### LIST OF TEAM MEMBERS WHO REVIEWED THE SUPPORT MATERIAL FOR BUSINESS STUDIES

#### CLASS XII

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Name/Designation</th>
<th>School</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Ms. Poonam Khanna</strong></td>
<td>SKV, Adarsh Nagar, Delhi</td>
</tr>
<tr>
<td></td>
<td><em>Vice Principal</em></td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>(Team Leader)</em></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td><strong>Ms. Neeru Prabhakar</strong></td>
<td>SKV BL-Block, Shalimar Bagh, Delhi</td>
</tr>
<tr>
<td></td>
<td><em>(PGT Commerce)</em></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td><strong>Ms. Geetika Antil</strong></td>
<td>SKV U-Block, Mangolpuri, Delhi</td>
</tr>
<tr>
<td></td>
<td><em>(PGT Commerce)</em></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td><strong>Ms. Indu Kalra</strong></td>
<td>SKV Phase-I, H-Block, Ashok Vihar, Delhi</td>
</tr>
<tr>
<td></td>
<td><em>(PGT Commerce)</em></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td><strong>Sh. Vinod Kumar</strong></td>
<td>GBSSS, Mata Sundari Road, Delhi</td>
</tr>
<tr>
<td></td>
<td><em>(PGT Commerce)</em></td>
<td></td>
</tr>
</tbody>
</table>
## BUSINESS STUDIES (CODE NO. 054)

### QUESTION PAPER DESIGN

#### CLASS - XII (2014-15)

**Time : 3 hours**  
Max. Marks 80

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Typology of Questions</th>
<th>Learning Outcomes &amp; Testing Skills</th>
<th>VSA (1M)</th>
<th>SA-I (3M)</th>
<th>SA-II (5M)</th>
<th>(LA) Essay</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
</table>
| 1.     | Remembering – (Knowledge based)  
Simple recall questions, to know specific facts, terms, concepts, principles, or theories; Identify, define, or recite, information) | * Reasoning  
* Analytical Skills  
* Critical thinking  
* Derivative | 2 | 1 | 1 | 1 | - | 14 | 17% |
| 2.     | Understanding – (Comprehension-to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase, or interpret information) | | 2 | 2 | 1 | - | 18 | 23% |
| 3.     | Application – (Use abstract information in concrete situation, to apply knowledge to new situations; Use given content to interpret a situation, provide an example, or solve a problem) | | 2 | 1 | 1 | 1 | 1 | 20 | 25% |
| 4.     | High Order Thinking Skills – (Analysis & Synthesis-classify, compare, contrast, or differentiate between different pieces of information; Organise and/or integrate unique pieces of information from a variety of sources) | | 2 | 1 | 2 | - | 19 | 24% |
| 5.     | Evaluation and Multi-Disciplinary – (Appraise, judge, and/or justify the value or worth of a decision or outcome, or to predict outcomes based on values) | - | 1 | 1 | - | 09 | 11% |

**TOTAL - 2 Projects  
(10 marks each) = 20**
## CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nature and Significance of Management</td>
<td>5</td>
</tr>
<tr>
<td>2. Principles of Management</td>
<td>14</td>
</tr>
<tr>
<td>3. Business Environment</td>
<td>25</td>
</tr>
<tr>
<td>4. Planning</td>
<td>32</td>
</tr>
<tr>
<td>5. Organising</td>
<td>41</td>
</tr>
<tr>
<td>6. Staffing</td>
<td>55</td>
</tr>
<tr>
<td>7. Directing</td>
<td>67</td>
</tr>
<tr>
<td>8. Controlling</td>
<td>85</td>
</tr>
<tr>
<td>9. Financial Management</td>
<td>91</td>
</tr>
<tr>
<td>10. Financial Markets</td>
<td>102</td>
</tr>
<tr>
<td>11. Marketing Management</td>
<td>115</td>
</tr>
<tr>
<td>12. Consumer Protection</td>
<td>134</td>
</tr>
</tbody>
</table>

*Model Test Papers* 144
UNIT 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.

Efficiency and Effectiveness

Efficiency means doing the task correctly at minimum cost through optimum utilization of resources while effectiveness is concerned with end result means completing the task correctly within stipulated time. Although efficiency and effectiveness are different yet they are inter related. It is important for management to maintain a balance between the two.

Q.1 Rajat, the Production Manager of Exe. Ltd., had to achieve the target of 1,000 units in the month of March at a cost of Rs. 90/- per unit. He was able to met the target and produce 1000 units but the cost per unit was Rs. 100/- per unit. Do you think Rajat is efficient.

Ans. No Rajat is not efficient but he is effective because he could not control the costs although he was able to achieve the target.

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.
4. **Continuous**: It consists of a series of function and its functions are being performed by all managers simultaneously. The process of management continues till an organization exists for attaining its objectives.

![Diagram: Management is a Continuous Process with steps: Planning, Organizing, Staffing, Directing, Controlling]

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. For example, Me Donalds made major changes in its ‘Menu’ to survive in the Indian market.

7. **Intangible Force**: It is intangible force as it can’t be seen but its effects can be felt in the form of results like whether the objectives are met and whether people are motivated or not and there is orderliness and coordination in the work environment.

Q. An educational institution as well as a business organization both need to be managed which characteristic of management is highlighted here. (Universal)

Q. “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)

**Objectives of Management**

(A) Organizational objectives of Survival (Earning enough revenues to cover cost); profit (To cover cost and risk); & Growth (To improve its future prospects).
(B) Social objectives of giving benefits to society like using environmental friendly practices and giving employment to disadvantaged sections of society etc. *Example:* TISCO, ITC, and Asian Paints.

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

**Q.** R.K. & Sons have decided to plant 200 saplings. Which objective of management is being achieved here? *(Social Objective)*

**Q.** A Company’s production and profits are optimum. Its expansion is also good. The employees are getting good salaries are generally satisfied by their job. Which category of management objectives is lacking here? *(Social Objective)*

### 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 organization objectives.

5. **Development of Society:** Management helps in the development 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 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 an 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 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 union style of managing things and people. He uses his creativity in apply management techniques and his skills improve with regular application. Since all the features of art are present in management so it can called an art.

**Management as a Science**

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

(1) **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.

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 on process 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:

---

[XII : Business Studies] [8]
(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 behaviours of its members.

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

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

**Q. Give two features of profession satisfied by the management and one feature of profession not satisfied by the management.**

**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.

**Middle Level**

Consist 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.

Q. At which level of management the managers are responsible for the welfare and survival of the organization. (Top level of Management)

Q. Managers at the top level spend more time doing this function of Management. Name it.

Q. Rakesh is working as regional manager in ABC Ltd. Name the level at which he is working. (Middle Level)

Functions of Management

Planning, Organising, Staffing, Directing and Controlling are the main functions of management.

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

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

Staffing is finding the right people for the right job.
Directing is leading, influencing and motivating employees to perform the tasks assigned to them.

Controlling is monitoring the organizational performance towards the attainment of the organizational goals.

Q. 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.

Ans. (a) Directing; (b) Staffing; (c) Control.

Coordination (The Essence of Management) : Coordination is the force which synchronizes all the functions of management and activities of different departments. Lack of coordination results in overlapping, duplication, delays and chaos.

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 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 establishes 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 can not be achieved without cooperation group members.

Q. Carbon Ltd., is a company that manufacturers mobile phones and accessories. Its profits are declining nowadays. The production department blame marketing department for not meeting sales target. The marketing department blames production department for not manufacturing products of good quality. The finance department blame both production and marketing departments for low rate of returns.

Q. What Quality of Management is lacking? Explain its importance.

**IMPORTANT QUESTIONS**

**1 Mark Questions (To be answered in one word or one sentence)**

1. In order to be successful an organization must change its goals according to the needs to the environment. Which characteristic of management is highlighted in the statement? (*Answer*: It is a dynamic function).

2. To meet the objectives of the firm the management of Angora Limited offers employment to physically challenged persons. Identify the organizational objective it is trying to achieve (*Answer*: Social Objective.)

3. Management of any organization strives to attain different objectives. Enumerate any two such objectives.

4. Give any two characteristics of management.
5. Management is multidimensional. Enumerate any two dimensions of management.

6. Managerial activities are performed in all types of organization in all departments at all levels. Which management characteristic is highlighted here? (Answer: It is all pervasive)

7. Your grandfather has retired where he was responsible for implementing the plans developed by the top management. At which level of management was he working? State one more function of this level of management. (Answer: Middle level management)

8. List any two social objectives of management.

9. Your grandfather has retired as a Director of manufacturing company. At which level of management was he working? Different functions are performed at this level. State any one such function. (Answer: Top level of management)

10. What is meant by ‘Management’?

11. Pizza Hut keeps introducing new varieties of pizza in its menu. Which characteristic of management is highlighted in this?

12. Which ‘function’ of management binds the all other functions?

3/4 Marks Questions (To be answered in about 50 to 70 words)

1. Explain how Management is an art.

2. Identify and explain the nature of management when it is said to be a systematised body of knowledge that explains certain general truths.

3. Coordination is the ‘Essence of management.’ Explain

5/6 marks Questions (To be answered in about 150 words)

1. Management is a Profession like Accounting, Medicine and Law as it also has a well defined body of knowledge. Yet management does not qualify to be a full fledged profession. Why? (Hint: No formal qualification is prescribed to enter management, no code of conduct is prescribed).

2. Success of an organization largely depends upon its management. Explain any five reasons to justify the statement. (Hint: Give five points of Importance of management).
UNIT 2

PRINCIPLES OF MANAGEMENT

Concept of Principles of Management

Principles of Management are the broad and general guidelines for managerial decision making. They are different from principles of science as they deal with human behaviour. They are different from techniques of management as techniques are methods whereas principles are guidelines to action and decision making. Principles of management are different from values which are formed as generally accepted behaviour in society and are having moral coordination whereas principles are formed through research having technical nature.

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**: Which can be adapted and modified by the practicing managers as per the demands of the situations.

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 relationship between cause & effect 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 organizations 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.** *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?*

**Ans.** Equity.
7. **Stability of Personnel**: After being selected and appointed after due and rigorous procedure, the selected person should be kept at the post for a minimum period decided to show results.

**Q.** In an organization employees are transferred frequently which principle of management is being over looked.

8. **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.

9. **Espirit De Corps**: Management should promote team spirit, unity and harmony among employees. Management should promote a team work.

### Difference between Unity of Command and Unity of Direction

<table>
<thead>
<tr>
<th>Basis</th>
<th>Unity of Command</th>
<th>Unity of Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Meaning</td>
<td>One subordinate should receive orders from &amp; should be responsible to only one superior.</td>
<td>Each group of activities having same objective and must have one head.</td>
</tr>
<tr>
<td>(2) Aim</td>
<td>Prevents dual subordination.</td>
<td>Prevents overlapping of activities.</td>
</tr>
<tr>
<td>(3) Implications</td>
<td>Affects an individual employee.</td>
<td>Affects the entire organization.</td>
</tr>
</tbody>
</table>

### 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, lie 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. 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.

**Ans.** 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.

6. **Subordination of Individual Interest to General Interest**: The interest of an organization should take priority over the interest of any one individual employee.

7. **Remuneration of Employees**: The overall pay and compensation should be, fair to both employees and the organization. The wages should encourage the workers to work more and better.
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 organization can be completely centralised or completely decentralised.

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**: A place for everything and everyone and everything and everyone should be in its designated place. People & material must be in suitable places at appropriate time for maximum efficiency.

11. **Equity**: The working environment of any organization should be free from all forms of discrimination (religion, language, caste,
sex, belief or nationality) and principles of justice and fair play should be followed. No worker should be unduly favoured or punished.

Q. 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 not followed by this multinational company.

(ii) Identify the values which are being ignored quoting the lines from the above para.

(Hint. (i) Equity; (ii) Good human behavior, gender equality.

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 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 a job in order to replace the old rule of thumb approach or hit and miss method. We should be constantly experimenting to develop new techniques which make the work much simpler, easier and quicker.
(2) **Harmony, Not discord**: It implies that there should be mental revolution on part of managers and workers in order to respect each other’s role and eliminate any class conflict to realize organizational objectives.

(3) **Cooperation not individualism**: It is an extension of the Principle of Harmony not discord whereby constructive suggestions of workers should be adopted and they should not go on strike as both management and workers share responsibility and perform together.

(4) **Development of each and every person to his or her greatest Efficiency and Prosperity**: It implies development of competencies of all persons of an organization after their scientific selection and assigning work suited to their temperament and abilities. This will increase the productivity by utilizing the skills of the workers to the fullest possible extent.

**Q.** Which principle of scientific management suggests the introduction of scientific investigation and analysis of management practices.

**Ans.** Science not rule of thumb.

**Techniques of Scientific Management**

1. **Functional Foremanship**: Functional foremanship is a technique in which planning and execution are separated. There are eight
types of specialized, professionals, four each under planning and execution who keep a watch on all workers to extract optimum performance.

**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. Name the technique of scientific management which focuses on separation of planning and execution functions.**

**Ans.** Functional Foremanship.

2. **Standardisation and Simplification of work** : Standardization refers to developing standards for every business activity whereas Simplification refers to eliminating superfluous varieties of product or service. It results in savings of cost of labour, machines and tools. It leads to fuller utilization of equipment and increase in turnover.

3. **Method Study** : The objective of method study is to find out one best way of doing the job to maximise efficiency in the use of materials, machinery, manpower and capital.
4. **Motion Study**: It is the science of eliminating wastefulness resulting from using unnecessary, ill-directed and inefficient motions by workers and machines to identify best method of work.

5. **Time study**: It determines the standard time taken to perform a well defined job. The objective of time study is to determine the number of workers to be employed, frame suitable incentive schemes & determine labour costs.

6. **Fatigue study**: Fatigue study seeks to determine time and frequency of rest intervals in completing a task. The rest interval will enable workers to regain their lost stamina thereby avoiding accidents, rejections and industrial sickness.

7. **Differential piece wage system**: This system links wages and productivity. The standard output per day is established and two piece rates are used: higher for those who achieve upto and more than standard output i.e. efficient workers and lower for inefficient and slow workers. Thus, efficient workers will be rewarded & inefficient will be motivated to improve their performance.

   - 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.

8. **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. Name the technique of scientific management which helps in establishing interchangeability of manufactured parts and products.

   **Ans.** Standardisation of work.
**Q.** Which technique of scientific management aims at elimination of superfluous varieties sizes and dimensions of the product.

**Ans.** Simplification of work.

**Q.** Name the technique of Taylor which is strongest motivation for a worker to reach standard performance.

**Ans.** Differential piece wage system.

**Fayol versus Taylor**

While the work of Taylor concerned shop floor, the work of Fayol concerned General Principles applicable to all types of situations. So, their principles are mutually complementary to each other.

**IMPORTANT QUESTIONS**

1 Mark questions (to be answered in one word or one sentence)

1. Why is that management principles are universal?

2. How are management principles derived?

3. Which principles of Fayol is violated in Taylor’s Functional Foremanship?

4. A manager should replace ‘I’ with ‘We’ in all his conversations to encourage team spirit. Identify the principle of management emphasized here.

5. Give one consequence of violating principle of remuneration.

6. Which technique of Taylor insists on paying higher wages to efficient workers?

7. Name the device which permits direct communication between employees working at same level.

8. Which technique of Taylor insists on using the most optimum way of doing a job.

9. What is meant by ‘Principles of Management’?

10. Which principle of Taylor suggests that the job performed should be based on scientific enquiry and not on intuition?
3/4 marks questions

1. Explain the following principles of management:
   (a) Equity
   (b) Remuneration of Employees.

2. In your school, you observe that books are kept in office, chalks in the library and office records in the staff room. How will this affect the achievement of school objectives? Which aspect of management is lacking and why? As a manager, what steps will you take to rectify the shortcomings?

5/6 Marks Question (to be answered in about 150 words)

1. Explain any two techniques of Taylor’s Scientific Management.

2. Explain the following Principles of Fayol with example.
   (a) Unity of Command
   (b) Unity of Direction
   (c) Order
UNIT 3

BUSINESS ENVIRONMENT

Business environment can be defined as those forces, individuals and institutions who have the ability to influence the working of an organisation.

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 include investors, competitors, customers etc. who influence business firm directly while general forces include social, political, economic, legal and technological conditions which 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.

4. **Dynamic**: Business environment is dynamic in nature which keeps on changing with the change in technology, consumer’s 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, a shift of preference from soft drinks to juices will be welcomed as an opportunity by juice making companies while a threat to soft drink manufacturers.
Q. “Demand for sarees may be high in India but almost in Europe”. Which feature of business environment is highlighted here.

**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:** 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 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.

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.

---

**Components of Business Environment**

- **Internal/Specific Environment**
  - * Customers
  - * Owners and investors
  - * Suppliers
  - * Creditors
  - * Employees and trade union
  - * Competitors

- **External/General Environment**
  - * Economic Environment
  - * Social Environment
  - * Political Environment
  - * Technological Environment
  - * Legal Environment

---

**Economic Environment in India**

As a part of economic reforms, the Government of India announced New Economic Policy in July 1991 for taking out the country out of economic difficulty and speeding up the development of the country.

Main features of NEP, 1991 are as follows:

1. Only six industries were kept under licensing scheme.
2. The role of public sector was limited only to four industries.
3. Disinvestment was carried out in many public sector enterprises.
4. Foreign capital/investment policy was liberalised and in many sectors 100% direct foreign investment was allowed.
5. Automatic permission was given for signing technology agreements with foreign companies.
6. Foreign investment promotion board (FIPB) was setup to promote & bring foreign investment in India.
7. Various benefits were offered to small scale industries.

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 undertakings etc., Setting up of BIFR to revive sick units in public sector enterprises suffering losses. 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. Give any one factor responsible for new economic policy of liberalization, privatization and globalization.**

**Ans.** Economic development of the country.

**DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT**

1. **Economic Environment**: It has immediate and direct economic impact on a business. 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. Economic environment may offer opportunities to a firm or it may put constraints.

2. **Social Environment**: It includes various social forces such as customs, beliefs, literacy rate, 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.

3. **Technological Environment**: It provides new and advance 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, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.

4. **Political Environment**: Changes in political situation also affect business organisations. 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.

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

**Q. Identify the type of dimension of environment to the following are related:**

(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.

**Answers**

(i) Economic Environment

(ii) Social Environment

(iii) Technological Environment

(iv) Legal Environment

(v) Political Environment

**IMPACT OF GOVERNMENT POLICY CHANGES ON BUSINESS AND INDUSTRY**

1. **Increasing Competition**: Delicensing and entry of foreign firms Indian market is increased the level of competition for Indian firms.

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. **Rapid 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 led to tough challenges in front of small firms.

4. **Necessity for Change**: After New Industrial Policy the market force (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 of today 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.

### IMPORTANT QUESTIONS

1. **1 Mark Questions (To be answered in 1 word or 1 sentence)**

   1. Govt. of India is seriously thinking to allow oil marketing public sector, undertaking to fix their own price for diesel. Which economic reform is the reason of this change in governments policy (Answer: Liberalization)

   2. Just after declaration of Lok Sabha Elections 2014 results, the Bombay stock exchange’s price index (Sensex) rose by 1000 points in a day. Identify the environmental factor which led to this rise. (Answer: Political Environment)

   3. State any two impacts of change of government’s policy on business and industry.
4. The understanding of business environment helps the managers to identify threats. What is meant by threats here? *Answer*: Threats refer to the external environment trends and changes that will hinder a firm’s performance.

5. Business environment includes both specific and general forces. List any four specific forces. *Answer*: Suppliers, investors, customers and competitions.

6. The understanding of business environment helps the managers to identify Opportunities. What is meant by Opportunities here? *Answer*: Opportunities refer to positive changes and trends that will help the business to improve its performance.

7. Business Environment includes both specific and general forces. List any four general forces. *Answer*: Social, Economic, Political, Legal and Technological.

---

**3/4 Marks Questions (To be answered in about 50 to 75 words)**

1. Explain any three features of Business Environment.

2. What changes have been made in Industrial policy in recent past?


---

**5 Marks Questions**

1. Explain ‘Increasing Competitiveness’ and ‘More demanding consumers’ as impact of Govt. policy changes in Business and Industry.

2. Explain the various dimensions of business environment with examples.

3. Explain by giving any five reasons, why understanding of business environment is important for managers.
UNIT 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 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 change, consider the impact of change 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 mentioned.

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 facilities decision making**: Under planning targets are laid down. The manager has to evaluate each alternative and select the most viable option.

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

Limitations of Planning

(A) Internal Limitations

1. Planning leads to rigidity: Planning discourages individual initiative & creativity. The managers do not make changes according to changing business environment. They stop taking or giving suggestions and new ideas. Thus detailed planning may create a rigid framework in the organization.

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.

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.

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.

(B) External Limitations

They are those limitations of planning which arises due to external factors over which an organization has no control.
1. Changes in Government policies way leads to failure of planning.

2. Natural calamities such as flood, earthquake etc. also adversely affect the success of planning.

3. Changes in the strategies of competitors also leads 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.1. ABC Ltd. has a plan of profit max. and has denoted to it a lot of money & time. But the competition starts increasing it could not change his plan to beat its competitors because huge amount of money it had already denoted to the pre-decided plan causing the occurrence of losses in the organization which limitation of planning is highlighted in case mentioned above?

Q.2. “Natural disaster like floods in Gujarat has been responsible for failure of production in sales plans of Textile Industry” which limitations of planning is highlighted above?

Q.3. “If you fail to plan, you plan to fail”. Do you agree? Why?

Q.4. Which function of management help in reducing the overlapping and wasteful activities? How?

Q.5. “Though planning is an important tool of management, yet it is not a remedy for all types of problems.” Do you agree with this statement? Why?

Q.6. “Planning strangles the initiative and creativity of the employees and make them to work in an inflexible manner.” Explain.

Q.7. Explain that planning is a mental Exercise which focuses on achieving objectives.

**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 relating to future.

3. **Identifying alternative courses of action**: Once objectives are set and premises are developed. Then the next step would be to act upon them. All the alternative courses of action should be identified.

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.

5. **Selecting an alternative**: After comparison and evaluation, the best alternative is chosen for reaching organization 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 best 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.

### TYPES OF PLAN

**Plan**

A Plan is a specific action proposed to help the organization achieve its objectives. It is a document that outlines how goals are going to be met. The importance of developing plans is evident from the fact that there may be more than one means of reaching a particular goal. So with the help of logical plans, objectives of an organization could be achieved easily.

**SINGLE USE PLAN**

A Single use plan in a business refers to plan developed for a one-time project or event that has one specific objective. It applies to activities that do not recur or repeat. It is specifically designed to achieve a particular goal. Such plan is developed to meet the needs of a unique situation. The length of a single-use plan differs greatly depending on the project in
question, as a single event plan may only last one day while a single project may last one week or months. For example, an outline for an advertising campaign. After the campaign runs its course, the short term plan will lose its relevance except as a guide for creating future plans.

Types of Single Use Plan

1. **Programme**: A program 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.

2. **Budget**: A budget is a statement of expected result expressed in numerical terms for a definite period of time in the future.

STANDING PLANS

Standing plans are used over and over again because they focus on organizational situations that occur repeatedly. They are usually made once and retain their value over a period of years while undergoing revisions and updates. That is why they are also called repeated use plans. For example, Businessman plans to establish a new business Entrepreneur drafts business plan before opening the doors to their business, and they can use their plan to guide their efforts for years into the future.

Types of Standing Plans

1. **Objectives**: Objectives are defined as ends for the achievement of which an organization go 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.

2. **Strategy**: Strategies refer to those plans which an organization prepare to face various situations, threats and opportunities. When the managers of an organization prepare a new strategy for the business it is called internal strategy and when some strategies are prepared to respond to the strategies of the competitors then such strategies are called external strategies. Examples, selection of the medium of advertisement, selection of the medium of advertisements, selection of the channel of distribution etc.
3. **Policy** : Policies refers to the general guidelines 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 are 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 manners in which a particular task has to be performed. There may be many ways/method 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.

Q1. **What is the second step of the planning process?**

Q2. **What is meant by “follow up action” as the step involved in the planning process?**

Q3. **Give one example each of internal premises and external premises of planning.**

Q4. **In which type of plans the sequence of activities to complete a job is determined?**

Q5. **A company needs a detailed plan for its new project, “Construction of a Shopping Mall.” What type of plan is it?**

Q6. **In Chak De movie, Shahrukh Khan becomes the coach of the girls hockey team. He knows that he has to prepare the girls for the international hockey matches and bring the cup after winning. For this he prepares a**
long term plan and thinks of ways of how to beat his competitors. He coaches the girls to play in different ways like defensive, offensive, etc.

At the outset of a match he explains who will open the match, and how the ball will be passed by one player to another step by step.

What are all the types of plans that are mentioned above? State them along with lines which refer to them in the above paragraph.

Q7. Name the type of plans in which the move of competitors is considered.

Q8. ABC Ltd. reserve some posts for physically abled people. Name the plan mentioned here.

<table>
<thead>
<tr>
<th>DIFFERENCE BETWEEN SINGLE USE AND STANDING PLANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>BASIS OF DIFFERENCE</td>
</tr>
<tr>
<td>1. Meaning</td>
</tr>
<tr>
<td>2. Objective</td>
</tr>
<tr>
<td>3. Scope</td>
</tr>
<tr>
<td>4. Stability</td>
</tr>
<tr>
<td>5. Example</td>
</tr>
</tbody>
</table>
**IMPORTANT QUESTION**

**1 Mark Questions**

1. Define planning.
2. Explain Procedures.
3. Define Rules.
4. Write the meaning of Budgets.
5. Write one difference between Policies & Procedure.
6. One of the function of management is considered as base for all other functions. Name that function;
7. Name the types of plan in which the movement of competitors is considered.
8. “No Smoking in the Work shop”. This statement is related to which type of plan.
9. “We do not sell on credit”. This statement is related to which type of plan.
10. Write the meaning of strategies.
11. What do you understand single use plan?
12. What do you understand by standing plans?

**3 and 4 Marks Questions**

1. ‘Planning is the heart of management’. How?
2. ‘Control is blind without planning’. How?
3. How planning provides base to controlling?
4. Write the difference between rules and policies.
5. Write the difference between Policies & Procedures.
6. XYZ Limited follows a standard procedure for recruiting Production Manager for its company. Which type of plan is it? Justify your answer. (1+2=3 marks)
7. ABC Limited prepares budget for its Annual General Meeting for Financial Year 2013-14. What kind of plan is it? Justify your answer. (1+2=3 Marks)

5-6 Marks Questions

1. Explain any four types of plans.

2. “In spite of best efforts of managers sometimes Planning fails to achieve desired result due to its limitations.” Explain.

3. “Planning keeps the organization on the right path.” In this reference explain the importance of planning.

4. Differentiate between Single use plans and Standing plans.

5. Explain the process of planning.

[XII : Business Studies] [40]
Meaning of Organising

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

Thus organizing means establishing relationship between various factors of production and it is concerned with establishing relationship amongst jobs, sections, departments & positions.

‘Organising is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.’

Steps Involved in the Process of Organizations

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

2. Departmentalisation: The second step in organizing is to combine or group similar or related jobs into larger units called departments, divisions or sections. They can be grouped on the basis of functions, products customers and territories etc. Departmentalization is done to achieve coordination & to facilitate unity of efforts.

3. Assignments of duties: Once departments have been formed each of them is placed under the charge of an individual called departmental head (e.g., production manager, finance manager etc.) jobs are then allocated to the members of each department according to their skills and qualifications.
4. **Establishing Reporting Relationships**: Merely allocating work is not enough. Each individual should also know from whom he has to take orders and to whom he is accountable. It helps in coordination amongst various departments.

**Importance of Organising**

1. **Benefits of 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 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 resulted in effective administration.

4. **Optimum utilization of resources**: The proper assignment of jobs avoids overlapping/duplication of work. This help 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 and enterprise by adding more job positions, departments, products lines, new geographical territories etc.
Meaning of Organizational Structure

It seeks to establish relations among all the persons working in the organization. Under the organizational structure various posts are created to perform different activities for the attainment of the objectives of the enterprise. Relations among persons working on different posts are determined. The structure provides a basis or framework for managers and other employers for performing their functions.

The organization structure can be defined as the frame work within which managerial and operating tasks are performed.

Relation between Span of Management and Organization structure: Span of management refers to the number of subordinates that can be effectively managed by a superior. The Span of management to a large extent gives shape to the organization structure. This determines the levels of management in the structure. Narrow span of management results in tall structure whereas wider span of management results in flat 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 to sales departments etc.

Suitability

(1) Large organizations producing one line of product.

(2) Organizations which require high degree of functional specialization with diversified activities.
Advantage

1. **Specialisation**: Better decision of labour takes place which results in specialization of functions and its consequent benefits.

2. **Coordination is established**: All the persons working within a departmental are specialists of their respective jobs. It makes the coordinative easier at department level.

3. **Helps in increasing managerial efficiency**: Managers of one department are performing same type of function again and again which makes them specialized and improve their efficiency.

4. **Minimises cost**: It leads to minimum duplication of effort 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** – because each employee specializes only in a small part of the whole job.

(B) **DIVISIONAL ORGANIZATION STRUCTURE**

Dividing the whole enterprise according to the major products to be manufactured (like metal, plastic, cosmetics etc.) is known as divisional organization structure.
This structure is suitable in organizations producing multi product or different lines of products requiring product specialization. Also growing companies which intend to add more lines of products in future adopt this structure.

**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**: Division 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.1.** “Difficulty in inter-departmental Coordination” is the limitation of which organizational structure?

**Q.2.** Raman Ltd. manufacture toys and its organization do have production, sale, purchase and finance department. Which type of organization structure should Raman Ltd. adopt and why?

**Q.3.** A company is manufacturing Televisions, Refrigerators, Air-conditioners, Washing Machines and Gas Stoves using different productive resources. Suggest a suitable organizational structure for this company giving reason in support of your answer.

**Q.4.** A, B, and C decided to start a business of manufacturing pens. They identified various activities which they have to perform i.e.
(i) Purchase of Raw Materials
(ii) Purchase of machinery
(iii) Production of pens
(iv) Arrangement of finance
(v) Sale of pens
(vi) Selection of employees.

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

(1) Identify the function of management involved in the above mentioned para.

(2) List two values spread by above function.

(3) State the steps involved in the process of this function of management.

(C) 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 takes 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 a 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 behavior 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 of thinking.

3. **Limited in scope**: It is difficult to understand all human relationships in an enterprise as it places more emphasis on structure and work.

**(D) INFORMAL ORGANISATION**

An informal organization is that organization which is not established deliberately but comes into existence because of common interests, taste 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 from 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. **Fulfillment 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 careless and sometimes a wrong thing is conveyed to the other persons.

2. It resists change and lays stress on adopting the old techniques.

3. **Priority to group interests**: Pressurises members to confirm to group expectations.

---

**Difference between Formal Informal organisation**

<table>
<thead>
<tr>
<th>Basis</th>
<th>Formal Organisation</th>
<th>Informal Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>If refers to the structure of well defined authority and responsibility.</td>
<td>It refers to the network of social relationships which develops automatically.</td>
</tr>
<tr>
<td>2. Nature</td>
<td>Rigid &amp; Stable</td>
<td>Flexible and unstable</td>
</tr>
<tr>
<td>3. Authority</td>
<td>Arises by virtues of positions in management.</td>
<td>Arises out of personal qualities.</td>
</tr>
<tr>
<td>4. Adherence to rules</td>
<td>Violation of rules may lead to penalties and punishments.</td>
<td>No such punishments.</td>
</tr>
<tr>
<td>5. Flow of communication</td>
<td>Takes place through the scalar chain.</td>
<td>Not through a planned route. It can take place in any direction.</td>
</tr>
<tr>
<td>6. Purpose</td>
<td>To achieve planned organizational objectives</td>
<td>To satisfy social and cultural needs and fulfill common interests.</td>
</tr>
<tr>
<td>7. Formation/origin</td>
<td>Deliberately planned and created by management.</td>
<td>Emerges spontaneously as a result of social interaction among employees.</td>
</tr>
<tr>
<td>8. Structure</td>
<td>Well-defined structure of tasks &amp; relationships.</td>
<td>No clear-cut structure because of complex network of relationships.</td>
</tr>
<tr>
<td>9. Flow of authority</td>
<td>Authority flows from top to bottom i.e. downwards.</td>
<td>Authority flows vertically as well as horizontally.</td>
</tr>
<tr>
<td>10. Interdependence</td>
<td>Independent.</td>
<td>Depends on formal structure.</td>
</tr>
</tbody>
</table>
Q1. The Employees of Z Ltd., a trading Company, have formed a Dramatic group for their recreation. Name the type of organization so formed and state its three advantages.

Q2. Which organization is created deliberately? Why?

Q3. Formal organization leads to delay in work and lack of initiatives among the employees. Do you agree? What changes should be introduce in the organization structure to over-come these problems.

Q4. List two positive and two negative values spread by an informal organization.

Q5. What is the outcome of specific pattern of relationships which is created during organizing process.

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 assignment duty. When a superior issues orders it becomes the responsibility of the subordinate 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.

Process of Delegation of Authority

Difference between Authority, Responsibility and Accountability.

<table>
<thead>
<tr>
<th>Basis</th>
<th>Authority</th>
<th>Responsibility</th>
<th>Accountability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>Right to command</td>
<td>Obligation to perform an assigned task</td>
<td>Answerability for outcome of the assigned task</td>
</tr>
<tr>
<td>2. Origin</td>
<td>Arises from formal position</td>
<td>Arises from delegated authority</td>
<td>Arises from responsibility</td>
</tr>
<tr>
<td>3. Flow</td>
<td>Downward – from Superior to Subordinate</td>
<td>Upward – from Subordinate to Superior</td>
<td>Upward – from Superior</td>
</tr>
<tr>
<td>4. Withdrawl</td>
<td>Can be withdrawn anytime by giving notice.</td>
<td>Cannot be withdrawn once created.</td>
<td>Cannot be withdrawn once created.</td>
</tr>
</tbody>
</table>

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 subordinate 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 of management. Under this, the authority is transferred to the level where it is to be exercised, so the numbers 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 among 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 over all the activities.
Q1. “If we delegate the authority, we multiply it by two, if we decentralize it, we multiply it by many.” Explain with an example.

Q2. Name the activity which increases the importance of the role of subordinates? Also list two values developed by it among them.

Q3. “The concept of decentralization is related to the concept of delegation”. Explain this statement in brief.


Q5. The Directors of Ravi Ltd., an organization manufacturing generators, have asked Rama, their marketing manager to achieve a target sale of 100 generators per day. Ram has delegated the task to 5 of his deputy sales Managers working under him. 2 of the deputy sales managers could not achieve the targets. Is Rama responsible for the failure of deputy managers? State the relevant principle in support of your answer.

**Difference between – Delegation & Decentralization**

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

**IMPORTANT QUESTIONS**

1 Mark Questions

1. How effective administration is possible through organizing?

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.

3. Name the organization which is directed by group norms.

4. What is meant by organizational structure?

5. Difficulty in inter-departmental coordination is one of the limitations of which organizational structure.

6. What is meant by Authority?

7. What is the basis of delegation of authority?

8. How effective management is possible through delegation of authority?

---

**3 Marks Questions**

1. What is functional organizational structure? Write two advantages of this structure.

2. How is accountability related to authority? Explain.

3. Why is it necessary to delegate authority? Give three reasons.

4. State three steps in the process of organizing.

---

**4/5 Marks Questions**

1. Explain briefly any four features of formal organization.

2. The employees of Sachin Ltd. a software company, have formed a Dramatic group for their recreation. Name the type of organization and state its three features.

3. Distinguish between Formal and Informal organization (any four points).

4. A manager is of the view that he is not responsible for the quality of work that he has delegated to his subordinates. Do you agree?

5. ‘Delegation of authority provides the means whereby a manager multiples himself’. Comment.
6 Marks Questions

1. Explain the importance of organizing as a function of management.

2. ‘Formal organization is considered better than informal organisation’. Do you agree with this statement? Give reasons.

3. What is meant by Divisional structure of an organization? Explain any two advantages and two limitations of it.

4. ‘Decentralisation is an optional policy’. Explain why an organization would choose to be decentralized.

5. Explain the meaning and process of delegation of authority.
UNIT 6

STAFFING

Meaning
Staffing means putting people to jobs. It begins with human resource planning and includes different other functions like recruitment, selection, training, development, promotion and performance appraisal of workforce.

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.

4. **Optimum utilization of human resources**: It prevents under utilization of personnel and high labour cost.

5. **Improves job satisfaction**: It improves job satisfaction and morale of employee.

Q.1: Which part of management process is concerned with obtaining, utilising and maintaining a satisfactory and satisfied workforce? [Staffing]

Q.2: What is the prime concern of staffing function of management?

Human Resource Management (HRM)

The function of Human Resource Management is to provide skilled human elements to thee enterprises. 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**: The scope of Human Resource Management is wider than staffing. It involves staffing, keeping personnel records, providing expert service and other works.

It facilitates procurement and placement of right people on the right jobs. The nature of staffing as a part of HRM is discussed in following points:

1. Staffing is people centred and is relevant in all types of organization and with all categories of personnel from top to bottom.
2. It is duty of every manager to perform the staffing activities. In many enterprises, Personnel Department is established to provide assistance to managers in performing their staffing function.
3. Staffing function is concerned with training, development and performance appraisal of human resources.

**PROCESS OF STAFFING**

1. **Estimating Manpower Requirement**: It involves the following:
   
   (a) Making inventory of current human resources in terms of qualification, training & skills.
(b) Assessing future human resource needs of all departments.

(c) Developing a programme to provide the human resources.

Job Analysis is an intensive way of finding details related to all jobs.

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 is setting up a new plant in India for manufacturing auto parts. A company is planning to capture about 50% of the market share in India and also export to the tune of atleast 10 million in about 4 years of its planned operations. To achieve the target it requires a highly trained
and motivated work force. You have been retained by the company to advice in :

(a) Outline the process of staffing the company should follow.

(b) Which source of recruitment the company should rely upon and why?

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.

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

3. Lay-Off: To recall the temporary worker 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. **Direct Recruitment**: Under the direct recruitment, a notice is placed on the notice board of the enterprise specifying the details of the jobs available.

2. **Casual callers**: Many reputed business organisations keep a data base of unsolicited applicants in their office. This list can be used for Recruitment.

3. **Advertisement**: Advertisement in media is generally used when a wider choice is required. *Example*– Newspapers, Internet, Radio, Television etc.

4. **Employment Exchange**: Employment exchange is regarded as a good source of recruitment for unskilled and skilled operative jobs.

5. Campus recruitment and labour contractors can be used for the purpose.

**Merits of External Sources**

1. **Qualified Personnel**: By using external source 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.** Which source of recruitment is needed to bring new blood in the organization? Explain any three advantages of this source.

**Q.** Why is recruitment considered a positive process?

**Selection**

Selection is the process of choosing from among the candidates from within the organisation or from outside, the most suitable person for the current position or for the future position.

**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 test is made and unsuitable candidates are rejected altogether.

2. **Selection Tests**: These tests include:
   
   (a) Psychological tests which are based on assumption that
human behaviour at work can be predicted by giving various tests like aptitude, personality test etc.

(b) Employment test for judging the applicant’s suitability for the job.

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 candidates 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. Why is selection considered to be a negative process?**

**Q. Nishant, the director of a garment company is planning to manufacture bags from waste material of their garment company. He then decided that**
this unit will be set up 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 shortlist some candidates after conducting selection tests.

1. Identify and state the next three steps for choosing best candidates.

2. Also identify two values which Nishant wants to communicate.

Training: Training is the act of increasing the knowledge and technical skills of an employee for doing a particular job efficiently for existing employees and new employees to get acquainted with their jobs and increasing job related skills.

Benefits to the Organisation

1. It enhances employee’s productivity and quality.
2. Training increases employee’s morale.
3. Employees get new technical knowledge.
4. Efficient use of machines.

Benefits to the Employee

1. Improved skills and knowledge of employee.
2. Increased performance by the individual help him to earn more.
3. Less accidents.
4. Training increases the satisfaction and morale of the employee.

Q. A newly appointed Personnel Manager is of the view that the training is beneficial only for workers and not for organization. Do you agree? Give three reasons.

Training Methods

(A) On the Job Method: It refers to the methods that are applied at the work place, while the employee is actually working. It means learning while doing.
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 he/she can enjoy “earn while you learn” scheme.

2. **Internship Training**: Under this method an educational institute enters into agreement with industrial enterprises for providing practical knowledge to its students by sending them to business organizations for gaining practical experience.

3. **Coaching**: Under this, the supervisor imparts job knowledge and skill to his subordinates with an emphasis on “learning by doing”.

4. **Job Rotation**: The trainee or employee is systematically transferred from one job to another so that he may get the experience of different jobs. This will broaden his horizon and capacity to do a variety of jobs.

5. **Induction training** is a type of training given to help a new employee in settling down quickly into 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 Training Method**: These methods are used away from the work place. It means ‘learning before doing.’

1. **Class room lectures**: The lecture approach is well adapted to convey specific information. The use of audio-visuals can often make a formal classroom.

2. **Films**: They can provide information to the employee by showing them films based on their work.

3. **Case study**: Trainee studies the cases to determine problems & analyses causes. It is a means of simulating experience in the classroom. Under this, the trainees are given a problem or a case which is more or less related to principles already taught. They
analyze the problem and suggest solutions with the help of an instructor.

4. **Computer Modelling**: Under this, a computer is programmed to show some real problems of jobs and steps to overcome such problems.

5. **Conferences and Seminars**: It is a group meeting conducted according to an organised plan in which the members seek to develop knowledge and understanding of a topic by oral participation. It is an effective training device in which a person can learn from others by sharing his opinions with them.

**Q. 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.** [Vestibule Training]

**Q. Atul, is working in an organization. After every three months his Manager transfers him from one department to another so that he may gain a broader understanding to the entire work. Name and explain the method of training Atul is under going.** [Job Rotation].

**Q. Ramesh is working under the guidance of Harish, a Carpenter, for the last three years to learn the different skills of this job. Name and explain the method of training Ramesh is under going.** [Apprenticeship Training]

**Training and Development**

Training is concerned with imparting technical knowledge in doing a particular job. But development is a wider process concerned with growth of an individual in all respects. However both are related processes; training helps the employees in learning job skills whereas development shapes attitude of thee employees.

**Q. “One helps in performing job better and is job oriented while other leads to overall growth of an employee and is career oriented.” Name the two concepts.** [1. Training, 2. Development]

**Comparison of Training and Development**

<table>
<thead>
<tr>
<th>Basis</th>
<th>Training</th>
<th>Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Definition</td>
<td>It means imparting skills and knowledge for doing a particular job.</td>
<td>It means growth of an employee in all respects.</td>
</tr>
</tbody>
</table>

[XII : Business Studies] [64]
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 method.

It is imparted through of the job method.

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.

---

**IMPORTANT QUESTIONS**

1 **Mark Questions**

1. Explain the meaning of Staffing.
2. Define Placement.
3. Why is selection considered to be a negative process?
4. Give one advantage of Job Rotation training.
5. State one objective of Preliminary screening.
6. What is an interview?
7. What do you mean by on the job Training?
8. What do you mean by Recruitment?
10. Give the last step of staffing process.
11. Give the first step of selection process.
12. Define Induction training.
13. What is the main objective of Induction training.

**3-4 Marks Questions**

1. Explain any three types of selection Tests.
2. Explain the meaning of selection and training.
3. Internal sources of Recruitment are better than external sources of Recruitment Do you agree? Give reasons in support of your answer. Do you agree?

4. How does Induction training help in reducing cost and saves time?

5. Write a short note on Induction training.

6. “Staffing is an important function of management”. Why? Explain any four reasons.

7. “Some learning opportunities are designed and delivered to improve skills and abilities of employees whereas some others are designed to help in the growth of individual in all respects” Identify and explain two concepts referred above.
UNIT 7

DIRECTING

Meaning

Directing as a function of management, refers to the process of instructing, guiding, counseling, motivating and leading people in the organisation to achieve its objectives. It does not mean only instructions but also includes supervising the employees when they are performing the job, motivating them to perform more efficiently and leading them towards the achievement of organisational goal.

Features

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

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

3. **Directing is a continuous process** of supervision, communication, leadership and motivation. It takes place 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.

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.

4. **Facilities 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.

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.

### Elements of Direction

- **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.

- **Motivation**: It is systematic process of generating enthusiasm among employees to dedicate their best of efforts to the enterprise.

- **Leadership**: It is the quality of behaviour by which an individual guides and directs the activities of his subordinates. He leads, guides and directs the activities of his subordinates. He leads the group efforts towards attaining the objectives of the business.
4. **Communication**: It is the process of exchange of information between two or more persons to reach common understanding.

### I. Importance of Supervision/Role of a Supervisor/Functions

1. **Link between workers and management**: Because the supervisor explains management policies to worker 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 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.** Mr. Banerjee is a supervisor in a car manufacturing organization. What do you think is his role in the organization?

**Q.** Mr. John is a supervisor in Britannia factor. He always explains management policies to workers brings workers problems to the notice of
management. He always motivates the workers. He is friendly but maintains discipline. What values does Mr. John present?

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 as to initiate and direct their behaviour in a purposive manner.

Features

1. Psychological Phenomenon: Motivation is an internal feeling which means it can not 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.

A behavior study was done on total of 100 employees of an organization. Group ‘A’ (group of 50 employees) were appreciated for their work, initiative for new ideas was given. Also all these employees were given an option of flexi working hours.
Another Group ‘B’ (of remaining 50 employees) was always criticized for their performance. Autocratic style of leadership was always used on them.

After a period of two months it was found that Group ‘A’ employees were performing well and were happy workers while Group ‘B’ employees were feeling low and wanted to leave the organization.

**Q. Which element of directing is being referred here in case of Group ‘A’ & Group ‘B’ employees? Explain its features.**

**Q. Which values are presented in case of Group ‘A’ employees?**

**Q. Which values are neglected in case of Group ‘B’ employees?**

**Maslow’s Need Hierarchy-Theory of Motivation:** Mallow’s Theory focuses on the needs as the basis for motivation. It classified human needs into the following 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.

<table>
<thead>
<tr>
<th>Example from the point of view of Individual</th>
<th>Example from the point of view of organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hunger</td>
<td>Basic Salary</td>
</tr>
<tr>
<td>Stability of Income</td>
<td>Pension Plan</td>
</tr>
<tr>
<td>Friendship</td>
<td>Cordial relation with colleagues</td>
</tr>
<tr>
<td>Status</td>
<td>Jobtitle</td>
</tr>
<tr>
<td>Self fulfillments</td>
<td>Achievement of goals</td>
</tr>
</tbody>
</table>

[71] [XII : Business Studies]
Needs of the highest order
Generally found in persons whose first four needs have already been fulfilled

Self Actualisation Needs
Esteem or Status needs self confidence friendship
Social Needs-Sense of Belongingness, association, friendship
Safety or Security Needs-Oldage, sickness, Job security, stability of Income
Basic or Physiological needs-Foods, clothing, Shelter, air, water, other necessities of life.

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

KINDS OF INCENTIVES

Financial
- Which can be calculated in terms
- Profit sharing
- Pay and Allowances
- Bonus
- Retirement Benefits
- Perquisites
- Productivity linked wages
- Co-partnership / stock option

Non-Financial
- Which can not be calculated in terms of mony of money
- Status
- Career Advancement
- Opportunity
- Job enrichment
- Employee Recognition Programmer
- Employees particulars
- Job security
- Employees empowerment
Q. 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. Which form of incentive is being referred here. Explain the incentive along with any other three incentives.

Q. Katrina has been awarded the ‘employee of the Month’ award. Her name has been placed on the notice board, which form of incentive has been given to her? Explain any three other forms of this type of incentive.

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. It is a process of interaction between the leader and his followers. It helps in persuading employees to work cooperatively and enthusiastically towards common goals.

Styles of Leadership

Leadership styles refer to a leader’s behaviour. Behavioural pattern which the leader reflects in his role as a leader is often described as the style of leadership.

A Leadership style is the result of the leader’s philosophy, personality, experience and value system. It also depends upon the type of followers and the atmosphere revealing in the organization.

Different types of leadership style are:

1. Autocratic leadership
2. Participative leadership : Democratic
3. Free rein leadership : Laissez Faire

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

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.

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. 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? What values are lacking in his style of functioning?

2. Democratic or Participative Leader

A 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.
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 when:

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

3. Laissez Faire or Free Rein Leader

A 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].
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.

**Example:** Mr. Ulhas, CEO of ‘Create India.’ distributes the work for the month. He delegates the work to his staff Ms. Kanju, Ms. Anjana, Ms. Geeta and Mr. Dinesh as per his discretion. (Mr. Ulhas is behaving as an autocratic leader) Mr. Ulhas has realized that due to absence of Ms. Geeta, the work will not get over as scheduled. He discusses with his staff members to meet the dead line. Everybody decides to do overtime and plans to stay back accordingly. (Mr. Ulhas is behaving as a democratic leader)

Mr. Ulhas wants to give a party to all staff members for timely completion of the task.

Mr. Ulhas asks the other members of staff to fix the venue and the menu for the occasion. (Mr. Ulhas is behaving as a free rein leader)
Q.(a) Mr. A, B and C are discussing the three different styles of leadership. Mr. A advocates that Do you think a Manager can incorporate all three styles in his leadership according to the need of the situations? Explain with help of an example. What will be the benefits associated with it? Autocratic style of leadership is the best in an organization on while Mr. B thinks that democratic styles provides better results in the performance of employees. Mr. C emphasizes on laissez faire style of leadership and why?

(b) Is following one style of leadership everytime appropriates according to you?

(c) Do you think a Manager can incorporate all three styles in his leadership according to the need of the situations? Explain with help of an example. What will be the benefits associated with it?

Communication

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

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. **Facilitates Coordination**: between interrelated departments and sections thus creating a unity of purpose and action.

2. **Provides data necessary for decision makings**: When information is effectively and efficiently communicated to management.

3. **Increases managerial efficiency**: Every individual in the organisation is assigned a job or task. The employee must know clearly who has to report to whom, what part of total job they are expected to perform and what are their decisions. The clarity comes only with smooth flow of communication which keeps the organisation at work with efficiency.

4. **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.

5. **Establishes effective leadership**: Effective communication helps to influence subordinates: while influencing, a leader should possess good communication skills.

If there is two way information flow between the superior and subordinates then there will be positive reaction of employees.

**Q.** Ms. Jainab, Manager (Production) and Mr. Shivem, Manager (Sales) of an electronics company were not on talking terms with each other. Because of that they did not transfer complete information to each other. What is the element of direction lacking between them? What do you think is the importance of aspects which is lacking in the functioning of an organization?

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

**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 of 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.

**Communication Networks of a Formal Communication**

- **Single Chain**: It flows from every superior to his subordinate through a single chain.

- **Wheel**: If flows through one central person (superior).

- **Circular**: It moves in a circle where each person can communicate with his adjoining two persons.

- **Free Flow**: In this network, each person can communicate with others freely.

- **Inverted V**: In this network, a subordinate is allowed to communicate with his immediate superior as well as his superior's superior.

**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.
Grapevine or Informal Communication Networks

1. **Single Strand**: Each person communicates with the other in a sequence.

2. **Gossip**: Each person communicates with all on non-selective basis. A person shares the information with many other people in his social group.

3. **Probability**: The individual communicates randomly with other individuals.

4. **Cluster**: The individual communicates with only those people whom he trusts.

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

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. Unclarified assumption subject to 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 can not 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 on 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 subordination.
7. Be a good listener.

**Questions**

![Notice](image)

This Notice Board was placed in reception area of ABC Ltd. The notice placed here did not mention clear specification regarding the time. This results in ambiguity of message. Which barrier of communication is referred to here? Explain any three other forms of barriers of effective communication.
Q. You are a soft skill trainer who trains people in their speaking & writing skills. What ideas can you give the trainees about improving their communication effectiveness?

**IMPORTANT QUESTIONS**

**1 Mark Questions**

1. Which function of management is known as Management-in-action?
2. How supervision is helpful in maintaining discipline?
3. What is Economic Safety?
4. What is meant by Job Enrichment as a type of non-monetary incentives?
5. What is meant by Leadership?
6. What is meant by NOISE in communication process?
7. What is meant by feedback in communication process?
8. What is meant by Grapenive?
9. Define autocratic style of leadership.

**3 Marks Questions**

10. Direction is the least important function of management. Do you agree with this statement? Give any two reasons in support of your answer.

12. The post of supervisor should be abolished in the hierarchy of Managers. Do you agree? Give any three reasons in support of your answer.

13. Explain how supervision, facilitates control?

14. Motivation can be either positive or negative. How?

15. Motivation helps to reduce absenteeism in the organisation. Clarify.

**4/5 Marks Questions**

16. State any four characteristics of motivation.
17. Clarify Job Enrichment and job security as non-financial motivators.

18. Explain the importance of leadership as the directing function of management.

19. Explain any four factors which are likely to disrupt effective communication.

20. Why do leaders use different styles of leadership in different situations. Explain with the help of examples.

6 Marks Questions

21. ‘Supervision is an important element of directing function.’ Explain any four reasons in support of the above statement.

22. Explain difference financial and non-financial incentives used to motivate employees of a company.

23. Explain the meaning and importance of communication process.

24. Differentiate between autocratic, democratic and laissez fair style leadership.
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.

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 employees 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.

**Nature 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 and at all levels. For example the top managers are concerned with administrative control, which is exercised through broad policies, plans and other directives. The middle level managers are concerned with the executive control for the purpose of getting the plans, policies, and programmes executed. At the lower level, supervisors exercise operational control to ensure successful performing of actual operations.

3. **Controlling is a continuous function**: Control is not a one line 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. For example if a firm X Ltd., a readymade garment manufacturing unit sets a target of manufacturing 10,000 premium shirts in a month and is only able to manufacture 8,000 shirts than the controlling mechanism will help in finding the deviation and causes
4. **Controlling is both a backward looking as well as forward looking function**: Effective control is not possible without analyzing our past mistakes so from this point of view we can call it backward looking. But the business environment is ever changing and controlling helps bring in changes in the organization in a conductive manner. So we cannot ignore the forward looking aspect of it as well.

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.

**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 time and efforts.

4. **Difficulty in setting quantitative standards**: Control system looses 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. Thus, without planning, controlling is blind. If the standards 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.

3. Effectiveness of planning can be measured with the help of controlling.

4. **Planning is looking ahead and controlling is looking back**

   Planning is a future oriented function as it involves looking in advance and making policies for the maximum utilization of resources in future that is why it is considered as forward looking function. In controlling we look back to the performance which is already achieved by the employees and compare it with plans. If there are deviations in actual and standard performance or output then controlling functions makes sure that in future actual performance matches with the planned performances. Therefore, controlling is also a forward looking function.

   Thus, planning & controlling cannot be separated. The two are supplementary function which support each other for successful execution of both the function.

   Planning makes controlling effective where as controlling improve future planning.

**Q1. Explain how controlling helps in achieving better ‘coordination’ and ‘better planning’?**

**Q2.** 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.

**Q3. Is controlling ‘the end’ of management functions cycle?** Give reason in support of your answer.

**Q4. “There is close and reciprocal relationship between planning and controlling.” Explain through an example.**
Q5. “Composing 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. Also list two values inculcated by it in employees of an organization.

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.

2. **Measurement of Actual Performance**: Performance should be measured in an objective and reliable manner which includes personal observation, simple 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.

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

1 Mark Questions

1. Explain the meaning of controlling.

2. Write the first step of controlling process.

3. What are the two types of deviations.

4. Which feature of controlling does it refer to when it is said that ‘Controlling is exercised at all levels of management’?

5. Which two steps in the process of control are concerned with compelling events to confirm to plan?
3-4 Marks Questions

6. Why is controlling called an all preservative function? Explain.

7. Why is controlling called a positive process?

8. How is controlling both forward looking as well as backward looking?

9. Explain the characteristics of controlling.

10. There are two managers Mr. X and Mr. Y. They both have different point of views. Mr. X says that “controlling is backward looking” while Mr. Y contradicts by saying that “controlling is forward looking”. Who do you think is right? Give reason.

11. ABC Ltd. is engaged in manufacturing readymade garments. The target production is 500 shirts per day. The company has been successfully attaining this targets until last three months. The actual production has been varying between 400-450 shirts. Which management function is needed to rectify the situation? Write any two features associated with it.

5-6 Marks Questions

12. Explain the various steps involved in the process of control.

13. Explain the importance of controlling in organization.

14. ‘Planning and controlling are mutually interrelated and inter-dependent activities’. Explain.

15. Explain the limitations of controlling.

16. ABC Ltd. is in readymade garments. Now they want to venture into accessories like purses etc.

(i) What do you want should be their first step?

(ii) Also which form of organization structure would you recommend to them?

Once above mentioned aspects are handled the company does the recruitments of required staff and gives directions to them?

How do you think that one can access that the employees are able to meet the required targets? Do you think the first step undertaken has an impact on the last step? How?
UNIT 9

FINANCIAL MANAGEMENT

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.

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 at ensuring availability of enough funds whenever required as well as avoiding idle finance.

Objectives of Financial Management

1. **Wealth Maximisation**: The main objective of Financial management is to maximise shareholder’s wealth, for which achievement of optimum capital structure and proper utilization of funds is a must.

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

3. To ensure effective utilisation of funds.

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

5. **To attain optimum capital structure**: A sound and economical combination of shares and debentures must be attempted so as to maintain optimum capital structure.
Every company is required to take three main financial decisions which are as follows:-

1. **Investment Decision**

   It relates to how the firm’s funds are invested in different assets. Investment decision can be long-term or short-term. A long term investment decision is called capital budgeting decision as they involve huge amounts of funds and are irreversible except at a huge cost while short term investment decisions are called working capital decisions, which affect day to day working of a business.

**Factors affecting Investment Decisions/Capital Budgeting decisions**

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

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

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

**Q. Why is business finance needed?**

**Q. A decision is taken to put capital of a company in different assets. What is the decision called?**

**Q. Name the financial decision which will help a businessman in opening a new branch of its business.**
2. Financing Decision

It relates to the amount of finance to be raised from various long term sources. 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 involve no commitment regarding payment of returns or repayment of capital. A firm mixes both debt and equity in making financing decisions.

Factors Affecting Financing Decision

1. **Cost**: The cost of raising funds from different sources are different. The cheapest source should be selected.

2. **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 repaid also, after a fixed period of time or on expiry of its; tenure.

3. **Floatation Cost**: The costs involved in issuing securities such as brokers commission, underwriters' fees, expenses on prospectus etc. are called flotation costs. Higher the flotation cost, less attractive is the source of finance.

4. **Cash flow position of the business**: In case the cash flow position of a company is good enough then it can easily use borrowed funds and pay interest on time.

5. **Control Considerations**: In case the existing shareholders want to retain the complete control of business then finance can be raised through borrowed funds but when they are ready for dilution of control over business, equity can be used for raising finance.

6. **State of Capital Markets**: During boom, finance can easily be raised by issuing shares but during depression period, raising finance by means of debt is easy.

7. **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. A decision is taken in financial management to raise money for long term capital needs of business from certain sources. What is this decision called?

Q. Which type of financial decision involves a judicious mix of both debt and equity to make an optimum capital structure.

3. 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 them 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 for most requirement for declaration of dividends.

5. Preference of Shareholders: While deciding about dividend the preference of shareholders is also taken into account. In case shareholders desire for dividend then company may go for declaring the same.

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. Issue of bonus shares: Companies with large reserves may also
distribute bonus shares to increase their capital base as it signifies growth of the company and enhances its reputation also.

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 share holders after paying tax. What is this decision called?**

Q. **Which type of company is in a position to declare high dividends?**

**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.

**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.

Q. **Which concept in financial management takes into consideration the growth, performance, investments and requirement of funds for a given time period?**

**Capital Structure**

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

Factors Affecting Capital Structure

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:-

<table>
<thead>
<tr>
<th></th>
<th>Company X</th>
<th>Company Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital (or Rs. 10 each)</td>
<td>10,00,000</td>
<td>5,00,000</td>
</tr>
<tr>
<td>Debentures @10%</td>
<td>5,00,000</td>
<td>5,00,000</td>
</tr>
<tr>
<td><strong>Total capital</strong></td>
<td><strong>10,00,000</strong></td>
<td><strong>10,00,000</strong></td>
</tr>
<tr>
<td>Earning before int. and taxes (EBIT) @25% p.a.</td>
<td>2,50,000</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Less interest on deb.</td>
<td>(50,000)</td>
<td></td>
</tr>
<tr>
<td>Profit before trax</td>
<td>2,00,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Less tax (40%)</td>
<td>(1,00,000)</td>
<td>(80,000)</td>
</tr>
<tr>
<td>Profit after tax (available for equity share holders)</td>
<td>1,20,000</td>
<td>1,20,000</td>
</tr>
<tr>
<td>No. of equity shares</td>
<td>1,00,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>Rs. 1.50</td>
<td>Rs. 2.40</td>
</tr>
</tbody>
</table>

Thus the EPS of company Y is higher than company X because of application of ‘Trading on equity’.

2. Cash Flow Position: In case a company has strong cash flow position then it may raise finance by issuing debts, as they are to be paid back after some time.

3. Interest Coverage Ratio: It refers to the number of times earning before interest and taxes of a company covers the interest obligation. High Interest coverage ratio indicates that company
can have more of borrowed funds. Formula for calculating ICR = EBIT/interest.

4. **Return on Investment** : If return on investment is higher than the rate of interest on debt then it will be beneficial for a firm to raise finance through borrowed funds.

5. **Floatation Cost** : The cost involved in issuing securities such as brokers’ commission, under-writers’ fees, cost of prospectus etc. is called flotation cost. While selecting the source of finance, flotation cost should be taken into account.

6. **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.

7. **Tax Rate** : Interest on debt is allowed as a deduction; thus in case of high tax rate, debts are preferred over equity but in case of low tax rate more preference is given to equity.

8. **Flexibility** : A good financial structure should be flexible enough to have scope for expansion or contraction of capitalization whenever the need arises. Issue of debenture and preference shares brings flexibility.

9. **Capital Market Conditions** : Conditions prevailing in capital market influences the determination of securities to be issued. Like during depression, people do not like to take risk and so are not interested in equity shares but during boom, investors are ready to take risk and invest in equity shares.

**Q.** “Cost of Debt” is lower than the “cost of equity share capital”. Give reason why even then a company cannot work only with debt.

**Q.** What is Favourable financial Leverage?

**Q.** Amita Ltd. does not have any debt in its capital structure but Kajal Ltd. Has debt @ 15% in its capital structure. EPS of both companies is 20% which company enjoy the benefit of Trading on Equity?

**Fixed Capital**

Fixed capital refers to investment in long-term assets. Investment in fixed assets is for longer duration and they must be financed through long-term sources of capital. Decisions relating to fixed capital involve
huge capital, funds 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. **Distribution Channels**: The firm which sells its product through wholesalers and retailers requires less fixed capital.

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. Following are the factors which affect working capital requirements of an organization:

1. **Nature of Business**: A trading organisation needs a lower amount of working capital as compared to a manufacturing organisation, as trading organisation undertakes no processing work.

2. **Scale of Operations**: An organisation operating on large scale will require more inventory and thus, its working capital requirement will be more as compared to small organisation.

3. **Business Cycle**: In the time of boom more production will be undertaken and so more working capital will be required during that time as compared to depression.

4. **Seasonal Factors**: During peak season demand of a product will be high and thus high working capital will be required as compared to lean season.

5. **Credit Allowed**: If credit is allowed by a concern to its customers than it will require more working capital but if goods are sold on cash basis than less working capital is required.

6. **Credit Availed**: If a firm is able to purchase raw materials on credit from its suppliers than less working capital will be required.

7. **Inflation**: Working capital requirement is also determined by price level changes. For example, during inflation prices of raw material, wages also rise resulting in increase in working capital requirements.

8. **Turnover of Working Capital**: Turnover means speed with which the working capital is converted into cash by sale of goods. If it is speedier, the amount of working capital required will be less.

**SOME APPLICATION BASED QUESTIONS**

**Q1. Manish is engaged in the business of garments manufacturing. Generally he used to sell his garments in Delhi. Identify the working capital**
requirement of Manish giving reasons thereof. Further, he wants to expand and diversify his business. Explain any two factors that will affect his fixed capital requirements?

Q2. Parnav is engaged in Transport business. Identify the working capital requirements of Parnav stating the reasons thereof. Parnav also wants to expand and diversify his transport business. Also explain 3 factors that will affect his fixed capital requirements?

Q3. State why working capital needs for a “Service Industry” are different from that of manufacturing industry.

**IMPORTANT QUESTIONS**

**1 Mark Questions**

1. Name the concept which increases the return on equity shares with a change in the capital structure.

2. A company wants to establish a new unit in which a machinery worth Z 10 lakhs is involved. Identify the type of decision involved in financial management.

3. What is the primary aim of financial management?

4. What is financial risk?

5. Why service-industry requires less working capital?

6. Identify the decision taken in financial management which affects the liquidity as well as profitability of business

7. ‘A’ Ltd. earns a net profit of Rs 50 crores. Atul, the finance manager of ‘A’ Ltd. has to decide how to appropriate their profits. Which financial decision will help him in deciding it?

**3/4 Marks Questions**


2. What is meant by financial planning? Explain its objectives.

3. Explain the meaning and objectives of financial management.

4. Explain Financial Leverage and Trading on Equity.
5. Explain the various financial decisions taken by an organisation.

6. How does ‘Trading on equity’ affect the capital structure of a company? Explain with the help of a suitable example.

5/6 Marks Questions

1. Define capital structure. Explain five factors affecting it.

2. Explain six factors affecting fixed capital of a concern.


4. What is meant by Dividend Decision? Explain any five factors affecting it.

5. Suggest Working capital requirement for the following manufacturing concerns:-
   (a) Bread                      (b) Sugar
   (c) Coolers                  (d) Motor Car
   (e) Locomotive             (f) Furniture on Specific order

6. Explain the three major decisions taken by a Finance Manager.
INTRODUCTION

Financial Market is a market for creation and exchange of financial assets like shares, bonds etc. It helps in mobilising savings and channelising 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 MARKET

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 channelise 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. **Provide 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. **Reduce 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: It is a short term unsecured promissory note 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.
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.

**Q.2** What is the minimum amount of Treasury bill?

**Q.3** Who is borrower of call money?

**Q.4** Which bearer certificate is issued by banks against the deposits kept by companies and institutions for short period?

**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

2. Secondary Market

**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**: 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 securities 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 flotation highlighted in each statement:**

1. Offer the entire new issue to life insurance company.
2. Issue a prospectus to invite public to apply for share.
3. Use on line system of stock exchange.
4. First ask existing shareholders to apply for new shares as it is compulsory requirement under companies Act.

**Q.2** 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.

**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

<table>
<thead>
<tr>
<th>Basis</th>
<th>Primary Market</th>
<th>Secondary Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities</td>
<td>Only new Securities are traded</td>
<td>Existing securities are traded</td>
</tr>
<tr>
<td>Price of Securities</td>
<td>Prices of securities are determined by the management of the company</td>
<td>Price are determined by the forces of demand and supply of the securities.</td>
</tr>
<tr>
<td>Purchase &amp; Sale.</td>
<td>Securities are sold to investors directly by the company or through intermediary.</td>
<td>Investors exchange ownership of securities.</td>
</tr>
<tr>
<td>Place of Market</td>
<td>There is no fixed geographical location.</td>
<td>Located at specified places.</td>
</tr>
<tr>
<td>Medium</td>
<td>Only buying of securities takes place.</td>
<td>Both buying &amp; selling of Securities can take place.</td>
</tr>
</tbody>
</table>

Q. Identity the markets highlighted in following statements:

1. This market directly contributes to capital market.
2. This market deals in instrument whose maturity is upto one year.
3. It deals in medium and long term securities.
4. It is also known as Stock Exchange and deals in sale and purchase of previously issued securities.
5. It requires less investment as value of securities is generally low.

Q. Dinesh has 100 equity shares of a company. He wants to sell 500 of these shares. Which market should be approach? Write any three advantages of selling through such a market.

Q. Why do money market instruments are more liquid as compared to capital market instruments?

### 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.

**Trading 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. **Placing the order**: After selecting a broker, the investors specify the type and number of securities they want to buy or sell.

3. **Executing the order**: The broker will buy or sell the securities as per the instructions of the investor.

4. **Settlement**: Transactions on a stock exchange may be carried out on either cash basis or carry over basis (i.e. badla). The time period for which the transactions are carried forward is referred to as accounts which vary from a fortnight to a month. All transactions made during one account are to besettled by payment for purchases and by delivery of share certificates, which is a proof of ownership of securities by an individual.
Earlier trading on a stock exchange took place through a public outcry or auction system which is now replaced by an online screen based electronic trading system. Moreover, to eliminate the problems of theft, forgery, transfer, delays etc. an electronic book entry from a holding and transferring securities has been introduced, which is called process of dematerialisation of securities.

<table>
<thead>
<tr>
<th>Difference between Capital and Money Market.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>S.No.</strong></td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>1.</td>
</tr>
<tr>
<td>2.</td>
</tr>
<tr>
<td>3.</td>
</tr>
<tr>
<td>4.</td>
</tr>
<tr>
<td>5.</td>
</tr>
<tr>
<td>6.</td>
</tr>
<tr>
<td>7.</td>
</tr>
</tbody>
</table>

**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 D-Mat Account are very basic of this system.

**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.), which are known as “Depository Participants”. (DPs)

**Services provided by Depository**

- Dematerialisation (usually known as demat) is converting physical certificates to electronic form.
- Rematerialisation, known as remat, is reverse of demat, i.e getting physical certificates from the electronic securities.
- Transfer of securities, change of beneficial ownership.
- Settlement of trades 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. There are two depository institutions in India these are NSDL and CDSL.

2. **The Depository Participant**: He opens the account of Investor and maintains securities records.

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.

**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 De-mat account are automatically made once transaction is confirmed and completed.

**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 promoting 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.

**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 and proof of identity need to be submitted.

**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 trade mal practices such as internal 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. **Development functions**: These functions are performed by SEBI to promote and develop activities in stock.
3. **Protective functions**: These functions are performed by SEBI to protect the interest of investors and provide safety on investments.
Functions of SEBI

Regulatory Functions
1. Framing Rule & Regulations
2. Registration of brokers & sub-brokers.
3. Registration of collective investment schemes & mutual funds.
4. Regulation of stock broker, portfolio exchanges, under writers & merchant bankers
5. Regulation of task over bids by companies.
6. Levying fee or other charges as per act.

Development Functions
1. Training of intermediaries
3. Undertaking measures to develop capital market by adopting flexible approach
4. Educating Investors to broaden their understanding
5. Permitting Internet trading through registered stock brokers

Protective Functions
1. Prohibiting of fraudulent & unfair trade practices.
2. Check on insider trading.
3. Ensure investors protection.
4. Promote fair practices & code of conduct in securities market.
5. Check on price rigging.
6. Check on preferential allotment.

IMPORTANT QUESTIONS

1 Mark Questions

1. What is the maturity period of a commercial Paper?

2. What is a Treasury Bill?

3. AB 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 flotation.


5. Who acts as the Watchdog of Security Market in India?

6. Who is the Borrower of call money?

7. What is the other name of Zero coupon Bonds?

8. Who issues the treasury Bill?
9. What is the other name of Primary Market?
10. What is a Prospectus?
11. What is Dematerialization?
12. What is the minimum amount of Treasury Bill?
13. What is Demat A/C?
14. Write one benefit of Demat Account
15. What do you mean by ‘Depository’?
16. What is the full form of CDSL?
17. What is the full form of NSDL?
18. What is the full form of DEMAT?
19. Where is a DEMAT account used?
20. Shabnam wants to invest her savings in share market. What is the most important requirement for this?
21. Julie wants to get her share certificates in electronic form. What is the name of service provided by Depository?
22. Name the organization which has been established in India to regulate stock exchanges and to protect the rights and interest of investors.

3/4 Marks Questions

1. State the various protective functions of SEBI.
2. What is money market? Explain its three instruments.
3. What is meant by commercial paper & certificate of Deposit?
4. State any four regulatory functions of the SEBI.
5. Write difference between Primary and Secondary Market.
6. What are the services provided by a Depository?
7. What are the benefits of opening a DEMAT account?
8. Harjeet wants to invest money in share market. As a Financial advisor what will you suggest him to do and why?

(Hint: Open a Demat account and explain benefits)

5/6 Marks Questions

1. Explain any five functions of stock exchange.

2. Why was SEBI set tip? State its development functions.

3. Explain any five methods of floating new issues in the primary market.

4. Explain the trading procedure on stock exchange.

5. Distinguish between capital market and money market on the following basis:
   (a) Participants
   (b) Instruments Traded
   (c) Duration of Securities Traded
   (d) Expected Return
   (e) Safety
   (f) Liquidity

6. Primary Markets contribute to capital formation directly Secondary Market does so indirectly. Explain.

7. You are finance expert. Your father feels that there is no difference between Primary Market and Secondary Market. Where do you differ with him. How would you convince him. Give reasons in support of your answer.

8. What are the benefits of depository services and Demat Account.

9. Explain the constituents of depository services.

10. Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares.
UNIT 11

MARKETING MANAGEMENT

Market: is used for 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.

Marketeer or Seller: If a customer is the seeker of satisfaction the marketeer is the provider of satisfaction. Marketeer 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: Satisfaction of the needs and wants of individuals and organisations.

2. Creating a market offering: Complete offer for a product of service.
3. **Customer value**: greatest benefit or value for the money.

4. **Exchange mechanism**: Exchange of products/services for money/for something of value to them.

**Q.1.** *Name the social process by which individuals and groups obtain what they need and want through creating officers.*

**Q.2.** *Analysis of needs & wants is required in which form of management?*

**Meaning and concept of Marketing Management**

Marketing management means management of the marketing functions. It is the process of organising, directing and controlling the activities related to marketing of goods and services to satisfy customers’ needs & achieve organisational goals.

Marketing management involves the following steps or activities:

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 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.

**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**: Marketeer must take decision like, what-product, which model/size? brand name? Packaging? quality level? So that Customer needs are satisfied.

4. **Buying & assembling**: e.g. Car-Raw materials like steel, tyres, batteries, seats, stearing wheel etc. are bought & then assembled in the form of a complete product.
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.

**Q.3** Which function of marketing requires gathering & analysis of marketing information?

### Concepts & Philosophies of Marketing

1. **Production concept**: Profits could be maximized by producing products on a large scale, thereby reducing average cost of production.

   *Drawback*: Customers do not always buy inexpensive products.

2. **Product Concept**: When the supply of products increases customers begin to prefer products of superior quality and features. Therefore the focus shifted from quantity of production to quality of products.

3. **Sales Concept**: With the passage of time the marketing environment underwent future change of quality and availability does not ensure survival and growth of the firm because of competition to sell quality products. Therefore firms must undertake aggressive selling and promotion efforts to make customer buy their products.

4. **Marketing Concept**: Implies that a firm can achieve its goals by identifying needs of the customer and satisfying them better than the competitors. Customer satisfaction is the precondition for realising the firm’s goal and objectives.

5. **Societal Marketing Concept**: Under this concept customer satisfaction is supplemented by social welfare. Some products bring harmful effect on environment so these should not be supplied. It pays attention to the social, ethical and ecological aspects of marketing.

*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 its 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.

**Q.1** What are the Marketing concepts followed by each of them?

**Q.2** Raman’s concept is successful for him because he is into manufacturing & selling iodised salt under the brand ‘Healthy salt, this products has a ready market and vast consumer base, also the products is standarised 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-

**Q.3** What value is being emphasized in

(a) Shreya’s concept of marketing.

(b) Iqbal’s concept of marketing.

**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 planning the type, 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 two buyer. The entire focus in selling is to covert the product into cash.

<table>
<thead>
<tr>
<th>S.no.</th>
<th>Basis</th>
<th>Selling</th>
<th>Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Scope</td>
<td>It is only a part of process of marketing.</td>
<td>It is a wide term consisting of a number of activities such aside notification, customers need etc.</td>
</tr>
<tr>
<td>2.</td>
<td>Focus</td>
<td>Transfer of the title from seller to consumer.</td>
<td>Achieving maximum satisfaction of customer's needs and wants.</td>
</tr>
<tr>
<td>3.</td>
<td>Predominance</td>
<td>Product is given priority</td>
<td>Costumer is treated as the king</td>
</tr>
<tr>
<td>5.</td>
<td>Emphasis</td>
<td>Bending the customer according to the product.</td>
<td>To develop the products as per the customers needs.</td>
</tr>
</tbody>
</table>

Meaning and concept of Marketing Mix—in orders to satisfy the needs and wants of its customer, every business firm must develop an appropriate marketing mix.

**Marketing Mix**

Marketing mix refers to ingredients or the tools or the variables which the marketeer mixes in order to interact with a particular market.

**Elements / 4 Ps of Marketing Mix**

1. **Product Mix**: All the features of the product or service to be offered for sale.

   ![Elements Diagram](Branding Packaging Labelling)

2. **Price Mix**: Value (Money) in lieu of product/service received by seller from a buyer.
3. **Promotion Mix** : Informing the customers about the products and persuading them to buy the same.

4. **Place Mix** : Physical distribution : Various decisions regarding distribution of products.
   - Channels of distribution : Whether wholesalers, retailers are to be used or not.
   - Physical movement of the products from producer to consumers.
   - Storage, transportation, managing inventory (stock) etc.

**IP - PRODUCT MIX**

**Meaning and Concept of Product** : Product is anything that can be offered to a market to satisfy a want or need.

1. Product mix refers to a combination of various features relating to the product or service like quality, size, range, package, warranty etc.
2. **Industrial Products**: used as inputs in producing other products e.g. raw material tools etc.

**Features**

1. The number of buyers are limited
2. The sale of industrial products is generally made with the help of short channels of distribution.

* Manufacturer $\rightarrow$ Retailer $\rightarrow$ Customer (One Level)

Manufacturer $\rightarrow$ Consumer (Direct Selling)
Q.1. Rajan Nandwani is a businessman who deals in auto spare parts. What element of marketing mix should he follow according to you?

Q.2. Close & personal is a company which deals in cosmetics. How shall it use the 4p’s marketing mix?

**PRODUCT MIX** – Three components are - Branding, Packaging, Labelling.

1. (i) Branding - giving a name/a sign; a symbol etc. to a product eg.:

   Pepsi.

   Nike:

**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. You have come up with a brand name ‘Yummy Yummy’ for your noodles brand. What qualities do you think are associated within?

2. (ii) **Packaging**: Act of designing and producing the container or wrapper of a product. Good packaging often helps in selling the product so it is called a silent salesman.

**Levels of Packaging**

1. **Primary Package**: 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.

4. **Labelling**: A label is a carrier of information which is to be provided to the customers which describes the product, its contents, the date and time of manufacturing etc.

### Functions

1. Helps in identifying the product or brand from the various type available, say deodorants, chocolates, biscuits imprinted on its package helps us to identify from number of packages, which is our favourite brand.

2. Helps in grading the products into different categories.

3. **Carrier of information**: Labelling helps in describing salient features of a product such as contents, price, instructions for use etc.

4. **Legal Requirement**: It provides information required by law e.g. statutory warning on the package of cigarette.

5. **Helps in promotion of products**: Attractive labels increase sales volume by mentioning the promotional schemes launched by companies.

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?

### II P-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 or 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.
2. (b) Obtain large share of the market i.e., by maximising sales it will charge lower price.

3. (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. What all factors shall it considers while pricing the car?

**III. P-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. **Warehousing**: 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

**Indirect Channel** — 1. Manufacturer-Retailer-Customer.


3. Manufacture → Agent → Wholesaler → Retailer → Customer
Factors Determining Choice of Channels of Distribution

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**

- **Market related Factors**
  1. Size of the market no of customers more customers more intermediaries.
  2. Geographical concentration concentrated buyers-direct selling spread customers more intermediaries.
  3. Size or order - i.e. quantity of purchase
     - Less - more intermediaries
     - More - direct selling

- **Product Related Factors**
  1. Nature of product-technical (made to order) direct selling.
  3. The unit value of the product costly- direct selling, Low-long channels.
  4. Products' Complexity-Complex products-direct selling, Non-Complex-long Channels

- **Company related factor**
  1. Financial strength of the company - strong direct /own channel - weak - middleman required.
  2. Degree of control-Greater control-Short / direct channel, less control - long channels.
  3. Management Sufficient knowledge - direct selling & Vice versa.

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 ventures, the number of consumers is also less. So she decides that the direct channel of distribution is better. Her friend, Rajeev is a manufacturers 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.

IV. P-Promotion Mix

It refers to combination of promotional tools used by an organisation to communicate and persuade customers to buy its products.

**Tools/Elements of Promotion Mix**

1. **Advertising:** 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:

1. Increased Product Price: Which 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.
4. Advertisement of Bad Tastes: Events, models degrade the human dignity.
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 company makes false claims about getting power from drinking soft drink. What values are lacking in the company?

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 Salesman

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.*

3. **Sales Promotion**: Short term incentives designed to encourage the buyers to make immediate purchase of a product/service.

**Techniques**

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.

**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.

**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 tactic.

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 to give them a gist of the organization.

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 ORIGINATION**

(i) Smooth functioning of business and achievement of objectives.

(ii) Building corporate image that affects favorably on its products. Up keep of parks, gardens, sponsoring sports activities etc.
(iii) Build interest in the established product and help in launching new products.

(iv) Establishing positive image of products facing adverse publicity. For example, soft drink majors–Pepsi, Coco-cola was subjected to a controversy that there were pesticides found in the samples collected from different areas. In this situation, the companies attracted severe criticism from various sectors like consumers, investors, government etc. This called for public relations exercise so that damage control could be done.

(v) It acts as a supplement to advertising in promoting (new and existing) products.

Q.1 A new movie ‘X42’ is to released in the month of December. Which department will handle the techniques of promoting the movie? What tools will they employ for the same?

Q.2 A mobile company is launching a new high tech mobile phone in the market. What will be the role of public relations department in this case. What tools can it use to promote it?

**IMPORTANT QUESTIONS**

1 Mark Questions

1. Define marketing management in present context.
2. Outline one objective of marketing management.
3. What is marketing research?
4. What is meant by product Mix’?
5. What is a trade mark?
6. Which marketing philosophy gives more importance to consumer welfare instead of consumer satisfaction.
7. State any one pillar of marketing concept.
8. Name the channel wherein goods are made directly available by the manufacturer to consumers without involving any intermediary.
9. A lunch box free with Kissan Sauce is an example of the techniques of sales promotion. Name the technique.
10. Write any two brand names available in the market.
11. State any one feature of convenience goods.
12. Toothpaste is packed in a tube is an example of which type of packing.
13. Which concept of Marketing suggests that the organisation should earn through volume profit of production.
14. Name any two products which are subject to the process of grading.
15. Name the element of marketing mix which makes the products available to the target customers.

3-4 Marks Questions
1. Explain any three advantages of labelling to the customers.
2. Differentiate between marketing and selling on the basis of:
   (i) Meaning, (ii) Scope, (iii) Objectives.
3. Write any four differences between advertising and personal selling.
4. State any three advantages of sales promotion.
5. Explain any four functions of packaging.

5-6 Marks Questions
1. Explain the various functions of marketing mix
2. Explain four important elements of marketing mix.
3. Explain any four factors on which the choice of channels of distribution depends.
5. Why Public Relations are important for an organisation?
6. Explain four qualities of a good brand.
7. Explain three methods of sales promotion.
8. What are the most important requirements for personal selling? What skills are needed to perform it effectively?
UNIT - 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.

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)

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 consumers 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 device).

2. **Right to be Informed**: Consumer has right to have complete information about the product before buying it.

3. **Right to choose**: Consumer has a right to choose any product out of 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 exceptions. 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.
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.

Q. Mamta brought a branded computer for Rs. 30,000/- from an authorized dealer but does not take a receipt. She was given oral warranty of one year on the computer. When she used the computer at home, she detected that CD drive was not functioning properly due to technical reasons. What remedy can she seek from the company?

Ans. Mamta can not seek any remedy from the company nor can she file a complaint under Consumer Protection Act because she does not have the proof of transaction. She did not get the Cash Memo at the time of purchase.

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 a complaint can 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.

Consumer Protection Act, 1986 defines deficiency as “any fault, imperfection, shortcoming or inadequacy in the quality, nature and manner of performance which is required to be maintained by or under any law for the time being in force or has been undertaken to be performed by a person in pursuance of a contract or otherwise in relation to any service”.

The term service includes any service that is not rendered free of charge.

The term deficiency has been applied differently to different sectors. For example, in the banking sector acts such as delay in issuing a cheque book, non encashment of a cheque and delay have been held to be deficiency and whereas in the medical sector, courts are not as liberal and count only gross negligence as deficiency. The courts have however been proactive in holding that even departments such as the housing boards are liable for any deficiency in services rendered.

REDRESSAL AGENCIES UNDER CONSUMER PROTECT ACT, 1986

For the redressal of consumer grievances the act provides a three-tier machinery as:

- National Commission
- | State Commission
- | District Forum

1. DISTRICT FORUM

District forum are set up in each district by the state concerned. The important features are:

(a) It consists of a President and two members, one of whom should be a woman, duly appointed by State Govt.
(b) It can receive consumer complaints of not more than Rs. 20 lakhs value.

(c) On receiving the complaint, the district forum shall refer the complaint to the opposite party concerned and send the sample of goods for testing in a laboratory.

(d) The district forum after being satisfied that goods are defective or there is some unfair trade practice can issue an order to opposite party directing him to either replace or return the price or pay compensation. In case the aggrieved party is not satisfied with the order of district forum. He can appeal before state forum within 30 days of passing an order.

2. STATE COMMISSION

It is set up in each state by the govt. concerned. The salient features are:

(a) Each commission consists of a president and it least 2 members appointed by state Govt.

(b) Complaints of at least Rs. 20 lakhs but not more than 1 crore can be filed with state commission.

(c) On receiving the complaint, the state commission can also refer the complaint to opposite party and send the goods for testing in laboratory.

(d) The state commission after being satisfied can order to opposite party to either replace or repay or pay compensation.

In case the aggrieved party is not satisfied, they can appeal before national commission within 30 days of passing an order.

3. NATIONAL COMMISSION

It is setup by Central Govt. The provisions of act are:

(a) It consists of a President and at least 4 members appointed by Central Govt.

(b) All complaints are pertaining to goods and services of value more than Rs. 1 crore can be filed with national commission.

(c) On receiving the complaint, the national commission can also refer it to opposite party and send goods for testing.
The National Commission has the power to issue orders for replacement or removal and to pay the compensation for loss.

**Q.1** Mukul purchased a house for Rupees 30 lakhs from a housing 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 complains 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.

(iv) Name the values “lacking in” the manufacturers in this case.

**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.
CONSUMER AWARENESS

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.

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.

Ways and Means of Consumer Protection


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.

**IMPORTANT QUESTIONS**

**1 Mark Questions**

1. What are the two aspects of consumer protection?
   
   *(Hint: Educating consumers and Redressal of their grievances)*
   
   Give an example of consumer exploitation. (unsafe products/Black marketing)

2. Name any two litigations which provide protection to consumers.
   
   *(Hint: (i) CPA 1986, The Essential Commodities Act 1955)*

   
   *(Hint : Consumer organisation & Govt.)*

4. Which mark is issued under the Bureau of Indian Standard Act 1986? *(Hint : ISI)*

5. Against whom can a complaint be filed by a consumer?

6. What does a ‘defect in goods’ mean?

7. What does a ‘deficiency in services’ mean?

8. If a dealer responds positively to a consumer’s complaint, which value of the dealer is depicted? *(Hint: Honesty, commitment)*

**3/4 Marks Questions**

1. Explain the role of Universities & schools in consumer protection?

2. Explain briefly the salient features of consumer protection Act 1986?

3. “NGO’s perform several functions for the protection and promotion of interest of consumers.” State any six such functions.
4. Joseph had got a confirmed ticket of Jet Airways. The flight was later cancelled on account of technical problem. Is it a deficiency in service? What relief can Joseph seek in this regard?

5. Kabir bought a piece of cloth for getting a pant stitched from a dealer for Rs. 1000/- with proper receipt. His tailor detected manufacturing defect in the pant piece. The shopkeeper refused to change or compensate. What relief can Kabir seek in this regard?
MODEL TEST PAPER
CLASS - XII
BUSINESS STUDIES

Time - 3 Hours  Maximum Marks - 80

Q1. Name the level of management at which the managers are responsible for implementing and controlling the plans and strategies of the organisation. (1)

Q2. The principles of management are different from those of pure sciences. State any one difference. (1)

Q3. A company needs a detailed plan for its new project "Construction of a shopping mall". What type of plan is it? (1)

Q4. Difficulty in inter-departmental coordination is one of the limitation of which organisation structure? (1)

Q5. State two internal sources of recruitments. (1)

Q6. Why is direction assumed to be executive function of management? (1)

Q7. What is Trading on equity? (1)

Q8. What is a treasury bill? (1)

Q9. Give three difference between single use plan and standing plans. (3)

Q10. Raman wants to trade in securities. Guide him regarding the trading procedure used in stock exchange. (3)

Q11. Which function of packaging is emphasised in case of Cadbury chocolates by using purple packaging on all its chocolates? What according to you are advantage of such packing? (3)

Q12. ABC Ltd. is introducing a new car in the market. Write any three factors that need to be considered while pricing the car. (3)

Q13. Prabhakar purchased on ISI mark electric iron from Bharat Electricals. While using it he found that it was not working properly.
He approached the seller and complained about the same. The seller asks the manufacturer to replace this iron. The manufacturer refused to do so and Bharat Electricals decided to file a complaint in the consumer Court. (3)

(i) Can Bharat Electricals do this? Why?

(ii) Name the consumer right that can be exercised.

(iii) Name the values lacking in the manufacturer in this case.

Q14. Name and explain the technique of scientific management which focuses on separation of planning and execution functions. (4)

Q15. Just after declaration of Lok Sabha Elections 2014 results, the BSC's price index level increased above 25,000 mark. Identify the environmental factor which led to this rise. Explain any three other dimensions of business environment. (5)

Q16. Distinguish between delegation and decentralisation of authority on the basis of (i) nature (ii) purpose (iii) freedom of action (iv) level of authority. (4)

Q17. Despite internal sources of recruitment being economical why do companies not always use their source? State any fur reasons. (4)

Q18. 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 which form of incentive is being referred here? Explain the incentive along with any other three incentives. (4)

Q19. 'To promote orderly and healthy growth of securities market and protection of investors securities market and protection of investors securities and Exchange Board of India was set up.' With reference to this statement explain four objectives of securities of Exchange Board of India. (4)

Q20. A, B and C have decided to start a business of manufacturing furniture. They identified various activities which they have to perform i.e. (i) purchase of raw materials (ii) Purchase of machinery (iii) Production of furniture (iv) Arrangements of finance (v) Sale of furniture (vi) Selection of employees.
In order to facilitate the work, they thought that four managers should be appointed to look after (a) Production (b) Finance (c) Marketing (d) Personnel.

(1) Identify the function of management involved in the above-mentioned para.

(2) List two values referred in the above function.

(3) State the steps involved in the process of this function of management.

Q21.

This notice board was placed in the reception area of ABC Ltd. The notice placed here did not mention clear specifications regarding the time. This results in ambiguity of message. Which barrier of communication is referred to here? Explain any four other forms of barriers of effective communication.

Q22. Planning and controlling are mutually interrelated and inter-dependent activities? Explain

Q23. Success of an organization largely depends upon its management. Explain any six reasons to justify this statement.

OR

Explain any six impacts of change of Government's policy on business industry.

Q24. What is meant by fixed capital? Describe any four factors which affect the fixed capital requirements of a company.

OR
Explain any 6 factors affecting dividend decisions of an organization.  

Q26. 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. objections against advertising. Explain any four points in support of your topic.

OR

Rajan Nandwani is a businessman who deals in auto spare parts. What four elements of marketing mix should he follow according to you? Also mention any two values that Rajan Nandwani should take care of with regard to developing the marketing mix.
C.B.S.E. QUESTION PAPER : 2014

BUSINESS STUDIES
CLASS - XII
BUSINESS STUDIES

Time - 3 Hours
Maximum Marks - 90

General Instructions :

(i) Answers to questions carrying 1 mark may be from one word to one sentence.
(ii) Answers to questions carrying 3 marks may be from 50-75 words.
(iii) Answers to questions carrying 4-5 marks may be about 150 words.
(iv) Answers to questions carrying 6 marks may be about 200 words.
(v) Attempt all parts of a question together.

1. What is meant by ‘Management of people’? 1

2. What is the objective of ‘Method Study’ as a technique of scientific management? 1

3. What is included in ‘Political Environment’ of business? State. 1

4. Give the meaning of ‘Policy’ as a type of plan. 1

5. Give the meaning of ‘Authority’ as an element of delegation. 1

6. State any one advantage of ‘Formal Organisation.’ 1

7. Why employees become lethargic when the organisation uses internal sources of recruitment? State. 1

8. ‘Recruitment’ is one of the specialized activity performed by human resource management. Mention any two other specialized activities of human resource management. 1

9. Give an example of ‘Employee Recognition Programmes’ as a non-financial incentive. 1

10. What is meant by ‘Encoding’ as an element of communication? 1
11. Define ‘Capital Structure.’


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

   (i) By quoting the lines from the above para identify the needs of Rahim that are satisfied by the offer of cycle company.

   (ii) Also, explain two other needs of Rahim followed by above that are still to be satisfied.

14. How directing helps in efficient and effective functioning of the organisation? Explain by giving any three points.

15. ‘Financial market plays an important role in the allocation of scarce resources in an economy by performing various functions.’ Explain any three functions of financial market.

16. Crackers Ltd., a fire cracker manufacturing company launched some new products on eve of Diwali which attracted many buyers. To meet the increased demand, the company employed children from nearby villages. Although the product was in great demand, appropriate safety warnings for use were not mentioned on the packets that let to many accidents.

   (i) Identify and explain the important product related decision that was not taken into consideration by the company.

   (ii) Also, identify any two values which were violated by the company.

17. State any three points of importance of consumer protection from the point of view of consumers.

18. Explain the following rights of consumers:

   (i) Right to be informed.

   (ii) Right to safety.
19. XYZ Power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient to cover the costs and the risks. The demand of lanterns was increasing day by day, so the company decided to increase production to generate higher sales. For this they decided to employ people from the nearby villages as very few job opportunities were available in that area. The company also decided to open schools and creches for the children of its employees.

   (i) Identify and explain the objectives of management discussed above.

   (ii) State any two values which the company wanted to communicate to the society.

20. Why is the understanding of business-environment important for managers? Explain with the help of any four points.

21. How is training of employees beneficial for the organisation? State by giving any four reasons.

22. Explain any four points that highlight the importance of financial planning.

23. Describe any five limitations of planning.

24. Differentiate between ‘capital-market’ and ‘money-market’ on the following basis:

   (i) Participants; (ii) Instruments; (iii) Investment outlay; (iv) Duration and (v) Liquidity.

25. Explain ‘Price’ as an element of marketing-mix. Also explain any four factors that affect the fixation of price of a product.

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

   Identify and explain the Principles of Taylor and Fayol referred in the above para.
27. ‘Organising involves a series of steps in order to achieve the desired goals.’ Explain these steps? 6

Or

With the help of any four points, explain the crucial role that organising plays in an enterprise.

28. Explain the various steps in the process of controlling. 6

Or

Explain any four points that highlight the importance of controlling.

29. Explain the following as factors affecting the requirements of fixed capital. 6

(i) Scale of operations;
(ii) Choice of technique;
(iii) Technology upgradation and
(iv) Financing alternatives.

Or

Explain the following as factors affecting dividend decision:

(i) Stability of earnings;
(ii) Growth opportunities;
(iii) Cash flow position and
(iv) Taxation policy.

30. Explain the following functions of marketing: 6

(i) Gathering and analysing market information;
(ii) Marketing planning;
(iii) Customer support services and
(iv) Physical distribution.

Or

‘Though advertising is one of the most frequently used medium of promotion of goods and services, yet it attracts lot of objections.’ Explain any four such objections.
A1 Q. What is meant by ‘management of people’?

Ans. Management of people means dealing with employees as individual with diverse needs and behaviors as well as dealing with individual as a group of people. 1 mark

A2 Q. What is the objective of ‘Method Study’ as a technique of scientific management?

Ans. The objective of method study is to find out one best way of doing the job. 1 mark

A3 Q. What is included in ‘Political Environment of business’? State.

Ans. Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. 1 mark

A4 Q. Give the meaning of ‘Policy’ as a type of plan.

Ans. Policy is a general guideline which brings uniformity in decision making for achievement of predetermined objectives. 1 mark

A5 Q. Give the meaning of ‘Authority’ as an element of delegation.

Ans. Authority refers to the right of an individual to command his subordinates and to take action within the scope of his position. 1 mark

A6 Q. State any one advantage of ‘Formal Organisation’.

Ans. Advantages of formal organization (Any one):

(i) It is easier to fix responsibility.

(ii) It avoids duplication of efforts.

(iii) It maintains unity of command.

(iv) It leads to effective accomplishment of goals.

(v) It provides stability to the organization.
A7 Q. Why employees become lethargic when the organization uses internal sources of recruitment? State.

Ans. Employees become lethargic when the organization uses internal sources of recruitment as they are sure of time bound promotions.

A8 Q. “Recruitment’ is one of the specialized activity performed by human resource management. Mention any two other specialized activities of human resource management.

Ans. Other specialized activities of human resource management are:
(Any two)

(i) Analysing jobs.
(ii) Selection.
(iii) Placement and orientation.
(iv) Training and development of employees.
(v) Performance Appraisal.
(vi) Developing compensation and incentive pl.
(vii) Maintaining labour relations and union management relations.
(viii) Handling grievances and complaints.
(ix) Providing for social security and welfare of employees.
(x) Defending the company in law suits and avoiding legal complications.

A9 Q. Give an example of ‘Employee Recognition Programmes’ as a non financial incentives.

Ans. Examples of ‘Employee Recognition Programmes are : (Any one)

(i) Congratulating the employees for good performance.
(ii) Displaying employees achievements on the notice board or company’s newsletter.
A10 Q. What is meant by ‘Encoding’ as an element of communication?
Ans. Encoding means converting the message into communication symbols such as words, pictures, gestures, etc. 1 mark

A11 Q. Define ‘Capital Structure’.
Ans. The capital structure means the proportion of debt and equity used for financing the operations of a business. or It refers to the mix between owner’s funds and borrowed funds. 1 mark

A12 Q. How does ‘Inflation’ affect the working capital requirement of a company? State.
Ans. With inflation, the working capital requirements become higher as larger amount of money is required to maintain a constant volume of production and sales. 1 mark

A13 Q. Rahim was working in an enterprise on daily wages basis. It was difficult for him to fulfill the basic needs of his family. His daughter fell ill. He had no money for his daughter's treatment. To meet the expenses of her treatment, he participated in a cycle race and won the prize money. The cycle company offered him a permanent pensionable job which he happily accepted.

(i) By quoting the lines from the above para identify the needs of Rahim that are satisfied by the offer of cycle company.

(ii) Also, explain two other needs of Rahim followed by above that are still to be satisfied.

Ans. (i) Needs of Rahim that are satisfied by the offer of cycle company are Physiological and Safety/security needs. ‘The cycle company offered him a permanent pensionable job’.

(ii) The other needs followed by the above stated needs that are still to be satisfied are:

(a) Affiliation/Belongingness needs : These needs refer to the need for affection, sense of belonging, acceptance and friendship.

(b) Esteem needs : These needs refer to the need for set
respect autonomy status, recognition and attention.

½ mark for identification + ½ mark for quoting the line = ½+½=1 mark +½ mark for naming the need+½ mark for its explanation= 1×2 = 2 marks=
1+2=3 marks

A14 Q. How directing helps in efficient and effective functioning of the organization? Explain by giving any three points.

Ans. Directing helps in efficient and effective functioning of the organization because: (any three)

(i) It helps to initiate action.

(ii) It integrates employees’ efforts.

(iii) It guides employees to realize their potential.

(iv) It facilitates changes.

(v) It brings stability and balance in the organization.

(If an examinee has not given the headings as above but has given the correct explanations, full credit should be given). ½ mark for the heading+½ mark for explanation=1×3=3 marks

A15. ‘Financial market plays an important role in the allocation of scarce resources in an economy by performing various functions.’ Explain any three functions of financial market.

Ans. Financial market plays an important role in the allocation of scarce resources in an economy by performing the following functions: (Any three)

(i) Mobilisation of savings and channelizing them into most productive use.

(ii) Facilitating price discovery.

(iii) Providing liquidity to financial assets.

(iv) Reducing the cost of transactions.

(If an examinee has not given the headings as above but has given the correct explanations, full credit should be given) ½ mark for the heading+½ mark for explanation=1×3=3 marks
Crackers Ltd., a fire cracker manufacturing company launched some new products on eve of Diwali which attracted many buyers. To meet the increased demand, the company employed children from nearby villages. Although the product was in great demand, appropriate safety warnings were not mentioned on the packets that led to many accidents.

(i) Identify and explain the important product related decision that was not taken into consideration by the company
(ii) Also, identify any two values which were violated by the company.

Ans. (i) The important product related decision that was not taken into consideration by the company is **Labelling**.

It is the process of designing the label and putting it on the package to provide information regarding the product, its contents, methods of use etc.

(ii) Values violated by the company :

* concern for safety of human beings.
* respect for law (employing children as labour).
* concern/sensitivity for the environment.

(or any other correct value)

\[
\frac{1}{2} \text{ mark for identification} + \frac{1}{2} \text{ mark for its explanation} = \frac{1}{2} + \frac{1}{2} = 1 \text{ mark} + 1 \text{ mark for each value} = 1 \times 2 = 2 \text{ marks} = 1 + 2 = 3 \text{ marks}
\]

Q. State any three points of importance of consumer protection from the point of view of business.

Ans. Importance of consumer protection from the point of view of business (Any three)

(i) It is in the long term interest of the business.
(ii) Business uses society’s resources and hence should supply products and render services in public interest.
(iii) Business has a special responsibility towards various interest groups.
(iv) It is the moral duty of the business to take care of consumers interests.

(v) Business would invite government intervention if it engages in any form of exploitative trade practices. (If an examinee has given only the headings, ½ mark for each heading should be awarded).  

A18 Q. Explain the following rights of consumers : (i) Right to choose; (ii) Right to be heard. 

Ans. (i) **Right to choose** : The consumer has the freedom to choose from a variety of products offered by the marketers at competitive prices.

(ii) **Right to be heard** : The consumer has right to file a complaint with business firms and to be heard in case of dissatisfaction with a product or a service. 1½+1½=3 marks

A19 Q. XYZ Power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient to cover the costs and the risks. The demand of lanterns was increasing day by day, so the company decided to increase production to generate higher sales. For this, they decided to employ people from nearby villages as very few job opportunities were available in that area. The company also decided to open schools and crèches for the children of its employees.

(i) Identify and explain the objectives of management discussed above.

(ii) State any two values which the company wanted to communicate to the society.

Ans. (i) The objectives of management referred to are:

**Organisational objectives** : These refer to the utilization of human and material resources considering the interest of all stakeholders.

**Social objectives** : These refer to the creation of benefit for various constituents of the society.
(If an examinee has explained survival and growth as objectives of management instead of organizational objectives, full credit is to be given)

(ii) Values which the company wanted to communicate to the society are: *(Any two)*

(a) Providing employment opportunities.
(b) Development of backward regions.
(c) Providing basic amenities to employees.
(d) Concern for the environment.

(or any other correct value)

\[ \frac{1}{2} \text{ mark for identification of each objective} + \frac{1}{2} \text{ mark for its explanation} = 1 \times 2 = 2 \text{ marks} + 1 \text{ mark for each value} = 1 \times 2 = 2 \text{ marks} = 2 + 2 = 4 \text{ marks} \]

**A20**  
**Q.** Why is the understanding of business-environment important for managers? Explain with the help of any four points.

**Ans.** Understanding of business environment is important for managers to: *(Any four)*

(i) Identify opportunities and get the first mover advantage.
(ii) Identify threats and early warning signals.
(iii) Tap useful resources.
(iv) Cope with rapid changes.
(v) Assist in planning and policy formulation.
(vi) Improve performance.

(If an examinee has not given the headings as above but has given the correct explanation, full credit should be given)

\[ \frac{1}{2} \text{ mark for the heading} + \frac{1}{2} \text{ mark for the explanation} = 1 \times 4 = 4 \text{ marks} \]
A21  Q. How is training of employees beneficial for the organization? State by giving any four reasons.

Ans. Training of employees is beneficial for the organization as: (Any four):

(a) It avoids wastage of efforts and money.
(b) It enhances employee productivity.
(c) It equips the future manager to take over in an emergency.
(d) It reduces employees’s turnover.
(e) It helps the employees to adopt the new/latest technology.

(If an examinee has given only the headings, ½ mark for each heading should be awarded)

1 mark for each statement 1 × 4= 4 marks

A22  Q. Explain any four points that highlight the importance of financial planning.

Ans. Financial planning is important to: (any four)

(i) Prepare for the future.
(ii) Avoid business shocks and surprises.
(iii) Coordinate various business functions.
(iv) Reduce waste and duplication of efforts.
(v) Link the present with the future.
(vi) Link investment and financing decisions.
(vii) Evaluate actual performance.

(If an examinee has not given the headings as above but has given the correct explanation, full credit should be given).

½ mark for each heading+½ mark for each explanation = 4 marks
A23  Q. State any five features of planning.

Ans. Features of planning : (any five)

(i) It focuses on achieving organization objectives.

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

(iii) It is pervasive as it is required in all organizations, at all levels and in all departments.

(iv) It is continuous because a plan is framed, implemented and is followed by another plan.

(v) It is futuristic as it involves looking ahead and preparing for the future.

(vi) It involves decision making as it involves a choice from among the various alternative courses of action.

(vii) It is a mental exercise as it is intellectual activity of thinking rather than doing.

(viii) It provides the basis for controlling by providing standards.

(If an examinee has given only the headings, ½ mark for each heading should be awarded) \[1 \times 5 = 5 \text{ marks}\]

A24  Q. Differentiate between ‘capital-market’ and ‘money-market’ on the basis of: (i) Safety; (ii) Expected return; (iii) Meaning; (iv) Instruments and (v) Duration.

Ans. Distinction between Capital Market and Money Market

<table>
<thead>
<tr>
<th>Basis</th>
<th>Capital Market</th>
<th>Money Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Safety</td>
<td>Capital market instruments are riskier both with respect to returns and principal repayment.</td>
<td>Money market instruments are generally much safer with a minimum risk of default</td>
</tr>
<tr>
<td>(ii) Expected return</td>
<td>The investment in capital markets, generally yield a higher return</td>
<td>The expected rate of return of the money market is less.</td>
</tr>
<tr>
<td>(iii) Meaning</td>
<td>It refers to the facilities and institutional arrangements through which funds, both debt and equity are invested and raised.</td>
<td>It is the market where low risk, unsecured, highly liquid short term debt instruments are issued and traded.</td>
</tr>
</tbody>
</table>
Q.25. Explain ‘Price’ as an element of marketing-mix. Also, explain any four factors that affect the fixation of price of a product.

Ans. Price as an element of marketing mix involves decisions regarding pricing objectives, pricing methods, pricing strategies, pricing policies and price changes. Factors that affect the fixation of price of a product are: (any four)

- Product cost.
- Utility and demand
- Extent of competition in the market.
- Government and legal regulations.
- Pricing objectives.
- Marketing methods used.

(If an examinee has not given the headings as above but has given the correct explanation, now marks should be deducted. 1 + 4 = 5 marks)

A26 Q. Principles of Taylor and Fayol are mutually complementary. One believed that the management should not close its ears too constructive suggestions made by the employees while the other suggested that a good company should have an employee suggestion system whereby suggestions which result in substantial time or cost reduction should be rewarded. Identify and explain the principles of Taylor and Fayol referred in the above para.

Ans. (i) **Principle of Taylor referred to is Cooperation, Not Individualism**: It states that there should be complete cooperation between the labour and the management. Competition should be replaced by cooperation.
(ii) **The principle of Fayol referred to is Initiative**: It indicates that the subordinates should be encouraged to make and execute plans within the prescribed limits of authority.  

1 mark for identification + 1½ marks for its explanation = 2½ × 4 = 5 marks

A27 Q. Steps in Organising Process:

1. Identification and Division of work
2. Departmentalization
3. Assignment of Duties
4. Establishing Reporting Relationships

OR

A27 Q. Role of Organising in an Enterprise:

1. Benefits of specialization
2. Clarity in working relationships
3. Effective Administration
4. Expansion and growth

(Or any other correct point of importance)

½ mark for each heading + 1 mark for each explanation = 1½ × 4 = 6

A28 Q. Explain the various steps in the process of controlling.

**Ans. Steps in the process of controlling:**

(i) Setting performance standards.
(iii) Comparison of actual performance with the standards and analyzing deviations.
(iv) Taking corrective action. (If an examinee has combined or written separately any of the above stated points but covered all points in order, full credit to be given.)
(If an examinee has not given the headings as above but has given the correct explanation, no marks should be deducted)

Or

A28. Q. Explain any four points that highlight the importance of controlling.

Ans. Importance of controlling: (Any four)

(i) Accomplishing organization goals.
(ii) Judging accuracy of standards.
(iii) Making efficient use of resources.
(iv) Improving employee motivation.
(v) Ensuring order and discipline.
(vi) Facilitating coordination in action. (If an examinee has not given the headings as above but has given the correct explanation, no marks.

½ mark for each heading + 1 mark for each explanation = 1½ × 46 marks OR ½ mark for each heading + 1 mark for each explanation + 1½ × 4=6 marks

A29. Q. Explain the following as factors affecting the requirements of fixed capital:

(a) Nature of business;
(b) Growth prospects;
(c) Diversification;
(d) Level of collaboration.

Ans. Factors affecting the requirements of fixed capital:

(a) Nature of business: A trading concern needs a lower investment in fixed assets as compared to a manufacturing concern since it doesn’t require to purchase plant and machinery;
(b) **Growth prospects:** Higher growth prospects require higher investment in fixed assets to meet anticipated demand quicker.

(c) **Diversification:** A firm which chooses to diversify requires higher investment in fixed assets.

(d) **Level of collaboration:** Collaboration reduces the level of investment in fixed assets.

\[ 1\frac{1}{2} \times 4 = 6 \text{ marks} \]

A.29 Q. Explain the following as factors affecting dividend decision:

(a) Stability of dividends

(b) Shareholders preferences

(c) Access to capital market

(d) Legal constraints

**Ans.**

**Factors Affecting the requirements of Fixed Capital:**

(a) **Nature of Business:** A trading concern needs a lower investment in fixed assets as compared to a manufacturing concern since it doesn't require to purchase plant and machinery.

(b) **Growth Prospects:** Higher growth prospects require higher investment in fixed assets to meet anticipated demand quicker.

(c) **Diversification:** A firm which chooses to diversify requires higher investment in fixed assets.

(d) **Level of Collaboration:** Collaboration reduces the level of investment in fixed assets.

\[ 1\frac{1}{2} \times 4 = 6 \text{ marks} \]

A.29 Q. Explain the following as factors affecting dividend decision:

(a) Stability of dividends

(b) Shareholders preferences
(c) Access to capital market

(d) Legal constraints.

**Ans. Factors Affecting dividend decision**

(a) **Stability of Dividends**: Companies follow the policy of stabilising dividend per share and increase the dividend only when the earning potential goes up.

(b) **Shareholders Preferences**: Companies pay dividend if the shareholders desire that at least a certain amount be paid as dividend.

(c) **Access to Capital Market**: Companies with higher access to capital market declare higher dividend.

(d) **Legal Constraints**: Companies have to adhere to provisions of the Companies Act which may place restrictions on the payout of dividend.

**A.30 Q.** Explain the following functions of marketing:

(i) Gathering and analysing market information;

(ii) Marketing planning;

(iii) Customer support services and

(iv) Physical distribution

**Ans.**

(i) **Gathering and Analysing Market Information**: This involves making an analysis of the available opportunities and threats as well as the strengths and weaknesses of the organisation which helps in deciding which opportunities can best pursued by it.

(ii) **Marketing Planning**: This involves development of marketing plans like plan for increasing the level of production, promotion of the products, etc to achieve the marketing objectives of the organisation.

(iii) **Customer Support Services**: This includes services like after sales services, handling customer complaints and adjustments, maintenance services, technical services etc.
(iv) **Physical distribution** : Physical distribution involves decision regarding channels of distribution and decision regarding physical movement of the product from where it is produced to a place where it is required by the customers for their consumption or use.

Or

A.30 Q. Though advertising is one of the most frequently used medium of promotion of goods and services, yet it attracts lot of objections. Explain any four such objections.

**Ans.** Though advertising is one of the most frequently used medium of promotion of goods and services, yet it attracts lot of objections which are (Any four)

(i) **Add to Cost** : Advertising unnecessarily adds to the cost of the product, which is ultimately passed on to the buyers in the form of high prices.

(ii) **Undermines Social Values** : Advertising undermines social values and promotes materialism and discontent among people.

(iii) **Confuses the Buyers** : There are so many products being advertised that the buyer gets confused as to which one should be buy.

(iv) **Encourages Sale of Inferior Products** : Advertising does not distinguish between superior and inferior products and persuade people to purchase even the inferior products.

(v) **Some Advertisements are in Bad Taste** : Another criticism against advertising is that some advertisements are in bad taste. They may not be approved by the society in general.

\( \frac{1}{2} \text{ mark for each heading} + 1 \text{ mark for each explanation} = 1 \frac{1}{2} \times 4 = 6 \text{ marks} \)