

DIRECTORATE OF EDUCATION
GNCT of Delhi, Delhi Government

SUPPORT MATERIAL
(2020-2021)

Class : XII

BUSINESS STUDIES

Under the Guidance of

Ms. Manisha Saxena
Secretary (Education)

Mr. Binay Bhushan
Director (Education)

Dr. Saroj Bala Sain
Addl. DE (School & Exam.)

Coordinators

Mrs. Mukta Soni
DDE (Exam)

Mr. Raj Kumar
OSD (Exam)

Mr. Krishan Kumar
OSD (Exam)

Production Team

Anil Kumar Sharma

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**MANISHA SAXENA
IAS**



सचिव (शिक्षा)
राष्ट्रीय राजधानी क्षेत्र
दिल्ली सरकार
पुराना सचिवालय, दिल्ली-110054
दूरभाष : 23890187 टेलीफैक्स : 23890119

Secretary (Education)
Government of National Capital Territory of Delhi
Old Secretariat, Delhi-110054
Phone : 23890187 Telefax : 23890119
e-mail : secyedu@nic.in

MESSAGE

The importance of adequate practice during examinations can never be overemphasized. I am happy that support material for classes IX to XII has been developed by the Examination Branch of Directorate of Education. This material is the result of immense hard work, co-ordination and cooperation of teachers and group leaders of various schools. The purpose of the support material is to impart ample practice to the students for preparation of examinations. It will enable the students to think analytically & rationally, and test their own capabilities and level of preparation.

The material is based on latest syllabus prepared by the NCERT and adopted by the CBSE for the academic session 2020-21 and covers different levels of difficulty. I expect that Heads of Schools and Teachers will enable and motivate students to utilize this material during zero periods, extra classes and regular classes best to their advantage.

I would like to compliment the team of Examination Branch for their diligent efforts of which made it possible to accomplish this work in time. I also take this opportunity to convey my best wishes to all the students for success in their endeavours.

(Manisha Saxena)

BINAY BHUSHAN, IAS



Director
Education & Sports
Govt. of NCT of Delhi
Old Secretariat, Delhi- 110054
Tel.: 23890172, Fax : 23890355
E-mail : diredu@nic.in
Website : www.edudel.nic.in

D.O. No.

Date :

Dear Students,

Directorate of Education is committed to providing qualitative and best education to all its students. The Directorate is continuously engaged in the endeavor to make available the best study material for uplifting the standard of its students and schools.

Every year, the expert faculty of Directorate reviews and updates Support Material. The expert faculty of different subjects incorporates the changes in the material as per the latest amendments made by CBSE to make its students familiar with new approaches and methods so that students do well in the examination.

The book in your hand is the outcome of continuous and consistent efforts of senior teachers of the Directorate. They have prepared and developed this material especially for you. A huge amount of money and time has been spent on it in order to make you updated for annual examination.

Last, but not the least, this is the perfect time for you to build the foundation of your future. I have full faith in you and the capabilities of your teachers. Please make the fullest and best use of this Support Material.


BINAY BHUSHAN
DIRECTOR (EDUCATION)

Dr. (Mrs.) Saroj Bala Sain

Addl. Director of Education
(School / Exam / EVGB/IEB/ VOC.)



सत्यमेव जयते

Govt. of NCT of Delhi
Directorate of Education
Old Secretariat, Delhi-110054
Tel.: 23890023, 23890093

D.O. No. PA/Addl.DE(sch)/86

Date : 03-10-2019

I am very much pleased to forward the Support Material for classes IX to XII. Every year, the Support Material of most of the subjects is updated/revised as per the most recent changes made by CBSE. The team of subject experts, officers of Exam Branch, members of Core Academic Unit and teachers from various schools of Directorate has made it possible to make available unsurpassed material to students.

Consistence use of Support Material by the students and teachers will make the year long journey seamless and enjoyable. The main purpose to provide the Support Material for the students of government schools of Directorate is not only to help them to avoid purchasing of expensive material available in the market but also to keep them updated and well prepared for exam. The Support Material has always been a ready to use material, which is matchless and most appropriate.

I would like to congratulate all the Team Members for their tireless, unremitting and valuable contributions and wish all the best to teachers and students.

(Dr. Saroj Bala Sain)
Addl.DE (School/Exam)

DIRECTORATE OF EDUCATION
Govt. of NCT, Delhi

SUPPORT MATERIAL
(2020-2021)

BUSINESS STUDIES
Class : XII
(English Medium)

NOT FOR SALE

PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS

LIST OF MEMBERS WHO REVISED THE SUPPORT MATERIAL FOR BUSINESS STUDIES OF CLASS-XII 2020-21

- | | | |
|----|---|--|
| 1. | Ms. Poonam Khanna
Vice Principal
(Team Leader) | GGSS, Azadpur Village,
Delhi |
| 2. | Mr. Vinod Kumar
(Lecturer Commerce) | RPVV Lajpat Nagar
New Delhi-110024 |
| 3. | Ms. Rajinder Kaur
(Lecturer Commerce) | SKV. GTB Nagar, Delhi |
| 4. | Ms. Reena
(Lecturer Commerce) | G.G.SSS Libaspur, Delhi |
| 5. | Ms. Sudha Bajaj
(Lecturer Commerce) | S.B.V. Ashok Nagar
New Delhi-110027 |

भारत का संविधान

भाग 4क

नागरिकों के मूल कर्तव्य

अनुच्छेद 51क

मूल कर्तव्य — भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह —

1. संविधान का पालन करे और उसके आदर्शों, संस्थाओं, राष्ट्र ध्वज और राष्ट्रगान का आदर करें।
2. स्वतंत्रता के लिए हमारे राष्ट्रीय आंदोलन को प्रेरित करने वाले उच्च आदर्शों को हृदय में संजोए रखे और उनका पालन करे।
3. भारत की प्रभुता, एकता और अखंडता की रक्षा करे और उसे अक्षुण्ण रखे।
4. देश की रक्षा करे।
5. भारत के सभी लोगों में समरसता और समान भ्रातृत्व की भावना का निर्माण करे।
6. हमारी सामाजिक संस्कृति की गौरवशाली परंपरा का महत्त्व समझे और उसका निर्माण करे।
7. प्राकृतिक पर्यावरण की रक्षा और उसका संवर्धन करे।
8. वैज्ञानिक दृष्टिकोण और ज्ञानार्जन की भावना का विकास करे।
9. सार्वजनिक संपत्ति को सुरक्षित रखे।
10. व्यक्तिगत एवं सामूहिक गतिविधियों के सभी क्षेत्रों में उत्कर्ष की ओर बढ़ने का सतत प्रयास करे।
11. माता—पिता या संरक्षक द्वारा 6 से 14 वर्ष के बच्चों हेतु प्राथमिक शिक्षा प्रदान करना (86वां संशोधन)।

CONSTITUTION OF INDIA

Part IV A (Article 51 A)

Fundamental Duties

Fundamental Duties : It shall be the duty of every citizen of India —

1. to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
2. to cherish and follow the noble ideals which inspired our national struggle for freedom;
3. to uphold and protect the sovereignty, unity and integrity of India;
4. to defend the country and render national service when called upon to do so;
5. to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
6. to value and preserve the rich heritage of our composite culture;
7. to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures.
8. to develop the scientific temper, humanism and the spirit of inquiry and reform;
9. to safeguard public property and to adjure violence;
10. to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement.
11. who is a parent or guardian to provide opportunities for education to his child or, as the case may be, ward between the age of six and fourteen years.

भारत का संविधान

उद्देशिका

हम, भारत के लोग, भारत को एक (सम्पूर्ण प्रभुत्व—सम्पन्न समाजवादी पंथनिरपेक्ष लोकतंत्रात्मक गणराज्य) बनाने के लिए, तथा उसके समस्त नागरिकों को :

सामाजिक, आर्थिक और राजनैतिक न्याय,

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की स्वतंत्रता,

प्रतिष्ठा और अवसर की समता

प्राप्त करने के लिए,

तथा उन सब में,

व्यक्ति की गरिमा और (राष्ट्र की एकता

और अखंडता) सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

हम दृढ़संकल्प होकर इस संविधान को आत्मार्पित करते हैं।

THE CONSTITUTION OF INDIA

PREAMBLE

WE, THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a **(SOVEREIGN SOCIALIST SECULAR DEMOCRATIC REPUBLIC)** and to secure to all its citizens :

JUSTICE, social, economic and political,

LIBERTY of thought, expression, belief, faith and worship,

EQUALITY of status and of opportunity; and to promote among them all

FRATERNITY assuring the dignity of the individual and the **(unity an integrity of the Nation)**;

WE DO HEREBY GIVE TO OURSELVES THIS CONSTITUTION.

BUSINESS STUDIES (Code No. 054)

Rationale

The courses in Business Studies and Accountancy are introduced at + 2 stage of Senior Secondary Education as formal commerce education is provided after first ten years of schooling. Therefore, it becomes necessary that instructions in these subjects are given in such a manner that students have a good understanding of the principles and practices bearing in business (trade and industry) as well as their relationship with the society.

Business is a dynamic process that brings together technology, natural resources and human initiative in a constantly changing global environment. To understand the framework in which a business operates, a detailed study of the organisation and management of business processes and its interaction with the environment is required. Globalisation has changed the way organizations transact their business.

Information Technology is becoming a part of business operations in more and more organisations. Computerised systems are fast replacing other systems. E-business and other related concepts are picking up fast which need to be emphasized in the curriculum.

The course in Business Studies prepares students to analyse, manage, evaluate and respond to changes which affect business. It provides a way of looking at and interacting with the business environment. It recognizes the fact that business influences and is influenced by social, political, legal and economic forces.

It allows students to appreciate that business is an integral component of society and develops an understanding of many social and ethical issues.

Therefore, to acquire basic knowledge of the business world, a course in Business Studies would be useful. It also informs students of a range of study and work options and bridges the gap between school and work.

Objectives:

- To inculcate business attitude and develop skills among students to pursue higher education, world of work including self employment.
- To develop students with an understanding of the processes of business and its environment;
- To acquaint students with the dynamic nature and inter-dependent aspects of business;
- To develop an interest in the theory and practice of business, trade and industry;
- To familiarize students with theoretical foundations of the process of organizing and managing the operations of a business firm;
- To help students appreciate the economic and social significance of business activity and the social cost and benefits arising there from;
- To acquaint students with the practice of managing the operations and resources of business;
- To enable students to act more effectively and responsibly as consumers, employers, employees and citizens;

Business Studies
CLASS–XII (2020-21)

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 and 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.
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Unit 2: Principles of Management

Principles of Management- concept and significance	• Understand the concept of principles of management. • Explain the significance of management principles.
Fayol's principles of management	• Discuss the principles of management developed by Fayol.
Taylor's Scientific management- principles and techniques	• Explain the principles and techniques of 'Scientific Management'. • Compare the contributions of Fayol and Taylor.

Unit 3: Business Environment

Business Environment- concept and importance	• Understand the concept of 'Business Environment'. • Describe the importance of business environment
Dimensions of Business Environment- Economic, Social, Technological, Political and Legal	• Describe the various dimensions of 'Business Environment'. • Understand the concept of demonetization
Demonetization - concept and features	
Impact of Government policy changes on business with special reference to liberalization, privatization and globalization in India	• Examine the impact of government policy changes on business in India with reference to liberalisation, privatization and globalisation since 1991. • Discuss the managerial response to changes in business environment.

Unit 4: Planning

Planning Concept, importance and limitation	• Understand the concept of planning. • Describe the importance of planning. • Understand the limitations of planning.
Planning process	• 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 and standing plans • Describe objectives, policies,

	strategy, procedure, method, rule, budget and programme as types of plans.
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Unit 5: Organising

Concept and importance	<ul style="list-style-type: none"> Understand the concept of organizing 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 organizing
Structure of organisation- functional and divisional concept. Formal and informal organisation- concept	<ul style="list-style-type: none"> Describe functional and divisional structures of organisation. Explain the advantages, disadvantages and suitability of functional and divisional structure. Understand the concept of formal and informal organisation. Discuss the advantages, disadvantages of formal and informal organisation.
Delegation: concept, elements and 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 and 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 and 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 and 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 and 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 requirements of fixed and working capital.

Unit 10: Financial Markets

Financial Markets: Concept, Functions and types	<ul style="list-style-type: none">• Understand the concept of financial market.• Explain the functions of financial market.• Understand capital market and money market as types of financial markets.
Money market and its instruments	<ul style="list-style-type: none">• Understand the concept of money

	<p>market.</p> <ul style="list-style-type: none"> Describe the various money market instruments.
Capital market and its types (primary and secondary), methods of floatation in the primary market	<ul style="list-style-type: none"> Discuss the concept of capital market. Explain primary and secondary markets as types of capital market. Differentiate between capital market and money market. Discuss the methods of floating new issues in the primary market. Distinguish between primary and 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.

	<ul style="list-style-type: none"> 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, 1986
Consumer Protection Act 1986: 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 1986. 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 1986. Examine the remedies available to the consumer under Consumer protection Act 1986.
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 (2020-21)
March 2020 Examination

Marks: 80

Duration: 3 hrs.

SN	Typology of Questions	Objective Type/ MCQ 1 Mark	Short Answer I 3 Marks	Short Answer II 4 Marks	Long Answer I 5 Marks	Long Answer II 6 Marks	Marks
1	Remembering: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers.	5	1	1	1	1	23
2	Understanding: Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	5	2	1	-	1	21
3	Applying: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	5	1	-	1	1	19
4	Analysing and Evaluating: 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. Creating: Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	5	1	1	1	-	17
Total		20x1=20	5x3=15	3x4=12	3x5=15	3x6=18	80 (34)

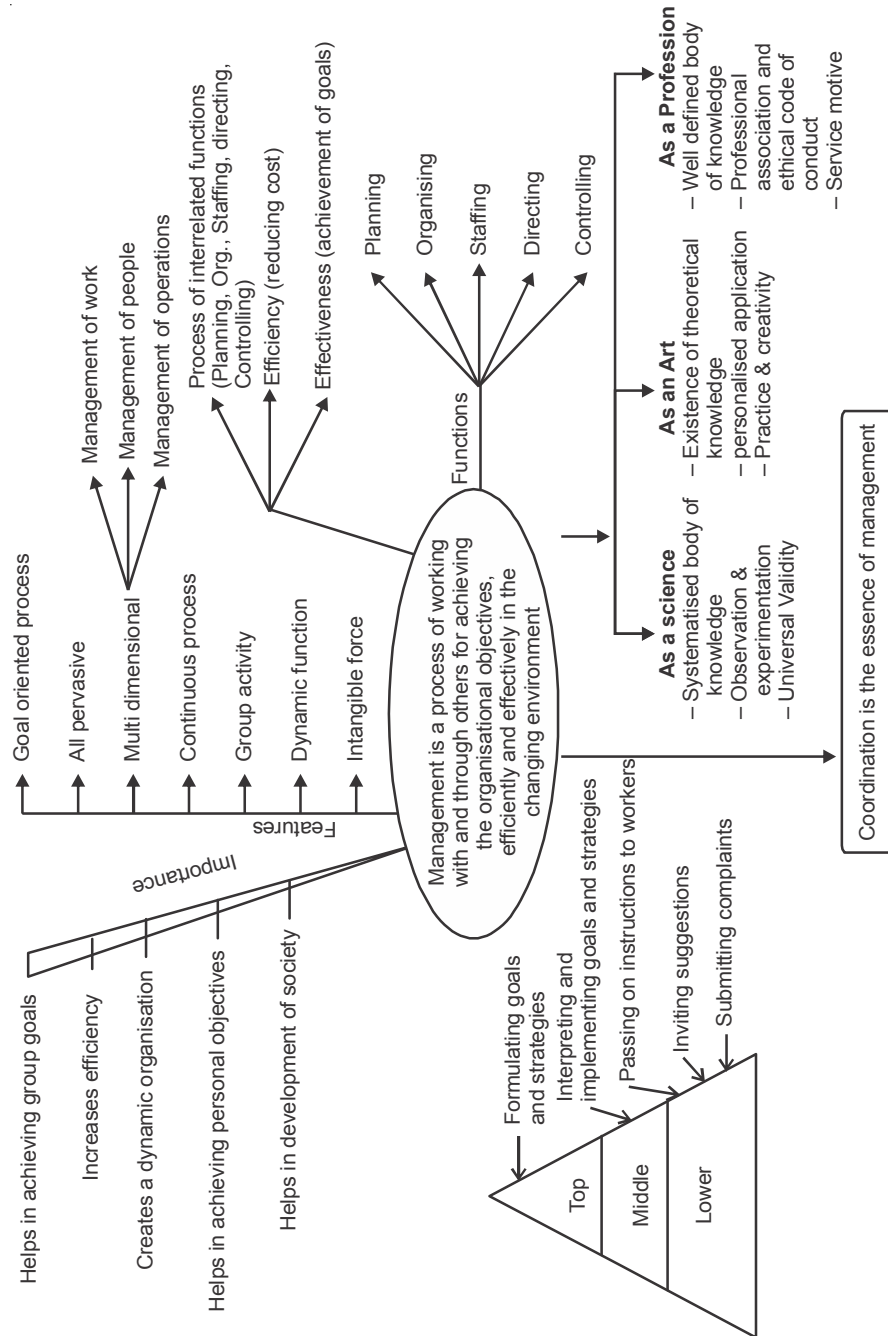
There will be **Internal Choice** in questions of 3 marks (1 choice), 4 marks (1 choice), 5 marks (2 choices) and 6 marks (2 choices). In all, total 6 internal choices.

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CHAPTER 1

NATURE AND SIGNIFICANCE 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.

Basis of Difference	Effectiveness	Efficiency
1. Meaning	It refers to completing the job on time, no matter whatever the cost.	It refers to completing the job in the cost-effective manner.
2. Objective	To achieve end result on time.	To conduct cost-benefit analysis.
3. Main Consideration	Time	Cost

Q.1 Rama Clothes Ltd.'s target is to produce 20,000 shirts per month at a cost of Rs.500/- per shirt. The production manager achieved this target at a cost of Rs.450/- per shirt. Do you think the manager is effective and efficient?

Ans. Yes, he completed the work on time and at a lower cost.

Characteristics of Management:

- 1. Goal oriented Process:** It is a goal oriented process, which is undertaken to achieve already specified and desired objectives by proper utilization of available resources.
- 2. Pervasive:** Management is universal in nature. It is used in all types of organisations whether economic, social or political irrespective of its size, nature and location and at every level.

3. **Multidimensional:** It is multidimensional as it involves management of **work, people** and **operations**. Every organisation is established for doing some work like school provides education, a factory produces goods etc. The management has to ensure the participation, of its people in the realisation of the organisation goal. Also management needs to conduct the various operations such as production, sale, purchase etc.
4. **Continuous:** Management is not a process which can be performed once and for all, but it is a continuous process. Functions of management like planning, organising, staffing, directing and controlling continuously need to be done.
5. **Group Activity:** It is a group activity since it involves managing and coordinating activities of different people as a team to attain the desired objectives.
6. **Dynamic function:** It is a dynamic function since it has to adapt according to need, time and situation of the changing environment in order to be successful, an organisation must change itself and its goals. For example, McDonalds made major changes in its 'Menu' to survive in the Indian market.
7. **Intangible Force:** Management is such a force that cannot be seen, only its presence can be felt. When the goals of an organisation are being realised in accordance with its plans, we can say that the management of the organisation is good.

Q.2 An educational institution as well as a business organization both need to be managed. Which characteristic of management is highlighted here? (Pervasive)

Q.3 "In an organization, the employees are happy and satisfied, there is no chaos and the effect of management is noticeable." Which characteristic of management is highlighted by this statement? (Intangible Force)

Q.4 In order to be successful an organisation must change its goals according to the needs of environment. Which characteristic of management is highlighted here? (Dynamic)

Q.5 Management is multi-dimensional. Give any 2 dimensions of it. (Work, People and operations (any two))

Objectives of Management

Objectives can be classified into organisational objectives, social objectives and personal or individual objectives. Management has to achieve these objectives in an effective and efficient manner.

1. **Organisational/Economic objectives:** Organisation should utilise human and material resources to the maximum possible advantage. These are survival, Profit & growth.
 - **Survival**– An organisation can survive when it earns enough revenue to cover costs.
 - **Profit**– After achieving the objective of survival, organisation should move towards earning profit for covering costs & risks of business.
 - **Growth**– Besides earning profits a business must grow in the long run in order to remain in the industry. A business can grow by increasing sales volume, no of employees, product & capital investment.
2. **Social objectives:** It involves fulfilling obligations towards society. This includes.
 - Creating employment opportunities for society.
 - Providing/Producing good quality products & services.
 - Protecting environment.
3. **Personal objectives:** Personal objectives are concerned with satisfying needs of the employees such as:
 - Giving competitive salary and perks to employees.
 - Giving recognition to employees.
 - Satisfying diverse needs of employees.

Q.6 One of the objectives of management is to consistently create economic value for various constituents of the society. Give two examples of this objective.

Ans. Social objectives of management.

- (i) Using environment friendly method of production.

- (ii) Giving employment opportunities to disadvantaged sections of the society.

Q.7. Sana Ltd. is a company producing Fans. The company's profits are enough for the survival and growth. The management of the company believes that a satisfied employee creates a satisfied customer, who in turn creates profits that lead to satisfied shareholders. So, it pays competitive salaries and perks to all its employees. All the employees are happy working in the organisation because of personal growth and development.

The company has a strong sense of social responsibility. It has set up an Engineering College in which one-third of the students are girls to whom the company gives 50% scholarship.

Is the management of Sana Ltd. fulfilling its objectives? Justify your answer by giving reasons.

Ans. Yes, the management of Sana Ltd. is fulfilling all the objectives- **organisational objectives, social objectives** and **personal objectives** (For reasons students can quote the lines).

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

Management as an Art

Art refers to skillful and personal application of existing knowledge to achieve desired results. It can be acquired through study, observation and experience. The features of art as follows:

1. **Existence of theoretical knowledge:** In every art, systematic and organized study material should be available compulsorily to acquire theoretical knowledge.
2. **Personalised application:** The use of basic knowledge differs from person to person and thus, art is a very personalised concept.
3. **Based on practice and creativity:** Art involves the creative practice of existing theoretical knowledge.

In management also a huge volume of literature and books are available on different aspects of management. Every manager has his own unique style of managing things and people. He uses his creativity in applying management techniques and his skills improve with regular application. Since all the features of art are present in management so it can be called an Art.

Management as a Science

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

1. **Systematized body of knowledge:** Science has a systematized body of knowledge based on principles and experiments.
2. **Principles based on experiments and observation:** Scientific principles are developed through experiments and observation.
3. **Universal validity:** Scientific principles have universal validity and application.

Management has systematic body of knowledge and its principles are developed over a period of time based on repeated experiments & observations which are universally applicable but they have to be modified according to given situation.

Conclusion: -As the principles of management are not as exact as the principles of pure science, so it may be called-an inexact science. The prominence of human factor in the management makes it a Social Science.

Management as Profession

Profession means an occupation for which specialized knowledge and skills are required and entry is restricted. The main features of profession are as follows:

1. **Well-defined body of Knowledge:**All the professions are based on well-defined body of knowledge.
2. **Restricted Entry:**The entry in every profession is restricted through examination or through some minimum educational qualification.
3. **Professional Associations:**All professions are affiliated to a professional association which regulates entry and frames code of conduct relating to the profession.
4. **Ethical Code of Conduct:**All professions are bound by a code of conduct which guides the behaviour of its members.
5. **Service Motive:**The main aim of a profession is to serve its clients.

Conclusion:-Management does not fulfil all the features of a profession and thus it is not a full-fledged profession because anybody can proclaim to be a manager; prescribed compulsory educational degree or license is not required. Besides there are not any formal ethical codes which are required to be observed.

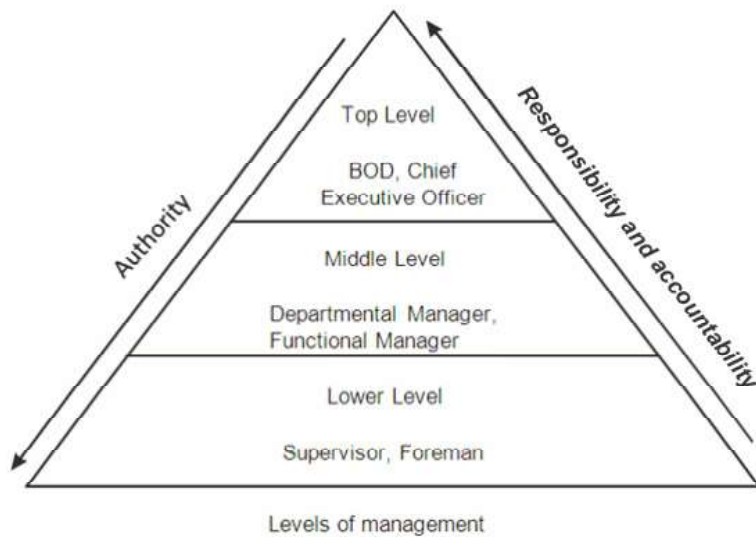
Q.8 Give one feature of Profession (a) satisfied by management (b) not satisfied by the management.

Ans. (a) Well defined body of knowledge.

(b) Restricted entry

Levels of Management: Top, Middle and Operational Levels

“Levels of management” means different categories of managers, the lowest to the highest on the basis of their relative responsibilities, authority and status.



Top Level

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

Chief task is to integrate and to coordinate the various activities of the business, framing policies, formulating organisational goals & strategies bearing the responsibility for the impact of activities of the business on society.

Middle Level

Consists of Divisional or Departmental heads, Plant Superintendents and Operation Managers etc.

Main tasks are to interpret the policies of the top management, to ensure the availability of resources to implement policies, to coordinate all activities, ensure availability of necessary personnel & assign duties and responsibilities to them.

Lower Level/Supervisory Level

Consists of Foremen and Supervisor etc.

Main task is to ensure actual implementation of the policies as per directions, bring workers' grievances before the management & maintain discipline among the workers, maintain the quality of output and minimise wastage

- Q.9** At which level of management, are the managers responsible for the welfare and survival of the organization? (Top level)
- Q.10** Managers at the top level spend more time doing this function of Management. Name it. (Planning)
- Q.11** Rakesh is working as Regional Manager in ABC Ltd. Name the level at which he is working. (Middle Level)
- Q.12** Name the level at which the managers are responsible for implementing and controlling the plans and maintaining the quality of output (Supervisory level).

Functions of Management / Elements of Management

- (1) Planning implies setting goals and objectives in advance and developing a way of achieving them.
- (2) **Organising** is to assign duties, grouping tasks, establishing authority and allocating resources required to carry out a specific plan.
- (3) **Staffing** is finding the right people for the right job by following a series of steps and includes training and development.
- (4) **Directing** is leading, influencing and motivating employees to perform the tasks assigned to them. It includes four activities: - Supervision, Communication, Leadership and Motivation.
- (5) **Controlling** is monitoring the organizational performance towards the attainment of the organizational goals.

- Q.13** Identify the functions of the management: —
- a) Motivating employees and giving instructions to them to perform the tasks assigned to them.
 - b) Recruitment and selection of the personnel.
 - c) Finding out deficiencies in implementation of plans.
 - d) Preparing a blueprint for future
 - e) Process of defining and grouping activity of an enterprise to establish authority relationship.

Ans. (a) Directing; (b) Staffing; (c) Controlling (d) Planning (e) Organising.

Co-ordination

Coordination is to synchronise the various activities of an organisation. In the context of business unit, the meaning of coordination is to balance its various activities (purchase, sales, production, finance, personnel etc.) so that objective of business can be easily achieved.

Lack of coordination results in overlapping, duplication, delay and chaos.

Characteristics of Coordination

1. **Coordination integrates group efforts:** It integrates diverse business activities into purposeful group activity ensuring that all people work in one direction to achieve organizational goals.
2. **Coordination ensures unity of action:** It directs the activities of different departments and employees towards achievement of common goals and brings unity in individual efforts.
3. **Coordination is a continuous process:** It is not a specific activity matter, it is required at all levels, in all departments till the organization continues its operations.
4. **Coordination is all pervasive function:** It is universal in nature. It synchronizes the activities of all levels and departments as they are interdependent to maintain organizational balance.
5. **Coordination is the responsibility of all managers:** It is equally important at all the Three-Top, Middle and Lower levels of management. Thus it is the responsibility of all managers that they make efforts to establish coordination.
6. **Coordination is a deliberate function:** Coordination is never established by itself rather it is a conscious effort on the part of every manager. Cooperation is voluntary effort of employees to help one another. Effective coordination cannot be achieved without cooperation of group members.

Coordination is the Essence of Management.

Coordination is not a separate function of management. It is the force that binds all the functions & thus, called the essence of management.

It is needed in all management functions:

Planning – Coordination between the master plan and departmental plan.

Organising – required between authority, responsibility and accountability

Staffing – Achieve balance between job requirement and qualities of personnel

Directing – Required between supervision, motivation and leadership.

Controlling – Ensure actual result conform to expected results.

Needed at all levels of management

Top level – needs coordination to integrate activities of the organisation for accomplishing the organisational goals.

Middle level– Coordination of the efforts of different sections and sub-sections

Lower level – Coordination in the activities of workers to ensure work progresses as per plans

NEED FOR COORDINATION

The reasons that bring out the importance or the necessity for coordination are:

- **Growth in the size** of the organisation results in the increase in varied quality of manpower too with varied individual aspirations. Coordination seeks to match the individual goals with the organisational goals.
- **Functional Differentiation** arising out of departmentalisation and division brings forth a motive for achievement of individual objectives, in isolation from other objectives leading to departmental clashes. Coordination seeks to iron out these variations.
- **Specialisation** can give rise to feeling of superiority and prioritising of their zone or activities. Coordination seeks to sequence and integrate all the specialist of activities into a wholesome effort.

Q.14 Name the process that synchronises the activities of different departments.(Coordination)

Q.15 “Co-ordination is responsibility of all the managers”. Explain. (Managers perform it all levels to ensure that work proceed according to plans).

Key Terms to crack case studies

- It believes that a satisfied employee creates a satisfied customer — management.
- A process of designing and maintaining an environment in which people work together — management.
- It unites the efforts of individuals towards goals — management.
- A force that cannot be seen but noticeable where targets are met and employees are happy — management.
- Coordination : removes chaos between various departments.
 - implies team work and integrates efforts of all individuals, departments and specialists.
 - is a part of all functions of management like a thread in a garland.
 - Synchronises the efforts of individuals, acts as the binding force between departments, unifies diverse interests into group effort.
 - force that binds all functions of management.

Multiple Choice Questions

1. The following is not an objective of management
 - (a) Earning profits
 - (b) Creating employment
 - (c) Satisfying diverse needs of employees
 - (d) Planning and controlling
2. Growth of a business can be measured by.
 - (a) Increase in sales volumes
 - (b) Increase in number of product produced
 - (c) Increase in capital investment
 - (d) All of the above.
3. Coordination is
 - (a) Function of management
 - (b) An objective of management
 - (c) The essence of management
 - (d) None of the above

4. Which of the following is not a characteristic of science.
- (a) Systematised body of knowledge
 - (b) Based on experimentation and observation
 - (c) Universal validity
 - (d) Ethical code of conduct.
5. To oversee the efforts of the workforce is the function of:
- (a) Operational or supervisory management
 - (b) Top level management
 - (c) Middle level management
 - (d) None of the above

Fill in the blanks

- (1) Management has three dimensions _____, _____ & _____.
- (2) _____ level managers are responsible for the welfare & survival of the organisation.
- (3) _____ is the force that binds all the functions of management.
- (4) Management as a process relates to _____ of management.
- (5) _____ is an intangible force which creates productive relationships among resources.

True/False (give reason in support of your answer).

- (1) Management is an intangible force.
- (2) Management is a science like physics or chemistry.
- (3) Managers at lower levels spend more time in planning and organising than top level managers.
- (4) Management is both art and science.
- (5) Co-ordination is the responsibility of all the managers.

Ans. 1. d 2. d 3. c 4. d 5. a

Fill in the the blanks

1. Management of work, people and operations
2. Top

3. coordination
4. functions
5. Management

True/False

1. True because it cannot be seen but felt.
2. False because it is not a pure science but behavioural science.
3. False top level managers spend more time on planning & controlling.
4. True it combines the features of both.
5. True it is performed by managers at all levels.

QUESTIONS FOR PRACTICE

- Q.1** “Planning, Organising, Staffing, Directing and Controlling” is the sequence of functions in a process. Name it. (Management) (1)
- Q.2** Production Manager of Kavya Ltd. tries to produce goods with minimum cost. Name the concept which is being focussed by management. (Efficiency) (1)
- Q.3** In order to be successful, an organization must change it according to the needs of the environment which characteristic of management is highlighted in the statement? (Dynamic) (1)
- Q.4** Which force binds all other functions of management? (Coordination) (1)
- Q.5** Radhika Ltd. uses environment friendly methods of production. Identify the objective it is trying to achieve. (social objectives) (1)
- Q.6** Your uncle is serving as a foreman in a factory. At what level of management is he working? (Lower Level) (1)
- Q.7** Why is it said that “management is a goal oriented process”? (Because it helps in achieving organisational goals by unity of efforts. (1)
- Q.8** Identify the nature of management when it is practiced as personalised application of existing knowledge to achieve desired results. (Management is an art) (1)
- Q.9** “Success of an organisation largely depends upon its management” Explain any five reasons to fortify the above statement. (Any five points of importance) (1)
- Q.10** The General manager- GM of ‘RadhaswamiKidswear Limited’, Mr. SahilRadhaswami, has divided all the employees of his company into three levels (Top Level, Middle level and Lower Level) different individuals. At the Top Level the General Manager and Board of Directors themselves work. The Middle Level work is looked after by the four Departmental managers like the Production Manager, Purchase manager, Sales Manager and Finance Manager.

The Lower Level is constituted of one supervisor of each of the four departments. These Supervisors look after the daily activities of their subordinates. They also maintained the flow of inputs in the production process to transform it to desired output.

Often, it is observed that the managers of all Levels remain busy sometimes with the planning of their respective departments and sometimes with the comparison of the desired and actual results. Similarly, sometimes they are busy with the Recruitment, Selection and Training of the employees and sometimes with their motivation.

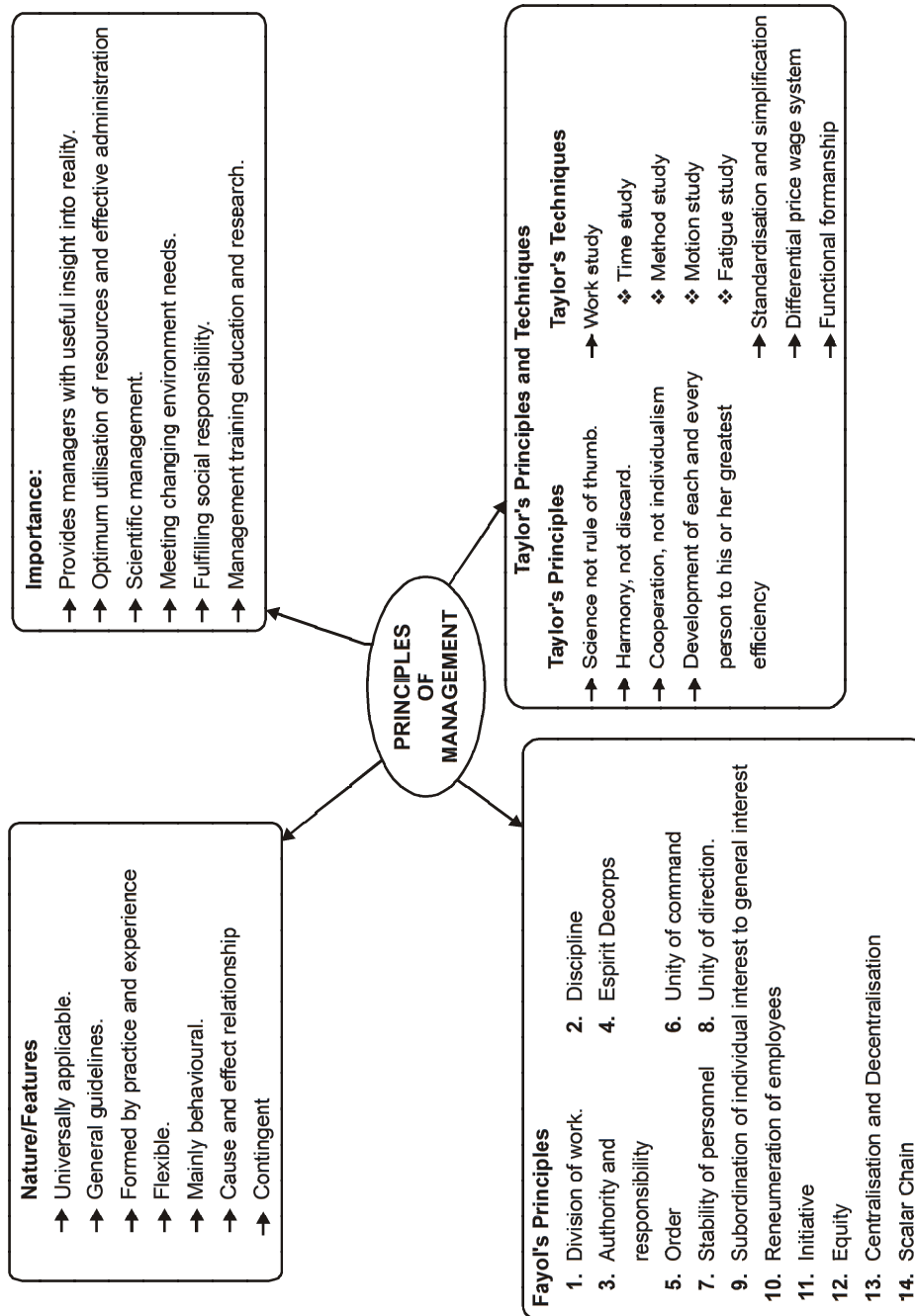
Mr. Sahil knows it very well that the job of management cannot be done by a single person alone, but when all join hands to work together the meaning of management is realised. This is why he makes all his efforts to effect coordination in the activities of all his employees. All the employees are working with the team spirit.

In the above paragraph features of management have been described. Identify them by quoting the relevant lines and explain them.

((i) Continuous process (ii) Group activities (iii) pervasive (iv) Intangible force
(v) Multi-dimensional. (5)

CHAPTER - 2

PRINCIPLES OF MANAGEMENT



Concept of Principles of Management

Principles of Management are the broad and general guidelines for managerial decision making, behaviour and action.

The management principles are derived from observation, analysis, experimental studies and personal experiences of the managers.

Nature of Principles of Management

The nature of principles of management can be described in the following points:

1. **Universal applicability** i.e. they can be applied in all types of organizations, business as well as non-business, small as well as large enterprises.
2. **General Guidelines:** They are general guidelines to action and decision making however they do not provide readymade solutions as the business environment is ever changing or dynamic.
3. **Formed by practice and experimentation:** They are developed after thorough research work on the basis of experiences of managers.
4. **Flexible:** They can be adapted and modified by the practicing managers as per the demands of the situations as they are manmade principles.
5. **Mainly Behavioural:** Since the principles aim at influencing complex human behaviour they are behavioural in nature.
6. **Cause and Effect relationship:** They intend to establish cause & effect relationship so that they can be used in similar situations.
7. **Contingent:** Their applicability depends upon the prevailing situation at a particular point of time. According to Terry, "Management principles are 'capsules' of selected management wisdom to be used carefully and discretely".

Significance of the Principles of Management

The significance of principles of management can be derived from their utility which can be understood from the following points:

1. **Providing managers with useful insights into reality:** Management principles guide managers to take right decision at right time by improving their knowledge, ability and understanding of various managerial situations and circumstances.
2. **Optimum utilization of resources and effective administration:** Management principles facilitate optimum use of resources by coordinating the physical, financial and human resources. They also help in better administration by discouraging personal prejudices and adopting an objective approach.
3. **Scientific decisions:** Decisions based on management principles tend to be more realistic, balanced and free from personal bias.
4. **Meeting the changing environmental requirements:** Management principles provide an effective and dynamic leadership and help the organization to implement the changes.
5. **Fulfilling social responsibility:** Principles of management not only help in achieving organizational goals but also guide managers in performing social responsibilities. Example: “Equity” and “Fair” remuneration.
6. **Management training, education and research:** Management principles are helpful in identifying the areas in which existing and future managers should be trained. They also provide the basis for future research.

- Q.1** How are management principles derived? (Formed by practice and experimentation)
- Q.2** “The principles of management are different from principles of science”. How? (Principles of management are flexible but principles of science are rigid).
- Q.3** Give reasons, why principles of management are not rigid prescriptions? (Hint: As they are directly concerned with human behaviour which is always uncertain)

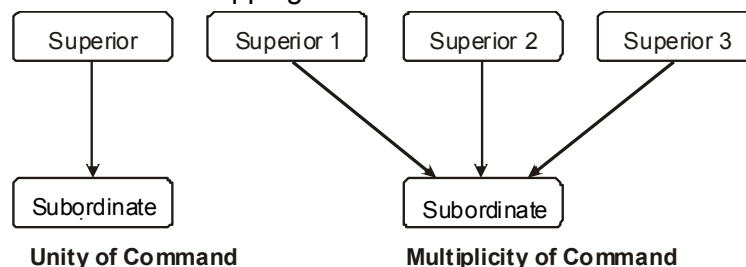
- Q.4** How are Principles of management helpful for managers in fulfilling their social responsibility? (By interpreting principles in their newer and contemporary meaning with change in time)
- Q.5** What is the role of principles of management for managers? (They serve as guide to decision making).

Fayol's Principles of Management

About Henry Fayol: Henry Fayol (1841-1925) got degree in Mining Engineering and joined French Mining Company in 1860 as an Engineer. He rose to the position of Managing Director in 1888. When the company was on the verge of bankruptcy. He accepted the challenge and by using rich and broad administrative experience, he turned the fortune of the company. For his contributions, he is well known as the "Father of General Management".

Principles of Management developed by Fayol

1. **Division of work:** Work is divided in small tasks/job and each work is done by a trained specialist which leads to greater efficiency, specialisation, increased productivity and reduction of unnecessary wastage and movements.
2. **Authority and Responsibility:** Authority means power to take decisions and responsibility means obligation to complete the job assigned on time. Authority and responsibility should go hand in hand. Mere responsibility without authority, makes an executive less interested in discharging his duties. Similarly giving authority without assigning responsibility makes him arrogant and there is fear of misuse of power.
3. **Discipline:** It is the obedience to organizational rules by the subordinates. Discipline requires good supervisors at all levels, clear and fair agreements and judicious application of penalties.
4. **Unity of Command:** It implies that every worker should receive orders and instructions from one superior only, otherwise it will create confusion, conflict, disturbance and overlapping of activities.



Q.6 The production manager of Bharat Ltd., instructs a salesman to go slow in selling the products whereas the marketing manager is insisting on fast selling to achieve the target. Which principle of management is being violated in this case. Write one of the consequences of violation of this principle. (Unity of command, Reduces the efficiency)

5. **Unity of Direction:** Each group of activities having the same objective must have one head and one plan. This ensures unity of action and coordination.

Difference between Unity of Command and Unity of Direction

Basis	Unity of Command	Unity of Direction
(1) Meaning	One subordinate should receive orders from & should be responsible to only one superior.	Each group of activities having same objective, must have one head.
(2) Aim	Prevents dual subordination.	Prevents overlapping of activities.
(3) Implications	Affects an individual employee.	Affects the entire organization.

- 6 **Subordination of Individual Interest to General Interest:** The interest of an organization should take priority over the interest of any one individual employee. Forex' a manager cancels his pleasure trip in under to attend an important meeting in the company.

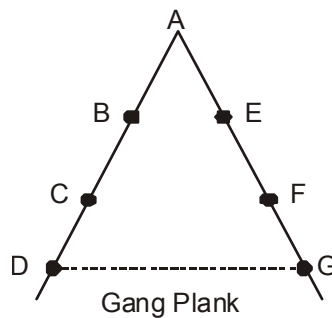
7. **Remuneration of Employees:** Remuneration of employees should be just and equitable so as to give maximum satisfaction to both the employees and organisation.

The employees should be paid fair wages/salaries which would give at least a reasonable standard of living. At the same time, it should be within the paying capacity of the company.

8. **Centralisation and Decentralisation:** Centralisation means concentration of decisions making authority in few hands at top level. Decentralisation means evenly distribution of power at every level of management. Both should be balanced as no organisation can be completely centralised or completely decentralised.

Small organisations can have centralisation where owner has complete authority over the business and no decision making power is given to the subordinates. In large organisations top management takes only strategic/ important decisions and operational authority is given to middle and lower level managers. The panchayat system in our country is a good example of decentralisation where the government being the big organisation gives the decision taking rights to its subordinates i.e., village Panchayat.

9. **Scalar Chain:** The formal lines of authority between superiors and subordinates from the highest to the lowest ranks is known as **scalar chain**. This chain should not be violated but in emergency employees at same level can contact through Gang Plank by informing their immediate superiors.



10. **Order:** According to the principle of order, a right person should be placed at the right job and a right material should be placed at the right place. According to Fayol, every enterprise should have two different orders – material order for physical resources and social order for human resources.
11. **Equity:** The working environment of any organization should be free from all forms of discrimination (religion, language, caste, gender, belief or nationality) and principles of justice and fair play should be followed. No worker should be unduly favoured or punished.
12. **Stability of Personnel:** According to this principle, employees once selected, should be kept at their post/position for a minimum fixed tenure. They should be given reasonable time to show results.
13. **Initiative:** Workers should be encouraged to develop and carry out their plan for improvements. Initiative means taking the first step with self-motivation. It is thinking out and executing the plan.

- 14. Espirit De Corps:** Management should promote team spirit, unity and harmony among employees. This encourages mutual trust and belongingness, which results in minimum need for using penalties.

- Q.7** Rakesh and Rahim are employed in the same company. They are working at same position and performing similar functions. But Rakesh is getting more salary than Rahim. Which principle of management is being violated? (Equity)
- Q.8** In an organization employees are transferred frequently; which principle of management is being over looked. (Stability of personnel)
- Q.9** Name and explain the principle of management according to which a manager should replace 'I' with 'we' in all his conversations with workers? (Espirit De Corps.)
- Q.10** State one positive effect of the Principle- "Unity of Command." (The efficiency of subordinate's increases)
- Q.11** Why did Fayol introduce Gang Plank in the principle of scalar chain? (to contact with the employees of equal rank in case of emergency).
- Q.12** Nikita and Salman completed their MBA and started working in a multinational company at the same level. Both are working hard and are happy with their employer. Salman had the habit of backbiting any wrong reporting about his colleagues to impress his boss. All the employees in the organization knew about it. At the time of performance appraisal, the performance of Nikita was judged better than Salman. Even then, their boss, Mohammad Sharif decided to promote Salman stating that being a female, Nikita will not be able to handle the complications of higher post.
- (i)** Identify and explain the principle of management that was overlooked by this multinational company.
- (Hint.** (i) Equity.

Taylor's Scientific Management

Fredrick Winslow Taylor (1856-1915) was a person who within a very short duration (1878-1884) rose from ranks of an ordinary apprentice to chief engineer in Midvale Steel Company, U.S.A. Taylor conducted a number of experiments and came to

conclusion that workers were producing much less than the targeted standard task. Also, both the parties - Management and workers are hostile towards each other. He gave a number of suggestions to solve this problem and correctly propounded the theory of Scientific Management to emphasize the use of scientific approach in managing an enterprise instead of hit and trial method. For his contributions, he is well known as the “Father of the Scientific Management”.

SCIENTIFIC MANAGEMENT

Meaning: Conduct of business activities according to standardised tools, methods and trained personal so as to have increased output through effective and optimum utilisation of resources. Hence it stresses that there is always one best way of doing things.

Scientific Management attempts to eliminate wastes to ensure maximum production at minimum cost.

Principles of Scientific Management

1. Science, not rule of Thumb:

There should be scientific study and analysis of each element of job rather than using intuition, experience or adopting old rule of thumb approach on a hit and miss method. Encourage “thinking before doing” and determining standard output.

2. Harmony, not discord:

There should be complete harmony and proper understanding between management and workers in achieving the organisation goals. For this he emphasised mental revolution i.e., a complete change in mental outlook and attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions and workers should work with full loyalty. Instead of fighting over distribution of profits, they must focus attention on increasing it.

3. Cooperation not individualism:

Taylor emphasised on the importance of cooperative group efforts between the management and workers in achieving the organisation’s goal and not individualism. Both should realise that they need each other.

4. Development of workers to their greatest efficiency and prosperity:

The management should scientifically select the workers; assign job as per

their physical, mental and intellectual capabilities; and train them as per the job requirement to increase their efficiency.

Q.13 Which principle of scientific management suggests the introduction of scientific investigation and analysis of management practices?(Science not rule of thumb)

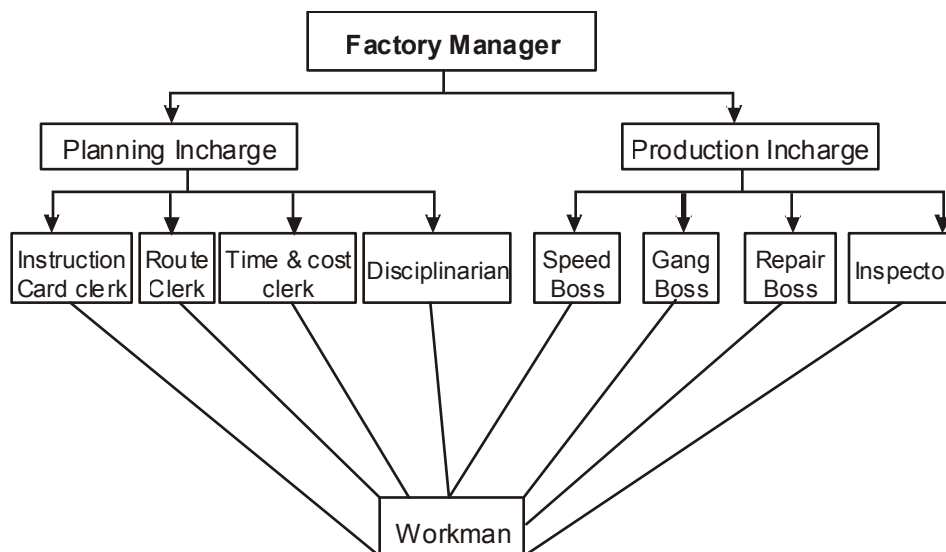
Q.14 Which principle of scientific management suggest that management should share its gains with workers and workers should be willing to embrace the change for good of the company (Harmony not discord)

Techniques of Scientific Management

Taylor gave the following techniques for implementing the principles of scientific management.

A Functional Foremanship

- Supervision is to be divided into several specialized functions and each function to be entrusted to a special foreman.
- Each worker will have to take orders from eight foreman in the related process of function of production.
- Stress on separating **planning function** from **execution function**.



Planning Incharges :

1. **Route Clerk** to specify the exact sequence and route of production.
2. **Instruction card clerk** is responsible for drafting instructions for the workers.
3. **Time and cost clerk** to prepare time and cost sheet for the job.
4. **Shop Disciplinarian** to ensure discipline and enforcement of rules and regulations among the workers.

Production Incharges:

1. **Gang boss** is responsible for keeping tools and machines ready for operation.
2. **Speed boss** is responsible for timely and accurate completion of job.
3. **Repair boss** to ensure proper working conditions of tools and machines.
4. **Inspector** to check quality of work.

Q.15 Name the technique of scientific management which focuses on separation of planning and execution functions.(Functional Foremanship)

B. Standardisation and Simplification of work:

- Process of setting standards of every business activity to maximise output is called **standardisation**.
- **Simplification** is eliminating unnecessary varieties, sizes and grades of product manufactured in the organisation.

C. Method study:

- Finding one best way of doing a job.
- Critical analysis is made for plant layout, product design, material handling and work processes using techniques like process chart, operations research etc.

Q.16 In a Company, the Factory Manager appointed only one foreman for the work of production, planning, execution and supervision of workers. However, that foreman is not efficient in planning and execution.

- (1) Which technique of scientific management is being violated here?
(Functional Foremanship.)
- (2) Write one consequence of this violation.

D. Motion Study

- Making a thorough analysis of various motions being performed by a worker while doing a particular task.
- Identifying and determining the ideal productive movements.
- Eliminate the unproductive movements and equipments.

E. Time study

- It is the technique used to determine the standard time taken by the workmen with reasonable skills and abilities to perform a particular task.
- Here the job is divided into series of elements and the time required to complete each element idealistically is recorded using a stop watch.

F. Fatigue study

- Determines the amount and frequency of rest intervals required in completing a task.

G. Differential Piece Wage System

- Evolve a system wherein the efficient and inefficient workers are paid at different rates. (as financial incentives act as motivators)
- First a standard task is established with the aid of time and motion study, then two rates are established. Higher, when standard output is produced and lower, when the standard is not met.

For example: Standard task is 10 units. Rates are: Rs 50 per unit for producing 10 units or more and Rs 40 per unit for producing less than 10 units

- Worker A produces 11 Units; he gets Rs 550 (11 units' x 50 per unit)
- Worker B produces 09 units; he gets Rs 360 (9 units' x 40 per unit)
- This difference of Rs 190 will motivate B to perform better.

H. Mental Revolution

It involves a complete change in mental outlook and 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.

Q.17 Which technique of scientific management aims at elimination of superfluous varieties sizes and dimensions of the product. (Simplification of work)

Q.18 Name the technique of Taylor which is one of the strongest motivator for a worker to reach standard performance. (Differential piece wage system)

Q.19 Explain the technique of scientific management that is extension of “Principle of Division of work” and specialisation? (Functional foremanship)

Fayol versus Taylor

TAYLOR V/S FAYOL

	Basis	Henry Fayol	F.W Taylor
1.	Basis of formation	Personal Experience	Observation
2.	Focus	Improvement in the overall administration	Concentration on improving the productivity
3.	Applicability	Universally applicable	Applicable only to specialised situations
4.	Perspective	Top level management	Lower level-shop floor level
5.	Personality	Practitioner and known as the father of General management	Scientist and known as father of scientific management
6.	Human element	More importance given to human element; e.g. Principle of equity, stability of tenure	More importance attached to increasing the production than to the human element

7.	Emphasis	Greater emphasis on tools and standardisation of work i.e. General Theory of Administration	Emphasis on principles and theory of general administration i.e. Scientific Management
8.	Unity of Command	Staunch proponent that orders should be received from one boss.	Did not feel that it is important as under functional foremanship a worker received orders from eight specialists.

PRINCIPLES OF MANAGEMENT

- Science not Rule of Thumb means discarding old methods of doing work which were based on hunch or old practices and developing new techniques based on experimentation.
- Mental revolution means drastic change in the thinking. Change is required on three fronts :
 - a) In attitude towards each other (management and workers)
 - b) Towards work
 - c) Towards division of profit

Managers should realize the importance of workers.

- Revision of principles :
 - a) An employee breaks 'No Smoking' rule (violation of principle of discipline)
 - b) Management not giving increments and promotions to workers as per agreement (violation of principle of discipline)
 - c) Management sharing gains with workers (harmony, not discord)
 - d) Sales manager welcoming suggestions of salesman (Initiative)
 - e) The purchase manager purchases raw material from the company owned by his son at a rate more than the market price (violation of subordination of individual interest to general interest)
 - f) Frequent transfers (violation of stability of tenure)
 - g) In case of an accident, first aid box could not be found in its place (violation of principle of order)
 - h) Making arrangements for training and career development of workers (development of each person to his/her greatest efficiency and prosperity)

Multiple choice questions

1. Identify the principle of management followed in the following pictorial representation.



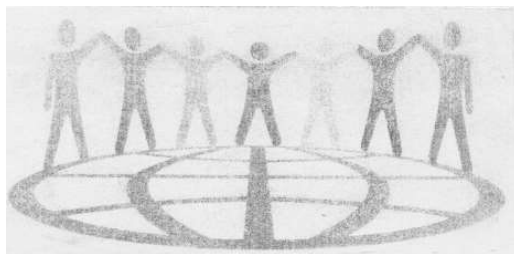
- (a) Cooperation, Not individualism (b) Harmony, not discord
(c) Discipline (d) Remuneration.
2. The applicability of principles of management depends upon the prevailing situation at a particular point of time. Identify the feature of principles of management, highlighted from the statement:
- (a) General guidelines (b) Contingent
(c) Flexible (d) All of these.
3. The following pictorial presentation highlights violation of one of the principles of management.



Identify the principle not followed in the given picture.

- (a) Initiative
(b) Subordination of individual interest to general interest
(c) Equity
(d) Cooperation not individualism

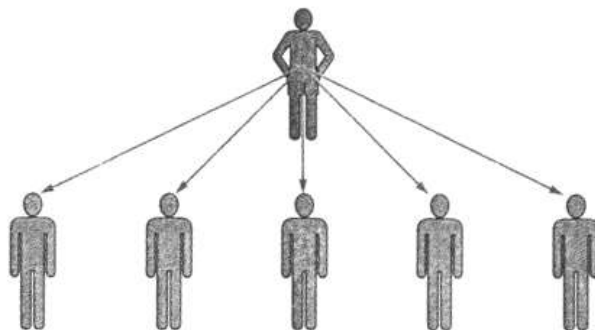
4. In a company there are four departments finance, marketing, production and human resource development. Identify the principle of management used in this company
 - (a) scalar chain
 - (b) Discipline
 - (c) Unity of command
 - (d) Division of work
5. Identify the principle of general management depicted in this pictorial representation.



- (a) Orders
 - (b) Unity of direction
 - (c) Unity of command
 - (d) Esprit De corps
6. Professional courses such as BBA also teach principles of management as a part of their curriculum at the beginner's level. Identify the significance of principles of management highlighted from this statement.
 - (a) Management training, education and research
 - (b) Providing managers with useful insight into reality
 - (c) Effective administration
 - (d) Meeting changing environment requirements.
7. Identify the principle of scientific management being ignored in the given picture, where boss is eating food whereas workers are not allowed to take lunch.



- (a) Harmony not discord (b) Science, not rule of thumb
(c) Co-operation not individualism (d) None of these.
8. Panchayats in our country have been given more powers to decide and spend funds granted to them by the government for the welfare of villages. Identify the principle of management highlighted in this case.
- (a) Equity (b) Order
(c) Discipline (d) Centralisation and decentralisation
9. Achievers Ltd strictly follows this principle of management at all levels. Identify this principle from the following picture.

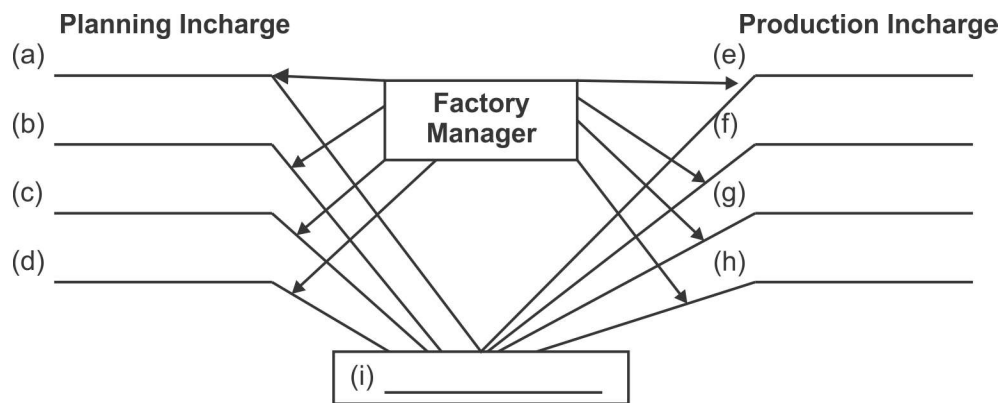


- (a) Authority and responsibility (b) Order
(c) Unity of command (d) Scalar chain.
10. This technique of Taylor is an extension of the principle of Fayol
- (a) Motion study (b) Fatigue study
(c) Time study (d) None of these.

II. Fill in the blanks:

1. (a) _____ (c) _____
-
- (b) _____ (d) _____
- (e) _____
(propounded by)

2.



III. Match the following:

- | | |
|--------------------------------------|---|
| 1. (i) Fatigue study | (a) Aims to eliminate unnecessary movements in doing a job |
| (ii) Motion study | (b) Aims to differentiate between efficient and inefficient workers |
| (iii) Differential piece wage system | (c) Aims to determine rest intervals |
| (iv) Time study | (d) Aims to determine standards |
| (a) | (b) |
| (i) – c | (i) – a |
| (ii) – a | (ii) – c |
| (iii) – b | (iii) – d |
| (iv) – d | (iv) – b |
| (c) | (d) |
| (i) – b | (i) – d |
| (ii) – c | (ii) – b |
| (iii) – d | (iii) – a |
| (iv) – a | (iv) – c |
| 2. (i) Equity | (a) Encourage workers to develop and carry out their plans |
| (ii) Stability of personnel | (b) Judicious application of penalties |
| (iii) Discipline | (c) Securing loyalty and devotion of employees |
| (iv) Initiative | (d) Points out the danger and costs of unnecessary labour turnover. |

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

3. (i) Speed boss (a) Timely completion of job
(ii) Gang boss (b) Proper working condition of machines and tools
(iii) Repair boss (c) Check quality of work
(iv) Inspector (d) Keep machines and tools ready for operation.

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

4. State giving reasons, whether the statements are 'True' or 'False'
- (i) We should not have multiple bosses, as it will lead to divided responsibility
- (ii) Simplification of work means process of setting standards for every business activity.
- (iii) Taylor's principle of 'science not rule of thumb' stresses on scientific analysis of each part of work
- (iv) If authority exceeds responsibility, subordinate may misuse it.
- (v) Unity of direction prevents dual subordination.

Answers

I. Multiple choice questions

- | | |
|-------|--------|
| (1) c | (2) c |
| (3) a | (4) d |
| (5) d | (6) a |
| (7) b | (8) d |
| (9) b | (10) d |

II. Fill in the blanks"

1. (a) Science not rule of thumb
(b) Co-operation not individualism
(c) Harmony not discard
(d) Development of each and every person to his or her greatest efficiency
(e) F.W. Taylor
2. (a) Instruction card clerk (e) Speed boss
(b) route clerk (f) Gang boss
(c) Time and cost clerk (g) Repair boss
(d) Disciplinarian (h) Inspector
(i) Workman

III. Match the following:

- | | | |
|-------|-------|-------|
| (1) a | (2) d | (3) b |
|-------|-------|-------|

IV. True/False

- (i) True – Subordinate can escape accountability if this is not followed
- (ii) False – Standardisation refers to setting standards
- (iii) True – There should be scientific study and analysis of each element of a job
- (iv) True – authority should be equal to responsibility
- (v) False – Unity of direction prevents overlapping of activities.

QUESTIONS FOR PRACTICE

- Q.1** Which principle of Henry Fayol does functional foremanship violate? (Unity of command) (1)
- Q.2** A sales person is asked to finalize a deal with customer. The marketing manager allows him to give a discount of up-to 10% but the Finance Manager allows him to give discount of upto 25%. Which principle is violated here? (Unity of command) (1)
- Q.3** “Workers should be encouraged to develop and carry out their plan for development.” Identify the principle of management (Fayol)involved here. (Initiative) (1)
- Q.4** Principles of Taylor and Fayol are mutually complementary. One believed that the management should the gain with the workers while the other suggested that employees compensation should depend upon the earning capacity of the company and should give them a reasonable standard of living. Identify and explain the principles of management by Tayol and Fayol referred to in para? (1)
- [Hint: Fayol – Remuneration, Taylor – Harmony not Discord (Mental Revolution)]
- Q.5** A manager should have the right to punish a subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to his/ her case. Identify the principle of management highlighted here.(Authority and Responsibility) (1)
- Q.6** Name and explain that principle of Fayol which suggest that communication from top to bottom should follow the official lines of command. (Scalar chain) (3 Marks)
- Q.7** The production manager of an automobile company asked the foreman to achieve a target production of 200 scooters per day. But he did not give him the authority to requisition tool and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve

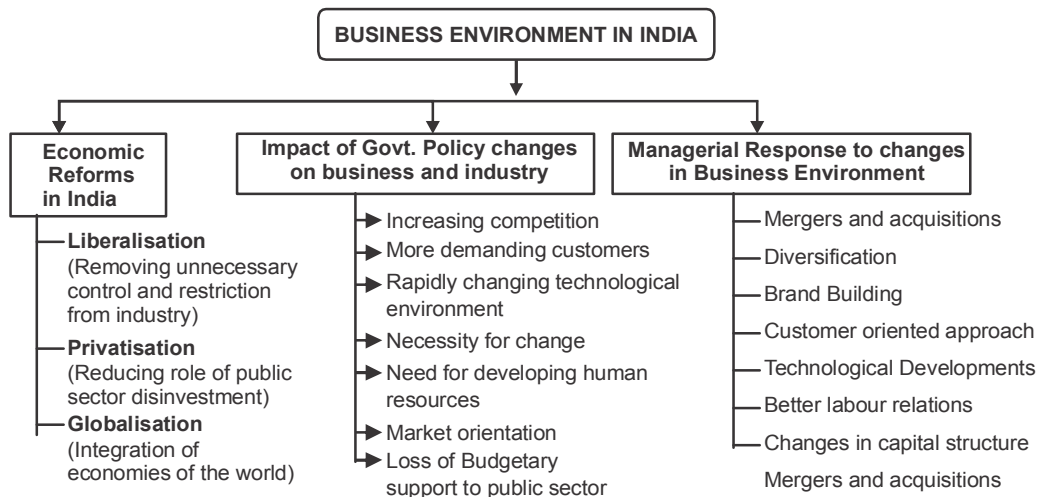
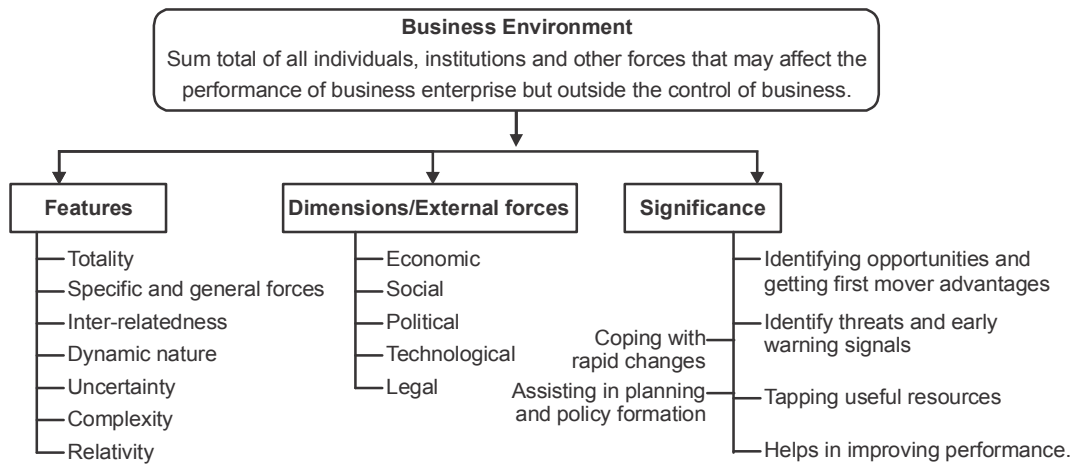
the desired target? Explain briefly the principle relating to the situation. (No, Production Manager can't blame the Foreman. Principle- Authority and Responsibility)

- Q.8** Which principle of scientific management suggests that management should be open to constructive suggestions and workers should be taken into confidence before taking important decisions.

(Co-operation not individualism)

CHAPTER - 3

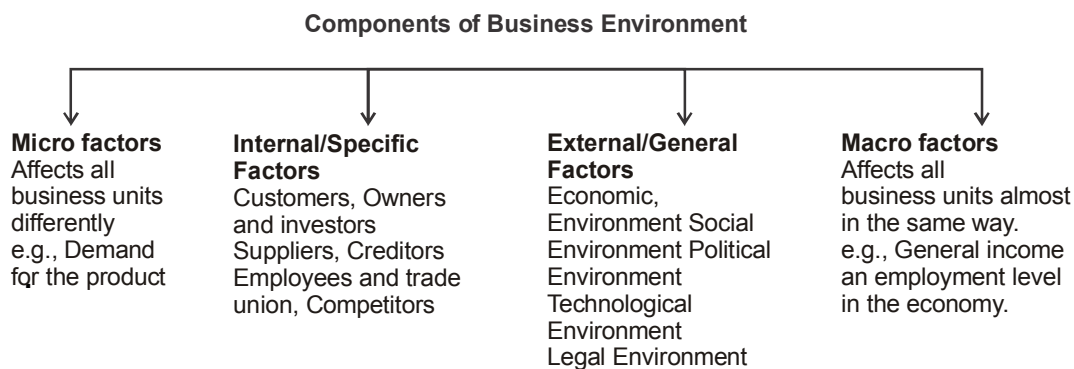
BUSINESS ENVIRONMENT



Business environment means the sum total of the factors which influence the business and over which the business has no control. The study of business environment enables the managers to identify threats and opportunities.

Features of Business Environment

1. **Totality of external forces:** Business environment is the sum total of all the forces/factors external to a business firm.
2. **Specific and general forces:** Business environment includes both specific and general forces. Specific forces influence business firm directly while general forces affect a business firm indirectly.



3. **Inter-relatedness:** All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks in turn change the life style of people.
4. **Dynamic:** Business environment is dynamic in nature which keeps on changing with time. It may be change in technology, fashion and tastes etc.
5. **Uncertainty:** Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.
6. **Complexity:** Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.
7. **Relativity:** Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, demand for ready to eat healthy food will be more in urban areas than in rural areas.

- Q.1** Business Environment includes both specific and general forces. List any two specific forces. (Anytwo- Investors, customers, bankers, suppliers, creditors, employees, trade unions.)
- Q.2** Why is it said that business environment is dynamic in nature. (Because it keeps changing with time)

IMPORTANCE OF BUSINESS ENVIRONMENT

- 1. Identification of opportunities to get first mover advantage:**
Understanding of business environment helps an organisation in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.
- 2. Identification of threats and early warning signals:** Correct knowledge of business environment helps an organisation to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other multinational companies entered the auto industry.
- 3. Tapping useful resources:** Business environment makes available various resources such as capital, labour, machines, raw material etc. to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.
- 4. Coping with Rapid changes:** Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively by developing suitable course of action.
- 5. Assistance in planning and policy formulation:** Understanding and analysis of business environment helps an organisation in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.
- 6. Helps in Improving performance:** Correct analysis and continuous monitoring of business environment not only helps an organisation in improving its performance but also continue to succeed in the market for longer time.

DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT

1. **Economic Environment:** It represents the nature of an economy, its policy, systems and all those forces that have bearing on business activities like. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms.

Examples :

- Decline in tax rates raises the disposable income of people leading to increase in demand for products.
- Rise in inflation increases the cost of raw material, machine, payment of wages and salaries.
- Demonetization implemented by RBI.
- Changes in economic and fiscal policies have encouraged NRI's and foreign investors to invest in India.
- Make in India was launched for job creation and skill enhancement.
- RBI allowed commercial banks to reduce interest rates on loans to tackle recession.
- The banks offering loans at reasonable interest rates with minimum required formalities because of banking sector reforms.

2. **Social Environment:** It includes various social forces such as customs, beliefs, literacy rates, educational levels, lifestyle, values etc. Changes in social environment affect an organisation in the long run. Example: Now a days people are paying more attention towards their health, as a result of which demand for mineral water, Diet coke etc. has increased while demand of tobacco, fatty food products has decreased.

Examples :

- Festivals like Diwali, Eid, Christmas, etc. lead to increase in demand for greeting cards, sweets, gifts etc.
- Equal pay/pay scales to male and female workers for equal work.

- Demand for reservation in jobs for minority and women.
- 'Beti Padhao, Beti Bachao' movement started for encouraging education of girl child.
- Swachh Bharat Abhiyaan introduced for welfare of society.

3. Technological Environment: It implies using new and advanced ways/ techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, booking of railway tickets on internet etc.

Examples :

- Payments through e-wallets, PayTm etc.
- Change from fountain pens to ball pens.
- Dematerialization of securities.
- Cable TV adversely affected radio industry.
- Introduction of artificial intelligence, like Siri in iPhones.

4. Political Environment: It includes political conditions and factors related to government affairs and their impact on business. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the business. Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.

Examples :

- Crash in share prices due to change in Vajpayee government in 1999.
- PM's frequent visit to foreign countries for promoting business relationships.
- Hyderabad has become the IT hub due to political support.

- Compensation given by government for acquiring property for building infrastructure facilities, like metro construction.
- GST introduced and implemented in place of VAT.

5. Legal Environment: It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

Examples :

- Supreme Court issuing orders to seal unauthorised shops and constructions.
- Law ensuring green dot for every vegetarian eatable products and red dot for non-vegetarian products.
- Supreme Court passing an order to close the iron factories around Taj Mahal to avoid air pollution affecting it.

Q.3 Identify the type of dimension of business environment related to the following:

- (i) Banks reducing interest rate on housing loans.
- (ii) An increasing number of working women.
- (iii) Booking of air tickets through internet.
- (iv) Alcohol beverages are prohibited to be advertised on Doordarshan.
- (v) A stable government has built up confidence among the firms to invest in big project.

[(i)economic, (ii)Social, (iii)Technological, (iv)Legal, (v) political]

Economic Environment in India

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991. This policy has sought to liberate industry from restrictions of licencing system (liberalisation), drastically reduce the.

The main objective of New Industrial Policy was to promote Liberalization, Privatization and Globalization.

1. **Liberalisation:** It means freeing of Indian Industry from all unnecessary government controls and restrictions. Abolishing licensing requirements; Freedom in deciding the scale of business; removals of restriction on movements of goods and service; reduction in tax rates; freedom in fixing prices; simplifying procedures; making it easier to attract foreign investment.
2. **Privatization:** Giving greater role to private sector in the nation building process and reduced role of public sector; Disinvestment in many Public Sector undertaking which would result in converting public sector undertakings to private sector hence diluting government ownership by and 51%. It aimed at improving efficiency and performance of government undertakings, reducing budgetary deficit & better utilization of national resources.
3. **Globalization:** It means integration of various economies of the world leading to the emergence of cohesive global economy. The measures taken by the Government include trade liberalization which includes import liberalization; Export Promotion through rationalization of tariff structure; Foreign exchange liberalization; increased interaction among global economies under the aegis (protection/support) of World Trade Organization. It resulted in addition of Export duty, Reduction of import.

- Q.4** State how business environment helps in coping with rapid change. (by knowing in advance & developing suitable course of action)
- Q.5** State any two reasons why managers should understand business environment (Any two points of importance starting with it helps the managers....)
- Q.6** Can the effect of various factors of business environment on business be recognised separately? (No, as the factors are related to each other)

IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY

1. **Increasing Competition:** Delicensing and entry of foreign firms in Indian

market has increased the level of competition for Indian firms. It benefitted consumers by availability of large variety of goods at reasonable prices.

2. **More Demanding Customers:** Now customers are more aware and they keep maximum information of the market as the result of which, now market is customer/buyer oriented. Now products are produced keeping in mind the demands of the customers.
3. **Rapidly Changing Technological Environment:** Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.
4. **Necessity for Change:** After New Industrial Policy, the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.
5. **Need for Developing Human Resources:** The changing market conditions require people with higher competence and greater commitment. Hence there is a need for developing human resources which could increase their effectiveness and efficiency.
6. **Market Orientation:** Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.
7. **Reduction in budgetary Support to Public Sector:** The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.

Managerial response to changes in business environment : The impact of changes in economic policy of government has made managers aware of various areas where they have to focus to keep their business environment help them to take decision regarding increasing competition, the demands of customers and their expectations (consumer is the king), rapidly changing technological environment, necessity to adapt to change and need for developing human resources.

1. **Mergers and Acquisitions:** Many firms are merging to take technological and economic benefit of each other, Powerful business units are acquiring small firms to reduce competition among themselves.
2. **Diversification:** Firms are diversifying into wide range of new product lines to capture new market segments.
3. **Brand Building:** Aggressive marketing tools are exercised by firms to establish the identity of their brands in the minds of consumers.
4. **Customer Oriented Approach:** Niche marketing concept is used and needs of each and every consumer are adhered to.
5. **Technological Developments:** Firms are updating themselves technologically to face competition.
6. **Better Labour Relations:** Relations with labour trade-unions are harmonious to bring team effect.
7. **Changes in Capital Structure:** Debt Component is more used now comparatively to take the benefit of trading on equity.

QUESTIONS FOR PRACTICE

- Q.1** It is the process by which government control over the industry is being loosened. Give the term to which this statement is trying to indicate. (Liberalisation) (1)
- Q.2** “The understanding of business environment enables the firm to identify opportunities.” What is meant by ‘opportunities’ here? (Possibility to start a new venture or launch a new product to earn more than competitors.) (1)
- Q.3** “It may be difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.” Which feature of business environment is highlighted by this point? (Complex) (1)

DEMONETIZATION

Concept

Demonetization is the withdrawal of a particular currency from circulation.

In India, it was introduced by the government on November 8, 2016, in which `1000 and `500 notes were no longer accepted as medium of exchange. A new `2000 note was introduced as a legal tender. It led to loss of liquidity in India for some time.

Its aim was to :

- Curb corruption
- Reduce accumulation black money, and
- Counterfeit the use of high denomination notes for illegal activities

Features

1. **Tax administration:** People with black money had to declare their unaccounted wealth and pay taxes at a penalty rate.
2. **Channelizing savings:** Banks offered new deposit schemes in which people invested heavily. This led to increased liquidity in banks.
3. **Cashless economy:** It encouraged digital transactions or e-transactions, thus leading to cashless economy.
4. **Elimination of terror funding:** It will help in fighting against terror funding and smuggling by reducing the use of high value currency notes.

Conclusion

Though it created a temporary shortage of cash and rush at banks, but it will have a positive impact on GDP in the long run.

Multiple Choice Questions

1. In which of the following categories can business environment be divided?
(a) Local and Regional (b) Regional and national
(c) Internal and external (d) Financial and Non-financial
2. _____ environment is with in the control of business.
(a) Internal (b) External
(c) Micro (d) Macro
3. Factors that create opportunities and threats to business units is known as _____.
(a) Internal environment (b) External environment
(c) Micro environment (d) Macro environment
4. The economic system in which business units or factors of production are privately owned and governed is called as _____.
(a) Capitalism (b) Socialism
(c) Democratic (d) Republic
5. India is good example for _____ economy.
(a) Socialist (b) Mixed
(c) Capitalist (d) Communist.
6. Economic growth can be measured by _____.
(a) CPI (b) CBI
(c) GDP (d) MPC
7. Globalisation of markets has brought about economies of _____.
(a) Scale of production (b) Distribution and marketing
(c) Management (d) All Business operations
8. A valid definition of a business purpose is to _____.
(a) Create a customer (b) Maximize profits
(c) Serve the society (d) All of the above

9. Population is a component of the total _____ environment, while composition of population is component of _____ environment.
- (a) Economic, Social (b) Social, Economic
(c) Natural, Legal (d) Technology, Political
10. Environment is synonym with _____.
(a) Task (b) Relation
(c) People (d) External Factors

Fill in the Blanks

- Business environment includes both _____ and _____ forces.
- Business environment is _____ as it is difficult to predict the future environment changes and their impact with full accuracy.
- Business environment is a _____ concept whose impact differ from country to country, region to region and firm to firm.
- The Government of India announced New Economic Policy in _____ for taking out the country out of economic difficulty and speeding up the development of the country.
- _____ is integrating the economy of a country with the economies of other countries to facilitate free flow of trade, capital, person and technology across borders.

Match the following

- | | |
|----------------------|--------------------------|
| 1. (i) Customers | (a) External environment |
| (ii) Political | (b) Internal environment |
| (iii) Social factors | (c) External environment |
| (iv) Creditors | (d) Internal environment |

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

2. (i) Liberalisation (a) Relaxation in tariffs
(ii) Globalisation (b) Disinvestment in public sector
(iii) Privatisation (c) World level production
- | (a) | (b) | (c) | (d) |
|-----------|-----------|-----------|-----------|
| (i) – a | (i) – c | (i) – a | (i) – b |
| (ii) – b | (ii) – b | (ii) – c | (ii) – a |
| (iii) – c | (iii) – a | (iii) – b | (iii) – c |
3. (i) Reduction in bank rate (a) Social environment
(ii) Increasing number of working women (b) Legal environment
(iii) Prohibition of alcohol advertisements (c) Economic environment
(iv) On-line flight booking (d) Technological environment
- | (a) | (b) | (c) | (d) |
|-----------|-----------|-----------|-----------|
| (i) – a | (i) – b | (i) – c | (i) – b |
| (ii) – b | (ii) – c | (ii) – a | (ii) – d |
| (iii) – c | (iii) – d | (iii) – b | (iii) – a |
| (iv) – d | (iv) – a | (iv) – d | (iv) – c |
4. (i) Internal environment (a) Affects all business units almost in same way.
(ii) Micro environment (b) Controllable factors.
(iii) External environment (c) Affects all business units differently
(iv) Macro environment (d) Uncontrollable factors
- | (a) | (b) | (c) | (d) |
|-----------|-----------|-----------|-----------|
| (i) – a | (i) – d | (i) – b | (i) – d |
| (ii) – b | (ii) – c | (ii) – c | (ii) – a |
| (iii) – c | (iii) – b | (iii) – d | (iii) – b |
| (iv) – d | (iv) – a | (iv) – a | (iv) – c |
5. Match the impact of demonetisation.
- | | |
|--------------------------------|---------------------|
| (i) Digitisation | (a) Risen |
| (ii) Real Estate | (b) Increased |
| (iii) Tax collection | (c) Decreased |
| (iv) Interest rates on savings | (d) Prices declined |

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

True/False (suggest with reasons)

- (i) Withdrawal of the status of ‘legal tender’ to the currency in circulation is called demonetisation. (T/F)
- (ii) Change in health and fitness trend and going to gym among urban dwellers is part of technological environment. (T/F)
- (iii) Introduction of NEP has resulted in “Less Demanding Customers” (T/F)
- (iv) Budgetary support to public sector is reducing. (T/F)
- (v) Globalisation is integrating the economy with the rest of the world. (T/F)

Answers

Multiple Choice Questions:

- | | |
|------|-------|
| 1. d | 2. c |
| 3. c | 4. a |
| 5. b | 6. c |
| 7. d | 8. d |
| 9. a | 10. d |

Fill in the blanks:

- | | |
|----------------------|--------------|
| 1. Specific, General | 2. Uncertain |
| 3. Relative | 4. July 1991 |
| 5. Globalisation | |

Match the Following:

- | | |
|------|------|
| 1. d | 2. c |
| 3. c | 4. c |
| 5. c | |

True/False

- | | |
|------|------|
| 1. T | 2. F |
| 3. F | 4. T |
| 5. T | |

QUESTIONS FOR PRACTICE

- Q.1** It is the process by which government control over the industry is being loosened. Give the term to which this statement is trying- to indicate. (Liberalisation) (1)
- Q.2** “The understanding of business environment enables the firm to identify opportunities.” What is meant by ‘opportunities’ here? (Possibility to start a new venture or launch a new product to earn more than competitors.) (1)
- Q.3** “It may be difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.” Which feature of business environment is highlighted by this point? (Complex) (1)
- Q.4** Government of India announced a new economic policy in July 1991 which provided greater role to private sector in nation building. Identify and explain the concept.
- Q.5** Just after declaration of Lok Sabha Elections 2014 results, the Bombay Stock Exchanges price index (Sensex) rose by 1000 points in a day. Identify the environmental factor which led to this rose giving reason. Also, explain any

two other dimensions of business environment. (Political and any two form economic, technical, legal and social environments) (3)

Q.6 Explain : “uncertainty” and “Complexity” as features of business environment.

(Difficulty in predicting future, numerous inter-related dynamic conditions and forces) (3)

Q.7 ‘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 the light of this 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. (Importance of business environment)

Q.8 The court issued the order that it is essential for the vehicles to be smokeless and that any one violating this order shall have to pay a heavy fine. Abiding by this order was necessary for the health of people. Making this strict order of the court as the base; ‘Gyan Motors Limited’ resolved to manufacture such vehicles by using modern technology as should not produce any smoke at all. The government should also announce to provide help in several ways to set up such industrial units.

Identify the three dimensions of Business Environment described in the paragraph above by quoting the relevant lines.

Write about any one of the values for society granted by the court. (5)

EVALUATION QUESTIONS

UNIT-I

- Q1.** X Ltd. was manufacturing water heaters. In the first year of its operations, the revenue earned by the company is less. The Co. analysed the reasons of less revenue. After analysing the company decided: -
- (a) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very reasonable rate.
 - (b) to start manufacturing solar water heaters and reduce production of electric water heaters slowly.
- (i) Which functions of management are indicated here? [Hint: Planning & Controlling]. (1)
- (ii) Which dimension of business environment is applied here? [Social] (1)
- Q2.** XYZ Ltd. Co., manufacturing cosmetics and enjoying a predominant position in the industry has grown in size. Its business was very good till 1991. But after that new liberalized environment has seen the entry of many MNCs in this sector with the result that market share of XYZ has declined. The company followed a very centralised business model with directors and divisional heads making even minor decisions.
- (a) Which function of management is being indicated here? (Organising)
 - (b) What dimension of environment is implicit in this case? Indicate by quoting the lines from above para. (b) Political]
- Q3.** Meera, Chairperson of Sunshine Ltd. feels that she is the only one responsible for the successful management of company because other persons are just following what is told to them and she has to see to it that only the organisations goals are important. No other thing matters.
- (a) Do you agree with her belief?

- (b) Which feature of management is lacking here?
- (c) Which principle of management is being ignored here? Explain briefly.

[Hint: (a) No. (b) Management is group activity (c) Espirit De corps]

Q4. A.R. Rehman is the first Indian to win the oscar award for his composition “Jai Ho”. His composition of music is unique and different as he has used the singing notes in a manner that is entirely his own interpretation. Like A.R. Rehman, Nandan, a general manager in Expert Sales Ltd. uses his knowledge of management in a unique and different manner and all the employees working under his guidance are happy and satisfied. He rewards the employee who came to office in time.

- (a) Identify the nature of management highlighted above. Give reason.
(2)
- (b) Which Principle of Management are reflected by Nandan’s behaviour?
(2)

[Hint : (a) Management as an art

(b) Harmony, not Discord

Q5. Mr. Singh owner of leather garments factory sends his marketing head to Europe every quarter to understand the changes in fashion. This helps to prepare his latest range in line with customers’ demands and expectations.

- (a) Identify the characteristic of management indicated here?
- (b) Which dimension of business environment is indicated here? Give any two impacts of it on business.

[Hint: (a) Dynamic (b) Social environment]

Q6. Mr. Bali, the Production manager of classic Ltd. is successfully running his department. He has created such an environment that no one becomes hurdle in anybody’s work, but all of them are ready to help each other. Mr. Bali has been observing a change in market for last few days. In the past they used to produce goods according to their will and with a little bit of effort could sell them. But now they have to produce goods as desired by the people. When Mr. Bali investigated to know the reasons for this change, he

came to know that on account of positive policies of the govt., running the business had become easy. Due to this, several new people had entered the business. Consequently, competition has increased and now the control of the market had slipped out of the hands of producers into the hands of customers.

- (a) Identify the concept of management described here? Give two points of its importance. (2)
- (b) Identify the business environment dimension and the concept there of. (2)

[Hint: (a) Co-ordination and its importance (any two) (b) Economic environment and Liberalisation].

Q7. The Govt. has been watching for some time that the performance of industry in the Public sector is not coming up to the level of standardisation. Several efforts have been put in, but because of no improvement in it, the Govt. decided to increase the role of Private sector in some areas of Public sector. This would bring about improvement in the level of performance. The reason for the Govt. to make this decision was that the different departments of an industrial unit in Public sector do not work with each other. The situation in private sector is entirely opposite to it.

- (a) Identify the concept of Management which shows the failure of Public sector. Give its importance also.
- (b) Which concept of business environment has been described in above case? Identify it and give its meaning.

[Hint: (a) Co-ordination (b) Privatisation]

Q8. Mr. Singh is working as the General Manager in a chain of hotels. Keeping a watch over the business environment is included in his routine. For the last few days Mr. Singh has been observing that the Govt. is taking special interest in Tourism Industry. The receipt of foreign exchange and employment promotion are its reasons. On the basis of this news he decided to set up hotels at several tourist places. They established several hotels before other companies considered this issue. Very soon, their hotels became well-known

in the market. Behind the fame of this company another reason was that this company was giving its employees not only the responsibility but also the authority of completion of work. The environment being to their liking now they had started meeting their managers with the latest ideas, which are taken by the company.

- (a) Identify the importance of business environment described here by quoting the relevant lines.
- (b) Identify the principles of Management being used in the Company.
- (c) On which level is Mr. Singh working. Write any two more functions performed at that level.

[Hint: (a) (i) Assisting in planning & Policy formation –

The Govt. Istaking.....

(ii) Dynamic - They establish several

(b) (i) Principle of Authority & Responsibility

(ii) Principle of Initiative

(c) Top level Management.]

Q9. In a reputed Co., for the last few days, differences have cropped up between management and workers. The workers were demanding more bonus. This matter has aggravated so much that the attention of both the parties has been diverted from production to division of profits. Consequently, the profits of the company began to fall down.

In order to assess the situation of Co.'s rapidly falling profits, a team of specialists was invited. After investigation, besides the differences, one more fact was revealed. That fact was the Purchase Manager of the company was purchasing raw material from the co. run by his own brother at a price more than market price. So, with the increase in cost, profit was reduced.

Due to poor performance, many employees also left the company.

- (a) Which principle of scientific management will be suitable for the company to

be followed and why?

- (b) Which principle of management given by Henry Fayol is being ignored by the co.? Explain briefly.
- (c) Which factors of Business environment are affecting the Co? Identify the type and factors.

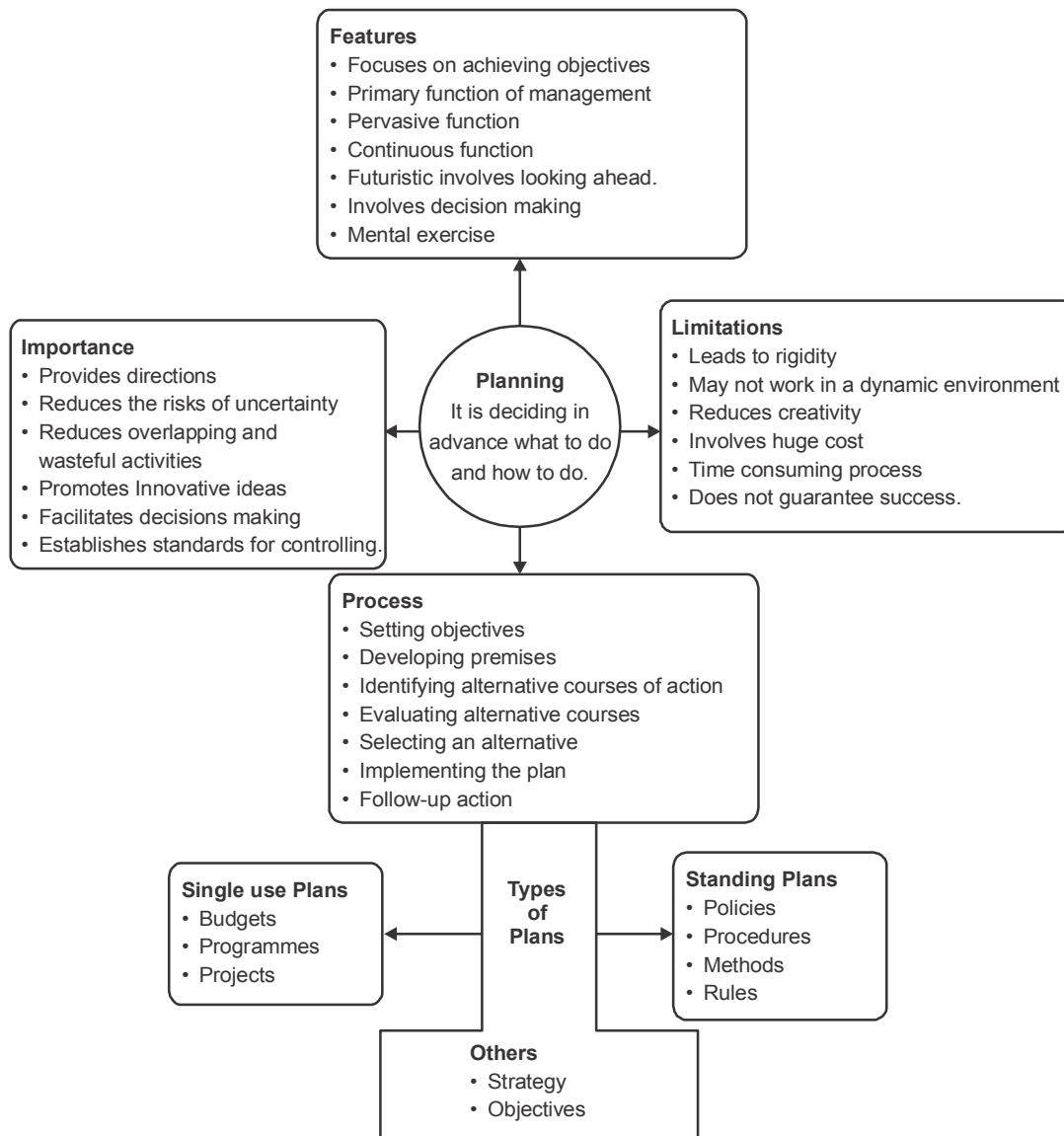
[Hint: (a) Harmony not discord.

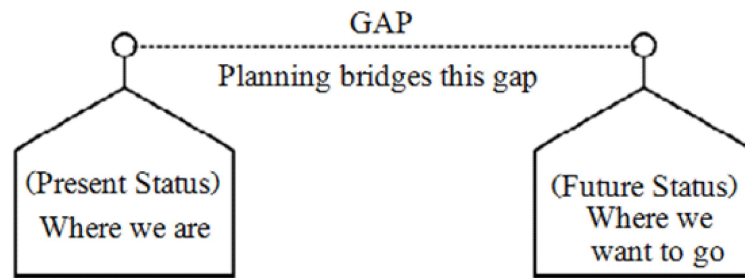
(b) Principle of Subordination of Individual Interest to General interest.

(c) Internal Factors - Employees].

CHAPTER – 4

PLANNING





Concept

Planning is deciding in advance what to do, how to do when to do, and who is to do it. Planning bridges the gap from where we are to where we want to go. It is one of the basic managerial functions. Planning involves setting objectives and developing appropriate courses of action to achieve these objectives. Thus, it is closely connected with creativity and innovation.

Importance of Planning

1. **Planning provides directions:** By stating in advance how the work is to be done, planning provides direction for action. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its goals efficiently.
2. **Planning reduces the risk of uncertainty:** Planning is an activity which enables a manager to look ahead, anticipate changes, consider the impact of changes and develop appropriate responses.
3. **Planning reduces wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different departments and individuals whereby useless and redundant activities are reduced.
4. **Planning promotes innovative ideas:** Planning is the first function of management. Managers get the opportunity to develop new ideas and new ideas can take the shape of concrete plans.
5. **Planning facilitates decision making:** Under planning targets are laid down. The manager has to evaluate each alternative and select the most viable option. Thus planning facilitates decision making.

6. Planning establishes standards for controlling: Planning provides the standards against which the actual performance can be measured and evaluated. Controlling is blind without planning. Thus planning provides the basis for controlling.

Q.1 Which function of management bridges the gap between where we are and where we want to go? (1)

Q.2 It is the managerial function which enables a manager to look ahead and anticipate changes. Identify the function and explain its importance. (5)

Limitations of Planning

(A) Internal Limitations

- 1. Planning leads to rigidity:** Planning decide the future course of action and managers may not be in a position to change it. such situation do not allow managers to make changes according to changing business environment. Thus detailed planning may create a rigid framework in the organization. and subordinates are supposed to work as per already laid plans only.
- 2. Planning may not work in dynamic environment:** Planning is based on anticipation of future happenings and since future is uncertain and dynamic, therefore, the future anticipations are not always true.
- 3. Planning involves huge costs:** When plans are drawn up, huge cost is involved in their formulation in terms of money and efforts.
- 4. Planning is time consuming:** Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation and it is not feasible in emergencies.
- 5. Planning does not guarantee success:** The success of an enterprise is possible only when plans are properly drawn and implement. Sometimes managers depend on previously tried successful plans, but it is not always true that a plan which has worked before will work effectively again.

6. **Planning reduces creativity:** In planning, work is to be done as per pre-determined plans. It is decided in advance what is to be done, how it is to be done and who is going to do it. Moreover, planning is done by top management which leads to reduction of creativity of other levels of management. as they are neither allowed to deviate from plans nor are they permitted to act on their own. Planning discourages individual's initiative & creativity.

(B) External Limitations

They are those limitations of planning which arise due to external factors over which an organization has no control.

1. Changes in Government policies leads to failure of plans.
2. Natural calamities such as flood, earthquake etc. also adversely affect the success of planning.
3. Changes in the strategies of competitors also lead to failure of planning many times.
4. Regular technological changes may affect planning.
5. Changes in the Economic and Social Conditions also reduces the effectiveness of planning.

Q.3 X.Ltd. Company does not consider ideas and thoughts of employees and acts according to earlier formulated plan. Identify the above limitation of planning and explain other limitations too. (6)

OR

Q.4 Rahul is working as a manager in Alpha Ltd. inspite of his best efforts, organisational planning failed to achieve its target. Identify and explain the causes of failure of planning. (6)

FEATURES OF PLANNING

1. Planning focuses on achieving objectives:

Planning has no meaning unless it contributes to the achievement of predetermined organizational goals.

2. Planning is a primary function of management:

Planning lays down the base for other functions of management. Planning precedes other functions.

3. Planning is pervasive:

Planning is required at all levels of management as well as in all departments of the organization. It is not an exclusive function of top management.

4. Planning is futuristic:

Planning essentially involves looking ahead and preparing for the future.

5. Planning involves decision making:

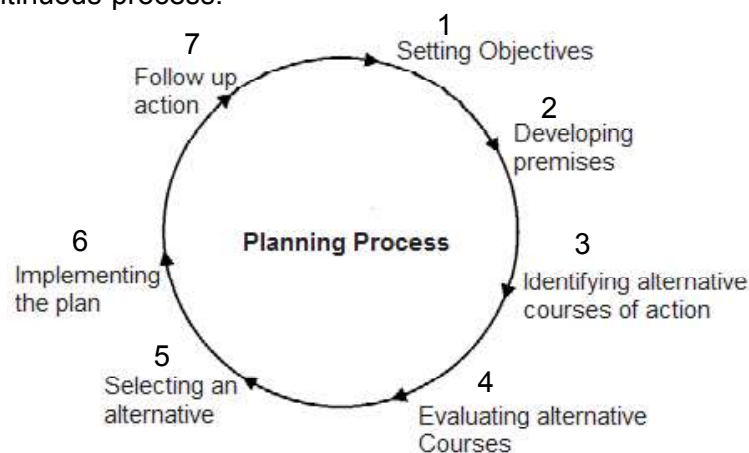
Planning essentially involves choice from among various alternatives and activities. If there is only one possible course of action, there is no need for planning because there is no choice.

6. Planning is a mental exercise:

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

7. Planning is continuous:

Plans are prepared for a specific period of time may be for a month, a quarter, or a year. At the end of that period there is need for a new plan to be drawn on the basis of new requirements and future conditions. Hence, planning is a continuous process.



Planning Process

1. **Setting Objectives:** The first and foremost step is setting objectives. Objectives may be set for the entire organization and each department.
2. **Developing premises:** Planning premises are the assumptions about the likely shape of events in future. It forecasts the obstacles, problems or limitations in the path of the effective planning because of which the plans may deviate. Planning premises supply relevant facts & information already to future.
3. **Identifying alternative courses of action:** Once objectives are set and premises are developed, the next step would be to act to achieve them. All the alternative courses of action should be identified, to achieve already set objectives.
4. **Evaluating alternative Courses:** The next step is to weigh pros and cons of each alternative. Each course will have many variables which have to be weighed against each other. Example: Cost-Benefit analysis.
5. **Selecting an alternative:** After comparison and evaluation, the best alternative is chosen for reaching organizational objectives. On the basis of merits, demerits, resources and consequences, the best plan has to be adopted, which must be the most feasible, profitable and with least negative consequences.
6. **Implementing the plan:** Once the plans are developed they are put into action. Successful implementation of the plan ensures understanding and whole-hearted cooperation of all the employees.
7. **Follow up action:** To see whether plans are being implemented, activities are performed according to schedule. In case of any deviations, changes are made in the plans.

Q.5 The director of Infra Ltd. set the target to increase current year sale by '500 cr. For increasing the sales of the current year, he also kept in mind future forecast and assumptions. Then he searched different ways to increase sale such as sales promotion, network marketing and other activities. After that he held meeting with sales manager and made necessary changes to achieve target. Identify the different stages of planning process quoting the relevant lines. (6)

TYPES OF PLAN

Standing plan or Repeatedly used plan:

The name suggests these plans are formulated once and repeatedly used. These plans continuously guide the manager. That is why it is said that a standing plan is a standing guide to recurring problems.

Types of Standing Plans

1. **Objectives:** Objectives are defined as ends for the achievement of which an organization goes on working. They may be designed as the desired future position that the management would like to reach. The first and foremost step of the planning process is setting organizational objectives. Examples increasing sales by 10%, Getting 20% return on Investment etc. Objectives should be clear and achievable, numerically expressed and time bounded.
2. **Strategy: Strategies** refer to future decisions defining the organizational directions and scope in long run. It is comprehensive plan which includes: (i) Long term objectives, (ii) Adopting a particular course of action, (iii) Allocating resources necessary to achieve the objectives. It is a plan prepared to counter act the probable moves of opponent. Initially it was used with reference to war. A strategy is generally made to fight the changing business environment specially competition e.g., marketing strategy.
3. **Policy:** Policies refers to the general guidelines (for thinking) which brings uniformity in decision-making for achievement of organizational objectives. They provide directions to the managers of an organization. They are flexible as they may be changed as per requirement. Example, selling goods on cash basis only, reserving some post for women in the organization.
4. **Procedure:** Procedures are those plans which determine the sequential steps to carry out some work/activity. They indicate which work is to be done in which sequence/way. They help in the performance of work. Procedures are guides to action. Example: Process adopted in the Selection of Employees.
5. **Rule:** Rules provide guidelines for actions. It is a specific statement that tell what is to be done and what not to be done in a specified situation. They help in indicating which points are to be kept in mind while performing task/work. Rules are rigid which ensure discipline in the organization. Example: 'No smoking in the office premises'. Violation of rules may invite penalty.

6. **Method:**Methods are standardized ways or manner in which a particular task has to be performed. There may be many ways/methods of completing a task but that method/way must be selected by which work can be done early at the minimum possible cost. Methods are flexible. Example, various methods of training are adopted by an organization to train its employees like apprenticeship training, vestibule training etc.

SINGLE USE PLAN:

These plans are connected with some special problems. After having been used once there is no importance of these plans in future.

Types of Single Use Plan

1. **Programme:** A programme is a single use plan containing detailed statements about project; outlining the objectives, policies, procedures, rules, tasks, physical and human resources required to implement any course of action. E.g., cleanliness programme in the organisation.
2. **Budget:** A budget is a statement of expected result expressed in numerical terms for a definite period of time in the future. Budgets are of many types like: Cash budget, sales budget etc.

1) Difference between Single Use and Standing Plans

asis of	Single Use Plans	Standing Plans
1. Meaning Differece	A single-use plan in a business refers to plans developed for a one-time project or event that has one specific objective.	A standing plan in a business refers to plans developed for using over and over again because they focus on organisational situations that occur repeatedly.
2. Objective	Single use plan is developed to carry out a course of action that is not likely to be repeated in future time.	Standing plan however is developed for activities that occur regularly over a period of time.

3. Scope	Single use plans generally encompass a narrow scope targeting a specific project or event.	Standing plans generally encompass a wider scope involving more than one department or business function.
4. Stability	Single use plans are discarded when the situation, project or event is over.	Standing plans are relatively stable and used over and over again with necessary modification or updations.
5. Example	A new cash budget is prepared every year in the organisation	Recruitment and selection procedure for a particular post in the company.

2) Differentiate between Objective & Strategy: -

Basis of difference	Objective	Strategy
1. Meaning	An objective is the end towards which all activities of the organisation are directed.	A strategy is a comprehensive plan formulated to achieve an objective.
2. Main element	An objective need to be expressed in measurable terms and is to be achieved within a given time period.	The business environment needs to be taken into consideration whenever a strategy is formulated.

3) Difference between objectives and policy

Basis of difference	Objectives	Policy
1. Meaning	Objective is that end point which is to be reached or obtained.	Policy are the means of achievement for objective.
2. Need	No organisation can be established without objectives, so they are very important.	Their formulation is not so important. They can be or cannot be laid down.

4) Difference between Policy and Procedure

Basis of difference	Policy	Procedure
1. Meaning	Here it is explained as to how work is to be done in order to achieve the objective of the organisation.	These ensure the sequence of work performance in respect of activities determined under the policy.
2. Need	These are the guide to thinking and decision making.	These are guide to action.

Multiple Choice Questions

- Identify the general plan prepared by top management outlining resource allocation, priorities and takes into consideration the business environment.
(a) Objectives (b) Budget
(c) Programme (d) Strategy.
- In addition to budget's project which of the following is included in single use plan.
(a) Policy (b) Rule
(c) Programmes (d) Procedure.
- While selecting the best possible course of action, what manager will have to apply?
(a) Pros, cons (b) Thinking, understanding
(c) Permutations, combinations (d) Innovative ideas, decision making
- "Plans decide the future course of action and managers may not be in a position to change it." Identify the limitation of planning indicated here.
(a) Planning reduces creativity
(b) Planning does not guarantee success
(c) Planning may not work in a dynamic environment
(d) Planning leads to rigidity.

5. While doing work, an idea struck Rajender, which will not only reduce the time of work but would also reduce the cost but he was neither allowed to deviate from plans nor permitted to act on his own.
- Choose the limitation of planning described in above para.
- (a) Planning leads to rigidity
 - (b) Planning reduces creativity
 - (c) Planning does not guarantee success
 - (d) Planning involves huge cost.
6. Arrange the following steps of planning process in the required sequence
- (1) Evaluating alternative courses
 - (2) Developing premises
 - (3) Identifying alternative courses of action.
 - (4) Selecting an alternative.
- (a) 1, 2, 3, 4
 - (b) 2, 1, 3, 4
 - (c) 1, 3, 2, 4
 - (d) 2, 3, 1, 4
7. Select the feature of planning out of the following.
- (a) Primary function.
 - (b) Pervasive
 - (c) Futuristic
 - (d) All of these
8. What may be prepared to show the number of workers required in the factory at peak production times? Select the appropriate word out of the following.
- (a) Objective
 - (b) Programme
 - (c) Budget
 - (d) Policy
9. What are general forms of standing plans that specify the organisations response to a certain situation like the basis on which admission are done in an educational institution.
- (a) Rules
 - (b) Strategies
 - (c) Policies
 - (d) Procedures
10. Which activity will be a futile exercise if it is not acted upon or implemented.
- (a) Management
 - (b) Coordination
 - (c) Directing
 - (d) Planning

- Ans.** 1. (d) 2. (c)
3. (c) 4. (d)
5. (b) 6. (d)
7. (d) 8. (c)
9. (c) 10. (d)

Giving reason in support of your answer, state whether the following are **True** or **False**.

1. Planning involves decision Making.
2. Rules do not allow for any flexibility or discretion but penalty are not imposed on their violation.
3. Procedure provide the prescribed ways or manner in which a task has to be performed.
4. Planning reduces overlapping and waterful acitivities.
5. Planning guarantee success.

- Ans.** 1. True 2. False
3. False 4. True
5. False

Fill in the blanks

1. _____ lays down the base for other functions of management.
2. Planning is basically on _____ activity of thinking rather than doing.
3. Middle management and other decision makers are neither allowed to deviate from _____ nor are they permitted to act on their own.
4. _____ describe steps to be followed in particular circumstances while _____ provide the manner in which a task has to be performed.
5. _____ define the broad parameters with in which a manager may function and Manager may use his/her discretion to interpret and apply them.

- Ans.** 1. Planning 2. Intellectual
3. Plans 4. Procedure, method
5. Policies.

Match the following and select the appropriate option.

- | | |
|----------------------------------|--------------------------------|
| 1. (i) Rule | (i) Flexible |
| (ii) Policy | (ii) Chronolgical order |
| (iii) Procedure | (iii) Prescribed manner |
| (iv) Method | (iv) Invite penalty |
| (a) | (b) |
| (i) – (i) | (i) – (iv) |
| (ii) – (ii) | (ii) – (i) |
| (iii) – (iii) | (iii) – (ii) |
| (iv) – (iv) | (iv) – (iii) |
| 2. (i) Importance of planning | (i) Developing premises |
| (ii) Feature of planning | (ii) Rigidity |
| (iii) Limitation of planning | (iii) Mental exercise |
| (iv) Step of process of planning | (iv) Provide standards |
| (a) | (b) |
| (i) – (iv) | (i) – (ii) |
| (ii) – (iii) | (ii) – (i) |
| (iii) – (ii) | (iii) – (iv) |
| (iv) – (i) | (iv) – (iii) |
| 3. (i) Setting objectives | (i) Assumption about future |
| (ii) Developing Premises | (ii) Monitoring the plans |
| (iii) Evaluating alternatives | (iii) Increase in sales by 20% |
| (iv) Follow-up action | (iv) Weigh the pros and cors |
| (a) | (b) |
| (i) – (iii) | (i) – (iv) |
| (ii) – (i) | (ii) – (ii) |
| (iii) – (ii) | (iii) – (i) |
| (iv) – (iv) | (iv) – (iii) |
| (c) | (d) |
| (i) – (iv) | (i) – (iii) |
| (ii) – (iii) | (ii) – (i) |
| (iii) – (i) | (iii) – (iv) |
| (iv) – (ii) | (iv) – (ii) |

- | | | |
|----|----------------|-------------------------|
| 4. | (i) Strategy | (i) Specific statements |
| | (ii) Policy | (ii) General statements |
| | (iii) Rule | (iii) Broad contours |
| | (iv) Procedure | (iv) Routine steps. |
-
- | | | | | |
|--|--------------|--------------|-------------|--------------|
| | (a) | (b) | (c) | (d) |
| | (i) – (ii) | (i) – (iv) | (i) – (iii) | (i) – (iii) |
| | (ii) – (iii) | (ii) – (i) | (ii) – (ii) | (ii) – (i) |
| | (iii) – (i) | (iii) – (ii) | (iii) – (i) | (iii) – (ii) |
| | (iv) – (iv) | (iv) – (iii) | (iv) – (iv) | (iv) – (iv) |
-
- | | | |
|----|-----------------------|---|
| 5. | (i) Primary function | (i) New plan to be drawn after a period |
| | (ii) Pervasive | (ii) An intellectual activity |
| | (iii) Mental exercise | (iii) Required at all departments |
| | (iv) Continuous | (iv) Precedes other functions |
-
- | | | | | |
|--|--------------|--------------|--------------|--------------|
| | (a) | (b) | (c) | (d) |
| | (i) – (iii) | (i) – (iv) | (i) – (iii) | (i) – (ii) |
| | (ii) – (i) | (ii) – (iii) | (ii) – (ii) | (ii) – (i) |
| | (iii) – (ii) | (iii) – (ii) | (iii) – (iv) | (iii) – (iv) |
| | (iv) – (iv) | (iv) – (i) | (iv) – (i) | (iv) – (iii) |
-
- | | | |
|-------------|--------|--------|
| Ans. | 1. (b) | 2. (a) |
| | 3. (d) | 4. (c) |
| | 5. (b) | |

QUESTIONS FOR PRACTICE

- Q1.** “We do not sell on credit”. This statement is related to which type of plan.
(Policy) (1)
- Q.2** Planning strangles the initiatives of the employees and compels them to work in an inflexible manner. Which limitation of planning is highlighted here.
(Planning leads to rigidity) (1)

- Q.3** Identify the type of plan which is time bound and linked with measurable outcome? (Hint- Budget) (1)
- Q.4** A company is manufacturing garments. The manager wants to increase profits by purchasing new high speed machines or increasing the sale price or using waste materials in manufacturing stuffed toys. He decided that “using waste material” is the best solution for him.
- (a) Identify the concept of management involved. (Planning)
- (b) Mention the steps involved in the above process by quoting the lines from the question. (3)
- Q.5** In Chak De movie, Shahrukh Khan becomes the coach of the girl’s hockey team. He knows that he has to prepare the girls for the international hockey matches and win the cup. For this he prepares a long term plan and thinks of ways of how to beat the opponent team. He coaches the girls to play in different ways like defensive, offensive, etc.
- At the outset of the match, he explains who will open the match, and how the ball will be passed by one player to another step by step.
- Identify all the types of plans mentioned above State them along with lines which refer to them in the above paragraph. (Objective, strategy, procedure, method) (4)
- Q.6** The production manager of a company received the complaint that the quality of the goods was not good. After investigation it came to light that the machines had become very old. That is why they were unable to achieve standardised quality. The production manager developed several options by way of solution to this problem. Example, getting the machines repaired, purchasing new local machines, purchasing new imported machines, if possible taking machines on rent etc. The CEO of the company wanted the

list of options to be smaller, so that a thorough study could be made for them. In order to make the list of optional ways smaller, he decided to give up all those options which required the investment of more than 10 crores.

(a) Identify the concept described in the paragraph given above. (Planning Process)

(b) What do you understand from the fact of company fixing the maximum investment limit on options? (Developing Premises) (1+2=3)

Q.7 Procter and Gamble Ltd. is offering a free bucket on every purchase of Tide washing powder. In response to this Hindustan Unilever Ltd. started a new scheme of giving free one kg of Rin Washing Powder with every purchase of five kg of Rin washing powder. Identify the plan stated in above paragraph and explain it. (Strategy) (3)

Q.8 "KOHINOOR FOODS Ltd. has banned smoking in the factory premises."

- Identify the plan stated in above lines. (Rule)
- State ANY TWO features of this plan.
- Differentiate between policy and this plan. (any two) (5)

Q.9 PK Ltd. has been well known for delay in decision making and overlapping of work done. Identify management function lacking in the organisation and state importance of this function? (Planning) (6)

Q.10 Rahul, a worker is given a target of assembling two computers per day. Due to his habit of doing things differently, an idea struck him, which would not only reduce the assembling time of computer but also reduce the cost of production. But instead of appreciating his idea his supervisor scolded him and asked him to complete the work as per prescribed technique. Identify & describe the limitation of planning stated here? (3)

Q.11 A company gave its sales executives, the directives that they would sell goods on credit but told the employees to strictly inform the customers that if they will not make payment within 1 month they will have to pay an interest of 10% per annum. In the above given paragraph 2 types of plans have been mentioned. Identify them and explain them with their features. (policy, Rule) (5)

Q.12 If you fail to plan, you plan to fail. "Do you agree? Give any three reasons. (Importance of Planning) (3)

Q.13 Identify and explain the types of plans.

- (a) A plan to achieve 30% Return on Investment. (Objective)
- (b) A plan used in defence to combat the plan of opponent. (Strategy)
- (c) A plan which does not allow for any discsetion. (Rule) (1×3)

Q.14 Identify explain the steps involved in planning process formt he following :

- (a) Certain assumptions are made about the future events. (developing premises).
- (b) Selection of combination of different alternatives. (selection of best alternative).
- (c) Monitoring the plans to ensure that objectives are achieved. (follow up action). (2×3)

Q.15 Debtors Turnoner Ratio of Quinea Ltd. depicted slow collection of debt from debtors. To improve the position, Company decided to follow some standardised steps for speedy collection of debt as—

- | | | |
|--------------------------|---|----------------------|
| — 1st reminder to debtor | - | On 55th day of sales |
| — 2nd reminder to debtor | - | On 65th day |
| — Legal proceedings | - | 70th day |

It helped the company, and ultimately debtors turnoner ratio of company improved due to speedy recovery of debts. Company followed the same steps every following year.

- (a) Name and explain the plan metioed in about case- Procedure (1+2) = 3
- (b) Identifiy the type of plan mentioned in (a) Standing use Plan (1)

Planning

Q. Identify the type of plans from the following statements :

1. A company needs a detailed plan for its new project, "Construction of a shopping mall."
2. Spending ₹10-12 crores for building public toilets under Swachh Bharat Abhiyaan.
3. 10% jobs reserved for women in every department.

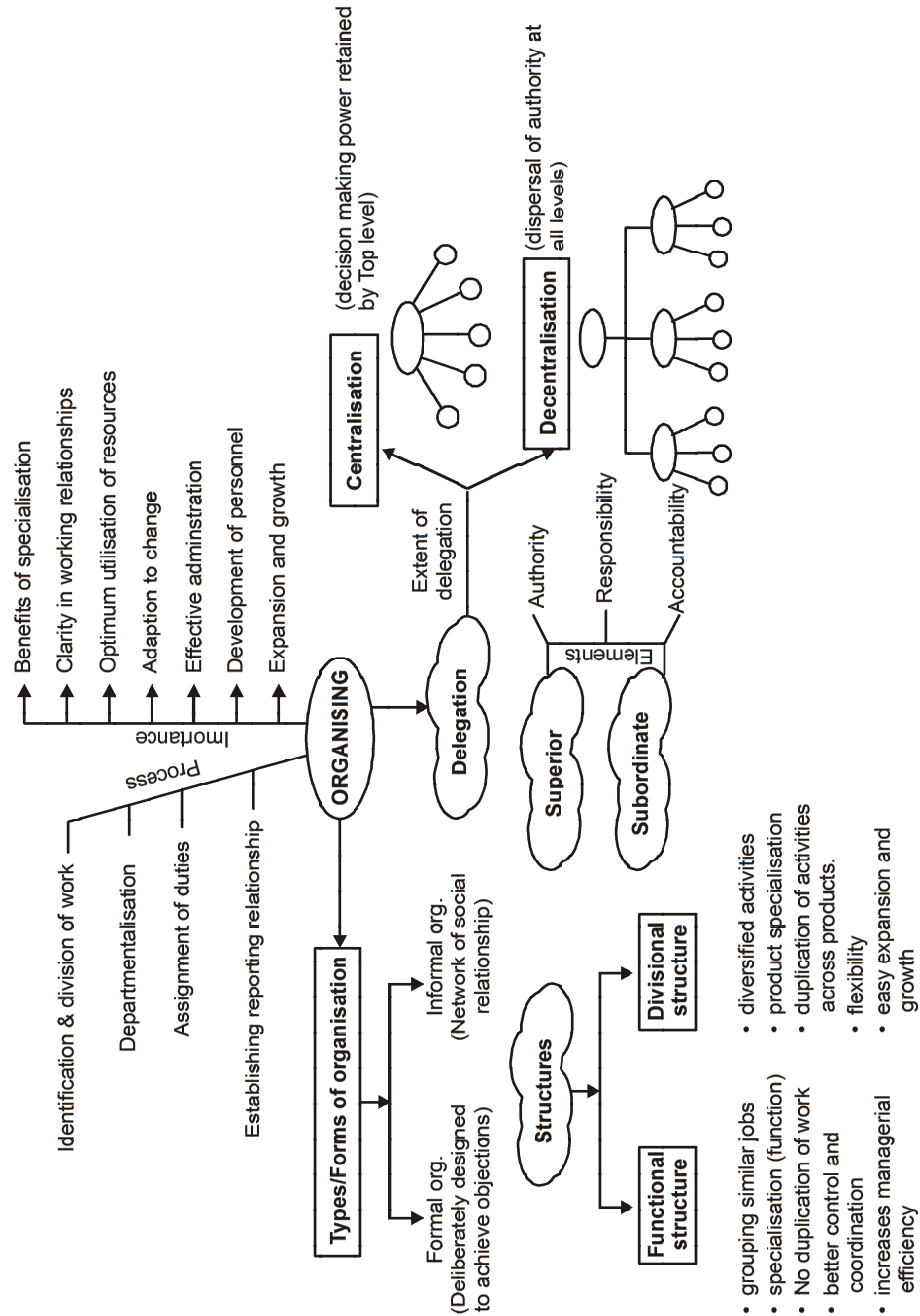
4. While making its plan, the company takes into consideration the business environment.
5. Visitors to the factory must obtain valid entry passes.
6. A company decides to launch new models of a product to take on competition.
7. No entry for employees in the office after 10:00 am.
8. For imparting training, lectures and seminars are organised.
9. To tackle competition, MNC Ltd. sets sales targets.
10. Strict penal actions against anyone who uses office stationary for personal use.
11. Library will issue the books for 7 days.

Answers

- | | |
|--------------|--------------|
| 1. Programme | 2. Objective |
| 3. Policy | 4. Strategy |
| 5. Procedure | 6. Strategy |
| 7. Rule | 8. Method |
| 9. Budget | 10. Rule |
| 11. Policy | |

CHAPTER – 5

ORGANISING



Meaning of Organising

Organising can be defined as a process that initiates implementation of plans by clarifying jobs, working relationships and effectively deploying resources for attainment of identified and desired results. Therefore, it is a process, which coordinates human efforts, assembles resources and integrates both into a unified whole to be utilized for achieving specified objectives.

Organising as a function of management leads to—

- Creation of organisational structure with suitable personnel.
- Designing specific roles to eliminate ambiguity.
- Defining inter-relationship among personnel for productive cooperation.
- Clarifying authority and responsibility for results and logical grouping of activities.

Organising process

Steps Involved in the Process of Organising

In order to complete the organising function of management, the following steps are taken:

1. Identification and division of work.
 2. Departmentalisation.
 3. Assignment of duties.
 4. Establishing reporting relations.
1. At this step, the total work is divided into various activities, for eg. various activities of a shoe manufacturing company can be purchase of raw material, production, stocking of goods, research, advertisement, sales etc.
 2. The activities of the same nature are grouped together and assigned to a particular department. It is known as grouping, for e.g., advertisement and sales can be given to the marketing department.

3. At this stage, the responsibility of each individual or post is decided. For e.g., the purchase manager will be given the task of purchasing goods, the sales manager will be given the work of sale of goods etc. while assigning duties, it is important to match nature of the work and the capabilities of the person to whom the work is given.
 4. Each individual should also know from whom he has to take orders and to whom he is accountable. It helps in coordination among various departments.
- Q.1** It is the function of management which establishes relationship and deploys resources. Identify the concept and explain the steps involved in the process of the concept. (Hint- Organising; process of organising)
- Q.2** Identify the function of management which coordinates human efforts and physical resources to achieve organisational goals. (Hint- Organising)

Importance of Organising

1. **Benefits of specialization:** In organizing every individual is assigned a part of total work and not the whole task. This division of work into smaller units and repetitive performance leads to specialization. Thus organizing promotes specialisation which in turn leads to efficient & speedy performance of tasks.
2. **Clarity in working relationship:** It helps in creating well defined jobs and also clarifying the limits of authority and responsibility of each job. The superior-subordinate relationship is clearly defined in organizing.
3. **Effective Administration:** It provides a clear description of jobs and related duties which helps to avoid confusion and duplication. Clarity in working relationships enables proper execution of work which results in effective administration.
4. **Optimum utilization of resources:** The proper assignment of jobs avoids overlapping/duplication of work. This helps in preventing confusion and minimizing the wastage of resources and efforts.
5. **Adoption to Change:** A properly designed organizational structure is flexible which facilitates adjustment to changes in workload caused by change in external environment related to technology, products, resources and markets.

6. **Development of Personnel:** Sound organization encourages initiative and relative thinking on part of the employees. When managers delegate their authority, it reduces their workload so they can focus on more important issues related to growth & innovation. This also develops the subordinates' ability and helps him to realize his full potential.
7. **Expansion and growth:** It helps in growth & diversification of an enterprise by adding more job positions, departments, product lines, new geographical territories etc.

Q.3 A manager is responsible to solve conflicts regarding authority and responsibility amongst employees and create fruitful environment to work as a unit. Identify the function of management and explain its importance. (Hint- Organising)

Organizational Structure

Organisational structure refers to that specific pattern of relationship which is created during organising process. The structure provides a basis or frame work for manager and other employees for performing their functions.

It may be defined as a 'system of job positions, the jobs assigned to them and the authority relationship among them.

Relationship between span of management and organisation structure:

It refers to the number of subordinates that can be effectively controlled by a manager/ superior. It gives shape to the organisational structure and determines levels of management.

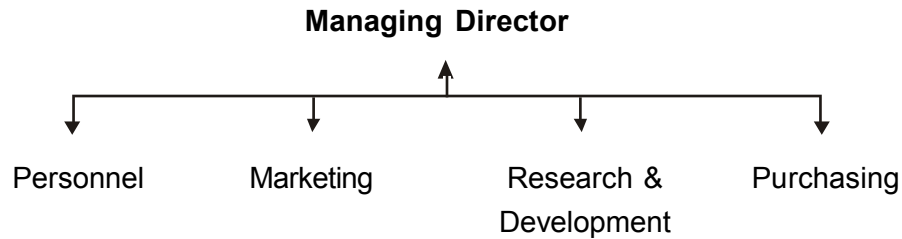
Narrow span of management:

Results in tall structure whereas wider span of management results in flat structure.

TYPES OF ORGANISATION STRUCTURE

- A. Functional structure
- B. Divisional structure

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



Suitability

- (1) Large organizations producing one line of product.
- (2) Organizations which require high degree of functional specialization with diversified activities.

Advantages:

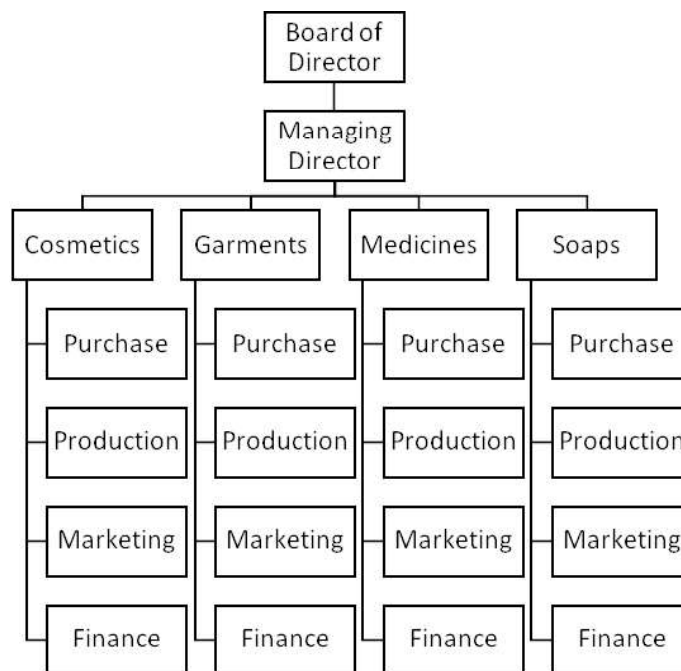
1. **Specialisation:** Better division of labour takes place which results in specialization of functions and its consequent benefits.
2. **Coordination is established:** All the persons working within a department are specialists of their respective jobs. It makes the co-ordination easier at departmental level.
3. **Helps in increasing managerial efficiency:** Managers of one department perform same type of function again and again which makes them specialized and improves their efficiency.
4. **Minimises cost:** It leads to minimum duplication of efforts which results in economies of scale and thus lowers cost.

Disadvantages:

1. **Ignorance of organizational objectives:** Each departmental head works according to his own wishes. They always give more weight to their departmental objectives. Hence overall organizational objectives suffer.
2. **Difficulty in Inter-Departmental Coordination:** All departmental heads work as per their own wishes which leads to coordination within the department easier but it makes inter-departmental coordination difficult.
3. **Hurdle in complete development of employees:** because each employee specializes only in a small part of the whole job.

(B) Divisional Structure

Dividing the whole enterprise according to the major products to be manufactured (like metal, plastic, cosmetics etc.) is known as divisional organization structure.



Suitability:

1. For the enterprises where large varieties of products are manufactured using different productive resources. (Multi-product) Example- Tata, Reliance.
2. When an organisation grows and needs to add more employees, more departments or introduce new level of management.

Advantages

1. **Quick decision-making:** Divisional manager can take any decision regarding his division independently which makes decisions quick and effective.
2. **Divisional results can be assessed:** Divisional results (profit/loss) can be assessed easily. On this basis any unprofitable division can be closed.

3. **Growth and Expansion:** It facilitates growth and expansion as new divisions can be added without disturbing existing departments.

Disadvantages

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

Q.4 Vimal cloth Ltd. was manufacturing only fabrics. After having great success in fabric business the directors of Vimal cloth Ltd. acquired three new manufacturing units and started selling multi-products in domestic market. (Electronics, Mobile phone, Cements) They decided that an individual who has capability and competence to handle responsibility would head each unit.

- (A) State the type of organisation structure Vimal cloth Ltd. have followed as a producer of single product.
- (B) Suggest which type of organisational structure Director must adopt now and explain its advantages.

[Hint- (A) Functional structure (B) Divisional structure]

Q.5 Rohan a sole proprietor was running food catering business in North Delhi. He got great success and profit margin in this business. Due to excess demand in the market he expanded his business and separated departments as Purchase, Production, Finance and marketing.

Which type of organisational structure would you suggest him? Enumerate its two benefits. [Functional structure; Benefits- Specialisation Minimises Cost]

FORMAL ORGANISATION

This structure is designed by the management to achieve organizational goals in which the responsibilities, authority and mutual relationships among all the

employees working in an enterprise are clearly defined. It can be functional or divisional.

Features

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

Advantages

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

Disadvantages

1. The Work is based on rules which causes unnecessary delays.
2. **Lack of initiative:** The employees have to do what they are told to do and they have no opportunity to show their creativity.
3. **Limited in scope:** It is difficult to understand all human relationships in an enterprise as it places more emphasis on structure and work.

INFORMAL ORGANISATION

An informal organization is that organization which is not established deliberately but comes into existence because of common interests, tastes and religious and communal relations. The main purpose of this organization, structure is getting psychological satisfaction. For example, employees with similar interest in sports, films, religion etc. may form their own informal groups.

Features

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

Advantages

1. **Speed:** Prescribed lines of communication are not followed which leads to faster spread of information.
2. **Fulfilment of social needs** – enhances job satisfaction which gives them a sense of belongingness in the organization.
3. **Quick solution of the problems** – because the subordinates can speak without hesitation before the officers, it helps the officers to understand the problems of their subordinates.

Disadvantages

1. **It creates rumours:** All the persons in an informal organization talk in a careless way and sometimes a wrong thing is conveyed to the other persons.
2. It resists changes and lays stress on adopting the old techniques.
3. **Priority to group interests:** Pressurises members to conform to group expectations.

Difference between Formal Informal organisation

Basis	Formal Organisation	Informal Organisation
1. Meaning	It refers to the structure of well-defined authority and responsibility.	It refers to the network of social relationships which develop automatically.
2. Nature	Rigid & Stable	Flexible and unstable

3. Authority	Arises by virtue of position in management.	Arises out of personal qualities.
4. Adherence to rules	Violation of rules may lead to penalties and punishments.	No such punishments.
5. Flow of communication	Takes place through the scalar chain.	Not through a planned route. It can take place in any direction.
6. Purpose	To achieve planned organizational objectives	To satisfy social and cultural needs and fulfil common interest.
7. Formation/origin	Deliberately planned and created by management.	Emerges spontaneously as a result of social interaction among employees.
8. Structure	Well-defined structure of tasks & relationships.	No clear-cut structure because of complex network of relationships.
9. Flow of authority	Authority flows from top to bottom i.e. downwards.	Authority flows vertically as well as horizontally.
10. interdependence	Independent.	Depends on formal structure.

- Q.6** The employees of a software company have formed a dramatic group for their entertainment and recreation. Name the type of organisation so formed and state its features. [Hint- Informal organisation] Features: (i) Originates itself (ii) No rules (iii) Personal
- Q.7** The Principal of SPS Public School ordered the staff that they will be allowed to sit in the staffroom situated in their block. No teacher will be allowed to sit in another staffroom. During school's hours, teachers can meet teachers of their department only for work related matters. He wants each teacher to strictly work as per rules and directions given by him.

Identify the type of organisation in this and state disadvantages of such organisation.

[Hint- Formal Organisation]

Disadvantages: (i) Unnecessary delay, (ii) Lack of initiative, (iii) Limited Scope.

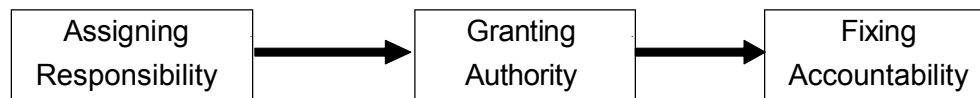
Delegation of Authority

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

Process/Elements of Delegation

1. **Authority:** The power of taking decisions in order to guide the activities of others. Authority is that power which influences the conduct of others.
2. **Responsibility:** It is the obligation of a subordinate to properly perform the assigned duty. When a superior issues orders, it becomes the responsibility of the subordinates to carry it out.
3. **Accountability:** When a superior assigns some work to a subordinate, he is answerable to his superior for its success or failure.

Principle of Absoluteness of Accountability: Authority can be delegated but responsibility/accountability cannot be delegated by a manager. The authority granted to a subordinate can be taken back and re-delegated to another person. The manager cannot escape from the responsibility for any default or mistake on the part of his subordinates. For example, If the chief executive asks Marketing Manager to achieve a sales target of sale of 100 units/day. The marketing manager delegates this task to deputy sales manager, who fails to achieve the target. Then marketing manager will be answerable for the work performance of his subordinates. Thus, accountability is always of the person who delegates authority.



Difference between Authority, Responsibility and Accountability			
Basis	Authority	Responsibility	Accountability
1. Meaning	Right to command	Obligation to task perform an assigned	Answerability for outcome of the assigned task.
2. Origin	Arises from formal position	Arises from delegated authority	Arises from responsibility
3. Flow	Downward – from Superior to Subordinate	Upward – from Subordinate to Superior	Upward – from Subordinate to Superior
4. Withdrawal	Can be with-drawn any time by giving notice.	Cannot be withdrawn once created.	Cannot be withdrawn once created.

Importance of the Delegation of Authority

- 1. Reduction of Executives' work load:** It reduces the work load of officers. They can thus utilize their time in more important and creative works instead of works of daily routine.
- 2. Employee development:** Employees get more opportunities to utilize their talent which allows them to develop those skills which will enable them to perform complex tasks.
- 3. Quick and better decision are possible:** The subordinates are granted sufficient authority so they need not to go to their superiors for taking decisions concerning the routine matters.
- 4. High Morale of subordinates:** Because of delegation of authority to the subordinates they get an opportunity to display their efficiency and capacity.
- 5. Better coordination:** The elements of delegation – authority, responsibility and accountability help to define the powers, duties and answerability related to various job positions which results in developing and maintaining effective coordination.

Decentralisation

It is defined as even and systematic distribution of authority at every level and all departments of management. Under this, the authority is transferred to the level where it is to be exercised, so the number of centres for taking decisions' increases. It should be noted that 'Decentralisation' is an extension of delegation.

Centralization and Decentralization: represents the pattern of authority among managers at different levels. Centralisation of authority means concentration of power of decision making in a few hands. In such an organization very little authority is delegated to managers at middle and lower levels. No organization can be completely centralized or decentralized. They exist together and there is a need for a balance between the two. As the organization grows in size, there is tendency to move towards decentralization. Thus, every organization is characterized by both.

Importance of Decentralisation

1. **Develops initiative amongst subordinates:** It helps to promote confidence because the subordinates are given freedom to take their own decisions.
2. **Quick and better decisions:** The burden of managerial decisions does not lie in the hands of few individuals but gets divided amongst various persons which helps them to take better and quick decisions.
3. **Relieves the top executives from excess workload:** The daily managerial works are assigned to the subordinates which leaves enough time with the superiors which they can utilize in developing new strategies.
4. **Managerial Development:** It means giving authority to the subordinates upto the lower level to take decisions regarding their work. In this way the opportunity to take decisions helps in the development of the organization.
5. **Better Control:** It makes it possible to evaluate performance at each level which results in complete control overall the activities.

Difference between – Delegation & Decentralization

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

- Q.1** A steel manufacturing company has the following main jobs:
- (i) Manufacturing (ii) Finance (iii) Marketing (iv) Personnel and (v) Research and development.
 - (a) Which type of organisational structure will you choose for this type of a company and why?
 - (b) State any two advantages that this structure offers to an organisation.
- (4)
- [Hint- (a) Functional Structure; it has functionally specialised departments,
(b) (i) Specialisation (ii) Minimises Cost]
- Q.2** Resham started a telecommunication company Virlja Ltd. to manufacture economical mobile phones for the Indian rural market with 15 employees. The company did very well in its initial years. As the product was good and marketed well, the demand of its product went up. To increase production the company decided to recruit additional employees. Resham Gupta who was earlier taking all the decisions of the company had to selectively disperse the authority. He believed that subordinates are competent, capable and resourceful and can assume responsibility for effective implementation of

their decisions. This paid off and the company was not only able to increase its production but also expanded its product range.

(a) Identify the concept used by Resham through which he was able to steer his company to greater heights.

(b) Also explain any three points of importance of this concept. (4)

[Hint- (a) Delegation of authority, (b) Reduction of workload, Employee development, quick decision making]

Key Terms to Crack Case-Studies

S.No.	Phrase	Topic/ function	Sub-Topic/ Concept
1.	Identification and grouping of activities	Organising	—
2.	Assembling physical, financial and human resources	Organising	—
3.	Defining inter-relationship between different roles	Organising	Type of organisation formal
4.	Creation of organisational structure	Organising	do
5.	Initiates implementation of plans by classifying jobs and working relationship.	Organising	do
6.	Defining the work of different job position and accordingly allocating to various employees	Organising	Process of organising 2nd step Assignment of duties
7.	Framework within which managerial and operating tasks are performed	Organising	Organisation structure
8.	It determines the reporting relations.	Organising process	—
9.	Number of subordinates that can be effectively managed by superior	Organising structure	Span of management

10.	It brings occupational specialisation	Organisation Structure	Functional Structure
11.	It minimises duplication of efforts	Organisation Structure	Functional Structure
12.	Within each division a functional structure is adopted.	Org. Structure	Divisional structure
13.	It brings product specialisation/ Making departments on the basis of products.	Organisation Structure	Divisional Structure
14.	Conflicts among departments.	Organisation Structure	Divisional Structure
15.	It suits to a company which produces more categories/ lines of products, adding number of employees, introducing more departments.	Organisation Structure	Divisional Structure
16.	It is deliberately designed to clarify the relationships among diff. job positions.	Type of Organisation	Formal Organisation
17.	It leads to procedural delays due to prescribed lines of communication spontaneously.	do	do
18.	This organisation develops itself without putting any special efforts.	do	Informal Organisation
19.	Downward transfer of work selectively to reduce workload of managers.	Organising	Delegation of authority
20.	It increases employees reputation	do	do
21.	Scattering powers to all levels or on same level to everyone (vertical or horizontal or both)	Organising	Decentralisation
22.	It leads to increase in role and importance of subordinates	do	do

- III. Centralisation gives more autonomy to subordinates.
- IV. Decentralisation reduces the burden of top management.
- V. Delegation does not mean abdication.

Ans. I. 2, II. 1, III. 3, IV. c, V. d

Fill in the Blanks.

- (1) Informal (2) delegation (3) Authority, Responsibility and Accountability
- (4) decentralisation (5) Centralisation.

True/False

- I. True because with in formal set up people interact with each other which given rise to a network of social relationships called informal organisation.
- II. False because the work is complex at top level making difficult for a manager to manage a large no. of subordinates.
- III. False as the decision making power is with superior only.
- IV. True as the work and decision making power both are dispersed.
- V. True because the manager shall still be accountable for the performance of the assigned tasks.

1 MARK QUESTIONS

- Q.1** “If we delegate authority, we multiply by two, if we decentralise it we multiply it by many”. Name any one concept to which this statement is related.
- Q.2** Name the function of management which coordinates the physical, financial and human resources and establishes productive relations among them for achievement of specific goals.
- Q.3** ‘Identifying and dividing the work’ is the first step in the process of one of the functions of management. Identify the function.

3-6 MARKS QUESTIONS

- Q1.** A Manager increased the production target from 500 units to 700 units per month but the authority to draw raw material was not given by him. The employees were not able to meet the new target. Who should be held responsible for this and which principle has been violated here? Explain. (4)

- Q2.** A company is manufacturing washing machines. There is a well-defined system of jobs which is clear and defines authority, responsibility and accountability in the company. But people are not allowed interact beyond their officially defined roles. As a result, the company is not able to adopt the changing business environment. The work force is also not motivated due to lack of social interaction. The company is facing problems of procedural delays and inadequate recognition to creative talents.
- I. Suggest how the organisation can overcome the problems faced by it.
 - II. Give any two benefits it will derive from your suggestion. (4)
- Q3.** Ishita Ltd. is manufacturing female wears only. Now company wants to expand its business and also wants to manufacture male wear and kids wear for different market segments. Which type of organizational structure should it adopt to achieve its target? Give arguments in support of your answer. (3)
- Q4.** Manager of XYZ Ltd. is over burdened with routine work and is unable to concentrate on its objectives and other important issues of the firm. To solve this problem which management concept should be followed by manager? Also explain the related function. (3)
- Q.5** A truck manufacturing company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing department is located at Faridabad. The company manufactures different type of trucks. Which type of organisational structure should it adopt? Give reason. State any three advantages of this organisation structure. (2+3= 5)
- Q.6** “The responsibility of a firm should be divided among various levels such as top level, middle level, and lower level”. Identify the concept of management and state its importance. (2+3= 5)
- Q.7** Lalita Food Limited is a famous company making different food materials. Ms. Lalita is the managing director of the company. She is fully attached to the employees of her company. This is the very reason that before taking every decision she consults all the concerned employees. A suggestion box has also been provided in the company. It is opened once a week. The employees giving positive suggestions are rewarded. Besides, all the employees of the company

also enjoy full freedom to communicate with any senior officer any time, concerning matters of both types related to their jobs or their personal lives.

Identify the form of organisation, described in the paragraph given above and write about two of its advantages.

Answers/Hints

1 Mark Questions Answers—

1. Decentralisation
2. Organising
3. Organising

3-6 Marks Questions : Answers—

1. Manager; Principle of authority and responsibility.
2. (i) By developing/ giving space for informal organisation.
(ii) Quick solution to problems.
Fulfillment of social needs of employees.
3. Divisional structure, as —
— Co. is going to produce multi-products.
— More employees and further more departments would be needed.
4. Delegation of authority
— Related function of mgt :— Organising
5. Functional structure : As the company needs functional specialisation.

Advantages :

Specialisation, Better, Coordination, Increase in managerial efficiency, Minimises cost.

6. Decentralisation

Importance : Develops initiative amongst subordinates.

Quick and better decisions

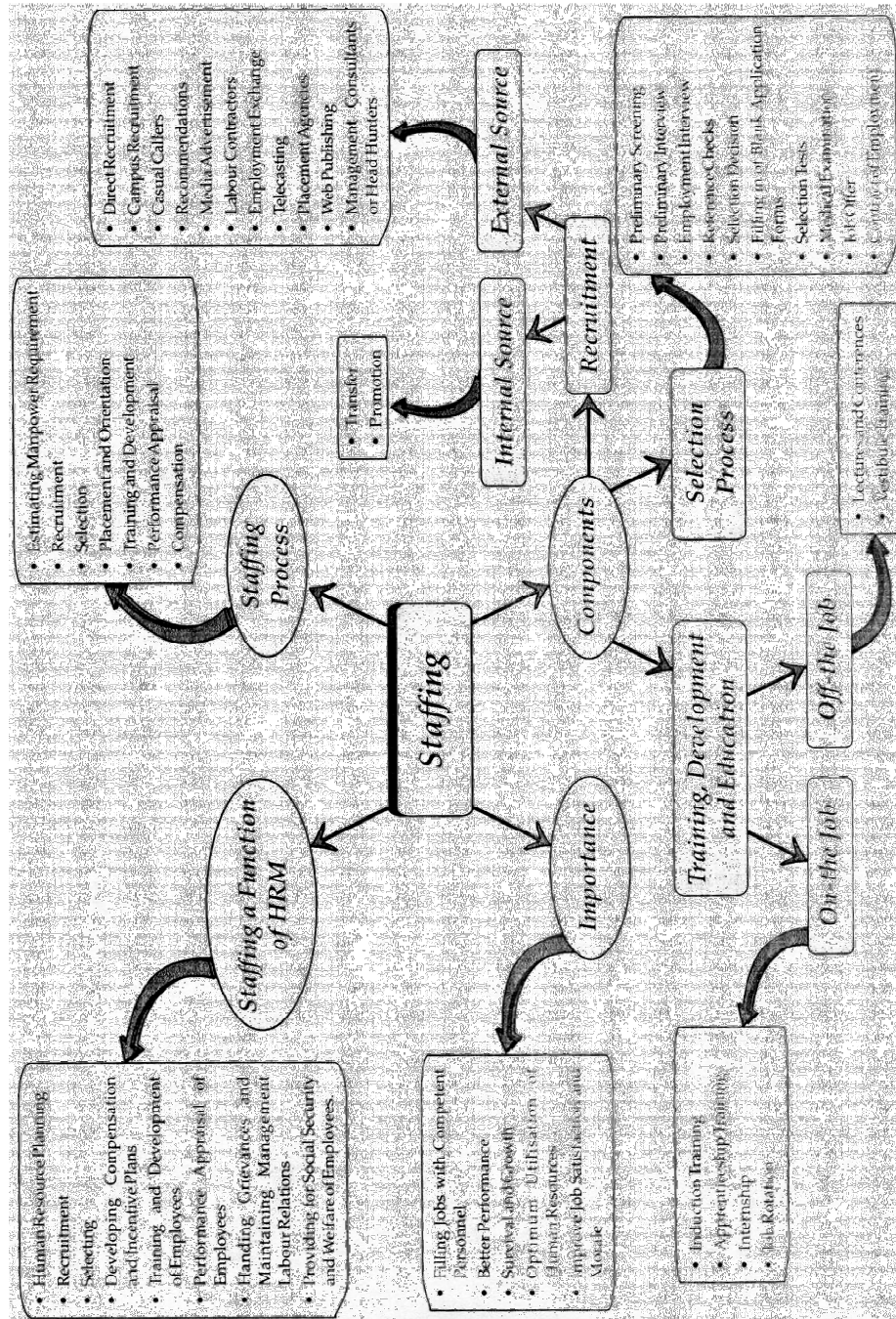
Relieves the top executives from excess work load.

Informal Organisation

Advantages : Fulfillment of social needs
Quick solution of the problems.

CHAPTER – 6

STAFFING



It is necessary for every organisation that they must appoint the Right person at the right position. Manpower is the most important asset in the organisation Staffing function is concerned with bringing right and efficient people in the organisation. Thus, “Staffing consists of Manpower planning, recruitment, Selection, training, compensation, promotion and Maintenance of Managerial personnel.”

Need and Importance of Staffing

1. **Obtaining Competent Personnel:** Proper staffing helps in discovering and obtaining competent personnel for various jobs.
2. **High Performance:** Proper staffing ensures higher performance by putting right person on the right job.
3. **Continuous Growth:** Proper staffing ensures continuous survival and growth of the enterprise through succession planning for managers.
4. **Optimum Utilization of Human Resources:** It prevents underutilization of personnel and high labour costs by avoiding over-staffing. It also avoids disruption of work by indicating in advance the shortages of personnel.
5. **Improves Job Satisfaction:** It improves job satisfaction and morale of employee through objective assessment and fair reward of their contribution.

Human Resource Management (HRM)

The function of Human Resource Management is to provide skilled human elements to the enterprise. Therefore big enterprises create a separate department called HRD. This department works under H.R. Managers.

Definition: Human Resource management is the recruitment, selection, development, utilization, compensation and motivation of human resources of the organization.

Staffing as a part of Human Resource Management



Staffing	Human Resource Mgt
<p>Staffing includes</p> <ul style="list-style-type: none">– Estimating man power requirements– Recruitment– Selection– Placement and orientation– Performance Appraisal– Compensation of employees.	<p>Staffing +</p> <ul style="list-style-type: none">– Maintaining labour relations and union management relations.– Handling grievances and complaints– Providing for social security and welfare of employees.– Defending the company in law suits in legal matters.

Conclusion :

HRM is a broader concept than staffing. Staffing is both a line as well as a staff activity because staffing is a function of management like planning, organising, directing and controlling as well as distinct functional area of management (i.e. HRM) just as Marketing Mgt. and Financial Mgt.

Q.1 “It is process of appointment of Right person on the right position.” Identify this function of Management and explain its importance. (5)

[Hint- Staffing; Importance; Competent personnel, High performance, continuous growth, Improves Job Satisfaction]

PROCESS OF STAFFING

1. Estimating Manpower Requirement: It involves the following:

Means understanding how many personas are needed and of what type (i.e., skills required) in the organisation.

Understandign the manpower requirements necessitates—

- **Workload Analysis** : It would enable an assessment of the number and types fo human resources necessary for the performance of various jobs and accomplishment of organisational objectives.
- **Workforce Analysis** : It estimates the number and type of human resources available. It would reveal whether the organisation is under-staffed, over-staffed or optimally staffed. Neither over-staffing nor under-staffing is a desirable situation.

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

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

4. Placement and Orientation:When a new employee reports for duty, he is to be placed on the job for which he is best suited. Placement is very important process as it can ensure “Right person for right job”.

Orientation/Induction is concerned with the process of introducing a new employee to the organization. The new employees are familiarized with their units, supervisors and fellow employees. They are also to be informed about working hours, procedure for availing leave, medical facilities, history and geography of organization and rules/ regulations relating to their wages etc.

5. **Training and Development:** Systematic training helps in increasing the skills and knowledge of employees in doing their jobs through various methods.

Development involves growth of an employee in all respects. It is the process by which the employees acquire skills and competence to do their present jobs and increase their capabilities for higher jobs in future.

6. **Performance Appraisal:** It is concerned with rating or evaluating the performance of employees. Transfers and promotions of the staff are based on performance appraisal.

Q. A Company AB Ltd. started a New Plant for manufacturing solar based Motor Bikes in India. India is highly competitive and has cost effective production base in this sector. AB Ltd. is planning to capture 30% of the market in India and also aims to Export Motor Bikes worth Rs. 5 Cr. in next two years. To achieve these targets, it requires highly trained and motivated work force. Mr. X is appointed by the company to advise in this matter.

(1) Briefly explain the process of staffing which the company has to follow.

(2) Identify the value followed by the Company. (5)

[Hints- (1) Estimating man power requirements, (2) Recruitment, (3) Selection, (4) Placement and Orientation, (5) Performance Appraisal, (6) Compensation of Employees]

RECRUITMENT

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

(B) **Sources of Recruitment**

(A) Internal Sources

(B) External Sources

(A) **Internal Sources of Recruitment**

Internal sources refer to inviting candidates from within the organisation.

Following are important sources of internal recruitment: -

1. **Transfers:** It involves the shifting of an employee from one job to another, from one department to another or from one shift to another shift.
2. **Promotion:** It refers to shifting an employee to a higher position carrying higher responsibilities, prestige, facilities and pay.
3. **Lay-Off:** To recall the temporary workers for work is called Lay-Off, who were temporarily separated from organization due to lack of work.

Advantages of Internal Sources Recruitment: -

- (1) Employees are motivated to improve their performance.
- (2) Internal recruitment also simplifies the process of selection & placement.
- (3) No wastage of time on the employee training and development.
- (4) Filling of jobs internally is cheaper.

Limitation of Internal Sources

- (1) The scope for induction of fresh talent is reduced.
- (2) The employee may become lethargic.
- (3) The spirit of competition among the employees may be hampered.
- (4) Frequent transfers of employees may often reduce the productivity of the organisation.

External Sources of Recruitment

When the candidates from outside the organisation are invited to fill the vacant job position then it is known as external recruitment. The common methods of external sources of recruitments are:

1. **Campus recruitment:** Colleges and Institutes of Management and Technology have become a popular source of recruitment for technical, professional and managerial jobs. Many big organisations maintain a close link with them to recruit qualified personnel for various jobs.
2. **Management consultants and placement agencies:** Management consultants help the organisations to recruit technical,, professional and

managerial personnel. They specialise in middle level and top level executive placements. They maintain data of persons with different qualifications and skills. Placement agencies compile bio-data of a large number of candidates and recommend suitable names to their clients. They charge fee for their services.

3. **Employment exchanges:** Employment exchanges run by the government help to match personnel demand and supply by serving as link between job-seekers and employers. It is suitable for unskilled and skilled operative jobs.
4. **Advertisements (Newspapers, Journals and Televisions):** Most of the senior positions of industry and commerce are filled b'y this method. Advertisement in newspapers or trade journals is generally used when a wider choice is required. The practice of telecasting of vacant posts over TV (Doordarshan and other channels) is also gaining importance these days.
5. **Direct recruitment:** A notice is placed on the noticeboard of the enterprise specifying the details of the jobs available. Job-seekers assemble outside the premises of the organisation on the specified date and selection is done on the spot.

The practice of direct recruitment is followed usually for casual vacancies of unskilled or semiskilled jobs. Such workers are known as casual workers.

They are paid remuneration on daily wage basis.

Suitability: It is suitable for filling casual vacancies when there is a rush of work or when some permanent workers are absent.

6. **Labour contractors:** Labour contractors (who are themselves employees of the organisation) maintain close contacts with labourers. On payment of commission, they can provide the required number of unskilled workers at short notice.
7. **Casual callers:** A company gets applications on and off even without declaring any vacancy. However, as and when the vacancy arises, the company makes use of such applications.

Advantage: It reduces the cost of recruiting workforce in comparison to other sources.

8. **Recommendations of employees:** Many firms encourage their employees to recommend the names of their relatives and friends for employment. Such applicants are likely to be good-employees because their background is sufficiently known.
9. **Web publishing:** Internet is becoming a common source of recruitment. There are certain websites specifically designed for the purpose of providing information about job-seekers and job providers, e.g., www.naukri.com, www.jobstreet.com, etc.

Merits of External Sources

1. **Qualified Personnel:** By using external sources of recruitment the management can attract qualified and trained people to apply for the vacant jobs in the organisation.
2. **Wider Choice:** The management has a wider choice in selecting the people for employment.
3. **Fresh Talent:** It provides wider choice and brings new blood in the organisation.
4. **Competitive Spirit:** If a company taps external sources, the staff will have to compete with the outsiders.

Limitations of External Sources of Recruitment

1. **Dissatisfaction among existing employees:** Recruitment from outside may cause dissatisfaction among the employees. They may feel that their chances of promotion are reduced.
2. **Costly process:** A lot of money has to be spent on advertisement therefore this is costly process.
3. **Lengthy Process:** It takes more time than internal sources of recruitment.

Q. Rohan the Director of Petro Chemical Company wants to produce Bio Gas from waste garbage and useless material. He decides that this manufacturing unit will be set up in rural and backward area of Bihar where people are suffering from poverty and unemployment. Rohan wants to deploy people from local surrounding areas. He also wants to give

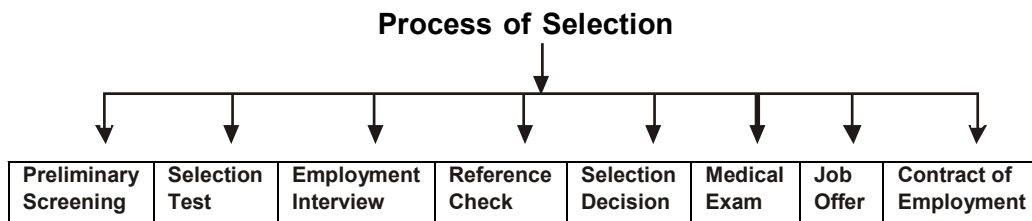
opportunity to the persons qualified from technical institutions to join his unit.

1. Identify the function of Management which is concerned with deployment of personnel in his unit.
2. Identify the sources of recruitment used quoting the lines from above para.
[Hints- (1) Staffing, (2) Direct Recruitment :— Rohan areas.
Campus Recruitment “He unit”.

SELECTION

Selection is the process of discovering the most suitable and promising candidates and eliminating the least promising ones to fill up the vacant positions. It is a negative process.

PROCESS OF SELECTION



The successive stages in selection process are:

1. **Preliminary Screening:** After applications have been received, they are properly checked as regarding qualification etc. by screening committee. A list of candidates to be called for employment tests is made and unsuitable candidates are rejected altogether.
2. **Selection Tests:** These tests include,
Types of selection tests
 - (i) *Intelligence test:* It measures the level of intelligence quotient of an individual. It is an indicator of a person's learning ability or the ability to make decisions and judgements. (Example: used for selecting a school teacher.)
 - (ii) *Aptitude test:* It is a measure of individual's potential for learning new

skills. It indicates the person's capacity to develop. (Example: used for selecting a computer engineer or a chartered accountant.)

(iii) *Personality test*: Personality tests provide clues to a person's emotions, reactions, maturity, value system, etc. These tests judge the overall personality. (Example: used for selecting a public dealing officer.)

(iv) *Trade test*: These tests measure the existing skills (professional knowledge and proficiency) of the individual. (Example: used for selecting a computer operator.)

(v) *Interest test*: Interest tests are used to know the pattern of interest or involvement of a person (Example: used for selecting an interior decorator.)

3. **Employment Interviews**: The main purpose of interview is
 - (a) to find out suitability of the candidates.
 - (b) to seek more information about the candidate.
 - (c) to give the candidate an accurate picture of job with details of terms and conditions.
4. **Reference Checks**: Prior to final selection, the prospective employer makes an investigation of the references supplied by the applicant. He undertakes a thorough search into candidate's family background, past employment, education, police records etc.
5. **Selection Decisions**: A list of candidate who clear the employment tests, interviews and reference checks is prepared and then the selected candidates are listed in order of merit.
6. **Medical/Physical Examination**: A qualified medical expert appointed by organization should certify whether the candidate is physically fit to the requirements of a specific job. A proper physical exam will ensure higher standard of health & physical fitness of employees thereby reducing absenteeism.
7. **Job Offer**: After a candidate has cleared all hurdles in the selection procedure, he is formally appointed by issuing him an Appointment Letter. The broad terms and conditions, pay scale are integral part of Appointment Letter.

8. **Contract of Employment:**After getting the job offer, the candidate has to give his acceptance. After acceptance, both employer and employee will sign a contract of employment which contains terms & conditions, pay scale, leave rules, hours of work, mode of termination of employment etc.

Q. Nishant wants to set a unit in rural area where people have very few job opportunities and labour is available at a low cost.

For this he wants four different heads for Sales, Accounts, Purchase and Production. He gives an advertisement and shortlists some candidates after conducting selection tests.

Identify and state the next three steps for choosing best candidates. (3)

[Hint- Employment Interview, Reference Checks, Selection Decision]

Training

Training is the act of increasing the knowledge. Technical skills and abilities of an employee for doing a particular job efficiently and effectively. Both existing employees and new employees get acquainted with their jobs and this increases their current job related skills.

Development

Development is overall growth the employee. It seeks to prepare employees for handling more responsible and challenging jobs and developing their hidden talents and qualities. It helps in shaping attitude of the employees.

Benefits of Training

(A) To the Organisation

- (i) **Systematic Learning:** Training is a systematic process of learning. It is better than hit and try method which leads to wastage of money & efforts.
- (ii) **Higher Profits:** Increases employees productivity both in terms of quantity and quality learning to higher profits.

- (iii) **Reduce absenteeism and employee Turnover:** Training increases employee's capability and morale. Employees do not think of leaving the organisation as they know that they can perform their job better.
- (iv) **Minimises the need of Supervision:** It increases the efficiency and skills of employees thus reducing the need of supervision and control.



(B) To the Employees

- (i) **Better Career Options:** Improved skills and knowledge due to training lead to better career options of the employees.
- (ii) **Better Earning Capacity:** Better performance by an employee help him to earn more.
- (iii) **Increases morale of employees:** It increases the satisfaction level and morale.
- (iv) **Check Accidents:** It makes the employees more efficient to handle the machines. Thus, they are less prone to accidents.

Comparison of Training and Development

Basis	Training	Development
1. Definition	It means imparting skills and knowledge for doing a particular job.	It means growth of an employee in all respects.
2. Purpose	It is concerned with maintaining and improving current job performance.	It seeks to develop competence and skills for future performance.
3. Methods	It is imparted through on the job methods.	It is imparted through off the job methods.
4. Initiative	The boss takes the initiative for imparting training to his subordinates.	The individual takes the initiative for self-growth and development.
5. Duration	Training programmes are organised for short term.	Development takes place over a larger period of time.
6. Nature	Job oriented	Career oriented.
7. Level of person involved	Non-managerial personnel	Managerial personnel

Training Methods

(A) **On the Job Method:** It refers to the methods that are applied at the work place, where the employee is actually working. It means “learning while doing”. It is economical and less time consuming.

The following are the methods of On-the job training:

1. **Apprenticeship Training:** Under this, the trainee is placed under supervision of an experienced person (master worker) who imparts him necessary skills and regulates his performance. The trainee is given stipend while learning so that he/she can enjoy “earn while you learn” scheme.

2. **Internship Training:** Under this method an educational institute enters into an agreement with industrial enterprises for providing practical knowledge to its students by sending them to business organizations for gaining practical experience.
3. **Induction training** is a type of training given to help a new employee in settling down quickly on the job by becoming familiar with the people, the surroundings, the job and the business. The duration of such type of training may be from a few hours to a few days. The induction provides a good opportunity to socialize and brief the newcomer with the company's overall strategy, performance standards etc. If carefully done, it saves time and cost (in terms of effectiveness or efficiency etc.).
- (B) **Off the Job Method:** They are used away from the place of work. It means "learning before doing". It is provided by experts either from within or from outside the organisation. It is more expensive and more time consuming.
- Vestibule Training:** The training is given in a classroom, where actual work environment is simulated wherein employees are trained on dummy models instead of using original equipment. This method is extremely useful when employees are required to handle expensive, delicate and sophisticated equipment.
-

EXERCISE

- I. **Multiple Choice questions.**
1. Ramesh is working under the guidance of Harish, a carpenter, for the last three years to learn the different skills of this job. _____ is the method of training which Ramesh is undergoing.
- (a) Orientation (b) Apprenticeship Training
(c) Vestibule Training (d) Internship Training
2. This test aims to identify the areas in which candidate has special liking.
- (a) Interest test (b) Trade test
(c) Intelligence test (d) Personality test
-

3.

NAUKRI.COM India's No.1 Job site
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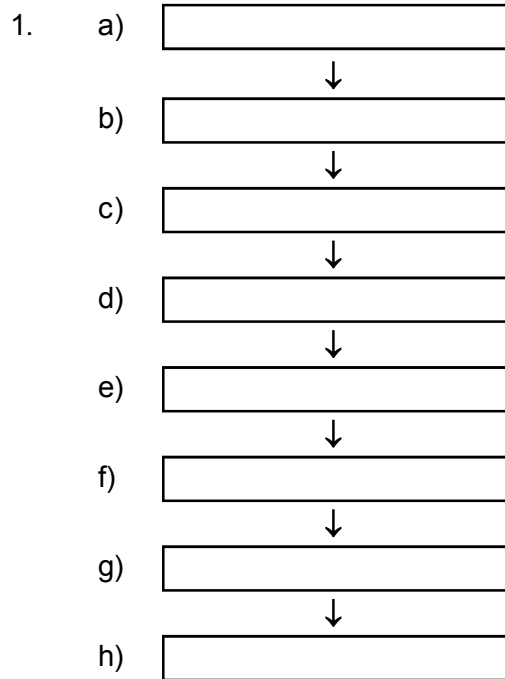
Above is an example of _____.
- (a) Placement agencies (b) Web Publishing
(c) Advertisement (d) all of these
4. _____ is a managerial decision making process as to predict which job applicants will be successful if hired
- (a) Recruitment (b) Orientation
(c) Training (d) Selection
5. _____ refers of the learning opportunities designed to help employees grow.
- (a) Development (b) Training
(c) Performance appraisal (d) Induction
6. It is a face to face conversation between employer and applicant
- (a) Selection (b) Interview
(c) Recruitment (d) Staffing
7. Vinod is working as plant supervisor in Cargo Ltd. Noida. His place of work was changed to gurugram without any change in his position in the hierarchy, Identify the concept.
- (a) Promotion (b) Lay off
(c) Training (d) Transfer
8. Sehaj is working as human resource manager in flora Ltd. He is assigned the work to find out the number and type of personnel available so that he could decide and recruit the required number of persons for each department Identify the concept involved.
- (a) Recruitment (b) all of these
(c) work force analysis (d) work load analysis
9. Staffing function begins with _____.

- (a) Selection
- (b) Training
- (c) Estimating manpower requirements
- (d) Promotion

10. Staffing is very important function these days because of _____.

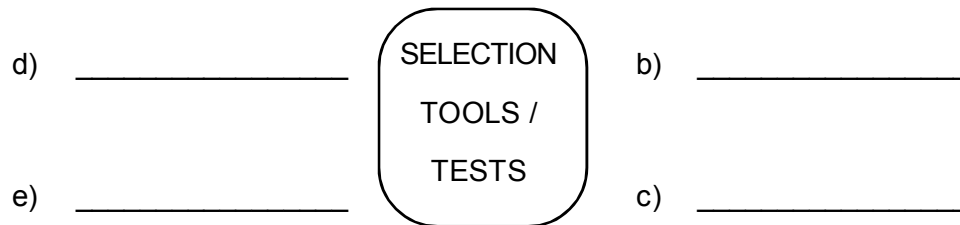
- (a) Survival and growth
- (b) Optimum utilisation of human resources
- (c) Better performance
- (d) all of these

II. Fill in the Blanks.



Selection Process

2. a) _____



3. _____ is a joint programme of training between educational institutions and business firms.

4. _____ help the organisations to recruit technical, professional and managerial personnel.

III. Match the Following.

- | | | |
|----|--------------------------|--|
| 1. | 1) Promotion | a) Assigning post to the selected employee |
| | 2) Orientation | b) Higher position, Higher responsibilities |
| | 3) Performance appraisal | c) Evaluation of employee's performance |
| | 4) Placement | d) Familiarising selected employee to the organisation |

- | (a) | (b) | (c) | (d) |
|--------|-------|-------|-------|
| i) b | i) a | i) d | i) c |
| ii) d | ii) b | ii) a | ii) b |
| iii) c | ii) d | ii) c | ii) a |
| iv) a | ii) c | ii) b | ii) d |

- | | | |
|----|-------------------------|--|
| 2. | 1) On the Job training | a) Create a pool of applicants for job |
| | 2) Recruitment | b) Learning by doing |
| | 3) Off the Job Training | c) Negative Process |
| | 4) Selection | d) Learning before doing |

- | | | | | |
|--|--------|-------|-------|-------|
| | (a) | (b) | (c) | (d) |
| | i) d | i) b | i) b | i) b |
| | ii) a | ii) d | ii) a | ii) a |
| | iii) b | ii) a | ii) c | ii) d |
| | iv) c | ii) c | ii) d | ii) c |
3. 1) Casual Callers a) Agents for hiring unskilled and semi - Skilled workers
- 2) Employment exchange b) Notice - board of the enterprise
- 3) Direct - recruitment c) Unsolicited applications
- 4) Labour contractors d) Run by government
- | | | | | |
|--|--------|-------|-------|-------|
| | (a) | (b) | (c) | (d) |
| | i) d | i) c | i) c | i) c |
| | ii) c | ii) d | ii) b | ii) d |
| | iii) b | ii) b | ii) d | ii) a |
| | iv) a | ii) a | ii) a | ii) b |
4. State giving reasons, whether the following statements are True/False.
- a) Internal sources of recruitment prevent induction of fresh talent.
- b) 'Selection tests' is the second step in the process of selection.
- c) Recruitment is a complex process as candidates are required to cross several hurdles.
- d) Training shapes the attitude while development increases job skills.
- e) Vestibule Training is an off the job training method.

Answer Key:

I. Multiple Choice Question.

- | | | | | |
|-------|-------|-------|-------|--------|
| (1) b | (2) a | (3) c | (4) d | (5) a |
| (6) c | (7) d | (8) b | (9) b | (10) d |

II. Fill in the Blanks:

1. (a) Preliminary screening (b) selection tests (c) Employment Interview

(d) Reference and background check (e) Selection decision (f) Medical Examination (g) Job offer (h) Contract of employment.

2. (a) Intelligence test (b) Aptitude test (c) Personality test (d) Interest test (e) Trade test.
3. Internship Training.
4. Management consultants.
5. Human capital

III. Match the following:

(1) a (2) d (3) b

IV. True/False

1. True - They stop infusion of new blood.
2. True - Tests are conducted after preliminary screening.
3. False - Selection is a complex process.
4. False - Development shapes the attitude while training increases job skills.
5. True - This training is conducted away from place of work.

1 MARK QUESTIONS

- Q.1** “Our assets walk out of the door each evening. We have to make sure that they come back the next morning”. This statement is related to which function of management? 1
- Q.2** What is performance appraisal? 1
- Q.3** Providing of social security and welfare of employees’ is one of the specialised activities performed by Human persource management. Mention any two other specialised activities of Human persource management. 1
- Q.4** Name the type of staff which is generally recruited through management consultants. 1

3-6 MARKS QUESTIONS

- Q.5** What kind of tests will primarily be used while selecting these people in an organisation. Give reasons:
- (a) A public dealing officer (b) A computer operator
(c) A school teacher (d) An interior decorator (4 Marks)
- Q.6** Resolutions Pvt. Ltd. is a publishing company. Its book on business studies for class XII is in great demand. As a result, employees in the marketing department are always racing against them. The employees have to work overtime and on holidays to cater to the demand. Managers in the marketing department are under stress as they have to handle more than two territories. The work stress has led to dissatisfaction among the employees and managers.
- (a) Name and explain the step of staffing process which has not been performed properly.
(d) State the next two stages immediately following the step identified in part (a). (4)
- Q.7** Manu a Chief Engineer in a Co., using highly sophisticated machines and equipments, wants that every employee should be fully trained before using those machines and equipments. Suggest and describe the best method of training that Manu can use. (3)
- Q.8** An accountant is sent to learn the new software for accounting to prepare the books of accounts faster and accurately. He was further sent for orientation to improve his motivational and conceptual skills.
- (a) Identify and explain the two concepts explained above.
(b) Differentiate these concepts on the basis of suitability, method used and nature. (5)
- Q.9** Under this method employee learn by doing. Employees are trained while they are performing the job and senior worker or mentor provides them technical knowledge. But the biggest disadvantage of this method is wastage of material and accidents.
- (a) Identify the method of training stated in above lines.
(b) Explain any two techniques used in above said method of training. (6)

Q.10 The General Manager of 'Indemnity Ltd' was addressing employees during 'employee recognition program' function. He stressed: "employees should make all efforts to increase their market value. To achieve this objective, they should increase their capacity and efficiency. They should also make such endeavour as to get job satisfaction. Not only that it is equally essential that they should concentrate on minimizing the accidents".

Which concept of management was the General Manager stressing in the function? Explain the importance of the concept in by quoting lines. (4)

Q.11 Based on "Performance Appraisal Report (2016).", the HR manager of 'Gamma Ltd' adopted the following ways of training for improving the quality of output and providing more job satisfaction to the employees:

- a) Mr. Ganesh- was in the company so that he could practice the theoretical knowledge acquired by him from his college.
- b) Mr. Rahul- was provided a dummy model of machinery to do practice on it.
- c) Mr. Shekhar- was asked to work with an expert for specific period of time so that he learns by observation.

Identify the technique of training discussed in above cases (a, b, c). (3)

Q.12 'Pure Energy Ltd' imported a new hi-tech machine from Japan for manufacturing high quality and low cost solar panels in India. After a month, the report of Production Manager reflected a decline in quantity and quality of production. On investigation, it was found that there was lack of technical knowledge and skills amongst the employees for using these hi-tech machines. This resulted in high-overhead charges as well as frequent visits of engineers was required from Japan.

- (i) Suggest what should be done to increase the quality and quantity of production. (1)
- (ii) Also state, how the employees will be benefited from your suggestion. (1)
- (iii) Identify the functions of management discussed above. (1)

Q.13 Teja Ltd. received 22,495 applications for the post of fifty supervisors. Preliminary, screening was done and 3,545 applications were filtered. Various steps of selection process were taken and finally fifty candidates as supervisors were selected. They were directly posted to their respective posts. After one-month performance appraisal of these candidates was conducted. It was found that out of 50, eight were not able to perform as per standards as they were facing practical problems while handling machines.

(a) In your opinion, what should be done to improve the performance of these eight supervisors.

(b) How an organisation can be benefited by improving the skill level of employees. (5)

Q.14 The workers of 'Vyam Ltd' are unable to work on new and hi-tech machines imported by the company to fulfil the increased demand. Therefore, the workers are seeking extra guidance from the supervisor. The supervisor is overburdened with the frequent calls of workers. Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently? Also state any three benefits that the workers will derive by the decision of the supervisor. (4)

Q.15 A company has its own recruitment policy to fill the vacant posts with suitable employee.

a. Top most positions are being filled by contacting specialised agencies so as to attract the most capable work force from competitive organisation.

b. To foster the spirit of loyalty and motivate the employees the middle level positions are filled from within the organisation.

i) Identify the sources of recruitment referred above? (2)

ii) Also give any one method of each source. (2)

Q.16 Orient Ltd. expanding its business operations. All the departmental heads were asked to fill up "Manpower Requisition form and estimate the annual requirement of – skilled and unskilled workers"

All the departmental heads submitted the requisition forms to HR Manager. HR Manager, compiled all such requisition forms as:

Requirement of skilled workers – 89

Requirement of unskilled workers – 265

After this, Recruitment and further selection procedure was followed.

Name and explain the methods of recruitment (three each) for each category which would be most appropriate in the above case. (6)

Hints

1. Staffing
2. Evaluating the performance of employees.
3. Handling grievances and complaints.
4. Middle and top level staff.
5. (a) Personality Test (b) Aptitude Test
(c) Intelligence Test (d) Interest Test
6. (a) Estimating man power requirements.
(b) Recruitment, selection.
7. Vestibule Training.
8. (a) Off the Job Training, on the Job Training

(b)	Basis of Diff.	On the Job Training	Off the Job Training
	Suitability	To handle less sophisticated equipment	To handle sophisticated equipment.
	Methods	1. Apprenticeship 2. Internship 3. Induction	Vestibule Training
	Nature	Learning while doing	Learning before doing.

9. (a) On the Job Training
(b) Apprenticeship Training
Induction Training

10. (i) Training
 - (ii) (a) Better earning capacity
employees efficiency
 - (b) They should satisfaction.
Increases morale of employees
 - (c) Not only accidents.
Check Accidents.
11. (a) Internship training — On the job training
- (b) Vestibule Training — Off the job training
- (c) Apprenticeship Training — On the job training
12. (i) Vestibule training
- (ii) Better career options
- (iii) Better earning capacity
13. (a) Training should be provided
- (b) Systematic learning
 - Higher Profits
 - Reduce absenteeism and employee turnover
 - Minimise the need of supervision.
14. Superior can arrange vestibule training for workers. (By suggesting to HR Mgr)

Benefits to workers :

 - (i) Check accidents
 - (ii) Increases morale of employees
 - (iii) Better earning capacity
 - (iv) Better career options.

15. (i) External source in 'a' Internal source in 'b'
(Mgt. consultant) (Promotions)
- (ii) External Source — Campus recruitment
Internal source — Transfers.

16.	For Skilled Workers	For Unskilled Workers
	1. Advertisements	1. Labour Contractors
	2. Casual callers	2. Direct Recruitment
	3. Recommendations of employees	3. Employment Exchange

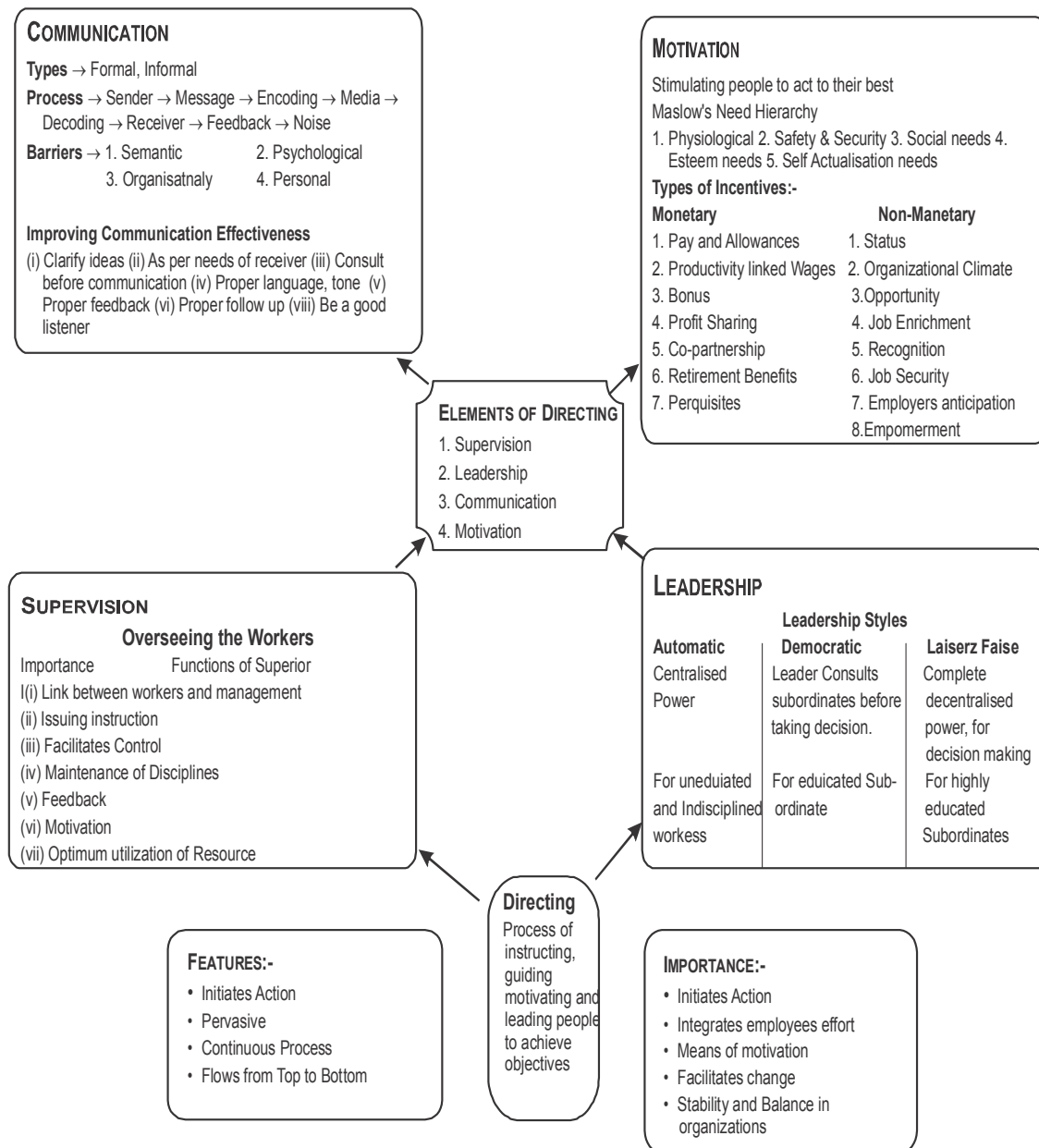
Key Terms to Crack Case-Studies

S.No.	Phrase	Topic/ function	Sub-Topic/ Concept
1.	It deals with discovering and obtaining competent personnel.	Staffing	—
2.	Right person on the right job.	Staffing	—
3.	It is required for continues survival and growth of an enterprise	Staffing	—
4.	Handling grievances and complaints	HRM	—
5.	Providing for social security and welfare of employees	HRM	—
6.	Maintaining union — Mgt. relations and defending the company in low suits.	HRM	—
7.	This source of recruitment is not suitable for newly established enterprise.	Staffing	Recruitment Internal sources.
8.	It provides a wider choice to choose for fresh talent	Staffing	Recruitment External source

9.	This selection test measures the ability of candidate to make decisions and judgements	Selection test	Intelligence Test
10.	This selection test measures the ability to learn new skills.	Selection test	Aptitude test
11.	This test measures the existing skills (professional knowledge and proficiency) of candidate.	Selection test	Trade test
12.	This test checks the involvement of a person in work.	Selection test	Interest test
13.	Under this method, trainee is placed under supervision of an experienced person/ master worker.	Methods of training	On the job Apprenticeship
14.	Students from educational institutes are sent to business organisations for gaining work experience.	On the job training	Internship Training
15.	New employee is made familiar with company's policies and objectives	On the job training	Induction Training
16.	Employees are trained on dummy models before handling the actual sophisticated machines.	Off the job training	Vestibule Training
17.	It is a career oriented process to develop competence and skills for future performance.	Staffing	Development

CHAPTER – 7

DIRECTING



Meaning

Directing as a function of management, refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. It is the force which gives the life to the organisational structure.

Directing comprises of:

- a) Issuing orders by a superior to his subordinates.
- b) Supervising the employees when they are performing job.
- c) Motivating them to perform more effectively.
- d) Leading them towards the achievement of overall goals of the concern.

Features:

- 1. **Directing initiates action:** The other functions of management prepare a set-up base for action, but directing initiates action in the organisation. Planning, organising and staffing, are passive functions.
- 2. **Directing takes place at every level of Management (Pervasive):** Every manager from top executive to supervisor performs the function of directing.
- 3. **Directing is a continuous process** of supervision, communication, leadership and motivation. It continues throughout the life of the organisation.
- 4. **Directing flows from top to bottom:** It is initiated at the top level and flows to the bottom through organisational hierarchy and flow of authority.

Importance

- 1. **Initiates Action:** It helps to initiate action by the people in the organisation towards attainment of desired objectives. The employees start working only when they get instructions and directions from their superiors. It is the directing function which starts actual work to convert plans into results.
- 2. **Integrates Employee's Efforts:** All the activities of the organisation are interrelated so it is necessary to coordinate all the activities. It integrates the activities of subordinates by supervision, guidance and counselling.

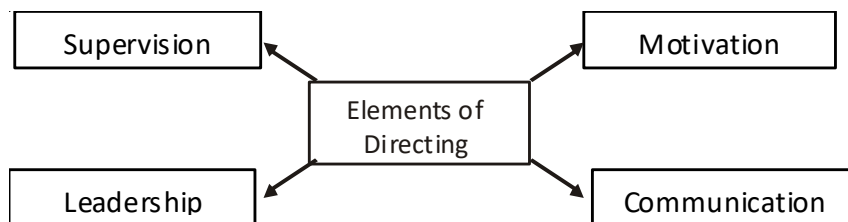
3. **Means of motivation:**It motivates the subordinates to work efficiently and to contribute their maximum efforts towards the achievement of organisational goals by satisfying their needs.
4. **Facilitates change:**Employees often resist changes due to fear of adverse effects on their employment and promotion. Directing facilitates adjustment in the organisation to cope with changes in the environment. Directing instills the spirit of cooperation and commitment among work force.
5. **Stability and balance in the organisation:**Managers while performing directing function instruct, guide, supervise and inspire their subordinates in a manner that they are able to strike a balance between individual and organisational interests.

Q.1 A nationalised Indian bank is going to introduce some major changes in accordance with directions of RBI. Workers under influence of Trade Union are showing resistance as they fear losing their job. Which function of management can remedy the situation? (1)

Q.2 'Look Good Cosmetics Ltd' offers commission to its sales manager in addition to the fixed salary. To earn more commission, the manager wants to increase sales. He recommends management to introduce the scheme of "one nail paint free when buying three lipsticks." But higher officials reject the scheme as this may cause loss to the firm. Which function of management can solve the clash? (1)

[Hints- (1) Directing, (2) Directing]

Elements of Direction



1. **Supervision:** It means observing the subordinates at work to see that they are working in accordance with plans and to help them in solving their problems. The important thing in supervision is that it involves face to face contact between superiors and subordinates. Supervisor's position is immediately above the worker.
2. **Motivation:** In the context of an organisation motivation means stimulating employees of all levels to work with greater enthusiasm and more efficiency for the accomplishment of the objectives of the enterprises. It involves arousing needs and desires in people so as to initiate and direct their behaviour in a purposive manner.
3. **Leadership:** Leadership is the activity of influencing people to strive willingly for organisational goals. Leadership indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organisational objectives. Managers at all levels are expected to be the leaders of their subordinates.
4. **Communication:** It is the process of exchange of information between two or more persons to reach common understanding.

Q.3 Mr. Khanna has recently joined an 'Interior Decoration' firm after completing MBA from America. He feels human resources are the most important resources in the company. So,

- (i) It is important to develop mutual understanding amongst them to inculcate the sense of co-operation and coordination.
 - (ii) There is a need to monitor their progress and guide them
 - (iii) They need to be induced and stimulated to act in desired manner.
 - a) Identify which function of management is referred above.
 - b) Name the elements of function (in (a)).
- (2)

[Hints- (a) Directing, (b) Supervision, Motivation Leadership Communication]

Supervision

I. Importance of Supervision/Role of a Supervisor /Functions (Not in syllabus for 2019-20)

1. **Link between workers and management** because the supervisor explains management policies to workers and brings workers problems to the notice of the management.
2. **Ensures issuing Instructions:** To make sure that the instructions are communicated to each and every employee.
3. **Facilities Control:** Control means match between actual and planned output. It ensures checking on the methods in use and progress of work according to planned schedule.
4. **Maintenance of discipline:** The strict supervision and guidance of supervisor encourages the employees and workers to be more disciplined in the activities.

Under the guidance of superior the workers follow a fixed or strict time table and execute the plans in right directions.

5. **Feedback:** The supervisors are directly dealing with the subordinates. As a result, feedback in the form of suggestions, grievances keep coming to the management. It improves quality of management decisions and revision of plans & policies.
6. **Improved Motivation:** A supervisor with good leadership qualities can build up high morale among workers.

The relationship with the supervisor is a very good incentive to improve the motivation level of the employees while guiding the employees, the supervisors encourage the subordinates to perform to their best capacities.
7. **Optimum utilisation of resources :** All the activities are under the observation of supervisor so less wastage and optimum utilisation of resources is possible.

- Q.4** Mr. Banerjee keeps on checking the workers at work. He provides “on the job Training” wherever required. At which level of management Mr. Banerjee working?
- Q.5** Mr. John always explains managements’ policies to workers, brings workers problems to the notice of management. He always motivates the workers. He is friendly but maintains discipline. Which post is Mr. John working?
- [Hints- (4) Lower level, (5) Supervisor]

II. Motivation

Meaning:It is the process of stimulating people to act to their best ability to accomplish desired goals.

Motivation means inspiring the employees to work with greater enthusiasm and more efficiency for the accomplishment of the objectives of the enterprise. It involves arousing needs and desires in people so as to initiate and direct their behaviour in a purposive manner.

Bridging the gap between ability to do a certain work and willingness to do a certain work- Motivation.

Features

- 1. Motivation is an Internal feeling:**Motivation is an internal feeling which means it cannot be forced on employees. The internal feeling such as need, desire, aspiration etc. influence human behaviour to behave in a particular manner.
- 2. Goal Directed Behaviour:**It induces people to behave in such a manner so that they can achieve their goals. A motivated person works towards the achievement of desired goals.
- 3. Motivation can be either positive or Negative:**Positive motivation means inspiring people to work better and appreciating a work that is well done e.g., pay increase, promotion, recognition. Negative motivation means forcing people to work by threatening or punishing them. e.g., issue of memo, demotion, stopping increments etc.

4. **Complex Process:**It is a complex and difficult process. Individuals differ in their needs and wants and moreover human needs change from time to time.
5. **Continuous Process:**Human needs are unlimited and so they keep on changing continuously, satisfaction of one need gives rise to another. As soon as one need is satisfied another need arises. So managers have to continuously perform the function of motivation.

The importance of motivation can be pointed out by the following benefits:

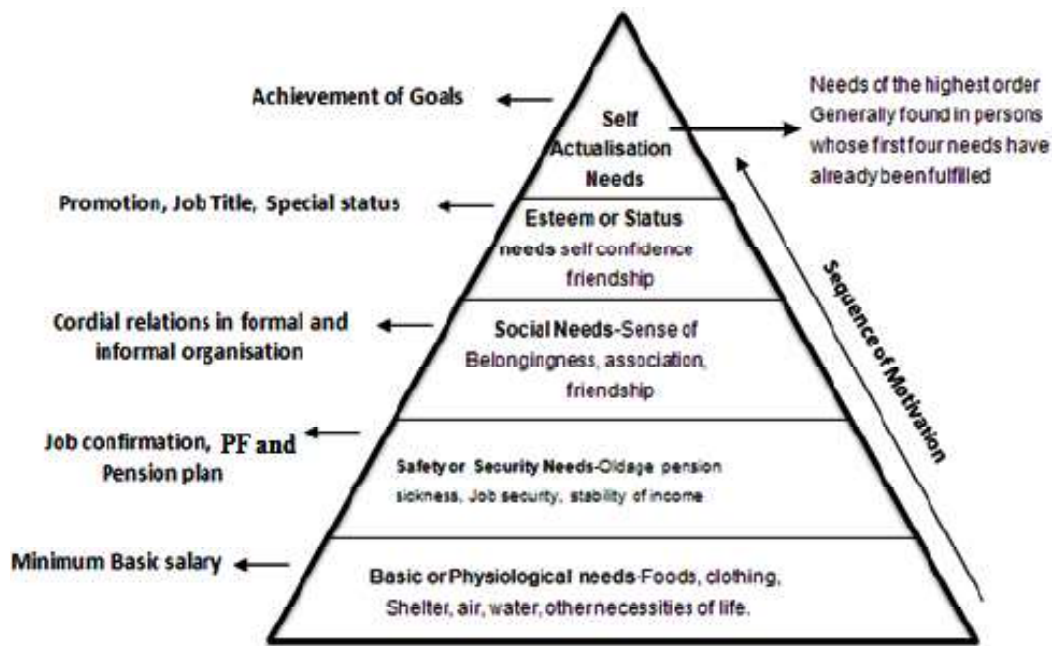
- a) Motivation helps to improve performance levels of employees as well as the organisation.
- b) Motivation helps to change negative attitudes of employee to positive attitudes.
- c) Motivation helps to reduce employee turnover.
- d) Motivation helps to reduce absenteeism in the organisation.
- e) Motivation helps managers to introduce changes smoothly without resistance from employees.

Maslow's Need Hierarchy-Theory of Motivation: Maslow's Theory focuses on the needs as the basis for motivation. It classifies human needs into five categories.

It helps managers to realise that need level of employees should be identified to provide motivation to them. It is based on the following assumptions:

- (i) People's behaviour is based on their needs.
- (ii) People's needs are in hierarchical order.
- (iii) A satisfied need can no longer motivate a person.
- (iv) A person moves to the next higher level of hierarchy only when the lower need is satisfied.

Organisational examples



Pyramid representing Maslow's Need Hierarchy

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

Financial Incentives (which can be calculated in terms of money)

1. **Pay and allowances:** Salary is the basic monetary incentive. It includes basic pay, dearness allowance and other allowances.
2. **Productivity linked wage incentives:** Aims at linking payment of wages to increase in productivity.
3. **Bonus:** An incentive offered over and above the wages/salary.
4. **Profit sharing:** It means to provide a share to employees in the profits. It creates a feeling of ownership to employees.
5. **Co-partnership/Stock option:** employees are offered company's share at a price which is lower than market price.
6. **Retirement benefits:** Such as provident fund, pension and gratuity etc.

7. **Perquisites:** Such as car allowance, medical help etc. these measures help to provide motivation to the employees.

Non-Financial Incentives (which cannot be calculated in terms of money)

1. **Status:** Status means ranking of positions in the organisation. Psychological, social and esteem needs of an individual are satisfied by the status given to their job.
2. **Organisational climate:** Employees can be motivated with favourable atmosphere.
3. **Career advancement opportunity:** Works as a tonic and encourages employees to exhibit improved performance.
4. **Job enrichment:** If jobs are enriched and made interesting, the job itself becomes a source of motivation to the employees.
5. **Employees recognition programmes:** Most employees feel that what they should be recognised by the higher authorities.
6. **Job security:** Employees want their job to be secured and it is a strong motivator but on the other hand it makes the employees lazy.
7. **Employee participation:** It means involving employees in the decision making.
8. **Employee empowerment:** Means giving more autonomy and powers to subordinates.

Q.6 Rahul is an engineer in Jacob Ltd. He works very hard and it is observed by Production Manager. But he never appreciates the efforts of Mr. Rahul. Name the element of Direction not exercised by production Manager.

Q.7 Zumroo was working as a clerk in Hindustan Ltd. since last three and a half years. He was working with full diligence. His boss noticed his performance and gave him "Confirmation letter". Which kind of Zumroo's need was satisfied?

[Hints- (6) Motivation, (7) Security Needs]

III. Leadership

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

Leadership indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organisational objectives.

Features of leadership

- a) Leadership indicates ability of an individual to influence others.
- b) Leadership tries to bring change in the behaviour of others.
- c) Leadership indicates interpersonal relations between leaders and followers.
- d) Leadership is exercised to achieve common goals of the organisation.
- e) Leadership is a continuous process.

Styles of Leadership.

A leader may use all styles over a period of time but one style tends to predominate as his normal way of using power.

Different types of leadership style are as follows:

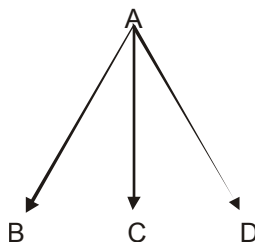
I. Autocratic or Authoritarian Leader

An autocratic leader gives orders and insists that they are obeyed. He determines the policies for the group without consulting them.

He does not give information about future plans but simply tells the group what immediate steps they must take.

Under this style, all decision making power is centralized in the leader. He does not give the subordinates any freedom to influence his decisions.

It is like “bossing people around.” This style should normally be used on rare occasion.



A is the leader – (Boss – Centered – Leadership)

When should authoritarian leadership be applied?

- It is best applied to situations where there is little time for group decision making.
- Or where the leader is the most knowledgeable member of the group.

Q.8 Mr. Khanna, Manager (Operation) is always bossing people around. He never consults his team and does not pay heed to their problems, which style of leadership is he following?

Q.9 Charu says leadership is required only for less efficient subordinates while Chanda says that leadership is required for all. Who is correct? Why?

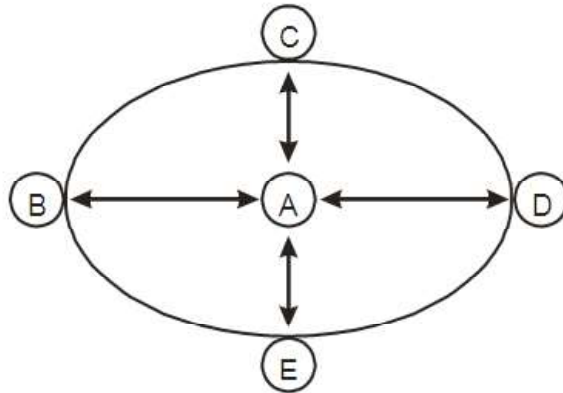
[Hints- (a) Autocratic Style, (b) Chanda, even efficient subordinates need direction.]

2. Democratic or Participative Leader

Democratic leader gives order only after consulting the group and works out the policies with the acceptance of the group.

He never asks people to do things without working out the long term plans on which they are working. He favours decision making by the group as shown in the diagram. This improves the attitude of the employees towards their jobs and the organization thereby increasing their morale.

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



A is the leader (Group Centered-Leadership)

When should Participative/democratic leadership be applied?

- It works best in situations where group members are skilled and eager to share their knowledge.
- It is also important to have plenty of time to allow people to contribute, develop a plan and then vote on the best course of action.

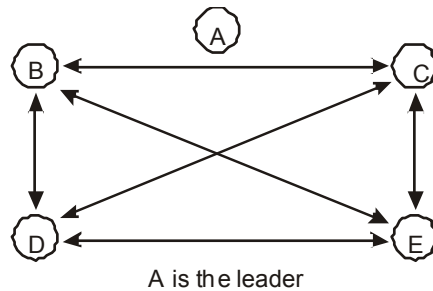
This style should NOT be used:

In situations where roles are unclear or time is of the essence, democratic leadership can lead to communication failures and incompleting projects.

3. Laissez Faire or Free Rein Leader

Free rein leader gives complete freedom to the subordinates. Such a leader avoids use of power. He depends largely upon the group to establish its own goals and work out its own problems. Group members work themselves as per their own choice and competence. The leader exists as a contact man with the outsiders to bring information and the resources which the group requires for accomplishing the job.

Note: This is also known as laissez faire which means no interference in the affairs of others. [French laissez means to let/allow fair means to do].



(Subordinate - Centered - Leadership)

When should laissez faire/free rein leadership be applied This is an effective style to use when:

- Followers are highly skilled, experienced and educated.
- Followers have pride in their work and the drive to do it successfully on their own.
- Outside experts, such as staff specialists or consultants are being used.
- Followers are trustworthy and experienced.

This style should NOT be used when:

- Followers feel insecure at the non - availability of a leader.
- The leader cannot or will not provide regular feedback to his followers.

Q.10 In Manik Ltd., selection process is very fair, scientific and standardised. Competent, laborious employees with good work culture are selected. As a result, subordinates are efficient, responsible and take initiative in every activity. Which kind of leadership style would be suitable in Manik Ltd.

Q.11 Pramod was a supervisor at 'Annapurna Aata' factory. The factory was producing 200 quintals of aata every day. His job was to make sure that the work goes on smoothly and there was no interruption in production. He was a good leader who would give orders only after consulting his subordinates and work out the policies with the acceptance of the group. Identify and describe the leadership style being adopted by Pramod. (3)

Q.12 Alok is view supervisor of Ram, Rahim and Khan. He consults all his subordinates while framing work schedules. They provide suggestions and Alok considers such suggestions if they are productive. Which leadership style is followed by Alok? What would be the benefits of such leadership style to the organisation. (3)

Q.13 Ekta is a very strict foreman. She punishes late comers by reporting negatively in observation reports of workers. Due to which the wages of those workers who come late, decline considerably. Which kind of motivation is applied by Ekta? Do you think, by doing so, the late comers can be regulated? Explain. (3)

[Hints- (10) Laissez Faire, (11) Democratic Style, (12) Democratic, Increases morale, better decisions, (13) Negative motivation. No because positive motivation is more effective]

Communication

It is the process of exchange of information between two or more persons to reach common understanding.

Communication plays key role in the success of a manager. Directing abilities of manager mainly depend upon his communication skills. That is why organization always emphasizes on improving communication skills of managers as well as employees. Communication is important for the directing function because all other elements of directing become possible only when there is adequate communication.

Elements of Communication Process

1. **Sender:** Who conveys his thoughts or ideas.
2. **Message:** Ideas, feelings, suggestions, order etc.
3. **Encoding:** Converting the message into communication symbols such as words/pictures etc.
4. **Media:** Path/Channel through which encoded message is transmitted to receiver e.g., face to face, phone call, internet etc.
5. **Decoding:** Converting encoded symbols of the sender.

6. **Receiver:**Who receives communication of the sender.
7. **Feedback:**All those actions of receiver indicating that he has received and understood the message of the sender.
8. **Noise:** Some obstruction or hindrance to communication like poor telephone connection, inattentive receiver.

Importance of Communication

1. **Acts as basis of coordination:** It provides coordination among departments, activities and persons in the organisation.
2. **Helps in smooth working of an enterprise:** communication is basic to an organisation existence right from its birth through its continuing life.
3. **Act as basis of decision making:** Communication provides needed information for decision making.
4. **Increases managerial efficiency:** Communication is essential for quick and effective performance of managerial functions.
5. **Promotes cooperation and Industrial Peace:**The two-way communication promotes cooperation and mutual understanding between the management and workers and brings peace in the organisation.
6. **Establishes effective leadership:**Effective communication helps to influence subordinates. While influencing, a leader should possess good communication skills.

Q14. You are working as Human Resource Manager. General Manager sent a message to you, which you received and understood well. Is the communication process complete? Give reason. (1)

Q15. Give one example of 'Noise' in the process of communication. (1)

Communication taking place within an organisation may be broadly classified into two categories.

[Hints- (14) No, feedback should be given, (15) Poor telephone connection]

- I. Formal Communication: refers to official communication which takes place following the chain of command. Classification of formal communication-
1. **Vertical Communication:** Flows vertically i.e., upwards or downwards through formal channels.
 - (i) Downward Communication: Higher to lower level like plans, policies, rules etc.
 - (ii) Upward Communication: Subordinate to superior like suggestions, grievances, reports etc.
 2. **Horizontal/lateral Communication:** between persons holding positions at the same level of the organisation e.g., production manager may contact marketing manager about product design, quality etc.

Merits and demerits of formal communication

Merits :

1. Orderly flow of information
2. Easy knowledge of source of information
3. Fixation of responsibility
4. Easy in control

Demerits:

- | | |
|------------------------------|---------------------|
| 1. Slow process | 3. Rigidity |
| 2. Lack of personal interest | 4. Overload of work |

- II. **Informal Communication:** Communication that takes place without following the formal lines of communication is said to be informal communication. There is no fixed direction or path for the flow of information. It is based on informal relations and arises out of personal and social needs of the employees.

Merits and demerits of Informal communication

Merits :

1. Fast communication
2. Improved relation
3. Social satisfaction
4. Fill the gaps

Demerits :

1. Misrepresentation of messages
2. Carry rumours
3. Unorganised and irregular
4. Leakage of important facts

Difference between Formal & Informal Communication

Basis	Formal Communication	Informal Communication
1. Meaning	Follows the official chain of command	Between individuals and groups which are not officially recognised.
2. Channel	Through a definite path	No definite path.
3. Speed	Slow: because all information has to pass through an established scalar chain.	Very fast - Cuts across all the official channels.
4. Nature	More rigid and cannot be modified	Flexible and varies from individual to individual.
5. Expression	It is mostly expressed in written form.	It mostly tends to be oral.
6. Purpose	Achieve organisation goals.	Meet personal and social needs of employees.

Barriers to Effective Communication [Categories]

Semantic Barriers: Concerned with problems and obstructions in the process of encoding or decoding of message into words or impressions. Semantic barriers are as follows:

1. Badly expressed message: Sometimes intended meaning may not be conveyed.
2. Words with different meanings confuses the receiver.
3. Faulty translations may transfer wrong messages.
4. Unclear assumption: Different interpretations may result in confusion.
5. Technical Jargon: Technical words may not be understood by the workers.

Psychological/Emotional barriers

1. Premature evaluation-judgement before listening leads to misunderstanding.
2. Lack of attention/poor listening may disappoint the employees.
3. Loss by transmission and poor retention: When oral communication passes through various levels it destroys the structure of the message or leads to transmission of inaccurate message.
4. Distrust: If the parties do not believe each other. They cannot understand each other's message in its original sense.

Organisational Barriers

Factors related to organisation structure:

1. If organizational policy does not support free flow of information it creates problem.
2. **Rules and regulations:** Rigid rules and regulations may lead to red tapism and delay of action.
3. Status conscious managers may not allow subordinates to express their feelings freely.
4. Complexity in organization structure results in delay and distortion.

Personal Barriers: of superiors and subordinates.

1. Fear of challenge to authority may withhold or suppress a particular communication.
2. Lack of confidence of superior in his subordinates.
3. Unwillingness to communicate. e.g., fear of punishment/demotion.
4. Lack of proper incentives stops the subordinates to offer useful suggestions.

Improving Communication Effectiveness

1. Clarify the ideas before communication.
2. Communicate according to the needs of receiver.
3. Consult others before communicating.
4. Be aware of language, tone and content of message.
5. Ensure proper feedback. Feedback provides opportunity for suggestions and criticism.
6. Follow up communication helps to remove hurdles, misunderstanding of information given by managers to subordinates.
7. Be a good listener.

Key Terms to Crack Case-Studies

S.No.	Phrase	Topic/ function Category	Sub-Topic/ Sub category/ Element
1.	This function of management initiates action.	Directing	—
2.	Guiding the efforts of employees.	Directing	Supervision.
3.	Stimulating people to action.	Directing	Motivation
4.	Influencing the behaviour of people by making them strive voluntarily.	Directing	Leadership

5.	Decision in consultation with subordinates.	Leadership style.	Democratic
6.	This leader is dogmatic	Leadership	Autocratic leader
7.	High degree of freedom to subordinates to take decisions.	Leadership	Laissez-Faire Leadership
8.	Exchange of ideas, facts, feelings etc.	Directing	Communication
9.	Translating the message into words, symbols, gestures etc.	Communication	Encoding
10.	Translating the encoded message into language understandable by the receiver.	Communication	Decoding
11.	Receiver's response to the message sent by the sender	Communication	Feedback
12.	Poor connectivity on internet, Faulty decoding, inattentive receiver, group of people talking nearby, letter being lost in the mail.	Communication	Noise
13.	This communication satisfies social psychological and emotional needs of employees.	Directing	Informal Communication
14.	This communication takes place through scalar chain only and causes delays.	Directing	Formal Communication
15.	Rule of only written communication in the organisation.	Organisational Barriers	Organisational Policy
16.	Use of high level/ subject specific terminology in management.	Linguistic/ Semantic Barriers	Technical Jargon.

17.	Use of wrong words, omission of needed words, inadequate vocabulary.	Semantic Barriers	Badly Expressed Message.
18.	Subordinates do not listen carefully to the message of superior.	Psychological Barriers	Lack of Attention/ Poor listening
19.	Supervisor sends message to two workers but forgets to convey to third one.	Psychological Barriers	Poor Retention
20.	Superior neither talks to subordinates nor wishes to hear them.	Organisation Barriers	Status
21.	Nodding the head while saying 'NO'	Semantic Barriers	Body language and gesture decoding.
22.	Superior and subordinate do not trust each other.	Emotional Barriers	Distrust
23.	Complicated communication procedures.	Organisational Barriers	Rules and Regulations.
24.	This leadership suits where employees are highly skilled, experienced and educated.	Direction	Leadership style Laissez Faire
25.	This leadership works where group members are skilled and eager to share their knowledge.	Direction	Leadership style Democratic style
26.	This leadership style works where leader is the most knowledgeable member of the group.	Direction	Leadership style Autocratic style

I. Multiple Choice questions.

1. Directing is _____ function of management.
(a) 3rd (b) 1st (c) 4th (d) 5th
2. One of the following is not an element of Directing.
(a) Communication (b) Motivation
(c) Leadership (d) Division of work
3. Out of the following, identify non-financial incentive.
(a) Bouns (b) Organisational Climate
(c) Profit sharing (d) Perquisites
4. Cheena wants to have her own house. Which type of need is it?
(a) Esteem (b) Safety
(c) Physiological (d) Social
5. Out of the following, who advocated need— Hierarchy theory in 1943.
(a) Peter F. Drucker (b) Philip Kotler
(c) Abraham Harold Maslow (d) Koontz O' Donnell
6. Bhawna is very bossy and does not listen to any suggestion given by her subordinates. Which type of leader is Bhawna.
(a) Democratic (b) Autocratic
(c) Laissez Faire (d) None of the above
7. Out of the following which is not an example of Noise.
(a) Crossing of a vehicle
(b) Telephone lines going dead in between conversation
(c) Group of people talking nearby
(d) More number of organisational levels
8. Understanding the forms of symbols or diagrams correctly is known as—
(a) Encoding (b) Transmission
(c) Decoding (d) feedback

9. Identify a 'Semantic Barrier' out of the following—
- (a) Rules and Regulation
 - (b) Distrust
 - (c) Technical Jargon
 - (d) Complex organisational structure
10. Directing _____ action.
- (a) Initiates
 - (b) Ends
 - (c) Supports
 - (d) None of the above
11. _____ is an Internal Driving Force Experience.
- (a) Communication
 - (b) Motive
 - (c) Trust
 - (d) Command
12. A sense of ownership is provided in one of the following.
- (a) Bonus
 - (b) Perquisites
 - (c) Co-partnership
 - (d) Profit-sharing

III. Match the Following.

- | | | |
|----|------------------------|------------------------------|
| 1. | 1) Motivation | a) Overseeing juniors |
| | 2) Supervision | b) Sharing ideas |
| | 3) Communication | c) Stimulating People |
| | 4) Leadership | d) Influencing the followers |
| | (a) | (b) |
| | i) c | i) a |
| | ii) a | ii) b |
| | iii) b | ii) c |
| | iv) d | ii) d |
| | | (c) |
| | | i) d |
| | | ii) c |
| | | ii) b |
| | | ii) a |
| | | (d) |
| | | i) b |
| | | ii) d |
| | | ii) c |
| | | ii) a |
| 2. | 1) Physiological Needs | a) Friendship |
| | 2) Safety and security | b) Status |
| | 3) Esteem needs | c) Confirmed job |
| | 4) Social needs | d) Food |

(a)	(b)	(c)	(d)
i) a	i) d	i) d	i) b
ii) b	ii) c	ii) c	ii) a
iii) c	ii) b	ii) a	ii) d
iv) d	ii) a	ii) b	ii) c

3. 1) Autocratic a) Complete freedom to subordinates for decision-making
- 2) Democratic b) Leader tends to run the show all by himself
- 3) Laissez Faire c) The Leader consults with his subordinates before making any final decision.

(a)	(b)	(c)	(d)
i) a	i) c	i) b	i) c
ii) b	ii) b	ii) c	ii) a
iii) c	ii) a	ii) a	ii) b

4. 1) Financial Incentive a) Stock option
- 2) Non-Financial Incentive b) Job Enrichment
- 3) Financial Incentive c) Profit Sharing
- 4) Non-Financial Incentive d) Job Security

(a)	(b)	(c)	(d)
i) a	i) d	i) b	i) a
ii) b	ii) c	ii) c	ii) c
iii) c	ii) b	ii) d	ii) b
iv) d	ii) a	ii) a	ii) d

5. 1) Badly Expressed Message a) Emotional Barriers
 2) Distrust b) Organisational Barriers
 3) Organisational Policies c) Semantic Barriers
 4) Lack of Confidence in d) Personal Barriers

Subordinates

(a)	(b)	(c)	(d)
i) a	i) d	i) b	i) c
ii) b	ii) c	ii) a	ii) a
iii) c	ii) b	ii) c	ii) b
iv) d	ii) a	ii) d	ii) d

Fill in the Blanks:

- Directing flow from _____ to _____.
- _____ is the process that excites people to work for the attainment of desired objective.
- _____ refers of the need for affection, belongingness and friendship.
- _____ Incentives are effective in case of managers.
- _____ communication is within an organisation but not officially sanctioned.

Suggest True/False With Reasons

- Process of communication is never complete without feedback. (T/F)
- A Supervisor does not facilitates control. (T/F)
- Esteem needs are needs for respect, outonomy, status, recognition and attention. (T/F)

4. Autocratic leadership style is not suitable for uneducated and inexperienced subordinates. (T/F)
5. Leadership emerges out of informal authority and managership emerges out of formal authority. (T/F)

ANSWERS

MCQS	Fill Ups	Matching	Ture/False
1. C	1. Top, bottom	1. A	1. True
2. D	2. Motivation	2. B	2. False
3. B	3. Social Needs	3. C	3. True
4. C	4. Non-monetary	4. A	4. False
5. C	5. Informal	5. D	5. True
6. B			
7. D			
8. C			
9. C			
10. A			
11. B			
12. C			

QUESTIONS FOR PRACTICE

Q.1 Following communications indicate barriers to effective communication. Identify them and also mention the measures to be taken to improve the effectiveness of communication:

- a) The National Sales Manager during his visit to the southern zone, spoke to the sales managers in Hindi.
- b) During a meeting, the manager was addressing to the problem of competitors pricing policy. The two executives were busy talking to each other about their plans for the upcoming long weekend. The manager got distracted and forgot to inform the major changes in company's pricing policy.
- c) Mohit prefers to stay away from his boss. He is always scared of, what if his boss does not approve his suggestions.
- d) The sales manager while addressing to fresh graduates explained the threats and opportunities company was facing. He used lot of technical words which he had learnt in his MBA classes.
- e) Sonu Garments Ltd. follows scalar chain very strictly. No employee, (whatsoever may be the emergency) is allowed to divert from the defined path of communications. (5)

Q.2 Subermanyam is a newly appointed Human Resource Manager in Times Ltd. in Punjab. He is a Tamilian basically. He is good in Tamil and English. Most of his subordinates belong to Punjab and they are not very much fluent in English. He feels it much difficult to make them understand his instructions.

- 1. Identify the concerned communication barrier.
- 2. State the category of such barrier.
- 3. Explain any other barrier of same category.

Q.3 Neeraj, a sales representative of 'Omida Ltd' has changed seven jobs in the

last one year. He is a hard working person but is not able to finalise deals with the customers due to his inadequate vocabulary and omission of needed words. Sometimes he uses wrong words because of which intended meaning is not conveyed. All this creates a misunderstanding between him and his clients.

1. Identify the communication barrier discussed above.
2. State the category of this communication barrier.
3. Explain any other communication barrier of the same category. (3)

Q.4 Raju is good orator, but he lacks good listening skills. Due to it, he does not listen the instructions given by supervisor carefully and completely. Therefore, he doesn't complete the work as per given instructions.

1. Identify the concerned communication barrier.
2. State the category of such barrier.
3. How such barriers can be mitigated? (3)

Q.5 'Dr. Plus Ltd.' a company manufacturing pharmaceuticals organised a seminar for the lower level team of "Production Department". The resource person emphasized on the following points:

In order to realize organisational goals, the supervisor must have the ability of influencing people to strive willingly for mutual objectives. He should possess the art of transferring facts, ideas, feelings etc from one person to another and making them understand them. He needs to monitor the progress of routine work of the subordinates and guide them properly. He has to identify what excites people to work for the attainment of a desired objective so as to induce them to act in a desired manner.

1. Which functions of management are referred in the above? (1)
2. Identify quoting lines, the elements of one of the functions referred in above para. (4)

Q.6 'Rose Ltd' is manufacturing- Textiles, Cosmetics and Kitchenware item. The company has recruited all female fresher's directly from a Management Institute located in the city. Each product is headed by different female manager.

Ms Pooja is looking after Textile. She believes in decentralisation and takes decisions regarding different work by consulting her subordinates.

Ms Mona, head of cosmetics, takes little interest in managerial functions and the subordinates are left on their own.

Ms Anu is heading Kitchenware items. She has kept all the authority in her own hands and makes employees perform the work exactly as per her orders.

1. Which kind of organisational structure has the company adopted? (1)
2. State the specific source of recruitment used by the company? (1)
3. Identify the leadership styles practised by the 3 heads. (3)

Q.7 The psychology lecture of MBA students of 'Ikon Institute' was going on. The lecturer discussed that

- (a) Some employees have the desire for status or ego of self-respect and recognition.
 - (b) Some have the desire to be what they want to be.
 - (c) Some aspire for acceptance and sense of belongingness.
 - (d) Some need defence against unexpected problems in future.
1. Identify the topic of psychology lecture. (1)
 2. Identify the desires of employees discussed above along with, how can a manager fulfil such desires respectively. (4)

Q.8 'E.Com Ltd' recently ventured into cosmetics business. They took help of professional recruiters for filling their managerial position, who charged fees for it.

The company appointed the necessary personnel and started the work. All the workers/officials used official channels of communication, which are as follow:

- Mr. Arun, the marketing manager co-ordinates all his activities with production manager.

- Mr. Amit (finance manager) has prepared cash budget and communicated it to his two accountants.
 - Mr. Rakesh (store manager) has requested/ suggested the purchase manager - Mr. Ankush that special temperature controlled warehouse is required to keep chemicals and cosmetics.
 - The marketing manager Mr. Arun has given feedback to production supervisor, Mr. Ved regarding complaints in recently launched bleach cream.
1. Which specific source of recruitment is used by the company(1)
 2. Identify different forms of communication referred in above paragraph (4)

Q.9 Anju and Manju work as Supervisor and clerk in Production and Finance Dept. respectively. They're close friends and have lunch together. One noon while having lunch Anju shared with Manju that twenty employees will be transferred to the foreign branch next month.

1. Which kind of communication took place between Anju and Manju.
2. Write any two limitations of such communication. (3)

Q.10

NOTICE
 A meeting of all supervisor
 is scheduled on 18th May,
 2014

This Notice Board was placed in reception area of ABC Ltd. The notice placed here did not mention clear specification regarding the time. This resulted in ambiguity of message. Which barrier of communication is 'referred to' here? Explain any three other forms of barriers of effective communication. (4)

- Q.11** Kareena is working in an MNC' She has been given an option to buy the shares of the company at an amount less than the market price because of her performance as an incentive. Katrina has been awarded "Employee of the month" award. Which forms of incentive is being referred here. Explain the incentives along with any other three incentives. (4)
- Q.12** You are a soft skill trainer who trains people in their speaking & writing skills. What ideas can you give to the trainees about improving their communication effectiveness? (4)
- Q.13** Manoj is working as a supervisor in Galaxy Ltd. He listens to worker's suggestions and grievances. He rewards the workers for good suggestions and handles the grievances timely. He insists on free flow of communication to solve the conflict among mgt. and workers. While scheduling the duties, he also consults the workers.

Explain functions performed by Manoj as supervisor by quoting lines from the above paragraph.

HINTS :

1.	Barriers to communication	Measures to improve communication
	(a) Semantic Barriers — Faulty translations	Use of proper language according to the needs of receiver.
	(b) Psychological Barriers — Lack of attention	Receiver should pay attention by being a good listener.
	(c) Personal Barriers — Fear of challenge to authority	Boss should motivate the subordinates to communicate.
	(d) Semantic Barriers — Technical Jargon	Use of words and language as per the needs and understanding level of receiver.
	(e) Organisational Barriers — Complexity in organisation structure	Use of gang plank in emergency, making org. structure simpler.

2.
 1. Faulty Translations
 2. Semantic Barrier
 3. Technical Jargon
3.
 1. Badly expressed message
 2. Semantic Barrier
 3. Technical Jargon

4.	(1) Communication Barrier	(2) Category	(3) How such barriers can be mitigated
	Lack of attention/ Poor listening	Psychological/ Emotional barriers	By developing good listening skill among employees.

5.
 1. Staffing, directing
 2. Leadership

The supervisor objectives.

Communication

He should them.

Supervision

He needs properly.

Motivation

He has manner.
6.
 1. Divisional structure
 2. Campus recruitment
 3. Ms Pooja — Democratic style

Ms. Mona — Free Rein

Ms. Anu — Authoritative

7. 1. Human Needs, Motivation

2. Needs	How to fulfill
(a) Esteem Needs	Promotion, Job title.
(b) Self-actualisation.	Achievement of goals.
(c) Social Needs	Cordial relations in formal and informal organisation.
(d) Safety/ security Needs	Job confirmation, PF and Pension Plan.

8. 1. Management Consultants

2. Mr. Arun — Horizontal communication

Mr. Amit — Vertical [downward] communication

Mr. Rakesh — Vertical [upward] communication

Mr. Arun to Ved — Diagonal communication

9. 1. Informal Communication

2. Carry rumours

Unorganised and irregular

10. (i) Semantic Barrier — Badly Expressed message.

- (ii) (a) Emotional Barrier — Lack of attention.

(b) Organisational Barriers — Rules and Regulations

(c) Personal Barriers — Lack of proper incentives.

11. For Kareena — Financial Incentive — Co. partnership

For Katrina — Non-financial Incentive — Employee Recognition Program

Other Three Incentives —

Financial Incentive — Bonus Profit Sharing

Non-financial Incentive — Job Enrichment, good Organisational Climate

12. Be a patient listener

Classify the ideas before communication.

Ensure proper feedback

Communicate according to the needs of receiver.

13. (i) Feedback — He listens grievances.

(ii) Motivation — He rewards timely.

(iii) Link between workers and management

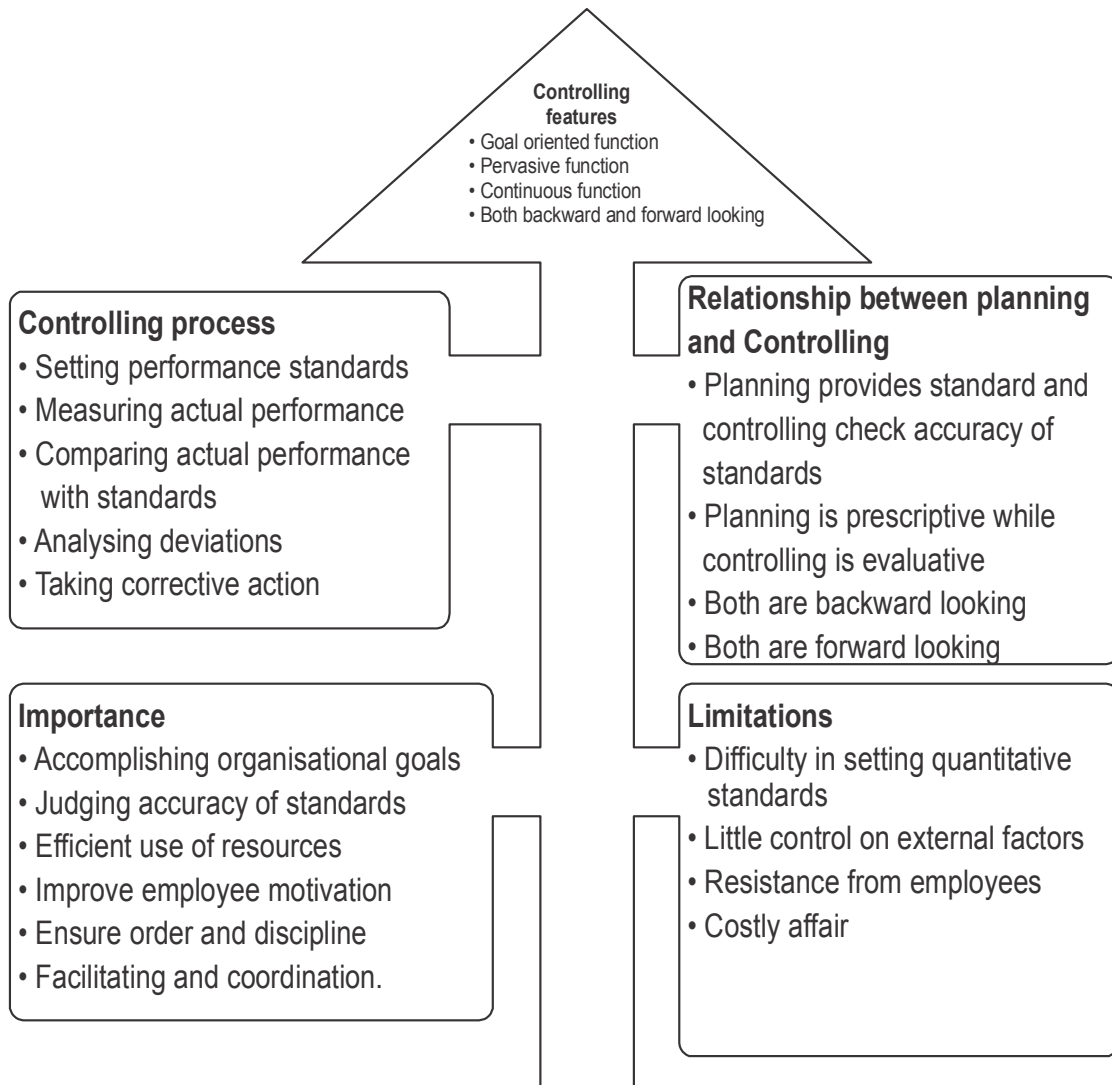
He insists workers.

(iv) Ensures issuing instructions.

While scheduling workers.

CHAPTER – 8

CONTROLLING



Meaning & Definition

Controlling means ensuring that activities in an organization are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals.

It can be defined as comparison of actual performance with the planned performance.

The controlling functions finds out how far actual performance deviates from standards, analyses the causes of such deviations and attempts to take corrective actions based on the same.

Nature of Controlling/Features of Controlling

1. **Controlling is a goal oriented function:**Controlling as a function of management ensures that the overall directions of individuals and groups are consistent with short and long range plans of the organization. So it is completely a goal oriented function.
2. **Controlling is an all pervasive function:**Controlling is a function which is applicable to all types of organizations business and non-business and at all managerial levels.
3. **Controlling is a continuous function:**Control is not a one time activity. Rather, it is a dynamic process that involves constant analysis of actual and planned performance. The resultant deviations, if any, are corrected as per the need of the situation.
4. **Controlling is both a backward looking as well as forward looking function:** Under controlling past performance is analysed, therefore controlling is backward looking. On the basis of this past performance analysis, remedial action is taken to make future performance better, in this way controlling is forward looking.
5. **Controlling is a dynamic process:** Since controlling requires taking reviewable methods, changes have to be made wherever possible.
6. **Controlling is a positive process:** George Terry says, the function of controlling is positive – it is to make things happen, i.e. to achieve the goal within stated constraints, or by means of the planned activities. Controlling

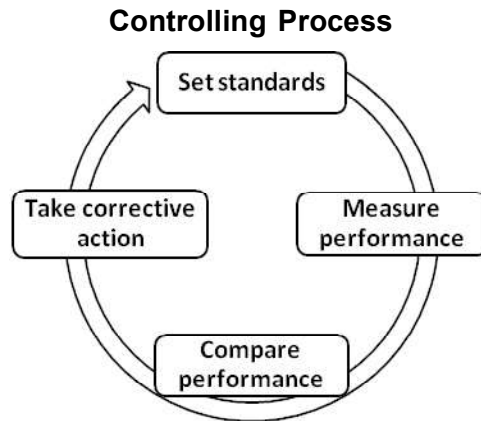
should never be viewed as being negative in character – as a hurdle in getting objectives won. Controlling is a managerial necessity and a help, not an impediment or a hindrance.

Importance of Controlling

1. **Controlling helps in achieving organizational goals:** The controlling function measures progress towards the organizational goals and brings to light/indicates corrective action.
2. **For Evaluating/Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate or not by careful check on the changes taking place in the organizational environment.
3. **Making efficient use of resources:** By the process of control, a manager seeks to reduce wastage of resources.
4. **Improves employee's motivation:** A good control system ensures that employees know well in advance what they are expected to do & also the standard of performance. It thus motivates & helps them to give better performance.
5. **Facilitating Coordination in action:** In controlling each department and employee is governed by predetermined standards which are well coordinated with one another. Control provides unity of direction.
6. **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organization by keeping a close check on the activities of its employees.

Q.1 If planning is done carefully and accordingly other functions of management are going in the right direction, then there is no need of the controlling function of management. Do you agree with this statement? Give reasons in support of your answer.

[Hint- Controlling is still required to check whether performance is as per plans or not.]



Controlling Process

1. **Setting Performance Standards:** Standards are the criteria against which actual performance would be measured. Thus standards become basis for comparison and the manager insists on following of standards.

Standards can be set in both quantitative as well as qualitative terms. It is important that standards should be flexible enough to be modified whenever required. Standards should be SMART as:

S – Simply Expressed

M – Measurable

A – Attainable

R – Reasonable

T – Time bounded

2. **Measurement of Actual Performance:** Performance should be measured in an objective and reliable manner which includes personal observation, sample checking. Performance should be measured in same terms in which standards have been established, this will facilitate comparison.
3. **Comparing Actual Performance with Standard:** This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired performance. If the performance matches the standards it may be assumed that everything is under control.

4. **Analysing Deviations:** The deviations from the standards are assessed and analysed to identify the causes of deviations.

Deviations are analysed in the light of pre-determined deviation tolerance limit and key result areas.

- a) **Critical point control (CPC):** It is neither economical nor easy to have a check on all the activities of an organisation. Hence, the manager should pay more attention on those activities which are important and critical to the success of an organisation. These are known as Key Result Areas- KRA's.

Example: 2% increase in stationery cost is not critical. But 2% increase in wages Salaries is critical.

- b) **Management by Exception (MBE):** A manager should take corrective action only when there is exceptional deviation i.e. when they cross the permissible limit or acceptable range. Deviations within acceptable range are ignored.

Example: Wastage within Normal Wastage Range may be ignored. But if wastage crosses this limit and becomes Abnormal then management should control.

5. **Taking Corrective Action:** The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within the acceptable limits. But where significant deviations occur corrective action is taken.

Q.2 “Comparing the actual performance with laid standard, finding out deviations and taking corrective action is an important process of a function of management.” Name the process.

[Hint- Controlling Process]

Limitations of Controlling

1. **Little control on external factors:** Generally no enterprise can control external factors such as government policies, technological changes, competitions etc.

2. **Resistance from employees:** Control is often resisted by employees. They see it as a restriction on their freedom e.g. Employees may resist and go against the use of cameras to observe them minutely.
3. **Costly affair:** Control is a costly affair as it involves a lot of expenditure of time and efforts.
4. **Difficulty in setting quantitative standards:** Control system loses some of its effectiveness, when standards cannot be defined in quantitative terms. In the absence of quantitative standards, comparison with standards becomes difficult.

Relationship between Planning and Controlling

Planning and controlling are interrelated and in fact reinforce each other in the sense that-

1. **Planning is pre-requisite for controlling.** Plans provide the standard for controlling. If the standards as the first step in controlling process are not set in advance managers have nothing to control.
2. **Planning is meaningless without controlling.** It is fruitful when control is exercised. It discovers deviations and initiates corrective measures. Controlling ensures that work has been done according to planning.
3. Effectiveness of planning can be measured with the help of controlling.
4. **Planning and controlling both are forward looking:** Planning is a future oriented function as it involves looking in advance and making plans based on forecasts about future conditions.
Controlling is referred to as looking forward because the corrective action in controlling is taken to prevent the recurrence of the deviations in future.
5. **Planning and controlling are both looking back:** Planning is looking back because new planning is guided by the problem identified in the past.
Controlling is looking back as it compares the actual past performance with standards. This involves scrutinising the events after they have taken place.
Thus, planning and controlling cannot be separated. The two are supplementary functions which support each other for successful execution. Planning makes controlling effective whereas controlling improves future planning.

I. Multiple Choice questions.

1. Which function of management bring back the management cycle back to the planning function.
(a) Directing (b) Organising (c) Controlling (d) Staffing
2. A good control system helps an organisation to.
(a) Accomplishes organisational goals.
(b) Judges accuracy of standards.
(c) Ensure order and discipline
(d) All of the above.
3. Under which step of controlling process certain pieces are checked at random for quality as sample checking.
(a) Measurement of actual performance
(b) Comparing actual performance with standards
(c) Analysing Deviations
(d) Taking corrective action.
4. The plans lay down 2% increase in labour cost as an acceptable range of deviation in a manufacturing organisation, only increase in labour cost beyond 2% Should be brought to the notice of the management.
Which method of controlling deviations is mentioned above.
(a) Budgetary control (b) Critical point control
(c) Management by exception (d) Inventory control.
5. "Employees might object when they are kept under a strict watch with the help of CCTVS." Which Limitation of controlling is indicated here'
(a) Control through CCTVS is as costly affair
(b) Organisation have little control on external factors.
(c) Selection of CCTVS installation points is difficult and time consuming.
(d) Resistance from employees.
6. In case the deviation cannot be corrected through managerial action, what should be done.

- (a) Standards may have to be revised.
 - (b) Control through CCTVS should be ensured
 - (c) Existing controlling process should be changed/modified
 - (d) Sample checking should be done.
7. In a manufacturing organisation an increase of 5% in the labour cost may be more troublesome than a 15% increase in postal charges.
- Which method of controlling Deviations is mentioned in above example.
- (a) Budgetary control
 - (b) Management by exception
 - (c) Critical point control
 - (d) Inventory control
8. "Controlling improves future planning by providing information derived from past experience. "This, controlling function of an organisation based on given feature is.
- (a) Forward looking
 - (b) Backward looking
 - (c) Forward as well as backward looking
 - (d) None of the above.
9. Identify the basis of controlling that are provided by planning.
- (a) Actual performance
 - (b) Key Result areas
 - (c) order and discipline
 - (d) Standard performance
10. Which function of management not only helps in keeping a track on the progress of activities but also ensures that activities conform to the standards set in advance.
- (a) Planning
 - (b) Directing
 - (c) organising
 - (d) controlling

Answer :

- | | | | | |
|-------|-------|-------|-------|--------|
| (1) c | (2) d | (3) a | (4) c | (5) d |
| (6) a | (7) c | (8) c | (9) d | (10) d |

True/False

Giving reason in support of your answer, state whether the following are True or False.

1. Critical point control is an important principle of management control based on the belief that an attempt to control everything results in controlling nothing.
2. Sometime situation may arise when deviation cannot be corrected through managerial action then in such situations the standards may have to be revised.
3. Controlling process is evaluative in nature as it checks whether decisions have been translated into desired action.
4. Planning and controlling reinforce each other as planning improves future by providing information derived from past experiences while controlling based on facts makes planning easier.
5. Once a plan becomes operational, controlling is not necessary as events will conform to plans automatically.

Answer :

(1) False (2) True (3) True (4) False (5) False

Fill in the blanks with most appropriate word.

- After identifying the deviations that demand managerial attention these deviations need to be _____ for their causes.
 - Studied
 - ignored
 - analysed
 - interpreted
- Corrective action might involve _____ of employees if the production target could not be met.
 - Counselling
 - Inducement
 - Influencing
 - Training
- _____ checks whether decisions have been translated into desired action due to which it is evaluative in nature.
 - Planning
 - Controlling
 - Directing
 - Organising

- Answer :**

Match the Following and select the most appropriate option.

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QUESTIONS FOR PRACTICE

- Q.1** Prakash Jha wishes to fix- standard production for worker along with standard time to complete the job. Under which function of management, standards are fixed? (1)
- Q.2** Jindal Ltd. could not achieve the target production of 15,000 cars p.a. It could produce only 14,125 cars - While analysing the reasons for deviations, it was found that workers were not efficient. Training programmes were organised and next year, company was able to produce 15,000 units. Production Manager is of the opinion, that with this, management ends at controlling. Do you agree? Give reason to support our answer. (3)
- Q.3** Suppose you are the manager of ABC Clothing Ltd. It comes to your knowledge that postal expenses have increased by 15% over the standard price and cost of labour and raw materials has increased by 3%. Which of the two situations is more critical according to you? (1)
- Q.4** 'Tricom Ltd' a computer hardware manufacturing company imported a new machinery for manufacturing latest technology based computer systems. The human resource manager determined that for operating the new machines, the company required the necessary workers through placement agency.
- After 3 months, it was reported by the production manager that the workers were not able to meet the target production. The General Manager got annoyed and ordered inquiry for the same. It was reported that the newly recruited workers possessed the necessary skills and abilities but lacked the willingness to do work.
- (i) Name the functions of management involved above (3)
- (ii) Name the relevant concept of functions identified in (i) (2)
- (iii) Which concept of management will help the company in meeting the target production (1)

Q.5 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.

1. Identify the function of management referred above. (1)
2. Describe its three features quoting lines from the para. (3)

Q.6 Polycons Ltd. is a firm manufacturing paper bags in Orissa. It has employed female workers in the company and manufactures paper bags from recycle paper and there after sells them to various firms at economic rates.

Since last 1 month, its customers(firms) are reporting of complaints received from the users that these paper bags are unable to manage heavy weight and get torn easily.

1. Which function of management has been ignored above? (1)
2. Discuss the steps to be undertaken in respect of the ignored function to remedy the situation. (4)

Q.7 Mr. Sandhu worked as a manager in a company manufacturing stationary items for 10 years. Later he thought of starting his own business as he had acquired the skills and expertise in past years. He started his own venture. He divided the organisation into six major departments- Production, Purchase, Marketing, Legal, Human resource and Finance. After a month, he called upon the meeting of all the departmental heads in his office and told the production marketing and finance department managers to be very vigilant as their departments are critical to the success of the business. Short comings in Purchase, Personnel or Legal department would not affect much the success of business. Therefore, Mr. Sandhu determined deviation tolerance limits for the critical departments.

1. Identify the two functions of management referred above. (1)
2. Describe the relevant concept of the identified functions. (3)

Q.8 One day, the management instructor of BBA classes organised a “Panel Discussion” on important topics of management. The students were given the following clues for discussion. Each student was given 3 minutes for elaborating on the clues given below:

Clue 1: They are inseparable twins.

Clue 2: They are inter-dependent, inter-related and reinforce each other.

Clue 3: They both are forward as well as backward looking.

1. Identify the functions of management written in clues above.
2. Elaborate on the 3 clues.

Hints

1. Planning
2. No, because analysis of deviations may leads to revise the standards next year.
3. Increase in cost of labour and raw materials.
4.

(i)	(ii)
1. Staffing	Recruitment
2. Controlling	Comparing actual performance
3. Directing	Analysing causes of deviations.
- (iii) Motivation
5.
 1. Controlling
 2. Goal oriented “So that adverse results.
Continuous Process “As long co. runs”
Pervasive function “Employees at all levels”

6.
 1. Controlling
 2. Measuring actual performance
 - Comparing Actual performance with standards
 - Analysis Deviations
 - Taking corrective measures
7.

(1)	(2)
Organising	Departmentalisation
Controlling	Critical point control Controlling by Exception
8.
 1. Planning and Controlling
 2. Explain relationship between planning and controlling crelevants to questions.

Key Terms to Crack Case-Studies

S. No.	Phrase	Topic/ function	Sub-Topic/
1.	It is the process of ensuring that actual activities conform to planned activities.	Controlling	—
2.	Control should be focused on key Result Area (KRAs) which are Critical to the success of an Organisation.	Analysing Deviations	Critical point control.
3.	If you try to control everything. You may end up controlling nothing.	do	Mgt. / control by exception.
4.	Company could not meet production targets, due to machinery failure, therefore new machinery was imported to achieve production standards.	Process of Controlling	Taking remedial action.

- | | | | |
|----|--|----|--|
| 5. | 10% increase in postage exp. is not so harmful as 2% increase in labour cost. So labour cost needs to be controlled quickly. | do | Analysing deviations — critical point control. |
| 6. | Normal wastage standard is 3% of Input
Actual wastage comes 5% hence it must be controlled now. | do | Analysing deviations— Mgt. by exception. |

UNIT-3

EVALUATION QUESTIONS

Q1. Trilok Ltd. was established with a total capitalisation of Rs. 25.80 crores. Company maintained a good balance between Debt and equity by having a Debt - Equity ratio of almost 2:1. It was established with a mission of - generating employment - producing quality goods with fair prices.

It hired qualified and experienced staff even then, it organised training programmes to improve the skill level of employees. Managers at different levels were of the opinion that everything was organised very well, so subordinates can do everything at their own level. So they decentralised the authority till lowest level and restricted themselves to policy making. At the end of financial year, results were shocking - Annual target of production of 5,00,000 units could not be achieved.

(i) Name the functions of management practised by managers. (2)

(ii) Which management function was totally ignored by the managers at different levels. What would be the benefits? Trilok Ltd. could get, by adopting this "MISSED FUNCTION". (3)

Ans. (i) Planning, Organising, Staffing, Controlling

(ii) Directing (Any three benefits of directing)

Q2. Mr. Raghunath is production Manager of Zaku Ltd. At factory level, supervisors found that a number of workers were not taking interest in work. They were not able to achieve individual standard target of 50 units a day. Due to piece rate system, their actual wages were decreasing.

Supervisors as middle men, conveyed it to the Production Manager. Mr. Raghunath coordinated with General manager, Human Resource Manager and Finance Manager. The team recommended - 'Minimum wages + monetary incentives as per performance of concerned employee' to Mr. Raghunath.

The scheme was implemented. Results were remarkable. Now, workers

were satisfied with their jobs. They were producing more than standard output and getting good wages.

- (i) Which functions of management are discussed above? (2)
- (ii) Name the element of Direction initiated by Mr. Raghunath (1)
- (iii) Quoting the lines from above mentioned paragraph, state the benefits of such implementation

Ans. (i) Staffing and Controlling
(ii) Motivation

Q3. Col. Pratap Singh retired from Army and joined Jacob Ltd. as General Manager. He is very strict disciplinarian and makes everybody to meet deadlines. He doesn't listen any suggestion and doesn't pay any heed to worker's problems. Although targets are achieved in time, yet working atmosphere is deteriorating day by day. Workers do not get any opportunity to interact with each other for satisfaction of social and emotional needs. Labour Turnover Rate is increasing.

- (i) Which kind of leadership style, has Mr. Pratap been adopting (1)
- (ii) Which kind of communication is not taking place among employees. Describe. (2)

Ans. (Hints) (i) Autocratic (ii) Informal Communication meaning.

Q4. Shalu is a student of Class XI. She got 70% marks in Class X. Her brother motivated her to study well and try to get 100% marks to seek admission in SRCC. In first unit test, she got 78% marks. She made a list of reasons for deviation of 22% she found that reasons were -

- Writing speed
- Lack of practice for different kind of questions, especially multi-unit questions.

She practiced more mock tests at home with time-check and searched for variety of questions on internet. In next unit test, she got 85% marks. Again she made a list of such causes and improve upon and so on.....

- (i) Identify element of direction discussed in first paragraph. (1)

(ii) By which function of management Shalu was trying to regulate her result.

(1)

(iii) Explain first three steps of the process of such management function.

(3)

Ans. Hints

(i) Motivation

(ii) Controlling

(iv) First three steps of controlling

Q5. On Annual day of the company, all departmental heads were having dinner with their terms. Production Manager Mr. Siddharth and his supervisor Mr. Allahrakha were also there. Mr. Allahrakha told Mr. Siddharth about the problems faced by workers due to the bad condition of machines. According to him major repairs and replacements of worn out parts were required. Later on, Production Manager made efforts to find out the actual position and found the same situation as described by Mr. Allahrakha. He conveyed the matter to higher authorities who went for overhauling of machinery. As a result, productivity increased by almost 20%.

Top management awarded a cash prize of Rs. 25000/- to Mr. Allahrakha on the next Annual day.

1. Identify the kind of communication which took place between Mr. Siddharth and Mr. Allahrakha. (1)

2. What step was taken by top mgt. to improve the situation. (1)

3. Name & explain the kind of incentive which was given to Mr. Allahrakha. (2)

Ans. Hints:

(1) Informal Communication

(2) Remedial Action - repair/Replacement/overhauling

(3) Monetary Incentive

Q6. In Jagdama Ltd., all the activities were divided into seven department as Purchase, Marketing, Production, Personnel, Finance, Accounting and correspondence. General Manager Sh. Ram Niwas analysed and concluded that marketing, production and finance were the departments on which success of the business is dependent. Short comings in other departments,

would not affect much the success of the business. He also decided deviation tolerance limits of these three main departments. If deviation goes beyond these tolerance limits, then only the same will be brought to the notice of Sh. Ram Niwas.

- (1) Identify functions of management referred in the above paragraph. (2)
- (2) Describe the relevant concepts of identified function by quoting lines from the above paragraph. (4)

Ans. (i) Organising, Controlling

(ii) Critical Point Control Management by Exception

Q7. Directors of Panorma Ltd. gave complete freedom to departmental heads to frame departmental policies and get the work done. But departmental heads neither consulted each other nor did they take guidance and final approval from Managing Director. They framed individual isolated policies and did not check timely the problems. At the end of the year, they faced huge departmental losses.

- (1) Which leadership style was adopted by Director. (1)
- (2) Which functions of management were performed poorly? (2)

Ans. (i) Free rein (ii) Direction and Controlling

Q8. Production manager set the annual production target as -

“Huge amount of Production”.

Superiors checked the workers at work regularly and they made the workers do their best by encouraging them.

At the end of the year, it was found that actual production was 1,65,000 units. General Manager was not satisfied with the performance as last year 1,90,000 units were produced. But Production Manager was of the opinion that they have achieved the target of -“Huge amount of production.”

- (i) What was missing in determining the production standards? Explain by highlighting qualities of Good Standard. (Any two) (3)

(ii) Name two elements of direction mentioned in the paragraph. (2)

- Ans.** (i) Standards should be determined in numbers. Standards should be: Attainable, Measurable, Time bound etc. (Any Two)
- (ii) Supervision, Motivation

Q.9 A company was manufacturing 'LED bulbs' which were in great demand. It was found that the target of producing 300 bulbs a day was not met by the employees. On analysis, it was found that the workers of the company were not able to achieve the set targets and alternative arrangements were needed.

To meet the increased demand, the company assessed that approximately 88 additional workers were required out of which 8 would work as heads of different departments and 10 would work as subordinates were also enlisted. It was also decided that necessary relaxation should be given to encourage women, persons from backward and rural areas and persons with special abilities to assume responsible positions in the organisation. All efforts were made to match the ability of the applicants with the nature of work.

- a) Identify the functions of management discussed above.
- b) State the steps in the process of each function discussed in the above para. (5)

Hint-

(a)	(b)
1. Staffing	Estimating man power requirements
2. Controlling	Comparing actual performance with standards Finding deviations

CHAPTER – 9

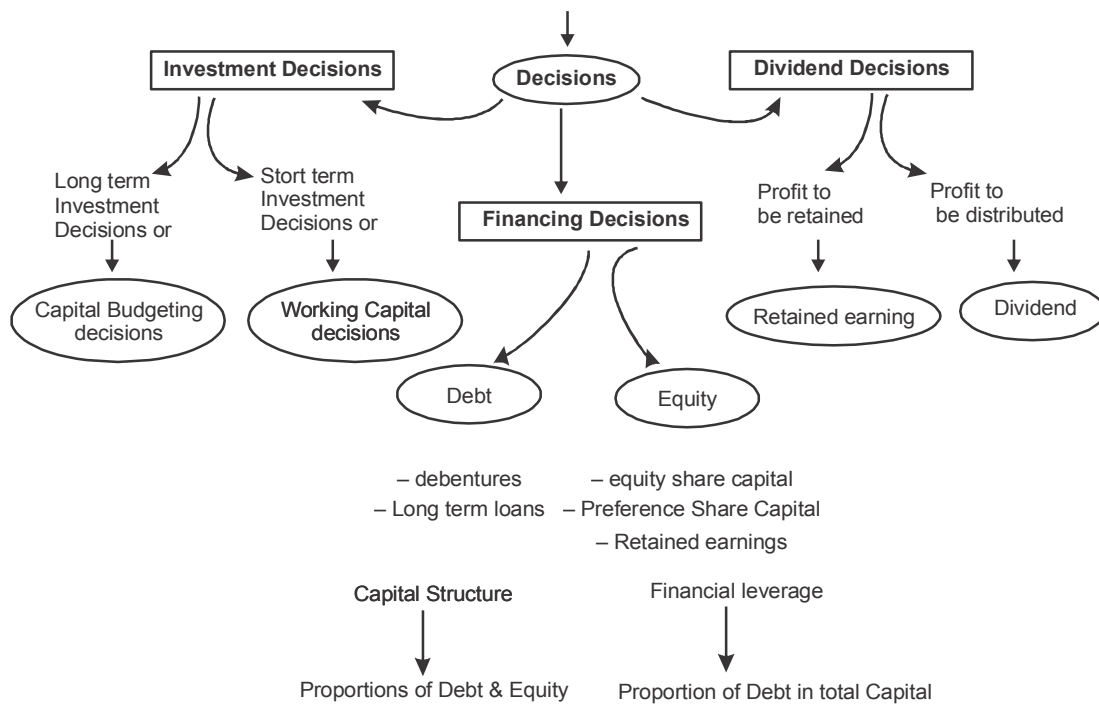
FINANCIAL MANAGEMENT

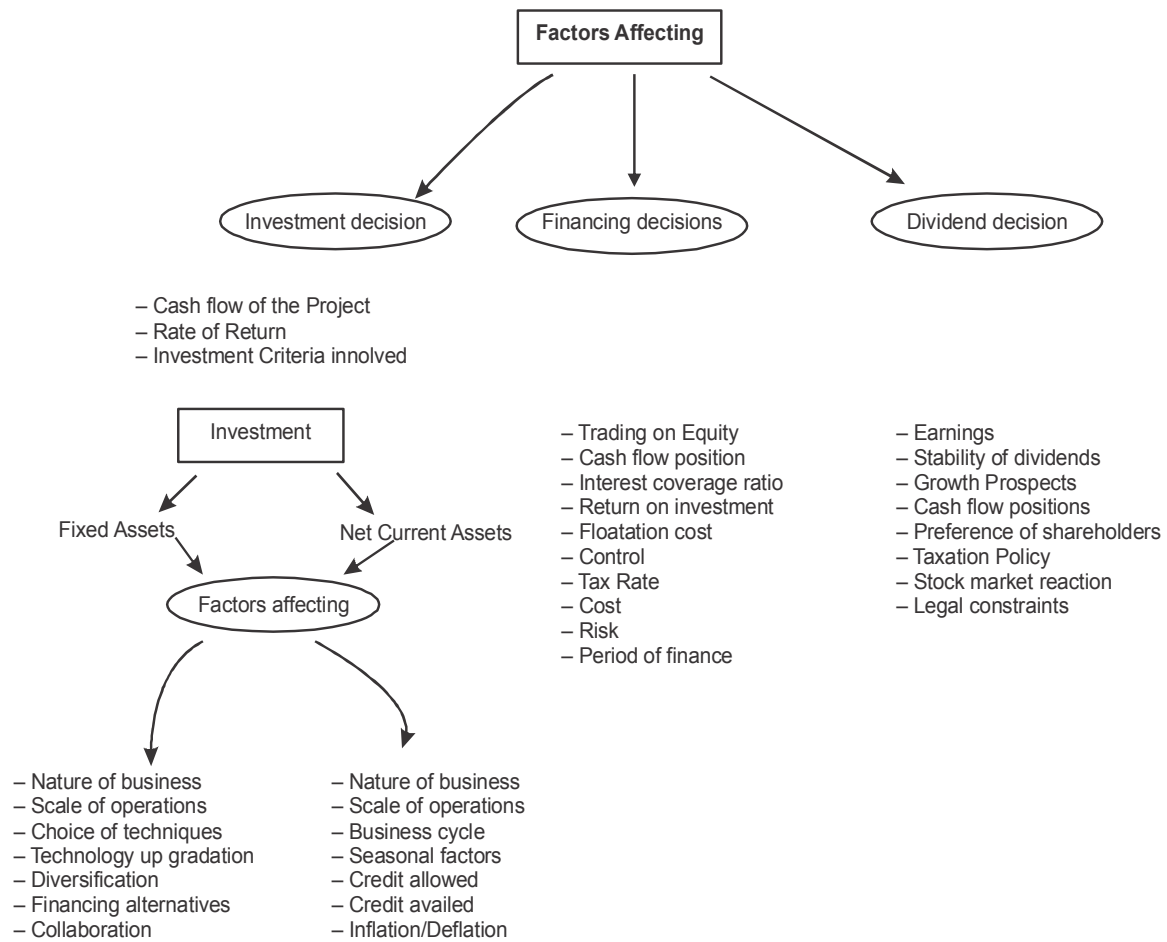
Objective: To Maximize Shareholders Wealth

FINANCIAL MANAGEMENT

Financial Management is concerned with decisions relating to

1. Procurement of funds (financing decisions)
2. Investment of funds (investing decisions)
3. Distribution of earnings (dividend decision)





Introduction

Money required for carrying out business activities is called business finance. Finance is needed to establish a business, to run it, to modernize it, to expand or diversify it.

Meaning of Financial Management

Financial management is the activity concerned with the planning, raising, controlling and administering of funds used in the business. It is concerned with optimal procurement as well as usage of finance. It aims to reduce the cost of funds. It also aims at ensuring availability of enough funds whenever required as well as avoiding idle finance.

Objectives of Financial Management

(A) Primary Objective:

- **Wealth Maximisation:** The main objective of Financial management is to maximise shareholder's wealth. Example- If Mr. X purchases 100 shares @ ₹ 100 of ABC Ltd. his wealth in company's is ₹ 10,000/-. After some time, the market price of share increases to ₹ 130/-. Therefore, his wealth would be ₹ 13,000/-. His wealth increases by ₹ 3,000/-. If the market price of the share decreases to ₹ 90/- he loses his wealth by ₹ 1,000/-

The market price of a company shares is linked to three basic financial decisions and shareholder's wealth maximisation.

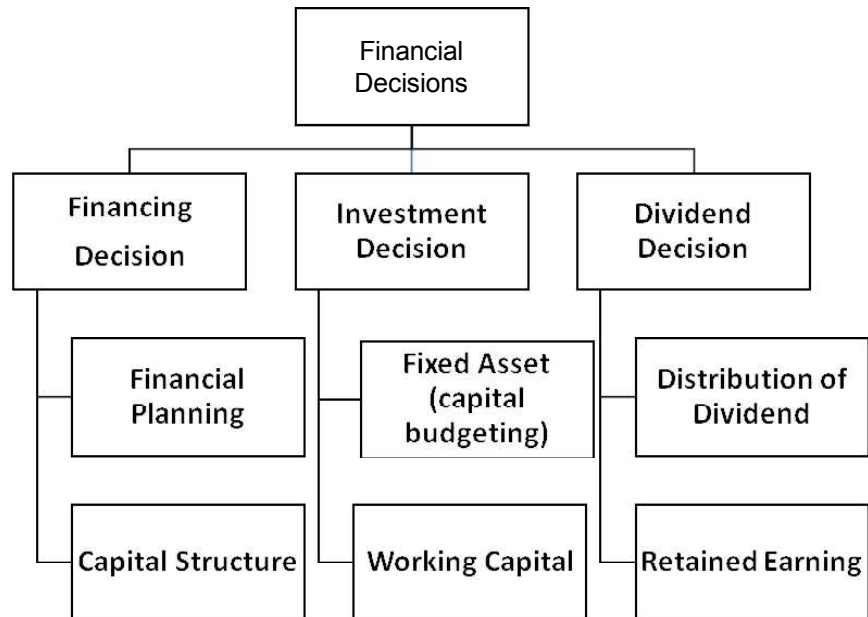
Wealth of shareholders = number of shares x market price per share.

(B) Other objectives:

1. **To procure sufficient funds for the organisation:** Adequate and regular supply of funds is to be maintained for smooth operations of the business.
2. To ensure effective utilisation of funds.

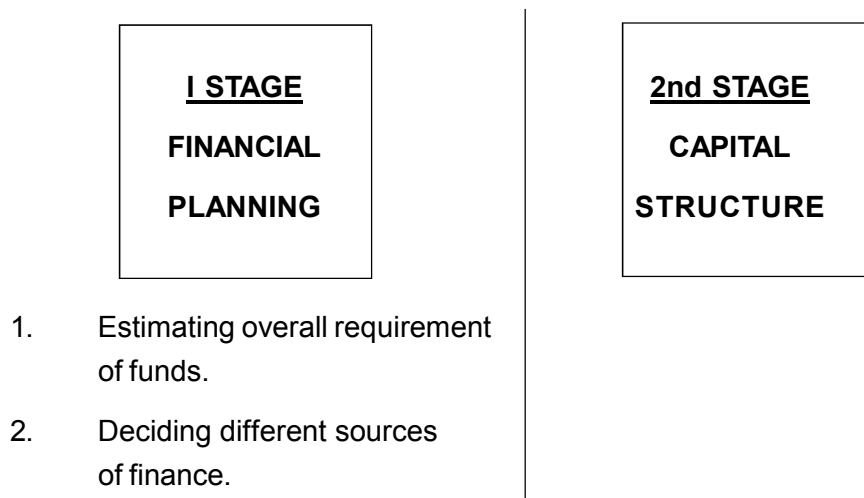
3. **To ensure safety of funds** : The chances of risk in investments should be minimum possible.

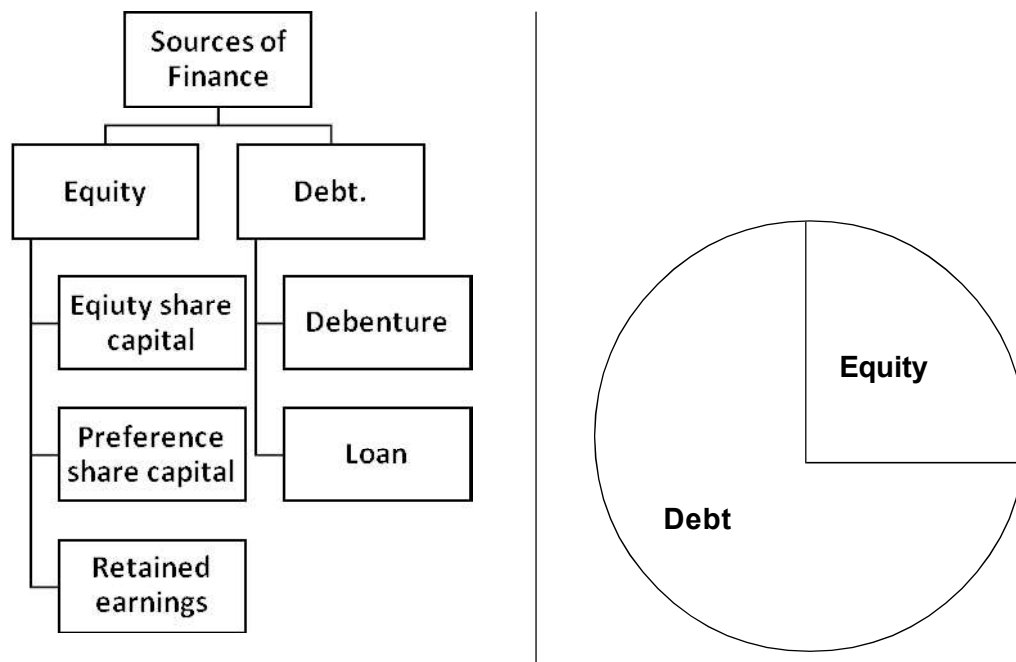
Financial Decisions:



FINANCING DECISION

Decision is taken at two stages:





Deciding how much amount is to be arranged from which source.

FIRST STAGE: FINANCIAL PLANNING

The process of estimating the fund requirement of a business and specifying the sources of funds is called financial planning. It ensures that enough funds are available at right time so that a firm could honour its commitments and carry out its plans.

It includes the exploration of different alternatives of source of finance, selection of the best alternative and implementation of financial plans and policies. In layman's language we can say that financial planning means deciding in advance how much to spend, on what to spend, according to the funds at your disposal. Following are the tasks which come under financial planning:

- (i) Determination of Financial Objectives.
- (ii) Formulation of Financial Policies and Rules.
- (iii) Forecasting the Needs of Finance.
- (iv) Developing Alternative sources of Finance.
- (v) Selection of Best Alternative.
- (vi) Implementing Financial Plans and Policies.

Financial planning includes both short term as well as long term planning. Short term planning is usually in the form of annual budgets. Long term planning takes the form of capital budgets.

Importance of Financial Planning

1. To ensure availability of adequate funds at right time.
2. To see that the firm does not raise funds unnecessarily.
3. It provides policies and procedures for the sound administration of finance function.
4. It results in preparation of plans for future. Thus new projects can be undertaken smoothly.
5. It attempts to achieve a balance between inflow and outflow of funds. Adequate liquidity is ensured throughout the year.
6. It serves as the basis of financial control. The management attempts to ensure utilization of funds in tune with the financial plans.

SECOND STAGE: CAPITAL STRUCTURE

The main sources of funds are owner's funds i.e. equity/share holder's funds and the borrowed funds i.e. Debts. Borrowed funds have to be repaid at a fixed time and thus some amount of financial risk (i.e. risk of default on payment) is there in debt financing. Moreover interest on borrowed funds has to be paid regardless of whether or not a firm has made a profit. On the other hand, shareholder's fund involves no commitment regarding payment of returns or re-payment of capital. A firm mixes both debt and equity in making financing decisions.

Capital structure refers to the optimal mix between owner's funds and borrowed funds. It will be said to be optimal when the proportion of debt and equity is such that it results in an increase in the value of the equity share. The proportion of debt in the overall capital of a firm is called Financial Leverage or Capital Gearing. When the proportion of debt in the total capital is high then the firm will be called highly levered firm but when the proportion of debts in the total capital is less, then the firm will be called low levered firm.

$$\text{Financial leverage} = \frac{\text{Debt}}{\text{Equity}}$$

Factors affecting Capital structure or financing decision

1. **Trading on Equity:** It refers to the increase in profit earned by the equity shareholders due to the presence of fixed financial charges like interest. Trading on equity happens when the rate of earning of an organisation is higher than the cost at which funds have been borrowed and as a result equity shareholders get higher rate of dividend per share. The use of more debt along with the equity increases EPS as the debt carries fixed amount of interest which is tax deductible. Let us understand with an example-

	Company X	Company Y	Company Z
Equity share cap. (of Rs 10 each)	10,00,000	5,00,000	2,00,000
12% preference share	—	—	3,00,000
Debenture @10%	—	5,00,000	5,00,000
Total Capital	10,00,000	10,00,000	10,00,000

	Company X	Company Y	Company Z
Earning before int. and taxes(EBIT) @25% p.a.	2,50,000	2,50,000	2,50,000
Less interest on debt	—	(50,000)	(50,000)
Profit after tax (available for equity & pref. Share holders).	2,50,000	2,00,000	2,00,000
Tax @ 40%	1,00,000	80,000	80,000
Profit available for equity + preference shareholders	1,50,000	1,20,000	1,20,000

Less preference dividend.	——	——	36,000
Profit for equity shareholders	1,50,000	1,20,000	84,000
No. of equity shares	1,00,000	50,000	20,000
20,000			
Earnings per share	₹ 1.50	₹ 2.40	₹ 4.20

Thus the EPS of company Y and Z is higher than company X because of application of 'Trading on Equity'

- Cash Flow Position:** In case a company has strong cash flow position then it may raise finance by issuing debts, as they are to be paid back after some time and interest has to be paid on debt.
- Interest Coverage Ratio:** It refers to the number of times earning before interest and taxes of a company covers the interest obligation. High interest coverage ratio indicates that company can have more of borrowed funds. Formula for calculating ICR = EBIT/interest.
- Return on Investment:** If return on investment is higher than the rate of interest on debt then it will be beneficial for a firm to raise finance through borrowed funds.
- Floatation Cost:** The cost involved in issuing securities such as brokers commission, under writer's fees, cost of prospectus etc. is called floatation cost. While selecting the source of finance, floatation cost should be taken into account.
- Control:** When existing shareholders are ready to dilute their control over the firm then new equity shares can be issued for raising finance but in reverse situation debts should be used.
- Tax Rate:** Interest on debt is allowed as a deduction; thus in case of high tax rate, debt is preferred over equity but in case of low tax rate more preference is given to equity.

8. **Cost:** The cost of raising funds from different sources are different. The cheapest source should be selected.
9. **Risk:** The risk associated with different sources is different. More risk is associated with borrowed funds as compared to owner's fund as interest is paid on it and it is to be repaid also, after a fixed period of time or on expiry of its tenure
10. **Period of Finance:** For permanent capital requirement, Equity shares must be issued as they are not to be paid back and for long and medium term requirement, preference shares or debentures can be issued.

Q.1 State the formula for calculating financial leverage. (1)

[Hint: Debt/ Equity]

Q.2 What is the impact of business risk on Capital structure. (1)

[Increase in risk will decrease use of debt]

Q.3 Under what situation, will an increase in debt decrease the EPS?

(i) When rate of return is less than rate of interest.

(ii) Decrease in earnings.

Q.4 'Cost of debt' is lower than the 'Cost of equity share capital'. Give reason, why even then a company cannot work only with debt. (3)

(Because equity share capital is a permanent source of capital & provides risk capital). (1)

Q.5 What is favourable financial leverage? (1)

(When capital structure has more debt than equity)

Q.6 Amita Ltd. does not have any debt in its capital structure but Kajal Ltd. has debt @ 15% in its capital structure. Rate of return of both companies is 20%. Which company enjoys the benefits of trading on equity and why? (3)

[Hint: Kajal Ltd. because interest is a tax deductible item.]

INVESTMENT DECISION

It relates to how the firm's funds are invested in different assets. Investment decision can be long-term or short-term. Long term investment decision is called capital

budgeting decision as they involve huge amounts of funds and are irreversible except at a huge cost. These decisions influence overall business risks of the firms short term investment decisions are called working capital decisions, which affect day to day working of a business. These decisions affect the liquidity as well as profitability of a business.

Factors affecting Investment Decisions

1. **Cash flows of the project :** The series of cash receipts and payments over the life of an investment proposal should be considered and analysed for selecting the best proposal. Example-

Investment proposals			
	No.1	No. 2	No.3
Net cash inflow during life time of investment.	5,00,000	7,00,000	2,00,000
Life time of investment.	10 years	10 years	10 years

Investment should be made in proposal No. 2 as net cash inflow is more.

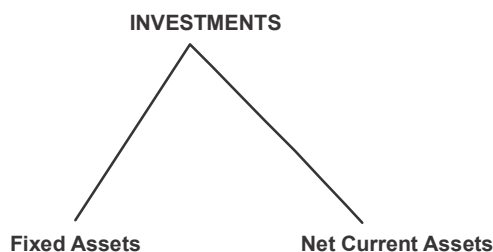
2. **Rate of Return :** The expected returns from each proposal and risk involved in them should be taken into account to select the best proposal.

Details	NO.1	No.2	No.3
Rate of return =			
$\frac{\text{Total return during lifetime of investment}}{\text{Initial investment}} \times 100$	13%	24%	15%

3. **Investment Criteria Involved :** The various investment proposals are evaluated on the basis of capital budgeting techniques. These involve calculations regarding investment amount, interest rate, cash flows, rate of return, risk involved in project etc.

If key criteria to be considered while choosing the investment channel is RISK. In that case, the investment channel with LEAST RISK should be chosen.

- Q.1** Name the financial decision which will help a businessman in opening a new branch of its business? (Investment decision) (1)
- Q.2** A company wants to open a new unit which will require machinery worth 15 crores. Identify the financial decision involved? (Investment decision) (1)
- Q.3** Name the financial decision in which a businessman uses huge amount of funds for using advanced technology in business. (Investment decision) (1)



Fixed Capital

Fixed capital refers to investment in long-term assets. Investment in fixed assets like land, plant and machinery for longer duration and they must be financed through long-term sources of capital. Decisions relating to fixed capital involve huge capital and are not reversible without incurring heavy losses.

Factors Affecting Requirement of Fixed Capital

1. **Nature of Business** : Manufacturing concerns require huge investment in fixed assets & thus huge fixed capital is required for them but trading concerns need less fixed capital as they are not required to purchase plant and machinery etc.

2. **Scale of Operations** : An organisation operating on large scale requires more fixed capital as compared to an organisation operating on small scale.
For Example - A large scale steel enterprise like TISCO requires large investment as compared to a mini steel plant.
3. **Choice of Technique** : An organisation using capital intensive techniques requires more investment in plant & machinery as compared to an organisation using labour intensive techniques.
4. **Technology upgradation** : Organisations using assets which become obsolete faster require more fixed capital as compared to other organisations.
5. **Growth Prospects** : Companies having more growth plans require more fixed capital. In order to expand production capacity more plant & machinery are required.
6. **Diversification** : In case a company goes for diversification then it will require more fixed capital to invest in fixed assets like plant and machinery.
7. **Financing alternatives**: When an asset is taken on lease, the firm pays lease rent and uses it. So, fixed capital requirements are low since the firm can avoid funds required to purchase it.
8. **Collaboration** : If companies are under collaboration, Joint venture, then they need less fixed capital as they share plant & machinery with their collaborators.

Working Capital

Working Capital refers to the capital required for day to day working of an organisation. Apart from the investment in fixed assets every business organisation needs to invest in current assets, which can be converted into cash or cash equivalents within a period of one year. They provide liquidity to the business. Working capital is of two types - Gross working capital and Net working capital. Investment in all the current assets is called Gross Working Capital whereas the excess of current assets over current liabilities is called Net Working Capital.

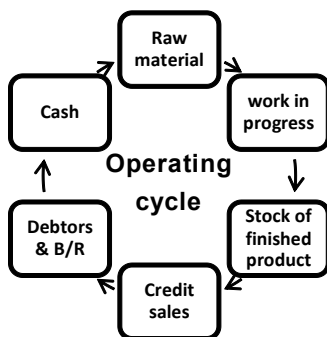
Networking Capital = Current Assets- Current Liabilities

Basis	Fixed Capital	Working Capital
1. Nature	The amount of fixed capital remains blocked in business.	The amount of working capital revolves around in the business.
2. Purpose	Buy fixed assets.	Buy current asset.
3. Main Sources	Shares, debentures, loans and retained earnings.	Commercial banks, public deposits etc.
4. Time Period	Required for long term use.	Required for short-term use.

Factors affecting requirement of working capital:

Name of the factor	Requirement of More working capital	Requirement of Less working capital
Nature of business	Manufacturing concern because of processing work.	Trading concern because of no production.
Scale of operation	Large scale operation because of huge inventory.	Small scale operations because of small inventories.
Business Cycle	During boom period because of more production.	During depression period because of less production.
Seasonal factors	Peak season because of more demand.	Lean season, because of low demand.
Credit allowed to customers	Sales on 'credit basis'	Sales on 'cash basis'
Credit availed from suppliers.	Purchase on 'cash basis'	Purchase on 'Credit basis'
Inflation Vs Deflation	During inflation, due to high price level for raw material, wages etc.	During deflation, due to low price level.

Operating cycle/ Turnover of working capital. It is the time period from purchase of raw material to realisation from debtors.	Long operating cycle.	Short operating cycle.
Availability of raw material	Higher lead time to acquire raw material, so higher stock of raw material would be needed.	Lower lead time, so less stock of raw material would be needed.
Growth prospects	High growth prospects.	Low growth prospects.
Level of competition	High competition would require high amount of stock keeping.	Low competition would require less amount of stock keeping.
Production cycle	Long production cycle.	Short production cycle



Q.1 'Fixed capital decisions are irreversible'. Why? (Huge funds involved). (1)

Q.2 Name any two seasonal industries.

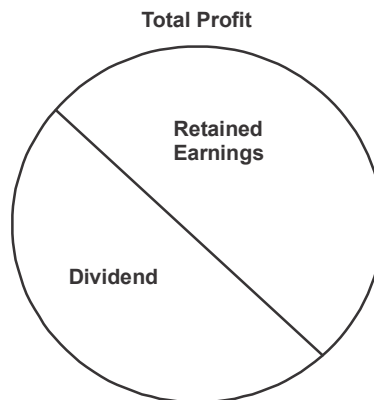
(Woolen industry, ice-cream industry) (1)

Q.3 How is operating cycle related to requirement of working capital? (1)

(Longer operating cycle require more working capital)

Dividend Decision

Dividend refers to that part of the profit which is distributed to shareholders. A company is required to decide how much of the profit earned by it should be distributed among shareholders and how much should be retained. The decision regarding dividend should be taken keeping in view the overall objective of maximising shareholder's wealth.



Factors affecting Dividend Decision

1. **Earnings** : Companies having high and stable earning could declare high rate of dividends as dividends are paid out of current and past earnings.
2. **Stability of Dividends** : Companies generally follow the policy of stable dividend. The dividend per share is not altered/changed in case earnings change by small proportion or increase in earnings is temporary in nature.
3. **Growth Prospects** : In case there are growth prospects for the company in the near future then it will retain its earning and thus, no or less dividend will be declared.
4. **Cash Flow Positions**: Dividends involve an outflow of cash and thus, availability of adequate cash is foremost requirement for declaration of dividends.
5. **Preference of Shareholders** : In case shareholders desire for dividend then company may go for declaring the same. There are always some shareholders who depend upon a regular income from their investments.
6. **Taxation Policy** : A company is required to pay tax on dividend declared by it. If tax on dividend is higher, company will prefer to pay less by way of dividends

whereas if tax rates are lower then more dividends can be declared by the company.

7. **Stock market reaction:** Increase in dividend is good news for investors and hence market price of the shares increases in the stock market. Decrease in dividend reduces the market price of share.
8. **Legal constraints :** Under provisions of Companies Act, all earnings can't be distributed and the company has to provide for various reserves. This limits the capacity of company to declare dividend.

Q. A Decision is taken to distribute certain parts of profit to shareholders after paying tax. What is this decision called? (1)

(Dividend decision)

Q. Which type of company is in a position to declare high dividends? (1)

[Hint: Company with good profits and reserves, steady return]

Q. A company is earning good amount of profits since last twelve years. It has good amount of reserves also. But fixed cost burden is also high. Due to credit sales policy, it does not have sufficient amount of cash. Can it declare good rate of dividend? Give reason in support of your answer. (1)

[Hint: No, due to lack of availability of cash]

Key terms to Crack Case Studies

Financial Management

1. Financial blueprint of operations — Financial planning.
 2. Decisions affecting liquidity and profitability of a business — Short term investment decisions.
 3. Decisions affecting financial risk and profitability of a business — Capital structure decisions.
 4. Long term investment decisions — Capital budgeting decisions
 5. Proportion of debt and equity — Capital structure
 6. Cheapest source of finance — Debt
 7. Riskfree source of finance — Equity
-

8. Decisions relating to disposal of profits — Dividend decision
9. Decision relating to quantum of funds to be raised from various long term sources — Financing decision
10. Most suitable combination of owners funds and borrowed funds to generate higher EPS — Trading on equity/Financial leverage.

Multiple Choice Questions

I. Match the following.

- | | |
|-------------------------------|---|
| 1. Capital budgeting decision | (a) allocation of funds to different projects/Assets. |
| 2. Financial management | (b) Proportion of debt and equity |
| 3. Investment decision | (c) Optimal procurement and usage of finance |
| 4. Financing decision | (d) Long term investment decision |
-
- | | | | |
|----------|----------|----------|----------|
| 1. – (c) | 1. – (d) | 1. – (b) | 1. – (d) |
| 2. – (b) | 2. – (c) | 2. – (d) | 2. – (a) |
| 3. – (d) | 3. – (a) | 3. – (a) | 3. – (b) |
| 4. – (a) | 4. – (b) | 4. – (c) | 4. – (c) |

- II.**
- | | |
|------------------------|---|
| 1. Net Working Capital | (a) how much of profits will be distributed |
| 2. Dividend decision | (b) Proportion of debt in total capital |
| 3. Financial leverage | (c) excess of current assets over current liabilities. |
| 4. Trading on equity | (d) Increase in shareholders wealth due to debt/loan in capital employed. |
-
- | | | | |
|----------|----------|----------|----------|
| 1. – (c) | 1. – (b) | 1. – (a) | 1. – (d) |
| 2. – (a) | 2. – (c) | 2. – (d) | 2. – (b) |
| 3. – (b) | 3. – (a) | 3. – (b) | 3. – (c) |
| 4. – (d) | 4. – (d) | 4. – (c) | 4. – (a) |

III. ROI of a company is 12%. To finance its project, it has two borrowing options.

- (a) Rate of interest 9%

(b) Rate of interest 13%

Which option is better. Give reason.

IV. Higher debt equity ratio results in

- | | |
|---------------------------|---------------------------|
| (a) Lower financial risk | (b) higher operating risk |
| (c) higher financial risk | (d) higher EPS |

V. (a) Fixed capital requirement is more (a) If production cycle is longer
(b) Fixed capital requirement is less (b) If credit is availed by the firm
(c) Working capital requirement is more (c) If it is trading concern

(d) Working capital requirement is less (d) If it is capital intensive concern

- | | | | |
|--------------|--------------|--------------|--------------|
| 1) (a) – (a) | 2) (a) – (b) | 3) (a) – (c) | 4) (a) – (d) |
| (b) – (b) | (b) – (a) | (b) – (d) | (b) – (c) |
| (c) – (c) | (c) – (d) | (c) – (b) | (c) – (a) |
| (d) – (d) | (d) – (c) | (d) – (a) | (d) – (b) |

True/False, give reason in support of your answer.

1. Companies with higher growth potential pay lower dividends.
2. An 'Advertising agency' needs to have large fixed capital.
3. Trading on equity takes place when ROI is less than the rate of interest.
4. Capital budgeting decisions are very crucial for any business.
5. If cash flow position of a company is weak more debt financing is not recommended.

Fill in the blanks.

1. Current assets get converted into cash within a period of _____.
2. Inflation will result in an increase in _____ capital requirements.
3. Objective of financial management is _____
4. An increase in debt raises _____ risk.
5. As the financial leverage increases, the cost _____ but risk _____.

Answers

MCQ

I. – 2, II. – 1, III – Option A, IV. – c, V. 4.

True/False

1. True because it needs funds for expansion/growth of company.
2. False because it is a service Co. & need not maintain any inventory.
3. False because E.P.S. will be low. ROI should be more than rate of interest.
4. True because they are irreversible.
5. True. It will be difficult for a company to pay interest on time, hence more risk.

Fill in the blanks:

1. 1 year
2. Working
3. maximisation of shareholders wealth
4. Financial
5. decreases, increases

QUESTIONS FOR PRACTICE

- Q.1** HCL Company's finance manager has decided to retain its entire profit to meet financial requirement for its growth. Name the type of decision involved.(Dividend) (1)
- Q.2** Tata sons has debt equity ratio of 4:1 and Bajaj has 1:1 debt equity ratio. Name the advantage, Tata sons may have over Bajaj.(Trading on equity (1)
- Q.3** Dabur India has decided to increase credit limit and duration of credit to its customers to boost its sales. Name the type of decision involved. (working capital) (1)
- Q.4** Bharti Ltd. is a leading mobile company. It is planning to acquire Queen Ltd's (its close competitor) business worth Rs. 1,000 crore. Which financial decision is involved in it? Explain it.(Investment) (3)
- Q.5** Chandra Ltd. is a manufacturer of Laptops. It made a profit of 1000 crores. The director have proposed a dividend of 38%. As a finance manager of the company. What factors would you consider while formulating a dividend policy of the company? (Any four) (4)
- Q.6** Pankaj is engaged in Warehousing - Business Identify the working capital requirements of Pankaj stating the reason in support of your answer. Pankaj is also planning to start his Transport business. Explain any two factors that will affect his fixed capital requirements. (2+2)
- Q.7** How is overall financial risk calculated?
- Q.8** How does financial management help in maximisation of shareholders' wealth? (Taking right financial decisions)
- Q.9** How does 'Trading on Equity' affect the Capital structure of a company? Explain with the help of a suitable example. (5)
- Q.10** "During annual general meeting of Prakash Ltd. CEO, Mr. Rajnesh put the expansion plan for the coming year before shareholders and asked for suitable

source of finance to finance manager. Finance manager Mr. Kant proposed issue of debentures than equity with a plan that they can be paid back whenever requirement of funds is over”

In the above paragraph, which component affecting financing decision has been highlighted? Explain the component. (Flexibility) (3)

- Q.11** Jai Bharat Company Ltd. is an auto part supplier company in Guru Gram, Haryana. Its business is spread over several cities. The CEO of company wants to open a factory in Gujrat near Tata Motors Ltd. but due to recession for the last two years, its business is facing slow down. Company needs capital. Rakesh Gupta is CA and financial advisor of the company. He opines that during recession profit falls and investors prefer to invest indebentures to earn fixed income. Therefore, the company should issue debentures.

In this paragraph, which factor affecting financing decision has been highlighted? Explain (State of capital market). (3)

- Q.12** How will increase in number of creditors affect the working capital requirements of a company? (1)

- Q.13** “Tax benefits are available only in case of payment of interest and not on the payment of preference dividend.” Why? (Interest is an expense while dividend is an appropriation) (1)

- Q.14** “Ranbaxy Ltd. has been earning handsome profits since last 15 years. Company enjoy fair goodwill in the market, so company can easily arrange debt as well equity from the market, whenever needed. Therefore company decided to declare dividend with a hike of 15% from, last year.”

Which two components affecting dividend decision have been highlighted in the above paragraph. (2+2)

(i. Stability of earning ii. Access to capital markets)

- Q.15** ‘REI Agro Food Ltd ‘is a famous multinational company. Mr. S.K.Nagi is its finance manager. He is making efforts to increase the market value of capital invested by the equity shareholders. He already knew it could be possible only when price of the shares increases and price of shares increase only if

financing, Investment and dividend decisions are taken optimally. He did the same and achieved success.

Which objective of financial management has been referred here? Explain.

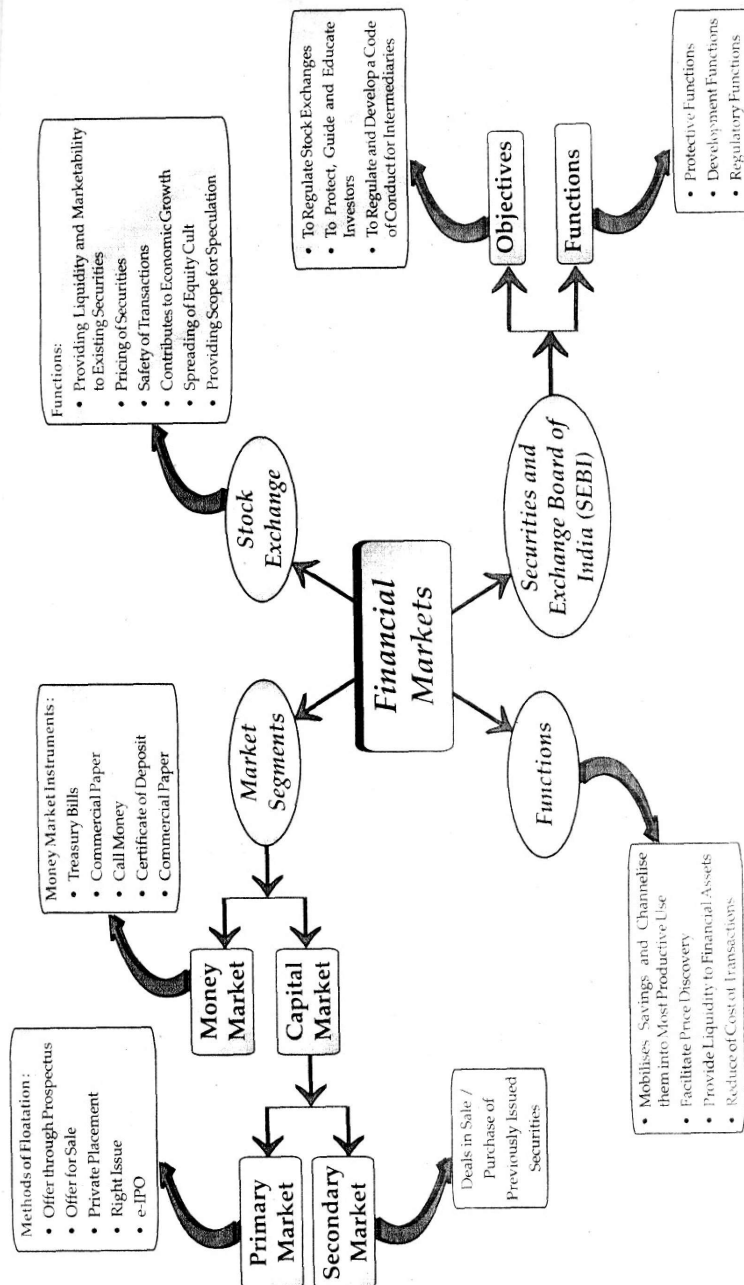
(3)

Q.16 Name the factor due to which a petro chemical company requires much higher investment in fixed capital than an information technology company. However both may generate same amount of revenue.(Nature of business)

(3)

CHAPTER – 10

FINANCIAL MARKETS



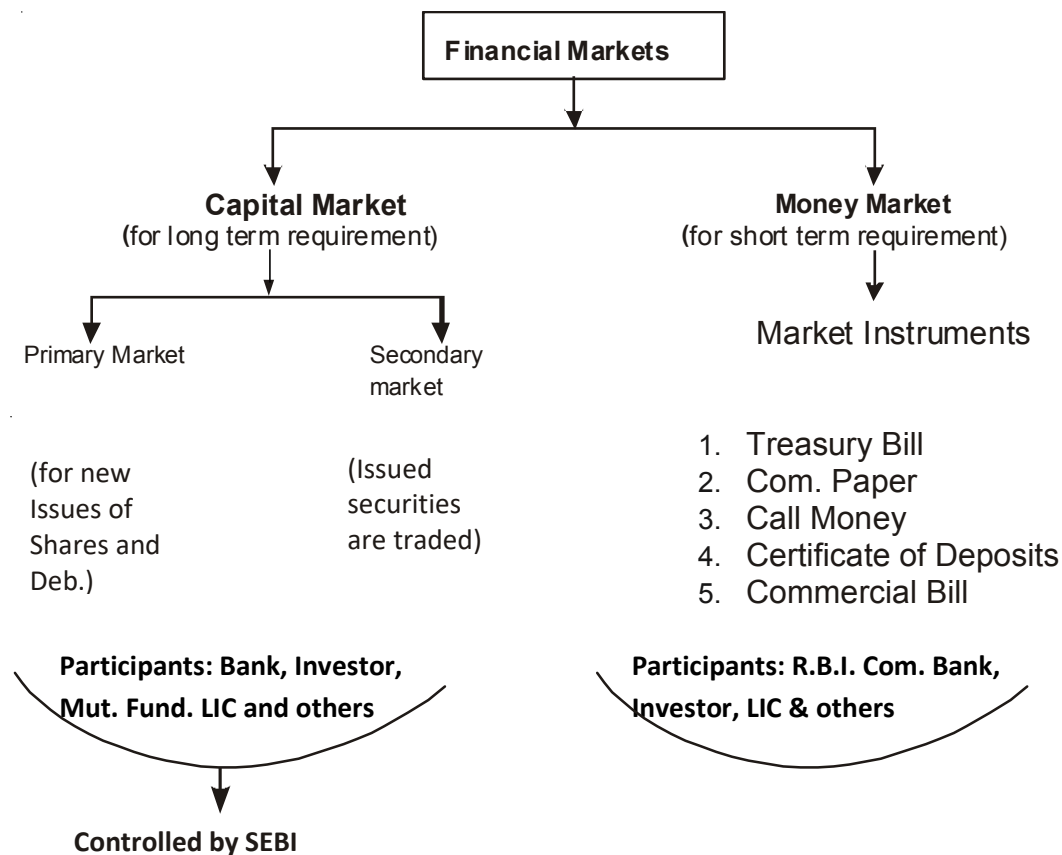
Financial Market is a market for creation and exchange of financial assets like shares, bonds etc. It helps in mobilising savings and channelizing them into the most productive uses. It helps to link the savers and the investors by mobilizing funds between them. The persons or institutions by which allocation of funds is done are called Financial Intermediaries. They bring together borrowers and lenders and make funds available to those willing to pay for their use,



Functions of Financial Markets

1. **Mobilisation of Savings and channeling them into the most productive uses** : Financial market facilitates the transfer of savings from savers to investors and thus helps to channelize surplus funds into the most productive use.
2. **Helps in Price Determination** : Financial Market helps in interaction of savers and investors which in turn helps in the determination of prices of the financial assets such as shares, debentures etc.
3. **Provides Liquidity to Financial Assets** : Financial market facilitates easy purchase and sale of financial assets. Thus, it provides liquidity to them so that they can be easily converted into cash whenever required.
4. **Reduces the Cost of Transactions** : Financial market provides valuable information about securities which helps in saving time, efforts and money and thus it reduces cost of transactions.

Types of Financial Markets



Money Market

It is a market for short term funds/securities whose period of maturity is upto one year. The major participants in the money market are RBI, Commercial Banks, Non-Banking Finance Companies, State Government, Large Corporate Houses and Mutual Funds. The main instruments of money market are as follows:

1. **Treasury Bills:** They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. They are issued at a price which is lower than their face value and are repaid at par. They are available for a minimum amount of Rs. 25000 and in multiples thereof. They are also known as Zero Coupon Bonds. They are negotiable instruments i.e. they are freely transferable.

2. **Commercial Paper:** They are short term unsecured promissory notes issued by large credit worthy companies to raise short term funds at lower rates of interest than market rates. They are negotiable instruments transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.

This source is usually used for-

- (i) Working Capital requirements
- (ii) Seasonal needs
- (iii) Bridge financing

3. **Call Money:** It is short term finance repayable on demand, with a maturity period of one day to 15 days, used for interbank transactions. Call Money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio as per RBI. The interest rate paid on call money loans is known as the call rate.

4. **Certificate of Deposit:** It is an unsecured instrument issued in bearer form by Commercial Banks & Financial Institutions. They can be issued to individuals, Corporations and companies for raising money for a short period ranging from 91 days to one year.

5. **Commercial Bill:** It is a bill of exchange used to finance the working capital requirements of business firms. A seller of the goods draws the bill on the buyer when goods are sold on credit. When the bill is accepted by the buyer it becomes marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill maturity.

Q.1	List any two participants of money market.	(1)
	[Banks, LIC]	
Q.2	What is the minimum amount of Treasury bill?	(1)
	[₹ 25,000]	
Q.3	Who is borrower of call money?	(1)
	[Banks]	

Q.4	Which bearer certificate is issued by banks against the deposits kept by companies and institutions for short period? [Hint: Certificate of deposits]	(1)
Q.5	What is other name of Zero Coupon Bonds? [Hint: Treasury bill]	(1)
Q.6	What is near money? [Hint: All short term securities]	(1)

Capital Market

It is a market for long term funds where debt and equity are traded. It consists of development banks, commercial banks and stock exchanges. The capital market can be divided into two parts:

1. Primary Market

It deals with the new securities which are issued for the first time. It is also known as the New Issue Market. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals. It has no fixed geographical location and only buying of securities takes place in the primary market.

Methods of Floatation of New Issues in Primary Market

- 1. Offer through Prospectus/ Initial Public Offer :**It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.
- 2. Offer for Sale:** Under this method security are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities to intermediary/broker at an agreed price and the broker resells them to investors at a higher price.
- 3. Private Placements:**It refers to the process in which securities are allotted to institutional investor and some selected individuals.
- 4. Rights Issue :** It refers to the issue in which new shares are offered to the existing shareholders in proportion to the number of shares they already possess.

5. **e-IPOs** : It is a method of issuing securities through an on-line system of stock exchange. A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an e-initial public offer. SEBI's registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.

Q.1	Identify the method of floatation highlighted in each statement:	
a)	Offer the entire new issue to life insurance company. [Private placement]	(1)
b)	Issue a prospectus to invite public to apply for share. (IPO)	(1)
c)	Use on line system of stock exchange. (e-IPO)	(1)
d)	First ask existing shareholders to apply for new shares as it is compulsory requirement under companies Act. (Rights issue)	(1)
Q.2	What is prospectus?	
Q.3	Pranjal has 500 shares of L&T. L&T comes out with a fresh issue of shares and Pranjal received an offer to buy 1 share of L&T for every 5 shares held by her. Which method of floating new issue is indicated in this case? [Rights issue]	(3)

2. **Secondary Market**

It is also known as the stock market or stock exchange where purchase and sale of existing securities takes place. They are located at specified places and both the buying as well as selling of securities takes place.

Difference between Primary and Secondary Market

Basis	Primary Market	Secondary Market
1. Securities	Only new securities are traded.	Existing securities are traded.
2. Price of securities	Prices of securities are determined by the management of the company.	Prices are determined by the forces of demand and supply of the securities.

3. Purchase and sale.	Securities are sold to investors directly by the company or through intermediary.	Investor exchange ownership of securities.
4. Place of market	There is no fixed geographical location.	Located at specified places.
5. Buying/selling	Only buying of securities takes place.	Both buying and selling of securities can take place.

Q.1 Identify the markets highlighted in following statements:

1. This market directly contributes to capital market. (Primary market)
2. This market deals in instruments whose maturity is upto one year.
(Money market)
3. It deals in medium and long term securities. (Capital market)
4. It is also known as Stock Exchange and deals in sale and purchase of previously issued securities. (Secondary market)
5. It requires less investment as value of securities is generally low.
(Capital market)

Q.2 Dinesh has 100 equity shares of a company. He wants to sell 500 of these shares. Which market should he approach? Write any three advantages of selling through such a market. (4)

[Hint: Secondary Market (any three advantages)]

Q.3 Why are money market instruments more liquid as compared to capital market instruments? (3)

[Hint: Reliable participants and duration of investment is less]

Stock Exchange/Share Market

A Stock Exchange is an institution which provides a platform for buying and selling of existing securities. It facilitates the exchange of a security i.e. share, debenture etc.

into money and vice versa. Following are some of the important functions of a Stock Exchange:-

1. **Providing liquidity and Marketability to Existing Securities** : Stock Exchange provides a ready and continuous market for the sale and purchase of securities.
2. **Pricing of Securities** : Stock Exchange helps in constant valuation of securities which provide instant information to both buyers and sellers and thus helps in pricing of securities which is based on the forces of demand & supply.
3. **Safety of Transaction** : The members of a stock exchange are well regulated, who are required to work within the legal framework. This ensures safety of transactions.
4. **Contributes to Economic Growth** : Stock exchange provides a platform by which savings get channelised into the most productive investment proposals, which leads to capital formation & economic growth.
5. **Spreading of Equity Culture** : Stock exchange helps in educating public about investments in securities which leads to spreading of Equity culture.
6. **Providing Scope for Speculation** : Stock exchange provides scope within the provisions of law for speculation in a restricted and controlled manner.

Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are famous stock exchanges in India.

Trading and Settlement Procedure on a Stock Exchange

1. **Selection of Broker:** In order to trade on a Stock Exchange first a broker is selected who should be a member of stock exchange as they can only trade on the stock exchange.
2. Opening Demat Account with Depository.
3. **Placing the order:**After selecting a broker, the investors specify the type and number of securities they want to buy or sell.
4. **Executing the order:**The broker will buy or sell the securities as per the instructions of the investor.

5. **Settlement:** Any trade taking place gets settled within 2 days of the trade date.

Q. 1 The directors of a company want to modernise its plant and machinery by making a public issue of shares. They wish to approach the stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares. Advise the directors whether to approach the stock exchange or a consultant for new public issue of shares and why. Also advise them about different methods which the company may adopt for the new public issue of shares. (Ans. Consultant) **(3)**

Difference between Capital and Money Market.

S.No. Basis	Capital Market	Money Market
1. Participants	Financial Institutions, Banks, Corporate Entities, foreign investors and individuals	RBI, Banks Financial Institutions & financ ecompanies
2. Instruments Traded	Equity shares, bonds preference shares and debentures.	Treasury Bills, Tradebills, commercial paper, call money etc
3. Outlay Investment	Does not necessarily require a huge financial outlay.	Entail huge sums of money as the instruments are quite expensive.
4. Duration	Deals in medium & long-term securities having maturity period of over one year.	Deals in short termfunds having maturityperiod upto one year.
5. Liquidity	Securities are less liquid as compared to money market securities.	Money marketinstruments are highly liquid.

6. Expected return	High return	Low return
7. Safety	Capital Market instruments are riskier both with respect to return and repayment.	Money market instruments are generally much safer with a minimum risk of default.

Depository Services and DEMAT Accounts: Keeping in the mind the difficulties to transfer of shares in physical form, SEBI has developed a new system in which trading in shares is made compulsory in electronic form. Depository services system and Demat Account are very basis of this system.

1. **Depository Services:** 'Depository is an institution/organization which holds securities (e.g. shares, debentures, bonds, mutual funds etc.) in electronic form, in which trading is done. The services provided by a Depository are termed as 'Depository Services'. At present there are two depositories in India: NSDL. (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.).

Services provided by Depository

- (i) Dematerialisation (usually known as demat) is converting physical certificates to electronic form.
- (ii) Rematerialisation, known as remat, is reverse of demat, i.e getting physical certificates from the electronic securities.
- (iii) Transfer of securities, change of beneficial ownership.
- (iv) Players in Online Trading: Settlement of trade is done on exchange connected to the Depository. Now a days on-line paper-less trading in shares of the company is compulsory in India. Depository services is the name of that mechanism. In this system transfer of ownership in shares take place by means of book entry without the physical delivery of shares. When an investor wants to deal in shares of any company he has to open a Demat account. There are four players who participate in this system.

1. **The Depository** : A depository is an institution which holds the shares of an investor in electronic form.
2. **The Depository Participant** : He opens the account of Investor and maintains securities records. Generally banks work as depository participant.
3. **The Investor** : He is a person who wants to deal in shares whose name is recorded.
4. **The Issuing Company**: That organisation which issues the securities. This issuing company sends a list of the shareholders to the depositories.

Benefits of Depository Services

- Sale and Purchase of shares and stocks of any company on any stock Exchange.
- Saves time.
- Lower transaction costs
- Ease in trading.
- Transparency in transactions.
- No counterfeiting of security certificate
- Physical presence of investor is not required in stock exchange.
- Risk of mutilation and loss of security certificate is eliminated.

2. Demat Account

Demat account is the abbreviation of 'Dematerialized Account'. Dematerialized account refers to an account which an Indian citizen must open with the depository participant (banks, stockbrokers) to trade in listed securities in electronic form wherein one can hold shares of various companies in the Dematerialized {electronic} form. Access to De-mat account requires an internet password and a transaction password. Transfer and purchase of

securities can then be initiated. Purchase and sale of securities on the Demat account are automatically made once transaction is confirmed and completed.

Opening of Demat Account

A Demat account is opened on the same lines as that of a bank account. Prescribed account opening forms available with the DP, need to be filled in. Standard agreement is to be signed by the client and the DP, which details the rights and obligation of both parties. Along with the form, the client is required to attach photograph, attested copies of residence proof, PAN card number and proof of identity need to be submitted.

Benefits of Demat Account

1. Reduces paper work.
2. Elimination of problems on transfer of shares such as loss, theft and delay.
3. Exemption of stamp duty when transfer of shares.
4. The concept of odd lot stand abolished.
5. Increase liquidity through speedy settlement.
6. Attract foreign investors and promotes foreign investment.
7. A single demat account can hold investments in both equity and debt instruments.
8. Traders can work from anywhere.
9. Automatic credit into demat account for shares arising out of bonus/split/consolidation/merger.
10. Immediate transfers of securities.
11. Change in address recorded with a DP gets registered with all companies in which investor holds securities, eliminating the need to correspond with each of them.

Securities and Exchange Board of India (SEBI)

SEBI was established by Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was given a statutory status on 30 January 1992 through an ordinance which was later replaced by an Act of Parliament known as the SEBI Act, 1992. It seeks to protect the interest of investors in new and second hand securities.

Objectives of SEBI

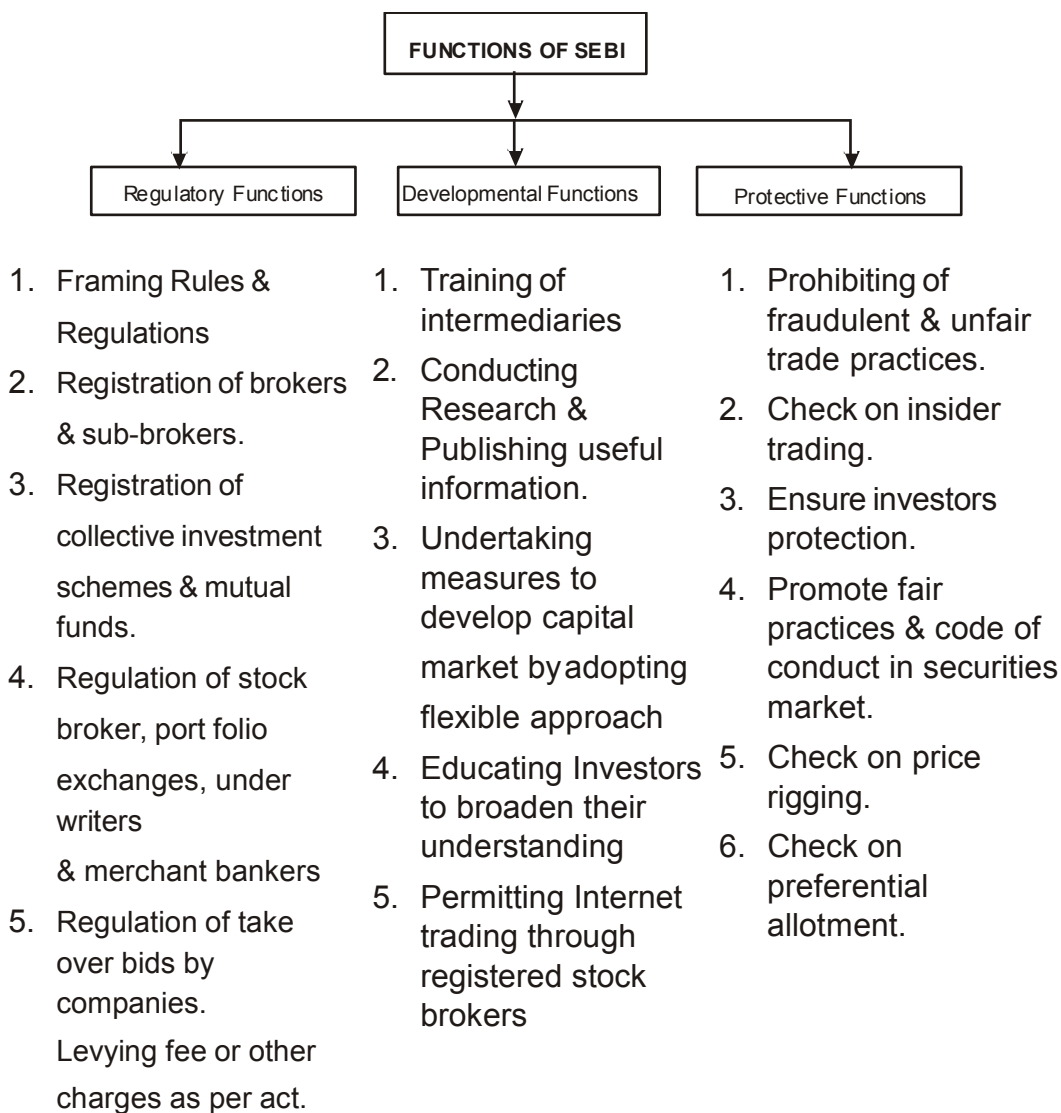
1. To regulate stock exchange and the securities market to promote their orderly functioning.
2. To protect the rights and interests of investors and to guide & educate them.
3. To prevent mal-practices in trade such as insider trading.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

Functions of SEBI

The SEBI performs three important functions

1. **Regulatory functions:** These functions are performed by SEBI to regulate the business in stock Exchange.
2. **Developmental functions:** These functions are performed by SEBI to promote and develop activities in stock market.
3. **Protective functions:** These functions are performed by SEBI to protect the interest of investors and provide safety of investments.

Functions of SEBI



- **Check on Price Rigging:** Making manipulations with sole objective of inflating or depressing the market price of securities is called 'Price Rigging'. Such practises are prohibited by law because they can defraud or cheat investors.

- **Check on Unfair Trade Practices:** SEBI does not allow the companies to make misleading statements in prospectus which are likely to induce the sale or purchase of securities by any other person.
- **Check on Insider Trading:** SEBI prohibits 'insider trading' and imposes penalties for such practices. An insider is any person connected with the company who is having price sensitive information (in respect of securities of the company), which is not available to the general public. Directors, promoters, etc. are the insiders. When such directors, promoters, etc. of the company use inside information to make individual profits, it is referred to as 'insider trading'.

Q.1	Name the organisation which has been established in India to regulate stock exchanges and to protect the rights and interest of investors. (SEBI)	(1)
Q.2	Expand the following-CDSL, NSDL, DEMAT	(3)
Q.3	Shabnam wants to invest her savings in share market. What is the base requirement for this? (DEMAT Account)	(1)
Q.4	Julie wants to get her share certificates in electronic form. What is the name of service provided by depository? (Dematerialisation)	(1)
Q.5	Bandhu Limited is a real estate company, which was formed in 1960. In about 55 years of its existence, the company has managed to carve out a niche for itself in this sector. In order to establish itself in India, the company decided to list its securities on BSE, in order to raise money through India market. State the functions performed by SEBI that make investors comfortable and secured in dealing with Bandhu Ltd. (Regulatory, Developmental and Protective Functions)	(3)

Key terms to Crack Case Studies

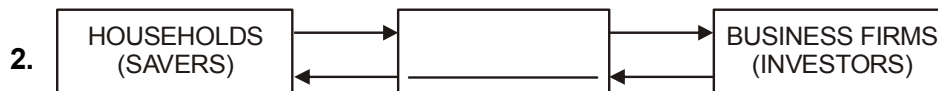
1. New issue market — Primary market
2. Market for existing securities — Secondary market
3. Arrangement by which banks borrow from each other to be able to maintain the cash reserve ratio — Call money
4. Bridge financing — Commercial papers
5. Market for short term funds — Money market.
6. Market for medium term and long term funds — Capital market
7. Zero coupon bonds issued by RBI on behalf of Govt. of India — Treasury bills
8. Institution holding securities in electronic form — Depository
9. Holding securities in electronic form — Dematerialisation.
10. Watch dog of securities market — SEBI
11. Allotment of securities to institutional investors — Private Placement
12. Selling shares to investing public through intermediaries — Offer for sale.
13. Offering new shares to existing shareholders — Rights Issue
14. Unsecured instrument issued in bearer form by commercial banks and financial institutions during the time of tight liquidity — Certificate of deposit.
15. A person who accesses and uses the price sensitive information for his personal benefit — Insider Trading.

Exercise

I. Multiple choice questions.

1. Instruments with a maturity period of less than one year are traded in the

(a) capital market (b) Bombay stock exchange
(c) money market (d) National stock exchange



(a) Business (b) Customers
(c) Government (d) Financial markets

3. Which of the following money market instruments are also known as zero coupon bond?

(a) Treasury bills (b) Certificates of deposits
(c) Commercial papers (d) Call money

4. Primary and secondary markets

(a) Compete with each other
(b) Complement each other
(c) Function independently
(d) Control each other.

5. Which of the following is not a function of SEBI?

(a) Registration of brokers and sub-brokers
(b) Undertaking measures to develop financial markets
(c) Prohibition of insider trading
(d) Holding securities in electronic form.

6. Hari has 200 shares of Reliance industries. Reliance comes out with a fresh issue of share and Hari received an offer to buy 1 more share of Reliance for every two shares held by him. Which type of issue is discussed here:

(a) e-IPO's (b) Rights issue
(c) Private placement (d) Offer for sale

7. is the full form of CDSL.

(a) Central Depository Securities Ltd.
(b) Control Delhi Services Ltd.
(c) Central Deposit Services Ltd.
(d) Central Depository Services Limited.

8. are the business hours of stock exchange
 - (a) 9:00 am to 4:00 pm
 - (b) 9:55 am to 3.30 pm
 - (c) 9.30 am to 3.30 pm
 - (d) 9.30 am to 4.30 pm
9. is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry.
 - (a) Dematerialisation
 - (b) Depository
 - (c) Demat account
 - (d) all of these.
10. In which year was the SEBI established by the Government of India?
 - (a) 1980
 - (b) 1988
 - (c) 1992
 - (d) 1993

II. Fill in the blanks:

1. Treasury bills are available for a minimum amount of and in multiples there of.
2. is a market for the creation and exchange of financial assets.
3. is short term finance used for inter bank transactions.
4. is an institution which provides a platform for buying and selling of existing securities.
5. In India, there are depositories.

III. Match the following:

- | | |
|------------------------|---|
| (i) Offer for sale | (a) Issue of capital to public through online system of stock exchange |
| (ii) Private placement | (b) Privilege given to existing shareholders |
| (iii) e-IPO's | (c) Issue of securities through intermediaries like issuing houses |
| (iv) Rights issue | (d) Allotment of securities to institutional investors and some selected individuals. |

IV. State giving reasons. Whether the following statements are True/False

1. Conducting inspections and enquiries is a developmental function of SEBI.
2. T+3 basis, settlement period is followed in Indian stock exchanges.
3. Mobilising savings and channelising them into most productive uses is called allocative function.

4. Money market instruments are less liquid as compared to capital market securities.
5. Commercial papers have a maturity period of 30 days to one year.

ANSWER KEY

I. Multiple choice questions.

- | | | | | |
|--------|--------|--------|--------|---------|
| 1. (b) | 2. (d) | 3. (a) | 4. (b) | 5. (d) |
| 6. (c) | 7. (d) | 8. (c) | 9. (a) | 10. (b) |

II. Fill in the blanks:

- | | | |
|-------------------|---------------------|---------------|
| 1. 25,000 | 2. Financial market | 3. Call money |
| 4. Stock exchange | 5. two (2) | |

III. Match the following:

- | | | | |
|----------|----------|----------|----------|
| 1. – (c) | 2. – (d) | 3. – (a) | 4. – (b) |
|----------|----------|----------|----------|

IV. State giving reasons. Whether the following statements are True/False

1. False: It is regulatory function of SEBI.
2. False: T+2, settlement period is followed in Indian stock exchange.
3. True: They facilitate transfer of savings from savers to investors.
4. False: Capital market securities are less liquid.
5. False: The maturity period is from 15 days to one year.

QUESTIONS FOR PRACTICE

- Q1.** Sudha Ltd. has sold 1 lakh equity shares of Rs. 10 each at Rs. 12 per share to an investment banker, who offered them to the public at Rs. 20 each. Identify the method of floatation.(offer for sale) (1)
- Q2.** 'Primary market contributes to capital formation directly. Whereas secondary markets do so indirectly'. Explain? (2)
- Q3.** Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares. (5)
- Q4.** Charu is a chartered accountant in Prakash Ltd. During the course of meeting with directors she came to know that as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share-market jumps up. Considering it, Charu purchased large number of company's shares before this news reached the public.
- (1) Identify type of malpractice used by Charu. (1)
- (2) Name the authority which regulates such behaviour. Write any three other functions of this authority. (4)
- Q5.** A company wants to set up a new branch in Chennai. For additional capital company is planning to issue equity shares to public as there is boom period in capital market and public will prefer to invest in shares.
- While analysing the issue, finance manager found that floatation costs of the issue would be high and company is already in liquidity crunch. Company deemed it proper to depend on money market instruments for about six months.
- (i) Identify the method of floatation of capital, mentioned above.(IPO) (1)
- (ii) Besides above shares issue method, mention two other methods. (2)
- (iii) Use of what kind of instrument will be appropriate for the money market. Clarify.(commercial papers) (2)

- Q.6** Name the institution which is a body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating and controlling the business of buying and selling or dealing in securities. Explain any of its three functions.
- Q.7** The Director of Pico Limited decided to declare bonus issue of equity shares to the shareholders in its Annual General Meeting. Immediately one of the Directors purchases 20,000 shares from market @ ₹ 30 per share and sold them @ ₹ 100 share as bonus issue was declared and made capital gain from it.
- (a) Name the practice used by the Director taking the benefits of internal information. (Insider Trading) (1)
 - (b) How does SEBI prohibit such practices? (2)
- Q.8** Name the financial instrument which may be used in the following situations:
- (a) A company needs funds to meet floatation cost in order to issue equity shares in the market.
 - (b) The instrument that is issued during the period of tight liquidity when the deposit growth of bank is slow but demand for credit is high.
 - (c) These are also known as zero coupon bonds and are issued by RBI on the behalf of central government.
 - (d) It is used by one bank having surplus funds to meet the funds requirements of another bank facing shortage of funds. (4)
- Q.9** Kajal has 1000 equity shares of a company. She wants to sell 500 of these shares. Which market should she approach? Give reason in support of your answer. (1)
- Q.10** Jain Ltd. has sold 1 lakh equity shares of ₹ 10 each at ₹ 12 per share to an investment banker, who offered them to the public at ₹ 20 each. Identify the method of floatation. (1)

UNIT 4

EVALUATION QUESTIONS

- Q.1** Pavco Ltd. was declared as a SICK UNIT as it was suffering from losses since last 5 years. To rehabilitate the UNIT, overall financial restructuring of a company was initiated. Mr. Rahul was appointed as new Finance Manager of the company. Mr. Rahul analysed and found that company was suffering due to scarcity of capital. He organised new issue of 1,00,000 equity shares of Rs. 1,000 each. Issue was fully subscribed with arranged capital. Mr. Rahul replaced the old plant with new one which was technologically updated and as per the industry demand. Its payback period was 3 years and it was promising a good rate of return. Just after two years, company was turned into a profitable venture.
- (a) Which two decisions are taken by Mr. Rahul as finance manager. Explain them. **(2+2)**
 - (b) In which capital market, shares are issued? Explain. **(2)**
(a) Financing decision, Investment decision (b) Primary market.
- Q.2** Managing director of a company was reviewing the newly designed capital structure of company which was framed by Finance Manager. He found that debt component was less than equity. Company was earning good return with sound and stable earnings since last 12 years. MD discussed with Finance Manager, that by having comparative less debt component, earning per share have reduced.
- (i) Name the concept of Financial Management, mentioned here. Explain it with the help of a suitable example. **(1+3)**
 - (ii) In which market, will the New debentures be issued by company. Write any two features of such market. (1) Trading on Equity (2) Primary market **(1+1)**
- Q.3** SABU Ltd. is facing liquidity crunch. Working capital is in shortage and it is finding difficult to pay the suppliers in time. Credit period which is allowed by

suppliers is two months. Finance Manager is of the opinion that for at least three months, company will not have sufficient funds to pay off creditors. Although, it has good financial reputation in market.

- (i) Which short-term financial instrument company should use? (1)
- (ii) In which market short-term financial instruments are issued? (1)
- (iii) Explain any three factors affecting requirement of working capital? (3)

[(i) Commercial Paper

(ii) Money market]

Q.4 GETO Ltd. is a company that produces school bags. Now it wants to produce water bottles also. For such diversification it needs additional capital of Rs. 50 crores, So company decided to float capital by way of equity shares issue to the general public as it is boom period in market. But company's cash position is not favourable. In order to arrange working capital, company wants to use some money market instruments. It will help in meeting floatation costs.

- (i) Identify the method of floatation of capital as mentioned in the above paragraph. (1)
- (ii) Besides above share issue method, mention two other methods. (2)
- (iii) Which money market instruments will be appropriate? Clarify. (3)

Ans. Hints: (i) Offer through prospectus

(ii) — Offer for sale, private placement

— Commercial Paper - used for bridge financing (explanation)

Q.5 A student asked teacher - "How can a company arrange for fixed capital which is to be used in long - term projects?"

Teacher explained as

"If company wants to have funds, it can issue shares directly to public or it can sell the whole issue to intermediaries. After subscribing the shares,

shareholders are not bound to keep it with them. They can sell it in the market and get them encased.

In the above paragraph, two kinds of capital markets are highlighted. Name them and write two features of each kind of markets. (2+4)

(Primary market, secondary market)

Q.6 In 2nd five year plan, "Industrialisation" was the "Main Focus". But the major problem was saving and Investment-Household used to invest in GOLD & Property only. Government had to take initiative for establishing Infrastructure and other basic industries. With pace of economic development, small savings were promoted by establishing an organised market. This market is regulated by SEBI and has attributed a lot in economic development.

(i) Identify the market. (1)

(ii) Name two functions of this market. (2)

(iii) (i) Secondary market

(ii) Promoting Savings, Economic development.

Q.7 XYZ Ltd. invited public to subscribe for equity shares of Rs. 100 each. Before the issue MD of the company had a deal with foreign company to amalgamate just after this issue. MD did not disclose this important fact in prospectus. It was highly objected, later by shareholders. Concerned Regulating Authority took action and MD was punished and penalised as per regulations.

(i) Identify the kind of capital market referred above. (1)

(ii) Name the Regulatory Body, mentioned above. (1)

(iii) Name any three other functions performed by the Regulatory Body. (3)

Ans. (Hints) (i) Primary Market

(ii) Securities Exchange board of India

(iii) To call for information.

- having fee or other charges.

- Training of intermediaries or (Any other)

Q.8 Avantika and Aanchal are close friends. They did their MBA together and got good placement from college campus as finance manager and production manager respectively in highly reputed companies.

Immediately after joining, Avantika found that her company was in dire need of additional production capacity. She arranged funds by issue of debentures and purchased a new plant with - higher production capacity.

- good rate of return.
- Low pay back period.
- less cost & Good pollution control technology.

On the other hand, Aanchal put the workers for production for more hours of work. She did not listen to the workers suggestions and grievances. She did not pay any incentive for good performance.

- (i) Name two financial decisions mentioned in para 2. (2)
- (ii) Quote the factors from above. Which affect the decision to purchase, fixed assets. (Any Two) (2)

Ans. (Hints) (i) Financing and Investing Decision.

- (ii) Rate of Return, Payback period.

Q.9 Talco Ltd. is launching a new range of snacks which are 100% Fat free. Keeping in mind, the health conscious segment of market, company produced these cholesterol free snacks. For financing the production of snacks, company issued 10% debentures. Company was already burdened with fixed cost of salaries, Rent and 8% debentures interest.

- (i) In which market, were the debentures issued? (1)
- (ii) Do you think, issue of debentures was a wise choice Y/N. Justify your answer. (1+2)

(iii) What could be the other sources of finance available to Talco Ltd.

- (Hints)
- (i) Primary Market
 - (ii) No Company was already burdened with fixed cost.

(iii) - Shares (Equity or Preference)

- Retained Earnings.

Q.10 Ravi was a trader dealing in woolen garments. His business flourished and he maintained a good reserve of retained earnings. Ravi expanded his business and started production of “shawls”. Operating cycle period of shawls was quite long as Ravi made a policy for “Credit allowed” of four months to attract more customers. He was able to produce a good number of shawls with good quality and hand work.

(i) Name the market, through which working capital needs are satisfied.

(1)

(ii) What quantum of working capital was required when he was trader? As a producer how his need for working capital requirement has changed?

(2)

(iii) Apart from working capital, explain any three other factors, affecting requirements of working capital.

(3)

[(i) Money Market, (ii) As a trader less, as a producer-more]

Q.11 State Electricity Board under the ownership of state government was privatized in 2001. The company allotted securities to some selected individuals and institutions as this was a faster way of raising funds in public issue without any need for issuing a formal prospect. The company has since then been in operation for 15 years as a private sector company. The company has shown remarkable growth as indicated by rise in revenues, operating profit, profit after tax, resulting into maximisation of wealth of its shareholders. It has increased its assets base by buying fixed assets. As a private sector company, it has paid dividends in accordance with the policies stated in its articles.

a) Identify and explain, by quoting the lines, the decisions taken by the management in achievement of objectives of financial management after privatisation.

b) Identify the method of floatation opted by the State Electricity Board.

c) How has the company maximised the wealth of its shareholders?

Hint:

- a) 1. "The Company allotted.....Formal prospectus.
Financing Decision
- 2. "It has increased.....fixed assets."
Investment decision
- 3. "As a private sector.....articles."
Dividend Decision
- b) Private placement
- c) By taking balanced finance decision i.e. Financing, Investment and Dividend decision as indicated by- rise in revenue, operating profit.

Q.12 The Trading procedure on Stock Exchange has been replaced by online screen based electronic trading system. This is mainly done to eliminate problems like theft, fake forged transfers, transfer delays and paper work associated with share certificates or debentures in physical form. This is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that he/she can hold it in an electronic balance in an account. This has increased the equity cult among the people.

- a) Identify and state the process mentioned above. (1)
- b) What is the most important requirement for the process identified in (a)? State. (1)

[(a) Dematerialisation (b) DEMAT account (c) Transparency, efficiency]

Q.13 Sakshi Ltd, a well known real estate company has managed to carve a niche for itself in this sector. Recently, it was revealed that the directors of the company have used price sensitive information for their own personal interest Adequate public disclosures were also not made. SEBI is considering action against these directors

Name the term used for trading malpractice done by the directors of this company.

Ans. Insider trading

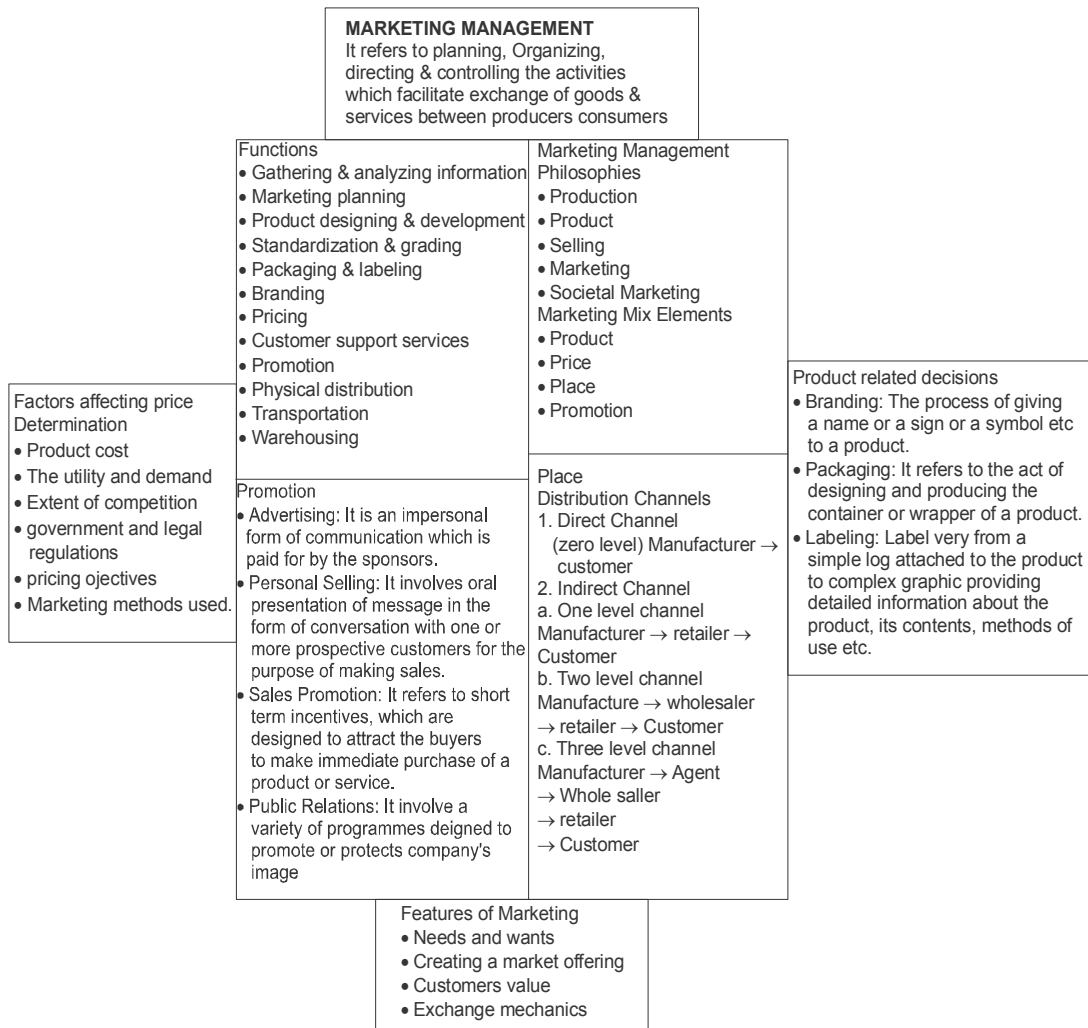
Q.14 Bombay Stock Exchange was established in 1815 and was Asia's first stock exchange. About 6000 companies are listed on this exchange. Where investors purchase and sell their securities as shares, debentures and bonds. Price of the securities is determined by forces of demand and supply. The members of exchange are called brokers. They provide safe and fair deal to their customers. The Sensex launched in 1986 is made of 30 companies and represents 13 sectors of the economy. The change in Sensex saw the growth of economy. Explain the functions of Stock Exchange, highlighted above (3)

Ans. Hints

- (1) Platform for purchases and sale of securities
- (2) Price Discovery
- (3) Economic Growth

CHAPTER – 11

MARKETING MANAGEMENT



Market: It refers to a place where the buyers and sellers meet and conduct buying and selling activities. In the traditional sense, the market means a place where buyers and sellers gather to enter into transaction involving the exchange of goods and services but today business can be conducted on telephone, through mail, internet etc. In modern marketing sense the term market has a broad meaning. It refers to a set of actual and potential buyers of a product or service.

Marketer or Seller: If a customer is the seeker of satisfaction the marketer is the provider of satisfaction. Marketer can be a person or an organisation who makes available the products or services and offers them to the customer with an intention of satisfying the customer needs and wants.

Marketing

Marketing is a social process whereby people exchange goods & service for money or for something of value to them. Anything that is of value to the other can be marketed e.g.

- | | |
|----------------------|----------------------------------|
| 1. Physical Products | - T.V., Mobile phone etc. |
| 2. Services | - Insurance, education etc. |
| 3. Person | - Selection for different posts. |
| 4. Place-visit | - Agra, Taj Mahal, etc. |
| 5. Events | - Fashion show, Films Festivals |

Important Features of Marketing

1. Needs and wants:

Need: A state of felt deprivation or feeling of being deprived of something.

Want: Culturally defined object that is potential satisfier of need.

Marketer's Job: Identify needs and fulfil them.

2. **Creating a market offering** : Complete offer for a product of service.
3. **Customer value** : greatest benefit or value for the money.
4. **Exchange mechanism** : Exchange of products/services for money/for something of value to them.

Q1. Name the social process by which individuals and groups obtain what they need and want through creating offers.

Meaning and concept of Marketing Management

Marketing management means management of the marketing functions. It is the process of planning, organising, directing and controlling the activities related to marketing of goods and services to satisfy customers' needs & achieve organisational goals.

Thus, marketing management process involves:

1. **Choosing a target market:** e.g., a manufacturer may choose to make ready-made garments upto the age of 5 years for children.
2. **Creating demand and attracting more customers in target market :** To increase the number of customers by analysing their needs, wants etc.
3. **Creating superior value:** To make the product better than competitors products for customers.

Meaning and Concept of Marketing and Selling

Marketing is a wide term. It refers to a large set of activities of which selling is just one part. A marketer before making the sale does a lot of other activities such as Gathering and analysing market information and doing market planning, design of the product, the price and selecting the distribution outlets at which the same would be available.

Selling: Refers to the sale of goods or service through publicity, promotion and salesmanship. The title of the product is transferred from seller to buyer. The entire focus in selling is to convert the products into cash.

Difference between Selling & Marketing

Basis	Selling	Marketing
1. Scope	It is only a part of process of marketing.	It is a wide term consisting of a number of activities such as identification, customers need etc.
2. Focus	Transfer of the title from seller to consumer.	Achieving maximum satisfaction of customer's needs and wants.
3. Pre-dominance	Product is given priority	Customer is treated as the king
4. Aim	Profits through sales volume	Profits through customer satisfaction.
5. Emphasis	Bending the customer according to the product.	To develop the products as per the customers' needs.
6. Strategies	Promotion and persuasion.	Integrated marketing efforts.

Marketing Management Philosophies

- 1. Production concept:**Emphasis on Quantity
Focus: Availability and Affordability.
- 2. Product Concept:**Emphasis on Quality
Focus: Continuously improving quality, incorporating new factors, product improvement.
- 3. Sales Concept:** Emphasis on Sales volume
Focus: Attracting and persuading customers, aggressive promotional techniques.
- 4. Marketing Concept:**Identify a need and satisfying.
Focus: Customer satisfaction

5. **Societal Marketing Concept:** Extension of marketing concept i.e. customer satisfaction with welfare of the society

Consider social, ethical and ecological aspects of marketing.

Differences in the Marketing Management Philosophies

Philosophies/ Bases	Production Concept	Product Concept	Selling Concept	Marketing Concept	Societal Concept
1. Starting Point	Factory	Factory	Factory	Market	Market Society
2. Main Focus	Quantity of product	Quality, performance, features of product	Existing Product	Customer need	Customer needs and society's well being
3. Means	Availability and affordability of product	Product improvements	Selling and promotion	Integrated marketing	Integrated marketing
4. Ends	Profit through volume of production	Profit through product quality	Profit through sales volume	Profit through customer satisfaction	Profit through customer satisfaction and society welfare

Q.1 Raman, Joginder, John, Iqbal and Shreya are friends. They are operating different business. Each one has his/her own concept regarding operating their business.

Raman believes in producing products at a large scale. Thereby decreasing the average cost of the products and selling it at a reasonable price.

Joginder focuses on providing best quality products because he believes that a customer always wishes to buy a good quality product. The price of the product is secondary, John is of the belief that most important aspect of business is sales and so he undertakes aggressive selling & promotional effort.

Iqbal believes that his firm can achieve its goals only by identifying the needs of the customer & satisfying them better than the competitors.

Shreya on the other hand feels that her firm has a responsibility towards the society as well. So she provides customer satisfaction along with using techniques which are environmental friendly.

- a) What are the Marketing concepts followed by each of them?
- b) Raman's concept is successful for him because he is into manufacturing & selling iodised salt under the brand 'Healthy salt, this product has a ready market and vast consumer base, also the products is standardised so he can focus on production at a large to cut down the cost per unit. Write any business which can be successfully run by the others using their concepts.

(Joginder-, John-, Iqbal-, Shreya)

Functions of Marketing/Marketing activities

1. **Marketing research** : Gathering and analyzing marketing information i.e. what the customers want to buy, when they are likely to buy, in what quantities do they buy, from where do they buy etc.
2. **Marketing planning**: Specific plan for increasing the level of production, promotion of the products etc. and specify the action programmes to achieve these objectives.
3. **Product designing and development**: Marketer must take decision like, what-product, which model/size?, brand name?, Packaging?, quality level? So that Customer needs are satisfied
4. **Standardisation and Grading**: Standardisation refers to producing goods of predetermined specifications which help in uniformity and consistency. It reduces the need of inspection, testing and evaluating the products.

Grading refers to the process of classifying the products into different groups. Grading is done for goods which cannot be produced according to predetermined specifications i.e. agricultural products.
5. **Packaging/Labelling**: designing the package for the product and put label on the package.

6. **Branding:** Creating a distinct identity of the product from that of competitors e.g. Videocon washing machine, Usha Fans, Lux Soap etc.
7. **Pricing of products:** setting pricing objectives, determining pricing strategies, price level etc.
8. **Customer support service:** After sales services.
9. **Promotion:** Informing the customer about the product and persuading the customer to buy the product.
10. **Physical distribution:** Decision regarding channels of distribution and physical movement of products.
11. **Transportation:** Physical movement of goods.
12. **Storage and Warehousing:** Necessary to maintain smooth flow of production and supply.

Q.1 Which function of marketing requires gathering & analysis of marketing information?

Q.2 Before buying a thing a customer analyses its cost and the satisfaction that he is to get from it. He will buy the thing only when he feels that its satisfaction will be more than its cost. Seller is to make the thing while keeping in mind this tendency of the buyer. A seller, who does not pay heed to the importance that the buyer gives to the product, certainly lags behind in competition.

Which feature of marketing has been highlighted in the above paragraph?

(1)

Marketing mix

A set of marketing tools used by a firm to pursue its marketing objectives in a target market. Product, Price, Place and Promotion are the important elements of marketing mix which are popularly known as Four P's of marketing.

Elements of Marketing Mix

I - PRODUCT MIX

Meaning and Concept of Product: Product is anything that can be offered to a market to satisfy a want or need.

Product mix refers to a combination of various features relating to the product or service like quality, size, range, package, warranty etc.

PRODUCT MIX – Three components of Product mix are - Branding, Packaging, Labelling.

1. **Branding-** Giving a name/a sign; a symbol etc. to a product eg.:

Pepsi.



Nike:



BRANDING

Distinct Identification of a Product

Brand



Brand Name



Brand Mark



Trade Mark Brand registered under Trade Mark Act, 1999 with Government of India

Qualities of a Good Brand Name

1. **Simple and Short** : A brand name should be simple and short as Tata, Bata
2. **Easily Pronounceable** : A brand names should be easily pronounceable as Lux, Dalda.
3. **Suggestive** : Brand name should be self explanatory, suggesting the inherent quality of the product as Ujjala suggests more whiteness.
4. **Distinctive**: Brand name should be so distinctive that it highlights itself in the group of other brand names such as : Tide, Perk.

Advantages of Branding

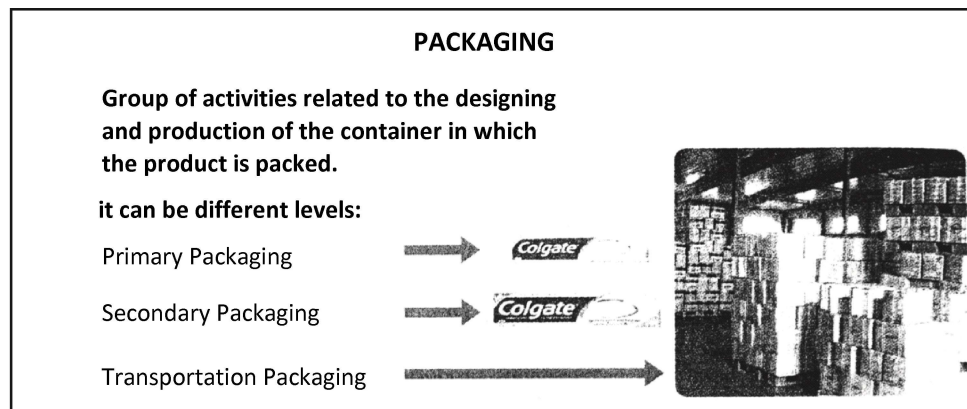
1. Brand name helps in advertising it in an easier way.
2. Brand name establishes permanent identity of the product.
3. Branded products can be easily identified by consumers.
4. Brand name promotes repurchasing.
5. **Branding ensures a particular level of quality of the product**: If there is any deviation in the quality the customers can make a complaint to the manufacturer.

- Q.1** You have come up with a brand name 'Yummy Yummy' for your noodles brand. What qualities do you think are associated with it?
- Q2.** State the advantage of registering 'trade mark'.

2. **Packaging-** Act of designing and producing the container or wrapper of a product. Good packaging often helps in selling the product so it is called a silent salesman.

Levels of Packaging

1. **Primary Package :** refers to the product's immediate container e.g. toffee in a wrapper, a match box.
2. **Secondary Package:** refers to additional layers of protection that are kept till the product is ready for use e.g. a Colgate toothpaste usually comes in a card board box.
3. **Transportation Package:** refers to further packaging components necessary for storage, identification and transportation e.g. package of toffees are put into corrugated boxes for storing at a manufacturer's warehouse and for transportation.



Functions of Packaging

1. **Product Identification:** Packaging helps in identification of the product.
2. **Product Protection:** The main function of the packing is to provide protection to the product from dirt, insects and breakage.
3. **Convenience:** It provides convenience in carriage, stocking and in consumption.

4. **Product Promotion:** Packaging simplifies the work of sales promotion.

Advantages of Packaging

1. **Rising standards of Health and Sanitation :** The people are becoming health conscious so they like to buy packed goods. The reason is that the chances of adulteration in such goods are minimised.
2. **Innovational Opportunity:** With the increasing use of packaging more innovational opportunity becomes available in this area for the researcher.
3. **Product Differentiation:** Packaging is helpful in creating product differentiation. The colour, material and size of the package makes differences in the quantity of the product.

Q. Which function of packaging is emphasized in case of Cadbury chocolates by using purple packaging on all its chocolates? What according to you are advantages of such packaging?

3. **Labelling:** Labelling means putting identification marks on the package. Label is a carrier of information & provides information like - name of the product, name of the manufacturer, contents of the product, expiry and manufacturing date, general information for use, weight etc.

Labels perform following functions:

1. **Identify the product:** - It helps the customers to identify the product from the various types available. For example: We can easily identify a Cadbury chocolate from the various chocolates by purple colour of its label.
2. **Describe the product and specify its contents:** The manufacturer prints all the information related to the product.



3. **Grading of products:** With the help of label, products can be graded in different categories for example: Brook Bond Red Label, Brook Bond Yellow Label, Green Label etc.



4. Helps in promotion of products :- Attractive and colourful labels excite the customers and induce them to buy the products. For example :- 40% extra free mentioned on detergent etc.
5. Providing information required by law :- There is legal compulsion to print batch no., contents, max retail price, weight/volume on all the products and statutory warning on the packet of cigarettes, "Smoking is injurious to health": In case of hazardous/poisonous material appropriate safety warnings need to be put.

Q1. 'An important task in the marketing of goods relates to designing the label as it provides useful and detailed information about the products'. In the light of this statement, draw a label for "Tea" and highlight the important information to be provided on it. (3)

Q2. One manufacturer of electronic product produces such products which need special care while using it. But the company has not given the instructions to consumers. If you were the manager of the company what steps you would take?

Q3. Recently, prices of perfumes, which are one of the major ingredients of agarbattis, have gone up substantially. Since there is keen competition in the agarbatti market, no manufacturer increased the price of agarbattis. In turn, most of the manufacturers opted to reduce the quantity of perfumes in agarbattis to cut their cost of production. This has resulted in decreased quality of agarbattis though their prices have not changed. In order to overcome this problem, Garden Ltd. introduced a new set of agarbattis under the brand name Khushboo. Khushboo agarbattis captured the agarbattis market very quickly.

(a) Identify the product-related issue involved in the above case and explain its three functions.

II. PRICE MIX

Meaning and concept of 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. Pricing is crucial for manufacturers, customers and intermediaries. A customer will buy a product only when he perceives that value of a product is at least equal to value of money, which he has to pay in the form of price. Before framing any pricing policy following factors should be considered:

1. Pricing Objectives

- (a) to maximise profits in the short term-tend to charge maximum price.
- (b) Obtain large share of the market i.e., by maximising sales it will charge lower price.
- (c) Firm is operating in the competitive market it may charge low price for it.

2. Cost of Production : Needs to be fully realised before fixing prices.

3. Demand : High Demand and less supply may permit increase in price while low demand and more supply may not allow increase in price.

4. Competition in Market : Prices of competitors need to be considered before fixing prices.

5. Government Policies: Products regulated by government pricing regulations need to be priced as per government policies.

Q. ABC Ltd. is introducing a new car in the market. Which factors shall it consider while pricing the car?

III. Place Mix/Physical Distribution Mix

Covers all the activities required to physically move goods from manufacturers to the customers Important activities include:-

1. Order Processing : Accurate & speedy order processing leads to profit & goodwill & vice versa.

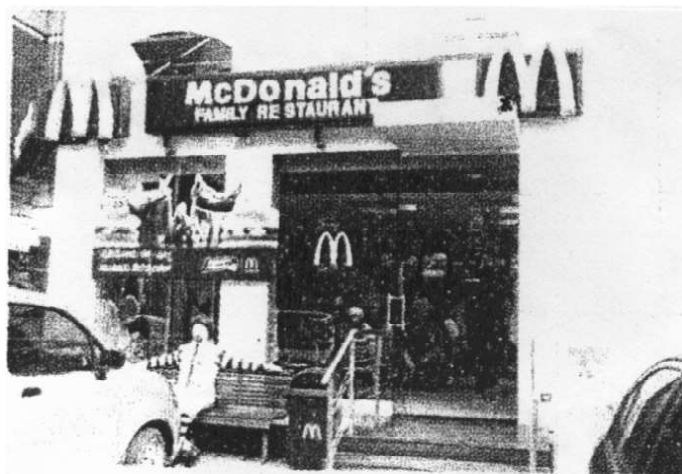
2. **Transportation** : Add value of the goods by moving them to the place where they are required.
3. **Inventory control** : Additional demand can be met in less time, the need for inventory will also be low.
4. **Ware housing** : Need arises to fill the gap between the time when the product is produced & time when it is required for consumption.

Channels of Distribution

Direct Channel — Manufacturer-Customer (Zero level)

Indirect Channel —

1. Manufacturer-Retailer-Customer. (One level)
2. Manufacture-wholesaler-Retailer-customer. (Two level)
3. Manufacture ! Agent ! Wholesaler ! Retailer ! Customer (Three Level)



Direct Channel

Factors Determining Choice of Channels of Distribution

(Not is Syllabus for 2019-20)

Choice of appropriate channel of distribution is a very important marketing decision, which affects the performance of an organisation. Whether the firm will adopt direct marketing channels or long channels involving a no. of intermediaries is a strategic decision.

Factors Determining Choice of Channels of Distribution



Q. Anandi, a budding entrepreneur wishes to operate a business of Flowers. Since they are perishable in nature, she plans to open a flower shop so that she can directly sell them to the customers. Being a small venture, the number of consumers is also less. So she decides that the direct channel of distribution is better. Her friend, Rajeev is a manufacturer of gift. Items. He is confused regarding the level of channel he should follow. Can you guide him regarding the problem? Give points for support of yours answer.

(3)

IV. Promotion Mix

It refers to combination of promotional tools used by an organisation to communicate and persuade customers to buy its products.

Elements of Promotion Mix



Tools/Elements of Promotion Mix

1. **Advertising:** It is the most commonly used tool of promotion. It is an impersonal form to communication, which is paid by the marketers (sponsors) to promote goods and services. Common mediums are newspaper, magazine, television & radio.

Role or Importance of Advertising

1. Enhancing customer satisfaction and confidence.
2. Helpful in increasing the demand of existing product.
3. Helpful to increase the market share.
4. Helpful in generating more employment.
5. Helpful in the economic development of the country.
6. Knowledge of various product.
7. No fear of exploitation.

Objections against Advertising : Though advertising is one of the most frequently used medium of promotion of goods & services but it attracts a lot of criticism/objections against it, which are as follows: **(Not is Syllabus for 2019-20)**

1. **Increased Product Price :** Advertising cost is ultimately added to product cost, manufacturers pass this cost to ultimate customers.

2. **Confusion to Customers** : The number of advertisements shown for a single product having different brands confuse the customers and it becomes very difficult for them to make choice.
3. **Encouraging sale of Inferior Products** : In many cases some product features are over emphasized, which way leads to sale of even inferior products.
4. **Advertisement of Bad Tastes** : Events, models degrade the human dignity by means of advertisement.
5. **Undermines Social Values and Promotes Materialism**: It induces the customers to buy more and more products. Because of emphasis on materialism, social relationships are distorted which brings social disorder.

In the changed economic environment of globalisation, advertising is considered as an important tool of marketing. It helps a firm in effectively communicating with its target market, increasing the sale and thereby reducing the per unit cost of production. It is not a social waste rather it adds value to the social cause by giving a boost to production and generating employment.

- Q.1** You have an advertising agency. A manufacturer of consumer product like Soap, Tooth Paste has come to you to help him in promotion of his products. Convince him how advertising can assist in giving boost to his sales?
- Q.2** You are participating in a school debate on the topic 'Role of advertising for the business & society, you have to speak against the topic i.e., on negative fallouts/objections against advertising. Support your topic point wise.
- Q.3** A commercial unit uses rocks, trees, electric poles, historical monuments and walls to advertise its products. Which faults of the company does this advertising policy show?

2. **Personal Selling**

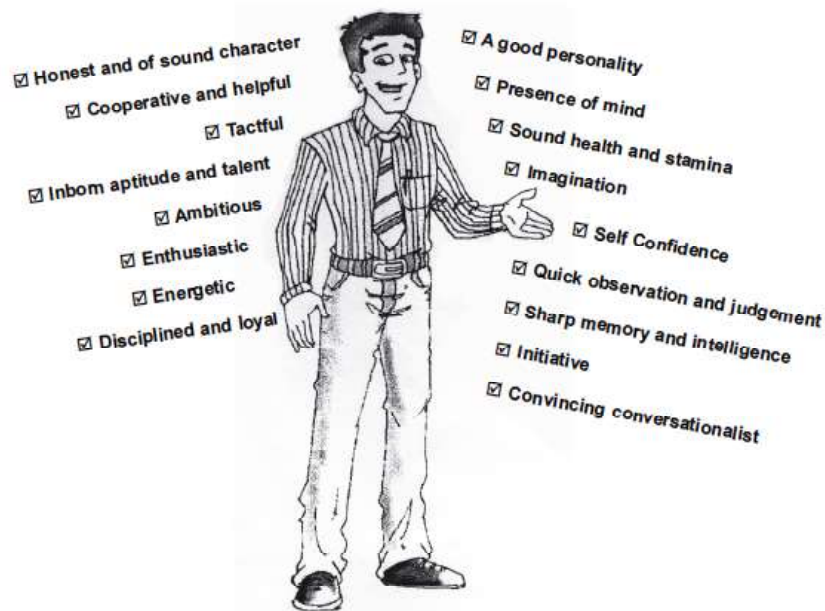
Personal selling consists of contacting prospective buyers of product personally i.e face to face interaction between seller and buyer for the purpose of sale.

Features of the Personal Selling

1. Personal contact is established under personal selling.

2. Oral conversation.
3. Quick solution of queries.
4. Receipt of additional information.
5. Development of relationship with the prospective customers which may become important in making sale.

Qualities of a Good Salesperson



Qualities of a Good Salesman

(Not in Syllabus for 2019-20)

1. **Physical Qualities** : Physical qualities include personality health, stamina and tolerance. A salesman can instantly connect with the customers if he is good looking and smart.
2. **Mental Qualities** : These include mainly skills, mental alertness, imagination and self confidence.
3. **Technical Qualities** : He should have full and updated knowledge about the product he is selling-Its features, price and variety available. He should be aware of the nature of work carried on by the firm, he is working for.

4. **Good communication skills** : He should be able to develop a good conversation with the customer. He should be confident while he is communicating and should be able to answer all the queries of the customer satisfactorily.
 5. **Honesty** : It is a very important quality of a good salesman. In order to establish the goodwill of firm he must be honest and sincere in performing his duty. A salesman who resorts to selling inferior goods, charging higher rates, providing wrong information, giving exaggerated claims etc. will cause a decline in goodwill of the firm in the long run.
 6. **Courtesy** : A Salesman who is polite and courteous generates buyer's confidence selling product becomes easy for him.
 7. **Persistent** : "Never give up", is the spirit that a salesman should have. Making the customer buy maximum amount of a product is the ultimate task given to him.
 8. **Capacity to inspire trust** : The salesman should have the convincing power to develop the belief in a customer that the product he is buying is the best product in the market.
- Q.1** Sanjay is a salesman at Croma Store, an electronic goods initiative. He has been awarded 'Employee of the year'. What qualities do you think he must be having to receive the award?
- Q.2** Every organisation desires that it should have goodwill in the minds of all concerned. To establish goodwill, it is essential to have dialogue. It is by way of dialogue that an organisation gets the necessary information. How is it possible?
3. **Sales Promotion**
Short term incentives designed to encourage the buyers to make immediate purchase of a product/service.



Techniques:

(Not is Syllabus for 2019-20)

1. **Rebate** : Special price to clear off excess inventory.
2. **Discounts** : Price reduced to induce buyers to buy more.
3. **Sampling** : Free sample of a product to customers to try product & learn about it.
4. **Lucky draw** : Lucky draw coupon e.g. purchase an easy product & win a car etc.
5. **Full Finance @ 0%** Easy financing schemes.
6. **Contests** : Competitive events involving application of skills or luck.
7. **Product Combination** : Offering another product as gift along with the purchase of a product.
8. **Instant draws and assigned gift** : Scratch a card and instantly win a prize with the purchase of a TV, T. Shirt, Refrigerator etc.
9. **Quantity Gift** : Offering extra quantity of the product e.g., Buy three LUX soaps and get one free.

10. **Refunds:** Refunding a part of price paid by customer on some proof of purchase.

11. **Usable benefit:** Purchase goods worth ₹ 5000 and get two movies tickets.

Q.1 Which techniques of sales promotion is being referred to in the below given points:

(i) Free sample of shampoo pouch with a fairness cream.

(ii) Upto 50% off on most items.

(iii) Tooth brush free with Tooth paste.

(iv) Buy 3 packs of 1 litre juice and get another free.

(v) Scratch the card and dial a number to win a car.

Q2. A company uses some promotional schemes like 'buy one, get one free', free samples, free gifts and so on to boost the sales of its products and earn higher profits. This results in unnecessary hike in the prices of the products. In your opinion, is this policy in the interest of society?

Public Relations

"The Chartered Institute of Public Relations" defines Public Relations as 'a strategic management function that adds value to an organization by helping it to manage its reputation'

Public relations covers a wide range of tactics, usually involve providing information to independent media sources in the hope of gaining favorable coverage. It also involves a mix of promoting specific products, services and events and promoting the overall brand of an organization, which is an ongoing tact. Public Relation tools include:

1. **Press Release:** A press release is an announcement of an event, performance, or other newsworthy item that is issued to the press by a public relations professional of an organization.

It is written in the form of a story with an attractive heading so that the media quickly grasp and circulates the message through newspaper/radio/television/ internet.

2. **Press Kits:** It is a comprehensive package of information outlining a company's products and services most frequently sent to members of the press. It includes
 - A brief company biography.
 - Information of senior management.
 - Comments from customers.
 - Reprints of newspaper and magazine articles.
 - Photos of products.
3. **Brochures:** It is a booklet published by the organization which contains the organization's background, its ethics, vision, mission, its past, present and future projects, its CISP, etc. E.g.: brochure given to new employees.
4. **Newsletter:** It is a printed publication produced at regular intervals focussing on a particular set of people. The content of a newsletter is presented in a writing style that is less formal and letter-like. For example, a newsletter published by a college consists of information about activities conducted during a particular period, special achievements by students or teachers, etc.
5. **Events and Press support:** Special events are acts of news development. The ingredients are time, place, people, activities, drama, showmanship; one special event may have many subsidiary events, such as luncheons, banquets, contests, speeches, and many others as part of the build up.
6. **Conferences and Seminars:** Conferences and seminars are conducted for making people aware about the organization. For example travel companies generally call prospective clients and offer travel packages. The members are contacted through telephones and asked to attend seminar.
7. **Websites:** A website acts as a window for the outside world to know an organization. So it is designed not just to serve as a resource for members, but also to present a positive message to non-members who are browsing through.

ROLE OF 'PR' IN AN ORGANISATION

- (i) Smooth functioning of business and achievement of objectives.
- (ii) Building corporate image that affects favourably on its products. Up keep of parks, gardens, sponsoring sports activities etc.
- (iii) Build interest in the established product and help in launching products.
- (iv) Establishing positive image if products facing adverse publicity.
- (v) Acting as a supplement of advertising in promoting new as well as existing products.

Exercise

I. Multiple choice questions.

1. Identify the main focus of selling philosophy/concept of marketing management.
 - (a) Profits
 - (b) Factory
 - (c) Selling & Promotion
 - (d) Existing product
2. What can improve performance of a product and also give it a competitive advantage in the market.
 - (a) Standardisation
 - (b) Branding
 - (c) Design
 - (d) Promotion
3. Which element of marketing mix includes after sales services offered to the customers.
 - (a) Product
 - (b) Price
 - (c) Place
 - (d) Promotion
4. In addition to product differentiation, differential pricing and introduction of new product, what advantage Branding do have to the marketers.
 - (a) Product identification
 - (b) Status symbol
 - (c) Advertising product
 - (d) Ensures quality

5. The advertisement of a travel agency states the following 'Visit Agra the city of love', 'Udaipur-the city of lakes' and 'Mysore-the city of Gardens'.

What is being marketed by the agency through the advertisement?

- (a) Product (b) Place
(c) Service (d) Cities
6. Which tool of promotion is an impersonal form of communication, which is paid for by the marketers to promote some goods or service.
- (a) Personal selling (b) Publicity
(c) Advertisement (d) Sales promotion
7. Direct channel, is the most simple and the shortest mode of distribution, by which the goods are made directly available by the manufacturers to customers. Identify the other name of the Direct Channel of distribution.
- (a) Zero level (b) One level
(c) Two level (d) Three level
8. Rajni took her niece, Radha for shopping to 'Benetton' to buy her a dress. She was delighted when on payment for the dress she got a discount voucher to get 20% off for a meal of ₹ 500 or above at a famous eating joint. Identify the technique of sales promotion used by the company in the above situation.
- (a) Rebate (b) Discount
(c) Refunds (d) Usable benefit.
9. Ranjit purchased a bottle of tomato-sauce from the local grocery shop. The information provided on the bottle was not clear. He fell sick on consuming it. He filed a case in the District Forum and got the relief. Which important aspect was neglected by the marketer in the above case.
- (a) Branding (b) Labelling
(c) Packaging (d) Publicity
10. Ram a Bag manufacturer decides to add a water bottle holder to the existing design of school bags. Identify the marketing management philosophy adopted by Ram.
- (a) Product (b) Production
(c) Selling (d) Marketing

II. Fill in the blanks:

1. Sales promotion refers to short-term incentives, which are designed to encourage the buyers to make immediate of a product or service.
(a) Sale (b) Demand
(c) Supply (d) Purchase
2. Advertising is an form of communication which is paid for by the sponsors.
(a) Personal (b) Impersonal
(c) Formal (d) Informal
3. When the demand of a product is inelastic, the firm is in a better position to fix prices.
(a) Higher (b) Lower
(c) Similar (d) Competitive prices.
4. are useful in providing detailed information about the product, its contents, method of use etc.
(a) Brands (b) Packages
(c) Labels (d) Design
5. is described as the set of marketing tools that a firm uses to pursue its marketing objectives in a target market.
(a) Product Mix (b) Price Mix
(c) Promotion mix (d) Marketing Mix

III. Giving reason in support of your answer state whether the following are True or False

1. Grading ensures the buyers that goods confirm to the predetermined standards of quality, price and packaging and reduces the need for inspection testing and evaluation of the products.
2. Place mix include activities that communicate availability features, merits, etc. of the products to the target customers and persuade them to buy it.

3. Products which are sold by generic names by the marketers could not be distinguish from the products of the competitors.
4. A tube of Shaving cream usually comes in a card board box which is kept till the consumer start using the shaving cream and it ensure its transportation from place to place easily.
5. Publicity involve a variety of programmes designed to promote or protect a company's image and its individual products in the eyes of the public.

IV. Match the following and select the most appropriate option.

- | | |
|----------------------|---|
| 1. 1. Brand name | 1. Tag |
| 2. Packaging | 2. Devil of Onida |
| 3. Label | 3. Card board box |
| 4. Brand Mark | 4. Bata |
| (a) 1 – 4 | (b) 1 – 2 |
| 2 – 3 | 2 – 3 |
| 3 – 1 | 3 – 4 |
| 4 – 2 | 4 – 2 |
| 2. 1. Direct channel | 1. Paid form of communication |
| 2. Indirect channel | 2. Zero level |
| 3. Publicity | 3. Two level |
| 4. Advertisement | 4. Non-paid form of communication |
| (a) 1 – 3 | (b) 1 – 2 |
| 2 – 2 | 2 – 3 |
| 3 – 4 | 3 – 1 |
| 4 – 1 | 4 – 4 |
| 3. 1. Quantity gift | 1. Scracth a card |
| 2. Rebate | 2. Discount upto 50% |
| 3. Discount | 3. 20% extra |
| 4. Instant Draw | 4. Discount of ` 10,000 for a limited period. |
| (a) 1 – 3 | (b) 1 – 3 |
| 2 – 2 | 2 – 4 |
| 3 – 4 | 3 – 2 |
| 4 – 1 | 4 – 1 |

- | | |
|--------------------------|---------------------------------|
| 4. 1. Production concept | 1. Quality of product |
| 2. Product concept | 2. Customer needs |
| 3. Selling concept | 3. Quantity of product |
| 4. Marketing concept | 4. Increase in existing product |
| (a) 1 – 3 | (b) 1 – 3 |
| 2 – 1 | 2 – 4 |
| 3 – 2 | 3 – 1 |
| 4 – 4 | 4 – 2 |
-
- | | |
|-----------------------|-------------------------|
| 5. 1. Sales promotion | 1. Flexible tool |
| 2. Personal selling | 2. Confuses the buyers |
| 3. Advertising | 3. Utility and demand |
| 4. Pricing | 4. spoils product image |
| (a) 1 – 2 | (b) 1 – 4 |
| 2 – 1 | 2 – 1 |
| 3 – 4 | 3 – 2 |
| 4 – 3 | 4 – 3 |

ANSWER KEY

I. Multiple choice questions.

- | | | | | |
|--------|--------|--------|--------|---------|
| 1. (d) | 2. (c) | 3. (a) | 4. (c) | 5. (b) |
| 6. (c) | 7. (a) | 8. (d) | 9. (b) | 10. (a) |

II. Fill in the blanks:

- | | | | | |
|--------|--------|--------|--------|--------|
| 1. (d) | 2. (b) | 3. (a) | 4. (c) | 5. (d) |
|--------|--------|--------|--------|--------|

III. True/False

- | | | | | |
|----------|----------|---------|----------|----------|
| 1. False | 2. False | 3. True | 4. False | 5. False |
|----------|----------|---------|----------|----------|

V. Multiple choice questions.

- | | | | | |
|--------|--------|--------|--------|--------|
| 1. (a) | 2. (c) | 3. (b) | 4. (d) | 5. (b) |
|--------|--------|--------|--------|--------|

Q.1 'Various tools of communication are used by the marketers to promote their products.'

- (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. (6)

Q.2 As a project work in Business Studies subject, the Commerce students of 'Knowledge School' thought of setting up a recycling plant to recycle all the waste papers from the school and prepare registers and exercise books to be used by the school students. They approached their Principal who not only appreciated the idea of the students but also gave them consent for the same. The school also decided to donate 50% of the revenue generated from the sale of registers and exercise books to a nearby blind school.

- (a) State the product related decisions which the children have to take.
- (b) Suggest any two factors the children should keep in mind while choosing the right name for their exercise books and registers.

Q.3 Innovators Ltd. is business from manufacturing water purifier. It has already been manufacturing water purifiers since last 10 years. Now it has come up with a latest innovation in the field of RO purifiers which will avoid wastage of water. It knows that there are many competitors in the field as Whirlpool, Aquaguard, Zero B, Kent, Eureka Forbes, LG etc.

- (i) Suggest which factors should it keep in mind while fixing the price of purifier (any 3) (3)
- (ii) Which channel of distribution should the company adopt? (1)
- (iii) Which is the most appropriate sales promotion methods for this. (1)

Q.4 Mr. Akshay is the Sales Manager of Nova Ltd. Since last few months, performance of his department has failed to reach the acceptable level. It is a matter of concern for the General Manager. He is keen to mend this dismal situation at any cost. Mr. Akshay made efforts to find out the causes of this situation. He found that the members of his team lacked training and that giving incentive to the buyers was absolutely necessary. To impart training to his team members he set up a training center and appointed a trainer for this purpose. The trainer imparted them necessary training keeping in mind the actual situation. Besides Mr. Akshay launched a scheme for the customers. Under this scheme, a coupon is to be issued to that consumer who buys goods to a specified date. Later on, draw will be taken by a given date and will be distributed among the winners.

Identify the said training and sales promotion methods. (3)

HOW TO CRACK CASE STUDIES

- At first read the question asked in the case study.
- Now read the given case carefully and identify the points which will direct you to solve the given case.
- Tips to identify the points to case:
 - If something about variety, after sale service and availability is mentioned that means PRODUCT is being discussed.
 - In relation to Marketing Management philosophy:
 - * When production/distribution is at large scale (Production concept)
 - * When quality is improved or features are added to existing product (Product concept)

- Enhancing Public Image (Public relation)
- Measures used for increasing the sale of product (Promotion mix)

Q.1 'Beauty Products Ltd' is a natural and ethical beauty famous for offering organic beauty products for men and women. The company uses plant based materials for its products and is the No. 1 beauty brand in the country. Identify the marketing management philosophy being following by 'Beauty Products Ltd.'

Ans. Social marketing concept.

Q.2 A company was marketing water purifiers which were very popular due to their quality and after sales services provided to the customers. The company was a leading company in the market and earning huge profits. Because of huge profits, the company ignored the after sales services. As a result, its relationship with customers got spoiled and the image of the company was damaged in the public. The top management became concerned when the profits for the current quarter fell steeply. On analysis, it was revealed that ignoring the after sales services was its reasons. Therefore, the company took all possible measures to protect and promote its favourable image in the eyes of the public. As a result, the goodwill of the company improved in the society.

- (a) Name and state the communication tool used by the marketer in the above case to improve its image.
- (b) Also explain role of the tool as identified in part (a)

Ans. (a) Public Relations is being used as a promotional tool by the marketer. It refers to the practice of managing communication between an organization and its publics in order to create the maintain a positive image about itself and its products.

(b) The role of public relations as a promotional tool is described below:

1. Public relations helps to create a positive image about the company in the eyes of various interest holders like consumers, government, suppliers etc.

2. It helps in launching new products as they may be accepted easily because of good reputation of business.
3. It helps the business to reinstate itself in the wake of controversies or prejudices etc.

Q.3 Unilever has found a new way to make ice creams by using an ingredient called 'ice structuring protein' which is widely found in nature especially, in fishes which allows them to survive in freezing arctic waters. Combining ISP with stabilizer technology allows to make ice creams that don't melt so easily thereby making it more convenient for small children and consumer in hot countries.

In the context of above case:

1. Identify the component of marketing mix being into consideration by the company.
2. Explain briefly the function of marketing highlighted here.

Ans.

1. The component of marketing mix being taken into consideration by the company is 'Product'.
2. **Product designing and development:** Every marketer strives to achieve his marketing objectives by creating offering to satisfy a need or a want. Therefore one of the core functions of marketing is to develop the product in the most effective and efficient way. Every marketer endeavours to add value to his product by introducing constant innovations in the product to enhance both its utility and attractiveness in the eyes of the potential buyers and gain a competitive edge.

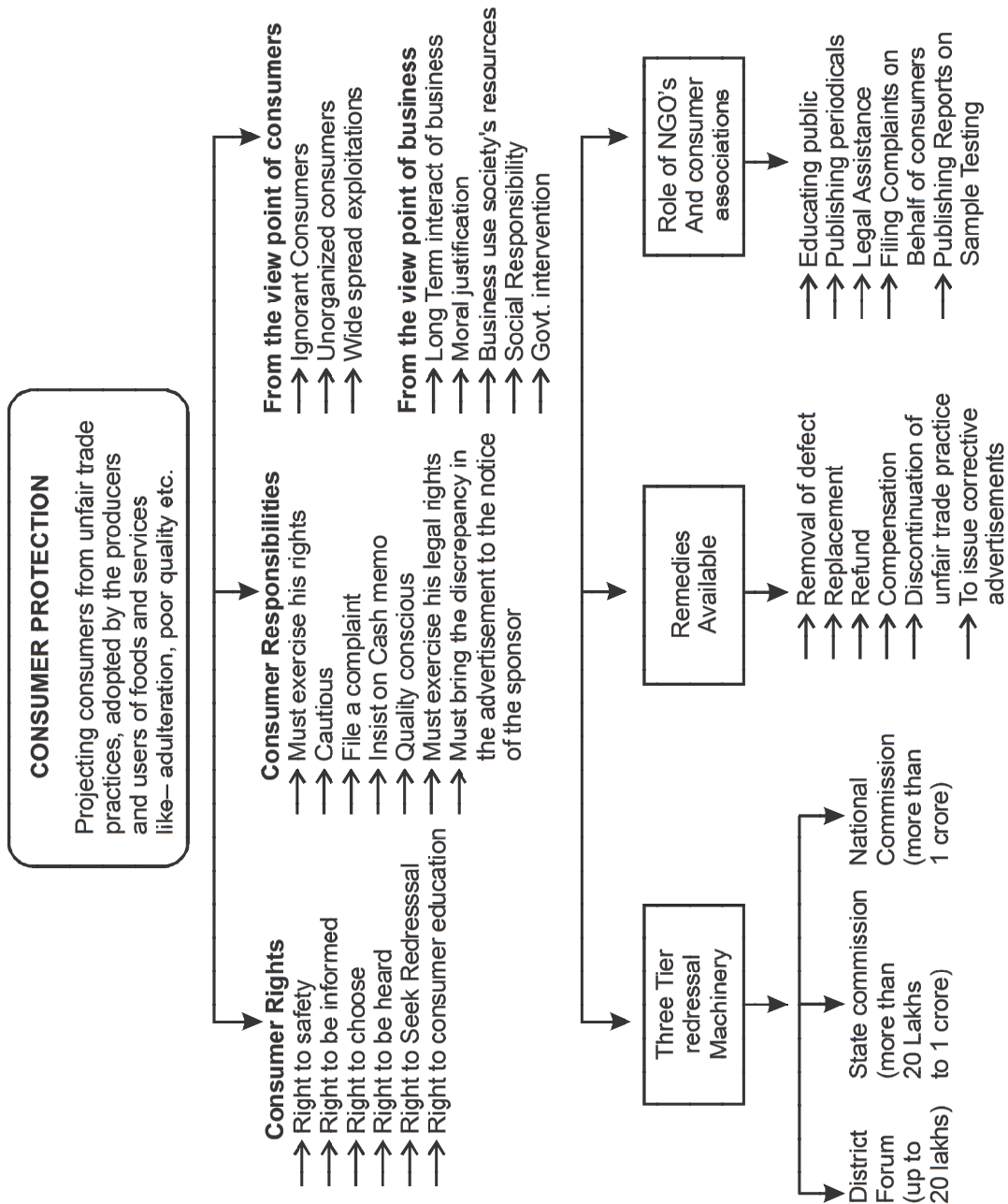
Q.4 Raj is a small entrepreneur involved in the manufacturing of hair wax. He finds that cost of production of 100 gm of hair wax is Rs. 80. He has decided to keep a margin of 20% as profit moreover, he has assessed that there is a cut throat competition in this product segment. In the context of above case:

1. Identify the function of marketing being performed by Raj.
2. State briefly the two factors that he is taking into consideration while performing the function as identified in part (a)

- Ans.**
1. Pricing is the function of marketing being performed by Raj.
 2. The two factors that he is taking into consideration while performing the pricing function are as follows.
 1. Cost of product:
 2. Degree of competition:

CHAPTER -12

CONSUMER PROTECTION



Protecting consumers from unfair trade practices, adopted by the producers and sellers of goods and services is termed as consumer protection. It not only includes educating consumers about their rights and responsibilities, but also helps in getting their grievances redressed. Generally consumers are exploited by (1) Adulteration (2) Poor quality etc.

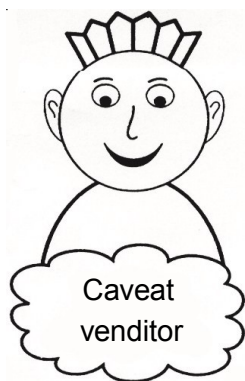
Importance of Consumer Protection

(from Consumer's point of view)

1. **Consumers' Ignorance** : Majority of consumers are not aware of their rights and reliefs available to them as a result of which they are exploited.
In order to save consumers from exploitation, consumer protection is needed.
2. **Unorganised Consumers** : In India consumers are still unorganised and there is lack of consumer organisations also, thus consumer protection is required.
3. **Widespread Exploitation of Consumers** : Consumers are exploited on large scale by means of various unfair trade practices and consumer protection is required to protect them from exploitation.

Importance of Consumer Protection

(from the point of view of Business)



Traditional Approach

Caveat Emptor
(Let the buyer beware)

Modern Approach

Caveat Venditor
(Let the seller beware)

Market–Consumer=Zero

1. **Long term Business Interest** : It is always in the interest of the business to keep its customer satisfied. Global competition could be won only after satisfying customers. Satisfied customers lead to repeat sales and help in increasing customer base of business.

2. **Moral Justification** : It is the moral duty of any business to take care of consumer interest & avoid any form of their exploitation & unfair trade practices like defective & unsafe products, adulteration, false and misleading advertising, hoardings, black marketing etc.
3. **Business uses resources of society**: Every business uses the resources of the society and thus it is their responsibility to work in the interest of the society.
4. **Social Responsibility** : A business has social responsibilities towards various groups like owners, workers, government, customers etc. Thus, customers should be provided qualitative goods at reasonable prices.
5. **Government Intervention** : If a business engages in any form of unfair trade practices then government takes action against it, which adversely affects its goodwill.

CONSUMER PROTECTION ACT, 1986 (CPA, 1986)

Meaning of Consumer

Consumer Protection Act 1986 was introduced to make consumers aware about their rights and to give them legal protection. According to it consumer is defined as follows.

1. Any person who buys any goods for a consideration. It includes any user of such goods with the approval of the buyer. But it does not include a person who obtains goods for resale or any commercial purpose.
2. Any person who avails any services for a consideration. It includes any beneficiary of such services but it does not include a person who avails such service for any commercial purpose.

Meaning of Consumer Protection

CPA, 1986 defines consumer protection as

1. To protect and promote the interest of consumers by recognising consumer's rights such as right to safety, right to be informed, right to choose, right to be heard, right to seek redressal and right to consumer education.
2. To provide for a simple, speedy and inexpensive redressal of consumer grievances by setting a 3-Tier enforcement machinery.

Rights of a Consumer

Consumer Protection Act, 1986 has provided six rights to the consumers, which are as follows:

1. **Right to Safety:** Consumer has the right to be protected against products, & services which are hazardous to health & life (should use ISI marked electronic devices).
2. **Right to be Informed:** Consumer has right to have complete information about the product before buying it.



Manufacturing Date (20th Aug., 2016)

Price (Rs. 35)

Quantity (330 ml)

Expiry Date (Best before Jan., 2017)

3. **Right to choose:** Consumer has a right to choose any product out of the available products as per his own decision making.
4. **Right to be heard:** Consumer has the right to file a complaint to be heard in case of dissatisfaction with goods or services (use of grievance cell)
5. **Right to Seek Redressal:** Consumer has the right to get relief in case the product or service falls short of his expectations or is dangerous. He may be provided with replacement/removal of defect or compensation for any loss. Various redressal forums are set up by the Govt. at National and State level.
6. **Right to consumer education:** Consumer has the right to acquire knowledge and to be well informed throughout life. He should be made aware of his rights and reliefs available to him in case of the product or service falls short of his expectations. The Govt. of India has included consumer education in

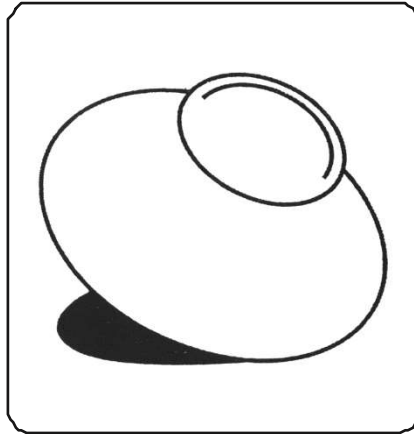
the school curriculum & is making use of media to make consumers aware of their rights.

Responsibilities/Duties of a Consumer

1. **Consumer must exercise his rights:** Consumers must be aware of their rights with regard to the products or services they buy from the market.
2. **Consumer must be a Cautious consumer:** While buying a product or services, a consumer should read labels carefully.
3. Consumer must file a complaint in an appropriate forum in case of any shortcoming in product/service availed.
4. Consumer must insist on cash memo i.e a proof of purchase is required to file a complaint.
5. Consumer must be quality conscious. He should ask/look for ISI mark on electric goods. FPO mark on food products, Hall mark on jewellery etc.



CONSUMER MUST BE QUALITY CONSCIOUS



Earthen pitcher signifies the products are environment friendly.

6. Consumer must bring the discrepancy in the advertisement to the notice of the sponsor.
7. Consumer must exercise his legal right. If any of these rights is violated by manufacturer or seller, the consumers must file a complaint with the legal machinery constituted under CPA, 1986.

QUESTIONS FOR PRACTICE

- Q1.** Sonu purchased a medicine from 'Alpha Medical stores' for his wife who had stomach pain. But even after giving the medicine, wife's condition did not improve and she had to be admitted to a nearby hospital for treatment. Doctors on examination found that the medicines given to sonu's wife were spurious. Sonu complained about this to "Alpha Medical Store". As a result Alfa medical decided to file a complaint against the manufactures in the consumer court. Can Alpha Medical store lodge the complaint? Give reason. (No, Alpha stores is purchasing medicines for re-sale) (1)
- Q2.** Neha's elder brother purchased "I Phone 6 - Apple" mobile phone for Rs. 65,000 without cash memo from one of his friend-an authorised dealer with a guarantee that the mobile phone will be replaced with a new one if any of its parts become defective within 1 year from the date of purchase. Within 1 month, the mobile stopped working. When Neha's brother approached his friend for replacement of mobile, he refused. Name the redressal agency under the consumer protection act where Neha's elder brother can file the complaint. (No, because he did not take a cash memo) (1)
- Q3.** Rama, who was a vegetarian, went to a bakery and bought a vanilla cake. On reaching home. She found that it had non-vegetarian content. Neither the advertisement nor the packaging of the product displayed that the product had non-vegetarian content. Will Raman be able to claim compensation? Which right is violated here? (Yes, Right to be informed)(1)

THE SALIENT FEATURES AND PROVISIONS OF CONSUMER PROTECTION ACT, 1986

Who Can File A Complaint Under CPA, 1986

A complaint before the appropriate consumer forum can be made by:

1. Any consumer.
2. Any registered consumer association.
3. The central or state government.
4. One or more consumers on behalf of numerous consumers having same interest.
5. A legal heir or representative of a deceased consumer.

Against whom can a complaint be filed?

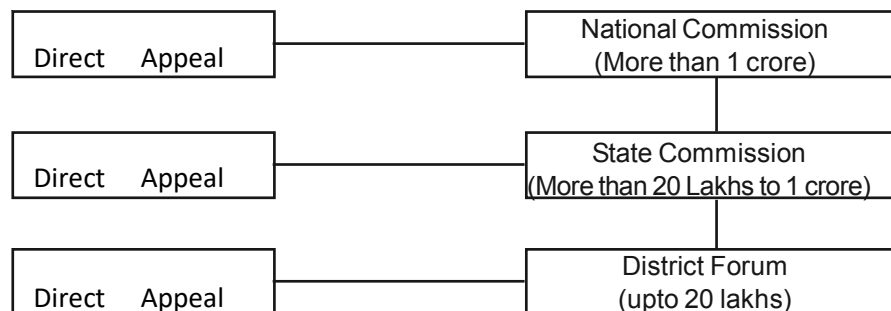
Consumer Protection Act, 1986 is applicable to all types of undertakings, whether big or small, private or public, or in co-operative sector, manufacturer or a trader, wholesaler or retailer, supplying goods or providing services.

Thus, a complaint can be filed against:

1. The seller, manufacturer or dealer of defective goods. Defect means any fault, imperfection or shortcoming in the quality, quantity or purity of goods.
2. The provider of services if they are deficient in any manner. Deficiency means any imperfection, shortcoming or inadequacy in the quality, nature and manner of performance of services.

REDRESSAL AGENCIES UNDER CONSUMER PROTECT ACT, 1986

For the redressal of consumer grievances the act provides a three-tier machinery as:



REDRESSAL AGENCIES

	District forum	State Commission	National Commission
Set Up	By state Govt	By state Govt.	By central Govt.
Members	President = 1 other members =2 (atleast one member should be woman)	President =1 other members = atleast two) (Atleast one member should be female)	President = 01 other members = atleast four (Atleast one member should be female)
Value of complaint (Direct appeal)	Upto Rs. 20 lakh	More than Rs. 20 lakh and upto Rs. 01 crore	More than Rs. one crore
Complain handling procedure	Receiving complaint → Information to opposite party → sending sample of goods to laboratory for test → If goods are defective → Appropriate redressal to aggrieved party in form of replacement, compensation etc.	Same procedure as in district forum	Same procedure as in District forum
Re-appeal	Within 30 days of decision to state commission	Within 30 days of decision to national commission	Within 30 days of decision to supreme court

Note: Only those cases can be reappealed before Supreme Court which were originally filed in national commission and amount of claim is more than ₹ 1 crore.

Q.1 Mukul purchased a diesel for Rupees 30 lakhs from an Automobile company and found it being defective. Despite many complaints the defect was not rectified. He filed a complaint in the state commission but was not satisfied with the order. Where can be appeal and in how many days.

Ans. National Commission within 30 days of passing of the order of State Commission.

Q.2 Prabhakar purchased an ISI Mark electric Iron from Bharat Electricals. While using he found that it was not working properly. He approached the seller and complaint for the same. The seller asks the manufacturers to replace this Iron. The manufacturer refused to do so and Bharat Electricals decides to file a complaint in the Consumer Court.

(i) Can Bharat Electricals do this? Why?

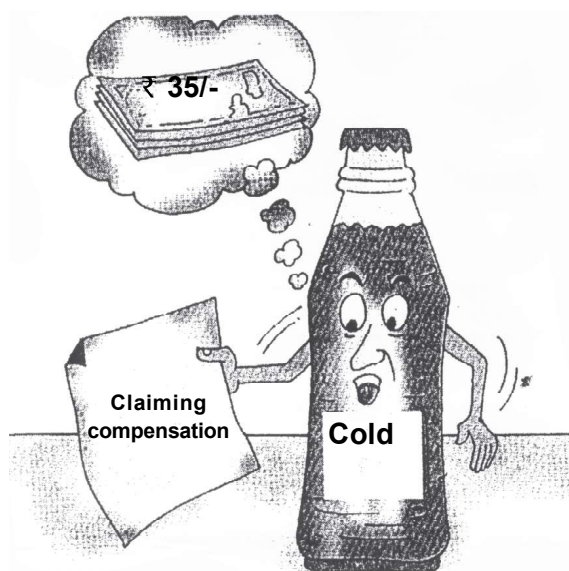
(ii) Who can file a complaint in this case?

(iii) Name the Consumer right that can be exercised.

(No, it has purchased for resale) (Prabhakar, who is the real consumer)

(Right to be heard)

Q3. Name the Consumer Court where the complaint will be filed by the consumer.



Ans. District Forum

Q4. Naresh purchased a 'BMW' car for Rs. 50,00,000 on instalments. He found that the engine of the car was defective. Despite many complaints to 'BMW Motors', the defect was not rectified. He filed a complaint in state commission but was not satisfied with its order. Where can he appeal and within how many days?

Ans. To National Commission, within 30 days of decision of state Commission.

Q5. A farmer purchased seeds worth Rs. 20,000 from Bharat Fertilisers for agricultural purposes. The seeds were very costly as they were of hybrid variety. After 6 months he noticed that the agricultural produce was not upto expected standard. He reported this matter to the seller, but he refused to accept the liability. Mention the redressal agency in which he can file a complaint.

Ans. District Forum

Q6. On securing 95% marks in class XII, Ram's father gifted him a gold chain. But after 2 months, Ram noticed that the gold chain was losing the shine. He checked the mark on chain and found that it was not a proper hall mark (BIS). He lodged a complaint in the district forum, which rejected it. Not satisfied by the decision of district forum, he was very much disturbed and after 45 days, he decided to appeal further.

Can Ram appeal against the decision of the district forum? Give reasons in support of your answer.

Ans. No, he did not check BIS mark while purchasing. (Reason More than 30 days have passed since decision of district forum.)

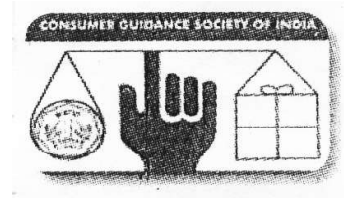
REMEDIES AVAILABLE TO CONSUMERS

1. To remove the defect in goods or services.
2. To replace the defective product with new one free from defect.
3. To refund the price paid for the product/service.
4. To pay compensation for the loss or injury suffered by the consumer due to product/service.
5. To discontinue the unfair trade practice and not to repeat them.
6. To withdraw the hazardous goods from sale.
7. To pay any amount (not less than 5% of value of defective goods) to any person, consumer organisation.

8. To issue corrective advertisement to neutralise the effect of a misleading advertisement.

Some important consumer organization and NGO's engaged in protecting consumer interests are:

1. Consumer coordination council, Delhi.
2. Voluntary organisation in Interest of Consumer Education, Delhi.
3. Mumbai Grahak Panchayat, Mumbai.
4. Consumer Association, Kolkata.
CGSI
5. Consumer Unity and Trust Society Jaipur.



Role of Consumer organisations and NGO's

1. Educating the general public about consumer rights by organising training programmes, seminars and workshops.
2. Publishing periodical & other publications to educate consumers.
3. Providing legal assistance to consumers by providing legal advice etc.
4. Producing films or cassettes on food adulteration, misuse of drugs etc.
5. Filing complaints in appropriate consumer courts on behalf of consumers.
6. Encouraging consumers to take on action against unfair trade practices.
7. Taking an initiative in filing cases in consumer courts on behalf of consumers.

Scope of Consumer Protection Act

The Act applies to all goods and services of any kind other than for commercial purposes provided by any sector - private, public or co-operative. It also covers public utility services.

Any ultimate consumer or registered association of consumers, state and central government can file a complaint under the Act. Complaint can be filed either personally or by post. There is no fee for filing a complaint.

The complaint may relate to defect in the goods, deficiency in service, price variation and unfair trade practice.

Ways and Means of Consumer Protection

1. **Government:** Protects the interest of consumers by enacting various legislations like CPA, 1986, Sale of Goods Act 1930, Bureau of Indian Standard 1986 etc. Consumer Protection Act provides for a three-tier machinery at the district, state & national level for speedy & inexpensive redressal of consumer grievances.
2. **Consumer Organisation:** Force business firms to avoid mal practices & exploitation of consumers.
3. **Business Association:** The associations of trade, Commerce & business like federation of Indian Chambers of Commerce (FICCI), Confederation of Indian Industries (CII) have laid down their code of conduct for their members in their dealings with the customers.

- Q1.** Geeta's mother bought a facial steamer from "Nova Electricals". Her mother got electric shock while using the steamer and she had to be taken to a doctor. Which remedy is available to her? (Compensation) (1)
- Q2.** Sohan's maid gifted a refrigerator worth Rs. 18,500 to her daughter on her marriage which was later found defective. She being poor and illiterate does not know how to forward her complaint in consumer court. Suggest her, whom can she approach for forwarding her case. (Consumer association) (1)
- Q3.** Soni, purchased and used a bleach cream which was expired. She got scars on her face due to this. Give any one relief available to Soni, who suffered scars on her face due to usage of expired bleach cream. (Compensation) (1)

HOW TO CRACK CASE STUDIES

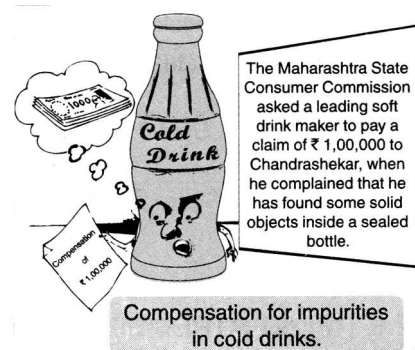
- Only affected consumer can file complaint against seller/manufacturer.
- For filling complaint consumer must fulfill his responsibility, i.e., take bill, check dates, etc.
- If case mentions something about making consumers aware (Right to consumer education)
- If case is about some complaint regarding claim then amount should be taken care off:
 - For filling complaint involving compensation of upto Rs. 20 lakhs :- District Forum
 - For filling complaint involving compensation from 20 lakhs to 1 crore:- State Commission
 - For filling complaint involving compensation of more then 1 crore :- National Commission.
 - For filling complaint in Supreme Court: When not satisfied with national commission's order. Only and claim is more than ₹ 1 crore.

Exercise

I. Multiple choice questions.

1. Golu bought an iron from 'Sidhu Electricals.' She got an electric shock while using the iron. Which consumer right has been violated here.
 - (a) Right to be heard
 - (b) Right to seek redressal
 - (c) Right to safety
 - (d) Right to choose.
2. Caveat Venditor implies
 - (a) Let the buyer beware
 - (b) Let the seller beware
 - (c) Let the Producer beware
 - (d) None of the above.

3. Who cannot be a consumer?
- (a) A buyer of goods/services for considerations.
 - (b) A buyer of goods/services for resale.
 - (c) A person who is purchasing goods for other.
 - (d) None of the above.
4. Consumer has the right to file a complaint in case of dissatisfaction with goods or services in grievance cell. Which consumer right is it.
- (a) Right to seek redressal
 - (b) Right to be heard
 - (c) Right to be informed
 - (d) None of the above.
5. Consumers are suffering due to unfair trade practice, therefore consumer protection is required, implies—
- (a) Consumers' ignorance
 - (b) Unorganised consumers
 - (c) Widespread exploitation of consumers
 - (d) None of the above
6. Look at the picture and find, where the consumer would have complained at first—
- (a) Session court
 - (b) District Forum
 - (c) State commission
 - (d) National Commission



7. Government is actively advertising for 'Jago Grahak Jago' which consumer right is highlighted in the given statement.

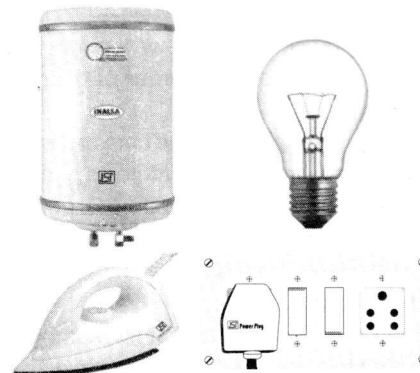
- (a) Right to be heard
- (b) Right to consumer education
- (c) Right to seek redressal
- (d) Right to be informed.



Government is continuously encouraging campaign of 'Jago Grahak Jago' to promote awareness among consumers.

8. Which consumer right is being highlighted in the following picture:

- (a) Right to safety
- (b) Right to choose
- (c) Right to be informed
- (d) Right to seek redressal



Electrical appliances without an ISI mark may give you shock. Ensure that you always buy products with ISI mark.

9. Pooja purchased a car worth ₹ 18 lacs from an automobile company and found its engine defective. She filed a complaint in District Forum. But she was not satisfied with the orders of district forum and decided to appeal further. Suggest her the final highest authority where she could appeal if not satisfied again by the decision of the next highest authority.

- | | |
|-------------------------|-------------------|
| (a) State Commission | (b) High Court |
| (c) National Commission | (d) Supreme Court |

10. Mention the quality mark which a consumer should look for while purchasing jewellery.

- | | |
|--------------|----------------|
| (a) ISI Mark | (b) FSSAI Mark |
| (c) Eco Mark | (d) Hall Mark |

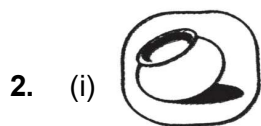
II. Match the following:

CASE

RIGHT

- | | |
|--|--------------------------|
| 1. (i) File a complaint | (a) Right to safety |
| (ii) Selecting the most suitable product | (b) Right to be informed |
| (iii) Checking the pure vegetarian sign | (c) Right to be heard |
| (iv) Safe and secure life. | (d) Right to choose. |

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



(a) Food products



(b) Electrical appliances



(c) Agricultural products

(iv) *fassi*

(d) Environment friendly products



(e) Jewellery

- | | | | |
|---------------|---------------|---------------|---------------|
| (a) (i) – (a) | (b) (i) – (d) | (c) (i) – (e) | (d) (i) – (a) |
| (ii) – (b) | (ii) – (c) | (ii) – (d) | (ii) – (c) |
| (iii) – (c) | (iii) – (e) | (iii) – (c) | (iii) – (b) |
| (iv) – (d) | (iv) – (a) | (iv) – (b) | (iv) – (d) |
| (v) – (e) | (v) – (b) | (v) – (a) | (v) – (e) |

- | 3. Consideration | Forum |
|-------------------------------------|-------------------------|
| (i) more than 20 lakhs upto 1 crore | (a) National Commission |
| (ii) Upto 20 lakhs | (b) State Commission |
| (iii) More than 1 crore | (c) District Forum |
| (a) (i) – (a) | (b) (i) – (a) |
| (ii) – (b) | (ii) – (c) |
| (iii) – (c) | (iii) – (b) |
| (c) (i) – (b) | (d) (i) – (c) |
| (ii) – (c) | (ii) – (b) |
| (iii) – (a) | (iii) – (a) |
-
- | | |
|---------------------|---------------------------|
| 4. (i) FICCI | (a) Government |
| (ii) VOICE | (b) Business Association |
| (iii) State Forum | (c) Consumer Organisation |
| (a) (i) – (a) | (b) (i) – (c) |
| (ii) – (b) | (ii) – (b) |
| (iii) – (c) | (iii) – (a) |
| (c) (i) – (a) | (d) (i) – (b) |
| (ii) – (c) | (ii) – (c) |
| (iii) – (b) | (iii) – (a) |
-
- | | |
|---|--------------------------------------|
| 5. (i) Satisfied consumers bring repeat sales | (a) Business is trustee of resources |
| (ii) Business uses society's resources | (b) Long-Term interest of business |
| (iii) Supply good quality products at reasonable prices | (c) Social responsibility |
| (a) (i) – (b) | (b) (i) – (c) |
| (ii) – (a) | (ii) – (b) |
| (iii) – (c) | (iii) – (a) |
| (c) (i) – (a) | (d) (i) – (a) |
| (ii) – (b) | (ii) – (c) |
| (iii) – (c) | (iii) – (b) |

II. Fill in the blanks:

1. Consumer protection Act 1986, applies to all goods and services of any kind other than for proposes.
2. A consumer has the right to file and to be in case of with a good or service.
3. Caveat Emptor means

4. Consumer Rights Day is observed on
5. Only those cases can be appealed in Supreme Court in which claim amount exceeds ₹ and aggrieved party is not satisfied with the order of

III. True/False Suggest with reasons.

1. A shopkeeper can file a complaint against a producer on request of a consumer.
2. Any complaint exceeding a consideration of ₹ 20 lakhs can be appealed in Supreme Court.
3. Goods or Sample, on complaint can be sent to laboratory for testing by National Commission.
4. If a party is not satisfied with the decision of state commission it can appeal in National Commission.
5. A consumer should get a cash memo while purchasing.

ANSWER KEY

I. Multiple choice questions.

- | | | | | |
|--------|--------|--------|--------|---------|
| 1. (c) | 2. (b) | 3. (a) | 4. (b) | 5. (c) |
| 6. (b) | 7. (b) | 8. (a) | 9. (c) | 10. (d) |

II. Match the Column

- | | | | | |
|--------|--------|--------|--------|--------|
| 1. (a) | 2. (b) | 3. (c) | 4. (d) | 5. (a) |
|--------|--------|--------|--------|--------|

III. Fill in the blanks:

- | | |
|----------------------------------|--------------------------------------|
| 1. Commercial | 2. Complaint, heard, dissatisfaction |
| 3. Let the buyer beware | 4. 15th March |
| 5. 1 crore, national commission. | |

III. True/False

- | | | | | |
|----------|----------|---------|---------|---------|
| 1. False | 2. False | 3. True | 4. True | 5. True |
|----------|----------|---------|---------|---------|

QUESTIONS FOR PRACTICE

- Q.1** Himesh after completing his graduation started working with a multinational company in Delhi. But due to ill health of his parents he had to go back to his

village. There he noticed that the villagers were literate but ignorant about their rights. Many vegetable vendors were using stones as weights to sell their vegetables. Some shopkeepers were selling food items without having 'FPO mark'. Villagers did not find anything wrong with these practices. So to create awareness among villagers Himesh decided to publish a weekly journal 'Jan Jagriti'. State the 'Right' which Himesh has exercised by doing so.

Ans. Right to consumer education.

Q.2 Manan purchased a house for Rs. 30 lakhs from a housing company and found it being defective. Despite many complains, the defect was not rectified. He filed a complaint in state commission but was not satisfied with its order. Where can he appeal and within how many days?

Ans. National Commission, within 30 days of the passing of the order of the State Commission.

Q.3 Subu purchased a car for Rs. 1.1 crore and found its engine defective. Despite many complaints, the defect was not rectified. She filed a complaint in National Commission but was not satisfied with its order. Suggest her the appropriate authority where she can appeal.

Ans. The Supreme Court

Q.4 Pragyan bought an iron of a reputed brand for Rs. 1500 but it caused an electric shock while it was being used. Pragya wants to exercise her 'Right'. Identify the 'Right' under which she can be protected.

Ans. Right to safety

Q.5 Sohan went to a shopkeeper to buy soap. The shopkeeper forced him to buy a particular brand of soap out of various available brands, irrespective of the willingness of Siddharth. Which right of Siddharth, as a consumer has been exploited.

Ans. Right to safety

Q.6 Name the right of a consumer related in each statement.

(a) The producer should not use aggressive selling techniques to sell his products.

Ans. Right to be informed

(b) No seller can sell products which are hazardous to life.

Ans. Right to safety

(c) In case a consumer has suffered a loss he can get monetary compensation for the loss.

Ans. Right to seek redressal

(d) ICICI bank has published a series of advertisements enlightening the consumers about use of credit cards, and hidden conditions in seeking loans.

Ans. Right to be informed

(e) Packet of Haldiram's chips carry a phone number on which a consumer can file a complaint.

Ans. Right to be informed

(f) The butter paper wrap on Mc Donald's burger indicates whether it is vegetarian or non-vegetarian.

Ans. Right to be informed

Q.7 Which responsibility of a consumer has not been fulfilled in the following cases?

(a) Despite it was written on the cover of the face cream that it should be used only after a patch test, Rina applied it on her face and developed an allergy.

Ans. She did not follow instructions

(b) The loose spices purchased by Aditi were adulterated.

Ans. She did not purchase standardised products

(c) Sahil found a worm in a chocolate but did not tell anyone as he thought it is small amount, so there is no point in making a complaint.

Ans. She did not exercise right to be heard

(d) Neeta desperately wanted to watch the movie so purchased the tickets from a black marketeer.

Ans. She did not purchase tickets from right source

(e) Rohit did not take cash memo for his mobile to save GST.

Ans. He did not get cash memo.

Q.8 Rita wants to buy a packet of juice. As an aware consumer, how can she be sure of the quality of juice she plans to buy?

Ans. By checking FPO (FSSAI) mark, AGMARK.

Q.9 A shopkeeper sold you some spices claiming that they were pure. Later, tests showed that they were adulterated. What precautions should you have taken before buying and what remedies are available to you now.

Ans. 1. Purchase only branded products
2. Replacement, refund

Q.10 Non-Government Organisations perform several functions for the protection and promotion of consumers. Name any six functions performed by them.

Ans. Consumer education
— Filing complaint on behalf of consumer
— Publishing periodicals

QUESTIONS FOR PRACTICE

3 MARKS QUESTIONS

- Q1.** On the occasion of “Dhan Teras” Mr. Aakash went to market for purchasing utensils. He bought pressure cooker from a shop. The shop was over - crowded on the festival, so he did not obtain the cash - memo for the purchase and did not check its certification. Next day, his wife used the cooker, which bursted and his wife suffered injuries.

Identify and explain the consumer liabilities which have not been discharged by Mr. Aakash.

Ans. He did not check ISI mark. He did not Get a cash memo.

- Q2.** Tanya purchased some household goods from a “General Store’ On reaching home, she found that one face cream, (Rs. 250) had not been billed. She became happy that, she got it without paying for. After checking the expiry date and other details, she started using it. Her face burnt due to the use of cream.

Where should Tanya file the complaint for the for the cream?Justify.

Ans. She can not file a complain, as she does not have a proof for purchase.

- Q3.** Smriti purchased a hand blender from an electronic store and got the cash memo of Rs. 1500 which she paid for the blender. Later, she found that the actual price of the blender was Rs. 1200 but the shopkeeper had pasted a stricker of Rs. 1500 on the original price. Can Smriti recover the extra money that she paid? What other options are available to her against the shopkeeper?

Ans. Yes, She can recover (Option: Discountinue the unfair trade practice.)

4 MARKS QUESTIONS

- Q1.** Sehaj bought Teak wood furniture for his drawing room from “Akshay Decors” of Kirti Nagar, Delhi for Rs. 4 lakhs. At the time of purchase the firm assured Sehaj about the best quality of the said furniture and gave 2 years warranty stating that if anything goes wrong, the firm shall replace it with a new one or refund the purchase amount. But the dining table and chairs started developing cracks at various places and the polish’ became very dull within 30 days of purchase. Sehaj reported the matters to the firm and requested a number of times to replace the furniture. The firm neither paid attention to these requests









nor replaced the furniture.

- (1) Identify the consumer rights which have been violated by the furniture manufacturer.
- (2) Where can Sehaj lodge complaint for this?

Ans. (1) Right to be informed.
(2) District Forum

Q2. Name the products to which the following quality certification marks are associated.

Ans.

			
			
(Food Products)	Electrical Products	Agricultural products	(Eco Friendly Products)

BUSINESS STUDIES (CBSE) XII
MARKING SCHEME (2018-19)

SECTION A

1. Define 'Workforce Analysis'.

Ans. Workforce Analysis is an assessment of the number and type of human resources available for the performance of various jobs and accomplishment of organisational objectives.

OR

Define 'Selection'.

Ans. Selection is defined as the process of choosing from among the pool of prospective job candidates developed at the stage of recruitment.

or

Ans. Selection is defined as the process of identifying and choosing the best person(s) out of a number of prospective candidates for the job.

(or any other correct definition)

2. Appliances India Ltd is engaged in manufacturing and distribution of home appliances since 1987.

It has a good name in the market as the company is producing good quality appliances. It has separate departments for manufacturing, finance, sales, maintenance services and technical services to achieve specialisation.

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

Ans. The general principle of management which the company wants to modify is the Principle of Division of work which states that the work should be divided into small tasks/ jobs each performed by a specialist.

3. How does Financial Market facilitate 'Price Discovery' of financial assets?

Ans. Financial Market facilitates price discovery for financial assets by interaction of forces of demand and supply.

4. Biru Nandan, Chairman of Lalit group of companies founded 'Biru University' for undergraduate and postgraduate courses in diverse disciplines. The Information Technology department of the Lalit Power Ltd., had few vacancies related to Cyber security. The Human Resource Department of the Company decided to recruit fresh engineering graduates from 'Biru University' for the same. Identify the type of source of recruitment.

Ans. External source of recruitment/ Campus Recruitment

5. Varsha Jain after completing her fashion designing course from Indian Institute of Fashion Technology planned to enter into designer clothing venture. She had to address issues like her target customers, channel of distribution to be used, pricing policy etc. Identify the type of plan that Varsha Jain needs to develop to provide direction and scope to her organisation in the long run.

Ans. Strategy

6. State any two 'Developmental Functions' of Securities and Exchange Board of India.

Ans. Developmental functions of SEBI: **(Any two)**

- (i) It trains intermediaries of the securities market.
- (ii) It conducts research and publishing information useful to all market participants.
- (iii) It undertakes measures to develop the capital markets by adapting a flexible approach.

OR

What is meant by 'Allocative Function' of Financial Markets?

Ans. Allocative function of financial market means allocating or directing funds available for investment into their most productive investment opportunity.

OR

Ans. Allocative function of financial market means mobilization of savings and channelizing them into the most productive use.

7. Beena has been using 'Klean', a famous detergent available in the market. On watching numerous advertisements in the television, she decided to try a new brand of detergent. When she went to the near-by store to purchase the same, she saw detergents of other producers making similar claims of whiteness and stain removing abilities.

Hence she could not make up her mind as which detergent to purchase. Name the objection of advertising being discussed in this case.

Ans. Advertising confuses the buyers

8. Give the meaning of 'Physical Distribution' as an element of Marketing Mix.

Ans. Place or Physical Distribution means set of activities that make firm's products available to the target customers. It consists of all the activities involved in transferring ownership and physical possession of the product to the consumers.

(or any other correct meaning)

OR

8. What is meant by 'Marketing Management'?

Ans. Marketing management is the art and science of choosing target markets and getting, keeping and growing customers through creating, delivering and communicating superior customer values of management.

OR

Ans. Marketing management refers to planning, organising, directing and control of the activities which facilitate exchange of goods and services between producers and consumers or users of products and services.

SECTION B

9. JTM Ltd launched 'Buddyline', an exercise book and comprehensive stationery brand name comprising of ball pens, gel pens and geometry boxes after identifying the target market and understanding the needs and wants of the consumers of that market. All their products were of good quality and eco-friendly but expensive. They wanted to distinguish their product from that of their competitors. They spent lot of effort, time and money in creating the brand name, as they knew that without a brand name, they can only create awareness for the generic product and can never be sure of the sale of their products. The effort paid off and the demand for the products started growing. The customers liked the brand and became habitual to it. They did not mind paying a higher price.

Over a period of time, it became a status symbol to buy 'Buddyline' brand because of its quality. The consumers felt pride in using them.

- (i) Identify the marketing management philosophy followed by JTM Ltd.
- (ii) Explain the advantages of branding to the marketers highlighted in the above case.

Ans. (i) Societal marketing philosophy.

(ii) Advantages of branding highlighted in the above case are: **(Any two)**

(a) Helps in product differentiation.

(b) Helps in advertising and display programmes.

(c) Differential pricing.

10. Mita has a successful ice cream business at Bikaner, namely 'Smartflavours'. Her ice creams are utterly delicious. She makes ice creams from fresh milk and the same are available in a wide range of flavours and packs. She sets viable business objectives and works with the same in mind in order to ensure that the customers will come back for purchasing.

Having the first mover advantage, her business was doing well. To earn higher profits, she started cutting down costs. This would sometimes lead to delay in delivery and the ice cream was not reaching the market in time. Over a period of time, the demand for her ice cream declined and because of it the competitors entered the market. She lost some of her market share to competitors. At the beginning of summer season, she got back to back orders for supply of 4,000 ice cream packs of different flavours for special occasions. To ensure that the task was completed and orders delivered in time she hired additional workers. She was, thus able to produce and deliver the ice cream packs but at a high production cost.

While completing activities and finishing the given task for achieving goals, Mita realised that she was ignoring one of the important aspects of management.

Identify the aspects of management that has been ignored by Mita. Also explain the same with the help of an example.

Ans. Efficiency: Efficiency means doing the task correctly and with minimum cost.

Example

Say, a company's target production is 5,000 units in a year. The manager wants to achieve the production target by cutting down costs. He was able to cut down costs but could not achieve the target production. In this case, the manager was efficient but not effective.

(or any other correct example)

OR

Effectiveness: Effectiveness means doing the right task, completing activities and achieving goals.

Example

Say, a company's target production is 5,000 units in a year. To achieve this target the manager has to operate on double shifts due to power failure

most of the time. The manager is able to produce 5,000 units but at a higher production cost. In this case, the manager was effective but not so efficient.

(or any other correct example)

OR

Efficiency and Effectiveness

Efficiency means doing the task correctly and with minimum cost.

Effectiveness means doing the right task, completing activities and achieving goals.

Example

Say, a company's target production is 5,000 units in a year. To achieve this target the manager has to operate on double shifts due to power failure most of the time. The manager is able to produce 5,000 units but at a higher production cost. In this case, the manager was effective but not so efficient.

In the above situation, if the manager was able to achieve the production target but at a higher cost, he would have been effective but not efficient.

(or any other correct example)

11. State 'Job Enrichment' and 'Employee Participation' as non-financial incentives. How do they motivate employees?

Ans. Job Enrichment

- ❖ Job Enrichment means designing jobs that include greater variety of work content, require higher level of knowledge and skill, give workers more autonomy and responsibility and provide the opportunity for personal growth and a meaningful work experience.
- ❖ If jobs are enriched and made more interesting, the job itself becomes a source of motivation to the individual.

Employee Participation

- ❖ Employee Participation means giving more autonomy and powers to the employees.
- ❖ It makes them feel that their jobs are important and this feeling makes them contribute positively to the use of their skills and talents in the job performance.

12. Explain the objectives of Financial Planning.

Ans. Objectives of financial planning:

- (i) 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.
- (ii) 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.

OR

12. What is meant by 'Financial Management'? State the primary objective of Financial Management.

Ans. Financial Management means management of flow of funds and involves decisions relating to procurement of funds, investment of funds and distribution of earnings to the owners.

OR

Financial Management means planning, organising, directing and controlling the financial activities of an organisation.

Primary objective of Financial Management:

The primary objective of financial management is to maximize shareholders wealth, i.e. to maximize the market price of equity shares of the company.

13. Science is a systematized body of knowledge that explains certain general truths or the operation of general laws.' In the light of this statement, describe management as a science.

Ans. Science is a systematized body of knowledge that explains certain general truths or the operation of general laws.' Management is a science but not an exact science. The reasons are:

- (i) Systematised body of knowledge: Like science, management is a systematised body of knowledge with its own theories and principles that have developed over a period of time. So, this feature of science is present in management.
- (ii) Principles based on observation and experimentation: Like science, management principles are derived through observation and repeated experimentation. So, this feature of science is present in management. However since management deals with human beings the outcome of these experiments are not capable of being accurately predicted, (iii) Universal validity.

Principles of management like principles of pure science provide managers with certain standardised techniques that can be used in different situations. Since they have to be modified according to a given situation, their application and use is not universal. So, this feature of science is not fully present in management.

(The statement that Management is not an exact science may be given at the beginning or at the end of the question)

OR

13. 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 dimensions are:

- (i) Management of work
- (ii) Management of people
- (iii) Management of operations

SECTION C

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

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

Ans. Dimensions of business environment highlighted above are:

- (i) **Social Dimension:** Social Environment includes social forces like custom and traditions, values, social trends and society's expectation from business.
- (ii) **Technological Dimension:** Technological Environment of business 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.

- 15.** 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.

(If an examinee has given only the headings, *Vi* mark for each heading should be awarded)

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.

(If an examinee has given only the headings, *Vi* mark for each heading should be awarded)

- 16.** Vinber Ltd. set up a manufacturing unit at Bhiwadi 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 functions of management. Explain the steps.

(b) Also, state the step(s) not discussed in the above para.

Ans. (a) Steps in the process of controlling discussed in the above case:

- (i) Setting performance standards
- (ii) Measuring actual performance
- (iii) Comparing actual performance with standards and Analysing deviations

(In case the examinee has not written the steps in the right sequence, 'A mark may be deducted)

(b) Step not discussed in the above para: Taking corrective action if deviations go beyond the acceptable limits.

I In case the examinee has not written the steps in the right sequence, **V2** mark may be deducted)

OR

(a) Steps in the process of controlling discussed in the above case:

- (i) Setting performance standards
- (ii) Measuring actual performance
- (iii) Analysing deviations

(b) Steps not discussed in the above para:

- (i) Comparing actual performance with standards to find out the deviation.
- (ii) Taking corrective action if deviations go beyond the acceptable limits.

(In case the examinee has not written the steps in the right sequence, ^xA mark may be deducted)

17. Organising involves a series of steps that need to be taken in order to achieve the desired goal. Explain the steps.

Ans. Steps in the process of organising:

- (i) Identification and division of work.
- (ii) Departmentalisation.
- (iii) Assignment of duties/ Assignment of duties to job positions.
- (iv) Establishing reporting relationships.

(If an examinee has not given the headings as above but has given the correct explanation, no marks should be deducted)

OR

17. Explain any four points of importance of 'Organising'.

Ans. Importance of organising: **(Any four)**

- (a) Benefits of specialisation
- (b) Clarity in working relationships.
- (c) Optimum utilisation of resources.
- (d) Adaptation to change.
- (e) Effective administration.
- (f) Development of personnel.
- (g) Expansion and growth.

(If an examinee has not given the headings as above but has given the correct explanation, full credit should be given)

18. Stock exchange acts as a regulator of the securities market. It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest. Through this process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues. To ensure that the investing public gets a safe and fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework. It also ensures wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

Various functions performed by the Stock Exchange are discussed in the above para. By quoting the lines from the above para, state any four functions of stock exchange.

Ans. Various functions performed by the Stock Exchange are:

- (i) **Providing liquidity and marketability to existing securities as the** stock exchange creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest. It creates a continuous market where the securities are bought and sold. It gives investors the chance to disinvest and reinvest.
- (ii) **Contributes to economic growth** as through process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues.
Through this process of disinvestment and reinvestment, savings get channelised into their most productive investment avenues.

- (iii) **Safety of transactions** as the membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework. This ensures that the investing public gets a safe and fair deal on the market.

Membership of the stock exchange is well regulated and its dealings are well defined according to the existing legal framework

- (iv) **Spreading of equity cult as the stock exchange** ensures wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments. Ensures wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

19. Explain any four points of difference between Marketing and Selling.

Ans. Difference between marketing and selling are: **(Any four)**

Basis	Marketing	Selling
Part of the process vs wider term	Marketing is a wider term consisting of number of activities like identification of customers needs, developing the products to satisfy those needs, fixing prices and persuading the potential buyers to buy the same.	Selling is a part of the process of marketing and is concerned with promoting and transferring possession and ownership of goods from the seller to the buyer.
Transfer to title vs satisfying customers needs	Marketing focuses on achieving maximum satisfaction of the customer's needs and wants.	Selling focuses on affecting transfer of title and possession of goods from sellers to consumers or users.
Profit through maximizing sales vs customer satisfaction	Aims at maximizing of customer satisfaction as a route to profit maximisation.	Selling aims at maximising profits through sales volume
Start and end of activities	Marketing begins before production and continues even after the sale has taken place.	Selling begins after production and ends with the sale of goods.
Difference in the Emphasis	In marketing, the attempt is to develop the product and other strategies as per the customer needs.	In selling, the emphasis is on bending the customer according to the product.

Difference in the Strategies	Marketing uses integrated marketing efforts involving strategies in respect of product, promotion, pricing and physical distribution.	Selling involves efforts like promotion and persuasion
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OR

20. Explain the following functions of marketing:

- (i) Product designing and development
- (ii) Standardization and Grading

Ans. (i) Product designing and development

- Product designing and development helps to make the product attractive to the target customers.
- A good design can improve performance of a product and also give it a competitive advantage in the market.

(ii) Standardisation and Grading

- Standardisation ensures uniformity and consistency in output reducing the need for inspection and testing of the products.
- Grading ensures that the goods belong to a particular quality and helps in realising higher prices for better quality products.

SECTION D

21. Explain any five points of significance of Principles of Management.**Ans.** Importance of principles of management: **(Any five)**

- (i) Provide the managers with useful insights into reality.
- (ii) Help in optimum utilisation of resources and effective administration.
- (iii) Help in taking scientific decisions.
- (iv) Help in meeting changing environment requirements.
- (v) Help in fulfilling social responsibility.
- (vi) Used as a basis for management training, education and research.

(If an examinee has not given the headings as above but has given the correct explanation, full credit be given)

OR

Explain the following Techniques of Scientific Management:

- (a) Fatigue Study
- (b) Differential Piece Wage System

Ans. (a) Fatigue Study

- Fatigue Study determines the amount and frequency of rest intervals in completing task.
- The rest intervals help the workers to regain stamina and work again with the same capacity resulting in increased productivity.

(b) Differential Piece Wage System

- Differential Piece Wage System is a technique which differentiates between efficient and less efficient workers. It rewards the efficient workers and motivates the less efficient ones to improve their efficiency.
- In this plan, there are two piece rates - one for those workers who produce the standard output or more, and the other for those who produce less than the standard output.
- This acts as an incentive for a less efficient worker to be motivated to perform better.

- 22.** Voltage fluctuations have been common and quite high in India. They harm our electrical appliances like television, refrigerators and air conditioners, often leaving them in a permanently damaged condition.

N-Guard Company decided to manufacture stabilizers for North India where the voltage fluctuation ranges from 220V-230V. Once the demand for the North India was taken care of, they decided to launch stabilizers of varying voltages from 90 V -260V for meeting the requirements of voltage fluctuations in other regions of India also. Three engineers were appointed for South, West and East regions of India, as the voltage was different in all the three regions. Though all the engineers were appointed to manufacture stabilizers but the product differed from region to region.

- (a) Identify the organisational structure of N-Guard Company.
- (b) State any two advantages and two limitations of the structure identified in the above para.

Ans. FUNCTIONAL STRUCTURE

Advantages of Functional structure: (Any two)

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

(If an examinee has given only the heading, ½ mark for each heading should be awarded)

Two limitations of Functional structure are: (Any two)

- (a) Creation of functional empires where less emphasis is placed on overall objectives of the enterprise and more on the objectives pursued by a functional head.
- (b) Problems in coordination as information has to be exchanged across functionally differentiated departments.
- (c) Inter-departmental conflicts may arise when the interest of two or more departments are not compatible.
- (d) Inflexibility as people with the same skills and knowledge may develop a narrow perspective

(If an examinee has given only the heading, ^xA mark for each heading should be awarded)

- 23.** Nisha Sethi was working as a Human Resource Manager in a famous consultancy firm, KLI Global Services. Her job included preparing job descriptions, recruitment, developing compensation and incentive plans and facilitating employee learning. They had entered into alliances with institutes to ensure continuous learning of their employees. With the jobs becoming more and more complex, KLI Global Services invested large amount of money

in making the employees learn the skills necessary to complete the jobs. State by giving any five points, how this investment is likely to benefit the organisation.

Ans. Benefits of training to the organisation:

- (i) It avoids wastage of efforts and money as training is systematic learning, better than hit and trial methods.
 - (ii) It enhances employee productivity both in terms of quantity and quality leading to higher profits.
 - (iii) It equips the future manager to take over in an emergency.
 - (iv) It reduces employees' turnover as it increases employee morale and reduces absenteeism.
 - (v) It helps in obtaining effective response in a fast changing environment
- (If an examinee has given only the headings, ½ mark for each heading should be awarded)

SECTION E

24. Determining the relative proportion of various types of funds depends upon various factors. Explain any six such factors.

Ans. Following are the factors affecting the choice of capital structure of a company:
(any six)

- (i) Cash flow position
- (ii) Interest coverage ratio
- (iii) Debt service coverage Ratio
- (iv) Return on Investment
- (v) Cost of debt
- (vi) Tax rate
- (vii) Cost of equity
- (viii) Floatation costs
- (ix) Fixed operating costs
- (x) Risk consideration
- (xi) Flexibility
- (xii) Control
- (xiii) Regulatory framework
- (xiv) Stock market conditions

(xv) Capital structure of other companies

(If an examinee has not given the headings as above but has given the correct explanations, full credit should be given,)

OR

24. Explain any six factors affecting the decision that determines the amount of profit earned to be distributed and to be retained in the business.

Ans. Factors affecting dividend decision of a company are: (Any six)

- (i) Amount of earnings.
- (ii) Stability of earnings.
- (iii) Stability of dividends.
- (iv) Growth opportunities.
- (v) Cash Flow position.
- (vi) Shareholders preference.
- (vii) Taxation policy.
- (viii) Stock market reaction.
- (ix) Access to capital market.
- (x) Legal constraints.
- (xi) Contractual constraints.

OR

(If an examinee has not given the headings as above but has given the correct explanations, full credit should be given)

25. 'VOICE' is an an important consumer organisation. It organised workshops in the months of December in Delhi/ NCR for consumers. The theme was 'Organic Food -From Farm to Plate' to spread awareness on the importance of organic farming and to encourage consumers to switch from conventional food that contains chemicals and pesticides to organic food. Expert speakers from farmers' community explained the harmful effects of usage of pesticides in farming and the importance of organic food. People were informed that the organisation regularly tests samples to detect adulteration like presence of heavy metals or pesticides. The results of the tests are published in their monthly magazine 'Consumer Voice' to make people aware of quality of different products. It also provides aid and legal advice to the consumers in seeking a remedy.

State the functions performed by the Consumer Voice for the protection and promotion of consumer interest by quoting lines from the above para.

Ans. Functions performed by the Consumer Voice for the protection and promotion of consumer z:

- (a) Educating the general public about consumer rights by organising training programmes, seminars and workshops.

‘organised consumer workshops in the months of December in Delhi/ NCR on the theme, of ‘Organic Food -From Farm to Plate , as a part of its initiative to spread awareness on the importance of organic farming’

- (b) Publishing periodicals and other publications to

Impart knowledge about consumer problems, legal reporting, reliefs available and other matters of interest.

‘The results of the tests are published in their monthly magazine’ Consumer Voice’ to make people aware of quality of different products’

- (c) 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.

‘People were informed that the organisation regularly tests samples to detect adulteration like presence of heavy metals or pesticides’

- (d) Providing legal assistance to consumers by the way of providing aid, legal advice etc. in seeking legal remedy.

It also provides aid and legal advice to the consumers in seeking a remedy

- 26.** Pratap Singh is the Chief Executive Officer of Nissar Enterprises. It is an automobile parts manufacturing company. The enterprise has a functional structure, in which jobs of similar nature have been grouped together as Production, Finance, Marketing and Human Resource. Nissar Enterprises has its manufacturing unit at Manesar. The factory has been plagued with many problems for a long time which was in the knowledge of the Production Manager, Varun Sharma. The workers had internal differences. Time and again, there were misunderstandings between the management and the workers. Keeping the problems in mind, Varun Sharma appointed, Siyaram Singh who had 14 years of experience of working with the actual work force and passing on instructions of the middle management to the workers.

Siyaram Singh met Varun Sharma to workers and conveyed the ideas of management to them. He also promised the workers to convey their problems to the management. In this way, he cleared the misunderstanding between the management and the workers.

He also sorted out internal differences and was able to unite the workers within a month of his joining. His work was acknowledged and he was given a certificate of good performance along with 10% increase in salary.

- (i) Siyaram Singh performed some of the functions which are required to be performed at the position he is working at. State any five other functions Siyaram Singh is expected to perform.
- (ii) Name the incentives provided to Siyaram Singh.

Ans. (i) Five other functions Siyaram Singh is expected to perform are:

- (a) Maintaining day to day contact and friendly relations with the workers. He should act as a friend, philosopher and a guide to the workers.
- (b) Providing good on the job training to the workers to build an efficient team.
- (c) Building up high morale among workers through good leadership.
- (d) Giving feedback to the workers after analysing their work and suggesting ways of developing their work skills
- (e) Ensuring performance of work according to the targets set.
- (f) To oversee the efforts of the workforce.
- (g) To ensure that the quality of output is maintained and wastage of Immaterial is minimized.
- (h) To ensure safety standards are maintained .

(ii) Incentives provided to Sivaram Singh are:

- (a) Pay and allowances/ Financial Incentive
- (b) Employee Recognition Programmes/ Non Financial Incentive

SAMPLE PAPER (SOLVED) - 1

BUSINESS STUDIES

Time allowed: 3 hours

Maximum Marks-80

1. This question paper contains 5 sections namely A, B, C, D and E.
 2. Section A comprises of 20 questions for 1 mark each.
 3. Section B contains 5 questions of 3 marks each
 4. Section C contains 3 questions of 4 marks each.
 5. Section D contains 3 questions of 5 marks each.
 6. Section E contains 3 questions of 6 marks each.
-

SECTION – A

(Q.NO. 1 TO 20 OF 1 MARKS EACH)

1. Process of starts as soon as the idea of manufacturing a product strikes.
(a) Purchase (b) Sales
(c) Marketing (d) Production
2. "Only consumer satisfaction can lead to success." Which marketing philosophy assumes it.
(a) Production concept (b) Product concept
(c) Marketing concept. (d) Sales concept
3. is not a part of three-tier settlement machinery.
(a) Tehsil Forum (b) District Forum
(c) State Commission (d) National commission
4. Out of the following, which is not an example of unfair trade practice.
(a) To provide wrong information about goods/services
(b) Providing gas connection only on the condition of purchasing burners too.

- (c) Not to follow determined standards
- (d) hoarding

Note: From Q5 to Q8 Match and select the correct option.

- 5.**
- | | |
|---------------------|---------------------------|
| (i) Debt | (a) Permanent capital |
| (ii) Equity | (b) Reduces Tax Liability |
| (iii) Debt + Equity | (c) Trading on Equity |
| (iv) Debt/Equity | (d) Financial leverage |
- (a) (i) – (b) (b) (i) – (a) (c) (i) – (d) (d) (i) – (c)
- (ii) – (a) (ii) – (b) (ii) – (c) (ii) – (d)
- (iii) – (c) (iii) – (d) (iii) – (b) (iii) – (a)
- (iv) – (d) (iv) – (c) (iv) – (a) (iv) – (b)
- 6.**
- | | |
|-----------------------|----------------------|
| (i) Commercial paper | (a) Inter-bank Loans |
| (ii) Treasury Bill | (b) Bridge capital |
| (iii) Commercial Bill | (c) Issued by RBI |
| (iv) Call money | (d) Trade Credit |
- (a) (i) – (a) (b) (i) – (b) (c) (i) – (d) (d) (i) – (a)
- (ii) – (b) (ii) – (c) (ii) – (c) (ii) – (d)
- (iii) – (c) (iii) – (d) (iii) – (b) (iii) – (c)
- (iv) – (d) (iv) – (a) (iv) – (a) (iv) – (b)
- 7.**
- | | |
|-----------------------------|-------------------------------------|
| (i) Formal organisation | (a) Group norms |
| (ii) Functional structure | (b) Multi-products |
| (iii) Informal organisation | (c) Single products |
| (iv) Divisional structure | (d) Official lines of communication |
- (a) (i) – (d) (b) (i) – (a) (c) (i) – (d) (d) (i) – (a)
- (ii) – (c) (ii) – (b) (ii) – (c) (ii) – (d)
- (iii) – (b) (iii) – (c) (iii) – (a) (iii) – (b)
- (iv) – (a) (iv) – (d) (iv) – (b) (iv) – (c)

8. (i) Authority (a) Network wor informal communication
 (ii) Responsibility (b) Power to command and make decision
 (iii) Accountability (c) Obligation to do work
 (iv) Grapevine (d) Answerability to boss
- (a) (i) – (b) (b) (i) – (d) (c) (i) – (a) (d) (i) – (b)
 (ii) – (a) (ii) – (c) (ii) – (b) (ii) – (c)
 (iii) – (d) (iii) – (b) (iii) – (c) (iii) – (d)
 (iv) – (c) (iv) – (a) (iv) – (d) (iv) – (a)

Note: From Q9 to Q12 are True/False type where valid reason in support of answer must be given.

9. Planning in different departments is inter-dependent. (T/F) (With reason)
10. It is easy to identify indisciplined and non-performers in formal organisation.
 (T/F) (With reason)
11. One of the functions of SEBI is to educate investors. (T/F) (With reason)
12. If price of raw material hikes up, more working capital would be required.
 (T/F) (With reason)
13. Zoom 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 actual requirement.
- Identify and define the concept which was not considered by the company before deciding the amount of funds to be raised.
14. The future of fine jewellery is changing, as evidenced by the ever increasing attraction to lab grown diamonds by consumers world-wide, which has led to a 344% quarter or quarter growth for the Ada Diamonds Brand as of Q1 of 2019. Ada Diamonds was launched with the belief that beautiful diamond jewellery can brighten the entire world, not just receipients world. With the opening of its 2nd ever showroom cum lab at New York. Ada diamonds invites more clients to learn about the exciting and sustainable options available with lab-grown gems.

Identify the distribution channel chosen by Ada Diamonds for selling its diamond Jewellery.

15. Deepak purchased a bike from Amarnath Automobiles with a written guarantee of repair or replace, if necessary, within six months or 5,000 kms of distance travelled whichever is earlier. After covering the distance of 400 kms in two months, the gears of the bike started giving problems. Deepak took the bike to the dealer who refused to listen to his complaint. He was confused about what he should do.

Suggest the rights that Deepak may exercise in the above.

16. Various Input resources are required by management to complete a task effectively and efficiently. Name any two.
17. 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.

18. What is decentralisation?
19. Differentiate between an 'Aptitude Test' and a 'Personality Test'.
20. How does 'Interest Coverage Ratio' affect the capital structure of an enterprise?

SECTION – B

(Q.NO. 21 TO 25 OF 3 MARKS EACH)

21. The RBI has issued the guidelines on behalf of the government limiting consumers' liability to zero in case of unauthorised transactions that have taken place from their mobile wallets. As per the guidelines, prepaid payment Instrument issuers will be required to provide a contact number and email ID in the transaction alert SMS through which consumers can report the unauthorised transactions or notify objections. Prepaid payment Instruments issuers such as Paytm, Amazon pay, Phone pe and so on must ensure that their customers mandatorily register for SMS alerts and also register for email in order to get timely information about electronic payment transaction done using their mobile wallets. It will help in reducing unscrupulous, exploitative and unfair trade practices.

- (a) Identify the means of consumer protection highlighted above.
- (b) Explain two other ways and means of consumer protection other than identified in (a).
- 22.** Chintamani is the production manager of Global India Ltd. During the year 2018-19, the company could not meet production targets. The CEO of the company constituted a committee of experts to find out the reasons and give its recommendation so that the production target could be met in the future. The company analysed the production related records and found out that there were problems due to communication. Global India Ltd. had rigid rules and would insist on communication through prescribed channels, which led to delays. The company also had a number of managerial levels causing further delay and distorted communication. Also Chintamani and the workers did not believe in each other and so could not understand each other's messages in the original sense.
- Quoting lines from above, state three communication barriers mentioned above.
- 23.** "Financial markets are classified on the basis of their maturity of financial instruments traded in them". Name the market in which the instruments with more than one year maturity are traded. Also state any two features of this market.
- 24.** Grasim Industries, a part of Aditya Birla Group, reported a consolidated net profit of ₹ 1531.86 crore for the fourth quarter ended March 2019. Its yarn section has reported a like of 2% in net profits from last year whereas from chemicals segment it has increased by about 180 crores. Revenue from financial services segment has risen up by about ₹ 1200 crores. and cement section by ₹ 790 crores.
- (a) Which kind of organisational structure would have been adopted by Grasim Industries?
- (b) Draw a suitable diagram for organisational structure of Grasim industries.
- (c) Explain any one advantage Grasim Industries would be getting by adopting this structure.
- 25.** Explain the following points of importance of 'Controlling'.

- (i) Accomplishing organisational goals
- (ii) Judging accuracy of standards
- (iii) Making efficient use of resources.

OR

Explain the steps in the controlling process after 'measurement of actual performance.'

SECTION – C

(Q.NO. 26 TO 28 OF 4 MARKS EACH)

- 26.** Ganesh was concerned about sedentary lifestyle people are leading now-a-days. Their dependency on outside food is also increasing because corporate work culture demands working till late night at offices. So, he decided to start a restaurant, 'Healthy Eating Point' to provide healthy food options to customers. After completing planning and organising functions, he identified the various job positions that are required to be filled i.e., a General Manager, an Accountant, two chefs, two boys for serving the food in the restaurant and three boys for delivery of food. He decided that his father, Sh. Karamjeet would be General Manager of the restaurant. He would be paid ₹ 50,000 per month for his services. He appointed his friend Prem, as an accountant who is well qualified for this post. Earlier, Prem had a business of providing unskilled workers to different organisations from remote areas of the country. Prem took permission from Ganesh to continue with the old business. Ganesh happily agreed and asked him to provide five boys for serving and delivering the food. For the appointment of the two chefs, Ganesh approached a renowned Hotel Management Institute and was satisfied with the chefs provided by the institute.
- (a) Identify and explain the function of management discussed in the above case.
 - (b) Explain the two sources of recruitment, mentioned in above paragraph.
- 27.** The newly elected 17th Lok Sabha has 78 women members of Parliament, the highest since independence. Out of 716 women candidates who contested elections, 78 have been elected which is 14% of the house. This is higher than 2014 where there were 62 women MPs in the house.
- (a) Which dimension of Business Environment has been highlighted above? Explain?

(b) Name any other two dimensions.

28. How staffing is an important function of management?

OR

State any four specialised activities and duties performed by Human Resources Manager .

SECTION – D

(Q.NO. 29 TO 30 OF 5 MARKS EACH)

29. Matta Auto Ltd. is manufacturing different types of commercial vehicles. Their sales were ₹ 200 crores in the previous year. The company decided to increase sales by 20% during the current year. It conducted internal as well as external audits for the same. Through internal audit, they analysed the strengths and weaknesses of the business across all departments. External audit focused on the opportunities and threats in the constantly changing business environment. Thus a comprehensive plan was prepared taking into consideration the business environment and the necessary resources were allocated to achieve the target. The company directed its offices throughout the country to follow the plan.

Identify and explain the two types of plans discussed above.

30. Write short notes on following
(a) Differential piece wage system
(b) Standardisation and simplification

OR

(a) Unity of command
(b) Division of labour

31. Explain the steps in the selection process after 'Employment Interview'

OR

Explain the steps in the staffing process after 'Selection'.

SECTION – E

(Q.NO. 32 TO 34 OF 6 MARKS EACH)

32. 'Monisha Consumer Goods' is a leading consumer goods chain with a network of 46 stores primarily across Mumbai, Delhi and Pune. It was started by Monisha Gupta in 1987. It has a large market share in Mumbai, Delhi and Pune, Looking for an opportunity to expand, it has decided to open a new branch in Kerala. It has to decide on what new resources it will invest in so that it is able to earn the highest possible return for its investors. Once the company believes that it will be able to generate higher revenue and profits, it also has to decide on how this project will get funded. The finance manager Atul was told to have an optimal capital structure by striking a balance between various sources of getting the project funded so as to increase shareholders' wealth. Atul, after assessing the cash flow position of the company, evaluated the cost of different sources of finance and compared the risk associated with each source as well as the cost of raising funds.

- (a) State the two financial decisions discussed in the above situation.
- (b) Explain any two financial decisions discussed in the above situation.

33. What is Motivation? Explain Maslow's Need Hierarchy Theory.

OR

Explain in detail the three styles of leadership

34. Explain any four points that highlight the significance of principles of management.

OR

Explain any four points that highlight the significance of management.

ANSWER KEY

Section – A

- | | | | | |
|---------|---------|--------|--------|---------|
| 1. (c) | 2. (c) | 3. (a) | 4. (b) | 5. (a) |
| 6. (b) | 7. (c) | 8. (d) | 9. (T) | 10. (T) |
| 11. (T) | 12. (T) | | | |

13. **Financial Planning:** Preparation of financial blue print of an organisation's future operations.

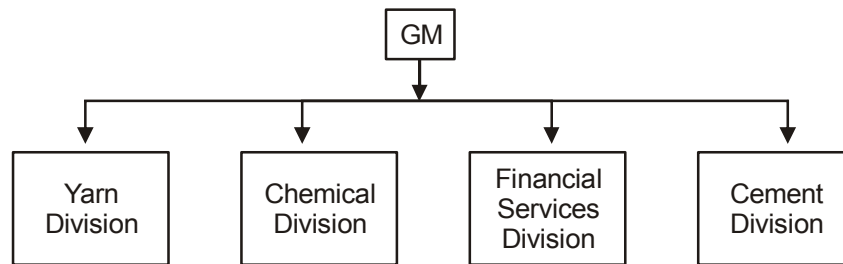
14. Direct channel
15. — Right to be heard
— Right to seek redressal
16. — Human resources — Managers, workers
— Physical resources — Raw material, machines
17. **Planning:** deciding about future course of action i.e.,
What to do?
When to do?
How to do? and
Who is to do it?
18. **Decentralisation:** Delegation of authority till lowest level of management.
19. **Aptitude Test:** It measures the learning capacity of the candidates.
Personality Test: It measures the ability to adjust, influence and motivate.
It evaluates personal traits.
20. Greater the Interest coverage Ratio, More capacity to pay interest and thus
More Debt can be used.

Section – B

21. (a) Government (intervention)
(b) — Self-regulation by business
— Business Associations (With explanation)
22. (1) Rules and Regulations
Global delays.
(2) Complexity in organisational structure.
The company communication.
(3) Distrust
Also sense.
23. Capital market
— It deals in long-term securities
— It helps in capital formation.

24. (a) Divisional structure.

(b)



(C) Easy expansion. (with suitable explanation)

25. Any suitable explanation

OR

- Comparison of Actual performance with standards
- Analysing deviations
- Taking corrective action. (with suitable explanation)

Section – C

26. (a) Staffing (with explanation)

(b) Campus Recruitment

27. (a) Social dimension (with explanation)

- (b) — Legal dimensions
- Technological dimension

28. — Helpful in discovering and obtaining competent personal

- Helpful in better performance
- Continuous survival and growth of business
- Optimum utilisation of human resources (with explanation)

OR

- Providing Expert Service
- Developing compensation
- Handling Grievances and Complaints
- Defending the company in Law suits. (with explanation)

Section – D

29. — Objectives

- Strategy (with suitable explanation)

34. Significance of Principle of Mgt.

1. Useful insight to Managers.
2. Scientific Decisions
3. Effective and efficient utilisation of resources
4. Fulfilling social responsibility

Significance of Mgt.

1. Achieving group goals
2. Increases Efficiency
3. Dynamic organisation
4. Achiving personal objectives

SAMPLE PAPER (SOLVED) - 2

BUSINESS STUDIES

Time allowed: 3 hours

Maximum Marks-80

1. This question paper contains 5 sections namely A, B, C, D and E.
2. Section A comprises of 20 questions for 1 mark each.
3. Section B contains 5 questions of 3 marks each
4. Section C contains 3 questions of 4 marks each.
5. Section D contains 3 questions of 5 marks each.
6. Section E contains 3 questions of 6 marks each.

SECTION – A

(Q.NO. 1 TO 20 OF 1 MARKS EACH)

1. gives a complete detail of doing a particular activity.
(a) Procedure (b) Programme
(c) Budget (d) Method
2. Principles of management equip the managers to foresee the cause and effect relationships of their decisions and actions so that the wastages associated with a trial and error approach can be overcome.

Identify the point of significance of principles of management highlighted here.
3. Directing is necessary at the level of management.
(a) Top (b) Lower
(c) Middle (d) All
4. Primary market is associated with issues.
(a) Old (b) Old and new
(c) New (d) Very Old
5. Define Organising
6. What is meant by public relations

7. Under which philosophy of marketing efforts are made to bring down the cost of production to the minimum.
 - (a) Production Concept (b) Marketing Concept
 - (c) Product Concept (d) Selling Concept
8. 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) Taking corrective action
 - (c) Setting performance standards (d) Measurement of actual performance
9. Name any two important characteristics of management.
10. The settlement cycle in NSE is
 - (a) T + 5 (b) T + 3
 - (c) T + 2 (d) T + 1
11. Vinod is working as plant supervisor in Cargo Ltd. Noida. His place of work was changed to Gurugram without any change in his position in the hierarchy. Identify the concept.
 - (a) Promotion (b) Lay-off
 - (c) Training (d) Transfer
12. Name the element of directing which refers to the ability of influencing people to strive willingly for mutual objectives.
13. How are 'Policies' and 'Procedures' interlinked?
14. 'Organisation is a mechanism of management' What does this statement indicate?
15. 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 here.
 - (a) Place (b) Person
 - (c) Idea (d) Services
16. What is meant by 'Gross working Capital'?
17. It is a face-to-face conversation between employer and applicant.
 - (a) Selection (b) Recruitment
 - (c) Interview (d) Staffing

18. Ravi Jain was the Chief Executive Officer of Nath Traders. He was worried about the heavy expenditure on advertising. He asked his Finance Manager, Mohit Verma to know the views of the Sales Manager and his team regarding this expenditure. Mohit Verma was thinking of calling a meeting of the Sales Manager and his team after tea-break. But by chance at the time of tea-break, Mohit Verma met with the sales manager and his team in the canteen. They all discussed about this expenditure and finalized to give suggestion to reduce this expenditure.

Identify the type of organization which helped the Finance Manager Mohit Verma, the Sales Manager and his team in finalising the suggestion.

- (a) Formal Organization (b) Internal Organization
(c) None of (a) and (c) (d) Both (a) and (c)
19. Kamal is working as a gang boss in the assembly unit of 'Sokia' Ltd., a laptop manufacturing company. He supervises the work of ten trained workers who perform the various activities related to the assembly of the laptops. One day when he was supervising the work of his workers, he told Ashok, a worker that his work could be improved. Ashok interpreted the comments of Kamal as that his work was not good.

Identify the type of barrier to effective communication in this case.

20. What is the primary objective of Financial Management?

SECTION-B

21. Explain any three features of 'Principles of Management'?
22. Kavita Ghai was the Managing Director of a restaurant in Lucknow called 'Healthy Kitchen'. The restaurant was doing well and the volume of work started increasing slowly and steadily. Kavita Ghai was not able to manage all the work on her own. The increasing magnitude of work made it impractical for her to handle it all by herself. Moreover her objective is to open more branches of this restaurant at different places.

She appointed Nikhil Gupta, as a General Manager of 'Healthy Kitchen', Lucknow and gave him the right to command his subordinates and to take action within the scope of this position. For smooth running of the restaurant she also gave him authority to hire and train the staff as per the requirements.

Kavita Ghai was satisfied with the work of Nikhil Gupta and was able to open other branches of the restaurant in Agra and Kanpur also.

- (a) Identify the concept followed by Kavita Ghai which helped her to open the new branches of the restaurant.
- (b) Also, explain briefly the two points of importance of the concept identified in (a) above.
23. Explain any three benefits of training to the employees.

Or

Explain 'Management by exception' with help of an example.

24. Steelon Enterprises is manufacturing high quality 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 the protection of steel utensils. To encourage sales steelon 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 requirements.

SECTION-C

26. Differentiate between money market and capital market on the following basis:
- | | |
|---------------------|-----------------|
| (a) Expected return | (b) Liquidity |
| (c) Safety | (d) Instruments |
27. Explain any four factors which affect the fixation of price of a product.

Or

State any eight reliefs available to the consumer, if court is satisfied about the genuineness of the complaint.

28. 'Smart Stationery Ltd.' wants to raise funds of Rs 40,00,000 for its new project. The management is considering the folloiwng mix of debt and equity to raise this amount:

Capital Structure		Alternative	
	I (₹)	II (₹)	III (₹)
Equity	40,00,000	30,00,000	10,00,000
Debt	0	10,00,000	30,00,000

Other details are as follows:

Interest Rate on Debt	9%
Face Value of Equity Shares	Rs 100 each
Tax Rate	30%
Earning Before Interest and Tax (EBIT)	Rs 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?

SECTION-D

- 29.** Management seeks to achieve various objectives. Explain these objectives.

Or

‘Co-ordination is the orderly arrangement of group efforts to provide, unity of action in the pursuit of common purpose. In the light of this statement explain any five points of features of co-ordination.

- 30.** Entertainment India Ltd. has been incorporated with the objective of entertaining people by organising festivals, programmes, and other similar events depicting, the rich culture heritage of country. The company management has renowned personalities from the field of art, literature and culture. They decided to give a platform to young budding musicians, poets and artists. The company decided its organisational structure by grouping similar jobs together. Therefore, the heads of different departments were also appointed.

Nisha one of the heads, did an analysis of the numbers, type and qualification necessary for people to be appointed.

Explain the next six steps which Nisha, has to perform the process being discussed above.

- 31.** Suman wanted to purchase a sandwich toaster. She checked about the various sandwich toasters available online and compared the prices so that an intelligent and wise choice could be made. Then she went to a nearby market to buy the sandwich toaster. Being an informed consumer, she looked for the correct standardisation mark. The shopkeeper showed her different toasters but was quoting a higher price than the price she had checked online. After negotiating with the shopkeeper, she was able to

bring the price down. As a responsible consumer, she asked for a cash memo, against the amount paid for the product and took the toaster home. On opening the package, she found an instruction booklet, which she read carefully. Then she followed all instructions step-by-step and made nicely toasted paneer sandwiches for her family.

- (a) State any two responsibilities, which have been discharged by Suman, besides asking for a cash memo.
- (b) Explain the two rights being discussed in the above case.

SECTION-D

- 32.** Discuss any six points highlighting the importance of controlling function of management

Or

Describe any six non-monetary incentives that are used to motivate the employees to improve their performance.

- 33.** 'The process of organising involves a series of steps in order to achieve the desired goods. Explain these steps.

Or

Explain the steps in the planning process after identifying alternative courses of action.

- 34.** India's craft heritage is surviving because of its customs and traditions. Craft products made by craftsmen of Rajasthan, Gujarat, Assam, etc. are not only used in the country but are also exported to USA, Germany, UK, France and other countries of the world. The volume of exports of these products gives India an advantage in balance of payments and the much needed foreign exchange. The Prime Minister desires that the handicraft industry should be expanded by linking it with technology. Focus should be on changing the manufacturing process, ensuring durability and adopting innovations.

Quoting the lines from the above paragraph, explain any four dimensions of the business environment.

Hints of MCO's and case studies

Section – A

1. (d) 2. Optimum utilisation of resources and effective administration.
3. (d) 4. (b) 7. (a) 8. (d) 10. (b)
11. (d) 12. Leadership
13. 'Policies' and 'Procedures' are interlinked as procedures are steps to be carried out within a broad policy framework to enforce a policy.
14. Organising is an important function of management.
15. (a)
16. Total current assets
17. (b)
18. (c)
19. Semantic barriers/Unclarified assumption
20. Wealth Maximisation of shareholders
22. (a) Delegation of authority
(b) Importance of delegation of authority
25. Factors affecting working capital requirements:
 - (i) Nature of business
 - (ii) Credit allowed
 - (iii) Scale of operations
28. (a)

	Alternative-I (₹)	Alternative-II (₹)	Alternative-III (₹)
Equity	40,00,000	30,00,000	10,00,000
9% Debt	—	10,00,000	30,00,000
Capital Employed	40,00,000	40,00,000	40,00,000
Earnings before Int and tax	8,00,000	8,00,000	8,00,000

Less Interest @ 9%	–	(90,000)	(270,000)
Earnings before Tax	8,00,000	7,10,000	5,30,000
Less Tax @ 30%	(2,40,000)	(2,13,000)	(159,000)
Earnings after Tax/profit available to shareholders	5,60,000	4,97,000	3,71,000
Earning per share	$\frac{5,60,000}{40,000}$ = ₹ 14/	$\frac{4,97,000}{30,000}$ = ₹ 16.57	$\frac{3,71,000}{10,000}$ = ₹ 37.1

(a) Thus, under alternative III, the company will be able to take advantage of trading on Equity.

(b) No Earnings per share does not always rise with increase in debt.

30. Other steps which Nisha has to perform are:

- (i) Recruitment
- (ii) Selection
- (iii) Placement and orientation
- (iv) Training and development
- (v) Performance appraisal
- (vi) Promotion and career planning

31. Responsibilities

- (i) Aware consumer
- (ii) Bought standardised product
- (iii) Learnt about risks and followed manufacturer's instructions.
- (iv) Asserted herself to get a fair deal.

Rights:

- (i) Right to choose
- (ii) Right to be informed
- (iii) Right to safety

34. (i) Social environment : “India’s craft traditions”.
- (ii) Economic environment– “The volume of exports foreign exchange reserves.
- (iii) Political environment – “The Prime Minister it with technology.
- (iv) Technological environment – “Focus..... innovations.”

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