, Machine, Material, Men, etc. from its environment including Financers, Government and Suppliers. Which importance of business environment is highlighted by this statement?

- (a) It helps in tapping useful resources
- (b) It helps in coping with rapid changes
- (c) It helps in assisting in planning and policy formulation
- (d) It helps the firm to identify threats and early warning signals

Answer **(a) It helps in tapping useful resources**

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

- (a) More demanding customers
- (b) Increasing competition

- (c) Change in agricultural prices
- (d) Market orientation

Answer (c) **Change in agricultural prices**

18. Which of the following is an example of Economic Environment?

- (A) Demand for automatic machines and luxury items in middle class families
- (B) Permission to private sector for entering into financial sector
- (C) Replacement of traditional watches with digital watches
- (D) Delicensing policies of industries

Answer (A) **Demand for automatic machines and luxury items in middle class families**

19. Entry of new players in the market led Mr Vivek, the general manager of Clean Purifiers Ltd. to think afresh how to deal with the pandemic situation. Identify the significance of business environment in above case.

- (A) It helps in coping with rapid changes
- (B) It helps the firm to identify threats and early warning signals
- (C) It helps in assisting in planning and policy formulation
- (D) It helps in improving the performance

Answer (C) **It helps in assisting in planning and policy formulation**

20. Match the components of Business Environment in column I with their respective factors in column II:

Column I

Column II

- | | |
|--------------------------|------------------------------------------------------|
| (a) Internal Environment | (i) Objective, policies, etc |
| (b) Micro environment | (ii) Customers, suppliers, etc |
| (c) Macro environment | (iii) Economic environment, social environment, etc. |

(A) (iii), (ii), (i)

(B) (ii), (i), (iii)

(C) (i), (iii), (ii)

(D) (i), (ii), (iii)

Answer (D) **(i), (ii), (iii)**

21. Which of the following is the example of social environment

- (a) Increased competition
- (b) Need for change
- (c) Joint family
- (d) Increase in tax rate

Answer (c) **Joint family**

22. Investors, customers, competitors and suppliers come under.....forces.

- (a) General
- (b) Specific
- (c) General and Specific
- (d) None of the above

Answer (a) **General**

23. “According to the Weight s and Measures Act, every eatable product should explicitly bear a green dot for vegetarian contents and brown dot for non-vegetarian ingredient “which key component of the business environment is discussed in the given case.

- a. Social environment
- b. Political environment
- c. Legal environment
- d. Economic environment

Answer c. **Legal environment**

24. XYZ limited is facing a lot of opposition as it pays less salary to women workers as compared men workers. Which dimension of environment is being violated by the company?

- a. Social environment
- b. Economic environment
- c. Political environment
- d. Technological environment

Answer a. **Social environment**

Case Study Based Questions:

Q1.Read the extract given below and answer the questions on the basis of the same:

Rapid Tours Ltd. is a travel agency which books rail tickets on commission basis. It takes two days for the Rapid Tours to get tickets from Railway Reservation Counter and deliver the tickets to the consumers. In the last one year, there has been drastic decrease in its business as most of the consumers have shifted to Satya Tour. (another travel agency) who spotted this weakness of Rapid Tours Ltd. and came up with the option of providing the tickets within 1/2 hour through the use of internet. Moreover, Satya Tours also provides discount and special offers on bookings during festive season.

(a) Which component of business environment is being overlooked by Rapid Tours Ltd.?

(i) Legal. (ii) Technological

(iii) Economic. (iv) Political

Ans. (ii) Technological

(b) Identify the feature of business environment highlighted in the following statement: "Change of booking of rail tickets from Railway Reservation Counter to Internet."

(i) Inter-relatedness. (ii) Relatively

(iii) Dynamic nature (iv) Totality of external forces

Ans. (iii) Dynamic nature

(c) Which dimension of business environment is highlighted in the following statement: "Satya tours also provides discount and special offers on bookings during festive season".

(i) Social (ii) Legal
(iii) Technological. (iv) Economic

Ans. (i) Social

(d) "In the last one year the use of internet." This line highlights one of the points of importance of business environment. Identify it.

(i) Identification of opportunities and taking first move over advantage

(ii) Identification of threats and early warning signals

(iii) Tapping of useful resources

(iv) None of the above

Ans. (i) Identification of opportunities and taking first move over advantage

Q2. Read the extract given below and answer the questions on the basis of the same: Amit and Mohit 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 Professor Mr. Kashyap 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 competitors, so that they can deal with the situation effectively. This alignment of business operations with the business environment will result in better performance.

(a) Identify the component of business environment. Highlighted in the above paragraph.

- (i) Social
- (ii) Economic
- (iii) Technological
- (iv) Legal

Ans. (iii) Technological

(b) "They discussed the idea with their Professor Mr Kashyap 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". Identify the feature of business environment highlighted in these lines.

- (i) Specific and general forces
- (ii) Relativity
- (iii) Inter-relatedness
- (iv) Dynamic nature

Ans. (i) Specific and general forces

(c) "He further told them about the technological improvements and shifts in consumer preferences that I were taking place and hence they should be aware of the environmental trends and changes which may hinder their business performance."

Identify which of the following point highlights the importance of business environment in the above lines.

- (i) It helps the firm to cope up with rapid changes.
- (ii) It helps the firm to identify threats and early warning signals.
- (iii) It is dynamic in nature.
- (iv) It helps in improving performance.

Ans. (ii) It helps the firm to identify threats and early warning signals

(d) "This alignment of business operations with the business environment will result in better performance." Identify which of the following point highlights the importance of business environment the given lines.

- (i) It helps in planning and policy formulation.

- (ii) It helps in improving performance.
- (iii) It helps tapping useful resources.
- (iv) It helps in coping up with rapid changes

Ans. (i) It helps in planning and policy formulation.

Q3.Read the extract given below and answer the questions on the basis of the same:

The organic food market in India is growing at 25-30% 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.

(a) Identify the feature of business environment highlighted in the given line of the extract, "The organic food preferences.

- (i) Dynamic nature
- (ii) Complexity
- (iii) Uncertainty
- (iv) Relativity

Ans. (i) Dynamic nature

(b) Identify the feature of business environment highlighted in the given line of the extract, "The current growth online."

- (i) Inter-relatedness
- (ii) Uncertainty
- (iii) Complexity
- (iv) Relativity

Ans. (i) Inter-relatedness

(c) Which component of general forces is highlighted in the phrase, "Rising health consciousness, changing lifestyles"?

- (i) Social
- (ii) Economic
- (iii) Legal
- (iv) Political

Ans.(i) Social

(d) Which dimension of business environment is highlighted in the phrase, Increase in disposable income?

- (i) Social (ii) Economic. (iii) Technological (iv) Legal

Ans.(ii) Economic

Q4. The government all over the world are becoming more and more cautious towards the environment. To ensure the same many state governments passed an order to ban the polythene bags since these are not bio – degradable. As a result of which the government has also decided to grant subsidy for the jute industry the minister said in their statement that they belief it will be helpful as the income of the people are rising and people can afford jute bag.

After this subsidy, Raman saw lot of prospect in jute industry and set up a jute industry and his business earned a lot of profit and gradually other company enter into the market with product improvisation.

1. Which dimension of business environment is highlighted in the statement “government has also decided to grant subsidy for the jute industry”

- a. Social dimension
- b. Technological dimension
- c. Political dimension
- d. Legal dimension

Ans c. Political dimension

2. Which dimension of business environment is highlighted in the statement “the minister said in their statement that they belief it will be helpful as the income of the people are rising and people can afford jute bag”.

- a. Social dimension
- b. Technological dimension
- c. Economic dimension
- d. Legal dimension

Ans c. Economic dimension

3 . Which merit of business environment is highlighted in the statement “Raman saw lot of prospect in jute industry and set up a jute industry”

- a. First mover advantage
- b. Identify the early threat
- c. Adjust with change
- d. None of the above.

Ans a. First mover advantage

4. Which dimension of business environment is highlighted in the statement “many state governments passed an order to ban the polythene bags”

- a. Social dimension
- b. Technological dimension
- c. Economic dimension
- d. Legal dimension

Ans d. Legal dimension

ASSERTION AND REASON TYPE QUESTIONS

DIRECTIONS: Each of the following questions consists of two statements, one is Assertion (A) and other is Reason (R).

- (a) Both Assertion (A) and Reason (R) are correct.
- (b) Assertion (A) is wrong but Reason (R) is correct.
- (c) Assertion (A) is correct but Reason (R) is wrong.
- (d) Both Assertion (A) and Reason (R) are wrong

1. **ASSERTION (A):** Government of India announced demonetisation on 3rd November, 2016 with profound implication for the Indian economy.

REASON(R): It was done basically to curb corruption, counterfeiting the use of high demonetisation notes for illegal activities and specially the accumulation of 'black money' generated by income that has not been declared to the tax authorities.

Answer (b) Assertion (A) is wrong but Reason (R) is correct.

2. **ASSERTION (A):** The demands of sarees is high in India but it is almost non-existing in France.

REASON(R): All elements of business environment are interrelated.

Answer (c) Assertion (A) is correct but Reason (R) is wrong.

3. **ASSERTION (A):** Firms have changed their market oriented approach to production oriented approach.

REASON(R): Economic reforms in form of LPG policy have made significant impact on the working of business and industry.

Answer (b) Assertion (A) is wrong but Reason (R) is correct.

4. **ASSERTION (A):** Business environment is a complex phenomenon.

REASON(R): It is difficult to understand in parts but easy to grasp in totally.

Answer (c) Assertion (A) is correct but Reason (R) is wrong.

5. **ASSERTION (A):** The government of India announced the New Industrial Policy in June 1991.

REASON(R): In 1991, the Indian economy faced a serious foreign exchange crisis, high government deficit and a rising trend of prices.

Answer (b) Assertion (A) is wrong but Reason (R) is correct.

6. **ASSERTION (A):** A business enterprise must give equal status and same wages to male and female workers, working at the same level.

REASON(R): This is because understanding of social dimension of business environment is necessary as it determines the standards of conduct that are acceptable to society.

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

7.ASSERTION (A): ITC hotels planned for new hotels in India after observing the increase in India's share of world tourism.

REASON(R): It studies its business environment and realised that it helped in improving performance.

Answer (c) Assertion (A) is correct but Reason (R) is wrong.

8.ASSERTION (A): Bajaj Auto made considerable improvements in its two wheelers when Honda and other companies entered the auto industry.

REASON(R): It studies its business environment which helped it to identify such opportunities of making improvements and innovations and thus to get the mover advantage.

Answer (c) Assertion (A) is correct but Reason (R) is wrong.

9.ASSERTION (A): Increased awareness of healthcare has raised the demand for organic food and roasted snacks.

REASON(R): The different elements of a business environment are closely interrelated.

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

10.ASSERTION (A): Government of India set-up BIFR (Board of Industrial and Financial Reconstruction) to revive or close los making and sick private sector undertakings.

REASON(R): BIFR was set-up as a measure to bring the 'Privatisation'. Component of the new Economic Policy into practice.

Answer (b) Assertion (A) is wrong but Reason (R) is correct.

11.Assertion (A): Study of business environment helps in improving performance.

Reason (R): Enterprise depends on the environment as a source of inputs or resources and as an outlet of outputs

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

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

(C) A is true but R is false

(D) A is false but R is true

Answer (b) Both A and R are true and R is not the correct explanation of A.

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

Reason (R) Business environment assist in planning and policy formulation.

- 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
- Answer (a) Both Assertion (A) and Reason (R) is the correct explanation of Assertion (A)

13. Assertion (A): Business environment is a relative concept

Reason: (R) It does not differ business in same country but differ from country to country.

- (a) If both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A).
 - (b) If both assertion (A) and reason (R) are true, but reason (R) is not the correct explanation of assertion (A).
 - (c) If assertion (A) is true, but reason (R) is false.
 - (d) If assertion (A) is false but reason (R) is true
- Answer (c) If assertion (A) is true, but reason (R) is false.

14. Assertion (A): Business environment enables firms to identify threats and warning signals.

Reason(R): Environmental awareness helps an organization to identify threats to its business interest.

- (a) If both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A).
 - (b) If both assertion (A) and reason (R) are true, but reason (R) is not the correct explanation of assertion (A).
 - (c) If assertion (A) is true, but reason (R) is false.
 - (d) If assertion (A) is false but reason (R) is true.
- Answer (a) If both assertion (A) and reason (R) are true and reason (R) is the correct explanation of assertion (A).

15. Assertion (A): The social environment of business include the social forces like customs and traditions, values, social trends, society's expectations from business etc.

Reason(R): The forces like customs and traditions, values, social trends, society's expectations from business etc. are integral part of society.

- (A) Both Assertion and reason are true and reason is correct explanation of assertion.
- (B) Assertion and reason both are true but reason is not the correct explanation of assertion.
- (C) Assertion is true, reason is false.
- (D) Assertion is false, reason is true.

Answer (A) Both Assertion and reason are true and reason is correct explanation of assertion.

TRUE/FALSE QUESTIONS

1. Turbulent market conditions, less brand loyalty, division and sub division of markets are just a few images to describe business environment. **True**
2. Business environment is getting dynamic where changes are taking place at a slow pace **False**
3. Specific forces (such as social, political, legal and technological conditions) have impact on all business enterprises. **False**
4. Increase in tax rates reduces the demand for products is the example of legal environment. **False**
5. Threats refers to internal environment trends and changes that will hinder a firm's performance **False**
6. Economic environment includes the social forces like customs and traditions. Economic environment consist of gross domestic product, national income at national level and per capita level, profit earning rate, productivity and employment rate, monetary and fiscal policy of the government, etc. **True**
7. The cost of production has increased due to increase in the minimum wage rate by the government is an economic environment. F Maruti Udyog became the leader in the small car market because it, before anyone else, could recognize the need of small cars in an environment of rising petroleum prices and a large middle class population in India. **True**
8. Business environment includes internal as well as external factors **True**

CASE STUDIES QUESTIONS

Q1. On 8th November, 2016 the Government of India announced the demonetisation making all Rs.500 and Rs. 1,000 banknotes of the Mahatma Gandhi Series invalid past midnight. The government claimed that the action would curtail the use of illicit and counterfeit cash to fund illegal activity and terrorism. The BSE SENSEX and NIFTY 50 stock indices fell over 6% on the day after the announcement. The decision was heavily criticised by members of the opposition parties, leading to debates in both houses of parliament and triggering organised protests against the government in several places across India. People seeking to exchange their bank notes had to stand in lengthy queues, and several deaths were linked to the inconveniences caused due to the rush to exchange cash. After demonetisation the demand for point of sales (POS) or card swipe machines has increased. E-payment options like Paytm has also seen a rise. In context of the above case: Identify & explain the various dimensions of business environment which relate to the above mentioned case.

List any through two values that the government seeks to promote through demonetisation.

Answer: The various dimensions of business environment which relate to the above mentioned case are outlined below:

- (a) 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.
- (b) 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.
- (c) Legal environment: Legal Environment includes various legislations passed by the Government administrative orders issued by government authorities, court judgments as well as the decisions rendered by various commissions and agencies at every level of the government— centre, state or local.
- (d) Social environment: Social Environment includes the social forces like customs and traditions, values, social trends, society's expectations from business, etc.
- (e) Economic Environment: Economic Environment 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.

The two values that the government seeks to promote through demonetisation are: Transparency in dealings. Promote well-being of people-year plans, annual budgets, and so on.

Q2.Mr. Ajay after completing MBA from USA comes to India to start a new business under the banner Ecom Creations Ltd. He launches a new product in e-learning for Senior Secondary School students in Commerce stream, which already has an established market in UK and USA but not in India. His business starts flourishing in India. Now more Indian companies entered into the market with other subjects also.

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

Answer: 1. It helps in assisting in planning and policy formulation.

“Comes to India to start a new business ... launches a new product in e- learning for senior secondary school students in Commerce stream.”

2. It helps the firm to identify opportunities and get the first mover advantage.

“His business starts flourishing in India.”

3. It helps in improving performance.

4. It helps the firm to identify threats and early warning signals.

“Now more Indian companies entered into the market with different subjects also.”

Q3.The Court passed an order to ban polythene bags as the bags are creating many environmental problems which affect the life of people in general and society in general is more concerned about quality of life. The Government decided to give subsidy to jute industry to promote this business. Innovative techniques are being developed to manufacture jute bags at low rates. Incomes are rising and people can afford to buy these bags.

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

Answer: 1. Legal environment: *Court passed an order to ban polythene bags*

2. Social environment: *environmental problems which affect the life of people in general and society in general*

3. Political environment: *The Government decided to give subsidy to jute industry to promote this business*

4. Technological environment: *Innovative techniques are being developed to manufacture jute bags at low rates*

5. Economic environment: *Incomes are rising and people can afford to buy these bags.*

Q4.Kapil Sharma is working as the Country Head of a company which owns a chain of malls under the name of “Virtuoso” in the various parts of India. 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 more than shopping to be able to attract customers. So, he recommends that “Virtuoso” malls should to be restructured into recreation centres, offering more spaces to socialize, host events and concerts, and provide ample Food and Beverages

options. Consequently the share of entertainment segment and Beverages segment in the overall mall space is increased by 20%. As a result, the company gains enormously by getting the first mover advantage.

In context of the above case:

1. Define the term “Business Environment”.
2. Explain the terms “Threats” and “Opportunities” by quoting lines from the paragraph.

Answer: 1. 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.

2. The term threats refers to the external environment, trends and changes that will hinder a firm’s performance.

“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 anytime with ease and at the consumer’s convenience. Hence, malls will have to provide much more than shopping to be able to attract customers.”

The term opportunities refers to the positive external or changes that will help a firm to improve its performance.

“As a result, the company gains enormously by getting the first mover advantage.”

Q5. The organic food market in India is grow 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:

- (i) Identify and explain the features of business environment being referred to here.
- (ii) By quoting phrases from the paragraph identify the various components of general forces which have led to a growth in the organic food market

Answer: (i) Features of business environment:

1. Dynamic nature: fashion and taste of the consumers is changing at a fast pace.

2. Uncertainty: It is very difficult for the company to predict future happening.
 3. Complexity: It is difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on decrease in demand of its products in the market
- (ii) 1. Increasing competition: “New competitors have entered the market with new designs.
2. More demanding customers: „Customers“ demand is increasing.
 3. Market orientation: it was decided that they would study and analyze the market first to identify customer tastes and fashion and then manufacture garments accordingly. It was also decided to increase expenditure on advertising, after-sales services, etc.

Q6.The Government of India announced ‘Demonetisation of Rs. 500 and Rs. 1,000 currency notes with effect from the midnight of November 8, 2016. As a result, the existing Rs 500 and Rs.1,000 currency notes ceased to be legal tender from that date. New currency notes of denomination of Rs 500 and Rs 2,000 issued by RBI after announcement. Discuss “demonetisation” in light of the legal and economic environment.

Answer: Meaning of demonetisation in context of legal and economic environment.

The Government of India made an announcement on November 8, 2016 with profound implications for the Indian economy. The two largest denomination notes, 500 and 1,000, were demonetised with immediate effect, ceasing to be legal tender, restrictions were placed on the convertibility of domestic money and bank deposits.

The aim of demonetisation was to curb corruption, counterfeiting the use of high demonetisation notes for illegal activities; and especially the accumulation of ‘black money’ generated by income that has not been declared to the tax authorities.

Q7.With change in the consumption habits of people, Neelesh who was running a sweets shop shifted to chocolate business. On the eve of Diwali he offered chocolates in attractive packages at reasonable prices. He anticipated huge demand and created a website chocolove.com for taking orders online. He got lot of orders online and earned huge profits by selling chocolates. Identify and explain the dimensions of business environment discussed in the above case.

Answer: Dimensions of business environment discussed here are:

(i) **Social Environment:** “with the change...at reasonable prices.”

The social environment of business includes social forces like:

(i) Customs and traditions (ii) Social trends (iii) society’s expectations (iv) Values (v) attitudes and beliefs.

For example: Social trends provides opportunities and threats to the business organisations.

(ii) **Technological Environment:** “He anticipated huge demand taking orders online. Technological environment includes forces relating to: (i) Scientific improvements and innovations which provides new ways of producing goods and services. (ii) New methods and techniques of operating a business.

ESSAY TYPE QUESTIONS

Q1. Define Business Environment. State any three of its features.

Answer: 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.

Features of business environment:

- (i) Business environment is uncertain because it is difficult to predict future happenings especially when environment changes are taking place too frequently.
- (ii) Business environment is complex as it is very difficult to know the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.
- (iii) Business environment is called dynamic as it keeps on changing

Q2. Understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms.’ In light of the statement, explain by giving any five points why in the present day competitive market, it is essential for a business enterprise to remain alert and aware of its environment

Answer: Importance of business environment:

- (i) Identify Opportunities and get First Mover Advantage: Early identification of opportunities helps the firm to be the first to exploit them instead of losing them to competitors.
- (ii) Identify Threats and Early Warning Signals: Environmental awareness

can help managers to identify various threats on time and serve as an early warning signals.

- (iii) Tap Useful Resource: A business firm assembles various resources called inputs like finance, machines, raw materials, power and water, labour, etc. from its environment.
- (iv) Assist in Planning and Policy Formulation : Since business environment provides both opportunities and threats for the firm, its understanding and analysis can be the basis for planning and policy formulation
- (v) Help in Coping with Rapid Changes: Managers must understand and examine the environment and develop suitable courses of action to cope with rapid changes in business environment.

Q3. Explain the following dimensions of business environment:

- (a) Political Environment; and
- (b) Social Environment

Answer: 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.

Political stability, thus, builds up confidence among business people to invest in the long term projects for the growth of the economy.

Social Environment

Social Environment includes social forces like customs and traditions, values, social trends and society's expectations from business.

These forces present various opportunities and threats to business enterprises

CHAPTER-4

PLANNING

Meaning: - Planning is deciding in advance what to do, when and where to do, how to do and by whom it should be done. It bridges the gap between where we are standing and where we want to go.

Features of Planning CM OP2D F	Importance/Significance of Planning
Decision making	Planning provides direction
Planning is p ervasive	Planning reduces the risk of uncertainties
O bjective achievement	Planning reduces overlapping and wasteful activities
Planning is F uturistic	Planning promotes innovative ideas
Planning is a M ental exercise	Planning facilitates decision-making
Planning is P rimarily function	Planning establishes standard for controlling.

Planning Process/Steps involved in Planning:-

1. O- Setting Objectives
2. P-Developing Premises
3. I-Identifying alternative courses of Action
4. E-Evaluating alternative Courses
5. S-Selecting an Alternative
6. I-Implementing the Plan
7. F-Follow-up Action

Limitations of Planning:

- a) **No guarantee of success:** For achieving success management has to properly draw and implement plans. Plans are required to be put into action. There is no guarantee that previously tried and tested plans will lead to success.

- b) **Planning involves huge cost:** When plans are drawn, costs are involved in their formation in terms of effort, time and money. The cost incurred sometimes may not justify the benefits derived from the plans.
- c) **Planning leads to rigidity:** The plans are well defined and decide future course of action. Thus managers may not be in a position to change them. Hence, there is rigidity and blind following of plans.
- d) **Planning may not work in a dynamic environment:** Business environment is dynamic and constantly adopt itself to these changes. It becomes difficult to make plans where policies of a country and economic conditions are not stable.
- e) **Time consuming process:** planning is a blessing in facing a definite situation but because of its long process, it cannot face sudden emergencies. Thus planning is time consuming and it delay action.
- f) **Planning reduces creativity:** Middle level managers are not allowed to deviate from plans or act on their own. They only carryout order which leads to reduction of creativity and new ideas in the manager.

External Limitations of Planning

- a) Natural calamity
- b) Change in competitors policies
- c) Change in taste/fashion& trend in the market
- d) Change in technologies
- e) Change in government/economic policy.

Plans: - Plans is a document that outlines how goals are going to be met. It is a specific action proposed to help the organization to achieve its objectives.

i) **Single use plan:** - These are one time use plan. These are designed to achieve a particular goal that once achieved will not reoccur in future.

(ii) **Standing plan:** - These plans are also known as Repeat Use Plans. These plans focus on situations which occur repeatedly.

Types of plans: - (MR BOS PPP)

- a) **Objectives:** Objectives are the end towards which the activities are directed. They are the end result of every activity.
- b) **Strategy:** It is a comprehensive plan to achieve the organizational objectives.

c) **Policy:** It can be defined as organization's general response to a particular problem or situation. In simple words, it is the organization's own way of handling the problems.

d) **Procedures:** Procedures are required steps established in advance to handle future conditions.

e) **Rules:** Rules are norms regarding actions and non-actions of employees.

f) **Programme:** Programmes are the combination of goals, policies, procedures and rules. All these plans together form a programme.

g) **Methods:** Methods are formalized way of doing routine and repetitive jobs.

h) **Budgets:** It is the statement of expected result expressed in numerical terms.

USEFUL TIP-*Strategy and Objectives are not classified as single-use or standing plans.*

REMEMBERING AND UNDERSTANDING SHORT ANSWER QUESTIONS

1. Name the function of management which bridges the gap between where we are and where we want to go.

Ans. Planning.

2. All business firms would like to increase their sales and earn profits to be successful. All managers dream of these. To turn their dreams into reality, managers need to work hard in thinking about the future, in making business predictions and achieving targets. The above lines describe one of the functions of management. Identify and define this function.

Ans. Planning is defined as the process of 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.

3. 'Planning is done for achieving organisational goals.' Do you agree? Give reasons.

Ans. Yes, planning contributes to the achievement of organisational goals because specific goals are set out in the plans along with the activities to be undertaken to achieve the goals

4. Why is planning considered as pervasive function of management?

Ans. Planning is considered as pervasive function of management because it is required at all levels of management as well as in all organisations.

5. Why is planning called 'forward looking or futuristic'?

Ans. Planning is called 'forward looking' because it involves looking ahead and preparing for the future.

6. Planning requires application of the mind involving foresight and vision, intelligent imagination and sound judgement.'

Identify the characteristic of planning highlighted by this statement. (1)

Ans. Planning is a mental exercise.

7. 'Planning eliminates changes/uncertainties.' Do you agree? Give reason in support of your answer.

Ans. No, this statement is not true. Planning only anticipates and not eliminates changes/ uncertainties.

8. 'Following a pre-determined plan, even when circumstances have changed, is not in the interest of the organisation.' Which limitation of planning is indicated here?

Ans. Planning leads to rigidity.

9. While formulating a plan, the manager is required to make certain assumptions about the future. What are these assumptions called?

Ans. Premises.

10. What is the next step in the planning process after objectives are set and assumption are made?

Ans. Identify alternative courses of action.

11. 'To see whether plans are being implemented and activities are being performed according to schedule', is a step of planning process. Identify the step.

Ans. Follow up action.

12. Differentiate between 'Single Use Plan' and 'Standing Plan' on the basis of meaning.

Ans. Single use plan is a one time plan specifically designed to achieve a particular goal that once achieved will not recur in the future.

A Standing plan is used for activities that occur regularly over a period of time.

13. Name the type of plan which serves as a guide for overall business planning and define the ends which an organisation strives to achieve.

Ans. Objective.

14. As a part of its comprehensive plan 'Neerja Ltd.' decided to combine a new line of activity with its existing footwear business. Identify the type of plan.

Ans. Strategy

15. Name the type of plan which is in the form of general statements and

channelizes energies towards a particular direction.

Ans. Policy.

16. Name the type of plan which is 'the general response to a particular problem or situation.'

Ans. Policy.

OBJECTIVE QUESTIONS

MCQs

1. In which step of planning process, other managerial functions also come into picture?

- A. Evaluating alternative courses of action.
- B. Follow up action
- C. Implementing the plan
- D. Selecting an alternative

Answer:- (C) Implementing the plan

2. Which of the following is not an advantage of Planning?

- A. Uniformity of action
- B. Flexibility of working
- C. Preventing misunderstandings and conflicts
- D. Reducing risk and uncertainties

Answer:- (B) Flexibility of working

3. At times, Planning is a mere ritual in modern organisation as it suffers from:

- A. Rigidity
- B. Lack of forecasting
- C. Turbulent business environment
- D. None of the above

Answer:- (C) Turbulent business environment

4. It requires application of mind involving of mind involving foresight, intelligent imagination and sound judgement. Which feature of planning is being highlighted?

- A. Planning is pervasive
- B. Planning is a mental exercise
- C. Planning is futuristic
- D. Planning involves decision-making

Answer:- (B) Planning is a mental exercise

5. Which of the following is a limitation of planning?

- A. It does not guarantee success
- B. It is costly process
- C. Both A and B
- D. None of the above

Answer:- (C) **Both A and B**

6. Out of the following steps of planning. Which one precedes the step ‘Selecting an alternative’?

- A. Setting Objectives
- B. Developing Premises
- C. Evaluating Alternative Courses
- D. Identifying Alternative Courses of Action

Answer: - (C) **Evaluating Alternative Courses**

7. From the following steps of planning, identify the correct order of steps:

- (i) Evaluating alternative courses
- (ii) Setting objectives
- (iii) Identifying alternative courses of action
- (iv) Developing premises

- A. (i), (ii), (iii), (iv)
- B. (i), (iv), (iii), (ii)
- C. (ii), (iv), (iii), (i)
- D. (iv), (i), (ii), (iii)

Answer: - C. **(ii), (iv), (iii), (i)**

8. Which one of the following is a feature of good plan?

- A. Consistency
- B. Highly ambitious targets
- C. Formulated by all persons
- D. Rigid targets

Answer:- (A) **Consistency**

9. Sushmita is planning to start an online coaching centre. She wants to introduce innovative teaching techniques especially for slow learners. Therefore, she is constantly interacting with parents and encouraging them to share their ideas. This will make her aware of more alternatives. The step of planning being described in the given lines is.....

- A. Identifying alternative courses of action
- B. Selecting the best course of action
- C. Evaluating the courses of action
- D. Follow up action

Answer:- (A) **Identifying alternative courses of action**

10. Sohan, owns a financial consultancy firm. He always explores new innovative ways of marketing his services as he strongly believes that just because a plan has worked before it is not necessary that it will work again. The limitation of planning that Sohan tries to overcome is.....

- A. Planning does not guarantee success
- B. Planning is a time-consuming process
- C. Planning leads to rigidity
- D. Planning involves huge costs

Answer:- **(A) Planning does not guarantee success**

11. Mohit selected the brand name for his new product line after carefully assessing the various available alternatives. The feature of planning being highlighted in the given lines is.....

- A. Planning involves decision-making
- B. Planning is futuristic
- C. Planning is pervasive
- D. Planning is continuous

Answer :- **(A) Planning involves decision-making**

12. Which of the following statement is false with respect to planning?

- A. Planning is closely connected with creativity and innovation
- B. It is one of the basic managerial functions
- C. It requires taking decisions
- D. None of the above

Answer :- **(D) None of the above**

13. Which of the following statement is true regarding planning?

- A. Planning is required only at top level of management as plans are made by top level of management
- B. Planning is a one-time process
- C. Once plans are made to decide the future course of action, the management may not be in a position to change them
- D. Planning always leads to success

Answer :- **C) Once plans are made to decide the future course of action, the management may not be in a position to change them**

14. Which of the following is not the feature of planning?

- A. Planning involves decision-making
- B. Planning provides direction
- C. Planning promotes innovative ideas
- D. Planning may not work in a dynamic environment

Answer: - **C) Planning promotes innovative ideas**

15. Which of the following step in the process of planning states that the manager is required to make certain assumptions about the future?

- A. Developing premises
- B. Setting objectives
- C. Evaluating alternative courses of action
- D. Implementation of plan

Answer :- **(A) Developing premises**

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

- (a) Evaluating alternative courses, identifying alternative course of actions, setting objectives, Developing premises
- (b) Setting objectives, identifying alternative course of actions, evaluating alternative courses, Developing premises
- (c) Setting objectives, developing premises, identifying alternative course of actions, Evaluating alternative courses
- (d) Setting objectives, developing premises, evaluating alternative courses Identifying alternative course of actions

Answer: **(c) Setting objectives, developing premises, identifying alternative course of actions, Evaluating alternative courses**

17. In which step of planning process Pros and cons of each alternative is examined

- (a) Selecting an alternative
- (b) Developing Premises:
- (c) Evaluating alternative courses
- (d) Setting Objectives

Answer: **(c) Evaluating alternative courses**

18. Which type of plan is highlighted when the company has to take the following decision: Should the company make or buy its requirements, transport services, printing of stationery, water and power supply and other items? How should vendors be selected for procuring supplies? How many suppliers should the company make purchases from?

- (a) Procedure
- (b) Budget.
- (c) Policy
- (d) Rule

Answer: **(c) Policy**

19. While 'Selecting an alternative' under the planning process. Which of the following are considered?

- A. Combination of plans may be selected instead of one best course

- B. Subjectivity and manager's experience or judgement plays a role
- C. The most feasible, profitable plan with least negative consequences is chosen
- D. All of the above

Answer:- **(D) All of the above**

20. Shiba, a proof reader in ABC Publications, has been given a target of reading at least 30 pages per day. She has a habit of doing things differently. While doing her work, an idea struck her that a summary of a chapter in the form of a map where all the concepts related to that chapter would be interlinked, should be given in starting of each chapter. It will give students a list of chapter as well as provide a competitive edge over other publishers. But instead of appreciating her idea, her immediate boss scolded her and asked her to complete the work as per prescribed format. Out of the following, identify the limitation of planning stated in the given paragraph.

- A. Planning reduces creativity
- B. Planning involves huge cost
- C. Planning is a time-consuming process
- D. Planning does not work in dynamic environment

Answer:- **(A) Planning reduces creativity**

ASSERTION – REASON QUESTIONS

Read the following statements (for Questions 1-10): Assertion and Reason. Choose one of the correct alternatives given below:

- (A) Both Assertion(A) and Reason(R) are True and Reason(R) is the correct explanation of (A)
- (B) Both Assertion (A) and Reason(R) are True and Reason(R) is not the correct explanation of (A)
- (C) Assertion(A) is True but Reason(R) is False
- (D) Assertion(A) is False but Reason(R) is True

1. Assertion (A): Planning is futuristic.

Reason (R): In planning process an attempt is made to peep into the future

Answer:- **(A) Both Assertion(A) and Reason(R) are True and Reason(R) is the correct explanation of (A)**

2. Assertion (A): Sometimes planning fails in spite of the best efforts of Management.

Reason(R): while planning assumptions are to be taken for future which is uncertain.

Answer:- (A) Both Assertion(A) and Reason(R) are True and Reason(R) is the correct explanation of (A)

3. Assertion (A): Planning is a continuous process as it involves series of steps
Reason(R): Each and every step is necessary to be performed in planning process.

Answer:- (D) Assertion(A) is False but Reason(R) is True

4. Assertion (A) Planning does not guarantee success.

Reason(R) It is a tool to be used with caution as It provides a base for analyzing future courses of action

Answer:- (B) Both Assertion(A) and Reason(R) are True and Reason(R) is not the correct explanation of(A)

5. Assertion (A): Plans once made they are irreversible in nature as so much resources being utilized to make them.

Reason(R): Making of plans involves huge cost

Answer:- (A) Both Assertion(A) and Reason(R) are True and Reason(R) is the correct explanation of (A)

6. Assertion (A): All other functions of management (except planning i.e. organising, staffing, directing, controlling, etc.) are performed within the framework of plans drawn.

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

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

7. Assertion (A): If target of a company is to produce 12,000 cars per year, then company must ensure that at least 1,000 cars are produced per month.

Reason (R): It is necessary because follow up action is the last step of planning process that requires monitoring of plans to ensure that objectives are achieved on time.

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

8. Assertion (A): A company does not employ people who are less than 18 years of age.

Reason (R): This is because the company considers it as its rule.

Answer:- (c) Assertion (A) is correct but Reason (R) is wrong.

9. Assertion (A): Budget is a fundamental planning instrument in many organisations.

Reason (R): It involves forecasting.

Answer:- (a) Both Assertion (A) and Reason (R) are correct

10. Assertion (A): A business firm prepares its annual plan for production and sales on the basis of sales forecasting.

Reason (R): Planning is futuristic in nature

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

TRUE- FALSE QUESTIONS

1. Planning tells us where to go, it provides direction and reduces the risk of Uncertainty by preparing forecasts (**True** / False)
2. Planning has no meaning unless it contributes to achievement of predetermined organizational goals (**True** / False)
3. The need for planning doesn't arise when alternatives are available (True / **False**)
4. Planning is regarded as forward-looking function(**True** / False)
5. If there is planning, employees would be working in different direction and the organization would be able to achieve its desired goals (True / **False**)

CASE/SOURCE BASED QUESTIONS:

Read the passage given below and answer the following questions

Case Base/ source base -1 Simplex limited had been taken over by Mundhra Group immediately following India's independence. Since then, it enjoys a rich record of industry presence and experience. In 2005, with the aim to accelerate growth the company had gone through several rounds of meetings and discussions before launching ERP system to attract large projects. The management had done effective forecast and critical thinking regarding allocation resources to reduce wastage. For this purpose, the company had laid down multiple courses of action to meet the challenge of adverse situations. In 2008, the company suffered loss in many projects due to the great recession despite taking many cost cutting measures. The management had taken utmost care regarding the possible outcome and timely review of the plans to achieve the set

target during that hard time. In 2010 the system implemented successfully which subsequently helped the company to execute numerous projects with precision and timeliness

1. In 2005, with the aim to accelerate growth the company had gone through several rounds of Meetings and discussions.” What is the objective mentioned here according to the process stated here?

- A. Developing Premises
- B. Growth & development
- C. Launching IT enabled system
- D. Cost cutting.

Answer :- **B. Growth & development**

2. In 2008, the company suffered loss in many projects due to the great recession despite taking many cost cutting measures.” Which limitation of the management process is indicated here?

- A. It fails to cope with sudden changes
- B. It involves huge cost
- C. It requires critical thinking
- D) Economic Environment

Answer :- **A. It fails to cope with sudden changes**

3. State whether the given statement is True or False:

“The management had done effective forecast and critical thinking regarding allocation of resources to reduce wastage.”

Answer: - **True**

4. “The management had taken utmost care regarding the possible outcome and timely review of the Plans to achieve the set target during that hard time.” Which is the last step of the Process mentioned here?

- A. Implementation of plan
- B. Timely execution of projects
- C. Follow up
- D. To prepare alternative course of action

Answer: - **C. Follow up**

Case Base/ source base -II Rubi Das inherited a 40-acres ancestral land from her grandparents. She decided to venture into agriculture, for this purpose she set out specific goals, objectives. Everything was a challenge because she was not aware about farming. She learned every activity and, in the process, thought of assisting other farmers as well. She eventually launched her own company Agro limited. She wanted to be sure that the activities effectively met the best interest of the company and the farmers. Hence, she prepared an annual plan for production,

sales and marketing; through sales forecasting she'll I realized that farmers were growing only one or two crops. On account of this the land remained idle for the rest of the year. She identified and evaluated different alternatives through which the farms could be utilized throughout the year. She used her foresight and systematic thinking, based on analysis of all fixed analysis of all the facts and examined and evaluated all the alternatives. She presented a plan to the Farmers Union, where after harvesting the primary crops, seasonal vegetables and foods could be grown.

1. Hence, she prepared an annual plan for production sales and marketing through sales forecasting. Which feature of planning is depicted in this statement?

- A. Planning is continuous
- B. planning is futuristic
- C. planning involves decision-making
- D. planning is a mental exercise

Answer: - **B. planning is futuristic**

2. She used her foresight and logical and systematic thinking based on analysis of all facts and examined and evaluated all the alternatives. Which feature of planning is depicted here?

- A. Planning focuses on achieving objectives
- B. planning is a primary function of management
- C. planning is mental exercise
- D. planning involves decision-making

Answer: - **C. planning is mental exercise**

3. Identify the statement which is not correct.

- a) Planning is required a top-level management only.
- b) Planning facilitates decision-making
- c) Planning is a time-consuming process
- d) All are correct

Answer: - **d) All are correct**

4. Are the anticipated environments in which plans are expected to operate?

- a) Planning premises
- b) Forecasting
- c) Objectives
- d) None of these.

Answer: - **a) Planning premises**

Case Base/ source base -III: Mona inherited a 30 acre ancestral land from her grandparents. She decided to venture into agriculture. For this purpose, she set out specific goals, objectives and activities. Everything was a challenge because

she was not aware about farming. She learnt every activity and in the process thought of assisting other farmer as well. She eventually launched her own company Agro Ltd. She wanted to be sure that the activities effectively met the best interests of the company and the farmers. Hence, she prepared an annual plan for production, sales and marketing through sales forecasting. She also realised that farmers were growing only one or two crops. On account of this; the land remained idle for the rest of the year. Thus, she identified and evaluated different alternatives through which the farms could be utilised throughout the year. Thus, she identified and evaluated different alternatives through which the farms could be utilised throughout the year. She used her foresight and logical and systematic thinking based on analysis of all facts and examined and evaluated all the alternatives. She presented a plan to the farmers union, Where after harvesting the primary crop, seasonal vegetables and fruits could be grown.

1. “Hence, she prepared an annual plan for production, sales and marketing through sales forecasting.” Which feature of planning is depicted in the statement/

- (i) Planning is continuous
- (ii) Planning is futuristic
- (iii) Planning involves decision-making
- (iv) Planning is a mental exercise

Answer:- **(ii) Planning is futuristic**

2. “For this purpose she set out specific goals, objectives and activities.” Which feature of planning is depicted in the statement?

- (i) Planning focuses on achieving objectives
- (ii) Planning is a primary function of management
- (iii) Planning is pervasive
- (iv) Planning is continuous

Answer:- **(i) Planning focuses on achieving objectives**

3. “She used her foresight and logical and systematic thinking based on analysis of all facts and examined and evaluated all the alternatives. “Which feature of planning is depicted in the statement?

- (i) Planning focuses on achieving objectives
- (ii) Planning is a primary function of management
- (iii) Planning involves decision-making
- (iv) Planning is a mental exercise

Answer:- **(iv) Planning is a mental exercise**

4. “Thus, she identified and evaluated different alternatives through which the farms could be utilised throughout the.” Which feature of planning is depicted in the statement?

- (i) Planning is pervasive

- (ii) Planning is continuous
- (iii) Planning is futuristic
- (iv) Planning involves decision-making

Answer: - **(iv) Planning involves decision-making**

ESSAY TYPE QUESTIONS

Q1. Natural disaster like flood in Uttarakhand has been responsible for failure of production and sales plans of many companies. Which limitations of planning is highlighted in the given statement? State any three such limitations.

Ans. External limitations of planning:

(a) Changes in Government Policies: Managers have no control over government policies. For example, changes in industrial policy, taxation policy, bank rate, etc. may lead to failure of plans.

(b) Technological Changes: Rapid technological changes reduce the effectiveness of planning. For example, introduction of Pentium IV Processor, LED TV, etc.

(c) Change in Fashion, Tastes, etc.: Unexpected changes in the fashion, tastes and preferences of consumers may affect the sales forecast of a company. For example, increase in demand for readymade garments has affected the business of tailors

Q2. 'Each course will have many variables which have to be weighted against each other.' Identify and explain the step in the planning process which ensures this.

*Ans. **Evaluating alternative courses** - to weigh the pros and cons of each alternative. The positive and negative aspects of each proposal are evaluated in the light of the objective to be achieved. Alternatives are evaluated in terms of their feasibility and consequences.*

Q3. The most feasible, profitable and with least negative consequences alternative is finalised.' Identify the step of planning process highlighted here and explain the previous two steps preceded by the step identified above.

*Ans. **Selecting an alternative.***

Previous two steps preceded by the step identified above are:

- (i) **Evaluating alternative courses.***
- (ii) **Identifying alternative courses.***

Q4. How is ‘planning a pervasive function of management’? Explain.

Ans. ‘Planning is a pervasive function of management’ as it is required in all types of organisations, at all levels of management and in all departments of an organisation. It is not an exclusive function of top management nor of any particular department.

The scope of planning differs at different levels and among different departments

Q5. Explain any five features of planning.

Features of planning: (Any 5)

(i)**Focuses on achieving objectives:** It focuses on achieving organisational objectives and specific goals are set out in the plans along with the activities to be undertaken to achieve the goals.

(ii)**Primary function of management:** It is the primary function of management as it lays down the basis for all other functions of management.

(iii)**Pervasive:** It is pervasive as it is required in all organisations, at all levels and in all departments

(iv)**Continuous:** It is continuous because a plan is framed and implemented for a specific period of time and is followed by another plan and so on.

(v)**Futuristic:** It is futuristic as it involves looking ahead and preparing for the future based on forecasting which involves anticipating future events and drawing plans accordingly.

(vi)**Involves decision making:** Planning involves decision making as a manager has to make a choice from among the various alternative courses of action.

(vii)**Mental exercise:** It is a mental exercise as it is intellectual activity of thinking rather than doing requiring application of mind involving foresight, intelligent imagination and sound judgement

Q6. “Planning is an important function of management.” State any five reasons in favour of the statement.

ANS: Importance of Planning:

(i)**Provides direction:** Planning provides directions by deciding in advance what action should be taken.

(ii)**Reduces the risks of uncertainty:** Planning reduces the risks of uncertainty by anticipating changes and developing managerial responses to them.

(iii)***Reduces overlapping and wasteful activities***: Planning reduces overlapping and wasteful activities by coordinating the activities of different divisions.

(iv)***Promotes innovative ideas***: Planning promotes innovative ideas requiring application of mind and foresight.

(v)***Facilitates decision making***: Planning facilitates decision making by making a choice from among the alternative courses of action

Q7. 'In spite of best efforts of manager sometimes planning fails due to its limitations.' Explain any five such limitations

Limitations of planning:

(i)***Leads to rigidity***: Planning leads to rigidity because once a well-defined plan is drawn, the managers may not be in a position to change it with the changed circumstances.

(ii)***May not work in a dynamic environment***: Planning may not work in a dynamic environment as the environment in which a business operates keeps on changing and planning may not foresee everything.

(iii)***Reduces creativity***: Planning reduces creativity as middle management and other decision makers are neither allowed to deviate from plans nor are they permitted to act on their own.

(iv)***Involves huge costs***: Huge costs are involved in formulating the plans and sometimes costs incurred may not justify the benefit derived from the plan.

(v)***Time consuming process***: Planning is a time consuming as checking accuracy of facts may involve lot of time and sometimes not much time is left for its implementation.

(vi)***Does not guarantee success*** : Planning does not guarantee success as manager have a tendency to rely on previously tried and tested successful plans which may create a false sense of security and lead to failure

Q8. How does planning lead to rigidity and reduce creativity? Explain.

Ans. **Planning leads to rigidity** because:

- *Plan is drawn with specific targets within a specific time frame*
- *Once the plans are drawn, the manager may not be able to change them*
- *May not be in the best interest of the organization when circumstances change.*

Planning reduces creativity since:

- *People tend to think on the same lines as others.*
- *Middle management and other decision makers are neither allowed to deviate from plans nor are they permitted to act on their own*

Q9. How does planning ‘Not work in a Dynamic Environment’ and ‘does not guarantee success’? Explain.

Ans. Planning may not work in a dynamic environment

- **The business environment is dynamic.** The organization has to constantly adapt itself to changes in environment by making changes in its plans.
- **Planning cannot foresee accurately changes in the environment** and, thus, there may be obstacles to effective planning.

Planning does not guarantee success

- Managers have a tendency to rely on previously tried and tested plans. But a plan that has worked before may not work again.
- While planning, many unknown factors have to be considered. The false sense of security created by planning may actually lead to failure instead of success

10. After the following logical steps in the process of planning, explain the steps required to complete the process:

- (a) Setting objectives;
- (b) Developing premises;
- (c) Identifying alternative courses of action.

Ans. Steps required to complete the process of planning are:

- (a) Evaluating alternative courses of action and selecting the best possible alternative to achieve the organisational objective.
- (b) Implementing the plan, i.e., putting the plans into action and their follow-up to ensure that objectives are achieved.
- (c) Follow-up action: It means to see whether plans are being implemented and activities are performed according to plans.

CASE STUDIES QUESTIONS

Q1. Super Fine Rice Ltd. has the largest share of 55% in the market. The company's policy is to sell only for cash. In 2015, for the first time company's number one position in the industry has been threatened because other companies started selling rice on credit* also. But the managers of Super Fine Rice Ltd. continued to rely on its previously tried and tested successful plans which didn't work because the environment is not static. This led to decline in sales of Super Fine Rice Ltd.

The above situation is indicating two limitations of planning which led to decline in its sales. Identify these limitations.

Answer: The two limitations of planning which led to decline in its sales are:

- * Planning does not guarantee success.
- * Planning may not work in dynamic environment.

Q2. Suhasini, a home science graduate from a reputed college, has recently done a cookery course. She wished to start her own venture with a goal to provide health food at reasonable prices. She discussed her idea with her teacher (mentor) who encouraged her. After analysing various options for starting her business venture, they short listed the option to sell readymade and ready to make vegetable shakes and sattu milk shakes. Then, they weighed the pros and cons of both the short listed options.

1. Name the function of management being discussed above and give any one of its characteristics.
2. Also briefly discuss any three limitations of the function discussed in the case.

Answer:

1. Planning is the function of management which is being discussed above. Planning involves decision-making: Planning essentially involves application of rational thinking to choose the best alternative among the various available alternatives in order to achieve the desired goals efficiently and effectively.

2. The limitations of planning are described below:

(a) Planning may not work in a dynamic environment: The business environment is dynamic in nature. Every organisation has to constantly adapt itself to changes in its environment in order to survive and grow. However, it is difficult to

anticipate all the likely future changes in the environment with utmost accuracy. Hence, even with planning, everything cannot be foreseen.

(b) Planning reduces creativity: The top management undertakes planning of various activities whereas the other members are expected to merely implement these plans. This restricts the creativity of the middle level managers as they are neither allowed to deviate from plans nor are they permitted to act on their own.

(c) Planning involves huge costs: The process of planning involves huge cost in terms of time and money as detailed planning is based on a series of scientific calculations. Moreover, it may include a number of related costs as well, like expenses on boardroom meetings, discussions with professional experts and preliminary investigations to find out the viability of the plan. As a result, the expenses on planning may turn out to be much more than benefits derived from it.

Q3.Two years ago, Madhu completed her degree in food technology. She worked for sometime in a company that manufactured chutneys, pickles and murabbas. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulated an action plan to achieve the same.

One of her objectives was to earn 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices, etc. will be purchased on three months credit from farmers cultivating only organic crops.

She also decided to follow the steps required for marketing of the products through her own outlets. She appointed Mohan as the Production Manager who decided the exact manner in which the production activities were to be carried out. Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year.

Madhu informed Mohan about her area wise sales target for different products for the forthcoming quarter. While working on the production table, a penalty of 100 per day for not wearing caps, gloves and apron was announced.

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

Answer: The different types of plans discussed above are listed below:

(a) **Objectives:**

Objectives are the end results of the activities that an organisation seeks to achieve through its existence. All other activities within the organisation are directed towards achieving these objectives.

—One of her objectives was to earn 10% profit on the amount invested in the first year.

(b) **Policy:**

A policy is a set of general guidelines that helps in managerial decision making and action.

—It was decided that the raw materials like fruits, vegetables, spices, etc. will be purchased on three months credit from farmers cultivating only organic crops.

(c) **Procedure:**

A procedure contains a series of specific steps to be performed in a chronological order to carry out the routine activities.

—She also decided to follow the steps required for marketing of the products through her own outlets.¶

—The exact manner in which the production activities are to be carried out.¶

(d) **Rule:** A rule is a specific statement relating to the general norms in terms of Do's and Don'ts that guide the behaviour of people. It commands strict obedience and a penalty is likely to be imposed on its violation.

—While working on the production table, a penalty of ₹ 100 per day for not wearing caps, gloves and aprons was announced.¶

(e) **Budget:**

A budget refers to a financial plan that is expressed in numerical terms.

—Mohan also prepared a statement showing the number of workers different products for the forthcoming quarter.

Q4. Saurabh Jain set up a telecom business in Nasik 'Ketone' 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-a-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. Steps discussed in the above case are:

(i) Setting objectives

'Saurabh Jain set up a telecom business in Nasik 'Ketone' with an ambitious target of reaching out to 90% of the Indian population within one year.'

Objectives may be set for the entire organisation and each department or unit within the organisation. They specify what the organisation wants to achieve.

(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.'

A manager is required to make certain assumptions about the future called premises. Assumptions are the base material upon which plans are to be drawn.

(iii) Identifying alternative courses of action

'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.'

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

(iv) Evaluating alternative courses

'He assessed the proposals of different companies vis-a-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 pros and cons of each alternative are weighed in the light of the objective to be achieved, their feasibility and consequences.

Q5. 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 as it is mostly done by the top management; rest of the members just carry out orders and think on the same lines as others.
- (ii) Planning involves huge costs in terms of time and money. The costs incurred sometimes may not justify the benefits derived from the plans.

Two features of planning discussed above are:

- (i) Planning is futuristic as it involves looking ahead and preparing for the future to meet future events effectively to the best advantage of the organisation.
- (ii) Planning is a mental exercise as it requires application of mind involving foresight, intelligent imagination and sound judgement. It is an intellectual activity of thinking rather than doing.

Q6. Shenoy is the Chief Executive Officer of 'Star Ltd.' He, in accordance with the other board members, decides to formulate a general statement which will be guiding the thinking of employees. He further goes on to formulate many such statements in the next six months. These statements could be divided into two categories.

- (a) Identify and state the type of Plan highlighted above.
- (b) Also give two types of this Plan.

Ans. (a) Policy

- (b) (i) Major policies. (ii) Minor policies.

Q7. Lakshay is a supervisor in 'Orange Ltd.'. He works at the supervisory level. He teaches on-the-job training methods in which a task has to be done by the workers at supervisory level. He meets his boss on a week day and gives him a numerical statement quantifying the amount required in various activities at the supervisory level for next six months. The boss approves his requirements and gives him a job to set targets in figures about the next plan he thinks is good for the manufacturing unit.

- (a) Identify and explain the two types of plans highlighted above by quoting the lines.
- (b) Identify and state the step of planning process highlighted above by quoting the line.

Ans. (a) (i) Method. (explain)

'He teaches ... supervisory level.'

(ii) Budget. (explain)

'... gives him ... six months.'

(b) Setting objectives. (explain)

'The boss ... manufacturing unit.'

Q8. Sagar is at the real point of decision-making in the course of his planning. He has arrived at this point after identifying various alternative courses of action. Then after doing this he was thoroughly involved in the evaluation of each of these alternatives. He got involved into several permutations and combinations of various alternatives to arrive at this point.

- (a) At which stage of the Planning process is Sagar going through? Explain.
- (b) Also explain the next two steps of planning process. (6)

Ans. (a) Selecting an alternative. (Explain)

- (b) (i) Implementing the plan. (Explain)
- (ii) Follow up action. (Explain)

Q9. Pan Masala and Sons is a manufacturer of tobacco products. It decided to increase profits by at least 20% in the next quarter. It has many options :

- (i) To increase the working hours of labourers without additional payment.
 - (ii) To employ children from the local community.
 - (iii) To sell its products outside the schools and colleges. It opted the (ii) and (iii) options to achieve the target.
- (a) Identify the function of management described in the above para.
 - (b) State the steps of the process involved in the function of management identified in (a) quoting the lines from the above para.
 - (c) State any two values neglected by the organisation.

Ans. (a) Planning

(b) Steps involved in planning process:

- (i) Setting organisational objectives: ‘... increase profits by at least 20% in the next quarter.’
 - (ii) Identifying and evaluating alternative courses of action: ‘It has many options to increase the working hours of labourers without additional payment, or to employ children from the local community, or to sell its products outside schools and colleges.’
 - (iii) Selecting the best possible alternative(s): ‘It opted to employ children from the local community, and to sell its products outside the schools and colleges.’
- (c) Values neglected:
- (i) Child labour is banned.
 - (ii) Bad effect on students’ health.
 - (iii) Moral values. (Any two)

Q10. ABC Ltd. Announced a plan that nobody would smoke in organization premises and they further added that certain penalty will be imposed on employees, overlooking this.

- (i) Name the type of plan related to above para.
- (ii) Name the features of that plan.

(iii) Name the values emphasized by the company

Ans. (i) Rule is the type of plan.

(ii) Rules are very rigid.

(iii) VALUES : (a) Respect towards environment.

(b) Follow the discipline and order

Q11. Alpha Ltd. spent a lot of money to hire specialized people for framing their plans and collecting important facts from environment. The company cut down their cost by cancelling the employee's trip for recreation.

(i) Name the limitation planning mention in above para.

(ii) Name the value overlook by management

Ans: (i) Limitation: Planning involve huge cost.

(ii) Value overlook: Psychological need of employees

Q12. Josh Ltd. is a one of the largest two-wheeler manufacturer in India. It has a market share of about 42% in the two-wheeler category. The company had witnessed almost a 35% drop in the booking as the currency crunch was prompting people to withhold new purchases due to demonetisation. Therefore, the production manager of the company had decided to align production to factor in slower sales in the market.

In context of the above case:

(I) Identify and explain the function of management being discussed in the above lines.

(II) Which limitations of the function of management as identified in part (a) of the question was the production manager trying to overcome due to demonetisation?

Ans (I) Planning is the function of management which is being discussed in the above lines.

Planning is deciding in advance what to do, how to do, when to do and who has to do it. Thus, it involves setting objectives and developing an appropriate course of action to achieve these objectives.

(II). The production manager is trying to overcome the following limitations of planning:

- Rigidity

- Planning may not work in dynamic environment

Q13. Wazir Ahmed joins 'Ashiyana Ltd.' a company dealing in real estate, as a human resource manager. Through a series of interactions with his team during lunch breaks, he comes to know that quite a few managers at middle and senior levels have recently left the organisation as their promotions were overdue. Therefore, in order to reinstate the confidence of the staff, he lays out a clear cut

plan consisting of a set of general guidelines for both time bound and performance related appraisals of the managers at all levels.

Moreover, he develops standardized processes containing a series of steps specified in a chronological order for its implementation.

In context of the above case:

1. Identify the two different types of plans that Wazir Ahmed proposes to implement in order to reinstate the confidence of the staff by quoting lines from the paragraph.

2. Distinguish between the two types of plans as identified in part (a). The difference between Policy and Procedure is outlined below:

Ans Policy and Procedure are the two different types of plans that Wazir Ahmed proposes to implement in order to reinstate the confidence of the staff.

Policy: "... he lays out a clear cut plan consisting of a set of general guidelines for both time bound and performance related appraisals of the managers at all levels."

Procedure: "Moreover, he develops standardized processes containing a series of steps specified in a chronological order for its implementation."

[ALSO differentiate between POLICY and PROCEDURE with basis

Q14. Identify the type of plan in the following statements:

- a) They are ends which the organization wants to achieve by its operations.
- b) Girls will be given a rebate of 5 per cent cut off for admission in the college.
- c) It facilitates comparison of actual results with the planned results.
- d) Library will issue at one time only 4 books for 15 days.
- e) Any employee found logging to any social networking site in the office will be punished.
- f) Coca cola reduce prices of its products in response of price cut by the Pepsi.

Ans: (a) Objectives

(b) Policy

(c) Budget

(d) Policy

(e) Rule

(f) Strategy

Q15. Two years ago, Mayank obtained a degree in food technology. For some time, he worked in a company that manufactured bread and biscuits. He was not happy in the company and decided to have his own bread and biscuits manufacturing unit. For this, he decided the objectives and the targets, and formulated an action plan to achieve the same.

One of his objectives was to earn 50% profits on the amount invested in the first year. It was decided that raw materials like flour, sugar, salt, etc. will be purchased on two months credit. He also decided to follow the steps required for

marketing the products through his own outlets. He appointed Harsh as the Production Manager who decided the exact manner in which the production activities were to be carried out. Harsh also prepared a statement showing the requirement of workers in the factory throughout the year. Mayank informed Harsh about his wise sales target for different products, for the forthcoming quarter. While working on the production table, a penalty of ₹150 per day was announced for not wearing the helmet, gloves and apron by the workers. Quoting lines from the above paragraph, identify and explain the different types of plans discussed.

Ans: The different types of plans discussed above are listed below:

1. Objectives: Objectives are the end results of the activities that an organisation seeks to achieve through its existence. All other activities within the organisation are directed towards achieving these objectives.
“One of her objectives was to earn 50% profit on the amount invested in the first year.”
2. Policy: A policy is a set of general guidelines that help in managerial decision making and action.
“It was decided that the raw materials like flour, wheat, sugar, etc. will be purchased on two months credit.”
3. Method: A method refers to the prescribed ways or manner in which a task has to be performed considering the objective.
“..Decided the exact manner in which production activities were to be carried out.”
4. Procedure: A procedure contains a series of specific steps to be performed in a chronological order to carry out the routine activities.
“He also decided to follow the steps required for marketing of the products through his own outlets.”
5. Rule: A rule is a specific statement relating to the general norms in terms of Do's and Don'ts that guide the behaviour of people. It commands strict obedience and a penalty is likely to be imposed on its violation.
“While working on the production table, a penalty of Rs. 150 per day was announced for not wearing helmets, gloves and aprons by the workers.”

Chapter-5

ORGANISING

GIST OF THE LESSON:

CONCEPT:

Organizing may be defined as the process of **identifying and grouping the activities** to be performed, **defining and delegating authority and establishing the authority relationships** among them for the purpose of enabling people to **work together effectively in accomplishing the objectives**.

It **coordinates human efforts, assembles resources and integrates both** into a unified whole to be utilised for **achieving specified objectives**.

IMPORTANCE: (RARE SAD)

1. Establishment of Working **Relationship**
2. **Adaptation** to change
3. Optimum utilization of **Resources**
4. **Expansion** and Growth
5. Benefits of **Specialisation**
6. Effective **Administration**
7. **Development** of Personnel

PROCESS OF ORGANISING: (ID DDR)

1. **Identification** and **Division** of Work
2. **Departmentalisation**
3. Assignment of **Duties**
4. Establishing Reporting **Relationships**

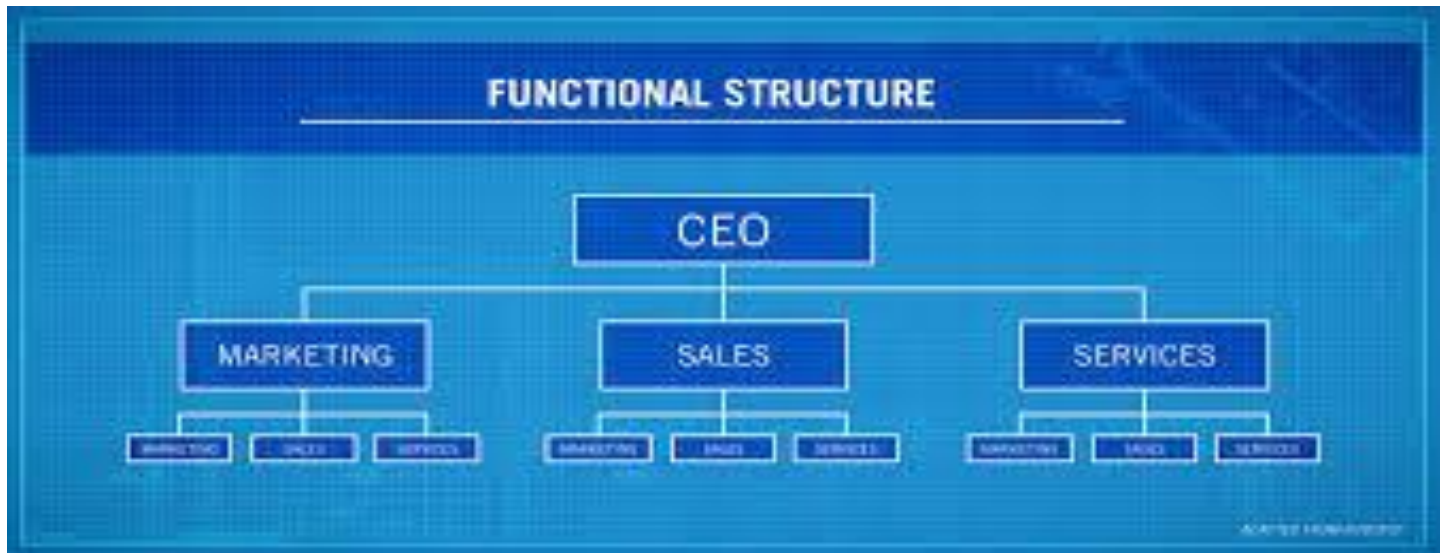
ORGANISATION STRUCTURE:

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

It specifies **the relationships between people, work and resources**.

It allows **correlation and coordination among human, physical and financial resources** and this enables a business enterprise to **accomplish desired goals**.

TYPES OF ORGANISATION STRUCTURES:



MERITS:

1. 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.
2. It promotes **control and coordination** within a department because of similarity in the tasks being performed.
3. It helps in increasing **managerial and operational efficiency** and this results in increased profit.
4. It leads to **minimal duplication of effort** which results in economies of scale and this lowers cost.
5. It makes **training of employees** easier as the focus is only on a limited range of skills.
6. It ensures that **different functions get due attention**.

DEMERITS:

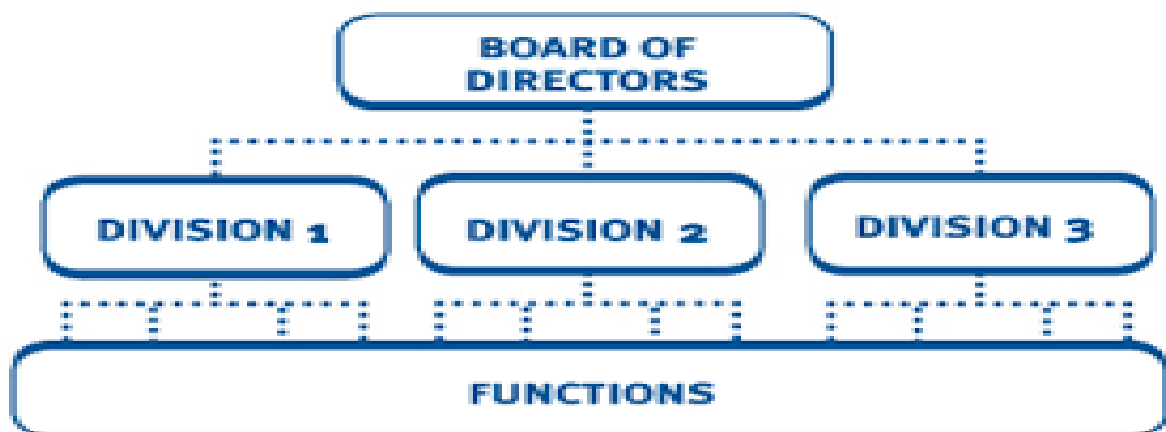
1. A functional structure places **less emphasis on overall enterprise objectives** than the objectives pursued by a functional head. Such practices

may lead to functional empires wherein the importance of a particular function may be overemphasized.

2. It may lead to **problems in coordination** as information has to be exchanged across functionally differentiated departments.
3. A **conflict of interests** may arise when the interests of two or more departments are not compatible.
4. It may lead to **inflexibility** as people with same skills and knowledge base may develop a narrow perspective and thus, have difficulty in appreciating by other point of view.

SUITABILITY:

It is most suitable when the **size of the organisation is large**, has a diversified activities and operations **require a high degree of specialisation**.



MERITS:

1. **Product specialisation** helps in the development of varied skills in a divisional head.
2. **Divisional heads are accountable** for profits, as revenues and costs related to different departments can be easily identified and assigned to them.
3. It **promotes flexibility and initiative** because each division functions as an autonomous unit which leads to faster decision making.
4. It **facilitates expansion and growth** as new divisions can be added without interruptions.

DEMERITS:

1. **Conflict may arise** among different divisions with reference to allocation of funds and further a particular division may seek to maximise its profits at the cost of other divisions.
2. It may lead to **increase in costs** since there may be a duplication of activities across products. Providing each division with separate set of similar functions increases expenditure.
3. It provides managers with the authority to supervise all activities related to a particular division leading to assert his independence and may **ignore organisational interests**.

SUITABILITY: Divisional structure is suitable for those business enterprises where a **large variety of products** are manufactured using different productive resources.

FORMAL STRUCTURE:

Formal organisation 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 there is a systematic **coordination** among the various activities to achieve organisational goals.

MERITS:

1. It is easier to **fix responsibility** since mutual relationships are clearly defined.
2. There is no ambiguity in the role that each member has to play as duties are specified. This also helps in **avoiding duplication of effort**.
3. **Unity of command is maintained** through an established chain of command.
4. It leads to **effective accomplishment of goals** by providing a framework for the operations to be performed and ensuring that each employee knows the role he has to play.
5. It provides **stability to the organisation**. This is because behaviour of employees can be fairly predicted since there are specific rules to guide them.

DEMERITS:

1. The formal communication may lead to **procedural delays** as the established chain of command has to be followed which increases the time taken for decision making.
2. Poor organisation practices may **not provide adequate recognition to creative talent**, since it does not allow any deviations from rigidly laid down policies.
3. It is **difficult to understand all human relationships** in an enterprise as it places more emphasis on structure and work. Hence, the formal organisation does not provide a complete picture of how an organisation works.

INFORMAL STRUCTURE:

Informal organisation emerges from within the formal organisation **when people interact beyond their officially defined roles**. When people have frequent contacts, they cannot be forced into a rigid formal structure.

MERITS:

1. **Prescribed lines of communication** are not followed. Thus, the informal organisation leads to faster spread of information as well as quick feedback.
2. It helps to **fulfill the social needs** of the members and allows them to find like-minded people. This enhances their job satisfaction since it gives them a sense of belongingness in the organisation.
3. It contributes towards **fulfillment of organisational objectives** by compensating for inadequacies in the formal organisation.

DEMERITS:

1. When an informal organisation **spreads rumours**, it becomes a destructive force and goes against the interest of the formal organisation.
2. The management may not be successful in implementing changes if the informal organisation opposes them. Such **resistance to change** may delay or restrict growth.
3. It **pressurises members to conform to group expectations**. This can be harmful to the organisation if the norms set by the group are against organisational interests.



Delegation of authority means the process by which **a manager shares his tasks and authority with his subordinates.**

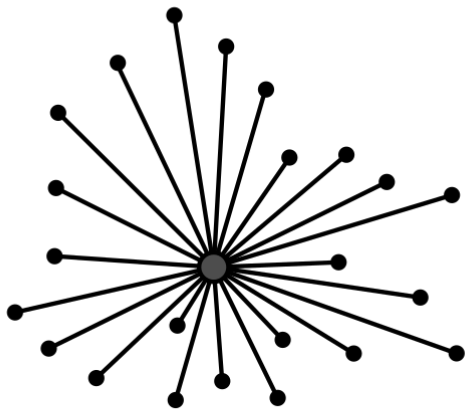


1. **Authority:** Authority refers to the **right of an individual to command his subordinates** and to take action within the scope of his position. It flows from top to bottom.
2. **Responsibility:** Responsibility is the **obligation of a subordinate to properly perform the assigned duty**. It arises from a superior–subordinate relationship because the subordinate is bound to perform the duty assigned to him by his superior.
3. **Accountability:** Delegation of authority, undoubtedly empowers an employee to act for his superior but the **superior would still be accountable for the outcome.**

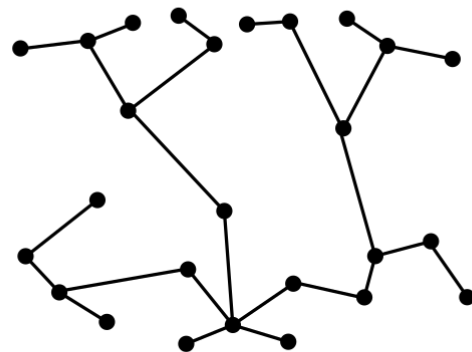
While authority is delegated, responsibility is assumed, accountability is imposed.

IMPORTANCE OF DELEGATION: (MDH GMC)

1. Effective **Management**
By delegating the authorities and managers can get the work done effectively and efficiently.
2. Employees **Development**
Delegation helps in making better future managers by giving them to perform complete task.
3. Acts as a basis of management **Hierarchy**
Delegation establishes superior-subordinate relationship which acts as the base for organisational hierarchy.
4. Facilitates **Growth** of organisation
Division of work and specialisation are very important for organisational growth.
5. Gives **Motivation** to the employees
As managers share responsibilities, the employees develop the feeling of belongingness and trust.
6. Leads to better **Coordination**
The systematic division of work gives clear picture of work to everyone and ensures effective coordination without duplication of work.



CENTRALIZED



DECENTRALIZED

DECENTRALISATION:

Decentralisation refers to delegation of authority throughout all the levels of the organisation. Decision making authority is shared with lower levels and is consequently placed nearest to the points of action.

IMPORTANCE: (Go To D Class Room Immediately)

1. Facilitates **Growth**

It grants more autonomy or freedom to lower level, increasing the productivity and generating more revenue for expansion.

2. Develops managerial **Talent**

Through decentralisation, lower and middle level managers also learn the art of decision-making.

3. Quick **Decision-making**

In decentralisation, decision-making is not restricted in few hands but is entrusted to all.

4. Better **Control**

In decentralisation, employees working at different levels take their own decisions and they are personally liable for their decisions.

5. **Relief** to the top management

Top management are not overburdened and are free to concentrate on important issues.

6. Develops **Initiative** among subordinates- Trust and faith of top level motivates the employees at all levels to take decisions and initiatives.

QUESTION BANK:

- 1 It is the obligation of a subordinate to properly perform the assigned duty.
(A) Responsibility
(B) Authority
(C) Accountability
(D) All of the above
- 2 Which of the following is not a feature of formal organisation?
(A) It specifies the relationships among various job positions.
(B) The standards of behaviour of employees are evolved from group norms.
(C) It is deliberately designed by the top management.

(D) It places less emphasis on interpersonal relationships among the employees.

- 3 It arises from the established scalar chain which links the various job positions and levels of an organisation.

(A) Authority

(B) Top to bottom

(C) All of the above

(D) None of the above

- 4 Which of the following is not a merit of functional structure?

(A) It promotes control and co-ordination within a department.

(B) It makes training of employees easier, as the focus is only on a limited range of skills.

(C) It ensures that different products get due attention.

(D) It leads to occupational specialisation.

- 5 Identify the correct sequence of steps to be followed in an organising process.

(A) Departmentalisation, Establishing reporting relationships, Assignment of duties, Identification and division of work

(B) Identification and division of work, Departmentalisation, Assignment of duties, Establishing reporting relationships

(C) Identification and division of work, Assignment of duties, Departmentalisation, Establishing reporting relationships

(D) Identification and division of work, Establishing reporting relationships, Departmentalisation, Assignment of duties.

- 6 It refers to the number of subordinates that can be effectively managed by a superior,

(A) Organisational structure

(B) Informal organisation

(C) Span of management

(D) None of the above

7 'ONIDA INDIA Ltd.', is engaged in manufacturing of washing machines. The target of the organisation is to manufacture 500 washing machines a day. There is an occupational specialisation in the organisation which promotes efficiency of employees. There is no duplication of efforts in such type of organisation structure. Identify the type of organisation structure described above.

(A) Divisional Organisation

(B) Functional Organisation

(C) Informal Organisation

(D) None of the above

8 Under what function of management the relationship between different posts (positions) is explained?

(A) Planning

(B) Communication

(C) Organisation

(D) Supervision

9 Which organisation resists changes?

(A) Formal

(B) Informal

(C) Both (a) and (b)

(D) None of these

10 In which situation the divisional structure happens to be appropriate?

(A) Where the number of major products is more than one.

(B) Where the size of the organisation is quite large

(C) Both (a) and (b)

(D) Where primarily only one product is sold

11 Product specialisation helps in the development of skills.

(A) True

- (B)False
- (C)Partially True
- (D)Partially False

12 Decetralization is an extension of delegation.

- (A)True
- (B)False
- (C)Partially True
- (D)Partially False

13 Delegation does not allow granting of authority to subordinate.

- (A)True
- (B)False
- (C)Partially True
- (D)Partially False

14 Organising never ensures the optimum utilization of resources.

- (A)True
- (B)False
- (C)Partially True
- (D)Partially False

15 As an end result of organisation function, a structure gets created automatically.

- (A)True
- (B)False
- (C)Partially True
- (D)Partially False

16 Match the following (Q.no.16 – 20):-

(i) Organisational structure	(a) number of subordinates that can be managed by superiors
(ii) Span of management	(b)Give shape to organizational structure

	(c) framework within which tasks are performed
--	------------------------------------------------

(A) i-b, ii-a

(B) i-a, ii-c

(C) i-c, ii-b

(D) None of these

17

a. Delegation	1.lesser freedom to take own decision
b. Decentralization	2.greater freedom to take decision
	3.no freedom

(A) a-1, b-2

(B) a-2, b-3

(C) a-3, b-1

(D) None of these

18

a. Delegation ensures	1.gossiping
	2.Informal relationship
	3.peace
	4.ease in burden of managers

(A) a-1,

(B) a-2,

(C) a-3,

(D) a- 4

19

a. Formal organization originates from	1. right of employees
b. Informal organization originates from	2. top management
	3. result of social interaction among employee

(A) a-1, b-2

(B) a-2, b-3

(C) a-3, b-1

(D) None of these

20

a. Organising	1. Designing specific roles to eliminate ambiguity.
b. Specialization	2. Assigning each task to employees on the basis of skills.
	3. Special person in organization.

(A) a-1, b-2

(B) a-2, b-3

(C) a-3, b-1

(D) None of these

21 Manohar was given a task by his superior to prepare a plan in 20 days. He asked two of his subordinates to work upon two aspects of his task. One of the subordinates met with an accident and could not complete his work. Who is answerable for this task?

(A) Manohar is accountable.

(B) Manohar's subordinate is responsible.

(C) Manohar's superior is responsible.

(D) None of them is responsible.

22 Name the type of organisation which is deliberately designed by top management to achieve a common organisational objective.

(A) Informal organisation

(B) Corporate organisation

(C) Formal organization

(D) Non-corporate organisation

23 The form of organisation known for giving rise to rumors is called:

(A) Centralised organization

(B) Decentralized organisation

(C) Formal organization

(D) Informal organization

24 Delegation of authority merely means the granting of authority to subordinates to operate _____.

(A) Within the prescribed limits

(B) Without any prescribed limits

(C) To any extent

(D) As per post approval of managers

25 For delegation to be effective it is essential that responsibility be accompanied with necessary _____.

(A) Authority

(B) Incentives

(C) Manpower

(D) Promotion

ASSERTION & REASONING TYPE QUESTIONS (Q. 26 TO 30)

- 26 **Assertion(A):** Responsibility is derived from authority and accountability is derived from responsibility.

Reason(R): Responsibility is the obligation of a subordinate to properly perform the assigned duty, for which he/she has been delegated authority by his/her superior. Once authority has been delegated and responsibility accepted, one cannot deny accountability.

- 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.

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

Reason(R): A manager is under obligation to perform the delegated task.

- 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.

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

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

- 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.

29 **Assertion(A):** Delegation helps a manager to extend his area of operations as without it, his activities would be restricted to only what he himself can do.

Reason(R): A manager, no matter how capable he is, cannot manage to do every task on his own. The volume of work makes it impractical for him to handle it all by himself.

- 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.

30 **Assertion(A):** A large sized organization can be totally decentralized.

Reason(R): As an organization grows in size and complexity, there is tendency to move towards decentralized decision making. Complete centralization would imply concentration of all decision-making functions at the apex of the management hierarchy.

- 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.

CASE STUDY (Q.31 TO 34)

Reliance Infocom has diversified itself into several product lines: Telecommunications, Engineering, financial services. Each subsidiary is self-

sufficient with their-own administrative functions, propagating the belief that people assume the responsibility for the effective implementation of their decisions and should be given autonomy. This has reduced the need for direct supervision by superiors, has promoted flexibility, initiative and faster decision making. The orders of customers are never delayed, as a result of good policy decisions by top management. The philosophy of the top management awards greater autonomy to the lower levels of management.

- 31 Identify a suitable framework for the company within which the managerial and operating task are to be performed.
- (A) Functional structure
 - (B) Divisional structure
 - (C) Formal Organisation Structure
 - (D) Informal Organisation Structure
- 32 Identify the philosophy of the top management highlighted in the above case:
- (A) Centralisation
 - (B) Decentralisation
 - (C) Delegation
 - (D) None of these
- 33 “This has reduced the need for direct supervision by superiors, has promoted flexibility, initiative and faster decision making.” Identify the point of importance of the philosophy of top management, as highlighted above.
- (A) Develops initiative among subordinates
 - (B) Develops managerial talent for the future
 - (C) Relief to top management
 - (D) Better control
- 34 The philosophy of the top management awards greater autonomy to the lower levels of management.

Identify the point of importance of the philosophy of top management, as highlighted above.

- (A) Quick decision making
- (B) Better control
- (C) Relief to top management
- (D) Facilitates growth

CASE STUDY (Q.35 TO 38)

Vinod Pathak, 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, Rajesh. Vinod Pathak is considered one of the most committed, capable and hardworking 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 Vinod Pathak, he handled them as a matter of routine. A problem developed when an able and intelligent person Nanakram, aged 33, was appointed by Rajesh. Nanakram, previous three years of 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, Rajesh 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 efficiently by them. One day, the tension between them reached the boiling point and Vinod Pathak complained to Rajesh stating that his duties were being largely taken over by Nanakram. Rajesh 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.

- 35 Identify the function of management highlighted in the above case.
- (A) Planning
 - (B) Organising
 - (C) Staffing
 - (D) Directing
- 36 Identify the step in the process of the function of management identified, which has not been carried out properly and contributed to this problem.
- (A) Identification and division of work
 - (B) Departmentalisation
 - (C) Assignment of duties
 - (D) Establishing authority and reporting relationships
- 37 Identify the two steps in the process of the function of management identified, which have been taken by Rajesh to respond to the complaint of Vinod Pathak.
- (A) Identification and division of work
 - (B) Departmentalisation
 - (C) Assignment of duties
 - (D) Establishing authority and reporting relationships
- 38 Identify the point(s) of importance of the function of management identified, as reflected in the above case.
- (A) Clarity in working relationship
 - (B) Benefits of specialisation
 - (C) Effective administration
 - (D) All the above

ANSWERS:

Q. N.	ANS	Q. N.	ANS	Q. N.	ANS	Q. N.	ANS
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1	A	11	A	21	A	31	B
2	B	12	A	22	A	32	B
3	A	13	B	23	D	33	C
4	C	14	B	24	A	34	D
5	B	15	A	25	A	35	B
6	C	16	A	26	A	36	C
7	B	17	A	27	C	37	C&D
8	C	18	D	28	D	38	D
9	B	19	B	29	A		
10	C	20	A	30	D		

SHORT ANSWER TYPE QUESTIONS:

Q.1. Explain the concept of organizing. Bring out the importance of organizing as a function of management.

Ans: As a function of management, organizing may be defined as the process of identifying and grouping the activities to be performed, defining and delegating authority and establishing the authority relationships among them for the purpose of enabling people to work together effectively in accomplishing the objectives.

Organising is considered an important function of management due to following reasons:

1. Organising leads to the elimination of overlapping and duplication of activities. The area of work for each employee is clearly defined.
2. It enables people to work as a team.
3. It encourages initiative and creative thinking.

Q.2. What is 'Delegation of Authority'? Explain the importance of delegation of authority.

Ans: Delegation of authority means the process by which a manager shares his tasks and authority with his subordinates. Delegation takes place when a manager passes on some of his tasks to a subordinate along with the necessary authority to perform the task.

For example, a branch manager assigns to salesperson the task of selling goods to customers and gives them the authority to grant discount. He also makes them answerable for achieving the prescribed sales targets for the branch.

Importance: (MD GM HC)

1. Effective **M**anagement- By delegating the authorities and managers can get the work done effectively and efficiently.
2. Employees **D**evelopment- Delegation helps in making better future managers by giving them to perform complete task.
3. Facilitates **G**rowth of organisation- Division of work and specialisation are very important for organisational growth.
4. Gives **M**otivation to the employees- As managers share responsibilities, the employees develop the feeling of belongingness and trust.
5. Acts as a basis of management **H**ierarchy- Delegation establishes superior-subordinate relationship which acts as the base for organisational hierarchy.
6. Leads to better **C**oordination- The systematic division of work gives clear picture of work to everyone and ensures effective coordination without duplication of work.

Q.3. Briefly explain the elements of delegation. Or state the steps contained in the process of delegation.

Ans: Following are the elements of delegation :

- 1) Assignment of tasks and duties: In the process of delegation, every superior has to define the jobs to be performed by his subordinates. He must also define the results expected. He has further to decide on the allocation of duties to the subordinates.
- 2) Grant of authority: Grant of authority means giving the right to subordinate to decide and act, to use necessary resources and represent the superior. Every subordinate needs authority to carry out the tasks and perform the duties assigned to him.
- 3) Creation of responsibility and accountability: Along with the tasks to be performed and grant of authority, the subordinates are given the responsibility or obligation to carry out the duties assigned. They are also to give an account of the results achieved in terms of the standards of performance laid down.

Q.4. “Authority can be delegated but responsibility is absolute”. Explain with examples.

Ans: One of the important principles of delegation of authority is the principle of absoluteness of responsibility. According to this principle, authority can be delegated but responsibility is absolute and cannot be delegated. The manager who delegates authority remains responsible to his own superior for the tasks which he has assigned to his subordinates. The manager cannot escape from responsibility for any default or mistake on the part of his subordinates. He continues to be responsible for the acts of his subordinates. For example, if a foreman fails to get 100 units produced by his workers on any day he is responsible to his boss. He cannot escape responsibility by saying that the workers were at fault. Similarly, the factory manager cannot escape responsibility by passing on the blame to his foreman.

Q.5. “If we delegate the authority, we multiply it by two; if we decentralize it, we multiply it by many.” How?

Ans: Delegation of authority refers to granting authority by one individual (superior) to another (subordinate). Therefore, its scope is limited to a manager and his immediate subordinate. When we delegate authority we multiply it by two i.e. the delegator and his subordinate to whom authority is delegated. Delegation is a process of sharing of task and authority between a manager and his subordinate.

Decentralisation of authority is not restricted to two individuals. It involves systematic delegation of authority at all levels and in all functions of the organization. In case of decentralization managers at middle and lower levels are granted the authority for taking decisions on tasks assigned to them. Therefore, the scope of decentralization is wider than that of delegation. When we decentralize authority we multiply it by many.

Q.6. Distinguish between:

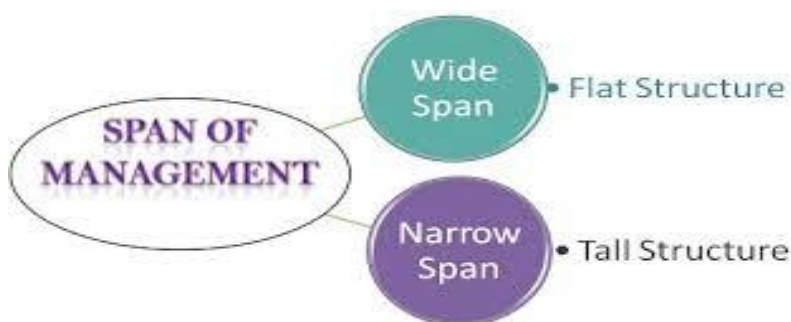
a) Functional structure and divisional structure.

Basis of distinction	Functional Structure	Divisional Structure
Nature	Functional structure recognizes each major function as a separate department.	Divisional structure recognizes each product line as a separate department.
Specialization	Functional structure ensures occupational specialization	Divisional structure ensures product specialization.

Coordination	Coordination is not simple.	Coordination is simple.
Cost	It is economical in terms of cost.	It is expensive in terms of cost.
Responsibility	It is very difficult to fix the responsibility on one department	It is very easy to fix the responsibility on one department.
Supervision	It requires less supervision.	It requires close supervision.

b) Delegation of Authority and Decentralization of Authority.

Basis of distinction	Delegation of Authority	Decentralization of Authority
Nature	It is the process of devolution of authority. It is narrower in scope and consequence	It is the end result of delegation spread to the lowest level. It is wider in scope and consequence.
Control	In delegation, control rests entirely with the superior. A subordinate works under direct control of superior.	In decentralization, top management delegates the power to control to the departmental heads.
Need	It is indispensable for management as subordinates have to be given sufficient authority to perform their duties.	It is optional in the sense that management may or may not disperse authority.
Responsibility	It creates superior-subordinate relations.	It results in diffusion of decision-making authority.



Q.7 Explain 'Span of Control' and 'Division of Labour' as the principles of organization.

Ans: Principle of span of control: Span of control means the number of subordinates to be supervised and controlled by a manager. There is a limit to the number of subordinates which a manager can directly supervise and control. The span of control should neither be too large nor too small. The exact span for a manager will depend upon a number of factors such as nature of job, ability of superior, ability of subordinates, etc.

Principle of division of labour: The total work of the organization should be properly divided into jobs and tasks. Every person should be confined to the performance of a single job as far as possible. Division of labour applies to both workers and managers.

CHAPTER-6

STAFFING

Staffing: Definition

Staffing is concerned with obtaining, utilising and maintaining a satisfactory and satisfied work force.

Importance of staffing

- 1) It helps in discovering and obtaining competent personnel for various jobs within an organisation.
- 2) By putting right person on the right job, it leads to a higher performance of the employees.
- 3) It ensures the continuous survival and growth of the enterprise through the succession planning for managers.
- 4) It helps to ensure optimum utilisation of the human resources.
- 5) It improves job satisfaction and morale of the employees through objective assessment and fair rewarding for their contribution.

Human Resource Management

Definition: Human Resource Management refers to the process of managing the employees within an organisation as human factor is recognised as the most important instrument of success in organisation.

Staffing is considered to be an inherent part of human resource management as it deals with the human element of management and is concerned with obtaining, utilising and maintaining a satisfactory and satisfied work force.

Activities of Human Resource Management

- 1) Recruitment
- 2) Analysing jobs, collecting information about jobs to prepare job descriptions.
- 3) Developing compensation and incentive plans.
- 4) Training and development of employees for efficient performance and career growth.
- 5) Maintaining labour relations and union management relations.
- 6) Handling grievances and complaints.
- 7) Providing for social security and welfare of employees.
- 8) Defending the company in law suits and avoiding legal complications.

Steps Involved in the Staffing Process

- 1) **Estimating the manpower requirements** on the basis of workload analysis and workforce analysis.
- 2) **Recruitment** is the process of searching for prospective employees and stimulating them to apply for jobs in the organisation.
- 3) **Selection** is the process of choosing from among the pool of the prospective job candidates developed at the stage of recruitment.
- 4) **Placement and Orientation** is done by giving the charge of the post to the employee for which he has been selected. It also includes introducing him to the other employees and familiarising him with the rules and policies of the organisation.
- 5) **Training and development** is done in order to ensure continuous learning of their employees so that they contribute effectively and efficiently towards the realisation of the organisational goals. Training is given to make a person job fit whereas development seeks to increase their potential for higher level jobs.
- 6) **Performance appraisal** is undertaken to evaluate the worth of an employee to the organisation.
- 7) **Promotion and career planning** are an integral part of people's career and enhance their job satisfaction.
- 8) **Compensation** refers to all forms of pay or rewards going to employees.

Aspects of Staffing

- 1) **Recruitment**
- 2) **Selection**
- 3) **Training**

Recruitment: Definition

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

Sources of Recruitment – 1) Internal 2) External

Internal recruitment

- 1) **Transfer** means shifting of an employee from one job to another, one department to another without change in responsibilities and status of employee.
- 2) **Promotion** means shifting of an employee from one job to another with higher job position, rank, responsibilities along with increase in compensation or salary also.

Merits of internal sources

- 1) It is economical
- 2) It motivates the existing employees
- 3) Less amount is spent on training
- 4) The employees are already familiar with rules and regulation of the organization so less chances of turnovers
- 5) Improved performance of employees. To get promotion employees show better performances
- 6) Through transfer employees get training also in the form of job rotation.
- 7) Through transfer surplus employees can be shifted to another department.

Demerits of internal sources

- 1) No fresh or new ideas come in the organisation.
- 2) There will be limited choice.
- 3) Not suitable for new organisation
- 4) Frequent transfer may reduce the productivity of employees.

External recruitment

When the candidates from outside the organisation are invited to fill the vacant job position is known as external sources of recruitment.

Advantages of external sources of recruitment

- 1) Fresh talent
- 2) Wider choice
- 3) Qualified personnel
- 4) Latest technological knowledge
- 5) Competitive spirit

Demerits of external sources of recruitment

- 1) The morale of existing employees goes down or falls.
- 2) New employee may not adjust in the rules and regulation of the organisation which means more chances of turnovers.
- 3) It is expensive as to initiate the outsider to apply for the job. Company has to bear heavy burden on advertisement.
- 4) Lengthy process. external recruitment takes long time

Methods of external sources of recruitment

- 1) **Direct recruitment**- the organisation pastes notice at the gate of their office or factory or workshop stating the vacant positions. Suitable for unskilled jobs like sweeper Peon Etc.

- 2) **Casual callers** - Large organisation maintain an application file in which they keep all the pending application applications which the job seekers leave with the reception, when there is a job vacancy the suitable candidate from the waiting list are called.
- 3) **Advertisement** – when is skilled and skilled job positions are advertised in a newspaper or trade and professional General.
- 4) **Employment Exchange** - The employment exchange helps to match the personnel demand and supply by serving as a link between job seekers and employers.
- 5) **Placement agencies and management consultant** – these agencies invite bio data and records from various job seekers and send them to suitable employers or clients. These agencies charge fees for providing such services. It is a kind of employment exchange run by private Enterprises.
- 6) **Campus recruitment** -the senior manager of organisations visit various professional colleges technical institute to get fresh graduate or people with latest technological know-how.
- 7) **Recommendation from present employees** – employees of organisation recommends the name of their relatives, friends and other known people to fill the vacant job position.
- 8) **Contractors** –contractor of the people who keep in touch with the labour in village and ruler areas when there is vacancy or requirements for labour in factory or in construction side they bring from village and supply to businessmen man at a short notice.
- 9) **Advertising on television** – the practice of telecasting of vacant posts over television.
- 10) **Web publishing**-In internet their or certain websites specifically design providing information regarding job seekers and companies. example.naukri.com, monster.com etc.

SELECTION: Definition

Selection is the process of choosing the best candidate from a pool of applicants for the job.

Important Tests Used for Selection of Employees:

- 1) **Intelligence Tests** include important psychological tests used to measure the level of intelligence quotient of an individual.
- 2) **Aptitude Test** is a measure of an individual's potential for learning new skills.
- 3) **Personality Tests** give an insight into a person's emotions, reactions, maturity and value system etc.

- 4) **Trade Test** seeks to measure the existing skills of the individual.
- 5) **Interest Tests** are used to know the pattern of interests or involvement of a person.

Steps in the Process of Selection

- 1) **Preliminary Screening** of the applications is done to eliminate those applicants who do not fulfil the minimum requirements of the job.
- 2) **Selection Tests** help in an objective assessment of certain characteristics of individuals and is free from personal bias.
- 3) **Employment Interview** is a face-to-face interaction between the interviewer(s) and prospective candidate.
- 4) **Reference and Background check** is carried out for the purpose of verifying information and gaining additional information about an applicant.
- 5) **Selection Decision** is made from among the candidates who pass the tests and interview.
- 6) The selected candidates are asked to undergo a medical examination before the job offer is made.
- 7) **Job Offer** is made to those applicants who have passed all the previous tests.
- 8) **Contract of Employment** is issued to the selected candidate and includes information like job title, duties, responsibilities, date of joining, pay and allowances, etc. if the applicant accepts the job offer.

TRAINING AND DEVELOPMENT

Training: Definition

Training is the process of increasing the knowledge and skill of the employees to perform specific job.

Development: Definition

Development is the process of the overall growth of a person in all aspects.

Benefits of Training to the Organization

- 1) Training imparts systematic learning to employees thereby helping to avoid wastage of efforts and money and is considered better than the hit and trial method.
- 2) It increases the employees' productivity both in terms of quantity and quality, leading to higher profits.

- 3) Training increases the morale of the employees and reduces absenteeism and employee turnover.
- 4) It helps in obtaining effective response to fast changing environment – technological and economic.
- 5) Training equips the future manager who can take over in case of emergency.

Benefits of Training to the Employee

- 1) Training leads to better career of the individual due to improved skills and knowledge during training.
- 2) It helps an individual earn more due to increased productivity.
- 3) It makes the employee more efficient in handling machines and less prone to accidents.
- 4) It increases the satisfaction and morale of employees.

Methods of Training: There are two types of training methods

- 1) On the job
- 2) Off the job

On the job training method – under these employees are trained while they are actually performing the job assigned to them.

The various on-the-job training methods are:

- 1) **Apprenticeship Training** – it is a method in which the trainee or employee work under the guidance of a master worker for prescribed period of time with an aim to acquire specific skill. Like plumbers, electricians or iron workers.
- 2) **Coaching** – it is a method in which a superior act as a coach and guides or instruct the employee trainee to learn skill and processes in within a defined period of time.
- 3) **Job rotation** – it is a method of training where employees are trained with full range of skills by shifting them from one job to another or from one department to another.
- 4) **Internship Training**- is a method for providing on the job training to the employees through a joint programme in which educational institutions and business firms cooperate. The learners carry on with their regular studies for the prescribed period. They also work in some factory or office to acquire practical knowledge and skills related to their specific field of expertise.

Off the job training method – under this method employees are trained in specifically designed training location which are far away from work.

The various off the job training method are:

- 1) **Classroom lectures or conferences** – it is a method of training where information is conveyed through lectures or conferences. It is one way

communication of delivering information about a specific job or organisation to a large number of employees.

- 2) **Audio visuals** – it is a method of training where important information or skills are demonstrated using films, television, video or presentations.
- 3) **Case study** – it is a method of training where actual work situation of the past are discuss to identify problems, analyses its causes, develop alternative solution to solve the problem, select the best alternative and implement it to solve the problem.
- 4) **Induction training** – it is a method of training to familiarise the new employees with the surroundings of the organisation, providing information about the organisation, its rules and regulations.
- 5) **Vestibule training** – it is a method of training where a duplicate work environment called vestibule is created to train employees with the technical and operating skills .
- 6) **Programmed instructions** – it is a method of training where specific skill or knowledge or broken into units and arrange in a logical and sequential learning package. The trainee learns the skill from the simple to complex by answering questions or filling the blanks.
- 7) **Computer modelling** – it is a method of training where the actual work environment is in imitated by programming computer. The trainee works on the computer and acquires required skill without much cost or skill.

Difference between Training and Development

S.L	Training	Development
1	It is concerned with teaching technical skill	It is concerned with imputing technical human and conceptual skills
2.	It is suitable for non-managerial personnel	Suitable for managerial personnel
3.	Develop skills already present in the employees	Find out hidden qualities of employees
4.	Make use of on-the-job method of training	Make use of off the job method of training
5.	Make employees perfect in performing job	Provide all-round development of the employees.

MULTIPLE CHOICE QUESTIONS

1. This is a result of higher responsibilities and hike in salaries.

- 1) Transfer
- 2) Promotion
- 3) Job rotation
- 4) None of the above

Answer: promotion

2. The training technique which duplicates the actual work environment..

- 1) Computer modelling
- 2) Program instructions
- 3) Vestibule training
- 4) Internship

Answer: vestibule training

3. Test to measure the level of existing knowledge and skill in potential employees.

- 1) Intelligence test
- 2) Trade test
- 3) Personality test
- 4) Aptitude test

Answer: trade test

4. Workforce analysis is a part of

- 1) Recruitment process
- 2) Selection process
- 3) Training and development process
- 4) Estimation of manpower requirement

Answer: Estimating manpower requirement

5. This is not a part of selection test

- 1) Aptitude test
- 2) Personality test
- 3) Orientation
- 4) Trade test

Answer: Orientation

6. Imparting skills necessary to perform a job is called

- 1) Training
- 2) Development
- 3) Recruitment
- 4) Selection

Answer: Training

7. Analysing existing employees is known as

- 1) Workload analysis
- 2) work force analysis
- 3) training

4) development

Answer: Work load analysis

8. Staffing is a part of

- 1) Marketing management
- 2) Financial management
- 3) Human resource management
- 4) None of the above

Ans: Human Resource Management

9. Analysing total number of employees required to perform the job in the organisation is known as

- 1) Workload analysis
- 2) workforce analysis
- 3) Recruitment
- 4) Selection

Ans: Work Load Analysis

10. Visit by senior manager to various professional colleges to search for prospective candidate is known as

- 1) Internal recruitment
- 2) Recommendation of employees
- 3) Employment exchange
- 4) Campus recruitment

Answer: Campus Recruitment

11. To find out potential of learning new job in the candidate the following tests conducted

- 1) Intelligence test
- 2) Aptitude test
- 3) Trade test
- 4) Personality test

Answer: Aptitude test

12. Which of the following is called in negative process

- 1) Recruitment
- 2) Training
- 3) Selection
- 4) None of the above

Answer: Selection

13. The purpose of one of the training method is to make new employees feel at home and develop a feeling of belongingness in the organisation. The method is

- 1) Induction training
- 2) Apprenticeship training
- 3) Internship training
- 4) Vestibular training

Answer: Induction Training

13. Duplicate model is prepared in

- 1) Induction training
- 2) Vestibule school
- 3) Apprenticeship training
- 4) Internship

Answer: Vestibule Training

14. Which method of recruitment is economical?

- 1) Internal
- 2) External
- 3) Both a and b
- 4) None of the above

Answer: Internal

15. The candidate who has applied for job can clarify his queries during

- 1) Test
- 2) Employment interview
- 3) Medical examination
- 4) Selection decision

Answer: Employment Interview

16. To know the emotions and value of candidate following tests conducted

- 1) intelligence test
- 2) Trade test
- 3) Personality test
- 4) Aptitude test

Answer: Personality Test

17. A suitable method of external recruitment for getting any unskilled labour is

- 1) Recommendation from present employees
- 2) Employment exchange
- 3) Advertisement
- 4) Labour contractors

Answer: Labour contractors

18. Professional institutes send their student to corporate sector for doing

- 1) Apprenticeship training
- 2) Internship
- 3) Induction training
- 4) Vestibular school

Answer: Internship

19. No fresh idea will come under

- 1) Internal recruitment
- 2) External recruitment
- 3) Direct recruitment
- 4) Indirect recruitment

Ans: Internal Recruitment

20. Which of the following is most serious problem that might arise due to excessive reliance on internal recruitment?

- 1) High labour turnover
- 2) Lack of motivation
- 3) Reduce job performance
- 4) Internal resistance

Answer: Reduce job performance

SHORT ANSWER QUESTIONS

1. Recruitment is a positive step in staffing process while selection is a negative step. Do you agree? Explain.

ANS: Yes, recruitment tries to invite maximum number of applicants for a specific job whereas selection rejects all such application which does not match the job profile required for the job.

2. Identify the main difference between placement and orientation.

ANS: Placement is the staffing stage where selected candidate occupy the position they are selected. Orientation is the staffing stage which familiarize the selected employees with organisational rules and regulations and introduce him/her to superiors, colleagues and subordinates.

3. Human Resource Management includes many specialized activities and duties which the human resource personnel must perform. In the light of this statement, explain any three such duties performed by Human Resource Manager.

ANS: Duties performed by Human Resource Manager are:

- 1) Recruitment i.e., search for qualified people and stimulating them to apply for the job within the organisation.
- 2) Prepare job descriptions by analysing jobs, collecting information about jobs etc.
- 3) Developing suitable compensation and incentive plans for the employees.

4. Define job specifications.

Answer: Job specifications specify the qualification attributes and capabilities of a person must possess to apply for a job.

5. Briefly explain the importance of staffing

Answer: Staffing ensure following benefit in the organisation:

- 1) Filling the role by obtaining competent personnel
- 2) Placing right person at right job
- 3) Growth of the enterprise
- 4) Optimum utilisation of human resources
- 5) Helps in Competing

6. Explain staffing process.

Answer: The steps involved in staffing process are:

- 1) Estimating manpower requirement
- 2) Recruitment
- 3) Selection
- 4) Placement and orientation
- 5) Training and development

- 6) Performance appraisal
 - 7) Career promotion and career planning
 - 8) Compensation
7. Explain why internal sources of recruitment is very popular and common in organisations.

Answer:

- 1) It is economical
 - 2) It motivate the existing employees
 - 3) Less amount is spent on training
 - 4) Improve performance of employees
 - 5) There already family are with rules and regulation of the organisation so less chances of turnover.
8. State any three limitations of external sources of recruitment.

Ans: Limitations external sources of recruitment

- 1) The moral of existing employees goes down or falls.
 - 2) The employees may not adjust in the rules and regulation of the organisation which means more chances of turnovers.
 - 3) It is expensive as to invite the outsider to apply for the job, company have to bear heavy burden of advertising.
 - 4) Lengthy process.
9. State the steps in the selection procedure, after the employment interview and before the job offer.

Answer: Following are the steps after employment interview and before job offer are:

- 1) Checking references and background
 - 2) Selection decision
 - 3) Medical examination
10. How is training of employees beneficial for organisation? State by giving any four reasons.

Answer: Benefit of training and development for organisation are:

- 1) Reduce learning time
- 2) Better performance
- 3) Aid in or helps in solving operational problems
- 4) Managing manpower need

CASE BASED QUESTIONS

1. Zenith Ltd. is a highly reputed company and many people wanted to join this company. The employees of this organisation are very happy and they discuss how they came in contact with this organisation.

Aman said that he was introduced by the present Sales Manager, Mr. John.

Benu said that he had applied through the newspaper and was appointed as the H.R. Manager.

Vaibhav said that he was neither related to any employee of the organisation nor

was there any advertisement in the newspaper, even then, he was directly called IIM Ahmedabad from where he was about to complete his MBA.

- 1) The above discussion is indicating an important function of management. Name the function of management.
- 2) The management function identified in part (1) follows a particular process. Explain the step of this process which is being discussed in the above paragraph.

ANS: 1 The function of management being referred to in the above lines is Staffing.

- 3) Recruitment is the step in the staffing process which is being discussed in the above paragraph. Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. The various sources of recruitment mentioned in the above paragraph are:

Aman: Recommendation of present employee.

Benu: Advertisement in newspaper

Vaibhav: Campus recruitment.

2. Nishant, the director of a garment company, is planning to manufacture bags for the utilisation of waste material from one of his garments unit. He has decided that his manufacturing unit will set-up in a rural area of Odisha where people have very few job opportunities and labour is available at very low rates. He also thought of giving equal opportunities to men and women.

For this, he wanted four different heads for sales, accounts, purchase and production. He gave an advertisement and short listed ten candidates per post after conducting different tests.

- 1) Identify and state the next three steps for choosing the best candidate out of the short-listed candidates.
- 2) Also identify two values which Nishant wants to communicate to society by setting up this manufacturing unit.

ANS: 1) The next three steps to be followed by Nishant in the selection process after giving an advertising and short listing ten candidates per post after conducting different selection tests are as follows:

- 1) Employment Interview: It is a face-to-face interaction between the interviewers and prospective candidate. It involves a formal, in-

depth conversation that is conducted to evaluate the applicant's suitability for the job.

- 2) Reference and Background Checks: At the time of filling up of the job application form, the prospective candidates are required to provide names, addresses, and telephone numbers of references for the purpose of verifying information and gaining additional information about him/her.
- 3) Selection Decision: The final decision about the selection is made from among the candidates who pass the tests and interview.

2) The two values that Nishant wants to communicate to the society by setting up this manufacturing unit are:

- Rural development
- Gender equality

PRACTICE QUESTIONS

1. Briefly enumerate the important sources of recruitment.
2. What is mean by recruitment? How it is different from selection?
3. Define training. How it is different from development?
4. Why are internal sources of recruitment considered to be more economical?
5. Explain the procedure for selection of employees?
6. Define the staffing process and various steps involved to it?
7. What is the importance of staffing function in today's environment?
8. What are the advantages of training to the individual and to the organisation?
9. Explain briefly 'transfers' and 'promotions' as internal sources of recruitment.
10. Explain various methods of on-the-job and off the job training.

CHAPTER-7

DIRECTING

Meaning of Directing: - “Directing refers to the process of instructing, guiding counselling, motivating and leading people in the organisation to achieve its objectives”.

Features/ Characteristics of Directing Function

1. Directing initiates action: Directing initiate or start action. By giving directions or instructions the managers get the work started in the organisation.
2. Directing takes place at every level of management: Directing is a pervasive function as it is performed by managers (Top executive to Supervisor) at all levels and in all locations.
3. Directing is a continuous process: Directing is a continuous process. A manager cannot just rest after issuing orders and instructions. He has to continuously guide supervise and motivate his subordinates.
4. Directing flows from Top to Bottom: Directions are given by superiors to their subordinates.

Directing starts from top level and flows to lower level.

5. Human element: Directing functions involve the study and moulding of human behavior.
6. Performance oriented: The main motive of directing is binding efficiency in performance.

Importance of Directing function:

1. Directing integrate employee's effort: Directing integrates the effort of different employees working at different levels in the organization.
2. Directing facilitate change: Directing facilitates introduction of needed change in the organization. Generally, people resist changes but directing through motivation, leadership and communication reduce such resistance on the part of the employees.
3. Directing initiate action: In the directing function, the superiors direct the actions of employees towards the predetermined goals of the organization.
4. Directing brings stability and balance in the organization: Effective directing helps to bring balance and stability in the organization since it fosters cooperation and commitment among the people and it also brings balance between the attitudes of different employees working at different levels.

Elements of Directing:

There are four elements or Components of directing which are

- | | |
|----------------|------------------|
| 1) Supervision | 2) Motivation |
| 3) Leadership | 4) Communication |

MOTIVATION

Meaning of Motivation: Motivation refers to a process of stimulating and inspiring people at work to accomplish desired goals. It is an inner psychological force, which activates and compels the person to behave in a desired manner.

Motive, Motivation and Motivators:

Motive: Motive refers to inner state or desire, which activates, compels and directs the individual to behave in the direction of achievement of goals.

Motivation: Motivation is a process of stimulating and inspiring people at work to accomplish desired goals.

Motivator: Motivator is the technique used to motivate people in an organisation. Managers use diverse motivators like pay, bonus, promotion, recognition etc. to influence the people to contribute their best.

Features/Natures/Characteristics of Motivation:

1. **Motivation is an internal feeling:** Motivation is a psychological concept and cannot be forced on employees.
2. **Motivation produces goal directed behavior:** Motivation influences employee's behavior in such a manner so that they can achieve their goals.
3. **Motivation can be either positive or Negative:** Motivation can be either positive or negative.
4. **Motivation is a complex process:** Motivation is a complex process as the individuals are heterogeneous in their expectations, perceptions and reactions. A particular type of motivation may not have uniform effect on all the members.

Maslow's Needs Hierarchy Theory: Motivation is a psychological phenomenon and the needs of employees play very important role in motivation. Maslow's Need hierarchy Theory is considered fundamental to understanding of motivation as it is based on needs of human being.

Maslow has given a sequence or hierarchy of needs in the following ways:

1. **Physiological Needs:** Physiological needs are basic for human survival and include need for food, shelter, clothing and other basic necessities of life. In organizational context basic salary helps to satisfy these needs.
2. **Safety/Security Needs:** These needs provide security and safety and protection from physical and emotional harm. Motivators like benefits of pension plans, job security, stability of income, etc. help to satisfy these needs.
3. **Social Affiliation or Belonging Needs:** These needs include the need for affection, sense of belongingness, acceptance and friendship. For example, to fulfill the social needs the managers prefer team work, arrange formal and informal get-togethers so that employees can develop social relationships.
4. **Esteem Needs:** These needs include need for self-respect, recognition, status and

attention. These needs are common in higher level employees. Esteem needs can be satisfied through non- monetary incentives.

5. **Self -Actualisation needs:** These are the needs of becoming what one really wants to become. It is the highest level of need in the hierarchy. These needs include growth, self- fulfillment and achievement of goals.

Assumptions of Maslow's Theory:

1. People's behavior are based on their needs. Satisfaction of such needs influences their behaviour.
2. People needs are in hierarchical order, starting from basic needs to other higher-level needs.
3. A satisfied need can no longer motivate a person, only next higher level need can motivate him.
4. A person moves to next higher level of hierarchy only when the lower need is satisfied.

Financial and Non-Financial Incentives:

Incentives refer to all measures, which are used to motivate people to contribute more efficiently. The needs of individuals are varied and different. Some of them can be satisfied by money, while others cannot be satisfied by money alone. On the basis of this, the incentives may be broadly classified as:

1. Financial Incentives

2. Non- financial Incentives

Financial Incentives:

Financial or Monetary Incentives refer to incentives or rewards, which can be calculated in terms of money and serve to motivate people for better performance.

Some of the common financial incentives are:

1. **Pay and allowances:** Salary is the basic monetary incentive for every employee. It includes basic pay, dearness allowance, house rent allowance and other allowances.
2. **Productivity linked wage incentives:** Under this incentive wages are paid according to performance of employees.
3. **Bonus:** Bonus is an incentive offered over and above the wages/salary to the employees.
4. **Profit sharing:** Profit sharing means sharing profits earned by a company with employees. This serves to motivate the employees to improve their performance and contribute to increase in profits.
5. **Co-partnership/Stock option:** Under these incentive schemes, employees are offered company shares at a set price which is lower than market price. The allotment of shares creates a feeling of ownership in the employees and it induces them to contribute for the growth of the organization.
6. **Retirement Benefits:** Several companies offer various retirement benefits such as provident fund, pension and gratuity, to provide financial security to employees

after their retirement.

7. **Commission:** Commission is the common Incentive offered to employees working under sales department. The commission of the sales persons is directly linked with the efforts put in by them.
8. **Perks/Fringe benefits/perquisites:** It refers to special benefits such as medical facility, free education for children, housing facility, etc. These benefits are over and above salary.

Non –Monetary/Non-financial Incentives (More powerful for higher level employees)

Money is not the only motivator, the employees who have more of esteem and self-actualization need active in them; they get satisfied with the non-monetary incentives only.

The incentives which cannot be calculate in terms of money are known as non-monetary incentives. Generally, people working at high position or at high rank get satisfied with non-monetary incentives only.

1. **Status:** Status refers to ranking of positions, authority, responsibility, recognition and prestige associated with a job in the organization.
2. **Organisational Climate:** It refers to the characteristics which describe an organisation and distinguish one organization from the other. These characteristics have direct influence over the behaviors of a member. For example; superior-subordinate relationship, individual autonomy, reward orientation, open communication, risk –tasking etc.
3. **Career advancement:** Every individual aspires for growth and development in his life. Managers should provide opportunity to employees to improve their skills and be promoted to higher level jobs.
4. **Job enrichment:** It includes designing of jobs that include greater variety of work content, require higher level knowledge and skill. It gives more autonomy and responsibility to the workers and provides the opportunity for personal growth and a meaningful work experience.

The enriched jobs become a source of motivation to the individual.

5. **Employees Recognition Programmes:** Every employee who performs well, feel that what they have done should be recognized and rewarded by the superiors. Recognition, means acknowledgement with show of appreciation. When such appreciation is given to the work performed by employees, they feel motivated. For eg- Awarding or providing certificate, distributing mementos and other compliments, displaying name on notice board. Etc.
6. **Job Security:** Employees want their job to be secure. They want certain stability about future income and work so that they do not feel worried on these aspects and work with greater zeal.
7. **Employees Participation:** It means involving employee in decision making specially when decisions are related to workers. Employees follow the decision more sincerely when these are taken in consultation with them.
8. **Autonomy/ Employees Empowerment:** It involves giving more freedom and

powers to subordinates. Empowerment makes people feel that their job is important and they contribute positively by using their skills and talents in the job performance.

Difference between Financial and Non-Financial Incentives:

Basis	Financial Incentives	Non-Financial Incentives
Meaning	Financial Incentives refer to rewards, which can be calculated in monetary terms	Non-financial incentives refer to incentives which cannot be measured in terms of money.
Suitability	They are more effective in case of lower-level employees.	They are more effective in case of higher-level employees.
Satisfaction of Needs	They satisfy lower-level needs.	They satisfy higher level needs.
Examples	Salary, Bonus, Perquisites, Profit sharing etc.	Status, Job enrichment, career advancement etc.

Leadership

Leadership is the process of influencing the behaviour of people towards achievement of organizational goals.

Features of Leadership:

- i) Leadership is ability of individual to influence others.
- ii) It aims to bring change in behaviour.
- iii) It indicates interpersonal relations between leader and followers.
- iv) It is exercised to achieve organizational goal
- v) It is a continuous process

Types of Leadership: There are several bases for classifying leadership styles. The most popular classification of leadership styles is based on the use of authority. Depending on the use of authority, there are three basic styles of Leadership.

- i) Authoritative or Autocratic Leadership
- ii) Democratic or Participative Leadership
- iii) Laissez faire or Free Rein Leadership

Authoritative Leadership: An autocratic leader gives orders and expects his subordinates to obey those orders.

- Under it, the leader centralizes all decision-making power and has complete control over his subordinates.
- Communication is one way and the subordinates have to follow the orders of managers.
- A manager is dogmatic under this style leadership.
- This style facilitates quick decision making.
- It is also known as directive style of leadership.

Democratic or Participative Leadership

Under this style leader takes decisions in consultation and participation with employees. He delegates and decentralizes. Manager follows the majority. He gives freedom of thinking and expression. He listens the suggestion, grievances and opinion of subordinates.

- Leaders/Managers encourage the subordinates to participate in decision making.
- The leader under this style respect other's opinion and support subordinates.
- This style of leadership wins greater confidence, cooperation, loyalty and initiative of the group. It raises morale of subordinates.

Laissez Faire or Free Rein Leadership:

This style involves complete delegation of authority so that subordinates themselves take decisions. In this style, leader avoids power. He serves only as a contact to bring information and resources needed by the subordinates.

- It provides job satisfaction and increase the morale and self-confidence of the employees.
- There is maximum development of subordinates and full utilization of their potential and capacity.
- Subordinates do not get the guidance and support of the leader.

COMMUNICATION

Communication can be defined as transmission of exchange of ideas, views, message, information of instructions between two or more persons by means of spoken words, written words, diagram, pictures or graphs and gestures.

Communication Process or Elements of the communication process:

1. **Sender-** The communication process starts from the sender when some idea comes in his mind which he wants to convey to someone.
2. **Message-** The contents or ideas or views of suggestion which sender wants to share with receiver is called message.
3. **Encoding-** The message in the mind of the sender cannot be read by the receiver so the sender has to get it converted into some language or some other communication symbols like pictures, gestures etc.
4. **Media-** It is the way or path, channel or medium through which the message is transmitted from sender to receiver. The common ways of transmission are phone, letter, internet, face to face etc.
5. **Decoding-** Decoding refers to the process of translating the encoded message into effective language, which may be understood by the receiver.
6. **Feedback-** The process of communication is completed with feedback. Feedback includes all those actions of receiver which indicates that he has received and understood message of sender.
7. **Noise-** Noise means some hindrance or obstruction to communication. For example- poor telephone connection, loss of letter, ambiguous symbol, wrong gestures and postures etc.

Formal and Informal Communication

Formal Communication- “Formal communication refers to official communication taking place in the organization”.

Features of Formal Communication-

1. **Systematic:** Such communication take place between employees of the organization may be in between superior and subordinates or between employees of same level and it is very systematic
2. **Goal Oriented:** It is used to communicate official matters, orders, instructions and other organizational information to achieve the goal of the organization.
3. **Source of Information:** This may be written or oral, but generally a record of formal communication is kept for future reference.

Informal Communication-Communication that take place without following the formal lines of communication is said to be informal communication. Informal communication is also known as ‘grapevine’ because it spreads throughout the organization with its branches going out in all directions in utter disregard to the level of authority. The informal communication arises out of needs of employees to exchange their views, which cannot be done through formal channels.

Features of Informal Communication-

1. **Focus on psychological satisfaction-** Through informal communication employees can develop friendly relationship and get social satisfaction.
2. **Fast-** Informal communication is very fast as it cut across scalar chain.
3. **Spreading Rumours-** Sometimes, the informal communication results in spreading rumours as it is not possible to find the source of information.
4. **Get Distorted-** The information travels in a very unsystematic manner and gets distorted, while passing through various channels.

Barriers to effective communication:

Sometimes the message sent by sender does not reach the receiver in the same manner as expected by the sender due to the barriers of communication. These barriers may prevent a communication or filter a part of it or carry incorrect meaning due to which misunderstandings may be created. Therefore, it is important for a manager to identify such barriers and take measures to overcome them.

The barriers can be grouped in the following categories:

1. **Semantic barriers**
2. **Psychological barriers**
3. **Organisational barriers**
4. **Personal barriers.**

1. **Semantic Barriers:** Sometimes the same words and sentences can be understood differently by different people in the organization which means difference in the understanding levels of employees. The main causes of semantic barriers may be;

-

- (i) **Badly Expressed message-** Sometimes due to lack of vocabulary manager may

use wrong words, omission of needed words.

- (ii) **Symbols with different meanings-** Sometimes a word may have different meanings. Receiver may understand different meanings. For example: Left, Right, write, Ideal, Idle etc.
- (iii) **Faulty translations:** Sometimes the workers don't understand the message of the manager so workers get it translated. If the translator is not efficient, he may make mistake in translation.
- (iv) **Unclear Assumptions:** Sometimes the workers may misinterpret the assumption.
- (v) **Technical Jargon:** Sometimes the managers while explaining to the subordinates use technical words which may not be understood by the workers. Like EBIT, GDP etc.
- (vi) **Body language and body gesture:** Every movement of body communicates some meaning and if there is no match between what is said and what is expressed in body movement, the communication may be wrongly perceived.

2. **Psychological Barriers:** Emotional or psychological factors also act as barriers to effective communication. The state of mind has great influence over the information and its reflection. A frightened person or an angry person may not be able to convey the message properly.

Some of the psychological barriers to effective communication are:

- (i) **Premature Evaluation-** It means taking out or deriving conclusion by the receiver before the completion of the message by the sender. This is due to some prejudice of receiver against sender.
- (ii) **Lack of Attention:** The pre-occupied mind of receiver and the resultant non-listening of message act as a major psychological barrier. For example- A person pre-occupied by family problems.
- (iii) **Loss by transmission and poor retention-** When communication passes through various levels, this results in filtering or loss of information specially when communication is done orally.
- (iv) **Distrust-** If the parties to communication do not believe each other as a result of distrust it proves barrier to communication.

3. **Organisational Barriers:** Factors related to organizational structure, authority relationship, rules regulations may act as a barrier to effective communication.

Some of the Organisational barriers are:

- (i) **Organisational policy-** If the organizational policy does not support free flow of information it may result in barriers. For example- Organization following Centralisation policy in which lower level may not be encouraged to have free communication.
- (ii) **Rules and Regulations:** Rigid rules and regulations hamper the free flow of communication in the organization. Follow of scalar chain also sometimes results in delays.
- (iii) **Status-** Status of superior may create psychological distance between him and

his subordinate. A status conscious superior may not allow his subordinate to express their feelings freely.

- (iv) **Complexity in organization structure:** The organization where there are number of managerial levels, communication gets distorted and delayed.
- (v) **Organisational facilities:** Sometimes the facilities required for effective communication are not provided by the organization for e.g., suggestion box, conferences, cultural gathering etc.

Personal Barriers: The personal factors of both sender and receiver influence the effective communication. Some of the personal barriers are:

- (1) **Fear of challenge of authority:** If superior perceives or assume that the particular communication may lead to the challenge to his authority, he withholds or suppress such information.
- (2) **Lack of confidence among his subordinates:** If superiors don't have confidence over subordinates, they may not seek their opinion or advice from them.
- (3) **Unwillingness to communicate:** Sometimes the subordinate is not willing to communicate with superiors, if they think it might affect their interest adversely.
- (4) **Lack of proper incentives:** When there is no incentive or motivation for communication the subordinate may not take initiative to communicate.

Measures to improve communication effectiveness:

Organisation keen on developing effective communication should adopt suitable measures to overcome the barriers and improve communication effectiveness. Following measures can be used to improve effectiveness of communication

- 1) **Clarify the ideas before communication:** Firstly, the sender must be clear about the message it wants to convey. The message can be conveyed properly only if is clearly formulated on the mind of the communicator.
- 2) **Communication according to the need of the receiver:** The level of understanding of receiver should be clear to the communicator. He should convey the message according to the understanding level of the communicator.
- 3) **Consult other before communication:** Before communicating the message, it is better to involve others in developing a plan for communication.
- 4) **Beware of language, tone and content of the message:** The sender should make use of proper language, words and content in communicating with the receiver.
- 5) **Be a good listener:** To make the communication process effective, the receiver should be a good listener.
- 6) **Communicate for present as well as future:** In order to achieve effectiveness in communication process, communication must meet the present needs and should also aim at future goals of the enterprise.
- 7) **Follow up Communications:** There should be regular follow up and review on the instructions given to subordinates.
- 8) **Ensure proper feedback:** The communicator may ensure the success of communication by asking questions regarding the message conveyed.

QUESTIONS AND ANSWERS

Multiple choice Questions

- 1 Which of the following is a non-financial incentive?
 - a. Job security
 - b Retirement Benefit
 - c. Bonus
 - d Co-partnership
2. The need that is concerned with sense of belongingness is:
 - a. Esteem need
 - b. Self Actualization need
 - c. Security needs
 - d. Affiliation need
3. Job enrichment is concerned with
 - a. Designing jobs with greater variety of work content
 - b. Involving employees in decision making
 - c. Promoting an employees
 - d. Empowering an employees by giving more autonomy
4. Which non-financial incentive has negative aspect?
 - a. Status
 - b. Career Advancement Opportunity
 - c. Job security
 - d. Job Enrichment
5. The lowest level need in the need hierarchy theory of Abraham Maslow is
 - a. Safety need
 - b. Belongingness need
 - c. Esteem need
 - d. Physiological need
6. Leadership is:
 - a. Influencing the behavior of others
 - b. Maintain bad interpersonal relationship
 - c. Influence employees involuntarily
 - d. Helps in planning
7. No interference of superior in taking decision by subordinates in
 - a. Autocratic leadership
 - b. Democratic leadership
 - c. Free rein leadership
 - d. Paternalistic leadership
8. Obedience of order and discipline is found in:
 - a. Autocratic leadership
 - b. Democratic leadership

c. Free rein leadership d. Paternalistic leadership

9. Full utilization of potential and capacity of employees can be seen in

a. Autocratic leadership b. Democratic leadership

c. Free rein leadership d. Paternalistic leadership

10. Which is not an element of leadership?

a. It is the process of influence b. The influence is always for common goal

c. It influences your own behaviour d. It influence employee willingly

11. Which of the following decisions procedure would be characterize by a manager who asks other people for their opinion and ideas, then makes the decision alone

a. Autocratic b. Consultation

c. Joint decision d. Delegation

12. Which is not the feature of leadership?

a. It indicates the ability of individual b. It tries to bring change in behavior

c. It shows interpersonal relationship d. It is based on personal goal

13. 'Superior guides his subordinates and clarifies their doubts in performing a task'.

Which importance of directing is highlighted in the statement?

a) Directing helps to initiate action

b) Effective directing helps to bring stability and balance

c) Directing integrates employee's efforts

d) Directing guide's employees to fully realize their potential

14. Which of the following is the appropriate order of hierarchy of needs according to Abraham Maslow?

a) Safety Needs → Psychological needs → Affiliation needs → Esteem Needs → Self Actualisation needs

b) Psychological needs → Safety Needs → Affiliation needs → Esteem Needs → Self Actualisation needs

c) Affiliation needs → Safety Needs → Psychological needs → Esteem Needs → Self Actualisation needs

d) Psychological needs → Safety Needs → Esteem Needs → Affiliation needs
→ Self Actualisation needs

15. Jagan, who was working in a big company resigned on the ground of ‘lack of recognition and attention’ in the organization towards his work and performance.

Identify the hierarchy need according to Maslow which was not satisfied for Jagan.

- a) Psychological needs b) Safety needs
c) Affiliation needs d) Esteem needs

16. Which of the following describes 'Autocratic Leadership Style'?

- a) Leader develops action plan in consultation with subordinates
- b) Communication is only one way with subordinates
- c) Manager is only to support and provide information
- d) Followers have high degree of independence

17. Use of 'Technical Jargon' is which type of communication barrier?

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

18. 'Lack of proper incentive' is a barrier to communication.

Identify the type of barrier to which it belongs-

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

19. Which of the following is not a measure to overcome barrier to effective communication?

- a) Convey things of help and value to listeners
- b) Communicate according to the needs of receiver
- c) Consult others before communicating
- d) Fear of challenge to authority

20. Which of the following is a financial incentive?

- a. Job security b. Stock option
- c. Job enrichment d. Employee participation

21. Status comes under the following type of barrier

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

22. 'Presence of more managerial levels'. Which type of communication barrier is being highlighted?

- a. Personal barrier b. Psychological barrier
- c. Psychological barrier d. Organisational barrier.

23. Which element of directing is concerned with making subordinate to act in a desired manner to achieve certain organization goal?

- a. Leadership b. Motivation
- c. Communication d. Coordination

24. The process of converting the message into communication symbols is known as:

- a. Media b. Encoding
- c. Feedback d. Decoding

25. Grape vine is

- a. Formal communication b. Barrier to communication
- c. Horizontal communication d. informal communication

26. Which of the following is not an element of communication process?

- a. Decoding b. Grapevine
- c. Channel d. Receiver

27. Disturbance in telephone connection line is an example of:

- a. Media b. Message
- c. Noise d. Feedback

28. The motivation theory, which classifies needs in hierarchical order, is developed by:

- a. Freud Luthans b. Scott
- c. Peter Drucker d. Abraham Maslow

29. According to Maslow, how many levels of needs are there in every human being?

- a. 3 b. 5

- c. 4 d. 6

30. The communication gap due to size and complexity of organization's structure comes under the following category.

- a. Semantic barrier b. Psychological barrier
c. Organisational barrier d. Personal Barrier

Answers to Multiple choice questions

1.a 2.d 3.a 4.c 5.d 6.a 7.c 8.a 9.c 10.c 11.b 12.d 13.d 14.b 15.d 16. b 17.c 18.a 19.d 20.b 21.b 22.d 23.b 24.b 25.d 26.b 27.c 28.d 29.b 30. c

Fill in the blanks:

1. The most popular classification of leadership styles is based on the use of _____.

- a) Money b) Authority c) Followers d) None of these

2. Leadership influences the behavior of people and make them to positively contribute their energies for the benefit of _____.

- a) Family b) Self c) Organisation d) None of these

3. In autocratic leadership style _____ communication is done with subordinates.

- a) One way b) Two way c) No d) None of these

4. There are three basic styles of leadership i.e. autocratic, democratic and _____.

- a) Participative b) Laissez Faire c) Authoritative d) Group Centered

5. A one who conveys his thoughts or ideas in communication process is known as _____.

- a) Receiver b) Leader c) Sender d) None of these

6. The communication that follows the chain of command is known as _____ communication.

- a) Informal b) Formal c) Family d) None of these

7. The form of communication that arises out of social interaction is _____.

- a) Informal Communication b) Vertical communication c) Formal d) None of these

8. Obstruction or hindrance to communication like poor telephone connection, inattentive receiver etc. are termed as_____.

a) Media b) Message c) Noise d) Feedback

9. Converting encoded symbols of the sender is_____.

a) Encoding b) Message c) Feedback d) Decoding

10. Path or channel through which encoded message is transmitted to receiver is called_____.

a) Media b) Message c) Noise d) Feedback

11. Spread of rumours is possible in_____communication.

a) Formal b) Informal c) Official d) None of these.

Answer: Fill in the blanks 1. Authority 2. Organisation 3. One way 4. Laissez faire 5. Sender 6. Formal 7. Informal 8. Noise 9. Decoding 10. Media 11. Informal

Assertion Reason Question

1. Read the following statements

Statement-I: Informal communication arises from social interaction of people.

Statement-II: Informal system of communication is generally referred to as the Grapevine.

a) Statement I is true and II is false b) Statement II is true and I is false
c) Both statements are true d) Both statements are false

2. Read the following statements

Statement-I: Job security often makes people sincere and they perform efficiently.

Statement-II: There is no risk in case of job security.

a) Statement I is true and II is false b) Statement II is true and I is false
c) Both statements are true d) Both statements are false

3. Read the following statements

Statement-I: Motivation can be forced on employees

Statement-II: The internal feelings influence human behaviour to act in a particular manner.

- a) Statement I is true and II is false b) Statement II is true and I is false
c) Both statements are true d) Both statements are false

4. Read the following statements

Statement-I: Motivation is a complex process.

Statement-II: Individuals are heterogeneous in their expectations, perceptions and reactions.

- a) Statement I is true and II is false b) Statement II is true and I is false
c) Both statements are true d) Both statements are false

5. Read the following statements

Statement-I: Co-partnership induces the employees to contribute for the growth of the organization.

Statement-II: Under co-partnership salary of employees is increased.

- a) Statement I is true and II is false b) Statement II is true and I is false
c) Both statements are true d) Both statements are false

Answers to Assertion Reason Question:

1. c 2. b 3. b 4. c 5. A

Match the Following.

1.

Full faith in subordinates	Autocratic
Cooperative relations	Democratic
Single man decision	Free rein

- a) 1-b, 2-c, 3-a b) 1-a, 2-b,3-c
c) 1-b, 2-a,3-c d) 1-c, 2-b,3-a
2.

Lack of Motivation	Autocratic
Delay in decisions	Free rein
Difficulty in Cooperation	Democratic

- a) 1-b, 2-c, 3-a b) 1-c, 2-a, 3-b
c) 1-a, 2-c, 3-b d) 1-b, 2-a, 3-c

3.

It is highest level need in the hierarchy	Esteem Needs
These needs refer to affection and sense of belongingness and friendship.	Self- Actualisation Needs
	Affiliation/Belonging Needs

- a) 1-b, 2-c b) 1-c, 2-a
c) 1-b, 2-a d) 1-c, 2-b

4.

It is concerned with designing jobs that include greater variety of work content.	Employees' Recognition Programme
It is concerned with giving more autonomy and powers to subordinates.	Job Enrichment
	Career Advancement opportunity
	Employee Empowerment.

- a) 1-d, 2-a b) 1-b, 2-d
c) 1-b, 2-c d) 1-a, 2-d

5.

Badly expressed message	Semantic Barriers
Faulty Translation	Psychological Barrier
Lack of Attention	
Distrust	

- a) 1-b, 2-a, 3-b, 4-a b) 1-b, 2-b, 3-a, 4-a
c) 1-a, 2-a, 3-b, 4-b d) 1-b, 2-a, 3-b, 4-b

Answers to Match the followings

1. 1-c, 2-b, 3-a 2. 1-a, 2-c, 3-b 3. 1-b, 2-c 4. 1-b, 2-d 5. 1-a, 2-a, 3-b, 4-b

One Mark Case base questions

Q1 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. 1

Q2 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.

Q3 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 and he was not in a position to understand the message. Saurabh got disappointed by this. Identify the factor which acts as a communication barrier.

Q4 Rajat a Sales Manager achieved his sales target one month in advance. This achievement as displayed on the notice board and the CEO of the Company awarded a certificate for the best performance to him. Name the incentive provided to Rajat.

Answers to One mark case-based questions

1. Ans. No, the communication process is not complete unless and until feedback is given to the superior.
2. Ans. Lack of proper incentives (Personal Barriers to Communication)
3. Ans. Lack of attention (Psychological/Emotional Barriers to Communication)
4. Ans. The incentive provided to Rajat is – 'Recognition'.

Short Answer questions

Q. 1. Ayesha Ltd. assured their employees that in spite of recession no worker will be retrenched from the job. 3

Marks

(i) Name and explain the type of incentive offered to the employees.

(ii) Explain two more incentive of the same category.

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

3 Marks

(i) Name and explain the type of incentive offered to the employees.

(ii) Explain two more incentive of the same category.

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

(i) Which element of directing is used by manager?

(ii) Suggest incentive suitable for:

a. Employees operating at lower level.

b. Employees operating at higher level.

Q4. Amit and Mikki are working in the same organization but in different departments. One day at lunch time Mikki informed Amit that due to computerization some people are going to be retrenched from the organization.

Name the type of communication done by Amit and Mikki. State any two limitations of this type of communication. 3 marks

Q5. Huma is working in a company on a permanent basis. As per job agreement she had to work for 8 hours a day and also has to work overtime. Huma worked overtime, due to which she fell ill and had to take leave from her work. No one showed concern and enquired about her health. She realized that she was fulfilling

only some of her needs while some other needs still remained to be fulfilled. 4 Marks

(i) By quoting the lines from the above para, identify the needs of Human which she is able to fulfill.

(ii) Also explain two other needs of Huma followed by the above needs, which still remained to be satisfied.

Q6 Read the following statement and answer the following question

Notice

“A meeting of all supervisors is scheduled on 20th 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 three other forms of barriers to effective communication under the same category. 4 marks

Q7 Mr. Sandeep is the marketing manager of a company manufacturing designer clothes. One day, in the morning while leaving home he had a quarrel with a person in his neighbourhood on some issue. Mr. Sandeep, on that day, was very worried and angry too on the behavior of the neighboured person. On that day, a meeting was held by a team of marketing and design experts to ensure that whatever is produced is according to market demand and tastes and fashion of the customers. But Mr. Sandeep could not pay attention to the discussion between them.

(a) Identify the type of barriers to communication mentioned in the above para. Justify your answer.

(b) Explain any three other such barriers to communication of same category. 4M

Answers to short answer questions

Ans.1 (i) (a) Ayesha is offered Non- financial incentive and type is Job security.
ii Employee's recognition & Organisational climate

Ans.2 (i) Blue Birds offers financial incentive and the type is Co-partnership/Stock option.

(ii) Other incentives: (a) Pay and allowance (b) Bonus.

Ans.3 (i) Motivation is used by the manager

(ii) (a) Lower level: offer monetary incentives.

(b) Higher level: non-monetary incentive.

Ans 4. 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.

Ans. 5(i) According to above line Huma is able to fulfill her following needs:

(a) Physiological needs (b) Safety or Security needs

(ii) Needs of Huma 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.

Ans.6 Badly expressed message (Semantic barriers) – Use of wrong words, omission of needed words, inadequate vocabulary, etc.

The other three barriers are:

(a) Symbols with different meanings: A word may have several meanings. For example, Right

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

(c) Technical Jargon- Sometime technical words are used by the manager which is not understood by the workers and which make communication ineffective.

Ans7.Ans.(a) 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.’

(b) Other 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.
- iii. Distrust- The superior does not trust the subordinate which act as a barrier to communication.

Long Answer Questions

Q1 Sunidhi has started a designer studio in the basement of her residence after completing her masters in fashion designing. She has appointed ten employees to take care of the various aspects of the work. She interacts regularly with each employee to tell exactly what is expected of him/her and what he/she needs to do to be regarded as a good performer. At the same time she allows a free work environment wherein the employees openly chit chat with each other in order to fulfil their social and emotional needs. Sometimes, these interactions also lead to spreading rumours which are not authentic.

In the context of the above case:

6 Marks

1. Name and explain the two types of communication being referred to in the above paragraph.
2. Also give and explain one features of each of the types of communication identified above.

Q.2 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 following 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 Marks 6

Q3 Describe Maslow's Need hierarchy theory of Motivation marks 6

Q4 Prateek is working in a multinational company in Noida. He was running a temperature for the last many days. When his blood was tested, he was found to be positive for malaria. He was admitted in a hospital and a blood transfusion was advised by the doctors as his condition was very serious. One of his colleagues sent a text message to his superior, Mr. B. Chatterjee. Mr. B. Chatterjee immediately sent a text message to the employees of the organization requesting them to donate blood for Prateek. When the General Manager came to know about it, he ordered for fumigation in the company premises and cleaning the surroundings. 6 marks

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

Q5 Explain any three financial & non-financial incentives. 6 marks

Answers to Long Answers Question

Ans.1

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 some 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. (i) Feature of Formal Organisation

Goal Oriented- Formal Communication is goal oriented as its purpose is to achieve some goal.

(ii) Feature of Informal Communication

Fast- Informal communication is fast as it does not follow official lines.

Ans.2

1. Autocratic leadership

2. This leadership style is effective in following circumstances

(i) Speed is required- It is suitable when fast working is required for example where supervisor is responsible for production on time and has to ensure labour productivity.

(ii) Quick decision: It is also suitable where fast decision making is required.

(iii) Workers are unskilled- It is also suitable where the subordinates are unskilled or less competent.

Ans.3 Abraham's Maslow conducted research on human behaviour and concluded that human motivation is based on its need.

There are mainly five types of needs of human

1. Basic Physiological Needs

2. Safety and Security needs

3. Affiliation Needs

4. Esteem Needs

5. Self actualisation need.

Ans.4

1. **Informal communication:**

(a) "One of his colleagues sent a text message to his superior, Mr. B. Chatterjee.

(b) Mr. B. Chatterjee immediately sent a text message to the employees of the organization requesting them to donate blood for Prateek."

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

2. **The features of informal communication are as follows:**

i) The grapevine/informal communication spread very fast and sometimes get distorted.

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

Features of Formal Communication:

(i) Systematic- Formal communication focuses on achievement of organisational goal

(ii) Source of Information- Under formal communication, It is easy to fix responsibility as there is proof of information communicated.

Ans5 Financial Incentive

1. Bonus
2. Fringe Benefits
3. Commission

Non Financial Incentive

1. Job Security
2. Job enrichment
3. Status

CHAPTER-8

CONTROLLING

Gist of the lesson:

1. **Controlling** as a function of management refers to comparison of actual performance with the planned performance and taking corrective actions, in case there is deviations between actual and planned performance.
2. **Nature/ Feature of controlling:**
 - a. Controlling is a goal oriented function-controlling function measures the progress towards the organizational goals and involve taking corrective actions in case of deviation.
 - b. Controlling is a pervasive function-controlling is exercised at all levels of management. The nature and extent of control may defer from level to level. Controlling is required in all types of organisations.
 - c. Controlling is a continuous function- controlling involves continuous review of performance and revision of standards.
 - d. Controlling is both backward looking as well as forward looking function- It is backward looking function as it measures and compares actual performance with standards fixed in the past. And it is a forward looking function as it aims to improve future performance, based on experience gained in the past.
3. **Importance of Controlling:**
 - a. Controlling helps in achieving organizational goal- Controlling helps in taking corrective actions in case of any deviation so that the organizational goals are achieved effectively and efficiently.
 - b. Controlling judges the accuracy of standards-An effective control system helps to verify the accuracy of standards and helps in revising standards as and when required.
 - c. Controlling facilitates efficient use of resources- it aims to ensure that each activity is performed according to predetermined standards, as a result there is effective and efficient use of resources.
 - d. Controlling improves employee's motivation- A good control system guides the employees to come out of their problems which in turn motivates the employees.
 - e. Controlling ensures order and discipline in the organization- Controlling keeps a continuous check on the employees to minimize undesirable

activities like theft, fraud, dishonesty, corruption, etc. so, an efficient control system creates an atmosphere of order and discipline in the organization.

- f. Controlling facilitates coordination in action- A good control system provides unity of direction and facilitates coordination in action of different departments.

4. Relationship between planning and controlling:

- a. Controlling is blind without planning- When there is no plan, there is no basis of controlling. If the standards are not set in advance, managers have nothing to control.
- b. Planning without controlling is meaningless- once a plan is executed, controlling becomes necessary to monitor the progress, measure it, discover deviation and take corrective actions. So, planning without controlling is meaningless.
- c. Planning is Prescriptive and Controlling is Evaluative- planning is a prescriptive process as it prescribes the most appropriate course of action to achieve the objectives. Controlling is an evaluative process as it evaluates whether planned decisions have been translated into desired action.
- d. Planning and Controlling both are backward and forward looking function- Controlling is a backward looking process as to find out the deviation a manager has to compare it with the standards set in the past. Controlling is also a forward looking function because controlling finds the reason for deviation and taking corrective so that these deviation does not occur in future. Planning is forward looking function because plans are prepared for the future. Planning is also a backward looking function because planning is guided by past experiences and feedback report of controlling function.

5. Steps in the process of Controlling:

- a. Setting Performance Standards- The first step in the controlling process setting standards. The standards serve as benchmark or yardsticks towards which an organization strives to work. Standards can be set both in quantitative as well as qualitative terms.
- b. Measurement of Actual Performance- after setting up of standards, the performance of the employees is measured by evaluating the actual work done by the employees. The performance should be measured in an objective and reliable manner.
- c. Comparison of actual performance with standards- after measuring the performance, the manager compares the actual performance with the standard. If there is match in both, then the controlling function ends there

only. But if there is mismatch or deviation then the manager tries to find out the extent of deviation.

- d. Analysing deviation- the next step in the process of controlling is to analyse the deviation. An acceptable range of deviation should be fixed, as significant deviation needs more attention than minor deviations. Also deviation in key areas must be attended more urgently. So the managers use 'Critical point control and Management by exception'.
- (i) Critical Point Control: According to Critical Point Control, control system should focus on Key Result Areas (KRAs), which are critical to the overall performance of an organization. If anything goes wrong at the critical points, the entire organization suffers. So, attention must be paid on such critical points as it is neither economical nor easy to keep a check on each and every activity.
- (ii) Management by Exception: According to this principle of Management Control, manager should give attention to significant deviations, which go beyond the permissible limit. A manager who tries to control everything may end up controlling nothing.
- e. Taking corrective measures- after analysing deviations, the manager takes corrective action. If the deviations are within acceptable limits, there is no need for corrective actions. However, if the deviations go beyond acceptable range then it should be corrected immediately after finding out the reasons for such deviations.
- f. Preparation of feedback report- Since controlling function is a continuous process, so it does not end with taking corrective actions. After taking corrective actions, a feedback report is prepared. The feedback report specifies a list of reasons for deviation and corrective actions taken.

QUESTIONS

Q1. 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. (SQP-2023) (1 marks)

- a. Staffing

- b. Coordination
- c. Controlling
- d. Organizing

Ans: b. Controlling

Q2. Mr. Albert is working as a head product development, at orchids chemicals and Pharmaceuticals ltd. He provides all such opportunities to his employees that are necessary for their skill development and promotion. All these efforts have encouraged the employees to achieve the desired targets on time. Name the point of importance the manager has tried to achieve in the controlling process:

- a. Judging accuracy of standards
- b. Improves employees' motivation
- c. Ensures order and discipline.
- d. Facilitates coordination in action.

Ans: b. Improves employees' motivation

Q3. Textile manufacturer super textiles reported 43% fall in its profits in the fourth quarter ended 31st March 2022, which is beyond acceptable range of 25% as decided by the company. This was due to higher fuel cost and lower yield on account of demonetization. The company aims to implement the 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. Planning
- b. Organising
- c. Staffing
- d. Controlling

Ans: Controlling

Q4. Under controlling of HR area, corrective action must be taken for:

- a. High labour turnover rate
- b. Low labour turnover rate
- c. Zero labour turnover rate
- d. Low labour absenteeism

Ans: a. High labour turnover rate

Q5. Controlling provides directions to all activities of each department and employee, which helps in establishing_____ among them.

- a. Coordination

- b. Directing
- c. Planning
- d. Controlling

Ans: a. Coordination

Q6. Mahima Jain is the senior Manager in the Advisory Services Department of Kodes Ltd. She regularly prepares performance reports of her subordinates as a part of the appraisal. Identify the step of the controlling process performed by her.

- a. Analysing deviations
- b. Measurement of actual performance
- c. Taking corrective actions
- d. Setting performance standards

Ans: b. Measurement of actual performance

Q7. Mr. Martin is working as a production manager in Cair India Ltd. He is assisted by qualified and competent workforce. Employees feel accomplished and their zeal to work gives good rise to production. However, it led to increase in labour cost from acceptable range of 2% to 5% by the end of year, which needed immediate attention of the management. Identify the governing principle that relates to the above deviation of labour cost.

- a. Critical point control
- b. Management by exception
- c. Taking Corrective actions
- d. Span of Management

Ans: b. Management by Exception.

Q8. If normal wastage of stationary (which is 5% of total cost) has increased by 40% whereas the normal wastage in the raw material (which is 10% of the total cost) increases merely by 5%, identify the principle governing the wastage in the organization.

- a. Critical point control
- b. Management by exception
- c. Taking Corrective actions
- d. Span of Management

Ans: a. Critical point control

Q9. Which of the following is an example of corrective action?

- a. Filling up vacant position
- b. Buying new machinery to increase productivity
- c. Conducting induction training for new joiners
- d. Recalculating standard time for production

Ans: d. Recalculating standard time for production

Q10. Management by exception means

- a. Controlling all activities
- b. Controlling crucial activities
- c. Taking corrective actions for all deviations
- d. Taking corrective actions for deviations beyond permissible limits

Ans: d. Taking corrective actions for deviations beyond permissible limits

Q11. Process of controlling does not involve:

- a. setting of performance standards
- b. analysing of deviations
- c. organising resources
- d. taking corrective actions

Ans: c. organising resources

Q12. Supervisory management spends most of time in

- a. Planning and controlling
- b. Directing and controlling
- c. Planning and directing
- d. Organising and controlling

Ans: d. Directing and controlling

Q13. 'Controlling is required at all the levels of management'. Which feature of controlling is being highlighted here?

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

Ans: b. Controlling is a pervasive function.

Q14. Critical point control focuses on:

- a. Every activity
- b. Key Result Areas

- c. Actual output
- d. Planned Output

Ans: b. Key Result Areas

Q15. Management by exception states that management should:

- a. Check everything without exception
- b. Invariably take corrective action without exception
- c. Accept exceptions in emergencies
- d. Give attention to significant deviations

Ans: Give attention to significant deviations

Q16. Which of the following is the appropriate sequence of steps of controlling process?

- a. Setting Performance standards —measurement of actual Performance- Comparison of actual performance with Standard-Taking corrective actions-Analysing deviation
- b. Setting Performance standards —measurement of actual Performance- Comparison of actual performance with standard-Analysing Deviation- Taking corrective actions
- c. Setting Performance standards -Comparison of actual performance with standard —measurement of actual performance -Analysing Deviation- Taking corrective actions
- d. Setting Performance standards —measurement of actual performance-- Analysing Deviation-Comparison of actual performance with standard - Taking corrective actions

Ans: b. Setting Performance standards —measurement of actual Performance- Comparison of actual performance with standard-Analysing Deviation-Taking corrective action

Q17. Saraighat sweets is a renowned name for quality sweets since 1935. Barsha, the owner of Saraighat sweets was worried as the sales had declined during the last three months. When she enquired from the sales manager, the sales manager reported that there were some complaints about the quality of sweets. Therefore, Barsha ordered for some sample checking of sweets. Identify the steps taken by Barsha that is related to one of the function of management.

- a. Analysing deviation
- b. Comparison of actual performance with the standards
- c. Measurement of actual performance.
- d. Taking corrective steps.

Ans: c. Measurement of actual performance

Q18. An efficient control system helps to:

- a. Accomplish organisational objectives
- b. boost employee morale
- c. Judge accuracy of standards
- d. all the above

Ans: d. all the above

Q19. The main objective behind controlling is

- a. Pointing out inefficiency
- b. Fixing responsibility of the subordinate
- c. Ensuring conformity of actual performance with set standards
- d. Creating an atmosphere of order and discipline

Ans: c. Ensuring conformity of actual performance with set standards

Q20. Controlling is exercised:

- a. as a motivating process
- b. as a remedial process
- c. as a planning process
- d. as a continuous process

Ans: d. as a continuous process

Q21. Deviations are said to be positive in nature when _____.

- a. Planned performance is more than the actual performance
- b. Actual performance is more than the planned performance
- c. Both planned and actual performances are the same
- d. None of the above

Ans: b. Actual performance is more than the planned performance

Q22. When the deviations between the actual performance and the planned performance are within the limits _____.

- a. A limited corrective action is required
- b. No corrective action is required
- c. A major corrective action is required
- d. None of the above

Ans: (b) No corrective action is required

Q23. Explain “Critical point control” with respect to Analyzing deviations, a step in the process of controlling. Give a suitable example. (3 MARKS SQP 2022-23)

Ans: According to Critical Point Control, control system should focus on Key Result Areas (KRAs), which are critical to the overall performance of an organization. If anything goes wrong at the critical points, the entire organization suffers. So, attention must be paid on such critical points as it is neither economical nor easy to keep a check on each and every activity.

For example, in a manufacturing organization, an increase of 5% in the labour cost may be more troublesome than a 15% increase in postal charges.

Q24. Explain “Management by exception” with respect to Analyzing deviations, a step in the process of controlling. Give a suitable example. (3MARKS SQP 2022-23)

Ans: 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.

Q25. Seeta, Geeta and Babita Ltd is engaged in manufacturing machine components. The target of production is 250 units per day per worker. The company had been successfully attaining this target until two months ago. Over the last two months, it has been observed that daily production varies between 200-210 units per worker.

- a. Name the function of management and identify the step in the process of this function which helped in finding out that the actual production of a worker is less than the set target.
- b. To complete the process of the function identified in and to ensure the performance as per set targets, explain what further steps a manager has to take. (CBSE 2010)

Ans:

- a. The management function which helps in finding out that the actual production of a worker is less than the set target is known as controlling.

Here, comparing actual performance with standards or appraisal of performance is the step involved in the process of controlling.

- b. The manager has to take following steps to complete the process of controlling:
 - (i) **Analysing deviations:** Deviations can be due to multiple reasons like unrealistic standards, defective process, in adequacy of resources, environmental factors, etc.
 - (ii) **Taking corrective actions:** The final step in the control process is taking appropriate actions so that deviations may not occur again and the objectives of the organisation are achieved. It may also necessitate reforming the process of selection and training of workers. Thus, controlling may require change in all other managerial functions.

Q26. Gagan is trying to apply a function of management in his department. First he lets his team perform according to their best potential. Then in a meeting he calls Ody and asks his team to check what they have performed. One day it was found that the total number of units produced were 20 less than the set target. It was decided that the workers will work over time until this gap of 20 units is overcome.

- a. Which function of management is being performed by Gagan and his team.
- b. What is '20 units' in the above case?
- c. At what stage of management do you think the target was set? What is its significance now?

Ans:

- a. In the above case Gagan and his team is performing the function of controlling. Controlling as a function of management refers to comparison of actual performance with the planned performance and taking corrective actions, in case there is deviations between actual and planned performance.
- b. '20 units' in the above case is Deviation. It is the gap between the actual performance and the set standards.
- c. The target was set at the planning stage of management. The significance of planning is that it sets the standards in the form of targets which becomes the base to compare the actual performance.

Q27. Mr. Ankit is the chief manager in a well-known MNC, producing shoes. He called the production manager of his unit and told him to keep a constant watch on all the activities of his respective unit so that there is no possibility of adverse results. As long as the company runs its operation, employees at all levels will adopt it to achieve results.

- a. Identify the function of management referred above.
- b. Describe its three features. (1+4 MARKS)

Ans:

- a. The function of management referred above is Controlling. Controlling as a function of management refers to comparison of actual performance with the planned performance and taking corrective actions, in case there is deviations between actual and planned performance.
- b. The features of controlling are:
 - i. **Controlling is a goal oriented function**-controlling function measures the progress towards the organizational goals and involve taking corrective actions in case of deviation.
 - ii. **Controlling is a pervasive function**-controlling is exercised at all levels of management. The nature and extent of control may defer from level to level. Controlling is required in all types of organisations.
 - iii. **Controlling is a continuous function**- controlling involves continuous review of performance and revision of standards.
 - iv. **Controlling is both backward looking as well as forward looking function**- It is backward looking function as it measures and compares actual performance with standards fixed in the past. And it is a forward looking function as it aims to improve future performance, based on experience gained in the past.

Q27. Vikash was the chief operating officer of X ltd, a company providing advanced software solutions to Indian Defence services. From last one year, he realized that though the business is getting big orders, which are being fulfilled in time, even then the revenues kept on decreasing. Vikash was not able to find out where the problem was. He could sense that something was wrong. He wanted to take some action before any major damage could be done to the business. Vikash appointed a cyber-security expert who monitored the company's processes and found out that the computer operator was deleting the entries from the computers and pocketing the revenues. He was caught and handed over to the police. This created an atmosphere of order and discipline in the organization and helped in minimizing dishonest behavior on the part of the employees.

- a. Identify the function of management highlighted in the above paragraph.
- b. Explain any four other ways in which this function of management may help the organization. (6 MARKS CBSE 2018)

Ans:

a. The function of management highlighted in the above paragraph is Controlling.

b. Controlling creates an atmosphere of order and discipline in the organization and helps in minimizing dishonest behaviour on the part of the employees. Other ways in which controlling function of management help the organization are (importance of controlling):

- (i) **Controlling helps in achieving organizational goal-** Controlling helps in taking corrective actions in case of any deviation so that the organizational goals are achieved effectively and efficiently.
- (ii) **Controlling judges the accuracy of standards-** An effective control system helps to verify the accuracy of standards and helps in revising standards as and when required.
- (iii) **Controlling facilitates efficient use of resources-** it aims to ensure that each activity is performed according to predetermined standards, as a result there is effective and efficient use of resources.
- (iv) **Controlling improves employee's motivation-** A good control system guides the employees to come out of their problems which in turn motivates the employees.
- (v) **Controlling facilitates coordination in action-** A good control system provides unity of direction and facilitates coordination in action of different departments.

Q28. Vinber Ltd. set up a manufacturing unit at Himachal Pradesh to manufacture electric geysers and supply them to dealers all over the country. Their production target was 500 geysers per week. It was decided by the management that variation in production upto 10 units would be acceptable. At the end of the first week, the production was 450 geysers. The next week, production increased to 470 geysers. A week later production was 460 geysers. On investigation, it was found out that fluctuation in production was due to irregular supply of electricity.

- a. The above para discusses some of the steps of one of the function of management. Explain the steps.
- b. Also, state the steps(s) not discussed in the above para. (6 MARKS CBSE 2019)

Ans:

- a. The function of management being discussed above is Controlling. The steps in the function of management discussed above is:
 - (i) **Setting Performance Standards-** 'Their production target was 500 geysers per week'. The first step in the controlling process setting standards. The standards serve as benchmark or yardsticks towards which

an organization strives to work. Standards can be set both in quantitative as well as qualitative terms.

(ii) **Measurement of Actual Performance-** 'At the end of the first week, the production was 450 geysers. The next week, production increased to 470 geysers. A week later production was 460 geysers'. After setting up of standards, the performance of the employees is measured by evaluating the actual work done by the employees. The performance should be measured in an objective and reliable manner.

(iii) **Comparison of actual performance with standards-** after measuring the performance, the manager compares the actual performance with the standard. If there is match in both, then the controlling function ends there only. But if there is mismatch or deviation then the manager tries to find out the extent of deviation.

(iv) **Analysing deviation-** 'On investigation, it was found out that fluctuation in production was due to irregular supply of electricity'. The next step in the process of controlling is to analyse the deviation. An acceptable range of deviation should be fixed; as significant deviation need more attention than minor deviations. Also deviation in key areas must be attended more urgently. So the managers use 'Critical point control and Management by exception'.

1. Critical Point Control: According to Critical Point Control, control system should focus on Key Result Areas (KRAs), which are critical to the overall performance of an organization. If anything goes wrong at the critical points, the entire organization suffers. So, attention must be paid on such critical points as it is neither economical nor easy to keep a check on each and every activity.

2. Management by Exception: According to this principle of Management Control, manager should give attention to significant deviations, which go beyond the permissible limit. A manager who tries to control everything may end up controlling nothing.

b. The steps not discussed in the above para are:

(i) **Taking corrective measures-** after analysing deviations, the manager takes corrective action. If the deviations are within acceptable limits, there is no need for corrective actions. However, if the deviations go beyond acceptable range then it should be corrected immediately after finding out the reasons for such deviations.

(ii) **Preparation of feedback report-** Since controlling function is a continuous process, so it does not end with taking corrective actions. After taking corrective actions, a feedback report is prepared. The feedback report specifies a list of reasons for deviation and corrective actions taken.

Q29. Explain the relation between planning and controlling. (CBSE 2012)

Ans: Relationship between planning and controlling:

- a. **Controlling is blind without planning-** When there is no plan, there is no basis of controlling. If the standards are not set in advance, managers have nothing to control.
- b. **Planning without controlling is meaningless-** once a plan is executed, controlling becomes necessary to monitor the progress, measure it, discover deviation and take corrective actions. So, planning without controlling is meaningless.
- c. **Planning is Prescriptive and Controlling is Evaluative-** planning is a prescriptive process as it prescribes the most appropriate course of action to achieve the objectives. Controlling is an evaluative process as it evaluates whether planned decisions have been translated into desired action.
- d. **Planning and Controlling both are backward and forward looking function-** Controlling is a backward looking process as to find out the deviation a manager has to compare it with the standards set in the past. Controlling is also a forward looking function because controlling finds the reason for deviation and taking corrective so that these deviation does not occur in future. Planning is forward looking function because plans are prepared for the future. Planning is also a backward looking function because planning is guided by past experiences and feedback report of controlling function.

PRACTICE QUESTIONS

Q1. "Like a traffic signal, control system guides and directs various departments of an organisation." Do you agree with the statement? Give reasons in support of your answer. (Hint: Yes. Importance of controlling)

Q2. "Controlling is an indispensable function of management. Without controlling, the best of plans can go awry". Do you agree? Explain reasons in support of your answer. (Hint: Yes. Importance of controlling)

Q3. "if planning is done carefully and all other functions of management are going in the right direction, then there is no need of controlling function of management." Do you agree with the statement ? Give reasons in support of your answer. (Hint: No, controlling is indispensable. Importance of controlling)

Q4. “An ideal control technique is the one that checks every bit of performance”. Do you agree? (Hint: No. Discuss management by Exception)

Q5. “Higher level management needs to be informed of all deviations and variations in performance.” Do you agree? (Hint: No. Discuss management by Exception)

Q6. “An increase in 5% in the labour cost may be more troublesome than a 15% increase in postal charges”. Discuss the technique of analysing deviation as expressed from the given statement. (hint: Discuss Critical Point control)

Q7. ‘A.S ltd is a large company engaged in assembly of air conditioners. Recently the company has conducted time and motion study and concluded that on an average a worker can assemble 10 air conditions in a day. The target volume of the company in a day is assembling of 1000 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 conditioner is 800 units only. To find out the reason, the company compared the actual performance of each worker and observed through CCTV that some of the workers were busy gossiping.

- a. Identify the function of management discussed above
- b. State those steps in the process of the function identified which are discussed in the above paragraph. (CBSE 2015)

CHAPTER-9

FINANCIAL MANAGEMENT

Financial Management: It includes decisions relating to procurement of funds, investment of funds in long term and short-term assets and distribution of earning to the owner.

Role of Financial Management

- i. Ensures availability of sufficient funds at reasonable cost.
- ii. Ensures effective utilisation of funds.
- iii. Ensures safety of funds procured by creating reserves, reinvesting profits.

Objectives of Financial Management

The objective of financial management is to maximize shareholders wealth, i.e. to maximize the market price of equity shares of the company. This is because a company's funds belong to the shareholders and the manner in which these are invested and the return earned on them determines the market value or price of shares.

Financial Decisions: It means the selection of best financing alternative or best investment alternative.

The finance functions relate to three major decisions which every finance manager has to take:

- A. Investment decision
- B. Financing decision
- C. Dividend decision

1. **Investment Decision:** Investment 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. Investment decision can be long-term or short-term.

Long-term investment decision/Capital Budgeting Decision: Decision to invest in fixed assets is known as capital budgeting decision. For examples acquiring a new fixed asset such as land, building, plant and machinery, etc., opening a new branch, expenditure on acquisition, expansion, modernisation and their replacement etc.

Importance or Scope of Capital Budgeting Decision/ Investment Decision

- a. These decisions have a bearing on the long term growth.
- b. These decisions result in a substantial portion of capital funds being blocked in long-term project.
- c. These decisions influence the overall business risk complexion of the firm.
- d. These decisions once taken, are not reversible without incurring heavy losses.

Short-term investment decisions (also called working capital decisions) are concerned with the decisions about the levels of cash, inventory and receivables. These decisions affect the day-to-day working of a business. Efficient cash management, inventory management and receivables management are essential ingredients of sound working capital management.

Factors affecting Investment Decision/ Capital Budgeting Decision

1. **Cash flows of the project:** The amount of cash flows should be carefully analyzed before considering the decision.
2. **Rate of return of the project:** The rate of return of the project based on expected return and assessment of the risk involved from each proposal should be analyzed.
3. **Investment criteria:** The decision to invest in a particular project involves a number of calculations regarding the amount of investment, interest rate, cash flows and rate of return.

2. Financing Decision: It relates to the quantum of finance to be raised from various long term sources-Shareholders' funds (or Equity) and Borrowed funds (or Debt). Financing decision determines the overall cost of capital and the financial risk of the enterprise.

Factors affecting Financing Decision

1. **Cost:** The cheapest source of finance should be selected, ie., debt. The cost of debt is lower than the cost of equity for a firm because the lender requires a lower rate of return as his risk is lower than the equity shareholder. Moreover, interest paid on debt is a tax deductible expense whereas dividends are paid out of after-tax profits. Therefore, increased use of debt is likely to lower the overall cost of capital of the firm.
2. **Risk:** The less risky source of finance should be preferred, ie., equity. Debt is more risky for a business because the payment of interest and the return of principal amount are obligatory for the business which increases the financial risk of a company whereas there is no such compulsion in case of equity, making it riskless for the company. Financial risk is the chance that a firm would fail to meet its payment obligations, i.e. interest and principal amount.
3. **Floatation costs:** Cost of raising funds is called floatation cost, e.g. costs of advertising, printing prospectus, etc. Issue of equity involves floatation cost while loan from a bank does not involve floatation costs.
4. **Cash flow position:** Debt financing is better than funding through equity if cash flow position of the company is strong.
5. **Control:** Debt normally does not cause a dilution of control while issue of equity shares may reduce management control over the business.
6. **Level of fixed operating costs:** If a business has high fixed operating costs (e.g., building rent, insurance premium, salaries, etc), i.e. high business risk, lower debt financing is better.

7. **State of the capital market:** During the period when stock market is rising (i.e., a bullish phase), equity shares are more easily sold even at a higher price. However, during a bearish phase a company may opt for debt.

3. Dividend Decision: It relates to how much of the profit earned by the company (after paying tax) is to be distributed to the shareholders as dividend and how much of it should be retained in the business. The decision regarding dividend should be taken keeping in view the overall objective of maximising shareholders' wealth.

Factors affecting Dividend Decision

1. **Amount of earnings:** Dividends are paid out of current and past earnings. Therefore, earnings is a major determinant of the dividend decision.
2. **Stability of earnings:** A company having stable earnings is in a position to declare higher dividends.
3. **Stability of Dividends:** Companies generally follow a policy of stable dividend per share. The increase in dividends is made only when the earning potential increases and not just the earnings of the current year.
4. **Cash Flow position:** A good cash flow position is necessary for declaration of dividend.
5. **Growth opportunities:** If a company has good growth opportunities, it pays out less dividend and retain more profits to invest in new projects.
6. **Shareholders' preference:** Shareholders' preference is kept in mind by the management before declaring dividends.
7. **Access to capital market:** Large companies can raise funds easily from the capital market to invest in new projects. So, they can pay higher dividend.
8. **Stock market reaction:** Increase in dividend increases the market price of shares in the stock market.

9. **Legal constraints:** Certain provisions of the Companies Act, 2013 place restrictions on pay outs as dividend.
10. **Contractual constraints:** While granting loans to a company, sometimes banks/financial institutions may impose certain restrictions on the payment of dividends in future.

Financial Planning

The process of estimating the funds requirements of a business and specifying the sources of funds is called financial planning.

Objectives:

1. To ensure availability of funds whenever required: It involves estimation of the funds required, the time which these funds are to be made available and the sources of these funds
2. To see that the firm does not raise resources unnecessarily as it will increase the costs and the resources will remain idle.

Importance:

1. It helps in avoiding business shocks and surprises and helps the company to prepare for the future.
2. It helps in coordinating various business functions by providing clear policies and procedures.
3. Detailed plans of action prepared under financial planning helps in reducing waste, duplication of efforts and gaps in planning.
4. It tries to link the present with the future.
5. It provides a link between investment and financing decisions on a continuous basis
6. It makes the evaluation of actual performance easier by spelling out detailed objectives for various business segments.

Capital Structure: Capital structure means the proportion of debt and equity used for financing the operations of a business. It can be calculated as debt-equity ratio.

Financial leverage: The proportion of debt in the total capital is also called financial leverage.

As the financial leverage increases, the cost of funds declines because of increased use of cheaper debt, but the financial risk increases.

When ROI is higher than cost of debt. Financial leverage is favourable. When ROI is less than cost of debt financial leverage is unfavourable.

Capital structure of a business affects both the profitability and the financial risk. Ideally, a company must choose that risk return combination which maximises shareholders' wealth. The debt-equity mix that achieves it, is the optimum capital structure.

Factors affecting Capital Structure

1. **Cost of debt:** 'Cost of debt' affects the choice of capital structure of a company as low interest rates increase a firm's capacity to employ higher debt.
2. **Tax rate:** Since interest on debt is a tax deductible expense, a higher tax rate makes debt relatively cheaper and hence more debt can be used. Example: Borrowing (@ 10% and the tax rate 30%, means that the after-tax cost of debt is only ₹7
3. **Return on Investment (ROI):** When the ROI of the company is higher than cost of debt, it can choose to use trading on equity. Trading on Equity refers to the increase in profit earned by the equity shareholders due to presence of fixed financial charges like interest. Shareholder are likely to gain due to debt/loan component in the total capital employed.

How-With a higher debt EPS rises.

Why- It is because interest on debt is a tax-deductible expense.

Example: Company X Ltd. has total capital employed of 30 lakh. Tax rate is 30%. Rate of interest on debts 10% p.a. EBIT =4 lakh. Three situations are considered: Situation-1: There is no debt (i.e., unlevered firm). Situation-2: There is debt of 10 lakh Situation-3: There is debt of 20 lakh.

Particulars	Situation -1	Situation -2	Situation - 3
EBIT	₹4,00,000	₹ 4,00,000	₹ 4,00,000
Less: Interest	NIL	₹ 1,00,000	₹2,00,000
EBT (Earnings Before Tax)	₹4,00,000	₹ 3,00,000	₹2,00,000
Less: Tax @ 30%	₹1,20,000	₹90,000	₹60,000
EAT (Earnings After Tax)	₹2,80,000	₹2,10,000	₹1,40,000
No. of shares of 10	3,00,000	2,00,000	1,00,000
EPS (EAT/No. of Shares)	₹0.93	₹1.05	₹1.40

The Company X Ltd. Earns ₹0.93 per share if it is unlevered. With debt of ₹10 lakh its EPS is ₹1.05. With a still higher debt of ₹20 lakh, EPS rises to ₹1.40. It is because the cost of debt (i.e. rate of interest) is lower than the company's Return On Investment (ROI), which is calculated as:

$(\text{EBIT}/\text{Capital Employed}) \times 100.$

ROI of company X Ltd. = $(₹400000/3000000) \times 100 = 13.33\%$, which is higher than 10% interest rate on debt.

4. **Cost of equity:** Use of higher debt increases the cost of equity as the financial risk faced by the equity shareholders increases; debt can therefore be used only upto a level.
5. **Flexibility:** If a firm uses its debt potential to the full, it loses flexibility to issue further debt. To maintain flexibility, it must maintain some borrowing power to take care of unforeseen circumstances.

6. **Interest Coverage Ratio (CR):** High Interest Coverage ratio affects the capital structure of an enterprise as it lowers the risk of company failing to meet its interest payment obligations.
7. **Debt Service Coverage Ratio (DSCR):** High debt service coverage ratio affects the capital structure of an enterprise as it indicates better ability to meet the debt service obligations.
8. **Capital structure of other companies:** Debt equity ratios of other companies in the same industry is a useful guideline for planning the capital structure. However, it should not follow the industry norms blindly.
9. **Risk consideration:** The less risky source of finance should be preferred, i.e., equity. Debt is more risky for a business because the payment of interest and the return of principal amount are obligatory for the business which increases the financial risk of a company whereas there is no such compulsion in case of equity, making it riskless for the company. Financial risk is the chance that a firm would fail to meet its payment obligations, i.e. interest and principal amount.
10. **Cash flow position:** Debt financing is better than funding through equity if cash flow position of the company is strong.
11. **Floatation costs:** Cost of raising funds is called floatation cost, e.g. costs of advertising, printing prospectus, etc. Issue of equity involves floatation cost while loan from a bank does not involve floatation costs.
12. **Control:** Debt normally does not cause a dilution of control while issue of equity shares may reduce management control over the business.
13. **Stock market conditions:** During the period when stock market is rising (i.e., a bullish phase), more people invest in equity. Equity shares are more easily sold even at a higher price. Use of equity is often preferred by companies in such a situation. However, during the period of depressed capital market (i.e., a bearish phase) a company may find raising of equity capital more difficult and it may opt for debt.

Fixed Capital: Fixed capital refer to investment in fixed assets (e.g., plant and machinery, land and building, etc.).

Factors affecting Fixed Capital Requirements

1. **Nature of business:** A trading concern needs a lower investment in fixed assets as compared to a manufacturing concern since it doesn't require to purchase plant and machinery.
2. **Scale of operations:** A larger organisation operating at a higher scale needs bigger plant and more space and hence higher investment in fixed assets.
3. **Choice of technique:** A capital intensive organisation requires higher investment in plant and machinery and thus requires higher fixed capital than a labour intensive organisation.
4. **Technology upgradation:** Industries where assets become obsolete (e.g. computers) sooner require higher fixed capital to purchase such assets.
5. **Growth prospects:** Higher growth prospects require higher investment in fixed assets to meet anticipated demand quicker.
6. **Financing alternatives:** Availability of leasing facilities requires lower investment in fixed assets and hence requires less fixed capital. Such a strategy is specially suitable in high risk lines of business.
7. **Collaboration:** Collaboration reduces the level of investment in fixed assets for each firm. Therefore, fixed capital requirement is lower.
8. **Diversification:** With diversification, the fixed capital requirements will increase as the investment in fixed capital will increase.

Working Capital: Working capital refers to investment in current assets such as cash, bills receivables, prepaid expenses, inventories, etc. Net

Working capital is the excess of current assets over current liabilities.

Factors affecting working capital requirements:

1. **Nature of business:** A trading business needs less working capital because there is no processing. A manufacturing business requires more working capital since raw material is converted into finished goods. Service industries (e.g., transport, banking, insurance, warehousing, advertising etc.) require less working capital since they do not maintain inventory.
2. **Business cycle:** In case of boom, larger working capital is required as the sales and production are more. During depression, working capital requirement will be lower since production and sales will be low.
3. **Production cycle:** It is the time span between the receipt of raw materials and their conversion into finished goods. Working capital requirement is higher in firms with longer production cycle because funds are blocked in raw materials and semi-finished goods.
4. **Operating efficiency:** Operating efficiency reduces the levels of inventories and debtors. So working capital requirements will decrease.
5. **Availability of raw materials:** Easy and continuous availability of raw materials enables the firms to keep lesser stock and hence work with smaller working capital.
6. **Growth prospects:** Higher growth prospects will require larger amounts of working capital so that the firm is able to meet higher production and sales targets.
7. **Level of competition:** Higher competition requires larger stocks to meet urgent orders from customers and thus higher working capital. Competition may also force the firm to extend liberal credit terms.
8. **Inflation:** With rising prices larger amounts are required to maintain a constant volume of production and sales. Thus working capital requirement of a business will be high.
9. **Seasonal factors:** Peak season requires higher working capital than lean season due to higher level of activity.

- 10.**Credit allowed:** Credit allowed affects the amount of debtors and consequently the working capital requirement of a firm.
- 11.**Credit availed:** To the extent the firm avails credit on purchases, the working capital requirement is reduced.
- 12.**Scale of operations:** A large-scale organisation requires larger amount of working capital as compared to a small-scale organisation because the quantum of inventory, debtors and cash required is generally high.

QUESTIONS (1 MARK) MCQ

1. What is the cost of raising funds called?

- a. Marginal Cost
- b. Flotation Cost
- c. Fixed Cost
- d. Variable Cost

Ans: b. Flotation Cost

2. A fixed asset should be financed through:

- a. long-term liability
- b. short-term liability
- c. mix of long and short-term liabilities
- d. current liability

Ans: a. long-term liability

3. Acquiring a new fixed asset is an example of :

- a. Capital budgeting decisions
- b. Dividend decision
- c. financing decision
- d. working capital decision

Ans: a. Capital budgeting decisions

4. The cheapest source of finance is:

- a. debenture
- b. equity share capital
- c. preference share
- d. retained earnings

Ans: d. retained earnings

5. The extent of retained earnings is influenced by which decision:

- a. Investment decision
- b. Dividend decision
- c. working capital decision
- d. Financing decision

Ans: b. Dividend decision

6. Match the following on the basis of financial concept:

- | | |
|---------------------------------|---------------------------------------------------------------------------------------|
| A. Flotation cost. | I. risk of default on payment |
| B. Financial planning structure | II. proportion of debt in total capital |
| C. Financial leverage | III. Cost of raising funds |
| D. Financial risk | IV. Process of estimating the requirement of funds and specifying the source of funds |

Ans: (A-III, B-IV, C-II, D-I)

7. Higher dividend per share is associated with:-

- a. High earnings, high cash flows, stable earnings and lower growth opportunities
- b. High earnings, low cash flows, stable earnings and lower growth opportunities
- c. Lower earnings, high cash flows, stable earnings and lower growth opportunities

- d. High earnings, low cash flows, stable earnings and Higher growth opportunities

Ans: a. High earnings, high cash flows, stable earnings and lower growth opportunities

8. Factors affecting dividend decisions are

- a. return on investment
- b. flotation cost
- c. legal constraints
- d. Control consideration

Ans: c. legal constraints

9. Investment decisions are Irreversible.

- a. Short Term
- b. Long Term
- c. Short Term & Long Term Both
- d. None of the Above

Ans: b. Long Term

Companies having Lower growth opportunities usually declare higher dividend. (True/False)

Ans: True

10. If existing shareholders can share the control then they may go for debt. (True/False)

Ans: False

11.....Fixed capital is related to decision.

Ans: Investment.

12. Capital structure is a mix of &

Ans: debt, equity

13. EBIT refers to:

- a. Earnings Before Interest and Tax
- b. Earnings Before Income and Tax
- c. Earning Before Investment and Tax
- d. Earning Before Instalment and Tax

Ans: a. Earnings Before Interest and Tax

14. Financial planning arrives at:

- a. minimizing the external borrowing by resorting to equity issues
- b. entering that the firm always have significantly more funds than required so that there is no paucity of funds
- c. ensuring that the firm faces neither a shortage nor a glut of unusable funds
- d. doing only what is possible with the funds that the firms has at its disposal

Ans: c. ensuring that the firm faces neither a shortage nor a glut of unusable funds

15. When is financial leverage favourable?

Ans: Financial leverage affects the profitability of a business and it is said to be favourable when return on investment (ROI) is higher than cost of Debt.

SHORT ANSWER TYPE OF QUESTIONS (3 OR 4 MARKS)

1. State how 'Growth Prospects' affect the working capital requirements of a company?

Answer: The firms which have sufficient possibilities of growth prospects in future require more working capital. However, for companies with lesser prospects, less working capital is needed.

2. Koby Ltd. is an 87-year-old reputed consumer goods company. It is known for

offering good quality electronic products at reasonable prices. It has branches all over India. It has a large shareholder base. The shareholders desire that some dividend is paid every year on their investments. Company's management understands that it is important to keep the shareholders happy and satisfied. As a matter of policy, they declare a certain amount of dividend every year out of profits rather than reinvesting the whole as retained earnings.

Identify and explain the factor affecting dividend decision being highlighted in the above situation.

Answer: Shareholder Preference is the factor affecting dividend decision being highlighted in the given situation.

Shareholders' preference: Shareholders' preference is kept in mind by the management before declaring dividends.

3. Amit is running an “Advertising agency” and earning a lot by providing this service to big industries.

State whether the working capital requirement of the firm will be “less” or “more”.
Give reason in support of your answer.

Answer: Less working capital is required as service industries which usually do not have to maintain inventory require less working capital.

4. 'XY Ltd.' is registered with an authorised capital of ₹10 crore. The paid-up capital of the company is ₹6 crore. The company was facing shortage of funds. The management of the company decided to raise funds by issue of 1,00,000 equity shares of ₹100 each. The issue was fully subscribed. After this it was realised that the funds raised were in excess of the actual requirement. Identify and define the concept which was not considered by the company before deciding the amount of funds to be raised.

Answer: Financial planning is the concept which was not considered by the company before deciding the amount of funds to be raised.

The process of estimating the funds requirement of a business and specifying the

sources of funds is called financial planning.

5. As a part of its capital structure, Venus Ltd.' had ₹50 lakhs as Equity Share Capital and a loan of ₹20 lakhs from Neon Bank. On earning a good profit, Venus Ltd. decided to give dividend to the Equity Shareholders but were surprised when the Neon Bank imposed restrictions on the payment of dividend. Identify and explain the factor affecting dividend decision which allows Neon Bank to impose restrictions on the payment of dividend by Venus Ltd.

Answer: The factor affecting dividend decision which allows Neon Bank to impose restrictions on the payment of dividend by Venus Ltd.' is Contractual Constraints.

Contractual constraints: While granting loans to a company, sometimes banks/financial institutions may impose certain restrictions on the payment of dividends in future.

6. Computer Tech Ltd. is one of the leading information technology outsourcing services providers in India. The company provides business consultancy and outsourcing services to its clients. Over the past five years the company has been paying dividends at high rate to its shareholders. However, this year, although the earnings of the company are high, its liquidity position is not so good. Moreover, the company plans to undertake new ventures in order to expand its business. In context of the above case:

Give any three reasons because of which you think Computer Tech Ltd. has been paying dividends at high rate to its shareholders over the past five years.

Answer: Computer Tech Ltd. has been paying dividends at high rate to its shareholders over the past five years because of the following reasons:

- a. **Amount of earnings:** Dividends are paid out of current and past earnings. Therefore, earning is a major determinant of the dividend decision.
- b. **Cash Flow position:** A good cash flow position is necessary for declaration of dividend.

- c. **Access to capital market:** Large companies can raise funds easily from the capital market to invest in new projects. So, they can pay higher dividend.

7. Steelone Enterprises is manufacturing high quality steel utensils. The demand for steel utensils is rising as people are getting aware that plastic is not good for health. This has led to increase in production of steel utensils. To encourage sales, Steelone Enterprises declared a liberal credit policy which allows three months credit to its wholesale buyers. In the light of the above, identify the two factors affecting working capital requirements of Steelone Enterprises. State with reason, whether the factors as identified above, will result in high or low working capital requirement.

Answer: The various factors affecting the fixed capital requirements of a Steelone Enterprises are described below:

- a. **Nature of Business:** Steelone Enterprises is a manufacturing concern. Therefore, its working capital requirements is high as it may take time to convert the raw material into finished goods before any sales is affected.
- b. **Credit Allowed:** Since Steelone Enterprises follows a liberal credit policy with regard to its wholesale buyers, its requirement of working capital is higher. This is because the number of debtors will increase proportionately.

9. State any two objectives of financial management.

Answer:

- a. Profit maximization- The financial management should ensure maximum return on investment to the shareholders
- b. Wealth maximization – The ultimate objective of decision makers must be to increase the wealth of shareholders or investors

Wealth of owners = Number of shares held X market price per share

10. In the paint industry, various raw materials are mixed in different proportions with petroleum for manufacturing different kinds of paints. One specific raw material is not readily and regular available to the paint manufacturing companies. Bonler Paints Company is also facing this problem and because of this there is a time lag between placing the order and the actual receipt of the material. But, once it receives the raw materials, it takes less time in converting it into finished goods. Identify and the factor affecting the working capital requirements of this industry.

Answer: Availability of Raw Material is the factor affecting the working capital requirements of this industry.

Availability of raw materials: Easy and continuous availability of raw materials enables the firms to keep lesser stock and hence work with smaller working capital.

11. Aaron Ltd. an automobile manufacturer was diversifying into manufacturing two-wheelers. They knew that India is on a growth path and a new breed of consumer is eager for a first Vehicle. The market responded very well to the new product. The company did not have to allow credit, as it had advance orders from four to six months with deposits paid. Also, due to efficiency in managing their operations as soon as a vehicle was off the assembly line, it was out to the dealers. Give any one reason discussed above which helped the firm in managing its working capital efficiently.

Answer: The credit allowed to business is one of the reasons which helped the firm in managing its working capital efficiently as it had advance orders from four to Six months with deposits paid.

12. "G. Motors" is the manufacturer of sophisticated cranes. The production manager of the Company, reported to the chief executive officer, Ashish Jain that one of the machines used in manufacturing sophisticated cranes had to be

replaced to compete in the market, as other competitors were using automatic machines for manufacturing cranes. After a detailed analysis, it was decided to purchase a new automatic machine having the latest technology. It was also decided to finance this machine through long term sources of finance. Ashish Jain compared various machine and decided to invest in the machine, which would yield the maximum returns to its investors,

- a) Identify the Financial Decision taken by Ashish Jain.
- b) Explain any three factors affecting the Decision identified In (a) above.

ANSWER:

(a) Financial decision is the financial decision taken by Ashish Jain, Financing decision relates to determining the quantum (amount) of funds to be raised from different sources of finance.

(b) The three important factors affecting the financing decisions are described below:

1. Cost: The cost of each type of finance needs to be estimated and the source which involves the least cost should be chosen by the financial manager. It is generally presumed that cost of debt is less than cost of equity.
2. Risk: The associated risk is different for each source. For instance, the risk involved in raising debt capital is higher than equity, Therefore, higher the proportion of debt in the in the total capital is likely to Increase the financial risk of the business.
3. Cash Flow Position of the Business: If the cash flow position of a business is good it should opt for debt else equity. This is because the issue of debt involves fixed burden in the form of regular payment of interest and repayment of principal amount. Therefore, unless the cash provision of a business is good it will not be able to meet these commitments easily.

13. Indian equity markets are going through a phase of boom. There is a huge

growth potential for innovative technologies. This has resulted in lots of new ventures vying for a market share and old enterprises trying to keep up with the pace with which changes are taking place in the economy. This technological innovation has helped even smaller businesses to compete on a global scale.

Identify and explain the four factors highlighted above which affect the working capital requirements of such enterprises.

Answer: In the three factors highlighted above which affect the working capital requirements of such an enterprise are described below:

- a. **Business Cycle:** During boom period both the sales and production is more, consequently the requirement of working capital is high. However, during the time of depression the requirement of working capital is low because there is fall in both sales and production.
- b. **Growth Prospects:** If the growth potential of a concern is perceived to be higher, it will require higher amount of working capital so that is able to meet higher production and sales target whenever required.
- c. **Level of Competition:** Higher level of competitiveness may necessitate higher stocks of finished goods to meet urgent orders from customers. This increases the working capital requirement. Competition may also force the firm to extend liberal credit terms discussed earlier.
- d. **Availability of raw materials:** Easy and continuous availability of raw materials enables the firms to keep lesser stock and hence work with smaller working capital.

14. Saksham Ltd. a firm manufacturing textiles, wished to diversify their business. They were considering two options, either to diversify into manufacturing tooth-paste or switches. They wanted to invest in the purchase of land, to set up a manufacturing unit in the backward areas of Gujarat, which would also lead to the generation of employment opportunities in the area, but only after fulfilling all legal requirements and taking appropriate steps to ensure

that the environment was not polluted. The finance manager of the company, Mr. Ramakant was asked by the management to prepare a report on the factors which should be considered while making the above investment decision.

- a. State any two factors that Mr. Ramakant would give in his report.
- b. Also state any one reason which makes it important for the above decision to be made carefully.

Answer:

(a) A long-term investment decision is also called a Capital Budgeting decision. The factors that should be kept in mind by the company while making the investment decision are as follows:

(i) **Cash inflows from the project:** The expected cash inflows from the proposed projects should be carefully analysed and the project indicating higher cash inflows should be selected.

(ii) **Rate of return:** The expected rate of return should be carefully studied in terms of risk associated from the proposed project. If two projects are likely to offer the same rate of return, the project involving lesser risk should be selected.

(b) Due to the following one reason the above decision is to be made carefully: It affects the overall level of business risk of the organisation and its growth and profitability of business in future.

4. Somnath Ltd. is engaged in the business of export of garments. In the past, the performance of the company had been upto the expectations. In line with the latest technology, the company decided to upgrade its machinery. For this, the Finance Manager, Dalmia estimated the amount of funds required and the timings. This will help the company in linking the investment and the financing decisions on a continuous basis. Dalmia therefore, began with the preparation of a sales forecast for the next four years. He also collected the relevant data about the profit estimates in the coming years. By doing this, he wanted to be sure about the availability of funds from the internal sources of the business. For the remaining

funds he is trying to find out alternative sources from outside.

Identify and explain the financial concept discussed in the above para. Also state the objectives to be achieved by the use of financial concept, so identified.

Answer: Financial planning is the financial concept discussed in the above paragraph. The process of estimating the fund requirements of a business and specifying the sources of funds is called financial planning. It relates to the preparation of a financial blueprint of an organisation's future operations. The objectives to be achieved by the use of financial concept are stated below:

- (a) 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.
- (b) 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.

15. Ramnath Ltd. is dealing in import of organic food items in bulk. The company sells the items in smaller quantities in attractive packages. Performance of the company has been up to the expectations in the past. Keeping up with the latest packaging technology, the company decided to upgrade its machinery. For this, the Finance Manager of the company, Mr. Vikrant Dhull, estimated the amount of funds required and the timings. This will help the company in linking the investment and the financing decisions on a continuous basis.

Therefore, Mr. Vikrant Dhull began with the preparation of a sales forecast for the next four years. He also collected the relevant data about the profit estimates in the coming years. By doing this, he wanted to be sure about the availability of funds from the internal sources. For the remaining funds he is trying to find out alternative sources.

- a. Identify the financial concept discussed in the above paragraph.
- b. Also, state any two points of importance of the financial concept, so

identified.

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 two points highlighting the importance of planning are described below:

(i) It ensures smooth running of a business enterprise by ensuring availability of funds at the right time.

(ii) It helps in anticipating future requirements of a funds and evading business shocks and surprises.

16. Radhika and Vani who are young fashion designers, left their job with a famous fashion designer chain to set-up a company Fashionate Pvt. Ltd.' They decided to run a boutique during the day and coaching classes for the entrance examination of National Institute of Fashion Designing in the evening For the coaching centre, they hired the first floor of a nearby building. Their major expense was the money spent on photocopying of notes for their students. They thought of buying a photocopier knowing fully that their scale of operations was not sufficient to make full use of photocopier.

In the basement of the building of Fashionate Pvt. Ltd, Praveen and Ramesh were carrying on a printing and stationery business in the name of Neo Prints Pvt. Ltd.' Radhika approached Praveen with the proposal to buy a photocopier jointly which could be used by both of them Without making separate investment. Praveen agreed to this.

Identify the factor affecting the fixed capital requirements of Fashionate Pvt. Ltd.

Answer: The factor affecting the fixed capital requirement of Fashionable Pvt. Ltd. is the level of collaboration. This kind of arrangement of using the resources jointly helps to reduce the fixed capital requirements of the business firms.

17. Shyam wanted to start a business of selling handicrafts by getting in touch with the craftsmen in the rural areas of Bengal. He wants to make a low investment in fixed Capital. Advise him in taking suitable decisions regarding the Nature of Business, Scale of operations and Financing Alternatives (in a developed financial market) that he needs to take for the purpose.

Answer: Shyam should take into account the following points while taking decisions along the following factors :

(a) Nature of Business: It is advisable that Shyam starts a trading concern and engages in buying handicrafts from the craftsmen and selling them directly to the prospective buyers. He should not plan to set up a manufacturing unit as he wants to make a low investment in fixed capital.

(b) Scale of operations: It is advisable that initially Shyam carries out his business on a small scale.

(c) Financing alternatives: It is advisable that Shyam may opt for procuring fixed assets on lease instead of purchasing them as he wishes to make a low investment in fixed capital. Moreover, in a developed financial market leasing facilities are easily available.

18. Rizul Bhattacharya, after leaving his job, wanted to start a Private Limited Company with his son. His son was keen that the company may start manufacturing mobile-phones with some unique features, Rizul Bhattacharya felt that mobile phones are prone to quick obsolescence and a heavy fixed capital investment would be required regularly in this business. Therefore, he convinced his son to start a furniture business.

Identify the factor affecting fixed capital requirements which made Rizul Bhattacharya choose the furniture business over mobile phones.

Answer: The factor affecting the fixed capital requirements which made Rizul Bhattacharya choose the furniture business over mobile phones is technological upgradation.

LONG ANSWER TYPE OF QUESTIONS (SIX MARKS)

1. Smart Stationery Ltd.' wants to raise funds of 740,00,000 for its new project. The management considering the following mix of debt and equity to raise this amount :

Capital Structure	Alternatives		
	I(Amount in ₹)	II (Amount in ₹)	III (Amount in ₹)
Equity	₹ 40,00,000	₹ 30,00,000	₹ 10,00,000
Debt	0	₹ 10,00,000	₹ 30,00,000

Other details are as follows:

Interest Rate on Debt 9%

Tax Rate 30%

Face Value of Equity Shares ₹100 each

Earnings Before Interest and Tax (EBIT) - ₹8,00,000

- (a) Under which of the three alternatives will the company be able to take advantage of Trading on Equity?
- (b) Does Earning per Share always rise with increase in debt?

Answer:

- (a) Trading on Equity refers to the increase in the earnings per share by employing the sources of finance carrying a fixed financial charges like debentures (interest is paid at a fixed rate on preference shares (dividend is paid at fixed rate)).

The two conditions necessary for trading on equity are as follows:

- The amount of interest paid on debt is treated as a tax deductible expense for computation of tax liability.
- The rate of return on investment should be more than the rate of interest.

(ROI > Rate of interest) in the given case:

Total Fund Used = ₹40,00,000

Interest Rate = 9%

Tax Rate = 30%

Return on Investment = $\text{EBIT} / \text{Capital Employed} \times 100$

$\text{ROI} = 8,00,000 / 40,00,000 \times 100 = 20\%$

Here, Return on Investment (RO) > Rate of Interest.

Therefore, high debt alternative have more advantage, ie. option II.

(b) No, not necessarily the, Earning Per Share always rise with increase in debt.

When for a company its return on investment is not more than rate of interest, its EPS will actually decrease with increase in the financial leverage or use of debt.

2. The Return on Investment (ROI) of a company ranges between 10%-12% for the past three years. To finance in future fixed capital needs, it has the following option for borrowing debts.

Option A : Rate of Interest 9%

Option B : Rate of Interest 13%

Which source of debts, Option A or Option B is better? Give reason in support of your answer. Also state the concept used in taking the decision.

Answer: Out of the two available sources of debt according to me Option A is better as the cost of debt is less than return on investment which is the prerequisite to maximising returns to the shareholders/trading on equity. Since, the rate of Interest is 9%. Whereas the Return on Investment (ROI) of a company ranges between 10%-12% for the past three years.

This decision is based on the concept of Trading on Equity. Trading on Equity refers to the increase in the earnings per share by employing the sources of finance carrying a fixed financial charges like debentures (interest is paid at a fixed rate or preference shares (dividend is paid at fixed rate)).

The two conditions necessary for taking advantage of trading on equity are :

- a) The rate of return on investment should be more than the rate of interest.
- b) The amount of interest paid should be tax deductible.

3. "A business that doesn't grow dies", says Mr Shah, the owner of Shah Marble Ltd. with glorious 36 months of its grand success having a capital base of 80 crores. Within a short span of time, the company could generate cash flow which not only covered fixed cash payment obligations but also create sufficient buffer. The company is on the growth path and a new breed of consumers is eager to buy the Italian marble sold by Shah Marble Ltd, To meet the increasing demand, Mr. Shah decided to expand his business by acquiring a mine. This required an investment of 120 crores. To seek advice in this matter, he called his financial advisor Mr. Seth who advised him about the judicious mix of equity (40%) and Debt (60%) Mr. Seth also suggested him to take loan from a financial institution as the cost of raising funds from financial institutions is low. Though this will increase the financial risk but will also raise the return to equity shareholders. He also apprised him that issue of debt will not dilute the control of equity shareholders. At the same time, the interest on loan is a tax deductible expense for computation of tax liability. After due deliberations with Mr. Seth, Mr. Shah decided to raise funds from a financial institution.

(a) Identify and explain the concept of Financial Management as advised by Mr. Seth in the above situation.

(b) State the four factors affecting the concept as identified in part (a) above which have been discussed between Mr. Shah and Mr. Seth.

Answer:

(a) Capital structure is the concept of Financial Management as advised by Mr Seth in the above situation. Capital structure refers to the mix between owners

funds and borrowed funds.

(b) The four factors affecting capital structure which have been discussed between Mr. Shah and Mr. Seth are explained below:

(i) **Cash flow position:** The issue of debt capital involves a fixed burden on the company in the form of payment of interest and repayment of capital. Therefore if the cash flow position of a company is good it may issue debt else equity to raise the required amount of capital.

(ii) **Risk Consideration:** 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.

(iii) **Tax rate:** Considering the fact that amount of interest paid is a deductible expense cost of debt is affected by the tax rate. If for example a firm is borrowing @ 10% and the tax rate is 30%, the after tax cost of debt is only 7%. Therefore, when tax rate is higher it makes debt relatively cheaper and increases its attraction vis-a-vis equity.

(v) **Control:** The issue of debentures doesn't affect the control of the equity shareholders over the business as the debenture holders do not have the right to participate in the management of the business.

4. Shalini after acquiring a degree in Hotel Management and Business Administration, took over her family food processing company of manufacturing pickles, jams and squashes. The business had been established by her great grandmother and was doing reasonably well. However, the fixed operating costs of the business were high and the cash flow position was weak. She wanted to undertake modernisation of the existing business to introduce the manufacturing processes and diversify into the market of chocolates and candies. She was very enthusiastic and

approached a finance consultant, who told her that approximately ₹ 50 lakh would be required for undertaking the modernisation and expansion programme. He also informed her that the stock market was going through a bullish phase.

(a) Keeping the above considerations in mind, name the Source of finance Shalini should not choose for financing the modernisation and expansion of her food processing business. Give one reason in support of your answer.

(b) Explain any two other factors, apart from those stated in the above situation, which Shalini should keep in mind while taking this decision.

Answer:

(a) Shalini should not choose debt capital for financing the modernisation and expansion of her food processing business because the fixed operating cost of the company is high. It cannot take the additional burden of fixed commitments in terms of payment of interest and repayment of capital by issuing debt.

(b) The other two factors that Shalini must keep in mind while taking this decision are stated below:

(i) 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.

(ii) 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.

5. Kay Ltd. is a company manufacturing textiles. It has a share capital of 60 lakhs. In the previous year, its earning per share was 0.50. For diversification, the company requires an additional capital of 40 lakhs. The company raised funds by issuing 10% debentures for the same. During the year, the company earned a profit of 28 lakhs on the capital employed. It

paid tax @ 40%.

(a) State whether the shareholders gained or lost, in respect of earnings per share diversification. Show your calculations clearly.

(b) Also state any three factors that favour the issue of debentures by the company as part of its capital structure.

Answer:

(a) Let us presume that the share capital of ₹60 lakh is made up of 6 lakh equity shares assuming that the face value of each share is 10.

Sources	Amount (in ₹)
Equity shares	60,00,000
10 % Debentures	40,00,000
Total Capital	1,00,00,000
EBIT	8,00,000
Less: Interest	4,00,000
EBT	4,00,000
Less: Tax @ 40%	1,60,000
EAT	2,40,000
No. of shares of 10 each	6,00,000
EPS	$\frac{2,40,000}{6,00,000} = 0.40$

Thus, on diversification, the earning per share fell down from ₹0.50 to ₹0.40.

(b) The three factors that favour the issue of debentures by the company as part of its capital structure are as follows:

- Tax deductibility:** Debt is considered to be a relatively cheaper source of finance as the amount of interest paid on debt is treated as a tax deductible expense.
- Flotation cost:** The money spent by the company on raising capital through debentures is less than that spent on equity.
- Control:** The issue of debentures doesn't affect the control of the equity

shareholders over the business as the debenture holders do not have the right to participate in the management of the business.

6. Tata International Ltd. earned a net profit of ₹50 crores. Ankit, the finance manager of Tata International Ltd. wants to decide how to appropriate these profits. Discuss any five factors which will help him in taking -this decision.

Answer: The five factors which will help Ankit, in taking the dividend decision are described below:

- a. **Earnings:** Since the dividends are paid out of current and past earnings, there is a direct relationship between the amount of earnings of the company and the rate at which it declares dividend. If the earnings of the company are high, it may declare a higher dividend or vice-versa.
- b. **Cash flow position:** Since the dividends are paid in cash, if the cash flow position of the company is good it may declare higher dividend or vice-versa.
- c. **Access to capital market:** If the company enjoys an easy access to capital market because of its credit worthiness. It does not feel the need to depend entirely on retained earnings to meet its financial needs. Hence, it may declare higher dividend or vice-versa.
- d. **Growth prospects:** If the company has any forthcoming investment opportunities, it may like to retain profits to finance its expansion projects. This is because retained profits is considered to be the cheapest source of finance as it doesn't involve any explicit costs. Hence, it may declare lower dividend or vice-versa.
- e. **Preferences of the shareholders:** The companies paying stable dividends are always preferred by small investors primarily if they want regular income in the form of 'stable returns' from their investments. Large shareholders may be willing to forgo their present dividend in pursuit of higher profits in future. Therefore, the preferences of the shareholders

must be taken into consideration.

7. Abhishek Ltd' is manufacturing cotton clothes. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.

It has taken a loan of ₹50 lakhs from ICICI Bank and is bound by certain restrictions on the payment of dividend according to the terms of the loan agreement.

The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company. Quoting the lines from the above discussion, identify and explain any four such factors.

Answer:

The five factors which Ankit has to consider before taking dividend decisions are:

- a. **Growth Opportunities:** Financial needs of a firm are directly related to the investment opportunities available to it. If a firm has abundant profitable investment opportunities, it will adopt a policy of distributing lower dividends. It would like to retain a large part of its earnings because it can reinvest them at a higher rate.
- b. **Stability of Dividends:** Investors always prefer a stable dividend policy. They expect to get a fixed amount as dividends which should increase gradually over the years.
- c. **Legal Restrictions:** A firm's dividend policy has to be formulated within the legal provisions and restrictions of the Indian Companies Act.
- d. **Restrictions in Loan Agreements:** Lenders, mostly financial

institutions, put certain restrictions on the payment of dividends to safeguard their interests.

- e. **Liquidity:** The cash position is a significant factor in determining the size of dividends. Higher the cash and overall liquidity position of a firm, higher will be its ability to pay dividends.

8. Yogesh, a businessman, is engaged in the purchase and sale of ice-creams. Identify his working capital requirements by giving reasons to support your answer. Now, he is keen to start his own ice cream factory. Explain any five factors that will affect his fixed capital requirements.

Answer:

(a) The working capital requirements of Yogesh will be less as he is engaged in trading business.

(b) The five factors that will affect his fixed capital requirements when he will start his own ice-cream factory are described below:

1. **Nature of business:** A trading concern needs a lower investment in fixed assets as compared to a manufacturing concern since it doesn't require to purchase plant and machinery.
2. **Scale of operations:** A larger organisation operating at a higher scale needs bigger plant and more space and hence higher investment in fixed assets.
3. **Choice of technique:** A capital intensive organisation requires higher investment in plant and machinery and thus requires higher fixed capital than a labour intensive organisation.
4. **Technology upgradation:** Industries where assets become obsolete (e.g. computers) sooner require higher fixed capital to purchase such assets.
5. **Financing alternatives:** Availability of leasing facilities requires lower investment in fixed assets and hence requires less fixed capital. Such a strategy is specially suitable in high risk lines of business.

9. Manish is engaged in the business of manufacturing garments. Generally, he used to sell his garments in Delhi. Identify the working capital requirements of Manish giving reason in support of your answer. Further, Manish wants to expand and diversify his garments business. Explain any four factors that will affect his fixed capital requirements.

Answer:

(a) The working capital requirements of Manish will be relatively more as he is engaged in the business of manufacturing garments. This is because the length of production cycle is longer i.e. it takes time to convert raw material into finished goods.

(b) The factors affecting the fixed capital needs of his business are as follows:

- (i) **Scale of Operations:** The amount of fixed capital required by a business enterprise is directly proportionate to its scale of operations. Therefore, if Manish plans to do business on a large scale, his fixed capital requirements will be more or vice versa.
- (ii) **Technological Upgradation:** If Manish plans to use machines of latest technology in manufacturing garments, his fixed capital requirements will be more as replacement of obsolete machines will require huge financial outlay.
- (iii) **Scale of operations:** A larger organisation operating at a higher scale needs bigger plant and more space and hence higher investment in fixed assets.
- (iv) **Growth prospects:** Higher growth prospects require higher investment in fixed assets to meet anticipated demand quicker.

10. Shubh Ltd. is manufacturing steel at its plant in India. It is enjoying a buoyant demand for its products as economic growth is about 7%-8% and the demand for steel is growing. The company has decided to set up a new steel plant to cash on the increased demand. It is estimated that it will

require about ₹ 2000 crore to set up and about ₹ 500 crore of working capital to start the new plant.

- a. State the objective of financial management for this company.
- b. Identify and state the decision taken by the finance manager in the above case.
- c. State any two common factors affecting the fixed and working capital requirements of Shubh Ltd.

Answer:

1. Objectives of financial management of this company are:
 - a. To ensure availability of sufficient funds from different sources at reasonable costs.
 - b. To ensure effective utilization of such funds.
 - c. To ensure safety of funds procured by creating reserves, reinvesting profits, etc.
 - d. Value Maximization of shareholders' wealth.
2. Investment decision It relates to how the firm's funds are invested in different assets— fixed assets and working capital.
3. Factors affecting fixed and working capital requirements of Shubh Ltd.:
 - a. Nature of business:
 - b. Scale of operations:

PRACTICE QUESTIONS

1. Financial Management aims at

- a. Reducing the cost of funds procured
 - b. Keeping the risk under control
 - c. Achieving effective deployment of such funds
 - d. All of the above
2. Purchasing a new machine to replace an existing one is an example of
- a. Financing decision
 - b. Dividend decision
 - c. Working capital decision
 - d. Capital budgeting decision
3. The overall financial risk depends upon the
- a. Proportion of debt in the total capital
 - b. Proportion of equity in the total capital
 - c. Both of the above
 - d. None of the above
4. When the stock market is bearish, a company may depend upon..... in order to raise the required funds.
- a. Debentures
 - b. Equity shares
 - c. Preference shares
 - d. All of the above
5. Name the financial decision which relates to disposal of profits.
- a. Investment decision
 - b. Financial management
 - c. Dividend decision
 - d. Capital budgeting decision
6. A company is likely to declare higher dividends if
- a. Tax rates are high
 - b. Tax rates are relatively lower
 - c. Tax rate has no effect on dividend declaration
 - d. None of the above

7. 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 decision
- c. Dividend decision
- d. Financial planning

8. Amber Limited has been experiencing a downfall in its popularity, due to growing competition. Also the company doesn't see any forthcoming viable business expansion opportunities in the near future. So the management of the company has decided to declare high dividends for the current financial year. Identify the factor related to dividend decision being described above.

- (a) Cash flow position
- (b) Growth opportunities
- (c) Stability of earnings
- (d) Stability of dividends

9. While taking a loan from a financial institution, Lokesh Enterprises signed an agreement that they shall not pay dividend to its shareholder more than 15% until the loan is repaid, or dividend shall not be declared if the liquidity ratio is found to be less than 1:1. Identify the factor related to dividend decision being described in the above case.

- (a) Access to capital market
- (b) Preferences of shareholders
- (c) Contractual constraints
- (d) Legal constraints

10. The financial plans are drawn by taking into consideration

- (a) Growth prospects
- (b) Performance of the organisation
- (c) Investments
- (d) All of the above

11. Which of the following is not an importance of financial planning?

- (a) It helps in avoiding business shocks and surprises

- (b) If helps in co-ordinating various business functions
- (c) It helps to reduce waste, duplication of efforts and gaps in planning
- (d) It tries to delink the present with the future

12. In order to raise an additional capital of 50 lacs, Yudhister Limited has used debt because

- (a) Increased use of debt lowers the overall cost of capital
- (b) Decrease in use of debt lowers overall cost of capital
- (c) Increase in use of debt increases the overall cost of capital
- (d) None of the above

13. Which of the following statements is not true?

- (a) Increased use of debt increases the financial risk of a business
- (b) Increased use of debt decreases the financial risk of a business
- (c) Decrease in use of debt increases the financial risk of a business
- (d) None of the above

14. Name the decision which affects both the profitability and the financial risk

- (a) Financial planning decision
- (b) Capital budgeting decision
- (c) Capital structure decision
- (d) All of the above

15. As the financial leverage of a company increases, it leads to

- (a) A decline in the cost of funds but an increase in the financial risk
- (b) An increase in the cost of funds but a decline in the financial risk
- (c) Both an increase in the cost of funds and financial risk

(d) Both a decline in the cost of funds and financial risk

16. If in a particular situation, the earnings per share (EPS) falls with the increased use of debt, it indicates that

(a) The rate of return on investment (Roi) is less than the cost of debt

(b) The rate of return on investment is more than the cost of debt

(c) The cost of debt is less than the rate of return on investment

(d) None of the above

17. Under which of the following situations a company is not likely to issue equity capital?

(a) When the debt service coverage ratio is high

(c) When the cost of debt capital is low

(6) When the interest coverage ratio is high

(d) All of the above

18. Which of the following statements is not true with regard to use of fixed capital?

(a) It effects the long term growth of the business

(b) Large amount of funds is involved

(c) The business risk involved is low

(d) The investment decisions are irreversible

19. Under which of the following conditions the fixed capital requirements of a business is not likely to be low?

(a) When the raw material is easily available

(b) When the labour intensive production technique is used

- (c) When the level of collaboration is low
- (d) When the growth prospects of the firm are low

20. The working capital requirement of a business is likely to be high when?

- (a) The nature of business is trading
- (b) Scale of operation of business is small
- (c) It is difficult to procure raw material
- (d) The rate of inflation is low

Answers:

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

SHORT ANSWER TYPE QUESTIONS (3 OR 4 MARKS)

1. What is meant by financial management'?
2. How does "level of competition' affect the working capital requirement of an organisation? State.
3. What is meant by 'Capital Structure'?
4. What is meant by Trading on Equity'?
5. Name and state the aspect of financial management that enables to foresee the fund requirements both in terms of 'the quantum and the timings'. (Hint: Financing Decisions)
6. Reliable Transport Services Ltd. specializes in transporting fruits and vegetables. It has a good reputation in the market as it delivers the fruits and vegetables at the right time and at the right place. State with reason whether

the working capital requirements of Reliable Transport Services will be high or low. (Hint: Low)

7. Explain how 'cost of debt' affects the choice of capital structure of a company.
8. The size of assets, the profitability and competitiveness are affected by one of the financial decisions. Name and state the decision. (Hint: Investment Decision)
9. Explain the objectives of Financial Planning.
10. How does 'Cost of equity' affect the choice of capital structure of a company? Explain.
11. What is meant by 'Financial Management'? State the primary objective of Financial Management.
12. Explain any three factors affecting capital budgeting decision of a company.
13. Wireworks Ltd. is a company manufacturing different kinds of wires. Despite fierce competition in the industry, it has been able to maintain stability in its earnings and as policy uses of its profits to distribute dividends. The small investors are very happy with the company as it has been declaring high and stable dividend over past five years.

In context of the above case:

- a. State any one reason because of which the company has been able to declare high dividend by quoting line from the paragraph.
 - b. Why do you think small investors are happy with the company for declaring stable Dividend? (Hint: Dividend Decision)
14. Identify, why the requirement of Fixed Capital & Working Capital for a trading concern are different from that of a manufacturing organization.
 15. What is the Capital structure? Explain any Three factors affecting the choice of capital structure?

LONG ANSWER TYPE QUESTIONS (SIX MARKS)

1. The Capital of India has been declared as the most polluted city in the world. Bengaluru, Mumbai, Patna, Ahmedabad, Lucknow, Kanpur and Ludhiana are also the highly polluted Indian cities. This has resulted into a dramatic increase in the sale of home air purifiers. The prices of these devices range from ₹ 2,000 to ₹ 25,000 depending upon the type of pollutant these purifiers remove. Looking at the increasing demand of these air purifiers 'Pure Air Technology India Ltd.' has developed a low cost home air purifier in its R&D Lab. The company has estimated that a commercial production of 1, 00,000 units per year may cost the company ₹ 500 per unit. For this capital of ₹ 100 crores will be required. The company decided to have both equity and debt in its capital structure. Explain any six factors that the company should consider while deciding its capital structure
2. A company's earnings before interest and tax is ₹ 7 lac. It pays 10% interest on its debt. Total investment of company is ₹ 50 lac.
 - a. Advise company whenever it should include debt or equity to raise its capital.
 - b. Name the concept related to this.
 - c. Will be company's decision to raise funds from debt or equity will change if company's EBIT becomes ₹ 3 lac.
3. What do you mean by Working capital? Explain any four factors affecting the requirement of working capital.
4. 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.
5. Visions Ltd. is a renowned multiplex operator in India. Presently, it owns 234 screens in 45 properties at 20 locations in the country. Considering the fact that the there is a growing trend among the people to spend more of their disposable income on entertainment, two years back the company had decided

to add more screens to its existing set up and increase facilities to enhance leisure, food chains etc. it had then floated an initial public offer of equity shares in order to raise the desired capital. The issue was fully subscribed and paid. Over the year, the sales and profits of the company have increased tremendously and it has been declaring higher dividend and the market price of its shares has increased manifold. In context of the above case:

- a. Name and explain the different kinds of financial decisions taken by the company.
 - b. Do you think the financial management team of the company has been able to achieve its prime objective? Why or why not? Give a reason in support of your answer.
6. Sarah Ltd.” is a company manufacturing cotton yarn. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well-managed organization and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments. It has taken a loan of ₹ 40 lakhs from IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement. The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company. Quoting the lines from the above discussion identify and explain such factors. [Hint: Dividend decision]

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CHAPTER-10

FINANCIAL MARKET

LEARNING OBJECTIVES

- Financial Market :Concept and Nature
- Functions of Financial market
- Money market
- Capital market: Meaning and definition
 - Types of Capital market: Primary and Secondary market
 - Difference between Capital market and Money market
 - Distinction between Primary market and Secondary market
- Stock exchange
 - Functions of Stock exchange
 - Trading procedure on a stock exchange
 - Dematerialisation and Depositories
- Securities and Exchange Board of India(SEBI)
 - Objectives of SEBI
 - Functions of SEBI

Meaning of Financial Market:

Financial market refers to a market for the creation and exchange of financial assets. It is a link between the savers and borrowers. In this market money is transferred from those who have surplus to those who require it for investment. Investors are surplus units and business enterprises are deficit units. A financial market is a market for the creation and exchange of financial assets. Financial markets exist wherever a financial transaction occurs.

Functions of Financial Market:

Financial markets play an important role in the allocation of scarce resources in an economy by performing the following important functions.

1. Mobilisation of Savings and Channelling them into the most Productive

Uses: A financial market facilitates the transfer of savings from savers to investors. It gives savers the choice of different investments and thus helps to channelize surplus funds into the most productive use

2. Facilitate Price Discovery: In the financial market, the households are suppliers of funds and business firms represent the demand. The interaction between demand and supply of financial assets helps to fix price for the financial securities in financial market.

3. Providing Liquidity to Financial Assets: Financial markets facilitate easy purchase and sale of financial assets. Thus it provides liquidity to financial assets and they can be easily converted into cash whenever required.

4. Reducing the Cost of Transactions: Financial markets provide valuable information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial assets. The financial market is thus, a common platform where buyers and sellers can meet for fulfilment of their individual needs

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. It is a market where low risk, unsecured and short term debt instruments that are highly liquid are issued and actively traded. It has no physical location, but is an activity conducted over the telephone and through the internet. It enables to raise short-term funds for meeting working capital requirement and the temporary deployment of excess funds for earning returns. The major participants in the market are the Reserve Bank of India (RBI), Commercial Banks, Non-Banking Finance Companies, State Governments, Large Corporate Houses and Mutual Funds.

Capital Market: Capital market is a market for medium and long term funds. It refers to all the facilities and institutional arrangements through which long-term funds, both debt and equity are raised and invested. It directs savings into their most productive use leading to growth and development of the economy. The process of economic development is facilitated by the existence of a well-functioning capital market. The capital market should also be efficient in respect of the information that it delivers, minimise transaction costs and allocate capital most productively

The Capital Market can be divided into two parts: a. Primary Market b. Secondary Market

Difference between Capital market and Money market

Basis of difference	Money market	Capital market
Duration	Money market instruments have a maturity period of a maximum one year.	Deals in long-term and medium-term securities having a maturity period of more than a year
Liquidity	Securities in the money market are highly liquid	Securities in the capital market are comparatively less liquid than money market securities.
Returns Expected	As the securities have a shorter maturity period, the expected return is lower.	They offer higher possibility of gain as the securities are for a longer period.
Instruments	Short-term debt instruments such as commercial papers, treasury bills and certificates of deposit are traded.	Instruments traded are equity shares, preference shares, bonds and debentures
Risk	Securities traded are safe as securities are traded for short duration	Securities traded are risky with regard to both return and principal repayment.

Distinction between Primary market and Secondary market:

Primary market (New issue market)	Secondary market (Stock Exchange)
There is sale of securities by new companies or further (new issues of securities by existing companies to investors).	There is trading of existing shares only
2. Securities are sold by the company to the investor directly (or through an intermediary).	Ownership of existing securities is exchanged between investors. The company is not involved at all.
3. The flow of funds is from savers to investors, i.e. the primary market directly promotes capital formation	Enhances liquidity of shares, i.e. the secondary market indirectly promotes capital formation.
4. Only buying of securities takes place in the primary market, securities cannot be sold there	Both the buying and the selling of securities can take place on the stock exchange.

Prices of securities are determined and decided by the management of the company.	Prices are determined by demand and supply for the security.
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- **Stock exchange**

A stock exchange is an organised market which provides a platform for buying and selling of existing securities. As a market, the stock exchange facilitates the exchange of a security (share, debentures etc.). 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

The following are some of the important functions of a stock exchange

1. **Providing Liquidity and Marketability to Existing Securities:** The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. This provides both liquidity and easy marketability to already existing securities in the market.
2. **Pricing of Securities:** Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.
3. **Safety of Transaction:** The membership of a stock exchange is well regulated and its dealings are well defined according to the existing legal framework. This ensures that the investors get a safe and fair deal on the market.
4. **Contributes to Economic Growth:** A stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelized into their most productive investment avenues. This leads to capital formation and economic growth.
5. **Spreading of Equity Cult:** The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.
6. **Providing Scope for Speculation:** The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market.

Trading Procedure at the Stock Exchange

The Companies need to get their securities listed in stock exchange before selling the securities through stock exchange. The trading procedure at the stock exchange involves the following steps

1. Selection of brokers
2. Opening Demat account with depository
3. Placing the order
4. Matching the order
5. Executing the order
6. Settlement

Dematerialisation: Securities held by the investor in the physical form are cancelled, and the investor is given an electronic entry or number so that she/he can hold it as an electronic balance in an account. This process of holding securities in an electronic form is called dematerialisation

Depository:

- A depository is the organisation with which an investor has to open a Demat account to hold securities in an electronic form on behalf of the investor.
- In a depository, shares can be deposited, withdrawn or sold at any time on instructions given by the investor.
- It helps to avoid all the paperwork related to share certificates, transfer forms etc.
- This system has helped in increasing the speed and efficiency of trading and settlement of securities.

In India there are two depositories:

- National Securities Depository Limited(NSDL)
- Central Depository Service Limited (CDSL)

Securities and Exchange Board of India(SEBI)

The Securities and Exchange Board of India (SEBI) was established in 1988 with the basic objective of promoting orderly and healthy growth of the securities market. It aims at investor protection along with promoting the development and regulation of the functions of the securities market. SEBI got a statutory status on 30 January 1992 through an ordinance which is now replaced by an Act of the Parliament known as the Securities and Exchange Board of India Act, 1992.

Major Objectives of SEBI

- 1) **Regulation:** SEBI regulates the functions of the stock exchange and securities market in order to ensure orderly functioning.
- 2) **Protection:** SEBI protects the rights and interests of investors as well as tries to guide and educate them.
- 3) **Prevention:** One of the major objectives of SEBI is to check

malpractices such as insider trading, violation of rules and non-adherence to the Companies Act. In addition to providing legal statutory regulations, it promotes self-regulation by businesses.

- 4) **Code of Conduct:** SEBI provides a code of conduct for the trade practices of various intermediaries such as brokers and merchant bankers. It keeps a check on the activities of these intermediaries and provides them a competitive and professional environment

Functions of SEBI

To achieve the objectives as mentioned above, SEBI performs the following three main functions:

Functions of SEBI

Regulatory Functions: It mainly includes

- i) **Registration:** SEBI undertakes registration of various brokers, sub-brokers, agents and other players in the market. Registration of collective mutual schemes and mutual funds is also done by SEBI.
- ii) **Regulating work:** SEBI keeps a watch on the activities and working of stock brokers, underwriters, merchant bankers and other market intermediaries. It provides rules and regulations for the working of intermediaries. In addition, takeover bids by companies are regulated by SEBI. Moreover, it conducts regular enquires and audits the stock exchange and intermediaries.
- iii) **Levying Fee:** SEBI levies fees and other charges for carrying out the purposes of the Act.
- iv) **Regulation by legislation:** Under the Securities Contracts (Regulation) Act, 1956, SEBI performs various legislative functions delegated by the Government of India

Development Functions: It mainly includes

- i) **Training:** SEBI provides training and development programmes for intermediaries of the securities market. This helps in promoting healthy growth of the securities market.
- ii) **Research:** SEBI conducts research on various important areas of the securities market, reports of which are then published. The reports by SEBI help investors and other market players in decision making with regard to investment.
- iii) **Flexible approach:** SEBI has adopted a flexible approach towards various activities of the securities market. For instance, it has permitted Internet trading and IPOs. This encourages the development of the capital market.

Protective Functions

- i) **Prohibition:** SEBI keeps an eye on various activities and operations in the securities market. It works towards prohibiting fraudulent and unfair trade practices.
- ii) **Checks on insider trading:** Sometimes, an individual connected with a company spreads crucial information regarding it. Such leak of information may adversely affect the share price of the company. Such a practice is known as insider trading. SEBI keeps control on such activities and imposes penalties as and when required.
- iii) **Protection and promotion:** SEBI works towards promoting fair trade practices. It provides a code of conduct for intermediaries. SEBI also undertakes many steps to protect the investors

OBJECTIVE TYPE QUESTION: (1 MARK EACH)

- 1. _____ is a link between savers & borrowers, helps to establish a link between savers & investors
 - (a) Marketing
 - (b) Financial market
 - (c) Money market
 - (d) None of these
- 2. Which of the following is the function of financial market?
 - (a) Mobilization of savings
 - (b) Price fixation
 - (c) Provide liquidity to financial assets
 - (d) All of the above
- 3. _____ is the organisations, institutions that provide long term funds.
 - (a) Capital market
 - (b) Money market
 - (c) Primary market
 - (d) Secondary market
- 4. When securities are allotted to institutional investors & some selected individuals is referred to as _____.
 - (a) Initial public offer
 - (b) Offer through prospectus
 - (c) Private placement
 - (d) Offer for sale
- 5. Stock exchange is known as _____ market for securities.
 - (a) Primary market
 - (b) Secondary market
 - (c) Capital market
 - (d) None of the above

6. _____ is a market for lending & borrowing of short term funds.
- (a) Money market
 - (b) Primary market
 - (c) Capital market
 - (d) All of the above
7. Which of the following is not a function of financial market?
- a. Price determination of securities
 - b. Floating of companies
 - c. Lowering transaction cost
 - d. Mobilisation of savings
8. What is meant by DEMAT Account?
- a) Depository Participant Account
 - b) Dematerialisation of Securities
 - c) Development Market Account
 - d) Demand Depository Account
9. 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.
10. 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
11. The process of holding shares in electronic form is known as
- a) Demutualisation
 - b) Dematerialisation
 - c) Speculation
 - d) None of the above
12. The word “Bulls and Bears” are associated with
- a) Import and export
 - b) Banking
 - c) Marketing
 - d) Speculator

ANSWER KEYS

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

Very Short questions:

1. Name the two major alternative mechanisms through which allocation of funds can be done. **1**

Ans. Banks
(i)
(ii) Financial markets

2. Give the meaning of secondary market. **1**

Ans. Secondary market refers to market for sale and purchase of previously issued securities. It is also known as stock exchange.

3. Give the meaning of money-market. **1**

Ans. Money-market refers to market for short-term funds, which deals in monetary assets whose period of maturity is up to one year.

4. State the essential function of primary market. **1**

Ans. The important function of a primary market is to facilitate the transfer of investible funds from savers to entrepreneurs, seeking to establish new enterprises.

5. What is meant by capital market? **1**

Ans. Capital market refers to whole network of organisations, institutions through which medium and long-term funds, both debt and equity are raised and invested.

6. "One of the functions of Securities and Exchange Board of India is promotion of fair practices and code of conduct in securities market". State the category to which this functions belongs? **1**

Ans: Protective function

Short questions:

1. Financial market plays an important role in the allocation of scarce resources in an economy by performing various functions. Explain any three functions of financial market. **3**

Ans: a) Mobilisation of savings and channelling them into the most productive uses b) Facilitating price discovery c) Providing liquidity to financial assets

2. Differentiate between capital market and money market on the basis of the following 5

(i) Meaning (ii) Liquidity (iii) Safety (iv) Expected return (v) Duration

3. Difference between 'Primary Market' and 'Secondary Market' on any five basis. 5

4. State any four functions of Stock exchange. 4

5. Mr. Sanjay Nehra was the Chairman of 'Taran Bank. The bank was earning good profits. Shareholders were happy as the bank was paying regular dividends. The market price of their shares was also steadily rising. The bank was about to announce taking over of 'Vena Bank. Mr. Sanjay Nehra knew that the share price of 'Taran Bank' would rise on this announcement. Being a part of the bank, he was not allowed to buy shares of the bank. He called one of his rich friends Sudhir and asked him to invest 5 crores in shares of his bank promising him the capital gains.

As expected the share prices went up by 40% and the market price of Sudhir's shares was now 7 crores. He earned a profit of 2 crores. He gave 1 crore to Mr. Sanjay Nehra and kept 1 crore with himself. On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity. The SEBI imposed a heavy penalty on Mr. Sanjay Nehra.

By quoting the lines from the above para identify and state any two functions that were performed by SEBI in the above case.

6. 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 the most. To give strength to the economy, SEBI is undertaking measures to develop the capital market. In addition to this, there is another market in which unsecured and short term debt instruments are actively traded every day. These markets together help the savers and investors in directing the available funds into their most productive investment opportunity.

1. Name the function being performed by the market in the above case.
 2. Name the market segment other than the capital market segment in which unsecured and short-term debt instruments are traded. Also, give any three points of difference between the two.
- 4

Answer: 1. Allocative function.

2. Money market.

Difference between Capital and Money market:

Basis of difference	Capital market	Money market
1.Duration	Capital Market deals in medium term and long-term securities.	Money market deals in shortterm securities.
2. Liquidity	Capital market securities are comparatively less liquid.	Money market securities are comparatively more liquider.
3. Instruments	struments traded are Shares, Debentures and Bonds.	Instruments traded are Treasury bills, Commercial papers, Certificates of deposit, Call money and Commercial bills.

7. Identify the type of function of SEBI in the following cases:

1. Rajeev was unwilling to buy shares in the stock market as he was told by someone that stock market is a place where various malpractices take place. He decides to discuss the matter with his friend who explains to him how SEBI takes care of the interests of the investors.
2. Pankaj wants to become a stock broker. When he approaches people and asks them to get started as investor through him they ask for a certificate which the SEBI must have given him. He becomes aware of the fact that in order to function as a stock broker he will have to get registered with SEBI.
3. Kirti Steels already has issued shares in the stock market and is a well-known name among the people. Recently it issued shares but had to go through the proper audition process and thorough inspection about the various requirements to be fulfilled as an issuer.
4. Recently some people were caught in some of the malpractices like insider trading. The SEBI has decided to take strict action and cancel their candidature. Further penalties are also to be imposed on them.
5. A magazine has published a report on how SEBI is serious about training of the intermediaries and deciding their code of conduct. A lot of research has been going on in various related areas and the information of use is being published so that various participants can get useful results from it.
6. Some workshops are being organized to create awareness among the investors. The programme will not stop here. There is going to be a proper education of the investors. After the workshop is over a test will be conducted to check the knowledge and applicative ability of the investors.

Answer:

1. Protective function
2. Regulatory function
3. Regulatory function
4. Protective function
5. Development function

6. Development function

8. Nishant is a big supporter of the vital role played by the stock exchange in securing wider circulation of ownership of companies to the common people and supports the education of the common public about the positive effects of making investments. However, he knows nothing spreads very fast in public and takes its own time. He knows that it is only due to the presence of the stock markets that a continuous market is made available to the buying and selling of the securities. People don't want late results; they want everything instant. True investor knows that there should be knowledge before the habit of making investments. The knowledge about the companies participating should be there before any big decision is taken. Most of the people however, get attracted to the stock market as it allows speculative activity within limits which helps in liquidity of the shares in the stock market. We have different newspapers which give a lot of news these days about strictness in the stock market. All this is happening today because scams took place in the 80s. But now everything takes place in legal framework providing safe and fair deal in the market. It can be expected that in the future days to come things are going to get better for investors and issuers, not to mention the intermediaries. Identify and explain the functions of stock exchange discussed in the above para.

Answer:

The different types of functions of stock exchange highlighted in the above case are:

- 1. Stock exchange helps in the spreading of the equity cult.** Nishant is a big supporter of the vital role the stock exchange plays in securing wider circulation of ownership of companies to the common people and supports the education of the common public about the positive effects of making investments.
- 2. Stock exchange helps in providing liquidity and marketability to the traded securities.** He knows that it is only due to the presence of the stock markets that a continuous market is made available to the buying and selling of the securities.
- 3. Stock exchange attracts the investor by providing scope for speculation.** Most of the people however, get attracted to the stock market as it allows speculative activity with the healthy limits which help in liquidity of the shares in the stock markets.

4. Stock exchange secures safety of transaction of the securities. But now everything takes place in legal framework providing safe and fair deal in the market.

PRACTICE QUESTIONS:

1. A company can raise capital through the primary market in the form of 1
A) Equity shares B) Preference shares C) Debentures D) All of the above
2. The process of holding shares in electronic form is known as 1
A) Demutualisation B) Dematerialisation C) Speculation D) None of the above
3. Which of the following participants represent capital market?
A) Development banks B) Commercial banks C) Stock exchanges D) all of the above
4. It acts like a bank and keep securities in electronic form on behalf of the investors 1
A) Depository participants B) Depository C) Stock exchange D) None of the above
5. Briefly explain the concept of financial market? 3
6. Discuss the functions of financial market? 4
7. What is the difference between a treasury bill and a trade bill? 3
8. Distinguish between capital market and money market on the basis of following: 5
 - Participants
 - Instruments
 - Duration
 - Liquidity
 - Safety
9. What are the functions of stock exchange? 5
10. Discuss the protective functions of SEBI? 4
11. Discuss the role of primary & secondary market in mobilization of savings of households in our economy? 4
12. Explain dematerialization and depositories? 3
13. Discuss the working of a DEMAT account? 3

14. Financial market is a market for creation and exchange of financial assets. It helps to link the savers with the investors and direct available funds into their most productive investment opportunity. It also facilitates easy purchase and sale of financial assets through the stock exchange. The stock exchange not only facilitates buying and selling of securities but also educates public about how their investment in the financial market can yield goods returns.

a) State two functions performed by financial market in the above case.

b) Explain two more functions of the stock exchange, other than those stated in the above case. 4

Hint: a)

i) Mobilisation of savings and channelizing them into the most productive uses
ii) Reducing the cost of Transactions.

b) i) Facilitate price discovery ii) Providing liquidity to financial assets

15. Supriya got 10,00,000 rupees after selling her parental property which she has got as a gift from her grandmother. Her friend advised her to invest in securities in the stock market. Supriya was unaware of the procedure for the same. Her friends introduced her to a stock broker, who was registered with the National Stock Exchange. Supriya approached the broker. The broker guided her to open a DEMAT account with a depository, as well as a bank account. Supriya opened a bank account & DEMAT account with EXIM bank.

a) Identify the steps in the trading procedure for buying and selling of securities which have been discussed above.

b) State the next four steps of the trading procedure.

6

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CHAPTER-11

MARKETING

Concept of Marketing: Marketing is a process whereby people exchange goods and services for money or for something of value to them.

Features of Marketing:

1. Needs and Wants: The process of marketing helps individuals and groups in obtaining what they need and want.
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: The process of marketing facilitates exchange of products and services between the buyers and the sellers. The buyers make buying decisions on their perceptions of the value of the product or service in satisfying their need , in relation to its cost.
4. Exchange Mechanism: The process of marketing works through the exchange mechanism.

Functions of Marketing:

1. Gathering and analyzing market information: One of the important functions of a marketer is to gather and analyze market information. This is necessary to identify the needs of the customers and take various decisions for the successful marketing of a products and services.
2. Marketing Planning: Another important function of marketing is to develop appropriate marketing plans to achieve the marketing objectives of the organization.
3. Product Designing and Development: Another important marketing activity relates to designing and developing the product in such a way it attracts the target customers.
4. Standardization and Grading: Standardisation refers to producing goods of pre-determined specifications, which helps in achieving uniformity and consistency in the output.
Grading is the process of classification of products into different groups on the basis of some of its characteristics such as quality, size etc.
5. Packaging and Labelling: Packaging refers to designing and developing the package for the products.

Labelling refers to designing and developing the label to be put on the package. The label may vary from a simple tag to complex graphics.

6. Branding: It can be defined as the process of using a name, sign, symbol or design to a product.
7. Customer Support Services: A very important function of marketing management relates to developing customer support services such as after sales services, handling customer complaints and adjustments etc.
8. Pricing of Products: Price of a product refers to the amount of money customers have to pay to obtain a product. Price is an important factor affecting the success or failure of a product in the market.
9. Promotion: Promotion of a products and services involves informing the customers about the firms product, its features etc. and persuading them to purchase these products.
10. Physical Distribution: The two major decision areas under this function include decision regarding channels of distribution and physical movement of the product.
11. Transportation: Transportation involves physical movements of goods from one place to the other. A marketing firm has to analyze its transportation needs after taking into consideration various factors such as nature of product.
12. Storage or Warehousing: Once the goods are produced, they are not consumed simultaneously. The tasks of storage and warehousing are directed towards this purpose.

PHILOSOPHIES OF MARKETING

1. Production Concept: Greater emphasis was placed on improving the production and distribution efficiency of the firm since availability and affordability of the product were considered to be the key to the success of the firm.
2. Product Concept: The way to realizing business goals lies in making products that are of high quality because customers favour high quality products.
3. Selling Concept: As per this concept firms must undertake aggressive selling and promotional efforts to make customers buy their products.
4. Marketing Concept: The marketing concept implies that a firm can achieve its goals by identifying the needs of the customers and satisfying them better than the competitors.

5. Societal Marketing Concept: It pays attention to the social, ethical and ecological aspects of marketing apart from customer satisfaction.

MARKETING MIX: CONCEPTS AND ELEMENT

Marketing mix is the set of marketing tools that the firm uses to pursue its marketing objectives in the target market.

Elements/Components of Marketing Mix:

- A. Product Mix: It refers to important decisions related to the products such as quality of product, packing of product etc.
- B. Price Mix: Price mix refers to important decisions related to fixing of price of a commodity.
- C. Place Mix: Place mix refers to important decisions related to physical distribution of goods and services.
- D. Promotion Mix: It refers to all the decisions related to promotions of sales of products and services.

E.

- A. Product:** Product may be defined as anything that can be offered to a market to satisfy a want or need. It is offered for attention, acquisition, use of consumption.

Components of Product Mix:

- 1. **Branding:** The process of giving a name or a sign or a symbol to a product is called branding.

Features of good brand name:

- i) Brand name should be short and simple.
- ii) Brand name should be easy to pronounce.
- iii) Brand name should be suggestive.
- iv) Brand name should be unique and distinctive.

- 2. **Packaging:** Packaging refers to the act of designing and producing the container or a wrapper of a product.

Features of Packaging:

- i) Protection: It protects the product from damage.
- ii) Identification: with the help of packaging the product can be easily identified.
- iii) Convenience: The handling of the product becomes more convenient with appropriate packing.
- iv) Promotion: Packaging plays the role of silent salesman because it promotes or enhances the sale of a product.

- v) Rising standard of health and sanitation.

3. Labelling: Labelling means putting identification marks on the package.

Label is the carrier of information.

Features of Labelling:

- i) Describe the product and specify its contents.
- ii) Identify the product.
- iii) Help in grading.
- iv) Promote sale.
- v) Providing information required by law.

B. Price: Price may be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service.

Factors affecting Pricing Decision/ Price Determination:

1. **Product Cost:** One of the most important factor affecting price of a product or service is its cost. This includes the cost of producing, distributing and selling the product.
2. **The Utility and Demand:** While the product costs set the lower limits of the price, the utility provided by the product and the intensity of demand of the buyer sets the upper limit of price, which a buyer would be prepared to pay.
3. **Extent of Competition in the Market:** Competitors prices and their anticipated reactions must be considered before fixing the price of a product.
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 commodities.
5. **Pricing Objectives:** Apart from profit maximization the pricing objectives of a firm may include the following:
 - (a) Obtaining Market Share Leadership by keeping its price low.
 - (b) Surviving in a Competitive Market by reducing their price by offering discount.
 - (c) Attaining Product Quality Leadership by charging high prices to cover the cost and high cost of research and development.
6. **Marketing Method Used:** Price fixation process is also affected by other elements of marketing such as distributions system, quality of salesmen employed etc.

C. Place Mix/Physical Distribution: It is concerned with making the goods and services available at the right place, so that people can purchase the same. Place mix include: (1) Channels of distribution (2) Physical movement of goods.

(1) Channels of Distribution: Channels of distribution are a set of firms and individuals that take title or assist in transferring title, to particular goods or services as it moves from the producers to consumers.

Types of Channels of Distribution:

1. Direct channel (zero level): Manufacturer----Customers.

2. Indirect Channel:

(i) One Level Channel: Manufacturer---Retailer ----Customers.

(ii) Two Level Channel: Manufacturer--Wholesaler-Retailer--Customers.

(iii) Three Level Channel: Manufacture--Agent--Wholesaler--Retailer--Customers.

(2) Components of Physical Distribution:

1. Order Processing: Order processing means the time and steps involved between taking order from customer and delivery of goods as per order.

2. Transportation: Transportation is concerned with the movement of goods. It adds value to the goods by moving them to the place where they are required.

3. Warehousing: Warehousing refers to the act of placement of goods and provide facilities to store them.

4. Inventory: Inventory refers to maintenance of stock of goods. The inventory needs to be maintained so that goods can be supplied whenever demanded.

D. Promotion Mix: Promotion Mix refers to combination of promotional tools used by an organization to achieve its communication objectives.

Elements of Promotion Mix:

1. Advertising 2.Sales Promotion 3.Personal Selling 4.Public relations.

1. Advertising: It is an impersonal form of communication which is paid for by the marketers (sponsors) to promote some goods or services.

Features of Advertising:

i) Paid Form: Advertising is a paid form of communication. That is the sponsor has to bear the cost of communication with the prospects.

ii) Impersonality: There is no face to face contact between customers and advertiser.

iii) Identified Sponsor: Advertisement is given by an identified company or firm or individual.

2. Sales Promotion: Sale promotion refers to short term incentives which are designed to encourage the buyers to make immediate purchase of a product or service. For example offering cash discounts, sales contests, free gift offers, and free samples distribution. Sales promotion techniques are very useful because they bring:

- i) Short and immediate effect on sale.
- ii) Stock clearance is possible with sales promotion.
- iii) Sales promotion techniques induce customers as well as distribution channels.
- iv) Sales promotion techniques help to win over the competitor.

3. Personal Selling: Personal Selling means selling personally. This involves face to face interaction between seller and buyer for the purpose of sale.

Features of Personal Selling:

- i) Personal interaction: In personal selling the buyers and sellers have face to face interaction.
- ii) Two way communications: In personal selling the sellers give information about the product, at the same time the buyers get a chance to clarify his doubts.
- iii) Relationship: When the seller and buyer come together this may improve relation between the customer and seller.

5. Public Relation: Public relation is the action of an organization for promoting goodwill between itself and the society. For example sponsoring sports and cultural events, contributing money and time to certain causes like environment, wildlife, children's rights, education etc.

The companies can use the following tools to improve their relations with the public:

- i) Press Relation: It involves establishing and promoting favorable relationship with press.
- ii) Product Publicity: Public relations help in product publicity, particularly publicity of new products.
- iii) Corporate Communication: In corporate communication emphasis is placed on sharing relevant information with employees and public.

QUESTIONS:

Q1. Which of the following is not a function of marketing? (1)

- (a) Insurance (b) Personal Selling
(b) Advertising (d) Sales Promotion

Ans: (a) Insurance

Q2. 'Fashion Hut' a large retail outlet has offered a stock clearance for a limited Period of one month before the festival of Diwali. For promotion, it is using newspapers, television and radio. Identify the promotional tool being used for it. (1)

- (a) Public Relations (b) Personal Selling
(c) Advertising (d) Branding

Ans: (c) Advertising

Q3. At which level of packaging, the immediate container is referred to? (1)

- (a) Primary Packaging (b) Secondary Packaging
(c) Transportation Packaging (d) None of these.

Ans: (a) Primary Packaging

Q4. The process of given a name or a sign or a symbol etc. to a product is called ----- (1)

- (a)Banding (b) Packaging
(c) Place (d) Promotion

Ans: (a) Branding.

Q5. The physical handling and movement of goods from the place of production to the place of distribution is referred to as ----- which is a very important function of marketing?

- (a) Product (b) Price
(c) Physical Distribution (d) Promotion

Ans: (c) Physical Distribution

Q6. During the earlier days of industrial revolution, the demand for industrial goods started picking up but the numbers of producers were limited. As a result the demand exceeded the supply. Selling was no problem. Anybody who could produce the goods was able to sell. It was believed that profits could be maximized by producing of a large scale, thereby reducing the average cost of production. The marketing philosophy of firms was ----- (1)

- (a) Production Concept (b) Product Concept
(b) Selling Concept (d) Marketing Concept

Ans: (a) Production Concept

Q7. Match the following by choosing the correct option: (1)

Column A	Column B
i) Social Process	(a) Market
ii) Set of potential customers	(b) Marketing
iii) Controllable variables	(c) Functions of Marketing
iv) Marketing	(d) Marketing Mix

(a) (i)-(d);(ii)-(c);(iii)-(a);(iv)-(b) (b) (i)-(b);(ii)-(a);(iii)-(d);(iv)-(c)

(c) (i)-(c);(ii)-(d);(iii)-(a);(iv)-(b) (d) (i)-(d);(ii)-(c);(iii)-(b);(iv)-(a)

Ans. (b) (i)-(b);(ii)-(a);(iii)-(d);(iv)-(c)

Q8. People think that it is the 'Product' only that can be marketed. But something else can also be marketed, e.g. 'Visit Kerala for Health Tourism'. Identify what is being marketed. (1)

Ans: A place is being marketed i.e. persuading people to visit Kerala for health tourism.

Q9. Malaysian budget airline group Sky Europe announced discounted fares, starting as low as Rs.1009 for domestic destinations operated by its Indian Joint Venture carrier and Rs.2009 for international flights operated by other group airlines under limited period offer.

Identify the medium of communication which can be used by the firm to inform a large number of people about the new fares. (1)

Ans. Advertising is the medium of communication which can be used by the firm to inform a large number of people about the new fares.

Q10. Assertion (A): Marketing is merely a post-production activity. (1)

Reason (R): It only includes the activities that are performed after the goods have been sold.

(a) Both the statements (A) and (R) are correct and (R) is the right explanation of (A)

(b) Both the statements (A) and (R) are correct but (R) is not the right explanation of (A)

(c) Statement (A) is correct but (R) is incorrect

(d) Both statements (A) and (R) are incorrect.

Ans: Both statements (A) and (R) are incorrect.

Q11. Every time I travelled, people asked me to bring them chips, khakra and Pickles from all over the country says Anoushka. Finally, she and her colleague, Sumeet, decided to make a business out of it. They launched a facebook page,

asked people what they wanted, and they came up with a list of about 100 places and tied up with two dozen vendors to begin with. They were servicing people from Jaipur who wanted spices from Kerala, people from Panipat who wanted halwa from Jammu and people from Delhi who ordered fresh tea leaves from Darjeeling. Through their business, they wished to bridge the gap between sellers and buyers. The business is now worth millions.

Explain any two important activities that Anoushka and Sumeet will have to be involved in for making the goods available to customers at the right place, in the right quantity and at the right time. (3)

Ans: Anoushka and Suneet need to perform the activities involved in physical distribution of goods:

Two such activities are explained below:

1. Transportation: Transportation is concerned with the movement of goods. It adds value to the goods by moving them to the place where they are required.
2. Warehousing: Warehousing refers to the act of placement of goods and provide facilities to store them. Every marketer needs to take this decision wisely in order to create a balance between the level of customer service and cost of warehousing.

Q12. Suraj is a small entrepreneur involved in the manufacturing of hair wax. He finds that cost of production of 100gm of hair wax is Rs.250. He has decided to keep a margin of 15% as profit. Moreover, he has assessed that there is a free competition in this product segment. (3)

In the context of the above case:

(a) Identify the function of marketing being performed by Suraj.

(b) State briefly the two factors that he is taking into consideration while performing the function as identified in part (a)

Ans: (a) Pricing is the function of marketing being performed by Suraj.

(b) The two factors that he is taking into consideration while performing the pricing function are as follows:

(i) Product Cost: One of the most important factor affecting price of a product or service is its cost. This includes the cost of producing, distributing and selling the product.

(ii) Extent of Competition in the Market: Competitors prices and their anticipated reactions must be considered before fixing the price of a product.

Q 13. Arvind is planning to start a company manufacturing room fresheners. He intends to use natural fruit extracts for adding fragrance to them. He estimates an investment of Rs.20 crores to set up the factory. As it is difficult for him to raise the entire capital alone, he gives a partnership offer to his school friend, Sanjay who is an angel investor. Sanjay, after being convinced about the feasibility of

the project, accept his offer. Sanjay tells Arvind that they should also focus on other important decisions related to the product room fresheners besides deciding about its features, variety and quality. Branding is one of the important decision; (4)

In the context of above case:

(a) Name the other two important decisions related to a product.

(b) Why is branding considered as an important function by the marketers? Give any one reason in support of your answer.

(c) State any four features of a good brand name.

Ans: (a) Labelling and Packaging are the two important decisions related to a product.

(b) Branding is considered to be a very important decision by the marketers because it facilitates product differentiation. Through branding the prospective buyers are able to bring about a distinction between a company product and its substitutes available in the market. This helps the company to obtain a desirable market share

(c) Features of good brand name:

- i) Brand name should be short and simple.
- ii) Brand name should be easy to pronounce.
- iii) Brand name should be suggestive.
- iv) Brand name should be unique and distinctive.

Q 14 'Various tools of communication are used by the marketers to promote their products'. (6)

(a) Why do companies use all tools at the same time?

(b) Name and explain the most commonly used non personal tool of promotion which is paid for by the marketer.

(c) Which tool of promotion will primarily be used for the following?

- (i) To promote or protect a company's image or its individual products.
- (ii) An existing product meant for mass usage by literate people,
- (iii) To introduce a new product to a particular class of people through door- to- door visits.
- (iv) To attract attention of the people by using incentives.

Ans. (a) The companies use all tools at the same time because of the nature of market, nature of product, promotion budget and objectives of promotion being different at different times.

(b) The most commonly used non-personal tool of promotion which is paid for by the marketer is advertising. It is paid and non-personal form having an identified sponsor to promote an idea

(c) The tools of promotion used are:-

- (i) Public Relations (ii) Advertisements
- (iii) Personal selling (iv) Sales Promotion

PRACTICE QUESTIONS:

1. Hena is planning to set up a small manufacturing unit for manufacturing ecofriendly 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. (1)

- (a) Zero level channel (b) One level channel
- (c) Two level channel (d) Three level channel

2. Nayan Medicare Equipment Ltd. manufactures equipment for surgeons having a unique laser technique. The equipment can be used by the surgeons only after proper training. Even their maintenance requires guidance of specialized engineers. Because of this, the equipment is used in a limited number of hospitals. The company wants to increase the sale of the equipment. Suggest the promotion tool to be used by the company giving reason in support of your answer. (1)

3. Statement -I: Transportation helps in creating time utility and warehousing helps in creating place utility.

Statement-II: The process of classification of products into different groups on the basis of their important characteristics is known as standardization.

Choose the correct options 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.

4. The Research and Development department of Healthy Production Ltd. has decided to diversify from manufacturing health drinks to cereals made from millets. They are well aware of the fact that the company will have to communicate to people the benefits of eating millets. For this purpose, they plan to sponsor various events like marathons and encourage people to switch to healthy eating through newsletters.

- (a) Identify and briefly explain the promotional tool being discussed above.
- (b) Also explain any two other promotional tool that can be used by the company, apart from one discussed above. (3)

5. Since childhood Niru and Janak had been watching their grandmother procuring wheat from the market, washing it well, drying it and getting it converted into Atta. They conducted a survey to collect data to identify whether there is demand for readymade Atta and realized that with the growing number of working women, it is the need of the hour to manufacture high quality atta. They named their product 'Srijan' and set up 'Srijan Atta Factory' at Motihari village. To penetrate in the market, they decided to keep the price low. For maintaining smooth flow of their product into the market and avoiding delays in delivery, it was decided to store what at SKM services which had scientific processes and logistics facilitating quick delivery. They also set up online complaint portal to take care of consumer grievances.

By quoting the lines from the above paragraphs, state four marketing functions undertaken by Niru and Janak for successful marketing of 'Srijan' Atta. (4)

6. R&T Reality, the property of development arm of the construction and engineering giant R&T in a recent report to the media shared that it is betting on bigger and better projects providing greater benefits to the customers, lower prices and faster execution to boost its growth. The spokesperson of the company informed the media that besides the innovative features, quality and brand, the fair pricing followed by the company is also a hit with the buyers. He said that the company is also focusing on accurate, speedy and timely delivery. Proper communication with the market was being maintained through advertising. Even dealers were to be offered incentives to boost the sales. The above Para describes the combination of variables used by R&T Reality to prepare its market offering. Identify and explain the variables. (6)

7. 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 customers segments. All these names have great popularity and acceptability in the markets.

As the company policy the products were offered at reasonable and affordable prices for targeting a mass customer base.

During the festive season the company launched a massive promotional campaign to increase its revenue and achieve its communication objectives. The company introduced free gifts for the customers.

Their on ground sales team delivers the product not only to the departmental stores but also to small shops so that all segments of customers can easily get the products. They also provide information and support services to customers to ensure repeat sales.

From the view point of the management function, briefly explain any four activities of marketing which the firm will be involved in, apart from the above mentioned ones its already performing. (6)

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CHAPTER-12

CONSUMER PROTECTION

Consumer Protection: Consumer protection implies safeguard against anti-consumer trade practices of producers and traders. The scope of consumer protection includes the following:

- i) **Physical Protection of Consumers:** To protect the consumers against products that are unsafe for health and hygiene.
- ii) **Protection of Economic Interest:** To protect the consumers against deceptive and other unfair trade practices like price overcharging, misleading advertisements.

Importance of Consumer Protection:

From Consumers point of view:

- i) **Consumer Ignorance:** In the light of widespread ignorance of consumers about their rights and reliefs available to them, it becomes necessary to educate them so as to achieve consumer's awareness.
- ii) **Unrecognised Consumers:** Consumers need to be organized in the form of consumer organizations which would take care of their interest.
- iii) **Widespread exploitation of Consumers:** Consumers might be exploited by unfair trade practices. Therefore they need protection against such malpractices of the sellers.

From the point of view of Business:

- i) **Long term interest of business:** It is in the long term interest of the business to take care of the interest and satisfaction of the customers.
- ii) **Business uses society's resources:** Business organisations earn profits by using resources of the society. So they have the responsibility to supply such goods and services which are in public interest.
- iii) **Social Responsibility:** A business has social responsibility towards various interest groups.
- iv) **Moral Justification:** It is the moral duty of the business to take care of consumer's interest and avoid any form of their exploitation.
- v) **Government Intervention:** A business engaging in any form of exploitative trade practices would invite government intervention.

Consumer Protection Act 2019:

Definition of Consumers: A consumer is defined as a person who buys any good or avails a service for a consideration. It does not include a person who obtains a good for resale or a good or service for commercial service.

Consumer Rights 2019:

- i) Right to Safety: The consumer has the right to be protected against goods and services which are hazardous to life and health.
- ii) Right to be Informed: The consumer has a right to have complete information about a product he intends to buy including its ingredients, date of manufacture, price, quantity etc.
- iii) Right to Choose: The consumers have the freedom to choose from a variety of products at competitive prices.
- iv) Right to be heard: The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or a service.
- v) Right to seek Redressal: The consumer has a right to get relief in case the product or service falls short of his expectations.
- vi) Right to Consumer Education: The consumer has a right to acquire knowledge and to be well informed consumer throughout life.

Consumers Responsibilities:

- i) Be aware about the goods and services available.
- ii) Buy only standardized goods.
- iii) Read labels carefully.
- iv) Be honest in your dealings.
- v) Ensure a fair deal.
- vi) Ask for a cash memo.

Who can file a Complaint under the Consumer Protection 2019:

- i) A consumer or
- ii) Any voluntary consumer association registered under any law for the time being in force or
- iii) The Central Government or any State Government or
- iv) The Central Authority or
- v) One or more consumers ,where there are numerous consumers having the same interest or
- vi) In case of death of a consumer , his legal heir or legal representatives or
- vii) In case of a consumer being a minor his parent or legal guardian.

Against whom a complaint can be filed:

- i) In case of any defective goods supplied, a complaint can be filed against the manufacturer or seller or dealer.
- ii) For any deficient services rendered, a complaint can be filed against the provider of services.

Redressal Machinery under the Consumer Protection Act 2019

Three Tier Redressal Machinery under the Consumer Protection Act 2019

1. **District Commission :** The District Commission consists of a President and two other members, one of whom should be a woman. They are all appointed by the State Government concerned. A complaint can be made to the appropriate District Commission when the value of goods or services in question, along with the compensation claimed does not exceed Rs.1 crore. In case the aggrieved party is not satisfied with the order of the District Commission, he can appeal before the State commission within 45 days of the passing of the order.
2. **State Commission:** Each State Commission consists of a President and not less than two other members, one of whom should be a woman. They are appointed by the State Government concerned. 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 Rs. 1 crore but does not exceed 10 crore. In case the aggrieved party is not satisfied with the with the judgement then they can file an appeal in National Commission within 30 days by depositing 50% of the fine money.
3. **National Commission:** The National Commission consists of a President and at least four other members , one of whom should be a woman. They are appointed by the Central Government. A complaint can be made to the National Commission when the value of goods or services in question along with the compensation claimed exceeds Rs.10 crore. If the aggrieved party is not happy with the jurisdiction of the national commission, then they can appeal against the judgement of this agency in the Supreme Court within 30 days by depositing 50% of the fine money.

Relief/Remedies Available;

- i) To remove the defects in goods or deficiency in service.
- ii) To replace the defective product with a new one free from any defect.
- iii) To refund the price paid for the product or the charges paid for the service.
- iv) To pay a reasonable amount of compensation for any loss or injury suffered by the consumers due to the negligence of the opposite party.

- v) To pay punitive damages in appropriate circumstances.
- vi) To discontinue the unfair/restrictive trade practices and not to repeat it in the future.
- vii) Not to offer hazardous goods from sale.
- viii) To withdraw hazardous goods from sale.
- ix) To cease manufacture of hazardous goods and to desist from offering hazardous services.
- x) To pay any amount (not less than 5% of the value of defective goods or deficient services provided) to be credited to consumer welfare fund or any other organization/person to be utilized in prescribed manner.
- xi) To issue corrective advertisement to neutralize the effect of a misleading advertisement.
- xii) To pay adequate cost to appropriate party.

Role of Consumer Organisations and NGOs

- i) Educating the villagers/general public about consumer rights by organizing training programmes, seminars and workshops.
- ii) Publishing periodicals and other publications to impart knowledge about consumer problems, reliefs available and other matters of interest.
- iii) Carrying out comparative testing of consumer products in accredited laboratories to test relative qualities of competing brands and publishing the test results for the benefit of consumers.
- iv) Encouraging consumers to strongly protest and take action against exploitative and unfair trade practices of sellers.
- v) Providing legal assistance to consumers by way of providing aid, legal advice etc. in seeking legal remedy.
- vi) Filing complaints in consumer court on behalf of consumers.
- vii) Motivating people to ask for quality marks such as ISI mark, AGMARK etc.

QUESTIONS:

1. Which consumer right suggests that a consumer be made aware of his rights and the remedies available? (1)

- (a) Right to be informed (b) Right to consumer education
- (b) Right to be heard (d) Right to seek redressal

Ans: (b) Right to consumer education

2. Your mother purchased a washing machine for Rs.10,000 from an authorized dealer of the manufacturer with an oral guarantee that the machine will be replaced with a new one if any of its parts become defective within 3 months from the date of purchase. The motor of the machine was burnt within 15 days of its purchase. On complaining, the seller refused to replace the machine. Name the redressal agency under the Consumer Protection Act where your mother can file the complaint.

(1)

- (a) District forum (b) State Commission
(c) National Commission (d) None of these

Ans: (d) National Commission

3. Government is actively advertising for 'Jago Grahak Jago'. Which consumer rights is highlighted in the above statement? (1)

- (a) Right to be informed (b) Right to consumer education
(c) Right to be heard (d) Right to seek redressal

Ans: (b) Right to consumer education

4. Each National Commission shall consist of ----- (1)

- (a) a president, and minimum four members (including one woman)
(b) a president, and minimum two members (including one woman)
(c) a president, and minimum three members (including one woman)
(d) None of the above.

Ans: (a) a president, and minimum four members (including one woman)

5. Any person aggrieved by an order made by the State commission may prefer an appeal against such order to the ----- within a period of ----- (1)

- (a) District Forum, 30 days (b) State Commission, 45 days.
(c) National Commission, 30 days (d) Supreme Court of India, 30 days

Ans: (c) National Commission, 30 days

6. The marketers should offer a wide variety of products in terms of quality, brand, prices, etc. and allow the consumer to make a choice from amongst these. The consumer right highlighted above is-----

- (a) Right to be heard (b) Right to Choose
(c) Right to consumer education (d) Right to seek redressal.

Ans: (b) Right to Choose

7. Match the following by choosing the correct option: (1)

Column A	Column B
v) Consumers gets a relief	(e) Right to information
vi) Offering a wide variety of goods	(f) Right to be heard
vii) Providing details about the product.	(g) Right to be assured
viii) Providing grievance cells	(h) Right to seek redressal

(b) (i)-(c);(ii)-(d);(iii)-(a);(iv)-(b) (b) (i)-(b);(ii)-(a);(iii)-(d);(iv)-(c)

(c) (i)-(d);(ii)-(c);(iii)-(a);(iv)-(b) (d) (i)-(d);(ii)-(c);(iii)-(a);(iv)-(b)

Ans. (c) (i)-(d);(ii)-(c); (iii)-(a);(iv)-(b)

8. A consumer does not include a person who obtains goods or avails services for re-sale or any commercial purpose. (True/False) (1)

Ans: True.

9. Which of the following statements is not true with regard to the District Commission? (1)

(a) No further appeal can be made against the order passed by District Commission

(b) The members are appointed by the District Government.

(c) A complaint can be made to the appropriate District Forum when the value of the goods or services in question, along with the compensation claimed does not exceed Rs.10lakhs.

(d) All of the above.

Ans. All of the above

10. Explain any three points of importance of consumer protection from the point of view of business. (3)

Ans:

From the point of view of Business:

- Long term interest of business: It is in the long term interest of the business to take care of the interest and satisfaction of the customers.
- Business uses society's resources: Business organizations earn profits by using resources of the society. So they have the responsibility to supply such goods and services which are in public interest.
- Social Responsibility: A business has social responsibility towards various interest groups.

11. Aryan went to purchase a pack of chocolate for his son from a shop in the nearby market. Despite his preference to buy a pack of particular brand the shopkeeper forced him to buy the pack of chocolate of another brand by giving some odd justifications. After coming back home, Aryan was feeling very dissatisfied. (4)

(a) Identify and explain the right of the consumers being violated in the above mentioned case.

(b) Briefly explain any two points highlighting the importance of consumer protection from the consumer's point of view.

Ans:

(a) The Right to choose .The consumers has the freedom to choose from a variety of products at competitive prices.

(b) Importance of Consumer Protection:

From Consumers point of view:

(a) Consumer Ignorance: In the light of widespread ignorance of consumers about their rights and reliefs available to them, it becomes necessary to educate them so as to achieve consumer's awareness.

(b) Unrecognised Consumers: Consumers need to be organized in the form of consumer organisations which would take care of their interest.

12. How are consumer grievances redressed by the three tier machinery under the Consumer Protection Act 2019? Explain. (6)

Ans: Three Tier Redressal Machinery under the Consumer Protection Act 2019

1. District Commission: The District Commission consists of a President and two other members, one of whom should be a woman. They are all appointed by the State Government concerned. A complaint can be made to the appropriate District Commission when the value of goods or services in question, along with the compensation claimed does not exceed Rs.1 crore. In case the aggrieved party is not satisfied with the order of the District Commission, he can appeal before the State commission within 45 days of the passing of the order.
2. State Commission: Each State Commission consists of a President and not less than two other members, one of whom should be a woman. They are appointed by the State Government concerned. 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 Rs. 1 crore but does not exceed 10 crore. In case the aggrieved party is not satisfied with the judgement then they can file an appeal in National Commission within 30 days.

3. National Commission: The National Commission consists of a President and at least four other members, one of whom should be a woman. They are appointed by the Central Government. A complaint can be made to the National Commission when the value of goods or services in question along with the compensation claimed exceeds Rs.10 crore. If the aggrieved party is not happy with the jurisdiction of the national commission, then they can appeal against the judgement of this agency in the Supreme Court within 30 days.
13. Cutie Beauty Ltd. is a beauty brand famous for its organic beauty products for men and women. The company uses organic plant extract to produce its product which is non-allergic and beneficial for every type of skin. The product is made available in different packs and sizes. The label of the product contains full information about the ingredients, batch number, date of manufacture and expiry date etc. The company has set up to its customer care cell to handle all sorts of queries of its customers. List and explain the consumer rights taken care of by the company by quoting lines from the passage. (6)

Ans: The following consumer rights are taken care of by the company:

- a. Right to Safety: 'The product are non-allergic and beneficial for every type of skin'. The consumer has the right to be protected against goods and services which are hazardous to life and health.
- b. Right to Choose: The product is made available in different packs and sizes. The consumers has the freedom to choose from a variety of products at competitive prices.
- c. Right to be informed: The label of the product contain full information. The consumer has a right to have complete information about a product he intends to buy including its ingredients, date of manufacture, price, quantity etc.
- d. Right to be heard: The Company has set up its customer care cell to handle all sort of queries of its customer. The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a goods or a service.

14. Aman a degree holder in Entrepreneurship came to know about Piplantri village located in Rajasthan, where in 2006 an initiative was started in which 111 trees are planted every time a girl child is born.

To keep termites away from the trees the villagers have planted 2.5 million Aloe Vera plants around the trees. This has turned the village into an oasis, as the planting of trees led to higher water levels.

Aman decided to visit the village to start a business unit, for the processing and marketing of Aloe Vera into juices, gels and other products.

However on visiting the village Aman found that the villagers were suffering exploitation at the hands of local merchants who were engaged in unscrupulous, exploitative trade practices like hoarding and black marketing of food products and also selling unsafe and adulterated products to the villagers.

After looking at their plight, instead of a business organization, he decided to set up an organization for the protection and promotion of the consumer interest of the villagers.

State the functions that the organisations established by Aman will be performing. (6)

Ans: Aman has set up an NGO or consumer organization in the village for the protection and promotion of the consumer interests.

The key functions highlighting the role of a consumer association are listed below:

- i) Educating the villagers/general public about consumer rights by organizing training programmes, seminars and workshops.
- ii) Publishing periodicals and other publications to impart knowledge about consumer problems, reliefs available and other matters of interest.
- iii) Carrying out comparative testing of consumer products in accredited laboratories to test relative qualities of competing brands and publishing the test results for the benefit of consumers.
- iv) Encouraging consumers to strongly protest and take action against exploitative and unfair trade practices of sellers.
- v) Providing legal assistance to consumers by way of providing aid, legal advice etc. in seeking legal remedy.
- vi) Filing complaints in consumer court on behalf of consumers.

15. Indian Youth Organisation (IYO) organized 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 IYO members decided to clean the premises. During their cleanliness drive, they realized 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. IYO, therefore decided to provide ethical, safe and odourless 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 happily agreed and the pest control was carried out. It worked for a fortnight but to their dismay the effect started wearing off. IYO contacted the pest control company which kept postponing their visit. After waiting for a month, IYO filed a case in the consumer court.

The consumer court was satisfied about genuineness of the complaint and issued necessary directions to the pest control company.

State the six directions that might have been issued by the court.

Ans: (6)

Relief/Remedies Available;

- i) To remove the defects in goods or deficiency in service.
- ii) To refund the price paid for the product or the charges paid for the service.
- iii) To pay a reasonable amount of compensation for any loss or injury suffered by the consumers due to the negligence of the opposite party.
- iv) To discontinue the unfair/restrictive trade practices and not to repeat it in the future
- v) To pay any amount (not less than 5% of the value of defective goods or deficient services provided) to be credited to consumer welfare fund or any other organization/person to be utilized in prescribed manner.
- vi) To issue corrective advertisement to neutralize the effect of a misleading advertisement.

PRACTICE QUESTIONS

1. Asserting oneself to ensure that one gets a fair deal, is the right of a consumer (True/False) (1)
2. Sheela went to a free eye camp and got her eyes operated for cataract. The

surgery was not done properly, due to which she lost her vision.

Where can she file a complaint under Consumer Protection Act? (1)

- (a) District Commission (b) State Commission
- (c) National Commission (d) Right to consumer education

3. Kamal, a marketing manager is a patient of diabetes for which he takes medicines regularly. One day on his tour to Patna, he met with an accident and was hospitalized. Due to doctors negligence a delicate nerve of his right leg was cut rendering him crippled throughout his life.

Identify the consumer right that has been violated by the doctors under the Consumer Protection Act, 2019 in the above situation. (1)

4. Harsh asked for a bottle of mineral water from a shopkeeper. The maximum retail price printed on the bottle was Rs.12 only whereas the shopkeeper was charging Rs.35. In spite of many arguments, the shopkeeper was not ready to sell the bottle for less than Rs.35. Harsh was in need of it and had no option except to buy. As an aware consumer, name and explain the right which Harsh can exercise. (1)

5. Assertion (A) : Consumer protection has a wide scope

Reason (R): Consumer Protection relates to educating consumers about their rights and responsibilities.

- (a) Both the statements(A) and (R) are correct and (R) is the right explanation of (A)
- (b) Both the statements(A) and (R) are correct but (R) is not the right explanation of (A)
- (c) Statement (A) is correct but statement (R) is incorrect.
- (d) Both statements (A) and (R) are incorrect.

6. Explain any three points of importance of consumer protection from the point of view of business. (3)

7. Sudhanshu saw a weight reducing electric machine advertisement on the television. He purchased it and decided to use it. The moment he plugged the machine he got an electric shock. As a result he died instantly. His relatives suggested Vedant, Sudhanshu's son to file a case claiming compensation of Rs. 50 lakhs.

- (a) Who can file a case against the company?
- (b) Where should the complaint be filed and why? (3)

8. Describe the following rights of consumers as per Consumer Protection Act 2019. (4)

(a) Right to be Heard (b) Right to Safety

9. Prabhakar purchased an ISI mark electric iron from 'Bharat Electrical'. While using he found that it was not working properly. He approached the seller and complained for the same. The seller satisfies Prabhakar by saying that he will ask the manufacturer to replace this iron. The manufacturer refused to replace and Bharat Electricals decided to file a complaint in the consumer court.

(a) Can 'Bharat Electricals' file a complaint in the consumer court against the manufacturer of the electric iron? Give reason in support of your answer.

(b) Who can file a complaint as per the provisions of the Consumer Protection Act 2019? (4)

10. State any two reliefs that the consumers court can grant to consumers in case of genuine complaints in each of the following situations: (6)

(i) Divya was charged more than the printed maximum retail price (MRP) for a bottle of water.

(ii) Clara was sold a car with a defective engine.

(iii) Rahul suffered injury while using newly bought defective electric heater

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	<p style="text-align: center;">CLASS XII</p> <p style="text-align: center;">BUSINESS</p> <p style="text-align: center;">STUDIES</p> <p style="text-align: center;">SAMPLE QUESTION PAPER 2022-23</p> <p>MM – 80</p> <p style="text-align: right;">TIME: 3 HOURS</p>	
	<p>General instructions :</p> <p>1 This question paper contains 34 questions.</p> <p>2. Marks are indicated against each question.</p> <p>3. Answers should be brief and to the point.</p> <p>4. Answers to the questions carrying 3 marks may be from 50 to 75 words.</p> <p>5. Answers to the questions carrying 4 marks may be about 150 words.</p> <p>6. Answers to the questions carrying 6 marks may be about 200 words.</p> <p>7. Attempt all parts of the questions together.</p>	
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> <p>a) Identification and division of work b). Departmentalisation c). Assignment of Duties d). Establishing Reporting Relationships</p>	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> <p>a). Uncertainty b). Complexity c). Inter-relatedness d). Relativity</p>	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> <p>a). It may lead to increase in cost b). Managers may gain power and assert independence and ignore organization interests. c). It ensures that different functions get due attention. d). Heads do not get training for top management positions.</p>	1

4.	<div data-bbox="490 224 1146 751" data-label="Image"> </div> <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> <ol style="list-style-type: none"> Technological and social. Technological and political Political and economic Social and legal 	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> <ol style="list-style-type: none"> Management helps in achieving group goals. Management creates a dynamic organization Management increases efficiency Management helps in the development of society. 	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> <ol style="list-style-type: none"> Internet connectivity is a prerequisite More people will be introduced into the formal economy. Financial saving will increase Tax evasion will be reduced 	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> <ol style="list-style-type: none"> It helps in improving performance It helps in assisting in planning and policy formulation It helps in tapping useful resources It enables a firm to identify opportunities and get first mover advantage. 	1
8.	<p>Alo 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> <ol style="list-style-type: none"> Efficiency Social Profit Survival 	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> <ol style="list-style-type: none"> It is the first function of management It is the Last function of management It is both forward looking and backward looking. It is required only in business organizations. 	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> <ol style="list-style-type: none"> Staffing Coordination Controlling Organizing 	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> <ol style="list-style-type: none"> Organization structure 	1

	exchanges	
17.	<p>One of the following is considered to be an extension of the marketing concept, which a part from customer satisfaction pays attention to ethical and ecological aspects of marketing. Identify the concept.</p> <ul style="list-style-type: none"> a. Selling concept b. Product concept c. Production concept d. Societal Marketing concept 	
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> <ul style="list-style-type: none"> a. Utility and demand of the product b. The marketing manager of the firm c. The Government d. The competitors of the firm 	
19.	<p>Which of the following statements about Advertising is incorrect?</p> <ul style="list-style-type: none"> a. It is a personal form of communication b. It is a paid form of communication c. It is a mass selling technique. d. It is inflexible as the message can't be adjusted to the needs of the buyer. 	
20.	<p>Arrange the steps involved in trading procedure at the stock exchange in correct sequence :</p> <ul style="list-style-type: none"> i) Settlement of order ii) Opening of Demat Account iii) Placing of order iv) Execution of order <p> a) (ii) ; (iv);(iii);(i) b) (ii) ;(i) ;(iii);(ii) 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>	<p>3</p> <p>3</p>
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?</p> <p>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"> Method study Functional foremanship Standardization Differential piece wage system <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"> Unity of command Equity Remuneration Initiative 	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

MARKING SCHEME BUSINESS STUDIES

2022-23

	Answers	Marks
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 ofcontrolling 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 inherentin 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)

	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> <ol style="list-style-type: none"> 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. Aptitude test is a measure of an individual's potential for learning new skills and indicates the person's capacity to develop. Personality tests provide clues to a person's emotions, her reactions, maturity, and value system and probe the overall personality. Trade tests measure the existing skills of the individual, level of knowledge and proficiency in the area of professions or technical training. Interest tests are used to know the pattern of interests or involvement of a person. 	<p>(1X4=4)</p> <p>1</p> <p>(1X3=3)</p>
26	<p>Semantic barriers (Any four):</p> <ol style="list-style-type: none"> 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. A word may have different meanings and the receiver has to perceive one such meaning for the word used by the communicator. If the translator is not proficient with both the languages, mistakes may creep in causing different meanings to communication. Some communications may have certain assumptions which are subject to different interpretations. 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. 	<p>(1x4=4)</p> <p>1 mark for each correct statement</p>

	<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"> 1. If organizational policy either explicit or implicit is not supportive to free flow of communication it may hamper effectiveness of communications. 2. Rigid rules and regulations, cumbersome procedures may be a hurdle to communication, as communications through prescribed channels may result in delays. 3. Status of superior may create psychological distance between him and his subordinates. 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. 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. 	<p>(1X4=4)</p> <p>1 mark for each correct statement</p>
27	<p>Incentives being given by the organization to the employees are:</p> <ol style="list-style-type: none"> 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. 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. 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. 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. 	<p>(1X4=4)</p> <p>½ mark for the heading and ½ mark for the explanation</p>
28	<p>Following are the factors affecting capital structure of a company : (Any four)</p> <ol style="list-style-type: none"> 1. Size of the projected Cash flows must be considered before borrowing. 2. Interest Coverage Ratio refers to the number of times earnings before interest and taxes of a company covers the interest obligation. 3. Debt Service Coverage Ratio takes care of the deficiencies referred to 	<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"> More debt can be used if debt can be raised at a lower rate A higher Tax Rate makes debt relatively cheaper and increases its attraction vis-a-vis equity. Process of raising resources also involves some cost which may affect the choice between debt and equity and hence capital structure. If a firm's business risk is lower, its capacity to use debt is higher and vice versa. To maintain flexibility the firm must maintain some borrowing power to take care of unforeseen circumstances. Capital Structure of other companies is a useful guideline in the capital structure planning. Stock Market Conditions often affect the choice between debt and equity. Every company operates within a regulatory framework provided by the law. 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. If the ROI of the company is higher, it can choose to use trading on equity to increase its EPS. When a company increases debt, the financial risk faced by the equity shareholders increases consequently their desired rate of return may increase. <p style="text-align: center;">OR</p> <p>Factors affecting financing decision: (Any four)</p> <ol style="list-style-type: none"> A prudent financial manager would normally opt for a source which is the cheapest. The risk associated with each of the sources is different. Higher the floatation cost, less attractive the source. A stronger cash flow position may make debt financing more viable than funding through equity. If a business has high fixed operating costs, it must reduce fixed financing costs. Issues of more equity may lead to dilution of management's control over the business. Health of the capital market may also affect the choice of source of funds. 	
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 x 7/100 = ₹. 3,50,0000</p> <p>Let the Earning before tax (EBT) = x EBT - Tax = EAT</p> <p>X - 0.30 x = 24,50,000 0.70 x = 24,50,000 x = 24,50,000 / 0.70 x = 35,00,000</p> <p>Earning before tax = ₹. 35,00,000</p> <p>EBIT = Earning before tax + Interest = 35,00,000 + 3,50,000 = ₹. 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%) > 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)

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>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"> 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. 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. 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. 4. "This makes it possible to evaluate performance at each level and each department can be individually held accountable for their results." 	<p>(11/2X4=6)</p> <p>(½ mark for quoting+½ mark for identification+ ½mark 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"> 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. 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. 3. Standardization: Standardization refers to producing goods of predetermined specifications which help in achieving uniformity and consistency in the output 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. 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. 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. 	<p>(1½ X 4 =6)</p> <p>(½ mark for heading and 1 mark for the explanation)</p>