DIRECTORATE OF EDUCATION
GOVT. OF NCT OF DELHI

Support Material
(2015-2016)

CLASS : XII

BUSINESS STUDIES

Under the Guidance of:

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Anil Kumar Sharma
PREFACE

It gives me immense pleasure to present before you the subject-wise supporting material for the students of classes X, XI and XII, prepared by the teams of dedicated and industrious teachers from the Directorate of Education. The objective of this material is impart sufficient practice to the students and to enable them to think analytically and rationally.

I hope that the students will find this study material useful and it will help them achieve academic excellence. I also hope that teachers will guide and motivate the students to use this material in preparing for examinations.

I would like to appreciate the efforts of the teams of teachers and group leaders under the enlightened guidance of the Director (Education).

Wishing best of luck to all the students.

(PUNYA SALILA SRIVASTAVA)
PREFACE

The Directorate of Education prepares Support Material for different subjects indigenously. Every year, experienced and knowledgeable teachers revise and update the material for children.

Support material is a boon especially for those children who cannot purchase the costly but substandard ‘guides’ available in the market. Prepared in-house, the material is not only much better in quality, it is also provided to the students free of cost.

The material can serve as a very handy tool for revision. I call upon the teachers give their students sufficient practice in it.

I must share with the students that this material has the potential to enhance your performance and output, remarkably. So, please make it a habit to go through the text book first and then, practice from the Support Material.

I take this opportunity to thank all the learned teachers and HoSs who have contributed to the preparation/revision these works.

My best wishes!

(PADMINI SINGLA)
FOREWARD

I am delighted to present before you the latest issues of the support material for the students of classes X, XI and XII. During the last few years the content and quality of the support material has undergone subtle changes. Teams of subject experts have devoted their time, efforts and energy to prepare this material which facilitates the students while preparing for their exams. The material is updated according to the latest changes and improvements which have been carried out by the CBSE and NCERT.

I hope that our teachers will give sufficient practice to their students through this material which in turn will improve their creative and analytical skills.

I appreciate the hard work of all the teachers, group leaders and members of the Examination Branch whose efforts have materialized in the form of these books.

I wish you all the best.

Dr. Sunita S. Kaushik
Addl. Director of Education
(School and Exam)
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1. Ms. Poonam Khanna SKV, Adarsh Nagar
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# SYLLABUS

**CENTRAL BOARD OF SECONDARY EDUCATION, DELHI**

**BUSINESS STUDIES**

**CLASS XII**

<table>
<thead>
<tr>
<th>One Paper</th>
<th>3 Hours</th>
<th>Marks: 100</th>
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<td>Units</td>
<td>Periods</td>
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## PART A: Principles and Functions of Management

1. Nature and Significance of Management 14
2. Principles of Management 14 16
3. Business Environment 12
4. Planning 14
5. Organising 18 14
6. Staffing 16
7. Directing 18 20
8. Controlling 14

**Total** 120 50

## PART B: Business Finance and Marketing

9. Financial Management 22 15
10. Financial Markets 20
11. Marketing Management 32 15
12. Consumer Protection 16

**PART C: Project Work**

<p>| | |</p>
<table>
<thead>
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<td>30</td>
<td>20</td>
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<td><strong>Total</strong></td>
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## QUESTION PAPER DESIGN 2015-16
### BUSINESS STUDIES

**Code No. 054**  
**CLASS XII**

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

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<tr>
<th>S. No.</th>
<th>Typology of Questions</th>
<th>Learning Outcomes &amp; Testing Skills</th>
<th>Very Short Answer (1 Mark)</th>
<th>Short Answer-I (3 Marks)</th>
<th>Short Answer-II (4 Marks)</th>
<th>Long Answer (5 Marks)</th>
<th>Essay Type (6 Marks)</th>
<th>Total Marks</th>
<th>% Weightage</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 Skills | 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 | – | 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, Organize and/or integrate unique pieces of information from a variety of sources) | 2 | 1 | 2 | – | 1 | 19 | 24% |
| 5      | Evaluation- (Appraise, judge, and/or justify the value or worth of a decision or outcome, or to predict outcomes based on values) | – | – | 1 (value based) | 1 | – | 9 | 11% |
| 6      | TOTAL - 2 project (10 marks each) 20 | 8x1=8 | 5x3=15 | 6x4=24 | 3x5=15 | 3x6=18 | 80(25) (projects) (20) | 100% |
| 7      | Estimated Time (in minutes) | 8 min | 20 min | 50 min | 37 min | 50 min | 165 min + 15 min, for revision |
CHAPTER 1

NATURE AND SIGNIFICANCE OF MANAGEMENT

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

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 meet the target and produce 1000 units but the cost per unit was Rs. 100/-. 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.

Q. Identify in following activities if the manager is effective, efficient, both or neither.

1. Rohini prepared a well documented and factual report on Co’s performance but she could not present it in Board meeting as she could not complete it on time.

[Hint : Efficient but not effective]

2. Best roadways promised to deliver goods in time and charged extra money from Mr. Singh. But the goods were not delivered on time.

[Class XII : Business Studies] 4
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.

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, McDonalds 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. 1 An educational institution as well as a business organization both need to be managed which characteristic of management is highlighted here. (Universal)

Q. 2 “In an organization, the employees are happy and satisfied, there is no chaos and the effect of management is noticeable.” Which characteristic of management is highlighted by this statement? (Intangible Force)

Q. 3. In order to be successful an organisation must change its goals according to the needs of environment. Which characteristic of management is highlighted here (Dynamic)

Q4. Management is multi dimensional. Give any 2 dimensions of it. (Work, People)

Q5. Which feature of management is highlighted when it is said that it is present in all types of organisations at all levels. (It is all pervasive)

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).

(1) Survival - Management by taking positive decisions with regard to different business activities ensures survival of business for long.

(2) Profit - It plays an important role in facing business risks and successful running of business activities.

(3) Growth - Management must ensure growth which can measured by increase in sales no. of employees, product, investment etc.

(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 and 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 organisational objectives.

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

Management as an Art

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

(1) **Existence of theoretical knowledge**: In every art systematic and organized study material should be available compulsorily to acquire theoretical knowledge.

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

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

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

Management as Profession

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

1. **Well-defined body of Knowledge**: All the professions are based on well defined body of knowledge.
2. **Restricted Entry**: The entry in every profession is restricted through examination or through some minimum educational qualification.
3. **Professional Associations**: All professions are affiliated to a professional association which regulates entry and frames code of conduct relating to the profession.
4. **Ethical Code of Conduct**: All professions are bound by a code of conduct which guides the behaviour of its members.
5. **Service Motive**: The main aim of a profession is to serve its clients.
Management does not fulfill all the features of a profession and thus it is not a full fledged profession because anybody can proclaim to be a manager; prescribed compulsory educational degree or license is required. Besides there are not any 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.

Q. Management is a profession like Accounting, Medicine and Law, as it also has a well defined body of knowledge. Yet management does not quality to be a full fledged profession. Why? Give one reason.

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.
  - Authority
  - Framing Plans & Policies
  - Interpretation of Plans
  - Execution and Implementation of plans

- **Middle Level**
- **Lower Level**

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

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

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

Lower Level/Supervisory Level

Consists of Foremen and supervisor etc.

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

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)

Q. Name the level at which the managers are responsible for implementing and controlling the plans and strategies of the organisation? (Authority-Responsibility relationships)

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 by following a series of steps and includes training and development.

Directing is leading, influencing and motivating employees to perform the tasks assigned to them. It includes four activities:-

(a) Supervision (ii) Communication
(b) Leadership (iv) Motivation
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. It is concerned with all the three levels of management as if all the levels of management are looked at together, they become a group and as in the case of every group, they also require coordination among themselves. So, it is not a separate function of management, rather it is the essence of management.

1. **Coordination integrates group efforts:** It integrates diverse business activities into purposeful group activity ensuring that all people work in one direction to achieve organizational goals.

2. **Coordination ensures unity of action:** It directs the activities of different departments and employees towards achievement of common goals and brings unity in individual efforts.
3. **Coordination is a continuous process**: It is not a specific activity matter it is required at all levels, in all departments till the organization continues its operations.

4. **Coordination is all pervasive function**: It is universal in nature. It synchronizes the activities of all levels and departments as they are interdependent to maintain organizational balance.

5. **Coordination is the responsibility of all managers**: It is equally important at all the three-top, middle and lower levels of management. Thus it is the responsibility of all managers that they make efforts to establish coordination.

6. **Coordination is a deliberate function**: Coordination is never established by itself rather it is a conscious effort on the part of every manager. Cooperation is voluntary effort of employees to help one another. Effective coordination can not be achieved without cooperation of group members.

**Q1.** Carbon Ltd., is a company that manufactures mobile phones and accessories. Its profits are declining nowadays. The production department blames marketing department for not meeting sales target. The marketing department blames production department for not manufacturing products of good quality. The finance department blames both production and marketing departments for low rate of returns.

*Which Quality of Management is lacking? Explain its importance.*

**Q2.** Which aspect of management binds all the functions of management?

**Q3.** Is making a time-table in an educational institution is the example of coordination? Why.

**Q4.** How does coordination ensure unity of action in management? (It acts as the binding force between departments and ensures that all activities are aimed at achieving the goals of the organisation.)
QUESTIONS FOR PRACTICE

QUESTIONS OF 3-6 MARKS.

Q1. Mr. X, the director of a company many times get involved in activities like procurement of raw material, production and dispatch of goods, employee discipline etc.

(a) Name the level of management Mr. X belongs to.
(b) Do you think he must be involved in such activities? Give reason.
(c) Give two important functions, Mr. X must perform?

[Hint : (a) Top level (b) No, as these are routine jobs (c) setting goals, formulating objectives etc.]

Q2. Management of Global Ltd. fulfills all its objectives and the organisation is able to work effectively and efficiently. It is using environment friendly methods of production and disposes off the waste material by either recycling it or using the same for landfill in such a manner that aquatic life is not disturbed. It also provides employment opportunities to the disadvantaged sections of the society.

(a) Identify the objective of management which the company is fulfilling by doing such activities.
(b) State any other 2 objectives which they should fulfill?
(c) Which two values is the company achieving by their activities?

Q3. In ABC Ltd., the purchase department purchased 20 tones of raw material for production department. Although only 15 tonnes was needed by production department. Due to this, goods were overproduced and were not accepted by sales department. As a result, some goods remained unsold. Which aspect of management is lacking among various departments. Give any 2 importances of the above asked element.

[Hint : (a) Co-ordination]

Q4. The marketing manager of Alpha Ltd. fixed the target for all his sales executives and gave them all the possible authorities to achieve it. They
were asked to submit to him their performance report at the end of the month. All of them did the same. On the receipt of report, the expected and actual results of sales executives were compared, on this basis future course of action was decided. The sales Executive also wrote in their report what the expectations of the customers from the company were. Majority of them had written that they wanted the co. to cooperate in the construction of Dharmsala going on in the city. The marketing manager placed this demand before the Board of Directors. This was happily accepted.

(a) Identify the functions of management described in above paragraph by quoting relevant lines.

(b) Which 2 values are given to society?

(c) Which objective is being highlighted here?

[Hint: (a) Organising, Controlling and Planning],
(b) Community development, Accomplishment of social responsibility]
(c) Social Objective

Q5. Three groups of employees of Ganga Ltd. are working at different posts. The first group is responsible for survival and growth of organisation. This group continuously keeps a watch over the business environment. With a view of coping with the changes going on in the business environment this group immediately discusses the change to be brought about in company’s plan.

The second group is to explain the policies by superiors to the employees and developing the feeling of cooperation among all the departments.

The Third group is responsible for maintaining quality and safety standards and minimising wastage.

(a) Identify the levels of management described in above paragraph by quoting relevant lines.

[Hint: (a) Top level (b) Middle level (c) Supervisory level.]

Q6. Grey Ltd. is facing a lot of problems these days. The Co’s margin is declining day by day. The Production manager is blaming marketing department whereas marketing is blaming production department for not maintaining the quality. Finance department is blaming the both.
(a) What aspect of management do you think is lacking in the above situation.

(b) Give the importance of that concept.

[Hint: Co-ordination]

Q7. Rahul is planning to launch a new line of products in 2 years time. However at present he has reduced its prices by 10% to retain its existing customers. What are the 2 main objectives he is focusing at? Give reason.

[Hint: (1) Growth - by launching a new product line
           (2) Survival - by reducing prices]

Q8. After every three months, Mr. Ramakant offers new schemes to its distributors. He tries to bring in changes keeping in mind the needs of a customer and offers from his competitors. This gives him an edge over his competitors. Identify the characteristic of management in above situation? Explain it briefly. [Hint: Dynamic].

Q9. Toys & toys Ltd. received a new order of 10,000 toys to be delivered in 15 days, failing which the contract will be null and avoid. To complete this, Mr. Pankaj, production manager planned to outsource the production and deliver the order on time. The outsourcing of production results in increase in cost by 30%. Do you think the production manager performed his duties effectively and efficiently? Give reasons. [Hint: Effective but not efficient.]

Q10. Gemini Circus is organising shows internationally for the last thirty years. Their shows have been successful across the globe. Of late, their shows are not as popular as they were in the past. After analysing, they are thinking of bringing necessary changes in their shows to gain popularity.

   (a) Identify which characteristics of management is reflected in above situation? Give reasons.

   (b) Which function of management is indicated here?

   [Hint: (a) Dynamic and Goal oriented.
          (b) Planning and Controlling.

Q 11. Ford Motors aims to produce and sell 1,50,000 cars in 2014. To achieve this target the production department strives for timely production and
sales department takes all possible steps to sell them. Due to combined efforts of all the departments, company can achieve its target.

(a) Which importance of management is highlighted here? Explain any two other significances of management.

(b) Which other aspect of management helps in achieving goal in Ford Motors.

[Hint : (a) “Management helps in achieving group goals

(b) Co-ordination.”]
CHAPTER - 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 as they are man made principles.
5. **Mainly Behavioural**: Since the principles aim at influencing complex human behaviour they are behavioural in nature.

6. **Cause and Effect relationship**: They intend to establish 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 organization to implement the changes.

5. **Fulfilling social responsibility**: Principles of management not only help in achieving organizational goals but also guide managers in performing social responsibilities. Example: “Equity” and “Fair” remuneration.

6. **Management training, education and research**: Management principles are helpful in identifying the areas in which existing and future managers should be trained. They also provide the basis for future research.
Q. How are Principles of management helpful for managers in fulfilling their social responsibility?

Q. Give reason, why principles of management are not rigid prescriptions? (Hint : As they are directly concerned with human behaviour which is always uncertain)

Q. How are management principles derived?

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 1988. When the company was on the verge of bankruptcy. He accepted the challenge and by using rich and broad administrative experience, he turned the fortune of the company. For his contributions, he is well known as the “Father of General Management”.

Principles of Management developed by Fayol

1. Division of work: Work is divided in small tasks/job and each work is done by a trained specialist which leads to greater efficiency, specialisation, increased productivity and reduction of unnecessary wastage and movements.

2. Authority and Responsibility: Authority means power to take decisions and responsibility means obligation to complete the job assigned on time. Authority and responsibility should go hand in hand. Mere responsibility without authority, makes an executive less interested in discharging his duties. Similarly giving authority without assigning responsibility makes him arrogant and there is fear of misuse of power.

3. Discipline: It is the obedience to organizational rules by the subordinates. Discipline requires good supervisors at all levels, clear and fair agreements and judicious application of penalties.

4. Unity of Command: It implies that every worker should receive orders and instructions from one superior only, otherwise it will create confusion, conflict, disturbance and overlapping of activities.
Q. 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.

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<tr>
<th>Basis</th>
<th>Unity of Command</th>
<th>Unity of Direction</th>
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<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, must have one head.</td>
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Presence of Unity of Direction

Lack of Unity of Direction

Difference between Unity of Command and Unity of Direction
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. 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.

12. **Stability of Personnel** : After being selected and appointed by 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.

13. **Initiative** : Workers should be encouraged to develop and carry out their plan for improvements. Initiative means taking the first step with self motivation. It is thinking out and executing the plan.

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

Q. Name and explain the principle of management according to which a manager should replace ‘I’ with ‘we’ in all his conversations with workers?

(Espirit De Corps.)

Q. In India, Panchayats have been given power to decide and spend funds granted to them by Govt. for the welfare of villages.”

Which Principle of management is highlighted in this statement?
(Centralisation and Decentralisation)

Q. State one positive effect of the Principle “Unity of Command.” (The efficiency of subordinates increases)

Q. Why did Fayol introduce Gang Plank in the principle of scalar chain?

(to contact with the employees of equal rank in case of emergency).

Q. 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.

**Q.** Scientific management is useful for which type of organisation? [Hint: Manufacturing/Industrial organisation]

**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.

**Q.** Which Principle of Fayol is violated in Taylor's Functional Foremanship?

Hint: [Unity of Command]
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.

Q. What is the main objective of simplification in scientific management?[Hint : Economy in the use of machines].
Q. In a Company the factory manager appointed only one foreman for the work of production, planning, execution and supervision of workers. However, that foreman is not efficient in planning and execution.

(1) Which technique of scientific management is being violeted here?

(Hint : Functional Foremanship.)

(2) Write one consequence of this violation.

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 compe-
tition 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.

Q. Explain that technique of scientific management that is extension of “Principle of Division of work” and specialisation?

Q. How does the technique of “Motion Study” help to improve the efficiency of workers?

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.

Fayol V/s. Tailor - A Comparison

<table>
<thead>
<tr>
<th>Basis</th>
<th>Fayol</th>
<th>Taylor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nature of Research</td>
<td>He developed the theory of functional management or management process.</td>
<td>He developed the concept of scientific management.</td>
</tr>
<tr>
<td>2. Concern</td>
<td>His principles are concerned with management efficiency.</td>
<td>His principles and techniques are concerned with workers efficiency.</td>
</tr>
<tr>
<td>3. Level</td>
<td>He designed principles for top level of management.</td>
<td>He designed principles for lower level of management.</td>
</tr>
<tr>
<td>4. Focus</td>
<td>Improving overall administration by observing certain principles was his main focus.</td>
<td>For him increasing productivity through work simplification was main focus.</td>
</tr>
<tr>
<td>Basis</td>
<td>Fayol</td>
<td>Taylor</td>
</tr>
<tr>
<td>------------------------</td>
<td>-----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5. Personality</td>
<td>He developed the personality of a researcher and practitioner and was called as ‘father of general management.’</td>
<td>He developed the personality of scientist and was called as ‘father of scientific management.’</td>
</tr>
<tr>
<td>6. Major Contribution</td>
<td>His main contribution was to produce a systematic theory of management with the help of fourteen principles of general management.</td>
<td>He provided a basis for accomplishment on production line with the help of scientific techniques and scientific principles.</td>
</tr>
<tr>
<td>7. Human element</td>
<td>He gave due emphasis to human element by suggesting principles like equality, initiative, fair remuneration etc.</td>
<td>He ignored the human element and emphasised more on increasing productivity.</td>
</tr>
<tr>
<td>8. Rigidity and flexibility</td>
<td>His principles were flexible.</td>
<td>He was rigid in his approach and he felt that there should be no deviation from fixed standards.</td>
</tr>
<tr>
<td>9. Applicability</td>
<td>His principles are applicable to business as well as non-business organisations i.e. are applicable universally.</td>
<td>His principles are applicable to production and manufacturing i.e. are applicable to specific situations.</td>
</tr>
<tr>
<td>10. Unity of Command</td>
<td>He strictly followed this principle i.e. one boss for one employee.</td>
<td>He did follow this principle instead he insisted on minimum eight bosses.</td>
</tr>
</tbody>
</table>
QUESTIONS FOR PRACTICE

Q1. Principles of management intend to establish cause and effect relationships. Is it true for all situations? Give reason. [Hint: No, as it applied to human behaviour]

Q2. One of the Principles of scientific management emphasizes that to make the employees learn the best method of production, training to workers is essential. It further emphasized that each person should be scientifically selected and work assigned to the employees should suit physical mental, and intellectual capabilities.

(a) Name the principle indicated here.

(b) Name two benefits emphasized by following the principle in part (a)

[Hint: (a) Development of workers to their greatest efficiency and prosperity.
            (b) Optimum utilisation of resources & providing growth opportunities to all]

Q3. The production manager of Bharat Ltd. instructs a salesman to go slow in selling the product whereas the marketing manager is insisting on fast selling to achieve the target?

(a) Which principle of management is being violated in this case?

(b) What will be the consequence of violation of this principle?

Q4. Principles of Taylor and Fayol are mutually Complementary. One believed that the management should share the gain with the workers while the other suggested that employees compensation should depend upon the earning capacity of the company and should give them a reasonable standard of living. Identify and explain the principles of management by Taylor and Fayol reffered to in above para?

[Hint: Fayol - Remuneration, Taylor - Harmony not Discord (Mental Revolution)]

Q5. Voltech Ltd. is engaged in producing electricity from domestic garbage. There is almost equal division of work and responsibility between workers and management. The management even takes workers into confidence
before taking important decisions. All the workers are satisfied as the behaviour of management is good.

(a) State and explain briefly the principles of management described in above para.

(b) Identify the value which the co. wants to communicate to the society.

[Hint:  
(a) “Authority & Responsibility” and “Initiative”  
(b) Cooperation, respect towards employees.]

Q6. 90% staff of ‘Work Well Ltd.’ consists of male employees. The female employees are employed for very basic jobs like receptionists etc. The management is of opinion that female employees cannot contribute at par with male employees. They pay much lesser salaries to female staff despite the fact that they work for same number of hours.

(a) Name the principles of management that is being violated here.

(b) State the values ignored by management of Work Well Ltd. (Any two)

[Hint:  
(a) Principles of “Equity” and “Remuneration”  
(b) Right of Equality]

Q7. Production manager of Beta Ltd. took special care of the interest and ability of his subordinates while distributing work among them. He was of the firm opinion that a worker should be given one work again and again so that he may become expert in it. One day he took round of his department and noticed that the workers were not doing their job quickly. On enquiry, he learnt that the workers worked non-stop which main cause of their slow speed. He immediately issued an order that during their working hours, the workers will have an interval to take rest.

(a) State the principle of management followed here? Explain.

(b) Which technique of scientific management is indicated in above para? Give reason.

[Hint: 
(a) Principle of Division of work  
(b) Fatigue study]
Q8. Name the principle of management which contradicts “Functional Foremanship”, the technique of scientific management. Explain how the concept contradicts each other. [Hint: “Unity of Command”].

Q9. In a manufacturing co. as many as 100 labourers are working in the production department. Eight specialists have been appointed to look after their work to issue command to them and to listen to their complaints. They give advice to labourers on different issues relating to their work.

(a) Which technique of scientific management is being followed here?

(b) Which Principle of General management is being ignored in this case.

(c) Which value does the co. want to communicate?

Q10. Nowadays in schools, students or parents can file their complaints or requests to the respective class teachers and if needed class teacher may discuss the issue with head of department followed by Vice-Principal and if the issue is extremely serious it may taken to the Principal. Which principle of management is indicated here? Explain it with its exception.
CHAPTER - 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.** Business Environment includes both specific and general forces. List any two.

**Q.** “Demand for sarees may be high in India but almost negligible 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.

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; Free-
dom 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.

Q. Can the effect of various factors of business environment on business be recognised separately?

Hint : (No, are the factors are related to each other.)

**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

MAJOR STEPS IN ECONOMIC FORMS

1. New Industrial Policy - Under this the industries have been freed to a large extent from licences and other controls. Efforts have been made to encourage foreign investment.

2. New Trade Policy - The Foreign trade has been freed from the unnecessary control. The age old restrictions have been eliminated.

3. Fiscal Reforms. The greatest problem confronting the Indian Govt. is excessive fiscal deficit.
   
   a) Fiscal Deficit - It means country is spending more than its income

   b) Gross Domestic Product (GDP) - It is the sum total of the financial value of all goods & services produced in a year in a country.

4. Monetary Reforms :- It is a sort of control policy through which the central bank controls the supply of money with a view to achieving objectives of general economic policy.

5. Capital Market Reforms :- The Govt. has taken the following steps for the development of this market:-
   
   1) SEBI has been established.

   2) The restriction in respect of interest on debentures has been lifted.

   3) Private Sector has been permitted to establish Mutual Fund.

6. Dismantling Price control - The govt. has taken steps to remove price control in many products especially in fertilizers, iron and steel, petro products. Restrictions on the import of these things have also been removed.
IMPACT OF GOVERNMENT POLICY CHANGES
ON BUSINESS AND INDUSTRY

1. **Increasing Competition**: Delicencing 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 leads to tough challenges in front of small firms.

4. **Necessity for Change**: After New Industrial Policy the market forces (demand & supply) are changing at a very fast rate. Change in the various components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.

5. **Need for Developing Human Resources**: The changing market conditions of today requires 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.
QUESTIONS FOR PRACTICE

Q1. “The understanding of business environment helps the managers to identify threats. What is meant by ‘threats’ here?

(Hint : It refers to the external environment trends and changes that will hinder a firm's performance)

Q2. Govt. of India allowed oil marketing public sector undertaking to fix their own price for petrol and diesel. Which economic reform is the reason of this change in Govt. policy. Explain briefly. [Hint : Liberalisation]

Q3. “The understanding of business environment helps the manager to identify “opportunities”. What is opportunities here?

[Hint : It refers to positive changes and trends that helps the business to improve its performance.]

Q4. Mr. Sohan is the owner and manager of a grocery store. He attended a management seminar. The topic was on globalisation and impact of technology on business. He was surprised to see how media and internet provide opportunities to expand business. He also felt there is a need to upgrade technology to expand business outside the city.

(a) Which business environment dimension is being referred here?
(b) What should Sohan do to avoid any negative impact of changes in business environment. (Any two)
(c) What value does Sohan exhibit by adapting to business environment dimension in part (a) [Hint : (a) Technological (b) optimum utilisation of resources, (b) Providing after sales services etc. part (c) Growth].

Q5. Mr. Ajay, after completing MBA from USA comes to India to start a new business under the banner E.Com creations Ltd. He launches a new brand in E-learning for Senior Sec School students in commerce stream, which already has an established market in UK and USA but not in India. His business starts flourishing in India. Now more Indian companies entered into the market with other subjects also.

(a) Which dimension of business environment is highlighted here?
(b) Identify by quoting the lines from above para, the elements of importance of business environment.

[Hint: (a) Economic Environment
(b) Opportunity - He launches..................
Threat - Now more Indian.....................]

Q6. The Court passed an order that all schools must have water purifier for the school children as:

1. Society in general is more concerned about quality of life
2. Innovative techniques are being developed to manufacture water purifier at competitive rates.
3. Incomes are rising and children at home are also drinking purified water. The govt. is also showing positive attitude towards water purifier business.

Identify the different dimensions of business environment by quoting lines from above para/details.

[Hint: Legal envt. - The court.....................
Social - Society...........................................
Technological - Innovative...........................
Economic - Incomes.....................................
Political - The Govt. is also.......................]
QUESTIONS FOR PRACTICE

Q1. X Ltd. was manufacturing water heaters. In the first year of its operations, the revenue earned by the company is less. The Co. analysed the reasons of less revenue. After analysing the company decided:

(a) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very reasonable rate.

(b) to start manufacturing solar water heaters and reduce production of electric water heaters slowly.

(i) Which functions of management are indicated here? [Hint : Planning & Controlling].

(ii) Which dimension of business environment is applied here? [Social]

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

Q2. XYZ Ltd. Co., manufacturing cosmetics and enjoying a predominant position in the industry has grown in size. Its business was very good till 1991. But after that new liberalized environment has seen the entry of many MNCs in this sector with the result that market share of XYZ has declined. The company followed a very centralised business model with directors and divisional heads making even minor decisions.

(a) Which function of management is being indicated here?

(b) What dimension of environment is implicit in this case? Indicate by quoting the lines from above para. [Hint : (a) Organising (b) Political]

Q3. In a company, the Sales Manager was assigned a target of selling 40 units. To achieve, the target, he needs 10 executives (sales) but he has only 7 sales executives under him. He has no authority to recruit 3 more
executives. Due to this, he is able to sell only 28 units of product. The General manager of the company blames sales manager for not achieving the target.

(a) Do you think sales manager can be blamed for this?
(b) Which principle of management is over looked here?
(c) Which function of management is badly required here?

[Hint : (a) No (b) Principle of Authority & Responsibility (c) Staffing]

Q4. Meera, Chairperson of Sunshine Ltd. feels that she is only responsible for the successful management of company because other persons are working according to the plans and policies framed by top level management only.

(a) Do you agree with her belief ?
(b) Which feature of management is lacking here?
(c) Which principle of management is being ignored here? Explain briefly.

[Hint : (a) No. (b) Co-operation (c) Espirit De corps]

Q5. A.R. Rehman is the first Indian to win the oscar award for his composition “Jai Ho”. His composition of music is unique and different as he has used the singing notes in a manner that is entirely his own interpretation. Like A.R. Rehman, Nandan, a general manager in Expert sales Ltd. uses his knowledge of management in a unique and different manner and all the employees working under his guidance are happy and satisfied. He rewards the employee who came to office in time.

(a) Identify the nature of management highlighted above. Give reason.
(b) Which Principle of Management is reflected by Nandan’s behaviour
(c) Which value does Nandan want to inculcate in his employees.

[Hint : (a) Management as an art
(b) Harmony, not Discord
(c) Discipline.
Q6. Mr. Singh owner of leather garments factory sends his marketing head to Europe every quarter to understand the changes in fashion. This helps to prepare his latest range in line with customers demands and expectations.

(a) Identify the characteristic of management indicated here?

(b) Which dimension of business environment is indicated here? Give any two impacts of it on business.

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

Q7. Mr. Bali, the Production manager of classic Ltd. is successfully running his department. He has created such an environment that no one becomes hurdle in anybody's work, but all of them are ready to help each other. Mr. Bali has been observing a change in market for last few days. In the past they used to produce goods according to their will and with a little bit of effort could sell them. But not they have to produce goods as desired by the people. When Mr. Bali investigated to know the reasons for this change, he came to know that on account of positive policies of the govt., running the business had become easy. Due to this, several new people had entered the business. Consequently, competition has increased and now the control of the market had slipped out of the hands of producers into the hands of customers.

(a) Identify the concept of management described here? Give two points of its importance.

(b) Identify the business environment dimension and the concept there of.

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

Q8. The Govt. has been watching for sometime that the performance of industry in the Public sector is not coming up to the level of standardisation. Several efforts have been put in, but because of no improvement in it, the Govt. decided to increase the role of Private sector in some areas of Public sector. This would bring about improvement in the level of performance. The reason for the Govt. to make this decision was that the different departments of an industrial unit in Public sector do not work with each other. The situation in private sector is entirely opposite to it.
Q9. Mr. Singh is working as the General Manager in a chain of hotels. Keeping a watch over the business environment is included in his routine. For the last few days Mr. Singh has been observing that the Govt. is taking special interest in Tourism Industry. The receipt of foreign exchange and employment promotion are its reasons. On the basis of this news he decided to set up hotels at several tourist places. They established several hotels before other companies considered this issue. Very soon, their hotels became, Well-known in the market. Behind the fame of this company another reason was that this company was giving its employees not only the responsibility but also the authority of completion of work. The environment being to their liking now they had started meeting their managers with the latest ideas, which are taken by the company.

(a) Identify the importance of business environment described here by quoting the relevant lines.

(b) Identify the principles of Management being used in the Company.

(c) On which level is Mr. Singh working. Write any two more functions performed at that level.

[Hint : (a) (i) Assisting in planning & Policy formation - The Govt. is taking................

(b) Dynamic - They establish several .........................

(a) Principle of Authority & Responsibility

(b) Principle of Initiative

(iii) Top level Management.

Q10. In a reputed Co., for the last few days, differences have cropped up between management and workers. The workers were demanding more bonus. This matter have aggravated so much that the attention of both the parties has been diverted from production to division of profits. Consequently, the profits of the company began to fall down.
In order to assess the situation of Co.’s rapidly falling profits, a team of specialists was invited. After investigation, besides the differences, one more fact was revealed. That fact was the Purchase Manager of the company was purchasing raw material from the co. run by his own brother at a price more than market price. So, with the increase in cost, profit was reduced.

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

(a) Which technique of scientific management will be suitable and why for the company.

(b) Which principle of management given by Henry Fayol is being ignored by the co. Explain briefly.

(c) Which factors of Business environment are affecting the Co? Identify the type and factors.

[Hint : (a) Mental revolution

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

(c) External Factors - Customers

Internal Factors - Employees]
CHAPTER - 4

PLANNING

Concept

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

Importance of Planning

1. Planning provides directions: By stating in advance how the work is to be done planning provides direction for action. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its goals efficiently.

2. Planning reduces the risk of uncertainty: Planning is an activity which enables a manager to look ahead, anticipate 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.
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.

Q. Define planning.

Limitations of Planning

(A) Internal Limitations

1. Planning leads to rigidity: Planning discourages individual’s 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.

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 be 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.

Q1. Explain Procedures. 
Q2. Define Rules.  
Q3. Write the meaning of Budgets.  
Q4. Write one difference between Policies & Procedure.  
Q5. One of the function of management is considered as base for all other functions. Name that function.  
Q6. Name the types of plan in which the movement of competitors is considered.

---

**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 reoccur 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 programme is a single use plan containing detailed statements about project outlining the objectives, policies, procedures, rules, tasks, physical and human resources required to implement any course of action.

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 goes on working. They may be designed as the desired future position that the management would like to reach. The first and foremost step of the planning process is setting organizational objectives. Examples increasing sales by 10%, Getting 20% return on Investment etc. Objectives should be clear and achievable.

2. **Strategy**: Strategies refer to those plans which an organization prepares 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 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.

### DIFFERENCE BETWEEN SINGLE USE AND STANDING PLANS

<table>
<thead>
<tr>
<th>Basis of Difference</th>
<th>Single Use Plans</th>
<th>Standing Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Meaning</strong></td>
<td>A single-use plan in a business refers to plans developed for a one-time project or event that has one specific objective.</td>
<td>A standing plan in a business refers to plans developed for using over and over again because they focus on organizational situations that occur repeatedly.</td>
</tr>
<tr>
<td><strong>2. Objective</strong></td>
<td>Single use plan is developed to carry out a course of action that is not likely to be repeated in future time.</td>
<td>Standing plan however is developed for activities that occur regularly over a period of time.</td>
</tr>
<tr>
<td><strong>3. Scope</strong></td>
<td>Single use plans generally encompass a narrow scope targeting a specific project or event.</td>
<td>Standing plans generally encompass a wider scope involving more than one department or business function.</td>
</tr>
<tr>
<td><strong>4. Stability</strong></td>
<td>Single use plans are discarded when the situation, project or event is over.</td>
<td>Standing plans are relatively stable and used over and over again with necessary modifications or updations.</td>
</tr>
</tbody>
</table>
5. Example

Budget for Annual General Meeting of shareholders. Recruitment and selection procedure for a particular post in the company.

1 MARK QUESTIONS

Q1. “No Smoking in the Work shop”. This statement is related to which type of plan. (1)

Q2. “We do not sell on credit”. This statement is related to which type of plan. (1)

Q3. Write the meaning of strategy. (1)

Q4. What do you understand single use plan? (1)

Q5. What do you understand by standing plans? (1)

3-6 MARKS QUESTIONS

Q.1. ABC Ltd. has a plan of profit maximisation, for which it has invested lot of finance and time. But, with increase in competition, it could not change its plan as it had already invested lot of finance in it. This has lead to occurrence of losses for ABC Ltd. Which limitation of planning is highlighted here? Explain. (3)

Q2. 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 win the cup. For this he prepares a long term plan and thinks of ways of how to beat the opponent team. He coaches the girls to play in different ways like defensive, offensive, etc.

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

What are all the types of plans mentioned above? State them along with lines which refer to them in the above paragraph. (4)

Q3. 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)
Q4. “No enterprise can achieve its objectives without systematic planning”. Comment? (6)

Q5. Procter and Gamble Ltd. is offering a free bucket on every purchase of Tide washing powder. In response to this Hindustan Unilever Ltd. started a new scheme of giving free one kg of Rin Washing Powder with every purchase of five kg of Rin washing powder. Identify the plan stated in above paragraph and explain it. (3)

Q6. “KOHINOOR FOODS Ltd. has banned smoking in the factory premises.”
   - Identify the plan stated in above lines. (5)
   - State the features of this plan.
   - Differentiate between policy and this plan.

Q7. “Though planning is an important tool of management, yet it is not remedy to all problems”. Explain this statement? (4)

Q8. PK Ltd. has been well known for delay in decision making and overlapping of work done. Identify management function the organization is lacking and state importance of this function? (6)

Q9. Rahul, a worker is given a target of assembling two computers per day. Due to his habit of doing things differently, an idea struck him which would not only reduce the assembling time of computer but also reduce the cost of production. But instead of appreciating his idea his supervisor scolded him and asked him to complete the work as per prescribed technique. Identify & describe the limitation of planning stated here? (3)

Q10. Which type of plan has the least flexibility and why? (3)

Q11. A company gave its sales executives, the directives that they would sell goods on credit but told the employees to strictly inform the customers that if they will not make payment within 1 month they will have to pay an interest of 10% per annum. In the above given paragraph 2 types of plans have been mentioned. Identify them and explain them their features. (5)
CHAPTER 5

ORGANISING

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 Organising

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.

   1. How effective administration is possible through organizing? (1)

**Importance of Organising**

1. **Benefits of specialization**: In organizing every individual is assigned a part of total work and not the whole task. This division of work into smaller units and repetitive performance leads to specialization. Thus organizing promotes specialisation which in turn leads to efficient & speedy performance of tasks.

2. **Clarity in working relationship**: It helps in creating well defined jobs and also clarifying the limits of authority and responsibility of each job. The superior-subordinate relationship is clearly defined in organizing.

3. **Effective Administration**: It provides a clear description of jobs and related duties which helps to avoid confusion and duplication. Clarity in working relationships enables proper execution of work which results in effective administration.

4. **Optimum utilization of resources**: The proper assignment of jobs avoids overlapping/duplication of work. This helps in preventing confusion and minimizing the wastage of resources and efforts.

5. **Adoption to Change**: A properly designed organizational structure is flexible which facilitates adjustment to changes in workload caused by change in external environment related to technology, products, resources and markets.

6. **Development of Personnel**: Sound organization encourages initiative and relative thinking on part of the employees. When managers delegate
their authority, it reduces their workload so they can focus on more important issues related to growth & innovation. This also develops the subordinates’ ability and helps him to realize his full potential.

7. **Expansion and growth**: It helps in growth & diversification of an enterprise by adding more job positions, departments, 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 framework 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 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 co-ordination easier at departmental 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 improves 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.
Suitability :- 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. Following activities have been recognised by a firm manufacturing pens :-

   (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.

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 an established chain of command.
4. Easy to achieve objectives - because coordination and optimum use of human and material resources.
5. Stability in the organisation – because 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.

**INFORMAL ORGANISATION**

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

**Features**

1. It originates from within the formal organization as a result of personal interaction among employees.

2. It has no written rules and procedures.

3. It does not have fixed lines of communication.

4. It is not deliberately created by the management.

5. It is personal means the feelings of individuals are kept in mind.

**Advantages**

1. **Speed**: Prescribed lines of communication are not followed which leads to faster spread of information.

2. **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 conform 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>

Q. Out of formal and informal organisations which one is established first? (1)

Q. What does the term span of management refer to? (1)
Q. State whether the principal of scalar chain is followed in informal organisation or not? (1)

Delegation of Authority

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

Process/Elements of Delegation

1. Authority: The power of taking decisions in order to guide the activities of others. Authority is that power which influences the conduct of others.

2. Responsibility: It is the obligation of a subordinate to properly perform the assigned duty. When a superior issues orders, it becomes the responsibility of the 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.

Assigning Responsibility → Granting Authority → Fixing Accountability
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 Subordinate to 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>

Q. Which form of organisation gives rise to rumours? (1)

Q. Grouping the activities on the basis of product line is called .................... (1)

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 and all departments 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.
### Difference between – Delegation & Decentralization

<table>
<thead>
<tr>
<th>Basis</th>
<th>Delegation</th>
<th>Decentralization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nature</strong></td>
<td>It is a compulsory act.</td>
<td>It is an optional policy.</td>
</tr>
<tr>
<td><strong>Freedom of action</strong></td>
<td>Less freedom to take decisions due to more control by the superiors.</td>
<td>More freedom of action due to less control by the top management.</td>
</tr>
<tr>
<td><strong>Status</strong></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><strong>Scope</strong></td>
<td>Narrow – as it is confined to a superior and his immediate subordinate.</td>
<td>Wide – It includes extension of delegation to all the levels of management.</td>
</tr>
<tr>
<td><strong>Purpose</strong></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>

### 1 MARK QUESTIONS

Q.1 Name the organization which is directed by group norms. (1)
Q.2 Difficulty in inter-departmental coordination is one of the limitations of which organizational structure. (1)
Q.3 What is meant by Authority? (1)
Q.4 What is the basis of delegation of authority? (1)
Q.5 How effective management is possible through delegation of authority? (1)
3-6 MARKS QUESTIONS

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

Q2. A company consists of production, purchase, marketing, finance and human resource department. Which type of organization structure is it using. Also explain its merits and demerits. (4)

Q3. Ishita Ltd. is manufacturing female wears only. Now company wants to expand its business and also wants to manufacture male wear and kids wear for different market segments. Which type of organizational structure should it adopt to achieve its target. Give arguments in support of your answer? (3)

Q4. Manager of XYZ Ltd. is over burdened with routine work and is unable to concentrate on its objectives and other important issues of the firm. To solve this problem which management concept should be followed by manager? Also explain the related function. (3)

Q5. Piyush and Tanishq want to start a business which will not only produce electrical equipments but will also manufacture home assessories. Which type of organization structure is required for the firm and why? (any two reasons) Also explain its 3 limitations. (1+2+3)

Q6. “A Manager cannot perform all the functions on his own so he has to delegate some work to his subordinates”. Do you agree with this statement? Give any 3 reasons? (3)

Q7. “If we delegate work we multiply it by 2 but if we decentralize it we multiply it by many”. Name the concepts mentioned above and differentiate between them? (5)

Q8. A manager thinks that he is not responsible for the quality of work he has delegated to this subordinates. Do you agree with his view? Explain? (4)
Q9. “The responsibilities of a firm should be divided among various levels such as top level, middle level, and lower level”. Identify the function of management function and state its importance? (4)

Q10. Royal Ltd. decided that whenever a person reaches a particular age he will be promoted. Influenced by this plan of the company several employees of from other companies also joined the firm. But within few days they realized that the firm has pre-determined relation structure without free communication.

On the basis of this answer the following questions.

(i) Identify the type of plan. (1)

(ii) Identify the type of organization described here. (1)

(iii) Point out any 2 limitations of this type of organization. (2)

Q11. 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. (3)
CHAPTER - 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 work force.

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 the enterprise. Therefore big enterprises create a separate department called HRD. This department works under H.R. Managers.
**Definition** : Human Resource management is the recruitment, selection, development, utilization, compensation and motivation of human resources of the organization.

**Staffing as a part of Human Resource Management** : 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**

- Estimating manpower requirements
- Recruitment
- Selecting from among the applications
- Placement and Orientation
- Training and Development
- Performance Appraisal
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.
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.

**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 tests 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.

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

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

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. Both existing employees and new employees get acquainted with their jobs and this increases 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.

Training Methods

(A) On the Job Method: It refers to the methods that are applied at the work place, where the employee is actually working. It means learning while doing.

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

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

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

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.)
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 the employees.

**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>
<tr>
<td>2. Purpose</td>
<td>It is concerned with maintaining and improving current job performance.</td>
<td>It seeks to develop competence and skills for future performance.</td>
</tr>
<tr>
<td>3. Methods</td>
<td>It is imparted through on the job method.</td>
<td>It is imparted through off the job method.</td>
</tr>
<tr>
<td>4. Initiative</td>
<td>The boss takes the initiative for imparting training to his subordinates.</td>
<td>The individual takes the initiative for self growth and development.</td>
</tr>
<tr>
<td>5. Duration</td>
<td>Training programmes are organised for short term.</td>
<td>Development takes place over a larger period of time.</td>
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</tbody>
</table>

**1 MARK QUESTIONS**

**Q1.** “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]

Q2. Why is selection considered to be a negative process? (1)

Q3. State one objective of Preliminary screening. (1)

Q4. What do you mean by ‘On the Job Training’? (1)

**3-6 MARKS QUESTIONS**

1. An accountant is sent to learn the new software for accounting to prepare the books of accounts faster and accurately. He was further sent for orientation to improve his motivational and conceptual skills.
(a) Identify and explain the two concepts explained above.

(b) Differentiate these concepts on the basis of suitability, method used and nature. (5)

2. Under this method employees learn by doing. Employees are trained while they are performing the job and senior worker or mentor provides them technical knowledge. But the biggest disadvantage of this method is wastage of material and accidents.

(a) Identify the method of training stated in above lines.

(b) Explain any two techniques used in above said method of training. (6)

3. Education department of Delhi is constantly trying to provide quality education to children studying in government schools. For this purpose education department organize seminars and conferences every year to improve teacher’s conceptual and motivational skills.

(a) Identify the method of training stated in above lines.

(b) Explain any technique used in above said method of training with its advantages and disadvantages. (4)

4. XYZ Ltd. is setting up a new plant for manufacturing jute bags. For its new plant it needs highly trained and motivated workforce. To recruit competent middle level officials, HR manager of XYZ Ltd. went to different colleges and universities and to recruit lower level workforce he puts a notice on the gate of company about the requirements of the firm. Identify and explain the sources of recruitment referred in the above paragraph. (5)

5. A company wants to expand its business and for this purpose company is preparing database of its prospective employees. So whenever it gets application from any applicant, HR manager tells them that as and when company required his/her services, he will be called. Its advantage is that at the time of need, a suitable applicant out of the database can be called for interview. In this way company can save its expenses on advertisement and can save time also.

(a) Identify and explain the source of recruitment referred in above paragraph.
6. Geetu Ltd. is a big organization having various departments in it. In its marketing department number of employees is much more than requirement whereas, in purchase department some of the posts are lying vacant and there is shortage of staff. Advise the HR manager of the company as to what method he should follow to balance the demand of employees in both departments. Give arguments in support of your answer.

7. Staffing is an important function of management in all organizations. Why? Explain any four reasons.

8. “Internal sources of recruitment are considered better than external sources”. Do you agree? Give any four reasons in support of your answer.

9. The workers of a factory are unable to work on new machines and frequent accidents occur while working. Their wastage rate and labour turnover rate is much higher than other factories. They always demand for help of supervisor. Suggest the remedy with proper advantages.

10. ‘Recruitment is called as a positive process whereas selection is called as negative.” Why? Differentiate between these two.

11. Explain the procedure for selection of employees.

Q12. 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]

Q13. 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]
UNIT END-2 QUESTIONS

Q1. Geet and Meet are Science graduates and very good friends. They are very concerned about environment form pollution. They are thinking to establish a recycling unit to manufacture fertilizer from waste material and garbage. They mutually decided that this recycling unit will be setup in a rural area of Bihar where people have very few job opportunities & labour is available at reasonable rates. They also decided not to sell fertilizer on credit.

(a) One of the functions is highlighted in the above paragraph. Name it by quoting the line from there.

(b) Which type of organization structure would you recommend for recycling unit? State any two reasons.

(c) Name two values highlighted in above paragraph. [1+3+2]

[Hint.
(a) Planning - thinking to establish
(b) Functional structure
   - Functional specialization
   - Minimizes cost
(c) Providing job opportunities in rural area, safety of environment.]

Q2. Mr. Abhishek Gupta, the Managing Director of ‘XYZ Sportswear Limited’ wants to expand his business. Currently, this company deals in sportswear for kids, females and males. Mr. Abhishek Gupta called a meeting of all four departmental managers. He asked all of them to express their views on expansion of the company. Two of them said that a factory should be set up to make Sports Bags. The other two said that a factory for making sports material like Bats, balls, Rackets - etc should be set up. There was a discussion on all the two options in the meeting and ultimately, the option for making Sports Material was thought to be right. Mr. Abhishek Gupta further decides that 10% of jobs will be reserved for women in every department of new factory.
Q3. Mr. Chirag is promoted to the post of General Manager of Krishna Garments. The company Krishna Garments is facing the problem of decline in market share due to severe competition in the market. To overcome this problem Mr. Chirag decided to explore foreign market where he can get big order but at low price. In order to enter in foreign market and to face competition the company decided to reduce its price. From the foreign market he gets a big order of 10000 units to be manufactured within one week. He accepts that order and delegates the work production manager without discussing it with him. He firmly tells him that if the task is not completed within given time period a strict action will be taken against him.

At the end of the given time period, Mr. Chirag discovers that production target of 10000 units is not achieved by production manager.

(a) Identify and explain the type of plan followed by company.

(b) Who is responsible in above situation for not achieving the targets? Give arguments in support of your answer.

Q4. Tanishq, the director of Leather Footwear Company is manufacturing bags for the utilization of waste material of one of his Leather Footwear Company unit. He also thought of giving equal opportunities to men and women. He also decides that there will be pre-determined relation structure in the new company with proper division of work among people. He decided that every work in new company will be done according to plan made by him with no permission of change. He appoints Shefali, Arpit, Kunal and Rajesh as heads of Sales, Accounts, Purchase and Production departments. He also provides them required authority to do work and fix their responsibilities.

(i) Identify two limitations of planning stated in above paragraph.

(ii) Also identify two values which Tanishq wants to communicate to the society by setting up the manufacturing unit. Which type of
organization structure would you recommend for manufacturing unit? State any two reasons. (6)

Q5. Renu is the Principal of a school. She decides to take meeting of all the staff members in the conference hall. In the meeting she instructs admission department that in upcoming session the school will give admission to those students who secured more than 85% marks. She also assigns duties, authority & creates accountability of the person to whom work has been handed over. In addition to this, she tells to new teachers what is to be done & what is not be done in specific situations.

(a) Name the types of plans highlighted in the given situation by quoting the lines from the paragraph.

(b) Name the process through which Renu assigns duties, authority & creates accountability of the person to whom work has been handed over. Also explain any two points which highlight the importance of this process. (6)

Q6. Mr. Jitender Kumar Aggarwal is an eminent Social worker and he is running a school for mentally retarded children named 'Koshish'. The school has two parts - one part is “Functional centre”, where children learn to earn by small activities e.g. candle making, clay pots etc. The second part of school's 'Daily learning' where children learn their daily routine activities e.g. eating, brushing, reading, writing etc. School has separate heads for each part & there is friendly relation between teachers, heads & students. School is working on the basis of mutual cooperation. Now Mr. Jitender Kumar wants to make some changes in new session e.g. uniform for all teachers, timing of school will be 7.00 am to 2.30 p.m. All the changes were successfully implemented.

(i) Name the type of Plan highlighted in the paragraph by quoting the lines from paragraph.

(ii) Which type of organisation structure is referred in about paragraph.

(iii) Explain any two features of this structure.

(iv) Identify the value highlighted in above paragraph. (6)
CHAPTER - 7

DIRECTING

Meaning

Directing as a function of management, refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. It 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 goals.

Features :

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

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

3. Directing is a continuous process of supervision, communication, leadership and motivation. It 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. **Facilitates change**: Employees often resist changes due to fear of adverse effects on their employment and promotion. Directing facilitates adjustment in the organisation to cope with changes in the environment.

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 workers and brings workers problems to the notice of the management.

2. **Ensures issuing Instructions**: To make sure that the instructions are communicated to each and every employee.

3. **Facilities Control**: Control means match between actual and planned output. It ensures checking on the methods in use and progress of work according to planned schedule.

4. **Maintenance of discipline**: The strict supervision and guidance of supervisor encourages the employees and workers to be more disciplined in the activities.

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

5. **Feedback**: The supervisors are directly dealing with the subordinates. As a result, feedback in the form of suggestions, grievances keep coming to the management. It improves quality 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 keeps on checking the workers at work. He provides “on the job Training” wherever required. At which post is Mr. Banerjee working?**

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

Q. Supervisors work at which level of management?

II. Motivation

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

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

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.

Q. 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.

(i) Which element of directing is being referred here in case of Group ‘A’ & Group ‘B’ employees?

(ii) Which values are presented in case of Group ‘A’ employees? Name any one.

(iii) Which values are neglected in case of Group ‘B’ employees? Name any one.

**Maslow’s Need Hierarchy-Theory of Motivation:** Maslow’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>
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<tbody>
<tr>
<td>Hunger</td>
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<td>Stability of Income</td>
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<td>Friendship</td>
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<tr>
<td>Status</td>
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<td>Self fulfilments</td>
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<tr>
<th>Example from the point of view of organisation</th>
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<tbody>
<tr>
<td>Basic Salary</td>
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<tr>
<td>Pension Plan</td>
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<tr>
<td>Cordial relation with colleagues</td>
</tr>
<tr>
<td>Jobtitle</td>
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<tr>
<td>Achievement of goals</td>
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</table>
Financial and Non-Financial Incentives: Incentive means all measures which are used to motivate people to improve performance.

**Financial**
- Profit sharing
- Pay and Allowances
- Bonus
- Retirement Benefits
- Perquisites
- Productivity linked wages
- Co-partnership/stock option

**Non-Financial**
- Status
- Career Advancement
- Opportunity
- Job enrichment
- Employee Recognition Programme
- Job security
- Employees empowerment
Q1. Rahul is an engineer in Jacob Ltd. He works very hard and it is observed by Production Manager. But he appreciates never appreciate the efforts of Mr. Rahul. Name the element of Direction not exercised by production Manager.

Q2. Zumroo was working as a clerk in Hindustan Ltd. Since last three and a half years. He was working with full diligence. His boss noticed his performance and gave him “Confirmation letter”. Which kind of zumroo's need was satisfied?

Q3. “Resistance from people to introduce changes in the organisation can be removed through motivation.” How?

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?

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

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 he used when:

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

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

Q. Sudeep is a supervisor in a factory. He is not friendly with his colleagues and subordinates. Do you think this habit of Sudeep will help him to become a leader? How?

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.

**Q1.** You are working as Human Resource Manager. General Manager sent a message to you, which you received and well understood. Is the communication process complete? Give reason. (1)

**Q2.** Give one example of ‘Noise’ in the process of communication. (1)

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

1. **Formal Communication**: refers to official communication which takes place following the chain of command. Classification of formal communication:

   1. **Vertical Communication**: Flows vertically i.e., upwards or downwards through formal channels.

      (i) **Downward Communication**: Higher to lower level like plans, policies, rules etc.

      (ii) **Upward Communication**: Subordinate to superior like suggestions, grievances, reports etc.

   2. **Horizontal/lateral Communication**: Between persons holding positions at the same level of the organisation e.g., production manager may contact marketing manager about product design, quality etc.
Communication Networks of a Formal Communication

I. Formal Communication:

It flows from Every superior to his subordinate through single Chain

---

It flows through one central person (superior)

---

It moves in a circle each person can communicate with his adjoining two persons

---

In this network each person can communicate with others freely

---

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.

![Diagram showing different communication clusters]

<table>
<thead>
<tr>
<th>Basis</th>
<th>Formal Communication</th>
<th>Informal Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Meaning</td>
<td>Follows 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 scalar chain.</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: 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 tapeism and delay of action.
3. Status conscious managers may not allow subordinates to express their feelings freely.
4. Complexity in organization structure results in delay and distortion.

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

**Improving Communication Effectiveness**

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

**Q.** “Maintenance of Good human relations” is an advantage of which kind of communication? (1)

**Q.** How is complex organisation structure a barrier to effective communication? (1)

**3-6 MARKS QUESTIONS**

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

(i) Which kind of communication took place between Anju and Manju.

(ii) Write any two limitations of such communication. (3)

**Q.** Suggest which element of directing is suitable under following situations and why?

(i) Workers are always unwilling to take up any kind of work. Due to rise in demand, firm wants them to cooperate. Supervisor is finding it difficult to cope with this situation.
(ii) In an organisation employees hesitate to express their feelings and suggestions. They do not take initiative to express their problems and suggestions

Q.

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

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. Which element of direction lacking between them? What do think is the importance of the aspects which is lacking, in the functioning of an organization?

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.

Q. You are a soft skill trainer who trains people in their speaking & writing skills. What ideas can you give to the trainees about improving their communication effectiveness?
Q. Clarify job Enrichment and job security as non-financial motivators. (2)

Q. Directing refers to the process of instructing, guiding, counselling, motivating and leading people in the organisation to achieve its objectives. Also the company is known for its good direction. What values does directing focus to inject in the organisation? (3)

Q. Motivation can be either positive or negative. How? (3)

Q. Manoj is working as a supervisor in Galaxy Ltd. He listens to workers suggestions and grievances. He rewards the workers for good suggestions and handles the grievances timely. He insists on free flow of communication to solve the conflict among mgt. and workers. While Scheduling the duties, he also consults the workers.

(i) As a good supervisor, which elements of direction are used by direction supervisor in above paragraph?

(ii) Explain any three functions performed by Manoj as Supervisor by quoting lines from the above paragraph. (6)
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/Features of Controlling**

1. **Controlling is a goal oriented function**: Controlling as a function of management ensures that the overall directions of individuals and groups are consistent with short and long range plans of the organization. So it is completely a goal oriented function.

2. **Controlling is an all pervasive function**: Controlling is a function which is applicable to all types of organizations 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 time activity. Rather, it is a dynamic process that involves constant analysis of actual and planned performance. The resultant deviations, if any, are corrected as per the need of the situation. For example if a firm X Ltd., a readymade
The 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 target. The controlling mechanism will help in finding the deviation and causes associated with it. This process will carry on every month for the organizational in this case.

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 conducive 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.

**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.*

**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 improves future planning.

Q. Prakash Jha wishes to fix - standard production for worker alongwith standard time to complete the job. Under which function of management, standards are fixed? (1)

Q. Jindal Ltd. could not achieve the target production of 15,000 cars p.a. It could produce only 14,125 cars - While analysing the reasons for deviations, it was found that workers were not efficient. Training programmes were organised and next year, company was able to produce 15,000 units. Production Manager is of the opinion, that with this, management ends at controlling. Do you agree? Give reason to support your answer. (3)

Q. Why is controlling blind without planning? (1)

**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 obser-
vation, sample checking. Performance should be measured in same terms in which standards have been established, this will facilitate comparison.

3. **Comparing Actual Performance with Standard**: This step involves comparison of actual performance with the standard. Such comparison will reveal the deviation between actual and desired performance. If the performance matches the standards it may be assumed that everything is under control.

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

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.

**Q5. “Comparing the actual performance with laid standard, finding out deviations and taking corrective action is an important process of a function of management.” Name the process.**

**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 affairs as it involves a lot of expenditure of 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.
3-6 MARKS QUESTIONS

Q. Which feature of controlling does it refer to when it is said that 'Controlling is exercised at all levels of management'? Explain. (1)

Q. Which two steps in the process of control are concerned with ensuring events to confirm to plan? Explain. (3)

Q. 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. (3)

Q. 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. (3)

Q. Name and explain the first three steps of the function of management shown in the picture. (3)
UNIT-3 END QUESTIONS

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

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

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

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

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

(ii) Directing (Any three benefits of directing)

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

Supervisors as middle men, conveyed it to the Production Manager. Mr. Raghunath coordinated with General manager, Human Resource Manager and Finance Manager. The team recommended - ‘Minimum wages + monetary incentives as per performance of concerned employee’ to Mr. Raghunath.
The scheme was implemented. Results were remarkable. Now, workers were satisfied with their jobs. They were producing more than standard output and getting good wages.

(i) Which functions of management are discussed above? (2)

(ii) Name the element of Direction initiated by Mr. Raghunath. (1)

(iii) Quoting the lines from above mentioned paragraph, state the benefits of such implementation.

Ans. (i) Staffing & Controlling

(ii) Motivation

(iii) Last three lines

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

(i) Which kind of leadership style, has Mr. Pratap been adopting. (1)

(ii) List the values ignored by Mr. Pratap. (Any two) (2)

(iii) Which kind of communication is not taking place among employees. Describe. (2)

Ans. (Hints) (i) Autocratic (ii) Any two values (iii) Informal Communication - meaning.

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

- Writing speed

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

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

(ii) By which function of management Shalu was trying to regulate her result. (1)

(iii) Explain first three steps of the process of such management function. (3)

Ans. Hints (i) Motivation

(ii) Controlling

(iii) First three steps of controlling

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

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

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

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

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

4. State two value which are evident from the way of working of co. (2)
**Ans.** Hints - (1) Informal Communication
(2) Remedial Action - Repair/Replacement/overhauling
(3) Monetary Incentive
(4) Any two values

**Q6.** In Jagdama Ltd., all the activities were divided into seven departments as Purchase, Marketing, Production, Personnel, Finance, Accounting and correspondence. General Manager Sh. Ram Niwas analysed and concluded that marketing, production and finance were the departments on which success of the business is dependent. Shortcomings in other departments, would not affect much the success of the business. He also decided deviation tolerance limits of these three main departments. If deviation goes beyond these tolerance limits then only the same will be brought to the notice of Sh. Ram Niwas.

(1) Identify functions of management referred in the above paragraph. (2)

(2) Describe the relevant concepts of identified function by quoting lines from the above paragraph. (4)

**Ans.** (Hints) (i) Organising, Controlling

(ii) Critical Point Control

Management by Exception (Describe)

(Quote the lines from the paragraph)

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

(1) Which leadership style was adopted by Director. (1)

(2) Which functions of management were performed poorly? (2)

(3) Identify the values not followed by departmental heads. (2)
Q8. Production manager set the annual production target as -
"Huge amount of Production".
Superiors checked the workers at work regularly and they made the workers do their best by encouraging them.
At the end of the year, it was found that actual production was 1,65,000 units. General Manager was not satisfied with the performance as last year 1,90,000 units were produced. But Production Manager was of the opinion that they have achieved the target of -
"Huge amount of production."

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

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

Ans.  (Hints)

(i) Standards should be determined in numbers. Standards should be:
    - Attainable
    - Measurable
    - Time bound etc. (Any Two)

(ii) Supervision
    Motivation
CHAPTER - 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?
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.

**Q.** A company needs additional capital to purchase machinery for increasing the production capacity. Name any two sources of finance to purchase new machinery.

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 then it will retain its earning and thus, no or less dividend will be declared.
4. **Cash Flow Positions**: Dividends involve an outflow of cash and thus, availability of adequate cash is 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?

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

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

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. State the formulae for calculating financial leverage.

Q. What is Favourable financial Leverage?

Q. What is the impact of business risk on capital structure?

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?

Q. Under which circumstances EPS of a company falls with increased use of debt?

**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 organisation:

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. **Operating Cycle/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.

**Q.** “A decision to invest in fixed capital is irreversible.” How?

**Q.** State two examples of seasonal industries.

**Q.** How is operating cycle related with requirement of working capital?
QUESTIONS FOR PRACTICE

Q. The cartoon demonstrates the primary objective of Financial Management. Name and explain it.

Q. Bharti Ltd. is a leading mobile company. It is planning to acquire Queen Ltd’s (its close competitor) business worth Rs. 1,000 crore. Which financial decision is involved in it?

Q. Chandra Ltd. is a manufacturer of Laptops. It made a profit of 1000 crores. The directors has proposed a dividend of 38%. As a finance manager of the company. What factors would you consider while formulating a dividend policy of the company?

Q. How overall financial risk is calculated?

Q. Pankaj is engaged in Warehousing - Business Identify the working capital requirements of Pankaj stating the reason in support of your answer. Pankaj is also planning to start his Transport business. Explain any two factors that will affect his fixed capital requirements.
Q. Identify x, y and z from the cartoon and explain them.

Q. How financial Management, helps in maximisation of shareholders’ wealth?

Q. How does ‘Trading on Equity’ affect the Capital structure of a company? Explain with the help of a suitable example.
CHAPTER - 10

FINANCIAL MARKETS

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,

![Flowchart showing the process from Household (Savers) to Business Firms (Investors) via Financial Markets]

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 interact on 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 tune, 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?

**Q.5** What is other name of Zero Coupon Bonds?

**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.**

**Q.3 What is prospectus?**
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.

<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 be settled 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><strong>S.No.</strong></th>
<th><strong>Basis</strong></th>
<th><strong>Capital Market</strong></th>
<th><strong>Money Market</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Participants</td>
<td>Financial Institutions, Banks, Corporate Entities, foreign investors and individuals.</td>
<td>RBI, Banks Financial Institutions &amp; finance companies</td>
</tr>
<tr>
<td>2.</td>
<td>Instruments Traded</td>
<td>Equity shares, bonds preference shares and debentures, call money etc.</td>
<td>Treasury Bills, Trade bills, commercial paper,</td>
</tr>
<tr>
<td>3.</td>
<td>Investment outlay</td>
<td>Does not necessarily require a huge financial outlay.</td>
<td>Entail huge sums of money as the instruments are quite expensive.</td>
</tr>
<tr>
<td>4.</td>
<td>Duration</td>
<td>Deals in medium &amp; long term securities having maturity period of over one year.</td>
<td>Deals in short term funds having maturity period upto one year.</td>
</tr>
<tr>
<td>5.</td>
<td>Liquidity</td>
<td>Securities are less liquid as compared to money market securities.</td>
<td>Money market instruments are highly liquid</td>
</tr>
<tr>
<td>6.</td>
<td>Expected Safety</td>
<td>High return</td>
<td>Low return</td>
</tr>
<tr>
<td>7.</td>
<td></td>
<td>Capital Market instruments are riskier both with respect to return and repayment.</td>
<td>Money market instruments are generally much safer with a minimum risk of default.</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 basis 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
  2. Conducing Research & Publishing useful information.
  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.

**Q.** Name the organisation which has been established in India to regulate stock exchanges and to protect the rights and interest of investors.
Q. Expand the following-
  CDSL
  NSDL
  DEMAT

Q. Shabnam wants to invest her savings in share market. What is the most important requirement for this?

Q. Julie wants to get her share certificates in electronic form. What is the name of service provided by depository?
QUESTIONs FOR PRACTiCE

Q1. Sudha Ltd. has sold 1 lakh equity shares of Rs. 10 each at Rs. 12 per share to an investment banker, who offered them to the public at Rs. 20 each. Identify the method of floatation.

Q2. “Primary markets contribute to capital formation directly. Secondary Market does so indirectly”. Explain.

Q3. Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares.

Q4. Charu is a charactered accountant in Prakash Ltd. During the course of meeting with directors she came to know that as against the previous years, this year company is going to declare handsome dividend. Offer it is observed that when such news becomes public then the share-market jumps up. Considering it, charu purchased large number of company’s shares before this news reached the public.

   (1) Identify type of malpractice used by charu.

   (2) Name the authority which regulates such behaviour. Write any three other functions of this authority.

Q5. A company wants to set up a new branch in Chennai. For additional capital company is planning to issue equity shares to public as there is boom period in capital market and public will prefer to invest in shares.

While analysing the issue, finance manager found that floatation costs of the issue would be high and company is already in liquidity crunch. Company deemed it proper to depend on money market instruments for about six months.
(i) Identify the method of flotation of capital, mentioned above.

(ii) Besides above shares issue method, mention two other methods.

(iii) Use of what kind of instrument will be appropriate for the money market. Clarify.
UNIT 4

QUESTIONS FOR PRACTICE

Q. Pavco Ltd. was declared as a SICK UNIT as it was suffering from losses since last 5 years. To rehabilitate the UNIT, overall financial restructuring of a company was initiated. Mr. Rahul was appointed as new Finance Manager of the company. Mr. Rahul analysed and found that company suffering due to scarcity of capital. He organised new issue of 1,00,000 equity shares of Rs. 1,000 each. Issue was fully subscribed with arranged capital. Mr. Rahul replaced the old plant with new one which was technologically updated and as per the industry demand. Its payback period was 3 years and it was promising a good rate of return. Just after two years, company was turned into a profitable venture.

(a) Which two decisions are taken by Mr. Rahul as finance manager. Explain them. (2+2)

(b) In which capital market, share are issued? Explain. (2)

Ans. (Hints) (a) (i) Financing decision

(ii) Investment decision

(b) Primary market (explain with features)

Q. Managing director of a company was reviewing the newly designed capital structure of company which was framed by Finance Manager. He found that debt component was less than equity. Company was earning good return with sound and stable earnings since last 12 years. MD discussed
with Finance Manager, that by having comparative less debt component, Earning per share will reduce.

(i) Name the concept of Financial Management, mentioned here. Explain it with the help of a suitable example. (1+3)

(ii) In which market, New debentures will be issued by company. Write any two features of such market. (1+1)

Ans. (Hints) (i) Trading on Equity, explain with example

(ii) Primary market, (Any two features of primary market)

Q. SABU Ltd. is in liquidity crunch. Working capital is in shortage and it is finding difficult to pay the suppliers in time. Credit period which is allowed by suppliers is two months. Finance Manager is of the opinion that for at least three months, company will not have sufficient funds to pay off creditors. Although, it has good financial reputation in market.

(i) Which short-term financial instrument company should use? (1)

(ii) In which market short-term financial instruments are issued? (1)

(iii) Explain any three factors affecting requirement of working capital? (3)

Ans. Hints

(i) Commercial Paper

(ii) Money Market

(iii) Any three factors affecting working capital requirements.

Q. GETO Ltd. is a company that produces school bags. Now it wants to produce water bottles also. For such diversification it needs additional capital of Rs. 50 crores, So company decided to float capital by way of equity shares issue to general public as it is boom period in market. But company’s cash position is not favourable. In order to arrange working capital, company want to use some many market instruments. It will help in meeting floatation costs.

(i) Identify the method of floatation of capital as mentioned in the above paragraph. (1)
(ii) Besides above share issue method, mention two other methods. (2)

(iii) Which money market instruments will be appropriate? Clarify. (3)

**Ans.** (Hints) (i) Offer through prospectus

(ii) offer for sale

– Private placement

(iii) Commercial Paper - used for bridge financing (explanation)

**Q.** A student asked teacher - “How A company can arrange for fixed capital which is to be used in long- term projects?”

Teacher explained as -

“If company wants to have funds, it can issue shares directly to public or it can sell the whole issue to intermediaries. After subscribing the shares, shareholders are not bound to keep it with them. They can sell it in the market and get them encashed.

In the above paragraph, two kinds of capital markets are highlighted. Name them and write two featured of each kind off markets. (2+4)

**Ans.** (Hints) Primary Market

Secondary Market

Write any two features of each.

**Q.** In 2nd five year plan. “Industrialisation” was the “Main Focus”. But the major problem was saving and Investment Household used to invest in GOLD & Property only. Government had to take initiative for establishing Infrastructure and other basic industries. With pace of economic development, small savings were promoted by establishing an organised market. This market is regulated by SEBI and has attributed a lot in economic development.

(i) Identify the market. (1)

(ii) Name two functions of this market. (2)
Ans. (Hints) (i) Secondary market

(ii) - Provides liquidity

- Pricing of Securities

(iii) Promotion of habit to save

- Contributes to Economic development

Q. XYZ Ltd. invited public to subscribe for equity shares of Rs. 100 each. Before the issue MD of the company had a deal with foreign company to amalgamate just after this issue. MD did not disclose this important fact in prospectus. It was highly objected, later by shareholders. Concerned Regulating Authority took action and MD was punished and penalised as per regulations.

(i) Identify the kind of capital market (1)

(ii) Name the Regulatory Body, mentioned above. (1)

(iii) Name any three other functions performed by the Regulatory Body. (3)

Ans. (Hints) (i) Primary Market

(ii) Securities Exchange board of India

(iii) To call for information.

- having fee or other charges.

- Training of intermediaries or (Any other)

Q. Avantika and Aanchal are close friends. They did their MBA together and got good placement from college campus as finance manager and production manager respectively in highly reputed companies.

Immediately after joining, Avantika found that her company in dire need of additional production capacity. She arranged funds by issue of debentures and purchased a new plant with - higher production capacity.

- good rate of return.

- Low pay back period.

- less cost & Good pollution control technology.
On the other hand, Aanchal put the workers for production for more hours of work. She did not listen to the workers suggestions and grievances. She did not pay any incentive for good performance.

(i) Name two financial decisions mentioned in para 2. (2)

(ii) Quote the factors from above. Which affect the decision to purchase fixed assets. (Any Two)

(iii) Name any two values violated by Aanchal.

**Ans.** (Hints) (i) Financing and Investing Decision.

(ii) Rate of Return, Payback period.

(iii) - Poor motivation

- Lack of empathy. (Any other)

**Q.** Talco Ltd. is launching a new range of snacks which are 100% Fat free. Keeping in mind, the health conscious segment of market, company produced these cholestrol free snacks. For financing the production of snacks, company issued 10% debentures. Company was already burdened with fixed cost of salaries. Rent and 8% debentures interest.

(i) In which market, debentures were issued? (1)

(ii) Do you think, issue of debentures was a wise choice Y/N. Justify your answer. (1+2)

(iii) What could be the other sources of finance available to Talco Ltd.

(Hints) (i) Primary Market

(ii) No Company was already burdened with fixed cost.

(iii) - Shares (Equity or Preference)

- Retained Earnings.

**Q.** Ravi was a trader dealing in woolen garments. His business flourished and he was maintained a good reserve of retained earnings. Ravi expanded his business and started production of “shawls”. Operating cycle period off shawls was quite long as Ravi made a policy for “Credit allowed” of four months to attract more customers. He was able to produce a good number of shawls with good quality and hand work.
(i) Name the market, through which working capital needs are satisfied. (1)

(ii) What quantum of working capital was required when he was a trader? As a producer how his need for working capital requirement has changed? (2)

(iii) Apart from working capital, explain any three other factors, affecting requirement of working capital. (3)

Ans. (Hints)

(i) Money Market

(ii) As a trader less working capital was required in comparison to as a producer because operating cycle period was comparatively small.

(iii) - Nature of concern
- Size of business
- Seasonal Business (or any other)
CHAPTER - 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 offers.

**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, steering 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.1** Which function of marketing requires gathering & analysis of marketing information?

**Q.2** Before buying a thing a customer analyses its cost and the satisfaction that he is to get from it. He will buy the thing only when he feels that its satisfaction will be more than its cost. Seller is to make the thing while keeping in mind this tendency of the buyer. A seller, who does not pay heed to the importance that the buyer gives to the product, certainly lags behind in competition.

> Which feature of marketing has been highlighted in the above paragraph?

(1)

**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 in expensive 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 com-
petitors. 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 standardised so he can focus on production at a large to cut down the cost per unit. Write any business which can be successfully run by the others using their concepts.

Joginder-

John-

Iqbal-

Shreya-
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 to buyer. The entire focus in selling is to covert the product into cash.

Difference between Selling & Marketing

<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>Pre-dominance</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>
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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.

11.8.1 Elements of Marketing Mix

The four main elements of marketing mix as classified by McCarthy are:

A. Product
B. Price
C. Place/Physical Distribution
D. Promotion

These elements are more popularly known four P’s of the marketing.

Elements/4 Ps of Marketing Mix

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

**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?
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.

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:

BRANDING
Distinct Identification of a Product

■ Brand

■ Brand Name

■ Brand Mark

■ Trade Mark/Brand registered under Trade Mark Act, 1999 with Government of India

Qualities of a Good Brand Name

1. Simple and Short: A brand name should be simple and short as Tata, Bata

2. Easily Pronounceable: A brand name should be easily pronounceable as Lux, Dalda.

3. Suggestive: Brand name should be self explanatory, suggesting the inherent quality of the product as Ujjala suggests more whiteness.
4. **Distinctive**: Brand name should be so distinctive that it highlights itself in the group of other brand names such as: Tide, Perk.

**Advantages of Branding**

1. Brand name helps in advertising it in an easier way.
2. Brand name establishes permanent identity of the product.
3. Branded products can be easily identified by consumers.
4. Brand name promotes repurchasing.
5. **Branding ensures a particular level of quality of the product**: If there is any deviation in the quality the customers can make a complaint to the manufacturer.

**Q.1** *You have come up with a brand name ‘Yummy Yummy’ for your noodles brand. What qualities do you think are associated within?*

**Q2.** *State the advantage of registering ‘trade mark’.*

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.
PACKAGING

Group of activities related to the design and production of the container in which the product is packed.

It can be different levels:

- Primary Packaging
- Secondary Packaging
- Transportation Packaging

Functions of Packaging

1. **Product Identification**: Packaging helps in identification of the product.
2. **Product Protection**: The main function of the packing is to provide protection to the product from dirt, insects and breakage.
3. **Convenience**: It provides convenience in carriage, stocking and in consumption.
4. **Product Promotion**: Packaging simplifies the work of sales promotion.

Advantages of Packaging

1. **Rising standards of Health and Sanitation**: The people are becoming health conscious so they like to buy packed goods. The reason is that the chances of adulteration in such goods are minimised.
2. **Innovational Opportunity**: With the increasing use of packaging more innovational opportunity becomes available in this area for the researcher.
3. **Product Differentiation**: Packaging is helpful in creating product differentiation. The colour, material and size of the package makes differences in the quantity of the product.

**Q.** Which function of packaging is emphasized in case of Cadbury chocolates by using purple packaging on all its chocolates? What according to you are advantages of such packaging?
3. **Labelling** :-

Labelling means putting identification marks on the package. Label is a carrier of information & provides information like - name of the product, name of the manufacturer, contents of the product, expiry and manufacturing date, general information for use, weight etc.

Labels perform following functions:-

1. Identify the product :- It helps the customers to identify the product from the various types available. For example : We can easily identify a cadbury chocolate from the various chocolates by purple colour of its label.

2. Describe the product and specify its contents :-

The manufacturer prints all the information related to the product.

3. Grading of products : With the help of label, products can be graded in different categories for example : Brook Bond Red Label, Brook Bond Yellow Label, Green Label etc.

4. Helps in promotion of products :- Attractive and colourful labels excite the customers and induce them to buy the products. For example :- 40% extra free mentioned on detergent etc.

5. Providing information required by law :- There is legal compulsion to print batch no., contents, max retail price, weight/volume on all the products and statutory warning on the packet of cigarettes, “Smoking is injurious to health”: In case of hazardous/poisonous material appropriate safety warnings need to be put.
Q1. ‘An important task in the marketing of goods relates to designing the label as it provides useful and detailed information about the products’. In the light of this statement, draw a label for “Tea” and highlight the important information to be provided on it. (3)

Q2. One manufacturer of electronic product produces such products which need special care while using it. But the company has not given the instructions to consumers. If you were the manager of the company what steps you would take?

Q3. Recently, prices of perfumes, which are one of the major ingredients of agarbattis, have gone up substantially. Since there is keen competition in the agarbatti market, no manufacturer increased the price of agarbattis. In turn, most of the manufacturers opted to reduce the quantity of perfumes in agarbattis to cut their cost of production. This has resulted in decreased quality of agarbattis though their prices have not changed. In order to overcome this problem, garden ltd. introduced a new set of agarbattis under the brand name Khushboo. Khushboo agarbattis captured the agarbattis market very quickly.

(a) Identify the product-related issue involved in the above case and explain its three functions.

(b) Mention the value which Garden Ltd. adhered to in launching the new set of agarbattis.

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.

(b) Obtain large share of the market i.e., by maximising sales it will charge lower price.
(c) Firm is operating in the competitive market it may charge low price for it.

2. **Cost of Production**: Needs to be fully realised before fixing prices.

3. **Demand**: High Demand and less supply may permit increase in price while low demand and more supply may not allow increase in price.

4. **Competition in Market**: Prices of competitors need to be considered before fixing prices.

5. **Government Policies**: Products regulated by government pricing regulations need to be priced as per government policies.

**Q. ABC Ltd. is introducing a new car in the market. 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. **Ware housing**: Need arises to fill the gap between the time when the product is produced & time when it is required for consumption.

### Channels of Distribution

**Direct Channel** — Manufacturer-Customer

**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

1. Market related Factors
   - 1. Size of the market - no of customers more customers more intermediates
   - 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

2. 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

3. 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.

Q. Simone, 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, Ankit is a manufacturer of Gift Items. He is confused regarding the level of channel he should follow. Can you guide him regarding the problem? Give points for support of your answer. (3)

IV. P-Promotion Mix

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

Elements of Promotion Mix

- Advertising
- Personal Selling
- Sales Promotion
- Public Relations

Tools/Elements of Promotion Mix

1. Advertising: Most commonly used tool of promotion. It is an impersonal form of communication, which is paid for by the marketers (sponsors) to promote goods and services. Common mediums are newspaper, magazine, television, and radio.

Role or Importance of Advertising

1. Enhancing customer satisfaction and confidence.
2. Helpful in increasing the demand of existing products.
3. Helpful to increase the market share.
4. Helpful in generating more employment.
5. Helpful in the economic development of the country.
7. No fear of exploitation.

Objections against Advertising: Though advertising is one of the most frequently used means 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?

**Q.4** A commercial unit uses rocks, trees, electric poles, historical managements and walls to advertise its products. Which faults of the company does this advertising policy show? (1)
2. Personal Selling

Personal selling consists of contacting prospective buyers of product personally i.e face to face interaction between seller and buyer for the purpose of sale.

Features of the Personal Selling

1. Personal contact is established under personal selling.
2. Oral conversation.
3. Quick solution of queries.
4. Receipt of additional information.
5. Development of relationship with the prospective customers which may become important in making sale.

Qualities of a Good Salesperson
Qualities of a Good Salesman

1. **Physical Qualities**: Physical qualities include personality health, stamina and tolerance. A salesman can instantly connect with the customers if he is good looking and smart.

2. **Mental Qualities**: These include mainly skills, mental alertness, imagination and self confidence.

3. **Technical Qualities**: He should have full and updated knowledge about the product he is selling - its features, price and variety available. He should be aware of the nature of work carried on by the firm, he is working for.

4. **Good communication skills**: He should be able to develop a good conversation with the customer. He should be confident while he is communicating and should be able to answer all the queries of the customer satisfactorily.

5. **Honesty**: It is a very important quality of a good salesman. In order to establish the goodwill of firm he must be honest and sincere in performing his duty. A salesman who resorts to selling inferior goods, charging higher rates, providing wrong information, giving exaggerated claims etc. will cause a decline in goodwill of the firm in the long run.

6. **Courtesy**: A Salesman who is polite and courteous generates buyer’s confidence selling product becomes easy for him.

7. **Persistent**: “Never give up”, is the spirit that a salesman should have. Making the customer buy maximum amount of a product is the ultimate task given to him.

8. **Capacity to inspire trust**: The salesman should have the convincing power to develop the belief in a customer that the product he is buying is the best product in the market.

Q.1 Sanjay is a salesman at Croma Store, an electronic goods initiative. He has been awarded ‘Employee of the year’. What qualities do you think he must be having to receive the award.

Q.2 Every organisation desires that it should have goodwill in the minds of all concerned. To establish goodwill, it is essential to have dialogue. It is by way of dialogue that an organisation gets the necessary informations. How is it possible?
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.

**Q.2.** A tea producer uses such packets/things for packing tea, which can be used, even after consuming the tea, for other purposes. Here, which values are being affected by him?

**Q.3.** A company uses same promotional schemes like ‘buy one, get one free’, free samples, free gifts and so on to boost the sales of its products and earn higher profits. This results in unnecessary hike in the prices of the products. In your opinion, is this policy in the interest of society?

**Public Relations**

“The Chartered Institute of Public Relations” defines Public Relations as ‘a strategic management function that adds value to an organization by helping it to manage its reputation’

Public relations covers a wide range of tactics, usually involve providing information to independent media sources in the hope of gaining favorable coverage. It also involves a mix of promoting specific products, services and events and promoting the overall brand of an organization, which is an ongoing tact.
Public Relation tools include:

1. **Press Release:** A press release is an announcement of an event, performance, or other newsworthy item that is issued to the press by a public relations professional of an organization.

   It is written in the form of a story with an attractive heading so that the media quickly grasp and circulates the message through newspaper/radio/television/internet.

2. **Press Kits:** It is a comprehensive package of information outlining a company’s products and services most frequently sent to members of the press. It includes
   - A brief company biography.
   - Information of senior management.
   - Comments from customers.
   - Reprints of newspaper and magazine articles.
   - Photos of products.

3. **Brochures:** It is a booklet published by the organization which contains the organization’s background, its ethics, vision, mission, its past, present and future projects, its CISP, etc. E.g.: brochure given to new employees to give them a gist of the organization.

4. **Newsletter:** It is a printed publication produced at regular intervals focusing 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. Upkeep of parks, gardens, sponsoring sports activities etc.

Q3. Radha found a worm crawling out of newly opened tetra pack on a juice manufactured by a reputed company, Zest Ltd. She went back to the shopkeeper from whom the pack was purchased who directed her to call up the customer care centre. When all her efforts failed, she went to a consumer activist group to seek help. The group decided to help Radha and take measures to impose restrictions on the sale of the firm's products of the particular batch and urge customers to refrain from buying the products of the company. Zest Ltd. lost its image in the market. The CEO gives the responsibility of bringing back the lost image of the company to a Manager.

(i) Identify the concept of Marketing Management which will help the Manager getting the firm out of the above crisis.

(ii) Also explain the role of above identified concept by stating and two points.

Hint: (i) Public Relations (ii) Role of Public Relations (write any two)
QUESTIONS FOR PRACTICE

Q1. “Progressive School” focuses on all round development of the students and to enhance this, has club activities on every saturday. The students of “Elocution Club” of Class XI and XII were given the topic “Advertisement” for debate. There were 3 students in favour of motion and 3 students against the topic their expressions were as follows:-

**Favourites:-**

Student-I : Advertisement reduces the cost of the product.

Student-II : Advertisement provides knowledge of various products.

Student-III : Advertisement improves quality of products.

Against -

Student-IV - Advertisement adds to the cost of product.

Student-V - Advertisement confuses the buyers.

Student-VI - It encourages the sale of inferior products.

How far do you subscribe to the above views? Give reasons for your answer. (6)

Q2. Business Studies of Class XII - Commerce section was going on. The teacher was keen of teaching the topic of sales promotion by “Teaching through Games”. Hence, she prepared flash cards and divided the class into 02 groups. The students were asked to make combination of the alternatives of sales promotion and were also asked to identify and name the method of sales promotion which they made.

<table>
<thead>
<tr>
<th>Group I</th>
<th>Group II</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Pasta</td>
<td>(a) Toothbrush</td>
</tr>
<tr>
<td>(2) Cars</td>
<td>(b) Gold pendant</td>
</tr>
<tr>
<td>(3) Shoes</td>
<td>(c) 25% discount</td>
</tr>
<tr>
<td>(4) Washing powder</td>
<td>(d) olive oil pouch</td>
</tr>
</tbody>
</table>

(6)
Q3. ‘Various tools of communication are used by the marketers to promote their products.’

(a) Why do companies use all tools at the same time?

(b) Name and explain the most commonly used non-personal tool of promotion which is paid for by the marketer.

(c) Which tool of promotion will primarily be used for the following?

(i) To promote or protect a company’s image or its individual products.

(ii) An existing product meant for mass usage by literate people.

(iii) To introduce a new product to a particular class of people through door-to-door visits.

(iv) To attract attention of the people by using incentives.

Q4. As a project work in Business Studies subject, the Commerce students of ‘Knowledge School’ thought of setting up a recycling plant to recycle all the waste papers from the school and prepare registers and exercise books to be used by the school students. They approached their principal who not only appreciated the idea of the students but also give her consent for the same. The school also decided to donate 50% of the revenue generated from the sale of registeres and exercise books to a nearby blind school.

(a) State the product related decisions which the children have to take.

(b) Suggest any two factors the children should keep in mind while choosing the right name for their exercise books and registers.

(c) Identify any two values communicated to the society by this project of ‘Knowledge School’
Q5. Innovators Ltd. is business from manufacturing water purifier. It has already been manufacturing water purifiers since last 10 years. Now it has come up with a latest innovation in the filed of RO purifiers which will avoid wastage of water. It knows that there are many competitors in the field as :- Whirlpool, Aquaguard, Zero B, Kent, Eureka Forbes, LG etc.

Q1. Which value is adopted by the company? (1)

Q2. Suggest which factors should it keep in mind while fixing the price of purifier (any 3) (3)

Q3. Which channel of distribution should the company adopt? (1)

Q4. Which is the most appropriate sales promotion methods for this? (1)

Q6. Mr. Akshay is the Sales Manager of Nova Ltd. Since sometime, performance of his department has failed to reach the acceptable level. It is a matter of concern for the General Manager. He is keen to mend this dismal situation at any cost. Mr. Akshay made efforts to find out the causes of this situation. He found that the members of his team lacked training and that giving incentive to the buyers was absolutely necessary. To impart training to his team members he set up a training center and appointed a trainer for this purpose. The trainer imparted them necessary training keeping in mind the actual situation. Besides Mr. Akshay launched a scheme for the customers. Under this scheme, a coupon is to be issued to that consumer who buys goods to a specified date. Later on, draw will be taken by a given date and will be distributed among the winners.

Identify the said training and sales promotion methods. (3)
CHAPTER - 12

CONSUMER PROTECTION

If consumers are asked to make greater sacrifices than industry, the country is going to have the greatest shortage of all consumers.

Betty Furness, an American Consumer Advocate

CONSUMER PROTECTION

Protection of Consumer against the unfair trade practices of producers and sellers

Generally consumers are exploited by:

- Adulteration of Consumer Goods
- Poor Quality of Goods and Services
- Short Measure and Underweight Goods
- Creation of Artificial Scarcity by Hoarding of Goods

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)

![Image of a smiling face with text: Consumer is the King of Market.]

**Traditional Approach**

Caveat Emptor  
(Let the buyer beware)

**Modern Approach**

Caveat Venditor  
(Let the seller beware)

**Market – Consumer = Zero**

1. **Long term Business Interest** : It is always in the interest of the business to keep its customer satisfied. Global competition could be won only after satisfying customers. Satisfied customers lead to repeat sales and help in increasing customer base of business.

2. **Moral Justification** : It is the moral duty of any business to take care of consumer interest & avoid any form of their exploitation & unfair trade practices like defective & unsafe products, adulteration, false and misleading advertising, hoardings, black marketing etc.

3. **Business uses Resources of Society** : Every business uses the resources of the society and thus it is their responsibility to work in the interest of the society.

4. **Social Responsibility** : A business has social responsibilities towards various groups like owners, workers, government, customers etc. Thus, customers should be provided qualitative goods at reasonable prices.
5. **Government Intervention**: If a business engages in any form of unfair trade practices then government takes action against it, which adversely affects its goodwill.

### CONSUMER PROTECTION ACT, 1986 (CPA, 1986)

**Meaning of Consumer**

Consumer Protection Act 1986 was introduced to make consumers aware about their rights and to give them legal protection. According to it consumer is defined as follows.

1. Any person who buys any goods for a consideration. It includes any user of such goods with the approval of the buyer. But it does not include a person who obtains goods for resale or any commercial purpose.

2. Any person who avails any services for a consideration. It includes any beneficiary of such services but it does not include a person who avails such service for any commercial purpose.

**Meaning of Consumer Protection**

**CPA, 1986 defines consumer protection as:**

1. To protect and promote the interest of consumers by recognising 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.

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**CONSUMER MUST BE QUALITY CONSCIOUS**

- **Hallmark**: Bureau of Indian Standards
  - Hallmark is standard for accurate determination of the precious metal

- **Agmark**: Government of India
  - Agmark is standard for prescribed agricultural commodities and live block

- **FPO**: Fruit & Vegetable Products Organization
  - FPO aims at standard for manufacture of fruit & vegetable products

- **ISI**: Bureau of Indian Standards
  - ISI is a standard for electrical goods
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.

Ques. on Rights of Responsibilities

Q1. Sonu purchased a medicine from ‘Alpha Medical stores’ for his wife who had stomach pain. But even after giving the medicine, wife’s condition did not improve and she had to be admitted to a nearby hospital for treatment. Doctors on examination found that the medicines given to sonu’s wife were spurious. Sonu complained about this to “Alpha Medical Store’. As a result Alfa medical decided to file a complaint against the manufactures in the consumer court. Can Alpha Medical store lodge the complaint? Give reason. (1)

Q2. Neha’s elder brother purchased “I Phone 6 - Apple” mobile phone for Rs. 65,000 without cash memo from one of his friend-an authorised dealer with a guarantee that the mobile phone will be replaced with a new one if any of its parts become defective within 1 year from the date of purchase. Within 1 month, the mobile stopped working. When Neha’s brother approached his friend for replacement of mobile, he refused. Name the
redressal agency under the consumer protection at where Neha's elder brother can file the complaint. (1)

Q3. Rama, who was a vegetarian, went to a bakery and bought a vanilla cake. On reaching home. She found that it had non-vegetarian content. Neither the advertisement nor the packaging of the product displayed that the product had non-vegetarian content. Will Raman be able to claim compensation? Which right is violated here? (1)

THE SALIENT FEATURES AND PROVISIONS OF CONSUMER PROTECTION ACT, 1986

Who Can File A Complaint Under CPA, 1986

A complaint before the appropriate consumer forum can be made by:

1. Any consumer.
2. Any registered consumer association.
3. The central or state government.
4. One or more consumers on behalf of numerous consumers having same interest.
5. A legal heir or representative of a deceased consumer.

Against whom 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:

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Direct Appeal -> National Commission
Direct Appeal -> State Commission
Direct Appeal -> District Forum
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Redressal Agencies

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.
(d) 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.

**Q3.** Name the Consumer Court where the complaint was filed by the consumer.
QUES. ON COMMISSIONS

Q4. Naresh purchased a ‘BMW’ car for Rs. 50,00,000 on instalments. He found that the engine of the car was defective. Despite many complaints to ‘BMW Motors’, the defect was not rectified. He filed a complaint in state commission but was not satisfied with its order. Where can he appeal and within how many days?

Q5. A farmer purchased seeds worth Rs. 20,000 from Bharat Fertilisers" for agricultural purposes. The seeds were very costly as they were of hybrid variety. After 6 months he noticed that the agricultural produce was not upto expected standard. He reported this matter to the seller, but he refused to accept the liability. Mention the redressal agency in which he can file a complaint.

Q6. On securing 95% marks in class XII, Ram’s father gifted him a gold chain. But after 2 months, Ram noticed that the gold chain was loosing the shine. He checked the mark on chain was loosing the shine. He checked the mark on chain and found that it was not a proper hall mark (BIS). He lodged a complaint in the district forum, which rejected it. Not satisfied by the decision of district forum, he was very much disturbed and after 45 days, he decided to appeal further.

Can Ram appeal against the decision of the district forum? Give reasons in support of your answer.

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.

**Ques. on Remedies available Role of NGO’s**

**Q1.** Geeta’s mother bought a facial streamer from “Nova Electricals”. Her mother got electric shock while using the steamer and she had to be taken to a doctor. Which remedy is available to her? (1)

**Q2.** Sohan’s maid gifted a refrigerator worth Rs. 18,500 to her daughter on her marriage which was later found defective. She being poor and illiterate does not know how to forward her complaint in consumer court. Suggest her, whom can she approach for forwarding her case. (1)

**Q3.** Soni, purchased and used a bleach cream which was expired. She got scars on her face due to this. Give any one relief available to soni, who suffered scars on her face due to usage of expired bleach cream. (1)

**3 MARKS**

**Q1.** On the occasion of “Dhan Teras” Mr. Aakash went to market for purchasing utensils. He bought pressure cocker from a shop. The shop was over crowded on the festival, so he did not obtain the cash memo for the purchase and did not check its certification. Next day, his wife used the cooker, which bursted and his wife suffered injuries.

(1) Identify and explain the consumer liabilities which have not been discharged by Mr. Aakash.

(2) Mention the values which have been ignored by the seller as well as of Mr. Aakash.

**Q2.** Tanya purchased some household goods from a “General Store” on reaching home, she found that one face cream, (Rs. 250) had not been billed. She became happy that, she got it without paying for. After checking the expiry date and other details, she started using it. Her face burnt due to the use of cream.
(1) Where should Tanya file the complaint for the cream? Justify.

(2) Which values have been violated here?

Q3. Smriti purchased a hand blender from an electronic store and got the cash memo of Rs. 1500 which she paid for the blender. Later, she found that the actual price of the blender was Rs. 1200 but the shopkeeper had pasted a sticker of Rs. 1500 on the original price. Can Smriti recover the extra money that she paid? What other options are available to her against the shopkeeper?

Q4. 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?

Q5. 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?

4 MARKS QUESTIONS

Q6. Sehaj bought Teak wood furniture for his drawing room from “Akshay Decors” of Kirti Nagar, Delhi for Rs. 4 lakhs. At the time of purchase the firm assured sehaj about the best quality of the said furniture and gave 2 years warranty starting that if anything goes wrong, the firm shall replace it with a new one or refund the purchase amount. But the dining table and chairs started developing cracks at various places and the polish became very dull within 30 days of purchase. Sehaj reported the matters to the firm and requested a number of times to replace the furniture. The firm neither paid attention to these requests nor replaced the furniture.

(1) Identify the consumer rights which have been violated by the furniture manufacturer.

(2) Where can Sehaj lodge complaint for this?

(3) Mention the values (2) which have been violated by the firm.
Q7. Name the products to which the following quality certification marks are associated.
UNIT-5

QUESTIONS FOR PRACTICE

Q1. Samir and Kabir while pursuing MBA degree became very good friends. After completion of MBA, they started a partnership firm of manufacturing readymade garments. They employed 02 female handicapped managers for their firm also. They worked very with full dedication and also motivated their workers towards efficient and effective performance. They used intermediaries to sell their products in the market. They established their brand name well in the market.

They planned to expand their business and changed their form of business from partnership to company (Public Ltd.) by issuing shares in capital market. Now they want to eliminate the intermediaries from the chain of distribution.

Q1. Which channel of distribution were they partners using to sell the readymade garments. (1)

Q2. Name the market which they used to tap financial resources for expansion. (1)

Q3. Which channel of distribution are they planning to adopt now? Explain.

Q4. Identify the values being adopted by the enterpreneurs. (1+1)

Q2. Ashok Kumar, marketing manager of a newly established firm dealing in detergent powder was asked to design marketing strategy for promoting sales of the product.
He called the advertising team, discussed the medium and cost of media, competitors advertising media etc. and finally planned the advertisement for the product.

He also discussed the introductory sales Promotion offers so as to attract potential customers.

But he thought that advertisement and sales promotion techniques won’t be successful without personal selling. So he along with Personal Manager of the firm was assigned the task of interviewing candidates for the job of salesman.

Name and explain any six traits which they should look for in the candidates. (6)

Q3. In the Annual General Meeting of the company with share holders. The managing Director of the company stressed that the business unit should establish best possible understanding with customers, suppliers, community because it is an important lubricant for making the wheel of marketing run smoothly. Hence, the marketing manager should pay special attention to it.

Discuss the variety programmes which would be undertaken to promote and protect the image of the company and its products as decided in the AGM of the company. (5)

[Hints: Public Relations]

Q4. Government always endeavours to protect the interests of the consumers. That is why government has passed various legislations from time to time. Some years ago an Act was passed. It protects the consumers against defective goods, deficient services, unfair trade practices and consumers explaritation. Similarly measures have been taken to protect the consumers against the losses suffered by them due to such anti-social activities as profitering, hoarding, black-marketing etc. Not only that, provisions have also been made to protect the consumers against the consumption of adulterated food products.

(1) In the above paragraph mention has been made of three acts related to the protection of consumer’s interest. Quoting the lines, identify them.

(2) Also identify two values dedicated to the society as mentioned in the paragraph. (4)

Q5. A class of final year students of Delhi School of Commerce pursuing a programme on "Entreprenership was going on the Lecturer - Mr. Singh
thought of making the classroom teaching interesting and more practical. He came up with an innovative idea. He told the students to mark and read chapter No.14 on ‘Entrepreneurial Marketing Strategies” on which they have to prepare a PPT and give demonstrative role play also.

Role plays of sample 5 students were as follows:-

Student-A :- I will manufacture high quality products because customers favour those products which are superior in quality.

Student B : His role play portrayed that he will achieve profit maximisation by identifying customer needs and satisfying them better than competitors.

Student C : He showed that he will attract and convince customers by pushing the sale of product and using aggressive selling and promotional efforts.

Student D : His act reflected that he will identify the needs and wants of the customers and deliver the desired satisfaction in the long term will being of customers as well as the society.

Student E : He said that I will produce on large scale, reduce the per unit cost of production because customers favour those products which are widely available at affordable prices.

Q1. Identify the marketing management orientations discussed above quoting lines from the above case. (5)

Q2. Which orientation according to you is the best one and why? (1)

Q6. “Beta Ltd.” a company manufacturing metal products and plastic products was divided on the basis of products and various divisions were established in the company. The heads of divisions looked after all the functions connected with that product i.e. purchase, sales, advertising, production, finance etc. All these activities were performed separately by different divisions set up in backward hilly areas of India and employing 60% women as workers. (4)

One day an urgent meeting (on request of Finance Manager) was called by General Manager of Beta Ltd. to discuss certain important decisions related to the revenue producing variable of marketing such as.

(i) Determination of trade and cash discount.
(ii) Credit policy, i.e. whether goods to be sold on credit or not.

(iii) Period of credit and procedure to be adopted in case of non-receipt of payment even after the expiry of credit period.

Q1. Which function of management is discussed above?

Q2. Name the type of organisational structure adopted by Beta Ltd.

Q3. Which variables of marketing is referred above?

Q4. Discuss any 3 factors which affect the determination of such variables.

Q7. Kamal is a student of 12th class commerce stream. He listened attentively and understood the lecture on consumer protection act delivered by the teacher. His teacher remarked that currently consumers enjoy several rights. In case, goods purchased by him/her cause harm to health and property, there is a provision for compensating him/her. Besides, this Act has also some expectations from consumers - That during the converse of his/her purchase, he/she should keep certain things in mind. Briefly, provisions of the Act can protect the consumer only when he/she has complied with certain fundamental things. The same day in the evening, while watching TV, he was attracted towards a shaving cream which claimed certain added features compared to competitive brands. After 02 days, he went to the market to buy the product but it was not available on any shop in the market. After a week, a sales man from the company (authorised with I-Card) approached his house with an “Introductory price offer” on the shaving cream. He bought the cream & used it the next day in the morning and got scars on his face.

Q1. Identify the right and responsibility of the consumer referred to in the above paragraph.

Q2. Which elements of ‘Promotion Mix’ have been referred above?

Q3. Which variable of Marketing has been ignored by the company?

Q4. Can kamal claim any relief in the above case?

[Hints: (2) advertising, personal billing, sales promotion techniques, (3) Place mix.]

Q8. Rajesh is a salesman working in ‘Swad Foods Ltd.’ the company considering the increasing interest of consumers towards healthy foods, has manufactured a new brand of wheat flour which includes all organic fibre
rich ingredients. The price of flour is 5 times higher, compared to basic flours available in market.

One day in canteen during lunch hours, the Area Sales Manager noticed Rajesh and other salesman were very much worried, as they were unable to achieve the target sales assigned to them. Area Sales Manager enquired the matter. All the salesmen requested him (Sales Manager) to request the Top & Middle level mangers to introduce some short term temporary offers for wheat flour to stimulate sales. Area sales Managers whole heartedly accepted and forwarded their request to higher level, which was accepted and implemented.

Q1. Which style of leadership is being practised by Area Sales Managers? (1)

Q2. Which types of communication took place above? Explain quoting lines from para. (2)

Q3. Which pricing strategy was the company adopting for selling wheat flour? (1)

Q4. What according to you can the options for stimulating sales temporarily? (Any 2)? (2)

Hints: [(1) Democratic of style, (2) Formal & Informal Communication, (3) Skimming price strategy.]

Q9. Vyas learnt the art of Ayurveda from his father. He kept practising it under his father’s guidance. After researching for 2 hrs, he developed a hair oil using natural herbs which could turn grey hair to black again and also aid in promoting hair growth slowly and gradually his successful formula gained a lot of popularity. In order to avoid rush in his clinic, he made the hair oil available in chemist shops in his market.

But a leading hair oil selling company copied his formula and started selling of hair oil under their own name umbrella.

Q1. Which identify the important product related decision did Vyas forget? (1)

Q2. Explain the benefits, Vyas would have desired by making such decision well in time? (4)
Q10. During the month of June 2015, in a train ‘Pooja Express’ going to Holy Shrine - Mata Vaishno Devi; few people in AC coach were evaluating. The success of the Central Government, their reforms, market scenario, Indian economy etc. Following are the extracts of their discussion.

The First said, “Competition is on the rise in the market. To face this problem, his company has launched a Sales Promotion Scheme. According to this scheme, a customer who purchases goods worth Rs. one lakh or more at one time will be given free a holiday package valued at rupees ten thousand.”

The second drew their attention towards exploitation of the consumer in the market. He said, “Till this day, the sellers have been exploiting the consumers in more than one way. I feel that the main cause of it was not raising any collective voice by the consumer against exploitation. But now the Consumer Protection Act has made consumers aware of it and this problem is almost over.”

Then, the third (who was a businessman) said, “We are also under the pressure of consumer satisfaction. We observe that those businessmen who feel this pressure are getting its advantages.”

Finally, the Fourth said, “It is the duty of the businessman to keep the satisfaction of the consumers in mind, because business is run by the resources made available to them by the society.”

Answer the following questions concerning the discussion referred to in the above paragraph:

(i) Which dimensions of business environment have been discussed above?

(ii) Identify the sales promotion scheme launched by the Co.

(iii) Identify the importance of Consumer Protection Act from the point of view of consumers. Give one point.

(iv) Identify the importance of Consumer Protection Act from the point of view of business. Give two points.
SAMPLE PAPER-I

Q1. Identify the level of management at which the manager are responsible for maintaining the quality of output and safety standards. (1)

Q2. Why is it said that business environment is a relative concept? (1)

Q3. What is meant by follow up action? (1)

Q4. A company is manufacturing two products i.e. cell phone and television. It has two separate departments for each product. Which type of organisation structure does it require? (1)

Q5. Explain how ‘floatation cost’ affects the capital structure of a company? (1)

Q6. Zaku Ltd. is going to diversify its product line. It will also expand by increasing its number of outlets.

   How would its working capital needs be affected by such programme? (1)

Q7. Aims Electronics, a domestic Indian firm is marketer of LED-HD TV’s. It has current market share of 10% in Indian markets. Now the firm has globalised its operations and thus aims at enhancing its market share to 20% - 25% in the next two years. They will have to develop a complete marketing plan covering various important aspects including the plan for increasing the level of production, promotion of products etc. Identify the function of marketing discussed above. (1)

Q8. Rohini went to buy a Juicer Mixer Grinder for her kitchen use. As an aware consumer, how can she be sure about the quality of Juicer Mixer Grinder? (1)

Q9. “Delegation of authority is essential but Decentralisation is an optional policy”. Comment.

Q10. ‘Natu Cure Ltd. is a natural and ethical brand famous for offering organic beauty products for females. The company uses natural ingredients for manufacturing its products and hence its products being organic are in high demand its Tag line is “Stay beautiful, the herbal way”. The Company has recently manufactured “Pimple Treatment Cream” for females.
Explain the three different levels of packaging to be designed by the company for the above stated product. (3)

Q11. Alok is view supervisor of Ram, Rahim and Khan. He consults all his subordinates while framing work schedules. They provide suggestions and Alok considers such suggestions if they are productive. Which leadership style is followed by Alok? What would be the benefits of such leadership style to the organisation. (3)

Q12. “SEBI acts as watching to securities Market in India”. Considering the statement highlight the functions of SEBI.

Q13. Subermanyam is a newly appointed Human Resource Manager in Times Ltd. in Punjab. He is a Tamilian basically. He is good in Tamil and English. Most of his subordinates belong to Punjab and they are not very much fluent in English. He feels it much difficult to make them understand his instructions.

   (i) Identify the concerned communication barrier.

   (ii) State the category of such barrier.

   (iii) Explain any other category of same barrier.

Q14. Primus Ltd. is a reputed Co. in industry of medical equipment. They imported a huge quantity of blood sugar testing strips but could not sell due to high prices. As a result, they had a huge stock of expired strips. In order to overcome the loss they changed all the stickers with the new expiry dates and sold them at discounted price.

   (a) Name the business objective which Primus Ltd. has followed and the objective they have completely ignored.

   (b) State any 2 values they ignored while doing business.

Q15. Angel Mehra was pursuing MBA (Marketing) through distant learning programme from symbiosis. She had to appear for her final semester exams at Pune. Accordingly, she booked a flight for Rs. 7000/- with Flyway airlines. On the exam day, she reached airport in the morning discovered that the flight has been cancelled. Because of carelessness of airlines company, she missed her exam and failed to secure her MBA degree in time.
Q1. Which rights of consumer have been ignored in the above case? (2)

Q2. What are the remedies available to Angel Mehra. (2)

Q16. Sultan is running his restaurant which has two functions i.e. cooking and serving. Now he wants to convert his restaurant into a small hotel which will increase one more function of hospitality.

(1) Suggest the organisational structure it requires. (4)

(2) Also explain the benefits of adopting such structural design.

Q17. A company has its own recruitment policy to fill the vacant posts with suitable employee.

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

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

Q1. Identify the sources of recruitment referred above? (2)

Q2. Also give any one method of each source. (2)

Q18. It has been noticed that several representatives. Associations have been set up in India for example for Law “Bar Council of India”, for Medical “Medical Council of India” and for Accountancy “Institute of chattered Accountants”. Similar organisations for management have been set up in India and other countries. In India “All India Management Association (AIMA) is set up. But in order to become a manager, membership of AIMA is not obligatory.

(a) Which aspect of management is being referred in the above description. (1)

(b) Write about 3 characteristics of that aspect. (3)

Q19. Chandra Ltd. has been producing biscuits since last 28 years. It has good financial reputation in the market. Not it is planning to enter into a complete new product line off ‘Electronics’. While water analysing the fearibility of new project it found that huge amount off permanent capital would be required.
(a) Suggest the company suitable source of finance.

(b) Why the suggested source would be better than other sources.

(c) State any three features of such suggested source of finance.

Q20. Explain the first five steps in planning process in detail. (5)

Q21. Teja Ltd. received 22,495 applications for the post of fifty supervisors. Preliminary, screening was done and 3,545 applications were filtered. Various steps of selection process were taken and finally fifty candidates as supervisor were selected. They were directly posted to their respective posts. After one month performance appraisal of these candidates was conducted. It was found that out of 50, eight were not able to perform as per standards as they were facing practical problems while handling machines.

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

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

Q22. During April Mrs. Reeta took a class test of 25 marks from the topic “Law of Demand” in Economics. Out of 33 students in class, 09 got less than 10 marks. To improve the performance of these 09 students, she re-taught the topic and conducted skip-tests. Their performance improved but still it was less than 10 marks. She designed MCOs and tested their performance again. She found that one of the reasons was poor reading and understanding skills of the students. She took zero period and made the slow learners read and then she asked questions from them. Results improved and students were also happy.

(a) Identify the function of management performed by Reeta.

(b) Write first two steps of this function.

(c) Name two values followed by Mrs. Reeta.

Q23. In a reputed Co., for the last few days, differences have cropped up between management and workers as the workers were demanding bonus. This matter aggravated so much that the attention of both the parties diverted from production to division of profits. Consequently, the profits of the company began to fall down.
In order to assess the situation of company’s rapidly falling profits, a team of specialist was hired. After investigation, besides the differences, one more fact revealed. That the Purchase Manager of the company was purchasing raw material from the co. run by his own brother at a price higher than the market price. So, because the increase in cost, profits reduced.

Due to poor performance, goodwill of the company also declined in the market.

(a) Which technique of scientific management should company adopt to remedy the situation and why? (6)

(b) Which principle of management given by Henry Fayol is being ignored by the co. Explain briefly.

Q24. Chalu Ltd. received a by order of 5000 units from foreign market. To complete this order on time company requires a new machine. There are two type of machines available in the market. First machines cost is high but its useful working life is long where second machine’s cost is low but its useful working life is short.

On the basis of above idenfity the decision company has to take and also explain factors affecting this decision.

Q25. “Forever health & Fitness Co.” is famous for supplying fitness equipments to gums. It identified that there is a growing awareness these days amongst people for staying slim and fit but due to busy schedule, they can’t take out time for gyms. Sensing this change in the social environment, it planned to grab the opportunity. It manufactured a fat reduction belt which is portable & can be used anywhere even while driving or in kitchen or while watching TV etc.

Now, it wants to provide adequate information about the features of its product to motivate the potential customers. It has a good public image in the market and wants to strengthen it. It also intends to know the face to face reactions of the customers besides offering them introductory offers for treats.

1. Identify and explain the variable discussed in the above para. (2)

2. Also explain its various elements. (4)
SAMPLE QUESTION PAPER-2

Q1. Identify the nature of management when a manager applies the existing theoretical knowledge in his own unique manner. (1)

Q2. Name the principle of Scientific Management which emphasises on study and analysis of methods rather than estimation. (1)

Q3. Give one difference between Method & Procedure. (1)

Q4. Raman Ltd. is running a Garments company. Now they planned to expand their business by adding more line of products e.g. Bags & Bets. Which type of structure would you recommend after expansion. (1)

Q5. How does ‘Rate of Return’ affect the capital structure?

Q6. A company is planning to increase its production capacity by installing a new plant in its overseas branch. How would its requirement of fixed capital be affected? (1)

Q7. Aman after completing his MCA, started business of computer hardware equipments selling computer monitors, printers, mouse, keyboard etc. But he forgot to plan a very important activity of handling maintenance of technical services which provides maximum satisfaction to the customers helps in procuring repeat sales from customers. Identify the marketing function which Aman did not plan. (1)

Q8. Reena bought an electronic scientific calculator for gifting her elder brother settled in kerala. But she failed to give him the calculator. After 2½ yrs of purchase, she thought of using it herself. But, the calculator didn’t function. Where can Reena represent her case? (1)

Q9. How does informal organisation support formal organisation?

Q10. A company was successfully selling mosquito repellents in the market. In order to plan for expansion of its activities, it has started manufacturing ‘Cockroach killer Spray’.

(1) Specify any 2 contents of information to be printed on the spray bottle. (1)

(2) Which product decision is being referred in Question (1)? (1)
(3) Which information, necessarily required under law should be stated on the spray bottle? (1) (3)

Q11. Ekta is a very strict foremen. She punishes late comers by reporting negatively in observation reports of workers. Due to which the wages of those workers who come late, decline considerably. Which kind of motivation is applied by Ekta? Do you think, by doing so, the late comers can be regulated? Explain. (3)

Q12. “Stock exchange provides a platform to mobilise the small savings for capital formation.” Considering it, explain the functions of stock exchange. (3)

Q13. Raju is a good orator, but he lacks good listening skills. Due to it, he does not listen the instructions given by supervisor carefully and completely. Therefore, he doesn't complete the work as her given instructions.

(a) Identify the concerned communication barriers.
(b) State the category of such barrier.
(c) How such barriers can be mitigated? (3)

Q14. A shift in demand from Nokia smart phones to Samsung smart phones is an opportunity for samsung and threat for Nokia.

(a) Identify the feature/characteristics of business environment.
(b) Write any other 3 features. (4)

Q15. A group of 15 students of class XII studying in a Government school visited nearby slum under NSS camp organised by their school during winter break. During the visit they came across a poor lady who was bitterly crying because she had deposited her savings of Rs. 50,000 with a Non Banking Finance company for 2 years under a deposit scheme. But now on maturity, the NBFC refused to honour its commitment.

Q1. Which rights of consumer have been violated here? (3)

Q2. What are the reliefs available to the body? (4)

Q16. The directors of ABC Ltd. have asked their Production Manager to manufacture 10000 unite per day. The production manager delegates the work to supervisors working under him. The supervisors could not achieve the targets. Who is responsible for non completion of task? Explain. (4)
Q17. In order to decrease cost of production and increase quality of work, XYZ Ltd. decided to modernise their plant. Now it is necessary to provide the knowledge of new technology to workers. 

Suggest the supervisor of company how to help workers to learn new technology and the benefits derived from it. (4)

Q18. A reputed co. was not performing well. After analysis it was discovered that losses were due to the fact that workers of production department were not satisfied with the behaviour of production manager. He did not set the standard task consultation with workers. He forced the employees to work for long hours without any rest, therefore all workers and did not perform up to their potential.

To improve the situation management decided to replace production manager. The new manager did a detailed analysis of work which involved heavy manned labour. He fixed rest time for workers so that they could recharge their energy for optimum contribution.

(a) State the principle of scientific management violated by previous manager.

(b) Name and explain the technique of scientific management adopted by new manager.

(c) Suggest him another technique of scientific management to do the job in a better way. (4)

Q19. Baba & Co. is under financial crisis. It went for financial restructuring as a corrective measure. It was found that Debt - equity ratio was .80:1. It was much below than the industry standard off 2:1.

(a) Identify the Debt - Equity concept mentioned above.

(b) Write the formulae of Debt - Equity Ratio.

(c) How this concept would help company in overcoming financial crisis. (4)

Q20. ‘Sometimes planning fails in spite of the best efforts of management’ Do you agree? Give any five reasons in support of your answer. (5)
Q21. Orient Ltd. is expanding its business operations. All the departmental heads were asked to fill up “Manpower Requisition form and estimate the annual requirement of skilled and unskilled workers.

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

Requirement of skilled workers - 89
Requirement of unskilled workers - 265

After this, Recruitment and further selection procedure was followed.

(a) Name and explain the methods of recruitment (03 each) which would be most appropriate in the above case.

Q22. Production Manager set the annual production target as-

“Huge Amount of Production”

Supervisors checked the workers at work regularly and they made the workers do their best any encouraging them. At the end of the year, it was found that actual production was 1,65,000 units. General manager was not satisfied with the performance as last year 1,90,000 units were produced. But production manager was of the opinion that they have achieved the target of “Huge Amount of Production”

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

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

Q23. Mr. Sharma is a manager in a Co. produces milk products. Various alternatives are available for producing each product. It is the belief of Mr. Sharma that best and cheap alternative be adopted in production. He has made special arrangements in his department. According to it, proper place is ear marked for every thing used. He has also directed the employees that every thing should be available at its place. All activities to Mr. Sharma's department are closely related to each other special efforts are made to maintain harmony among them so that there is no obstruction in production.
(a) Which technique of scientific management is being practiced by co? Give reason.

(b) Quoting the lines, identify the aspect of management which is found in Mr. Sharma’s department.

(c) Which principle of Henry Fayol is followed by Co. give its objective.

Q24. Peeyush Ltd. manufactures woolen garments. Sale of company is increasing from last many years and company has very good demand of its garments in market. By keeping in mind all these company decided to increase its production which will require more amount of working capital. Company will use this working capital to purchase raw material and to make payment to workers.

On the basis of above discussion explain the concept of working capital and also give four factors that affect working capital.

Q25. ‘Innovative Electronics Co’, manufacturing refrigerators had an established brand name in the market capturing 40% market share. It had a decentralised structure, well motivated work force, efficient leaders and well knit control system. But as the competition increased in the market and MNC’s entered the market, it upgraded its technology and started manufacturing refrigerators with new technology. But over an year, it felt that the demand for its products did not increase as expected. It asked IMRB to conduct a market survey to find the causes of above problem. IMRB suggested that ‘Innovative Electronics Co’ needs to focus on the life blood of modern business i.e paid form of non-personal presentation for its refrigerator’s in order to induce people to buy its products.

Q1. Identify which element is being suggested by IMRB?

Q2. Which other options are available with the company for creating demand for its refrigerators?

Q3. Explain any two benefits of the element discussed in above para.
QUESTION PAPER : BUSINESS STUDIES

CBSE : 2015 (Set I)

Time allowed : 3 hours [Maximum marks : 80]

General Instructions:

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

Q.1 What is meant by ‘efficiency’ in management? (1)

Q.2 How does management help in achieving personal objectives? State. (1)

Q.3 Define ‘planning premises’. (1)

Q.4 Alliance Ltd. is engaged in manufacturing plastic buckets. The objective of the company is to manufacture 100 buckets a day. To achieve this, the efforts of all departments are co-ordinated and interlinked and authority responsibility relationship is established among various job positions. There is clarity on who is to report to whom.

Name the function of management discussed above. (1)

Q.5 Explain how ‘cost of debt’ affects the choice of capital structure of a company.

Q.6 ‘Indian Logistics’ has its own warehousing arrangements at key locations across the country. Its warehousing services help business firms to reduce their overheads, increase and cut down distribution time.

State with reason, whether the working capital requirement of ‘Indian Logistics’ will be high or low. (1)

Q.7 ‘Beauty Products Ltd’ is a natural and ethical beauty brand famous for offering organic beauty products for men and women. The company uses
plant based materials for its products and is the No. 1 beauty brand in the
country. It not only satisfies its customers but also believes in overall
protection of the planet.
Identify the marketing management philosophy being followed by ‘Beauty
Products Ltd.’

Q.8 On Sonika’s birthday her mother gave her a pair of gold earrings. After
one month Sonika observed that the earnings are losing their shine. She
checked the mark on the earrings and found that it was not a proper
Hallmark and her mother had been cheated by the shopkeeper. So, she
filed a complaint in the district forum which rejected it. Not satisfied by the
decision of district forum, she was very much disturbed and after two
months decided to appeal further.

Can Sonika appeal against the decision of the district forum? Give rea-
son in support of your answer.

Q.9 What is meant by ‘functional structure’ of an organisation? State its any
two advantages.

Q.10 Explain how the ‘product related factors’ affect the choice of channels of
distribution?

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

Q.12 ‘Financial market plays an important role in the allocation of scarce re-
sources in an economy by performing many important functions.’ Explain
any three such functions.

Q.13 Neeraj, a sales representative of ‘Omida Ltd.’ has changed seven jobs in
the last one year. He is a hard working person but is not able to finalise
deals with the customers due to his inadequate vocabulary and omission
of needed words. Sometimes he uses wrong words because of which
intended meaning is not conveyed. All this created a mis-understanding
between him and his clients.

(a) Identify the communication barrier discussed above.
Q.14 What is meant by ‘business environment’? State any three points of its importance. (4)

Q.15 Explain the following rights of a consumer as provided under Consumer Protection Act 1986:
   (a) Right to be informed; and
   (b) Right to seek redressal. (4)

Q.16 Samir Gupta started a telecommunication company, ‘Donira Ltd.’, to manufacture economical mobile phones for the Indian rural market with 15 employees. The company did very well in its initial years. As the product was good and marketed well, the demand of its products went up. To increase production, the company decided to recruit additional employees. Samir Gupta, who was earlier taking all decisions for the company, had to selectively disperse the authority. He believed that subordinates are competent, capable and resourceful and can assume responsibility for effective implementation of their decisions. This paid off and the company was not only able to increase its production but also expanded its product range. (4)

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

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

Q.17 The workers of ‘Vyam Ltd.’ are unable to work on new and hi-tech machines imported by the company to fulfill the increased demand. Therefore, the workers are seeking extra guidance from the supervisor. The supervisor is overburdened with the frequent calls of workers. Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently? Also state any three benefits that the workers will derive by the decision of the supervisor. (4)

Q.18 ‘Aapka Vidyalaya’ believes in holistic development of students and encourages team building through a mix of curricular, co-curricular and sports activities. On its founders day a stage performance had to be put
up. A committee of ten prefects was constituted to plan different aspects of the function. They all decided to use recycled paper for decoration. There was a spirit of unity and harmony and all members supported each other. With mutual trust and belongingness the programme was systematically planned and executed. Kartik, one of the prefects realised that unknowingly the group had applied one of the principles of management while planning and executing the programme. He was so inspired by the success of the function that he asked his father to apply the same principle in his business. His father replied that he was already using this principle.

(a) Identify the principle of management applied for the success of the programme.

(b) State any two features of management highlighted in the above para.

(c) Identify any two values which ‘Aapka Vidyalaya’ communicated to the society.

Q.19 ‘Ganesh Steel Ltd.’s is a large and credit-worthy company manufacturing steel for the Indian market. It now wants to cater to the Asian market and decides to invest in new hi-tech machines. Since the investment is large, it requires long-term finance. It decides to raise funds by issuing equity shares. The issue of equity shares involves huge floatation cost. To meet the expenses of floatation cost the company decides to tap the money market.

(a) Name and explain the money-market instrument the company can use for the above purpose.

(b) What is the duration for which the company can get funds through this instrument?

(c) State any other purpose for which this instrument can be used.

Q.20 State any five features of ‘Planning’.

Q.21 Smita had been working as an assistant manager with ‘Johnson Enterprises’ for the last ten years. She was very popular amongst her colleagues because of her commitment and dedication towards the work. When the manager senior to her retired, all her colleagues thought that
now Smita would be promoted. But to everyone's surprise the vacant post was filled by an outside, Mrs. Rita Smita felt demoralised and her performance started declining. She would abstain herself often and could not meet her targets.

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

(i) Identify the function of management being performed by Rita.

(ii) Name the element of the above function of management which helped Rita to improve Smita's behaviour.

(iii) State any three features of the element identified in (ii) above.

Q.22 A company was manufacturing 'LED bulbs' which were in great demand. It was found that the target of producing 300 bulbs a day was not met by the employees. On analysis, it was found that the workers were not at fault. Due to electricity failure and shortage of workers, the company was not able to achieve the set targets and alternative arrangements were needed.

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

(a) Identify the functions of management discussed above.

(b) State the two steps in the process of each function discussed in the above para.
(c) List any two values which the company wants to communicate to the society. (5)

Q.23 With the help of a diagram explain ‘Functional Foremanship’ as a technique of scientific management. (6)

Q.24 ‘Sarah Ltd.’ is a company manufacturing cotton yarn. It has been consistently earning good profits for many years. This year too, it has been able to generate enough profits. There is availability of enough cash in the company and good prospects for growth in future. It is a well managed organisation and believes in quality, equal employment opportunities and good remuneration practices. It has many shareholders who prefer to receive a regular income from their investments.

It has taken a loan of Rs. 40 lakhs from IDBI and is bound by certain restrictions on the payment of dividend according to the terms of loan agreement.

The above discussion about the company leads to various factors which decide how much of the profits should be retained and how much has to be distributed by the company.

Quoting the lines from the above discussion identify and explain any four such factors. (6)

Q.25 ‘Hayaram’ is a famous chain selling a large variety of products in the Indian market. Their products include chips, biscuits, sweets and squashes. It charges a comparatively higher price than its competitors as it sells quality products. Besides, it offers regular discounts to its customers and easy credit terms to its retailers. It has five of its own retail shops. It also sells its products through various grocery stores so that the products are made available to customers at the right place, in the right quantity and at the right time. It regularly uses different communication tools to increase its sales.

The above para describes the combination of variables used of Hayaram to prepare its market offering. Identify and explain the variables. (6)
Ans 1. Efficiency means doing the task correctly and with minimum cost.

Ans 2. Management helps in achieving personal objectives by motivating and leading in such a way that the individual members are able to achieve personal goals while contributing to the overall organisational objectives.

Ans 3. Planning premises are the assumptions made about the future on the basis of which the plans are drawn.

Ans 4. Organising

Ans 5. ‘Cost of debt’ affects the choice of capital structure of a company as low interest rates increase a firm’s capacity to employ higher debt.

Ans 6. Low, as it is a service industry, which usually do not have to maintain inventory.

Ans 7. Societal Marketing Concept

Ans 8. No Sonika cannot appeal now as the appeal has to be filed within 30 days of passing of the order by the district forum.

Ans 9. Functional structure is an organisational structure formed by grouping of jobs of similar nature under functions and organising these major functions as separate departments like production, finance etc.

Advantages : (Any two)

(a) It leads to occupational specialisation since emphasis is placed on specific functions.

(b) It promotes control and coordination within a department because of similarity in the tasks being performed.

(c) It increases managerial and operational efficiency.

(d) It lowers cost as it reduces duplication of effort.
(e) It makes training of employees easier as it focuses on a limited range of skills.

(f) It ensures that different functions gets due attention.

**Ans10.** Product related factors which affect the choice of channels of distribution (any three):

(i) Nature of Product.

(ii) Perishability of Product

(iii) Value of Product.

(iv) Complexity of Product.

**Ans11.** Democratic style of leadership.

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

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

**Ans12.** 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 channelising them into most productive use.

(ii) Facilitating price determination/discovery.

(iii) Providing liquidity of financial assets.

(iv) Reducing the cost of transactions.

**Ans13.**

(a) Badly expressed message.

(b) Semantic barrier which arises from problems and obstructions in the process of encoding and decoding of message into words or impressions.
(c) Other barriers in the same category are: (Any one)

(i) Symbols with different meanings
(ii) Faulty translations
(iii) Unclarifield assumptions
(iv) Technical jargon
(v) Body language and esture decoding

Ans14. Business environment means the sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance.

Importance of business environment : (Any three)

1. It helps of identify opportunities and getting the first mover advantage instead of losing them to the competitors.
2. It helps to identify threats on time which serves as an early warning signal.
3. It helps in tapping useful resources so that it can convert them into output that the environment desires.
4. It helps in coping with rapid changes in an increasingly dynamic environment.
5. It helps in assisting in planning and policy formulation.
6. It helps in improving performance by continuously monitoring the environment and adopting suitable practices.

Ans15. (a) Right to be informed:

- The consumer has a right to have complete information about the product he intends to buy such as, ingredients, date of manufacture, price, quantity etc.
- It is because of this reason that the legal framework in India requires the manufacturers to provide such information on the package and label of the product.
(b) Right to seek redressal:

- This consumer has a right to get relief in case the product or services falls short of his expectations.

- The Consumer Protection Act provides relief to customers such as replacement of product, removal of defect in the product, compensation for any loss or injury suffered by the consumer.

**Ans16.**

(a) Decentralisation.

(b) Importance of decentralisation: (Any three)

(i) Develops initiative among subordinates.

(ii) Develops managerial talent for the future.

(iii) Quick decision making.

(iv) Relief to top management.

(v) Facilitates growth.

(vi) Better control.

**Ans17.** Training of employees/Vestibule training/On the job training.

Benefits the workers will derive by the decision of the supervisor: (Any three)

(a) It helps them to earn more due to improved performance.

(b) It helps them to earn more due to improved performance.

(c) It reduces accidents as the employees are more efficient to handle machines.

(d) It increases the morale of the employees as the employees are more satisfied.

**Ans18.**

(a) Principle of management - Espirit de corps.

(b) Features of management: (Any two)
(i) MANAGEMENT IS PERVASIVE

‘...he asked his father to apply the same principle in his business’.

Management is pervasive as it can be applied to all types/levels of organisations.

(ii) MANAGEMENT IS A GROUP ACTIVITY

‘There was a spirit of unity and harmony and all members supported each other.

Management is a group activity because it requires teamwork and/or coordination of individual efforts.

(iii) MANAGEMENT IS GOAL ORIENTED.

‘...the programme was systematically planned and executed’.

Management is goal oriented as it unites the efforts of different individuals towards achieving organisational goals.

(iv) MANAGEMENT IS MULTI-DIMENSIONAL

‘...programme was systematically planned and executed’.

OR

‘There was a spirit of unity and harmony and all members supported each other’.

Management is multi-dimensional as it involves management of work, people and operations.

(v) MANAGEMENT IS INTANGIBLE

‘With mutual trust belongingness....’.

OR

‘There was a spirit of unity and harmony and all members supported each other’.
Management is intangible as it cannot be seen but its presence can be felt in the way the organisation functions.

(c) Values being communicated to the society: (Any two)
   (i) Concern for the environment.
   (ii) Holistic development of children
   (iii) Teamwork

Ans19. (a) Commercial paper
   It is an instrument issued by large and creditworthy companies to raise short term funds at lower rates of interest than the market rates. It is an unsecured, negotiable promissory note with a fixed maturity period.

(b) 15 days to one year.

(c) It can also be used for seasonal and working capital needs.

Ans20. Features of planning: (Any five)
   (i) It focuses on achieving organisational objectives.
   (ii) It is primary function of management as it lays down the basis for all other functions of management.
   (iii) It is pervasive as it required in all organisations, 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 mental exercise as it is intellectual activity of thinking rather than doing.
   (viii) It provides the basis for controlling by providing standards.
Ans 21. (i) Directing
(ii) Motivation
(iii) Features of motivation : (Any three)
   (a) It is an internal feeling.
   (b) It produces goal directed behaviour.
   (c) It can be positive or negative
   (d) It is a complex process.

Ans 22. (a) Staffing and controlling
(b) Steps in Staffing:
   (i) Estimating manpower requirements which involves knowing how many persons are needed and of what type.
       'To meet the increased demand, the company assessed that.....subordinates under each head'.
   (ii) Recruitment which involves searching for prospective employees and stimulating them to apply for jobs in the organisation.

Steps in Controlling
(i) Comparison of actual performance with the standards which would reveal the deviation between actual and desired results.
    'It was found that the target of producing 300 bulbs a day was not met by the employees'.
(ii) Analysing deviations which would help to find out the causes of deviation.
    On analysis, it was found that the workers were not at fault......alternative arrangements were needed.
(iii) Taking corrective action, if required

To meet the increased demand, the company assessed that approximately.....as subordinates under each head.

(c) Values which the company wants to communicate to the society : (Any two)

(i) Using environment friendly methods of production.

(ii) Women empowerment.

(iii) Upliftment of underprivileged sections of the society.

(or any other correct value)

Ans 23.

Functional Foremanship (Any three points)

- Functional foremanship is a technique which aims to improve the quality of supervision at shop floor.

- Taylor identified a list of qualities of a good foreman or a supervisor. Since all the qualities could not be found in a single person, Taylor proposed eight specialists.
• In this technique, planning is separated from execution.
• It is an extension of the principle of division of work and specialisation.
• Taylor suggested four foremen for planning and four foremen for execution.
• The four foremen for planning would draft instructions for the workers, specify the route of production, prepare time and cost sheet and ensure discipline respectively.

Ans24. Factors affecting dividend decision: (Any four)

(i) Stability of earnings

‘It has been consistently earning good profits for many years’.
Stability of earnings affects dividend decision as a company having stable earnings is in a position to declare higher dividends.

(ii) Cash Flow position

‘There is availability of enough cash in the company’.
A good cash flow position is necessary for declaration of dividend.

(iii) Growth Prospects

‘Good prospects for growth in the future’.
If a company has good growth opportunities, it pays out less dividend.

(iv) Shareholder’s preference

‘It has many shareholders who prefer to receive regular income from their investment’s.
Shareholder’s preference is kept in mind by the management before declaring dividends.

(v) Contractual constraints

‘It has taken a loan of Rs. 40 Lakhs from IDBI and.....agreement’
While taking dividend decision, companies keep in mind the restrictions imposed by the lenders in the loan agreement.

Ans25. The combination of variables used by Hayaram to prepare its market offering are:

(i) **PRODUCT**

It refers to the combination of various aspects relating to the product or services to be offered for sale. It relates to decisions regarding planning, designing and developing the right type of products and services for the consumers. It includes branding, labelling and packaging.

‘Their products include chips, biscuits, sweets and squashes’.

(ii) **PRICE**

Price Mix involves different Pricing Methods, Pricing strategies, Pricing Policies and Price Changes. It involves decisions regarding the basic price of the product, discount, allowances, terms of payment etc.

‘It charges a comparatively higher price than its competitors’.

OR

‘It offers regular discounts to its customers and easy credit terms to its retailers’.

(iii) **PLACE/PHYSICAL DISTRIBUTION**

It includes activities that make firm’s products available to the target customer. It consists of all the activities involved and physical possession of the product to the consumers.

It consists of physical distribution i.e. activities involving the movement of products or services from producers to consumers as well as channels of distribution i.e. the route through which the goods move from the producer to the consumer.

‘It ha five of its own retail shops’.
OR

‘It also sells its products through various grocery stores....right time’.

(iv) PROMOTION

It consists of all the activities aimed at persuading customers to buy the product through advertising, personal selling, sales promotion and publicity.

‘It regularly uses different communication tools to increase its sales.’