

# **DIRECTORATE OF EDUCATION**

**GNCT of Delhi, Delhi Government**

## **SUPPORT MATERIAL (2021-2022)**

**Class : XII**

# **Business Study**

Under the Guidance of

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### **MESSAGE**

I would like to congratulate the members of Core Academic Unit and the subject experts of the Directorate of Education, who inspite of dire situation due to Corona Pandemic, have provided their valuable contributions and support in preparing the Support Material for classes IX to XII.

The Support Material of different subjects, like previous years, have been reviewed/ updated in accordance with the latest changes made by CBSE so that the students of classes IX to XII can update and equip themselves with these changes. I feel that the consistent use of the Support Material will definitely help the students and teachers to enrich their potential and capabilities.

Department of Education has taken initiative to impart education to all its students through online mode, despite the emergency of Corona Pandemic which has led the world to an unprecedented health crises. This initiative has not only helped the students to overcome their stress and anxiety but also assisted them to continue their education in absence of formal education. The support material will ensure an uninterrupted learning while supplementing the Online Classes.

**(H. Rajesh Prasad)**

**UDIT PRAKASH RAI, IAS**  
Director, Education & Sports



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**MESSAGE**

The main objective of the Directorate of Education is to provide quality education to all its students. Focusing on this objective, the Directorate is continuously in the endeavor to make available the best education material, for enriching and elevating the educational standard of its students. The expert faculty of various subjects undertook this responsibility and after deep discussions and persistent efforts, came up with Support Material to serve the purpose.

Every year the Support Material is revised/ updated to incorporate the latest changes made by CBSE in the syllabus of classes IX to XII. The contents of each lesson/chapter are explained in such a way that the students can easily comprehend the concept and get their doubts solved.

I am sure, that the continuous and conscientious use of this Support Material will lead to enhancement in the educational standard of the students, which would definitely be reflected in their performance.

I would also like to commend the entire team members for their contributions in the preparation of this incomparable material.

I wish all the students a bright future.

(UDIT PRAKASH RAI)  


**Dr. RITA SHARMA**  
Additional Director of Education  
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Dated: 29.06.2021

### **MESSAGE**

It gives me immense pleasure to present the revised edition of the Support Material. This material is the outcome of the tireless efforts of the subject experts, who have prepared it following profound study and extensive deliberations. It has been prepared keeping in mind the diverse educational level of the students and is in accordance with the most recent changes made by the Central Board of Secondary Education.

Each lesson/chapter, in the support material, has been explained in such a manner that students will not only be able to comprehend it on their own but also be able to find solution to their problems. At the end of each lesson / chapter, ample practice exercises have been given. The proper and consistent use of the support material will enable the students to attempt these exercises effectively and confidently. I am sure that students will take full advantage of this support material.

Before concluding my words, I would like to appreciate all the team members for their valuable contributions in preparing this unmatched material and also wish all the students a bright future.

  
(Rita Sharma)



# **DIRECTORATE OF EDUCATION**

**GNCT of Delhi, Delhi Government**

## **SUPPORT MATERIAL**

**(2021-2022)**

# **Business Study**

**Class : XII**

**NOT FOR SALE**

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**PUBLISHED BY : DELHI BUREAU OF TEXTBOOKS**



**भारत का संविधान**  
भाग 4क  
**नागरिकों के मूल कर्तव्य**

**अनुच्छेद 51क**

**मूल कर्तव्य** – भारत के प्रत्येक नागरिक का यह कर्तव्य होगा कि वह –

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



# CONSTITUTION OF INDIA

Part IV A (Article 51 A)

## Fundamental Duties

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

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

## भारत का संविधान

### उद्देशिका

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

सामाजिक, आर्थिक और राजनैतिक न्याय,

विचार, अभिव्यक्ति, विश्वास, धर्म

और उपासना की स्वतंत्रता,

प्रतिष्ठा और अवसर की समता

प्राप्त करने के लिए,

तथा उन सब में,

व्यक्ति की गरिमा और (राष्ट्र की एकता

और अखंडता) सुनिश्चित करने वाली बंधुता

बढ़ाने के लिए

हम दृढ़संकल्प होकर इस संविधान को आत्मार्पित करते हैं ।

# THE CONSTITUTION OF INDIA

## PREAMBLE

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

**JUSTICE**, social, economic and political,

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

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

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

WE DO HEREBY GIVE TO OURSELVES THIS CONSTITUTION.

**BUSINESS STUDIES (CODE-054)**  
**CLASS-XII (2021-22) TERM WISE CURRICULUM**

Units	TERM 1-MCQ BASED QUESTION PAPER THEORY - 40 MARKS DURATION:90 MINUTES	Periods	Marks
<b>Part A</b>	<b>Principles and Functions of Management</b>		
1.	Nature and Significance of Management	12	16
2.	Principles of Management	11	
3.	Business Environment	08	
4.	Planning	08	14
5.	Organising	10	
	<b>Total</b>	<b>49</b>	<b>30</b>
<b>Part B</b>	<b>Business Finance and Marketing</b>		
11	Marketing Management	24	10
	<b>Total</b>	<b>24</b>	<b>10</b>
	<b>Total</b>	<b>73</b>	<b>40</b>
	<b>PROJECT WORK (PART 1)</b>		<b>10</b>

Students would prepare only ONE project in the entire academic session, which is divided into 2 terms i.e. Term I and Term II.

**Term 1:**

**Part A: Principles and Functions of Management**

**Unit 1: Nature and Significance of Management**

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

## Unit 2: Principles of Management

Principles of Management-concept and significance	<ul style="list-style-type: none"><li>• Understand the concept of principles of management.</li></ul>
Management - concept, objectives, and importance	<ul style="list-style-type: none"><li>• Understand the concept of management principles.</li></ul>
Fayol's principles of management	<ul style="list-style-type: none"><li>• Discuss the principles of management developed by Fayol.</li></ul>
Taylor's Scientific management principles and techniques	<ul style="list-style-type: none"><li>• Explain the principles and techniques of 'Scientific Management'.</li></ul>

## Unit 3: Business Environment

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

## Unit 4: Planning

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

## Unit 5: Organising

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

## **Part B: Business Finance and Marketing**

### **Unit 11: Marketing**

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

**PROJECT WORK IN BUSINESS STUDIES (ONLY ONE PROJECT): GUIDELINES AS GIVEN IN CLASS XII CURRICULUM**

**BUSINESS STUDIES (CODE-054)**  
**CLASS-XII (2021-22) TERM WISE CURRICULUM**

Units	TERM 2-SUBJECTIVE QUESTION PAPER THEORY - 40 MARKS DURATION:2 Hrs.	Periods	Marks
<b>Part A</b>	<b>Principles and Functions of Management</b>		
6.	Staffing	13	20
7.	Principles of Management	09	
8.	Business Environment	07	
	<b>Total</b>	<b>29</b>	<b>20</b>
<b>Part B</b>	<b>Business Finance and Marketing</b>		
9	Financial Management	20	15
10	Financial Markets	18	
12	Consumer Protection	05	5
	<b>Total</b>	<b>43</b>	<b>20</b>
	<b>Total</b>	<b>72</b>	<b>40</b>
	<b>PROJECT WORK (PART 2)</b>		<b>10</b>

**Term 2: Principles and Functions of Management**

**Unit 6: Staffing**

Staffing: Concept and importance	<ul style="list-style-type: none"> <li>Understand the concept of staffing</li> <li>Explain the importance of staffing</li> </ul>
Staffing process	<ul style="list-style-type: none"> <li>Describe the steps in the process of staffing</li> </ul>
Recruitment process	<ul style="list-style-type: none"> <li>Understand the meaning and steps in the process of recruitment.</li> <li>Discuss the sources of recruitment.</li> </ul>
Selection - process	<ul style="list-style-type: none"> <li>Understand the meaning of selection.</li> <li>Describe the steps involved in the process of selection.</li> </ul>
Training and Development - Concept and importance, Methods of training - on the job and off the job vestibule training, apprenticeship training and internship training	<ul style="list-style-type: none"> <li>Understand the concept of training and development.</li> <li>Appreciate the importance of training to the organisation and to the employees.</li> <li>Discuss on the job and off the job methods of training.</li> <li>Discuss the meaning of vestibule training, apprenticeship training and internship training.</li> <li>Differentiate between training and development.</li> </ul>

## Unit7: Directing

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

## Unit 8: Controlling

Controlling - Concept and importance	<ul style="list-style-type: none"><li>• Understand the concept of controlling.</li><li>• Explain the importance of controlling.</li></ul>
Steps in process of controlling	<ul style="list-style-type: none"><li>• Discuss the steps in the process of controlling.</li></ul>

## Part B: Business Finance and Marketing

### Unit 9: Financial Management

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



### Unit 10: Financial Markets

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

### Unit 12: Consumer Protection

Consumer Protection : Concept	Understand the concept of consumer protection.
The Consumer Protection Act, 2019: Source: <a href="http://egazette.nic.in/WriteReadData/2019/210422.pdf">http://egazette.nic.in/WriteReadData/2019/210422.pdf</a> Meaning of consumer Rights and responsibilities of consumers Who can file a complaint? Redressal machinery Remedies available	<p>Understand the concept of a consumer according to the Consumer Protection Act, 2019.</p> <ul style="list-style-type: none"><li>• Explain the consumer rights</li><li>• Understand the responsibilities of consumers</li><li>• Understand who can file a complaint and against whom?</li><li>• Discuss the legal redressal machinery under Consumer Protection Act, 2019.</li><li>• Examine the remedies available to the consumer under Consumer Protection Act, 2019</li></ul>

**PROJECT WORK IN BUSINESS STUDIES (ONLY ONE PROJECT): GUIDELINES AS GIVEN IN CLASS XII CURRICULUM**

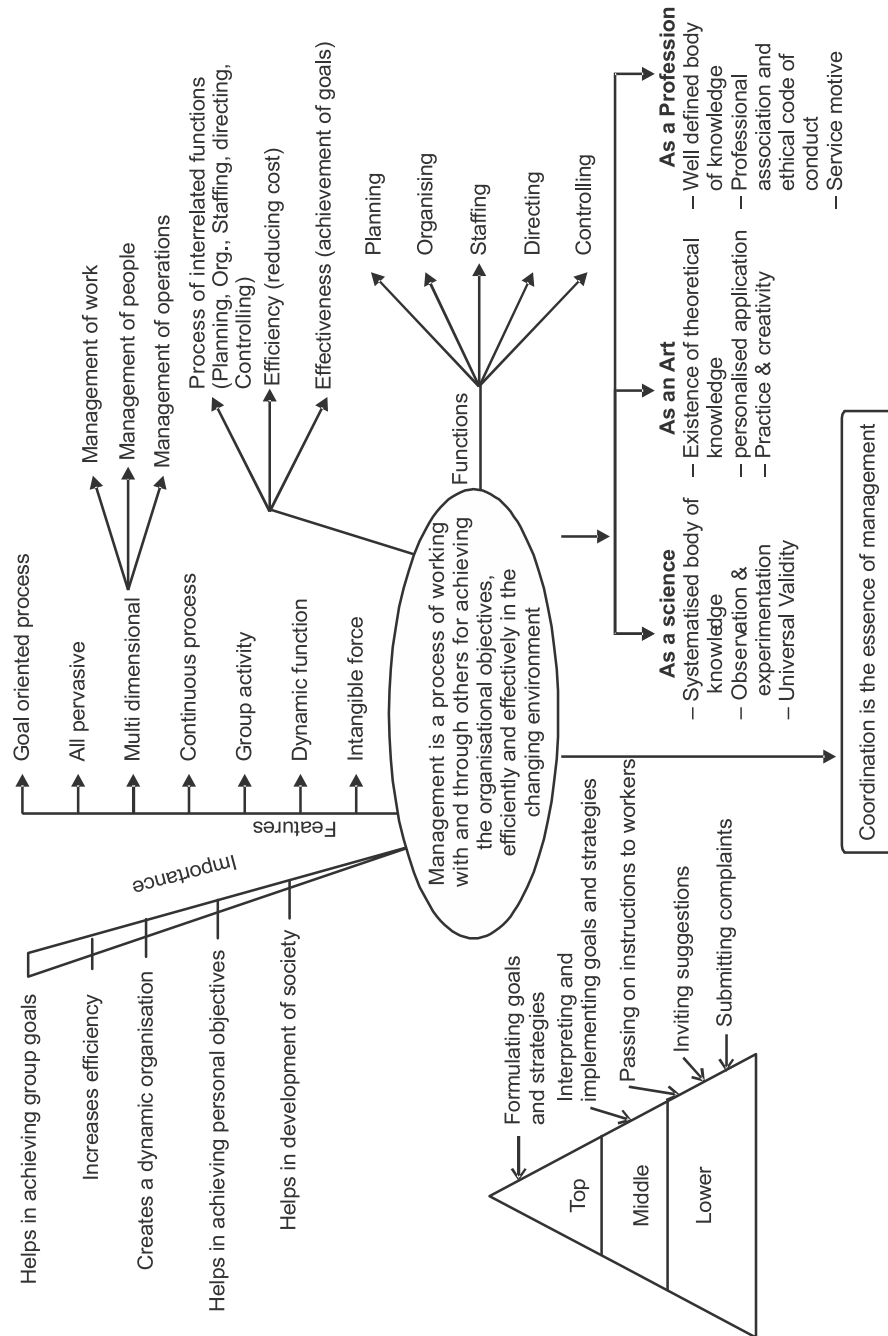
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## CHAPTER 1

# NATURE AND SIGNIFICANCE OF MANAGEMENT



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

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

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

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

#### **Characteristics of Management:**

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

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

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

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

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

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

**Objectives of Management**

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

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

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

**Ans.** Social objectives of management.

- (i) Using environment friendly method of production.

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

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

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

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

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

### Importance of Management

1. **Achieving Group Goals:** Management creates team work and coordination in the group. Managers give common direction to individual efforts in achieving the overall goals of the organization.
2. **Increases Efficiency:** Management increases efficiency by using resources in the best possible manner to reduce cost and increase productivity.
3. **Creates Dynamic organization:** Management helps the employees overcome their resistance to change and adapt as per changing situation to ensure its survival and growth.
4. **Achieving personal objectives:** Management helps the individuals achieve their personal goals while working towards organisational objectives.
5. **Development of Society:** Management helps in the development of society by producing good quality products, creating employment opportunities and adopting new technology.



## Management as an Art

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

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

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

## Management as a Science

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

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

Management has systematic body of knowledge and its principles are developed over a period of time based on repeated experiments & observations but since they deal with humans, their outcomes cannot be accurately predicted. Also they cannot be called Universally valid because they have to be modified according to a given situation.

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

### **Management as Profession**

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

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

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

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

**Ans.** (a) Well defined body of knowledge.  
(b) Restricted entry

### **Levels of Management: Top, Middle and Operational Levels**

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



### **Top Level**

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

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

### **Middle Level**

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

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

### **Lower Level/Supervisory Level**

Consists of Foremen and Supervisor etc.

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

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

### **Functions of Management / Elements of Management**

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

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

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

### **Co-ordination**

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

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

#### **Characteristics of Coordination**

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

#### **Coordination is the Essence of Management.**

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

It is needed in all management functions:

**Planning** – Coordination between the master plan and departmental plan.

**Organising** – required between authority, responsibility and accountability

**Staffing** – Achieve balance between job requirement and qualities of personnel

**Directing** – Required between supervision, motivation and leadership.

**Controlling** – Ensure actual result conform to expected results.

**Needed at all levels of management**

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

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

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

**NEED FOR COORDINATION**

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

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

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

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

### **Key Terms to crack case studies**

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

### **Multiple Choice Questions**

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

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

**Fill in the blanks**

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

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

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

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

**Fill in the the blanks**

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



3. coordination
4. functions
5. Management

**True/False**

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

## **QUESTIONS FOR PRACTICE**

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

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

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

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

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

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

### Question based on Analysis, Evaluation and Crrreation

- Figgy, a food delivery start up was started in 2015. It turned out to be a success with its Figgy app. Its delivery boys collected food from different restaurent and provided it at the door step of the customer. Soon it started its service in Hyderabad, Chennai, Banglore and Mumbai too. During the covid pandemic, everything had to be stopped. To handle the situation and to survive management initiated the concept of 'zero contact deliveries'. It also introduced pickup / drop service to get groceries and other essentials.

It also maintained its obligation towards its delivery staff by not removing them from their jobs and also maintaining its quality services for its customers.

- Q1. "Soon it started its services in Hyderabad.....Mumbai too" Identify the objective of management is discussed above
- (a) Profit (b) Survival  
(c) Growth (d) None of these
- Q2. "To Handle the situation.....deliveries" Identify the objective the of management referred above
- (a) Profit (b) Survival  
(c) Growth (d) Social objectives
- Q3. "It also maintained its.....for its customers" Identify the objec tive of management discussed above
- (a) Profit (b) Survival  
(c) Growth (d) Social objective
- Q4. "During the covid.....contact deliveries" Identify the importance of management discussed above
- (a) Developement of society  
(b) Increase effeciency  
(c) Create Dynamic organistion  
(d) Achieving personal ojectives

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Q5. Practicing managers in India have formed All India Management Association where they have laid down a code of conduct to regulate the activities of these members. There is however no compulsion for all managers to be its members while all lawyers practicing in India have to be registered under Bar Council of India.

Based on this information do you think that management is a Profession. Give reasons to justify your answer (3)

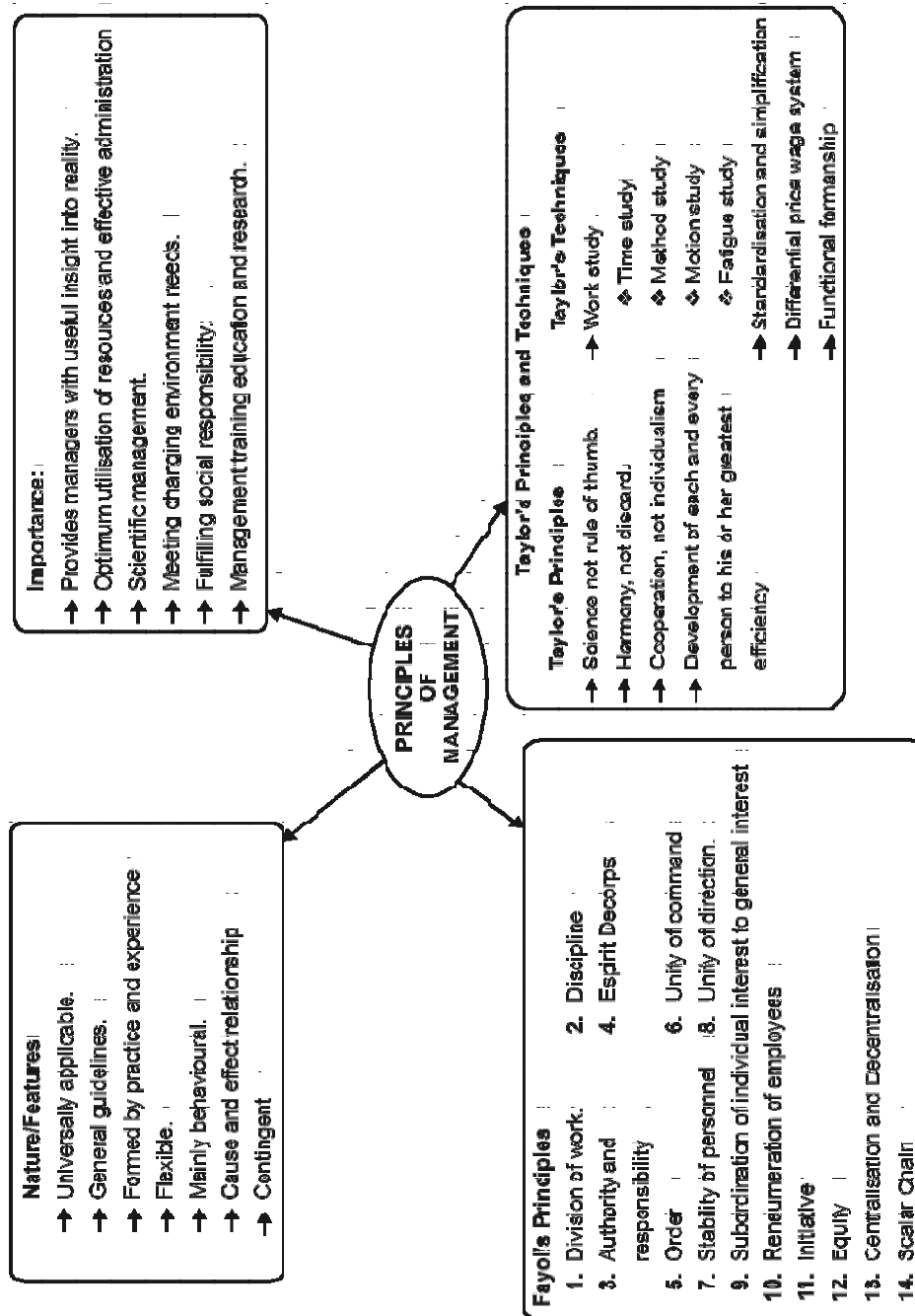
Q6. "Principles of management are based on cause and effect relationship as in the case of principles of science.

Do you agree with the statement? Also explain whether other features of management have all the characteristics of Science.

Q7. There are various theories of management as propounded by many Thinkers, which prescribe certain Universal principles. A good manager works through a combination of practice, creativity, imagination, initiative and innovation. Identify the nature of management discussed above. Also explain two other characteristics.

## CHAPTER - 2

### PRINCIPLES OF MANAGEMENT



## **Concept of Principles of Management**

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

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

## **Nature of Principles of Management**

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

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

## Significance of the Principles of Management

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

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

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



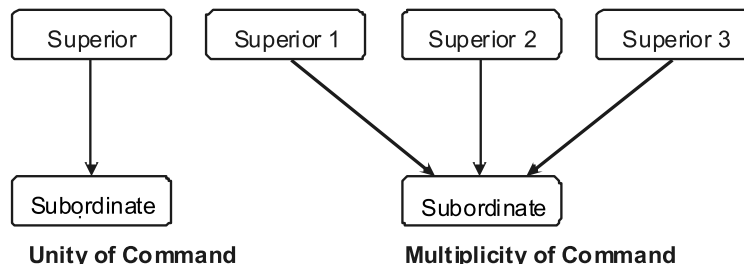
- Q.4** How are Principles of management helpful for managers in fulfilling their social responsibility? (By interpreting principles in their newer and contemporary meaning with change in time)
- Q.5** What is the role of principles of management for managers? (They serve as guide to decision making).

### Fayol's Principles of Management

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

### Principles of Management developed by Fayol

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



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

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

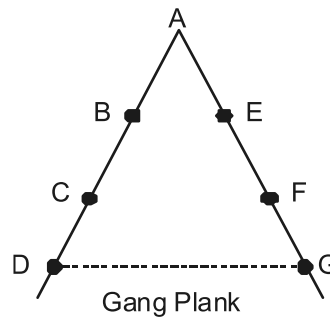
**Difference between Unity of Command and Unity of Direction**

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

- 6 **Subordination of Individual Interest to General Interest:** The interest of an organization should take priority over the interest of any one individual employee. Forex' a manager cancels his pleasure trip in under to attend an important meeting in the company.
7. **Remuneration of Employees:** Remuneration of employees should be just and equitable so as to give maximum satisfaction to both the employees and organisation.
- The employees should be paid fair wages/salaries which would give at least a reasonable standard of living. At the same time, it should be within the paying capacity of the company.
8. **Centralisation and Decentralisation:** Centralisation means concentration of decisions making authority in few hands at top level. Decentralisation means evenly distribution of power at every level of management. Both should be balanced as no organisation can be completely centralised or completely decentralised.

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

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



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

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

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

### **Taylor's Scientific Management**

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

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

## **SCIENTIFIC MANAGEMENT**

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

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

### **Principles of Scientific Management**

#### **1. Science, not rule of Thumb:**

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

#### **2. Harmony, not discord:**

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

#### **3. Cooperation not individualism:**

Taylor emphasised on the importance of cooperative group efforts between the management and workers in achieving the organisation's goal and not individualism. Both should realise that they need each other. Any ideas given by workers for reducing cost and increasing production should be rewarded.

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

The management should scientifically select the workers; assign job as per their physical, mental and intellectual capabilities; and train them as per the job requirement to increase their efficiency.

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

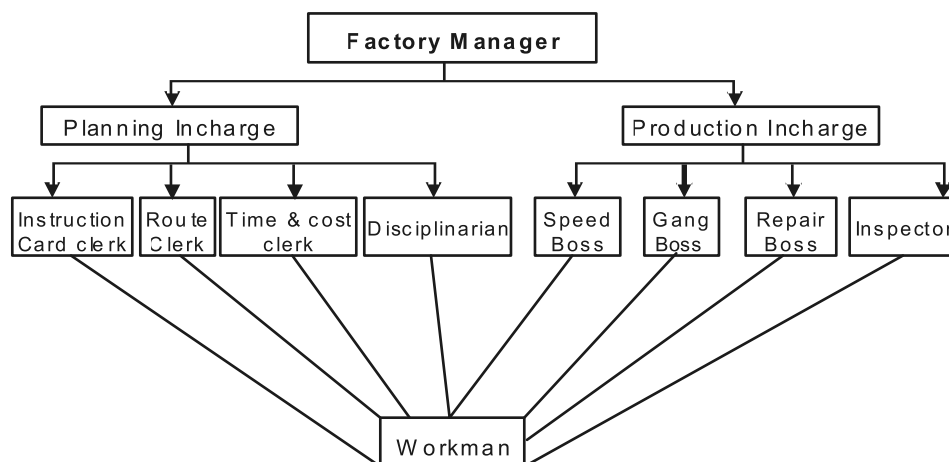
**Q.14** Which principle of scientific management suggest that management should share its gains with workers and workers should be willing to embrace the change for good of the company (Harmony not discord)

#### Techniques of Scientific Management

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

##### **A Functional Foremanship**

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



### **Planning Incharges :**

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

### **Production Incharges:**

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

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

### **B. Standardisation and Simplification of work:**

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

### **C. Method study:**

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

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

- |   |
|---|
| <p>(1) Which technique of scientific management is being violated here?<br/>(Functional Foremanship.)</p> <p>(2) Write one consequence of this violation.</p> |
|---|

**D. Motion Study**

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

**E. Time study**

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

**F. Fatigue study**

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

**G. Differential Piece Wage System**

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

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

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



## H. Mental Revolution

It involves a complete change in mental outlook and attitude of workers and management towards one another from competition to cooperation. The management should create pleasant working conditions & workers should work with devotion and loyalty. Instead of fighting over distribution of profits, they must focus attention on increasing it.

- Q.17** Which technique of scientific management aims at elimination of superfluous varieties sizes and dimensions of the product. (Simplification of work)
- Q.18** Name the technique of Taylor which is one of the strongest motivator for a worker to reach standard performance. (Differential piece wage system)
- Q.19** Explain the technique of scientific management that is extension of “Principle of Division of work” and specialisation? (Functional foremanship)

## Fayol versus Taylor

### TAYLOR V/S FAYOL

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

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

### **SOME IMPORTANT POINTS TO REMEMBER**

- Science not Rule of Thumb means discarding old methods of doing work which were based on hunch or old practices and developing new techniques based on experimentation.
- Mental revolution means drastic change in the thinking. Change is required on three fronts :
  - a) In attitude towards each other (management and workers)
  - b) Towards work
  - c) Towards division of profitManagers should realize the importance of workers.
- Revision of principles :
  - a) An employee breaks 'No Smoking' rule (violation of principle of discipline)
  - b) Management not giving increments and promotions to workers as per agreement (violation of principle of discipline)
  - c) Management sharing gains with workers (harmony, not discord)
  - d) Sales manager welcoming suggestions of salesman (Initiative)
  - e) The purchase manager purchases raw material from the company owned by his son at a rate more than the market price (violation of subordination of individual interest to general interest)
  - f) Frequent transfers (violation of stability of tenure)
  - g) In case of an accident, first aid box could not be found in its place (violation of principle of order)
  - h) Making arrangements for training and career development of workers (development of each person to his/her greatest efficiency and prosperity)

### Multiple choice questions

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



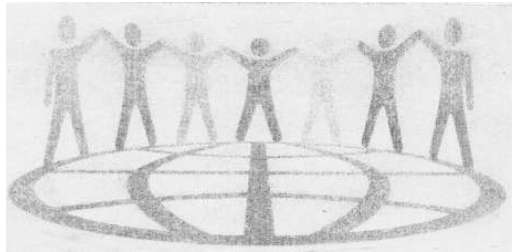
- (a) Cooperation, Not individualism      (b) Harmony, not discord  
(c) Discipline      (d) Remuneration.
2. The applicability of principles of management depends upon the prevailing situation at a particular point of time. Identify the feature of principles of management, highlighted from the statement: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



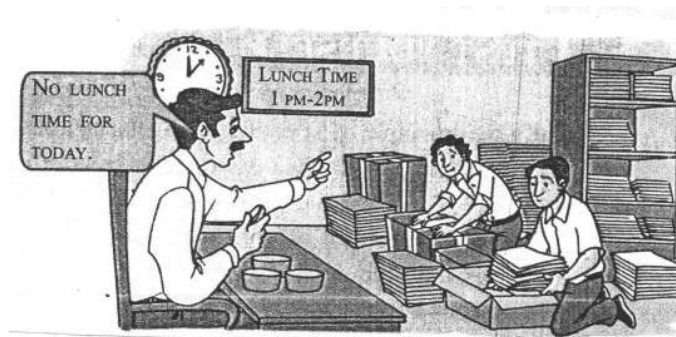
Identify the principle not followed in the given picture.

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

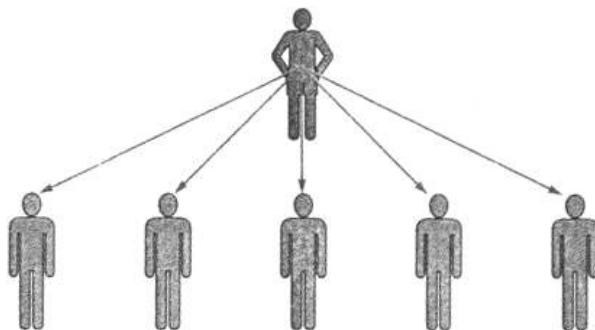
4. In a company there are four departments finance, marketing, production and human resource development. Identify the principle of management used in this company
  - (a) scalar chain
  - (b) Discipline
  - (c) Unity of command
  - (d) Division of work
5. Identify the principle of general management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



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



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

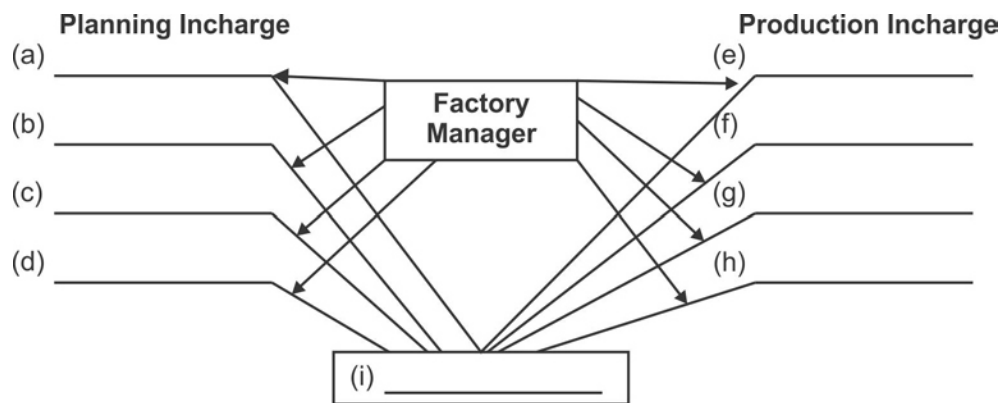


- (a) Authority and responsibility              (b) Order  
(c) Unity of command                          (d) Scalar chain.
10. This technique of Taylor is an extension of the principle of Fayol
- (a) Motion study                                      (b) Fatigue study  
(c) Time study               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

## II. Fill in the blanks:

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

2.



### III. Match the following:

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

<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>
(i) – b	(i) – a	(i) – d	(i) – c
(ii) – a	(ii) – d	(ii) – c	(ii) – d
(iii) – c	(iii) – b	(iii) – a	(iii) – b
(iv) – d	(iv) – c	(iv) – b	(iv) – a

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

<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>
(i) – b	(i) – a	(i) – c	(i) – a
(ii) – a	(ii) – d	(ii) – b	(ii) – c
(iii) – c	(iii) – b	(iii) – a	(iii) – d
(iv) – d	(iv) – c	(iv) – d	(iv) – b

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



## Answers

### I. Multiple choice questions

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

### II. Fill in the blanks"

1.
  - (a) Science not rule of thumb
  - (b) Co-operation not individualism
  - (c) Harmony not discord
  - (d) Development of each and every person to his or her greatest efficiency
  - (e) F.W. Taylor
2. 

(a) Instruction card clerk	(e) Speed boss
(b) route clerk	(f) Gang boss
(c) Time and cost clerk	(g) Repair boss
(d) Disciplinarian	(h) Inspector
	(i) Workman

### III. Match the following:

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

### IV. True/False

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

## QUESTIONS FOR PRACTICE

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

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

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

(Co-operation not individualism)

**QUESTIONS BASED ON  
Analysis, Evaluation and Creation**

Q 1. Pentucky Fried Chicken, more commonly known by the initials PFC, is an international food restaurant chain that specializes in fried chicken. The company has divided the total work into many parts all the employees perform a particular job repeatedly. The company has mainly three units, each is headed by a different individual and that individual controls and regulates the activities in his own way. The employees are not fulfilling their commitment with the company to work honestly for it, as they take leave without intimation. The employees of the company are not happy about the pay package provided by the company. Due to it, labour turnover in the company is on higher side. This situation reflects poor management in the company.

1. Identify the principle of management applied at PSC mentioned in quoted line  
The company has ..... repeatedly  
(a) Authority and Responsibility      (b) Discipline  
(c) Unity of command      (d) Division of work
  2. "The company has .....own way."  
Identify Fayol's principle highlighted in above quoted line  
(a) Unity of command      (b) Unity of direction  
(c) Discipline      (d) Division of work
  3. "The employees ..... without intimation  
Which principle is being violated here?  
(a) Unity of command      (b) Division of work  
(c) Stability of tenure      (d) Discipline
  4. Which principle is being referred in these lines-  
"Due to it ..... higher side"  
(a) Stability of tenure      (b) Fair remuneration  
(c) Scalar chain      (d) Equity
- Answer 1(d), 2(b), 3(d), 4(a)

Q 2. Ramesh works in a bulb manufacturing company Each bulb which is manufactured is of standard size and quality for the if there is any undeclared type of bulb manufacturer then its production is shut down. Last month when the company came to know that 10 watt bulbs were no more preferred by customers their production was stopped Ramesh is job to purchase the filaments required to make bulbs. This time when he purchased the filament he got the instructions from the seller that some special care needs to be taken in fixing the first batch of filaments inside the bulb. Ramesh knows this information should be given immediately to the production department before the assembling process starts. However he finds that his company's policies only allow him to give the message to his immediate boss who will further pass the message to his boss. This passing of message will continue till it reaches the desired persons in the department.

1. Each bulb ..... and quality  
Identify the technique of management mentioned in quoted line
 

(a) Standardisation	(d) method study
(c) simplification	(d) Motion study
  
2. Which principle of management is followed in the company as per following statement-  
“However he finds ..... to his boss”.
 

(a) Unity of command	(d) Discipline
(c) Scalar chain	(d) Order
  
3. Identify the technique of scientific management applied in the company as per following statement-  
Further if ..... it is shut down.
 

(a) Time study	(b) Fatigue study
(c) Standardization	(d) simplification
  
3. Name the option which is now available to Ramesh as this in emergency situation as for this statement  
Ramesh knows ..... process starts

(a) Initiative

(d) Order

(c) Equity

(d) Gang Plank

(1 x 4 = 4)

Answer 1. (a)                      2. (b)                      3. (d)                      4. (d).

Q 3. Which principle of management should be followed strictly for orderly flow of information in an organisation elaborate with table diagram figure.

[Hint: principle of solar chain]

(4)

Q 4. Instructions card clerk draft instructions for the workers. If you would have been and instructions card clerk how would you have drafted an "Instructions card" for a workers in noodles factory. Draft and "Instruction card".

[Ans- any suitable ilInstructions card for noodles factory workers]

(4)

### **SOME ADDITIONAL NEW QUESTIONS FOR PRACTICE**

Q 5. 1. Jojo enterprises is facing huge losses. The owner of the company is an MBA pass out even than many things in the organisation are happening which are indicator of lack of proper management in the company. First of all there is no specific sharing of work and any time any employee is asked to do anything.

2. There are no clear and fair agreement between the workers and the management. These are also no strict rules and regulations binding on the conduct of the workers.

3. The departmental heads who are the middle level managers in the company and hold key position always favour their relatives. This has led to feeling of resentment among the employees who are also demanding the special favours and threatening strike in the coming days.

Identify the three principles of Fayol violated in the above case.

(4)

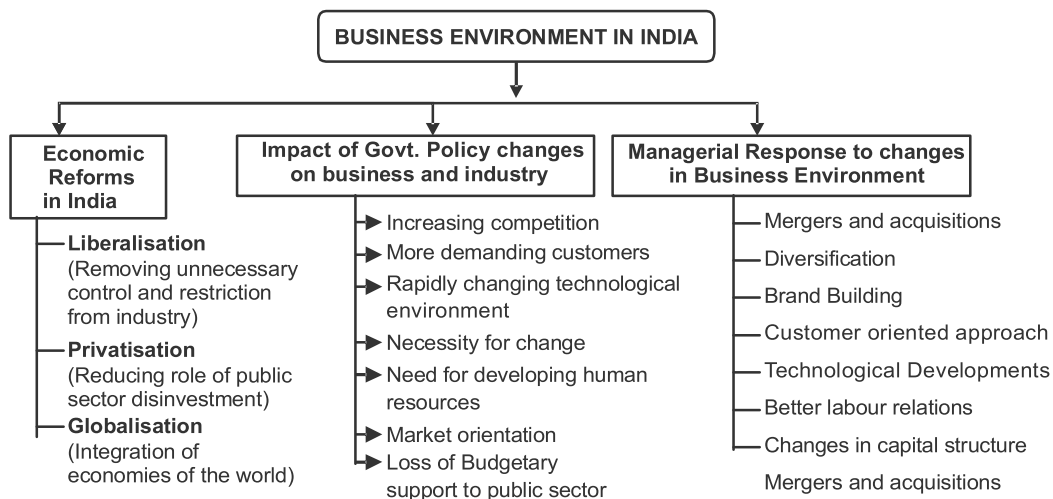
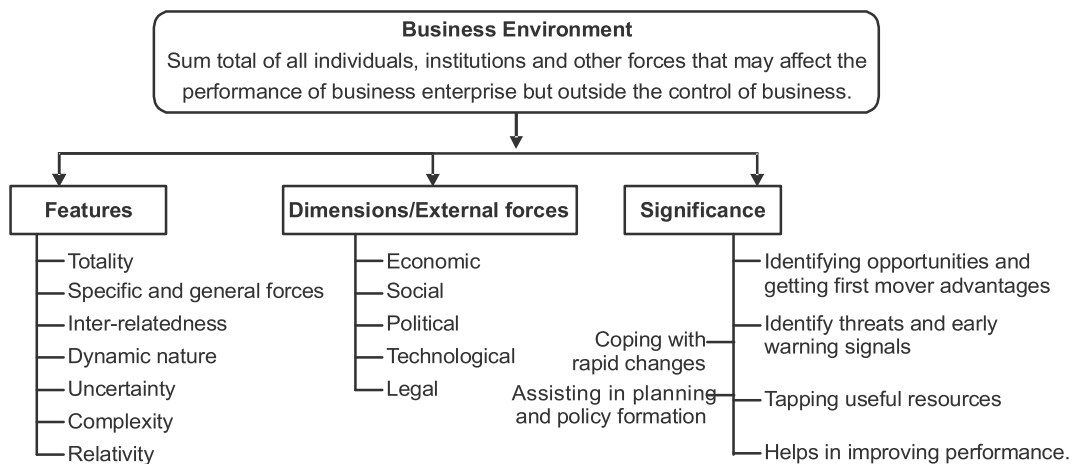
Q 6. Dokia Ltd. Is a world renowned retail chain store. The customers here are very much pleased with the products and services provided in the stores. The customer satisfaction and internal efficiency of this organisation is rated best in the industry. However these have been a few steps taken by the organisation this edge. This organisation has used a special type of software which integrates all the stores and brings uniformity in its bling and working pattern identify principle of scientific management mansions here. Explain it

(3)

- Q 7. In a huge manufacturing company, there was a constant training program running for the workers throughout the year. The workers were trained about the machines as the management realized that management is all about the relationship among workers and their proper handling of the machines. As the size of the organisation increased, the management decided to release their hold on day today activities of the organization. A more decentralized approach was adopted where the workers could decide about the machines and the amount of raw material required instead of traditional centralised approach as per the needs. The management knew that the external environment is dynamic. In order to meet the stiff competition they clarified to the workers that they can exercise their on prosperity as per situation. Explain the nature of principles of management highlighted in the above case by quoting lines. (6)
- Q 8. Amit is the production manager in Zerolac Paints Pvt. Ltd. The company is producing variety of paints. Various alternative methods are available which can result in minimization of cost and maximization of output. On visiting his factory he found that workers are in habit of keeping their tools here and there and then waste their time in finding them. Similarly no place was fixed for the repair clerk and route clerk. The workers kept on searching them in time of need. He called a meeting of all the employees and informed them about this findings. He fixed place for each and every tool and person in the factory. He also gave directions regarding working hours, leave provisions and punishments in case of disobedience.
- Amit made use of two principles suggested by Fayol and some techniques suggested by Taylor to systematize his factory. Identify and explain them. (6)

## CHAPTER - 3

# BUSINESS ENVIRONMENT

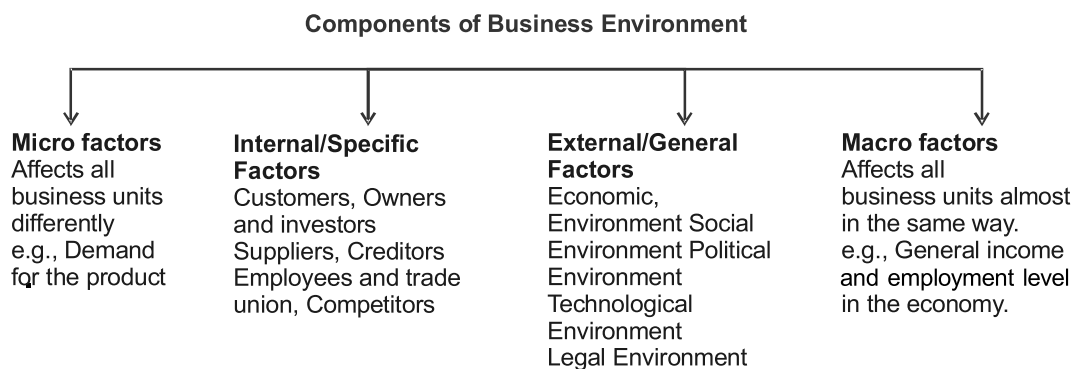




Business environment means the sum total of the factors which influence the business and over which the business has no control. The study of business environment enables the managers to identify threats and opportunities.

### Features of Business Environment

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



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

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

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### IMPORTANCE OF BUSINESS ENVIRONMENT

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

## **DIMENSIONS/COMPONENTS OF BUSINESS ENVIRONMENT**

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

Examples :

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

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

Examples :

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

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

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

Examples :

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

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

Examples :

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

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

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

Examples :

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

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

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

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

#### **Economic Environment in India**

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

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

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

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

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

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

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

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

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

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

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## QUESTIONS FOR PRACTICE

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



## DEMONETIZATION

### **Concept**

Demonetization is the withdrawal of a particular currency from circulation.

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

Its aim was to :

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

### **Features**

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

### **Conclusion**

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

### Multiple Choice Questions

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

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

### Fill in the Blanks

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

### Match the following

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

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

<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>
(i) – a	(i) – d	(i) – b	(i) – d
(ii) – b	(ii) – c	(ii) – d	(ii) – b
(iii) – c	(iii) – b	(iii) – a	(iii) – a
(iv) – d	(iv) – a	(iv) – c	(iv) – c

**True/False (suggest with reasons)**

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

**Answers**

**Multiple Choice Questions:**

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

**Fill in the blanks:**

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

**Match the Following:**

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

**True/False**

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

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## QUESTIONS FOR PRACTICE

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

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

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

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

**Q.7** ‘Understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms.’ In the light of this statement, explain by giving any five points why in the present day competitive market, it is essential for a business enterprise to remain alert and aware of its environment. (Importance of business environment)

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

Identify the three dimensions of Business Environment described in the paragraph above by quoting the relevant lines. (5)

**QUESTION BASED ON  
ANALYSIS EVALUATION AND CREATION**

Read the following text and answer question number 1 to 4 on the basis of the same

For the past few months, countless manufacturers worldwide have retooled to make safety gears for general public, health care workers and first responders in their battle against the covid-19 pandemic.

In late March' 2020 Gord Motor Co and Genuine Motors Corp, shut down car production and redeployed their factories and workers to produce ventilators. Gord was expected to achieve a production level of about 1500 ventilators by the end of May. Genuine motors brought its first group of 100 project workers into training in early April and was capable of producing 10,000 units per month.

Thereafter the company Ventured into manufacturing face masks, face Shields, Safety visors, nasal swabs PPE kits, Test kits and hand sanitizers. The company was able to scan the environment at an early stage to get maximum benefit and leave their competitors behind. Timely understanding of environment helped their managers in making suitable changes in the products manufactured by the enterprise. The managers adopted new methods made scientific improvements and innovations for producing goods having wide demand across the globe during pandemic.

1. Identify the component of business environment highlighted in the above case
  - (a) Economic environment
  - (b) Social environment
  - (c) Technological environment
  - (d) Political environment
2. The feature of business environment discussed in the case is \_\_\_\_\_
  - (a) Complexity
  - (b) Relativity
  - (c) Inter relatedness
  - (d) Dynamic



3. Identify the point of importance of business environment not highlighted in the above case
- (a) It enables the firm to identify opportunities and getting the first mover advantage
  - (b) It helps the firm to identify threats and early warning signals
  - (c) It helps in tapping useful resources
  - (d) It helps in coping with rapid changes
4. Management that responds to environmental changes is likely to be more successful. True/false

[Ans- 1 (c)          2 (d)          3 (c)          4 True]

Case:-

Mesla has made its debut in India on January 08, 2021 with the company named mesla India motors and Energy in Bengaluru. US electric car maker is known to be doing R and D in association with at least one of the auto engineering companies in Bengaluru. The company would also be selling electric battery vehicle in India

Electric vehicles hold the key to permanent solutions of a better, cleaner and greener India. It is the need of the hour especially in India as all fossil fuel vehicles are responsible for nearly 29% of pollution. Electric vehicles are rechargeable involving zero waste of energy. They do not have any harmful effect on human health and ecology

Karnataka Chief Minister that tweeted Mesla would soon start operations in India. Karnataka industries ministers also said that the government is prepared to extend full support to the firm.

While Mesla cars will be outside the reach of most in India due to the high price coupled with heavy import duty, the company's presence has the potential to accelerate the drive towards electric mobility

1. "Karnataka chief ..... firm".  
Identify the dimension of business environment highlighted above
- (a) Economic environment                      (b) Social environment  
(c) Political environment                      (d) Technological environment
2. "The US electric car makers ..... vehicle in India"  
Identify the dimension of business environment highlighted above:-
- (a) Economic environment                      (b) Technological environment  
(c) Social environment                      (d) All of the above
3. "Electric vehicle hold ..... 29% of pollution"  
Which feature of business environment is highlighted by the statement:-
- (a) Inter relatedness                      (b) Totality of external forces  
(c) Complexity                      (d) Relativity
4. "While Tesla cars ..... electric mobility"  
Which component of economic environment is discussed in the statement?
- (a) Changes in disposable income of people  
(b) Money Supply in the economy  
(c) Rates of saving and investment  
(d) None of the above

[Ans- 1 (c), 2 (b), 3 (d), 4 (a)]

### ADDITIONAL QUESTIONS FOR PRACTICE

**Q.1** Energetics Ltd has been producing various electronic products and has attained a prominent position in the electronics market. Recently the company has manufactured Garment steamers and Inverter based refrigerators with 4 star bee label. It has come to this position by analysing the needs of customers before other electronics manufacturers did it and by providing new and improved products to its consumers. It has procured the best of technology from France and keeps the processes up to date. Whenever a better technology is brought about in the field, it is adopted by the company.

Its top level Managers are quite aware and alert about external environment changes and they incorporate them in the working of the company in a timely manner.

Suggest how proper understanding of business environment would help Energetics Ltd. perform better in future. (4)

**Q.2** With the change in the consumption habits of people Ram Singh Tomar, who was running a sweet shop shifted to bakery business. On the eve of Rakshabandhan, he offered biscuits and cakes in attractive packaged at reasonable prices. He anticipated huge demand and created a website giftideas.com for taking online orders. He got lot of orders online and earned huge profits by selling baked products.

Identify and suggest which dimension of business environment helped him cope with changing environment. (4)

**Q.3** On July 01, 2020, the Railway Ministry of India announced that 151 trains will be operated by private sectors. They will invest Rs 30,000 crores. Only the driver and guard will be railway employees; all other employees will be of private company; who is operating the train. The private companies are free to procure train and locomotives from any source of its choice.

(i) Name and explain the economic reform related to this decision of government.

(ii) Name and explain other two reforms recommended in New Economic policy. (5)

**Q.4** Two big banner movies were scheduled to be released on the same date. On the last moment, release of one of the movies had to be postponed because of opposition by group of people due to controversial content related to their tribe being portrayed in the movie.

The other movie released on time and made huge profit as there was no competition. The movie which was postponed suffered huge losses as it could not be released on time.

(i) Which feature of business environment is highlighted in the above case?

(ii) Identify and explain the dimension of business environment, which delayed the release of movie. (3)

**Q.5** Crops agro Ltd started a new venture for distribution of organically grown food products. These food products will be free from synthetic chemicals such as pesticides, fertilizers and will not contain GMO (Genetically modified organisms). The product range will initially include fresh fruits and vegetables only.

They conducted a survey to find out customer preferences for such products. They found that 90% of consumers were concerned about the harmful chemicals being used in growing food products. Most of the respondents wanted to shift to alternative organic brands.

The company contacted hired agricultural experts from Australia to lay down the procedure for growing organic fruits and vegetables by the farmers. They decided to use new innovative methods to train farmers in growing organic produce.

Identify and explain by quoting lines from above case, the two dimensions of business environment highlighted in the above para. (4)

**Q.6** India's craft heritage is surviving because of its customs and traditions. Craft products made by craftsmen of Rajasthan, Gujarat, Assam, etc. are not only used in the country but are also exported to USA, Germany, UK, France

and other countries of the world. The volume of exports of these products gives India an advantage in balance of payments and the much needed foreign exchange. The Prime Minister desires that the handicraft industry should be expanded by linking it with technology. Focus should be on changing the manufacturing process, ensuring durability and adopting innovations.

Quoting the lines from the above paragraph, explain any four dimensions of the business environment. (6)

**Q.7** In an environment of rising petroleum prices and a large middle class population in India, KV Motors Ltd, recognized the need for small cars in India. It created a product far superior than their competitors not only in terms of quality but also in terms of overall driving experience. It soon became the leader in the small car market.

KV Motors further expanded its service network and quality creating an entry barrier for the competitors. It depicted its strengths through various brand-building activities. As a result, the market share of KV Motors is refusing to go down in spite of all major automakers as its competitors.

(a) Identify the economic reforms highlighted in the above case.

(b) Quoting the lines, explain any two points of importance of Business Environment being highlighted in the above case. (4)

# EVALUATION QUESTIONS

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## UNIT-I

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

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

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

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

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

[Hint : (a) Management as an art

(b) Harmony, not Discord

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

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

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

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

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

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

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

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

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

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

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



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

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

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

The Govt. Istaking.....

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

(b) (i) Principle of Authority & Responsibility

(ii) Principle of Initiative

(c) Top level Management.]

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

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

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

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

be followed and why?

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

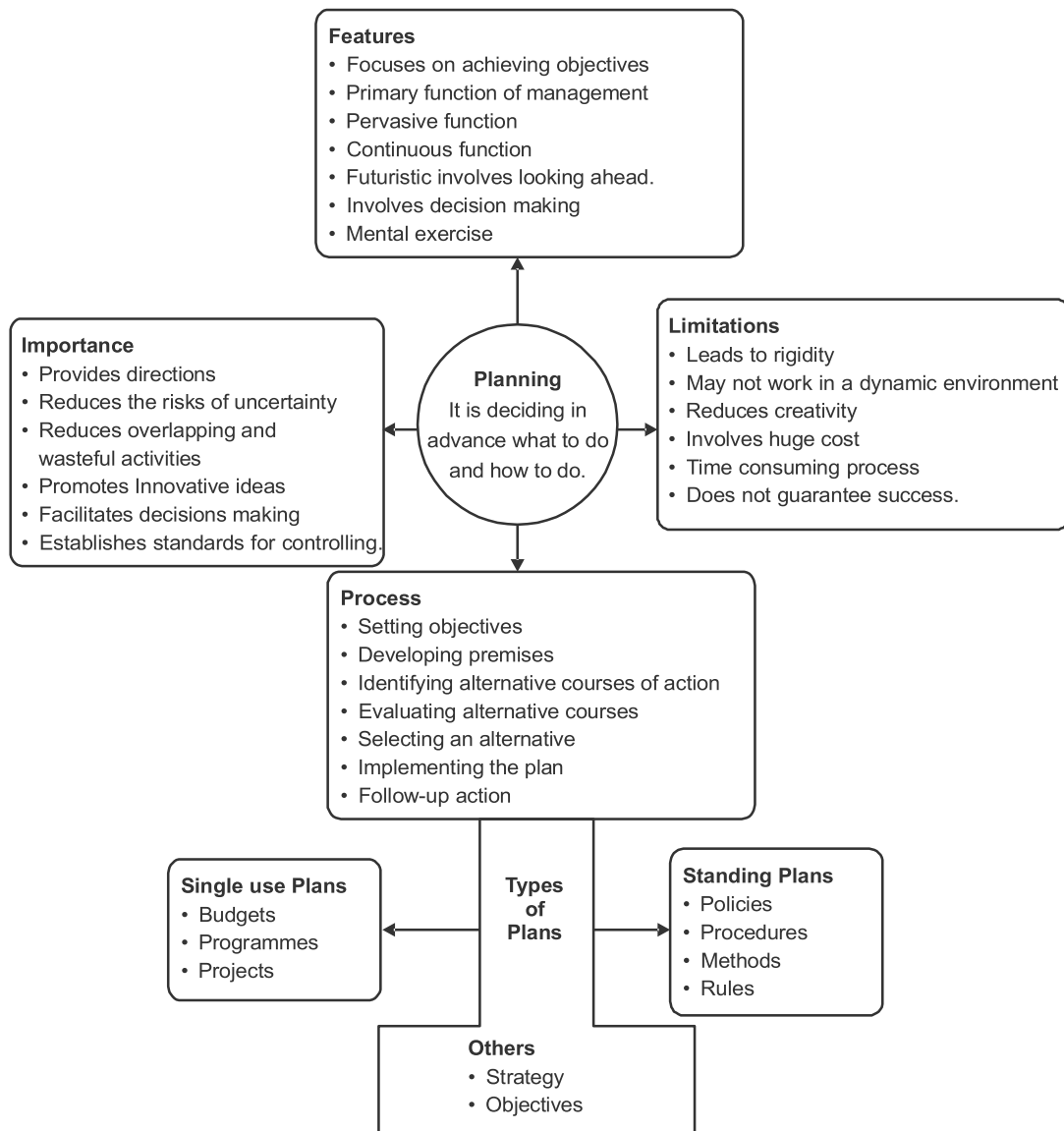
[Hint: (a) Harmony not discord.

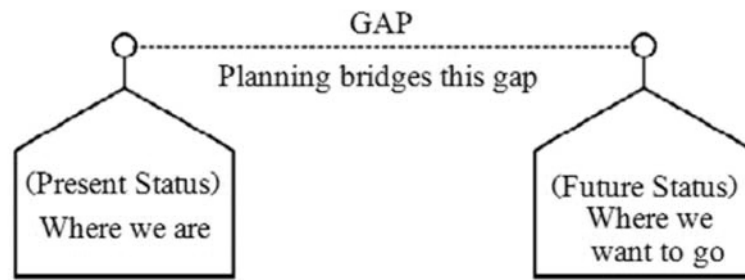
(b) Principle of Subordination of Individual Interest to General interest.

(c) Internal Factors - Employees].

## CHAPTER – 4

# PLANNING





### Concept

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

### Importance of Planning

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

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

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

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

### **Limitations of Planning**

#### **(A) Internal Limitations**

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

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

**(B) External Limitations**

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

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

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

**OR**

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

**FEATURES OF PLANNING**

**1. Planning focuses on achieving objectives:**

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

**2. Planning is a primary function of management:**

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

**3. Planning is pervasive:**

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

**4. Planning is futuristic:**

Planning essentially involves looking ahead and preparing for the future.

**5. Planning involves decision making:**

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

**6. Planning is a mental exercise:**

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

**7. Planning is continuous:**

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



## Planning Process

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

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



## **TYPES OF PLAN**

### **Standing plan or Repeatedly used plan:**

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

#### **Types of Standing Plans**

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

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

### **SINGLE USE PLAN:**

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

#### **Types of Single Use Plan**

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

#### **1) Difference between Single Use and Standing Plans**

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

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

**2) Differentiate between Objective & Strategy: -**

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

**3) Difference between objectives and policy**

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

#### 4) Difference between Policy and Procedure

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

#### Multiple Choice Questions

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

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

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

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

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

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

**Fill in the blanks**

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

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

**Match the following and select the appropriate option.**

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

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

## QUESTIONS FOR PRACTICE

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



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

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

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

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

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

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

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

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

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

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

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

**Q.13** Identify and explain the types of plans.

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

**Q.14** Identify and explain the steps involved in planning process from the following :

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

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

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

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

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

### **Planning**

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

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

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

**Answers**

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

## **Questions based on Analysis, Evaluation and Creation**

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**Q.1** Vaccine Institute Pvt. Ltd. is one of the biggest manufacturers by volume in the world. With outbreak of Corona Pandemic, its CEO Mr. Ranjan Sitaram decided the company had to play a crucial role by leveraging its capacities. According to him, “He had to decide what to do and how to do really fast. He decided to allocate 270 million of his company’s money to increase the company manufacturing capacity from 1.5 billion to 2.5 billion doses a year. In the midst of global lockdown last April, long before he knew whether a vaccine would be forth coming, he agreed to produce one billion doses of vaccine prepared by XYZ research team. It was a huge gamble as chances of any vaccine being licensed was little more than 30% only. To hedge his bets he struck similar agreements with 3 other companies pursuing Covid-19 vaccines.

He took a bigger risk when he actually started manufacturing it in September even before the license was approved so that they could provide it to the public around the world timely.

1. “He had to decide what to do and how to do really fast” Identify the function of management which was essential at this stage as discussed above
  - (a) Planning
  - (b) Organising
  - (c) Directing
  - (d) Staffing
2. He decided to allocate ₹270 million of his company’s money as well as take support of ₹250 million from B & M foundation to increase the company’s manufacturing capacity from 1.5 billion doses to 2.5 billion doses a year, “Which type of plan has been discussed here?”
  - (a) Strategy
  - (b) Budget
  - (c) Policy
  - (d) Programme
3. It was a huge gamble as chances of any vaccine being licensed was little

more than 30% only". Identify the limitation of the function of management referred above.

- (a) It involves huge cost                      (b) It is time consuming
  - (c) It doesnot guarantee success      (d) It leads to rigidity
4. He took a bigger risk when he actually started manufacturing it in September even before the license was approved "Identify the feature of function of management mentioned in this line.
- (a) It is continuous                              (b) It is pervasive
  - (c) It is futuristic                              (d) None of the above

**Q.2** SSS Commercials Ltd is a big commercial vehicle co. in India. It undertook a inter and intra firm analysis vis-a-vis its competitors

Domestic auto sales performances

	Dec. 2020	Dec. 2019	% change
SSS commercials Ltd.	29,885	31,469	-5
ABC supers Ltd.	11,857	10,378	14
LMN Com. Ltd.	2,865	5372	-47
FXO Ltd.	5726	1591	260

It analysed its position and felt that due to excessive competition they had to make some major revamps in their approach. They developed a comprehensive plan of

(1) Expanding its business in African countries like Guyana, Ethopia and Rwanda which have high growth rate as businesses are increasing manifold there.

(2) Joint ventures with major companies of these countries was along with decided

(3) Along with allocating 200 million in these markets.

A target of controlling 10% of their market in the year 2020-21 was set. This whole process took about three months to be developed but still there was lot of uncertantity involved as this was a new market, they were venturing.

Q 2. Identify the function of management undertaken by SSS commercial Ltd.

- (a) Directing
- (b) Organising
- (c) Planning
- (d) Controlling

Q 3. They developed a comprehensive plan of expanding its business in African countries ..... along with allocating 200 million in these markets Identify which type of plan has been referred here?

- (a) Programme
- (b) Strategy
- (c) Policy
- (d) Objective

Q 4. "The whole process took about three months ..... they were venturing". Identify which limitation of the function of managements has been referred above?

- (a) It leads to rigidity
- (b) It may not work in dynamic environment
- (c) It reduces creativity
- (d) Both a & c

Answers

- I (1) a (2) a (3) c (4) c
- II (1) c (2) b (3) d (4) b

**Q.3** Dreams can be turned into reality only if business managers think in advance on what to do and how to do. Based on the above statement, explain the function of management crucial for a software company to maintain a foothold on the market. (3 marks)

## **SOME ADDITIONAL QUESTIONS FOR PRACTICE**

Q 4. Which is the basic plan used in management of Case?

Q 5. Which type of plan represents all items in numbers?

(a) Budget

(b) Programme

(c) Policy

(d) Strategy

Q 6. Managers must contribute ideas and participate in the objective setting process. They must understand how their actions contribute to achieving objectives. If the end result is clear it becomes easier to work towards the goal” Identify and explain the step in the process of planning being discussed above. Also explain the remaining steps which will have to be carried out to complete the process.

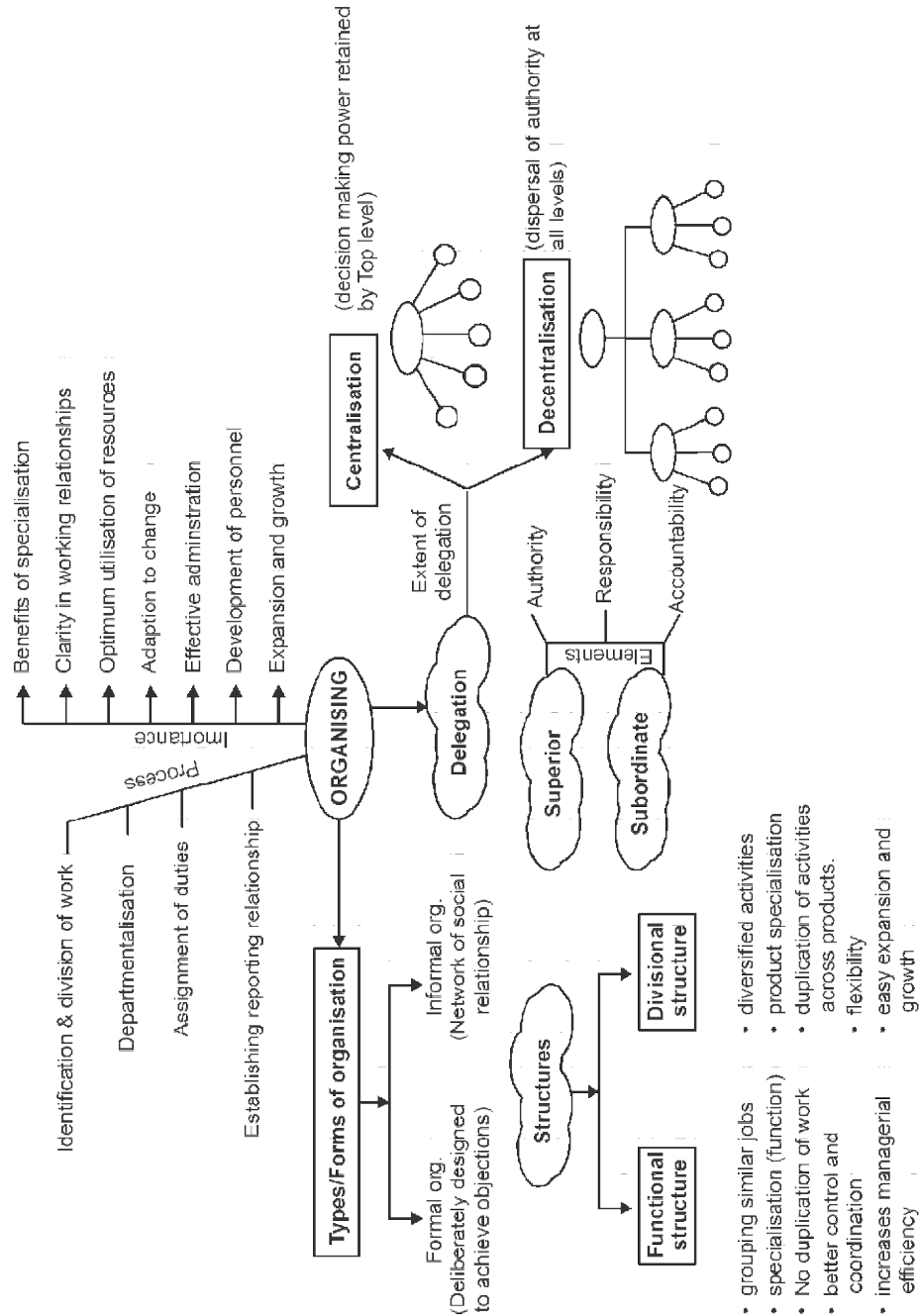
Q 7. Planning does not guarantee success but do you still believe that it is worth it ? Explain any four reasons in support of you answer.

Q 8. “The ideal plan would be the most feasible, profitable least negative consequences. Most plans may not always be subjected to a mathematical analysis in such cases, subjectivity and manager’s experience, judgement and at times intuition plays an important part in selecting the most viable alternative”. Identify and explain the steps of planning being discussed above. Also explain the steps preceding this step of the planning process.



## CHAPTER – 5

### ORGANISING



## **Meaning of Organising**

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

### **Organising as a function of management leads to—**

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

## **Organising process**

### **Steps Involved in the Process of Organising**

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

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

3. At this stage, the responsibility of each individual or post is decided. For e.g., the purchase manager will be given the task of purchasing goods, the sales manager will be given the work of sale of goods etc. while assigning duties, it is important to match nature of the work and the capabilities of the person to whom the work is given.
4. Each individual should also know from whom he has to take orders and to whom he is accountable. It helps in coordination among various departments.

- Q.1** It is the function of management which establishes relationship and deploys resources. Identify the concept and explain the steps involved in the process of the concept. (Hint- Organising; process of organising)
- Q.2** Identify the function of management which coordinates human efforts and physical resources to achieve organisational goals. (Hint- Organising)

### Importance of Organising

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

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

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

### **Organizational Structure**

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

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

### **Relationship between span of management and organisation structure:**

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

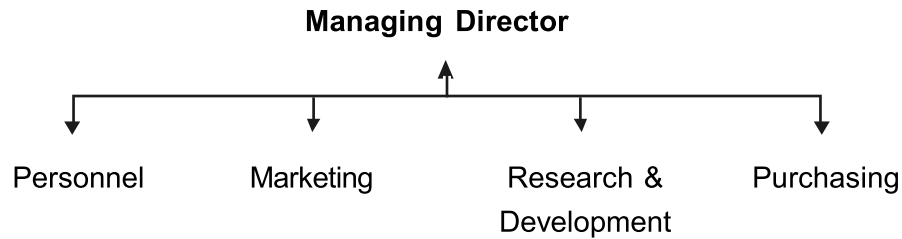
Narrow span of management:

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

### **TYPES OF ORGANISATION STRUCTURE**

- A. Functional structure
- B. Divisional structure

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



### **Suitability**

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

### **Advantages:**

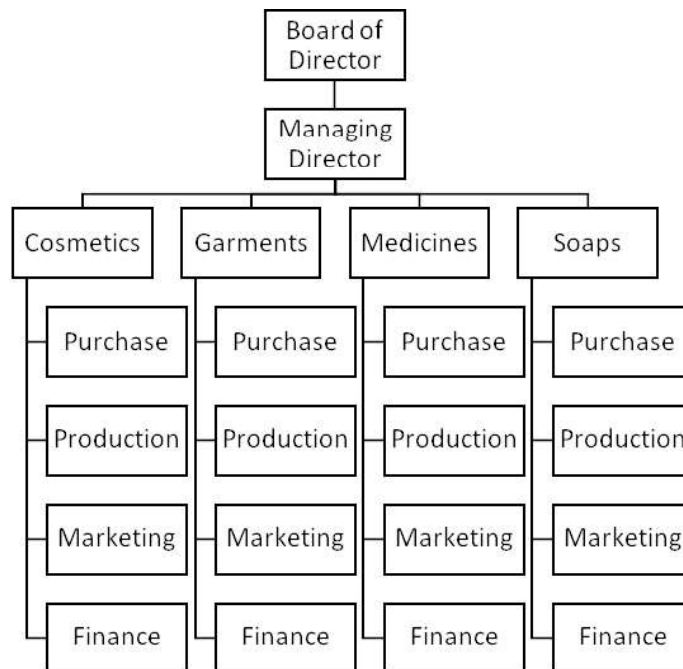
1. **Specialisation:** Better division of labour takes place which results in specialization of functions and its consequent benefits.
2. **Coordination is established:** All the persons working within a department are specialists of their respective jobs. It makes the co-ordination easier at departmental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

### **Disadvantages:**

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

## (B) Divisional Structure

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



### Suitability:

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

### Advantages

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

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

### Disadvantages

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

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

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

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

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

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

### FORMAL ORGANISATION

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

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

### **Features**

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

### **Advantages**

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

### **Disadvantages**

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

### **INFORMAL ORGANISATION**

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



### Features

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

### Advantages

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

### Disadvantages

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

### Difference between Formal Informal organisation

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

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

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

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

[Hint- Formal Organisation]

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

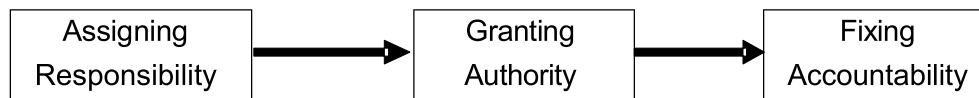
### **Delegation of Authority**

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

### **Process/Elements of Delegation**

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

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



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

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

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

## **Decentralisation**

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

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

## **Importance of Decentralisation**

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

### Difference between – Delegation & Decentralization

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

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

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

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

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

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

### Key Terms to Crack Case-Studies

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

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



23.	This philosophy is highly productive if numerous decisions are to be taken at lower level.	do	do
24.	It increases the morale of employees as they are entrusted with the work of higher level.	do	Delegation of authority

### Mutliple Choice Questions

- I. What is the correct order of organising process?
- Assignment of Duties
  - Departmentalisation
  - Identification and Division of work
  - Establishing reporting relationships.
- d,b,a,c
  - c,b,a,d
  - b,a,c,d
  - a,c,b,d
- II.
- Importance of organisation
  - First step of organising process
  - Types of organisation structure
  - Forms of Organisation
- Functional and Divisional
  - Benefits of Specialisation
  - Formal and informal
  - Identification & division of work.

### Tick the correct Match.

- |         |         |         |         |
|---------|---------|---------|---------|
| 1. i) b | 2. i) d | 3. i) c | 4. i) a |
| ii) d   | ii) b   | ii) d   | ii) c   |
| iii) a  | ii) c   | ii) b   | ii) b   |
| iv) c   | ii) a   | ii) a   | ii) d   |
- III.
- Formal Organisation
  - Functional Structure is Suitable
- Refers to network of social relationships
  - Where organisation is large and producing only one category of product.



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

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

**Fill in the Blanks.**

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

**True/False**

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

**1 MARK QUESTIONS**

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

**3-6 MARKS QUESTIONS**

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

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

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

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

### **Answers/Hints**

#### **1 Mark Questions Answers—**

1. Decentralisation
2. Organising
3. Organising

#### **3-6 Marks Questions : Answers—**

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

#### **Advantages :**

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

6. Decentralisation

Importance : Develops initiative amongst subordinates.

Quick and better decisions

Relieves the top executives from excess work load.

#### **Informal Organisation**

**Advantages :** Fulfillment of social needs

Quick solution of the problems.

**QUESTION BASED ON  
Evaluation, Analysis and Creation**

Alpha private limited is a software service provided. With expansion in its business organisation, structure designed for it was not working. There was ambiguity in the reporting relations as the span of management had become very tall. It was resulting in delay in decision making. The target of the organisation was not being met Alpha private limited consulted Rainbow International to suggest ways to improve competitiveness Rainbow International suggested elimination of a layer of middle management as well separating production, sales and marketing departments. This lead to specialisation of function and coordination easier within the department. The overall cost were minimised. Though special care was needed to maintain inter departmental coordination.

1. Identify the type of span of management opted by Alpha private limited?
  - (a) Narrow span
  - (b) wider span
  - (c) both a and b
  - (d) none of the above
2. Rainbow international suggested elimination of a layer of middle level management as well as separating production sales and marketing department. Identify the organisation structure opted by Alpha private ltd.
  - (a) Divisional structure
  - (b) Formal organisation
  - (c) Functional structure
  - (d) Informal organisation
3. Identify the advantage of the structure not discussed above
  - (a) Specialisation
  - (b) Coordination is established
  - (c) Minimises cost
  - (d) Helps in increasing managerial efficiency

4. Identify the disadvantage of the organisation structure discussed above.
- (a) Hurdle in complete development of employees
  - (b) Ignorance of organisational objectives
  - (c) Difficulty in inter departmental coordination
  - (d) Minimises cost
- II. Trot the Globe Private Limited is an adventure sport company. It provides its clients an exciting but safe experience around the world. To maintain the quality of experience, the company concentrated the power of decision making in a few hands. This at times led to delay in decision making. Also the top level management was finding difficulty in focusing on critical expanding opportunities. It finally decided to evenly and systematically distribute authority at every level region wise. This promoted confidence among the subordinates as they got freedom to take their own decision. In this manner organisation was able to grow and expand better.
- Q 1. To maintain the quality of experience in the company concentrated the power of decision making in a few hands. Identify the type of organisational structure followed by Trot the Globe Private Limited here.
- (a) Functional structure
  - (b) Divisional structure
  - (c) Centralisation
  - (d) Decentralization
- Q 2. It finally decided to evenly and systematically distribute authority at every level region wise. Identify the choice made by the company above.
- (a) Decentralisation
  - (b) Centralisation
  - (c) Delegation of authority
  - (d) None of these

Q 3. "This promoted confidence among the subordinate as they do as they got freedom to take their own decision". Identify this importance of the choice finally made by the company here

- (a) Quick and better decisions
- (b) better control
- (c) develop initiative amongst subordinates
- (d) Relieve the top executive from excess workload

Q 4. As the organisation grows in size which form of organisation is generally better?

- (a) Centralisation
- (b) Decentralization
- (c) Delegation
- (d) Functional structure

Answers/Hints

- I      1 (b)   2 (c)   3 (d)   4 (c)  
II      1 (c)   2 (a)   3 (c)   4 (b)



### **SOME ADDITIONAL QUESTIONS FOR PRACTICE**

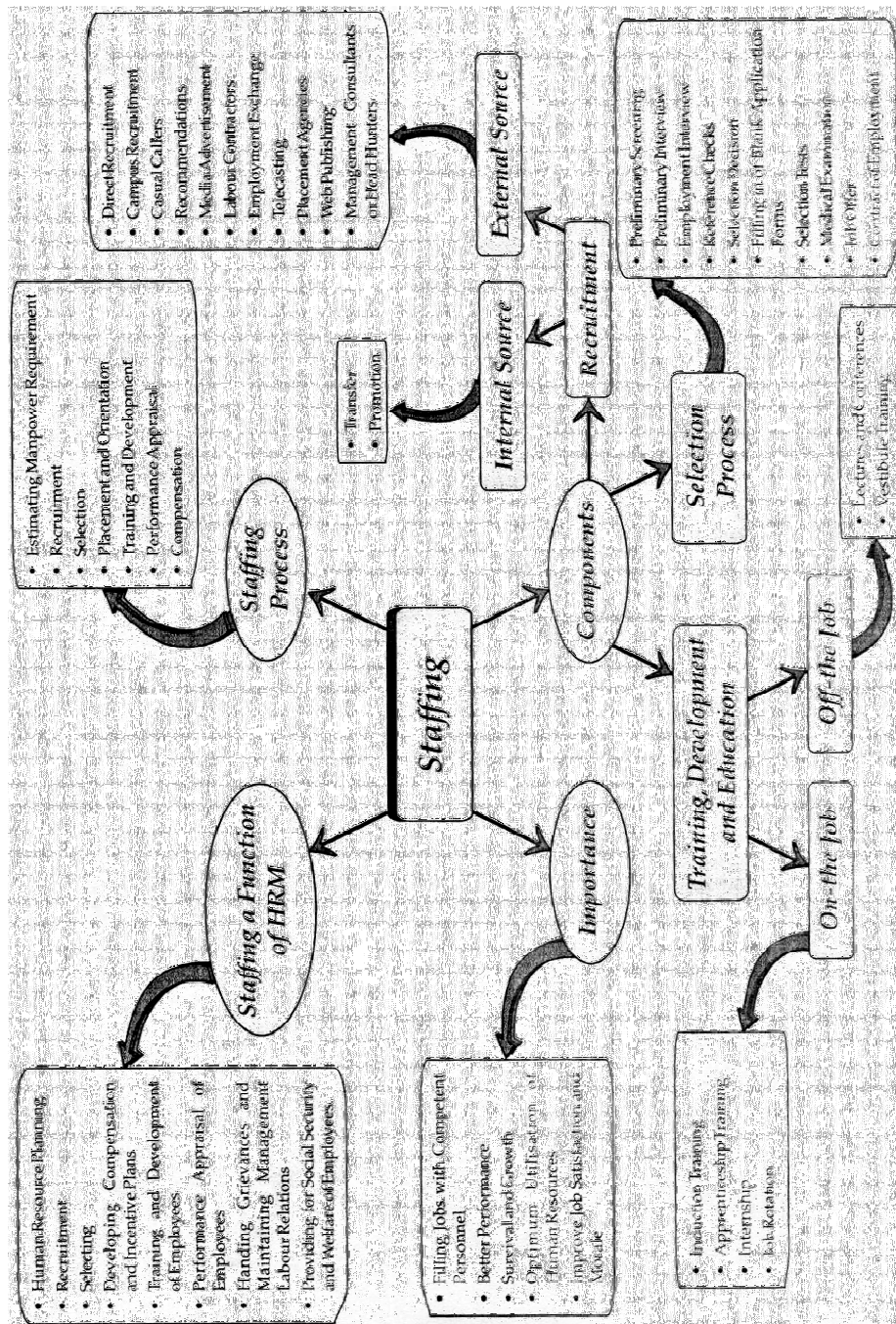
1. Which of these is not an advantage of formal organisation?  

(a) No overlapping of work	(b) Easier to fix responsibility
(c) Speed in communication	(d) Stability in the organisation
  
2. The power of taking decisions in order to guide the activities of other is called .....
  
- |                    |                |
|--------------------|----------------|
| (a) Accountability | (b) Authority  |
| (c) Responsibility | (d) Delegation |
  
3. Upward flow of communication is there in the following :-  

(a) Authority and responsibility	(b) Authority and Accountability
(c) Responsibility and accountability	(c) None of these.

## CHAPTER – 6

### STAFFING



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

### **Need and Importance of Staffing**

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

### **Human Resource Management (HRM)**

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

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

### Staffing as a part of Human Resource Management



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

#### Conclusion :

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

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

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

## PROCESS OF STAFFING

**1. Estimating Manpower Requirement:** It involves the following:

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

Understanding the manpower requirements necessitates—

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

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

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

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

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

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

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

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

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

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

(5)

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

## RECRUITMENT

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

(B) **Sources of Recruitment**

(A) Internal Sources

(B) External Sources

(A) **Internal Sources of Recruitment**

Internal sources refer to inviting candidates from within the organisation. Following are important sources of internal recruitment: -

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

**Advantages of Internal Sources Recruitment: -**

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

**Limitation of Internal Sources**

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

**External Sources of Recruitment**

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

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

placements. They maintain data of persons with different qualifications and skills. Placement agencies compile bio-data of a large number of candidates and recommend suitable names to their clients. They charge fee for their services.

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

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

They are paid remuneration on daily wage basis.

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

6. **Labour contractors:** Labour contractors (who are themselves employees of the organisation) maintain close contacts with labourers. On payment of commission, they can provide the required number of unskilled workers at short notice.
7. **Casual callers:** A company may keep a database of unsolicited applicants as and when the vacancy arises, the company makes use of such applications/applicants.

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



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

#### **Merits of External Sources**

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

#### **Limitations of External Sources of Recruitment**

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

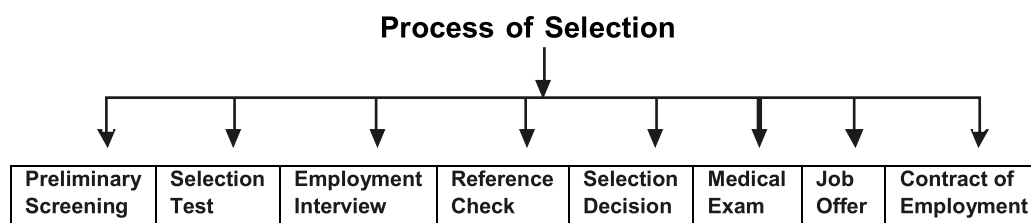
**Q.** Rohan the Director of Petro Chemical Company wants to produce Bio Gas from waste garbage and useless material. He decides that this manufacturing unit will be set up in rural and backward area of Bihar where people are suffering from poverty and unemployment. Rohan wants to deploy people from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

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

## SELECTION

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

### PROCESS OF SELECTION



The successive stages in selection process are:

- 1. Preliminary Screening:** After applications have been received, they are properly checked as regarding qualification etc. by screening committee. A list of candidates to be called for employment tests is made and unsuitable candidates are rejected altogether.
- 2. Selection Tests:** These tests include,
 

Types of selection tests

(i) *Intelligence test:* It measures the level of intelligence quotient of an individual. It is an indicator of a person's learning ability or the ability to make decisions and judgements. (Example: used for selecting a school teacher.)

(ii) *Aptitude test:* It is a measure of individual's potential for learning new

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

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

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

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

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

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

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

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

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

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

### **Training**

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

### **Development**

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

### **Benefits of Training**

#### **(A) To the Organisation**

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

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



**(B) To the Employees**

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

### Comparison of Training and Development

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

#### Training Methods

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

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

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

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

## EXERCISE

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

3. 

<b>NAUKRI.COM</b> India's No.1 Job site
--

 \_\_\_\_\_ is an example of.
- (a) Placement agencies                      (b) Web Publishing  
(c) Advertisement                          (d) all of these
4. Identify the managerial decision making process as to predict which job applicants will be successful if hired
- (a) Recruitment                              (b) Orientation  
(c) Training                                  (d) Selection
5. What refers of the learning opportunities designed to help employees grow?
- (a) Development                              (b) Training  
(c) Performance appraisal                  (d) Induction
6. It is a face to face conversation between employer and applicant
- (a) Selection                                  (b) Interview  
(c) Recruitment                              (d) Staffing
7. Vinod is working as plant supervisor in Cargo Ltd. Noida. His place of work was changed to gurugram without any change in his position in the hierarchy, Identify the concept.
- (a) Promotion                                  (b) Lay off  
(c) Training                                  (d) Transfer
8. Sehaj is working as human resource manager in flora Ltd. He is assigned the work to find out the number and type of personnel available so that he could decide and recruit the required number of persons for each department Identify the concept involved.
- (a) Recruitment                              (b) all of these  
(c) work force analysis                      (d) work load analysis
9. Staffing function begins with which step?



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

**10.** Staffing is very important function these days because of following :-

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

**II. Fill in the Blanks.**

1. \_\_\_\_\_ tests provide clues to a person's emotions, reactions, maturity etc
  - (a) Aptitude
  - (b) Trade
  - (c) Personality
  - (d) Interest
2. \_\_\_\_\_ tests measure the existing skills of the individual
  - (a) Aptitude
  - (b) Trade
  - (c) Personality
  - (d) Interest

3. \_\_\_\_\_ is a joint programme of training between educational institutions and business firms.
- (a) Coaching (b) Vestibule training  
(c) Apprenticeship programme (d) Internship
4. \_\_\_\_\_ help the organisations to recruit technical, professional and managerial personnel.
- (a) Casual callers (b) Employment exchange  
(c) Management consultants (d) Campus recruitment
5. \_\_\_\_\_ is the process of choosing from among the pool of prospective job candidates.
- (a) Selection (b) Recruitment  
(c) Staffing (d) Placement

**III. Match the Following.**

- |    |                          |  |
|----|--------------------------|--|
| 1. | 1) Promotion             | a) Assigning post to the selected employee             |
|    | 2) Orientation           | b) Higher position, Higher responsibilities            |
|    | 3) Performance appraisal | c) Evaluation of employee's performance                |
|    | 4) Placement             | d) Familiarising selected employee to the organisation |
- 
- |        |       |       |       |
|--------|-------|-------|-------|
| (a)    | (b)   | (c)   | (d)   |
| i) b   | i) a  | i) d  | i) c  |
| ii) d  | ii) b | ii) a | ii) b |
| iii) c | ii) d | ii) c | ii) a |
| iv) a  | ii) c | ii) b | ii) d |
- 
- |    |                        |  |
|----|------------------------|--|
| 2. | 1) On the Job training | a) Create a pool of applicants for job |
|    | 2) Recruitment         | b) Learning by doing                   |



**II. Fill in the Blanks:**

1. (c) Personality
2. (d) Trade Test
3. (b) Internship Training.
4. (c) Management consultants.
5. (a) Selection

**III. Match the following:**

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

**IV. True/False**

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

**1 MARK QUESTIONS**

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

### 3-6 MARKS QUESTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Requirement of skilled workers – 89

Requirement of unskilled workers – 265

After this, Recruitment and further selection procedure was followed.

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

### Hints

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

(b)

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

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



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

**Benefits to workers :**

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

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

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

### Key Terms to Crack Case-Studies

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

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

### QUESTIONS BASED ON ANALYSIS, EVALUATION AND CREATION

Read the following text and answer questions no. 1 to 4 from it.

Mr Rajiv recently joined XYZ Limited, Where he was required to perform the managerial function of filling and keeping filled the positions in the organisation structure. He assigned the work of assessment of the number and types of human resources required for various jobs in the organisation. Mr. Rajesh and the work to reveal the number and type of human resources available to Mr. Rakesh, who were his juniors. Mr. Rajiv evaluated the performance of Mr. Rajesh and Mr. Rakesh on the basis of the work performed by them and rewarded accordingly.

1. “Mr. Rajiv was required to perform the managerial function of filling and keeping filled the positions in the organisation structure.”

The function of management required to be performed by Mr. Rajiv is

- |              |                |
|--------------|----------------|
| (a) Planning | (b) Organising |
| (c) Staffing | (d) Directing  |

2. He assigned the work of assessment of the number and types of human resources required for various jobs to Mr. Rajesh”.

Identify the work assigned to Mr. Rajesh.

- |                        |                       |
|------------------------|-----------------------|
| (a) Selection          | (b) Workload Analysis |
| (c) Workforce Analysis | (d) Training          |

3. The work to reveal the number and type of human resources available was assigned to Mr. Rakesh.

Which of the following work was assigned to Mr. Rakesh?

- |                        |                       |
|------------------------|-----------------------|
| (a) Selection          | (b) Workload Analysis |
| (c) Workforce Analysis | (d) Training          |

4. Mr. Rajiv evaluate the performance of Mr. Rajesh and Mr. Rakesh on the basis of the work performed by them.

Identify the step of one of the function of management undertaken by Mr. Rajiv.

- |                  |                           |
|------------------|---------------------------|
| (a) Evaluation   | (b) Career planning       |
| (c) Compensation | (d) Performance Appraisal |

Ans. [1(c), 2(b), 3(c), 4(d)]

Read the following text and answer questions no. 5 to 8 from it.

H Ltd., a noida based apparel manufacturing company was doing well until corona virus pandemic hit the country. The management of the company, to run the business operations and tide through the hard times diversified its business into manufacturing PPE Kits, N95 Masks, face shields etc to meet the rising demand for such products in the country. For this H Ltd decided to use the available staff of the organisation except Mr. Prasad who was searched out from www.jobstreet.com website. To enable the employee's to do the new work, the company undertook the process of increasing their knowledge and skills.

H Ltd. also decided to change the compensation method to performance based from monthly payment basis.

5. "H Ltd decided to use the available staff of the organisation". Based on this identify which source of recruitment H Ltd used.  
(a) External (b) Internal  
(c) Both a and b (d) None of these
6. "Mr Prasad was searched out from www.jobstreet.com website." What is the merit of the source of recruitment by which Mr. Prasad was searched out.  
(a) Qualified personnel (b) Wider choice  
(c) Fresh Talent (d) All of these
7. "To enable the employees to do the new work, the company undertake the process of increasing their knowledge and skills".  
Identify the concept referred here  
(a) Education (b) Development  
(c) Training (d) None of these
8. "H Ltd change the compensation method to performance based from monthly payment basis." Which method of compensation was replaced by H Ltd.  
(a) Time based (b) Performance based  
(c) Piece work based (d) None of these

(Ans. 5 b 6 d 7c 8a)

### ADDITIONAL QUESTIONS FOR PRACTICE

- Q.1** “External sources of recruitment can attract qualified and trained people. It provides wider choice and brings new blood in the organisation, still it is not assumed to be good always for the organisation.”  
Do you agree? Give reasons in support of your answer.
- Q.2** The workers of a factory are unable to work on new machines and always demand for help of supervisor. On investigation it was observed that most of the workers were not fully aware of the proper operation of the machines. Suggest the remedy which could help in solving the problem.
- Q.3** A newly appointed Head of the Organisation is of the view that there is no need for training the workers as it waste the time and resources and also adds to the cost. As the training Incharge of the same organisation, how will you convince the Head about the importance of training.
- Q.4** Mr. Ravi is working as a personnel manager in a company, who is having experience of more than 10 years. He always promotes an efficient employee to a higher post and demotes inefficient employee to a lower vacant post.

Identify the source of recruitment used by Mr. Ravi to fill the vacant posts. Also suggest him the other source of recruitment along with its benefits.

Joseph Bros. was a firm manufacturing jute lamp shades. It uses left over jute pieces from various jute factories to manufacture economical lamp shade which are supplied to various hotels in nearby towns. It employs men and women from nearby villages as workers for creating good lamp shade designs.

Joseph Bros. is not able to meet its targets. Namish, the supervisor of the company, was told to analyse the reasons for the poor performance. Namish found following problems and suggested certain solutions in the working of the business. The number of workers employed was less than what was required for the work. As a result, the existing workers were overburdened. The firm decided to search for new workers and it asked the present

employees to introduce candidates or recommend their friends and relatives to the firm. This enabled the firm in “putting people to jobs” and assured attainment of objectives according to plans.

- (a) Identify the functions of management being performed by the firm in the above situation.
- (b) Name the concept and its source used by the firm to attract more workers for the firm.

## DIRECTING





## Meaning

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

Directing comprises of:

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

## Features:

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

## Importance

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

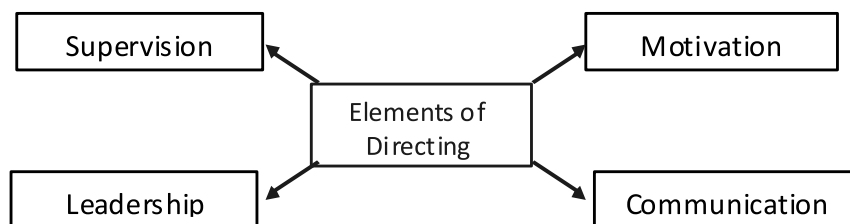
3. **Means of motivation:** It motivates the subordinates to work efficiently and to contribute their maximum efforts towards the achievement of organisational goals by satisfying their needs.
4. **Facilitates change:** Employees often resist changes due to fear of adverse effects on their employment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

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

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

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

### Elements of Direction



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

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

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

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

## Supervision

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

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. **Facilitates Control:** Control means match between actual and planned output. It ensures checking on the methods in use and progress of work according to planned schedule.
4. **Maintenance of discipline:** The strict supervision and guidance of supervisor encourages the employees and workers to be more disciplined in the activities.

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

5. **Feedback:** The supervisors are directly dealing with the subordinates. As a result, feedback in the form of suggestions, grievances keep coming to the management. It improves quality of management decisions and revision of plans & policies.
6. **Improved Motivation:** A supervisor with good leadership qualities can build up high morale among workers.  
  
The relationship with the supervisor is a very good incentive to improve the motivation level of the employees while guiding the employees, the supervisors encourage the subordinates to perform to their best capacities.
7. **Optimum utilisation of resources :** All the activities are under the observation of supervisor so less wastage and optimum utilisation of resources is possible.

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

## **II. Motivation**

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

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

Infact motivation help in bridging the gap between ability to do a certain work and willingness to do a certain work.

### **Features**

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

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

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

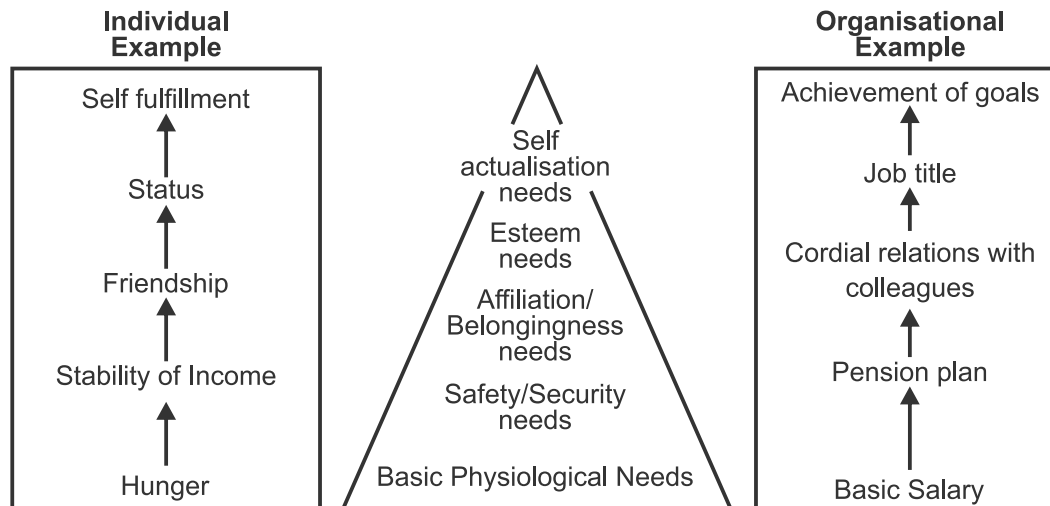
- a) Motivation helps to improve performance levels of employees as well as the organisation.
- b) Motivation helps to change negative attitudes of employee to positive attitudes.
- c) Motivation helps to reduce employee turnover.
- d) Motivation helps to reduce absenteeism in the organisation.
- e)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

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

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

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

### Organisational examples



### **Pyramid representing Maslow's Need Hierarchy**

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

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

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

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

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

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

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

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

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

**III. Leadership**



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

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

### **Features of leadership**

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

### **Styles of Leadership.**

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

**Different types of leadership style are as follows:**

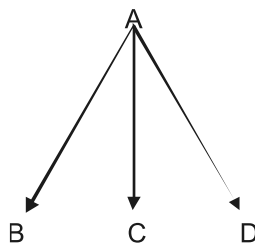
#### **I. Autocratic or Authoritarian Leader**

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

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

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

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



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

#### **When should authoritarian leadership be applied?**

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

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

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

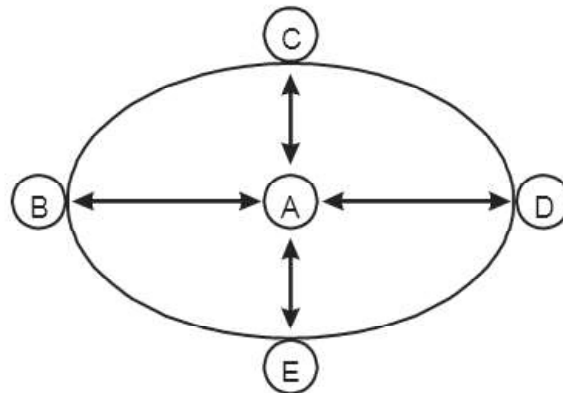
[Hints- (a) Autocratic Style, (b) Chanda, even efficient subordinates need direction.]

## **2. Democratic or Participative Leader**

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

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

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



**A is the leader (Group Centered-Leadership)**

**When should Participative/democratic leadership be applied?**

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

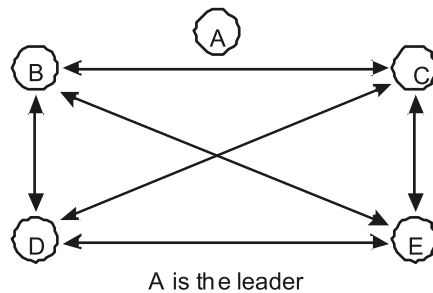
This style should NOT be used:

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

### **3. Laissez Faire or Free Rein Leader**

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

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



### (Subordinate - Centered - Leadership)

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

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

***This style should NOT be used when:***

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

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

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

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

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

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

### **Communication**

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

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

### **Elements of Communication Process**

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

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

### **Importance of Communication**

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

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

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

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

Communication taking place within the organisation may be broadly classified into two categories:-

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

#### **Merits and demerits of formal communication**

##### **Merits :**

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

##### **Demerits:**

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

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

### **Merits and demerits of Informal communication**

#### **Merits :**

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

#### **Demerits :**

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

### **Difference between Formal & Informal Communication**

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



### **Barriers to Effective Communication [Categories]**

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

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

### **Psychological/Emotional barriers**

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

### **Organisational Barriers**

#### **Factors related to organisation structure:**

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

**Personal Barriers:** of superiors and subordinates.

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

**Improving Communication Effectiveness**

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

**Key Terms to Crack Case-Studies**

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

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

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

**I. Multiple Choice questions.**

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

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

**III. Match the Following.**

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

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

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

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

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

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

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

Subordinates

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

**Fill in the Blanks:**

1. Directing flow from \_\_\_\_\_ to \_\_\_\_\_.  
     (a) Top, Bottom                                      (b) Bottom, Top  
     (c) Upward, vertical                              (b) Downward, Upward
2. \_\_\_\_\_ is the process that excites people to work for the attainment of desired objective.  
     (a) Leadership                                      (b) Motivation  
     (c) Supervision                                      (b) Communication
3. \_\_\_\_\_ refers of the need for affection, belongingness and friendship.  
     (a) Safety    (b) Esteem needs  
     (c) Social rised                                      (b) Physiological need
4. \_\_\_\_\_ Incentives are effective in case of managers.  
     (a) Monetary    (b) Non-Monetary  
     (c) Vertical    (b) None fo these



5. \_\_\_\_\_ communication is within an organisation but not officially sanctioned.
- (a) Formal (b) Horizontal  
(c) Vertical (b) Informal

**Suggest True/False With Reasons**

1. Process of communication is never complete without feedback. (T/F)
2. A Supervisor does not facilitates control. (T/F)
3. Esteem needs are needs for respect, outonomy, status, recognition and attention. (T/F)
4. Autocratic leadership style is not suitable for uneducated and inexperienced subordinates. (T/F)
5. Leadership emerges out of informal authority and managership emerges out of formal authority. (T/F)

**ANSWERS**

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

## QUESTIONS FOR PRACTICE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Q.10**

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

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

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

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

**HINTS :**

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

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

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

5.
  1. Staffing, directing
  2. Leadership
 

The supervisor ..... objectives.

Communication

He should ..... them.

Supervision

He needs ..... properly.

Motivation

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

Ms. Mona — Free Rein

Ms. Anu — Authoritative

7. 1. Human Needs, Motivation

2.

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

8. 1. Management Consultants

2. Mr. Arun — Horizontal communication

Mr. Amit — Vertical [downward] communication

Mr. Rakesh — Vertical [upward] communication

Mr. Arun to Ved — Diagonal communication

9. 1. Informal Communication

2. Carry rumours

Unorganised and irregular

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

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

(b) Organisational Barriers — Rules and Regulations

(c) Personal Barriers — Lack of proper incentives.

11. For Kareena — Financial Incentive — Co. partnership

For Katrina — Non-financial Incentive — Employee Recognition Program

Other Three Incentives —

Financial Incentive — Bonus Profit Sharing

Non-financial Incentive — Job Enrichment, good Organisational Climate



12. Be a patient listener
- Classify the ideas before communication.
- Ensure proper feedback
- Communicate according to the needs of receiver.
13. (i) Feedback — He listens ..... grievances.
- (ii) Motivation — He rewards ..... timely.
- (iii) Link between workers and management
- He insists ..... workers.
- (iv) Ensures issuing instructions.
- While scheduling ..... workers.

### Questions Based on Analysis, Evaluation and Creation

Read the following text and answer questions no. 1 to 4 from it.

Ravi M is the CEO of 'Great Hospitals' a leading chain of Hospitals in India. He alongwith his team of doctors work day & night since covid-19 pandemic hit India. He provide boarding and lodging facilities in hotels near to their work place to all his team members, He also involve them in decision making process in the issues related to them.

Ravi M decided to reward the good work of the doctors of his organisation during the peak of covid-19 pandemic. For this he instituted a 'Corona Warriors Trophy' to acknowledge and appreciate the tireless efforts of the doctors who rendered their services to the patients. Everyone appreciated Ravi M for his efforts as it will not only recognise the work done by the real front line corona warriors attitude among the employees towards organisation.

1. "Ravi M involve his team members in decision making process in the issues related to them."

Which incentive Ravi M provided to his team members?

- |                   |                 |
|-------------------|-----------------|
| (a) Status        | (b) Recognition |
| (c) Participation | (b) Security    |
2. 'Corona Warriors Trophy' to acknowledge and appreciate the efforts of the doctors is a part of which incentive to employees?
- |                            |                          |
|----------------------------|--------------------------|
| (a) Status                 | (b) Employee Recognition |
| (c) Employee Participation | (b) Career Advancement   |
3. "Ravi M help in inculcating positive attitude among the employees towards organisation".
- |                   |                |
|-------------------|----------------|
| (a) Supervision   | (b) Leadership |
| (c) Communication | (b) Motivation |
4. Identify the category of incentives given in the text.
- |                   |                   |
|-------------------|-------------------|
| (a) Non Financial | (b) Financial     |
| (c) Both A and B  | (b) None of these |

Ans. [1.C, 2.B, 3.D, 4.A]

Read the following text and answer questions no. 5 to 8 on the basis of text:

Ram, Rahim and Mary were close friends since their school times. All three of them were working as supervisors in different organisations. Recently they met after a long time. During their meeting, Ram said that he consults all his subordinates while framing work schedules and he also considers their suggestions. Rahim told that he himself decide about the work schedules for his subordinates and they simply follow the orders given to them. Mary disclosed that she is of different view from both of them. She gives complete freedom to her subordinates and they work themselves as per their own choice and competence.

5. “Ram said that he consults all his subordinates while framing work schedules and also consider their suggestions.”

Identify the leadership style of Ram

- |                   |                   |
|-------------------|-------------------|
| (a) Democratic    | (b) Autocratic    |
| (c) Laissez faire | (b) None of these |

6. “Rahim told that he himself decide about the work schedules for his subordinates and they simply follow the orders.”

Which leadership style is Rahim following?

- |                   |                   |
|-------------------|-------------------|
| (a) Democratic    | (b) Autocratic    |
| (c) Laissez faire | (b) None of these |

7. “Mary gives complete freedom to her subordinates and they work themselves as per their own choice and competence.”

Mary follows which style of leadership?

- |                   |                   |
|-------------------|-------------------|
| (a) Democratic    | (b) Autocratic    |
| (c) Laissez faire | (b) None of these |

8. The given text is about the different forms of an element of one of the functions of management.

Identify that function.

- |              |                |
|--------------|----------------|
| (a) Planning | (b) Organising |
| (c) Staffing | (b) Directing  |

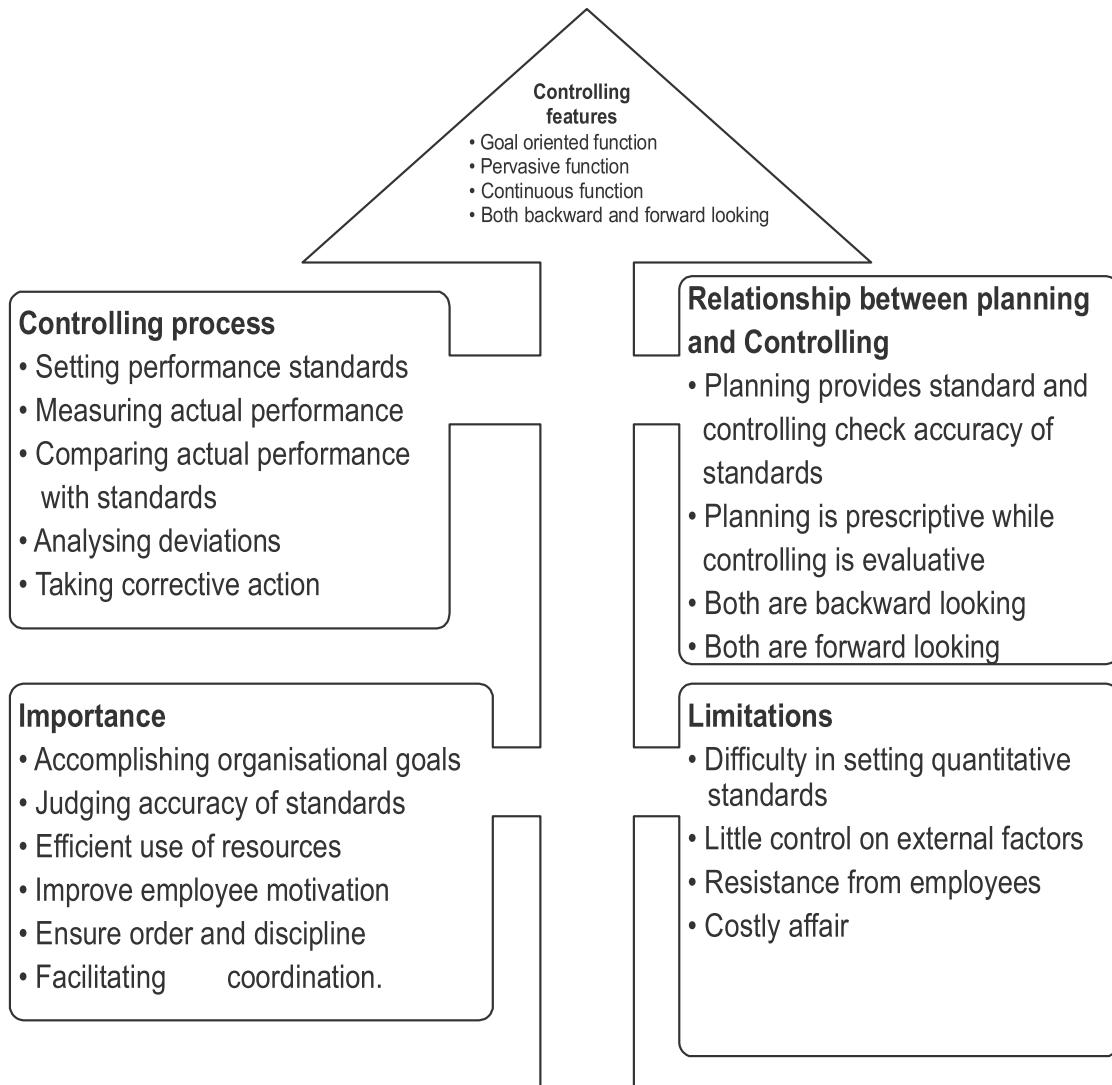
## QUESTIONS FOR PRACTICE

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- Q.1** In an organisation employees are free to approach anyone for minor queries and problems. This has resulted in inefficiency in the office and also leaked confidential information due to lack of secrecy. Which system of communication do you think the manager should adopt to improve communication. Give reasons in support of your answer.
- Q.2** The workers of Oye Ltd always try to show their inability when any extra or new work is given to them. Due to sudden rise in demand, the firm wants to meet excess orders. The supervisor is finding it difficult to cope up with the situation. Suggest ways for the supervisor to handle the problem.
- Q.3** At present apart from the basic pay and allowances as a part of compensation the employees and employers contribute 12% of basic wages each towards employees Provident Fund Scheme and employees pension fund scheme. A proposal to reduce the contribution by employers and employees to 10% of basic pay and dearness allowance was listed on the agenda for a recent meeting of employees Provident Fund Organisation held. The stakeholder expressed their reservations about it and they feel that it should be continued at 12%. Explain any two needs as suggested by Maslow's Theory, which will not be satisfied by the incentives discussed above.
- Q.4** Prateek is working in a multinational company in Noida. He was running temperature for the last many days. When his blood was tested, he was found positive for malaria. He was admitted in the hospital and a blood transfusion was advised by the doctors as his condition was very serious. One of his colleagues sent a text message to his superior 'Mr. B. Chatterjee'. Mr. B. Chatterjee, immediately sent a text message to the employees of the organisation requesting them to donate blood for Prateek. When the General Manager came to know about it he ordered for fumigation in the company premises and for cleaning the surroundings.
- (a) From the above para quote lines that indicate formal and informal communication.
- (b) State any two features of informal communication.

## CHAPTER – 8

# CONTROLLING



## Meaning & Definition

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

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

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

## Nature of Controlling/Features of Controlling

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

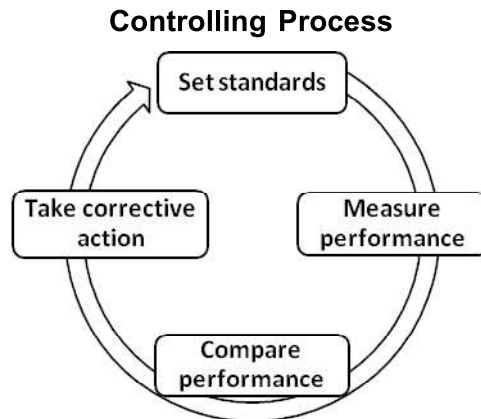
should never be viewed as being negative in character – as a hurdle in getting objectives won. Controlling is a managerial necessity and a help, not an impediment or a hindrance.

### **Importance of Controlling**

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

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

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



### Controlling Process

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

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

S – Simply Expressed

M – Measurable

A – Attainable

R – Reasonable

T – Time bounded

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



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

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

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

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

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

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

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

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

[Hint- Controlling Process]

### **Limitations of Controlling**

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

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

### **Relationship between Planning and Controlling**

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

1. **Planning is pre-requisite for controlling.** Plans provide the standard for controlling. If the standards as the first step in controlling process are not set in advance managers have nothing to control.
2. **Planning is meaningless without controlling.** It is fruitful when control is exercised. It discovers deviations and initiates corrective measures. Controlling ensures that work has been done according to planning.
3. Effectiveness of planning can be measured with the help of controlling.
4. **Planning and controlling both are forward looking:** Planning is a future oriented function as it involves looking in advance and making plans based on forecasts about future conditions.

Controlling is referred to as looking forward because the corrective action in controlling is taken to prevent the recurrence of the deviations in future.

5. **Planning and controlling are both looking back:** Planning is looking back because new planning is guided by the problem identified in the past. Controlling is looking back as it compares the actual past performance with standards. This involves scrutinising the events after they have taken place. Thus, planning and controlling cannot be separated. The two are supplementary functions which support each other for successful execution. Planning makes controlling effective whereas controlling improves future planning.

**I. Multiple Choice questions.**

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

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

**Answer :**

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

### True/False

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

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

**Answer :**

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

**Fill in the blanks with most appropriate word.**

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

- Answer :**

**Match the Following and select the most appropriate option.**

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## QUESTIONS FOR PRACTICE

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



**Q.5** Mr. Ankit is the chief manager in a well-known MNC, producing shoes. He called the production manager of his unit and told him to keep a constant watch on all the activities of his respective unit so that there is no possibility of adverse results. As long as the company runs its operation employees at all levels will adopt it to achieve results.

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

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

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

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

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

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

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

Clue 1: They are inseparable twins.

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

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

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

### Hints

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

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

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

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

#### **Key Terms to Crack Case-Studies**

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

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

## UNIT-3

### EVALUATION QUESTIONS

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

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

- (i) Name the functions of management practised by managers. (2)
- (ii) Which management function was totally ignored by the managers at different levels. What would be the benefits? Trilok Ltd. could get, by adopting this "MISSED FUNCTION". (3)

**Ans.** (i) Planning, Organising, Staffing, Controlling  
(ii) Directing (Any three benefits of directing)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1)

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

(3)

**Ans.** Hints

(i) Motivation

(ii) Controlling

(iv) First three steps of controlling

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

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

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

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

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

**Ans.** Hints:

(1) Informal Communication

(2) Remedial Action - repair/Replacement/overhauling

(3) Monetary Incentive

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

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

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

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

(ii) Critical Point Control Management by Exception

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

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

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

**Q8.** Production manager set the annual production target as -

“Huge amount of Production”.

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

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

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



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

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

(ii) Supervision, Motivation

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

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

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

**Hint-**

**(a)**

1. Staffing
2. Controlling

**(b)**

Estimating man power requirements

Comparing actual performance with standards

Finding deviations

### Questions Based on Analysis, Evaluation and Creation

Read the following text and answer questions no. 1 to 4 from it.

X Ltd was not performing well as it continuously failed to meet quality standard. It was decided It was decided by it's management to introduce TQM Programme to solve this problem. It was also decided that in marketing progress of work was to be measured on the basis of increase in market share and significant deviations which goes beyond the permissible limit were required to be brought to the notice of Mr. Sunil, who was the overall incharge of TQM programme.

To minimize the dishonest behaviour on the part of the employees a close check on their activities was started for which CCTVs were installed in the factory and office premises.

Mr. Pramod, the production manager was also allowed to undertake required steps to solve the problem of absolute machinery.

1. "Management introduce TQM programme to solve the problem".  
Which function of management is performed to solve the problem.  

(a) Planning	(b) Organising
(c) Controlling	(d) Directing
  
2. "Marketing progress was to be measured on the basis of increase in market share."  
Identify the step of one of the management function process of indicated here.  

(a) Performance Appraisal	(b) Setting objectives
(c) Developing Premises	(d) Measurement of performance
  
3. To solve the problem of obsolete machinery, what step production manager should undertake?  

(a) Repair the Machine	(b) Replace the Machine
(c) Upgradation of Machine	(d) Not to use Machine

4. In the above text an important principle of management control is discussed, identify that principle.

- |                            |                          |
|----------------------------|--------------------------|
| (a) Management by control  | (b) Control by exception |
| (c) Critical point control | (d) Budget Control       |

[Ans. 1.C, 2.D, 3.C, 4.B]

### **Additional Questions for Practice**

- Q.1** Ms. Geeta is the manager of Z Ltd. It was brought to her notice that postal expenses have increased by 15% while raw material cost of the firm increased by 5%. Which of the two according to you, is more critical for the firm which Ms. Geeta must pay attention? Give reason in support of your answer.
- Q.2** In the process of controlling actual performance is compared with standard performance to find deviations, which may be positive or negative. Suggest which of the two deviations i.e. positive or negative is bad for an organisation along with reason.
- Q.3** High Tech Machines was a renowned name for quality sewing machines since 1950. The owner of the company was worried as the production had declined during the last three months. He directed the production manager to find out the reason. The production Manager ordered the different supervisors to prepare a performance report of the workers working under them. What purpose performance report of the workers will serve? Explain
- Q.4** A.S. Ltd. is a large company engaged in assembly of air-conditioners. Recently the company had conducted the 'Time' and 'Motion' study and concluded that on an average a worker can assemble ten air-conditioners in a day. The target volume of the company in a day is assembling of 1,000 units of air-conditioner. The company is providing attractive allowances to reduce labour turnover and absenteeism. All the workers are happy, Even then the assembly of air-conditioners per day is 800 units only. To find out the reason the company compared actual performance of each worker and observed through C.C.T.V. that some of the workers were busy in gossiping.
- (a) Identify the function of management discussed above.
- (b) State those steps in the process of the function identified which are discussed in the above paragraph.

## CHAPTER – 9

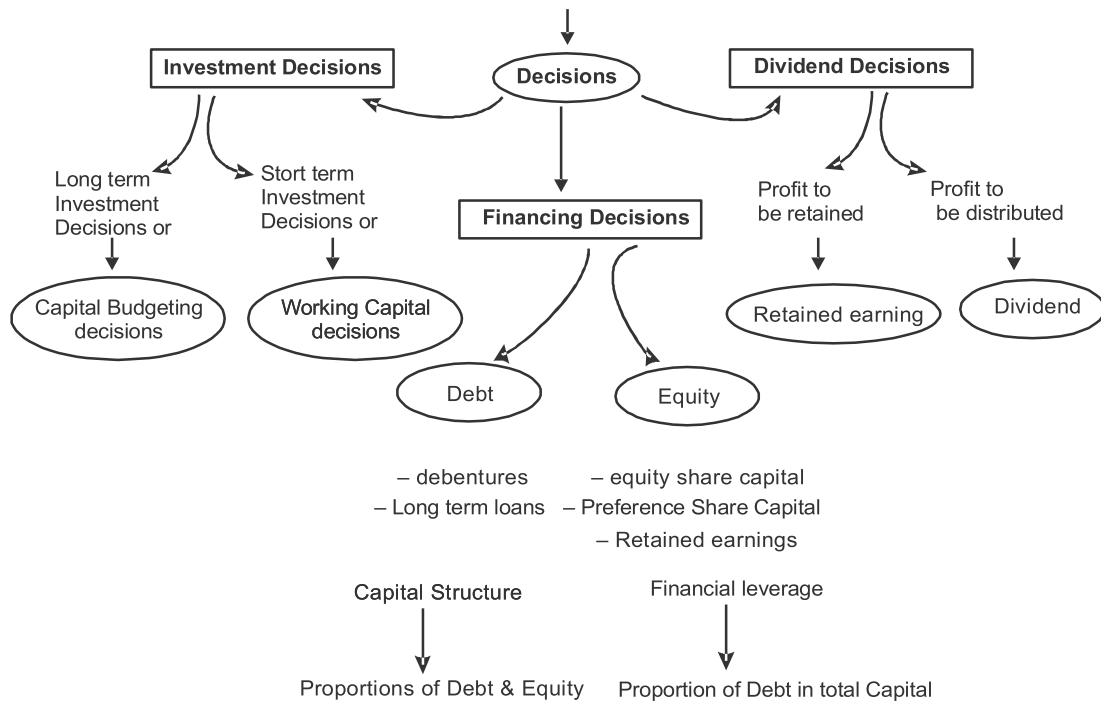
# FINANCIAL MANAGEMENT

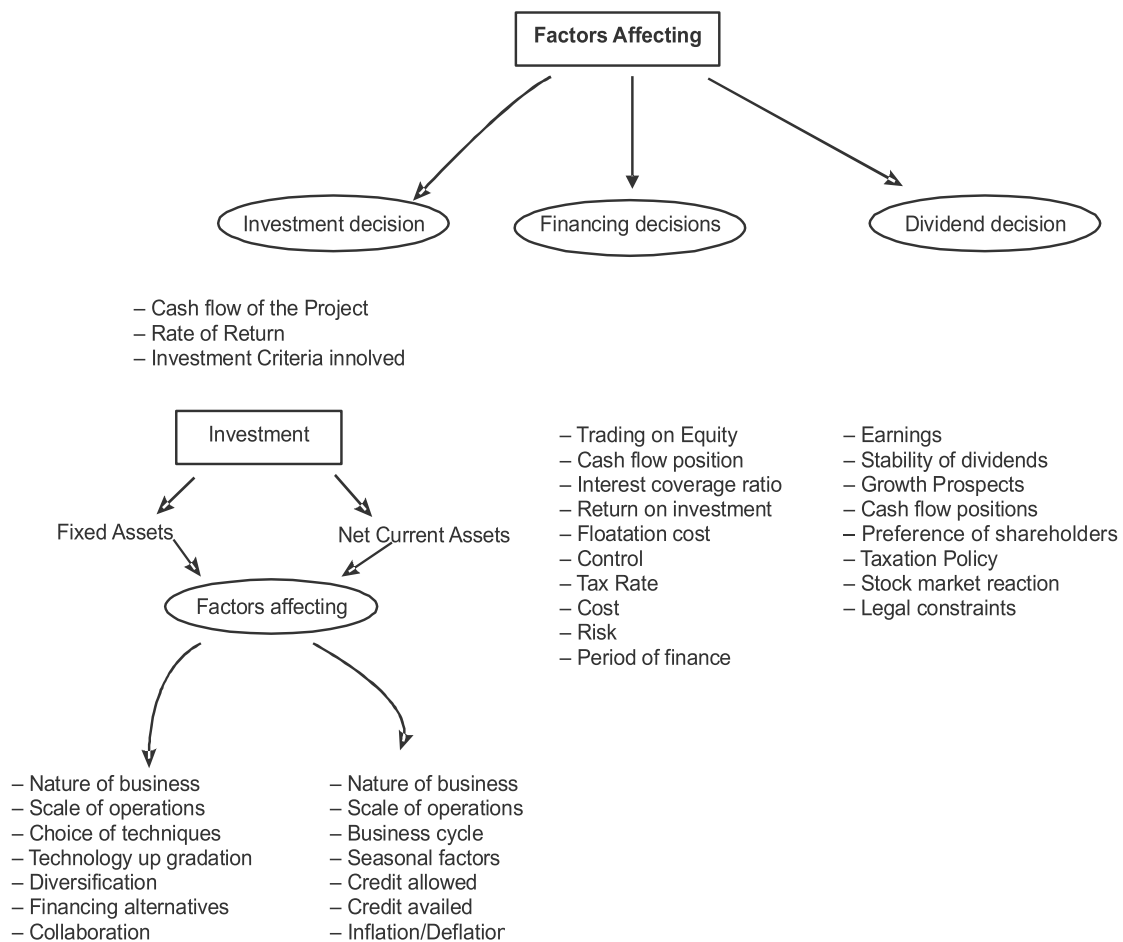
Objective: To Maximize Shareholders Wealth

### FINANCIAL MANAGEMENT

Financial Management is concerned with decisions relating to

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





## Introduction

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

## Meaning of Financial Management

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

## Objectives of Financial Management

### (A) Primary Objective:

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

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

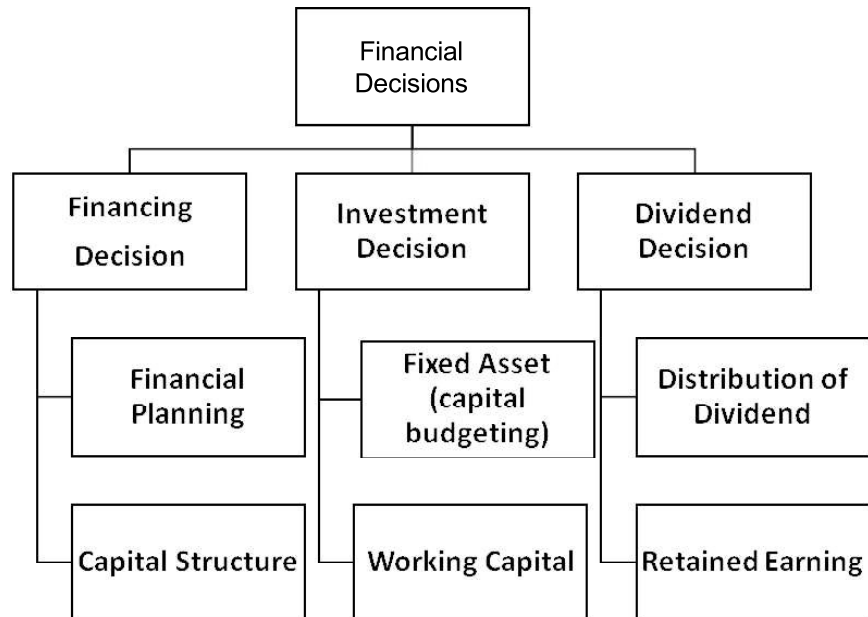
Wealth of shareholders = number of shares x market price per share.

### (B) Other objectives:

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

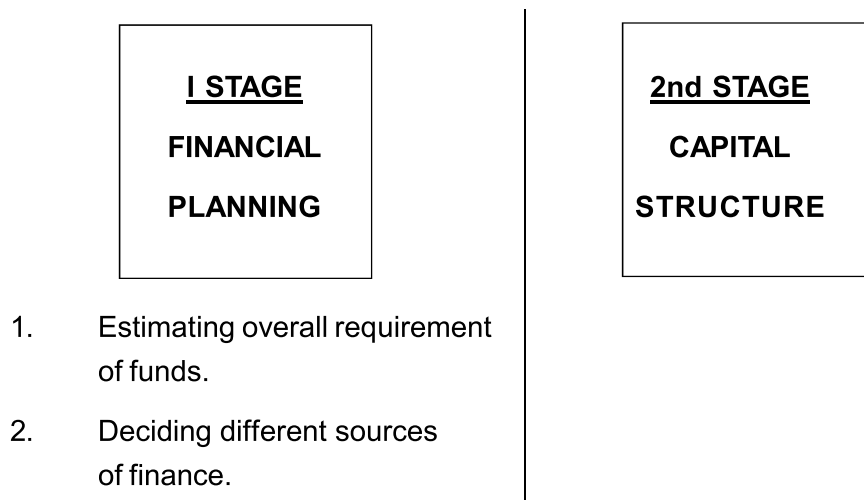
3. **To ensure safety of funds** : The chances of risk in investments should be minimum possible.

**Financial Decisions:**

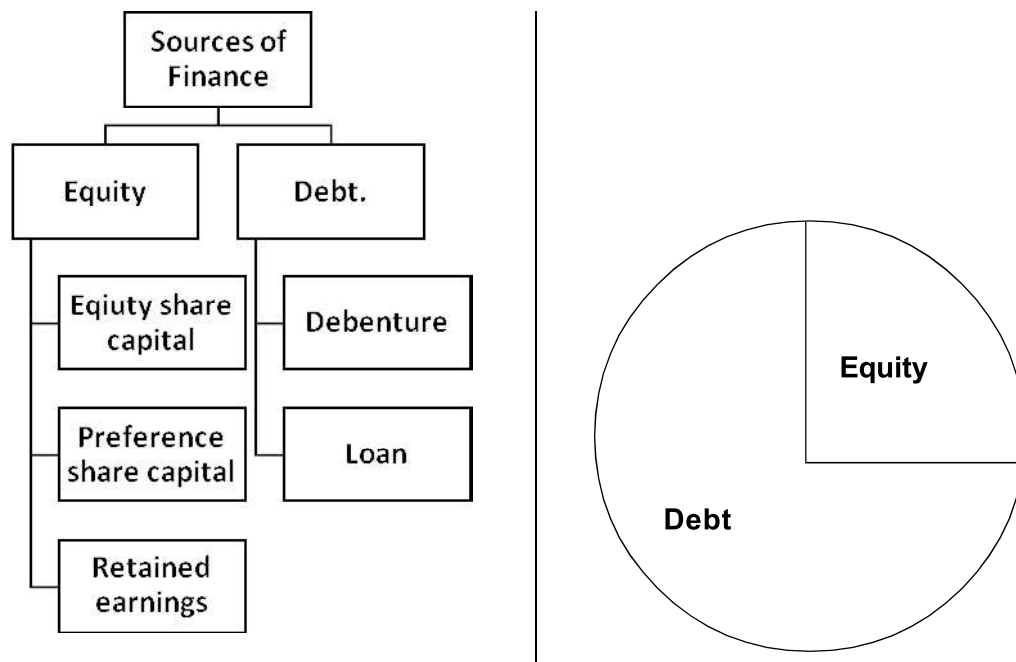


**FINANCING DECISION**

Decision is taken at two stages:







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

### **FIRST STAGE: FINANCIAL PLANNING**

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

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

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

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

### **Importance of Financial Planning**

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

### **SECOND STAGE: CAPITAL STRUCTURE**

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

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

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

### Factors affecting Capital structure or financing decision

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

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

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

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

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

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

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

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

[Hint: Debt/ Equity]

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

[Increase in risk will decrease use of debt]

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

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

(ii) Decrease in earnings.

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

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

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

(When capital structure has more debt than equity)

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

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

## INVESTMENT DECISION

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

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

### Factors affecting Investment Decisions

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

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

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

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

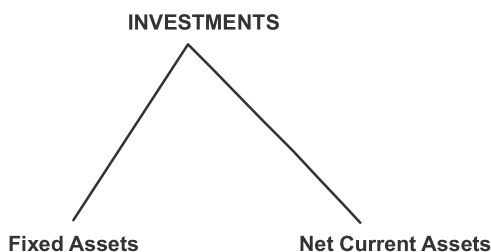
Details	NO.1	No.2	No.3
Rate of return =			
$\frac{\text{Total return during lifetime of investment}}{\text{Initial investment}} \times 100$	13%	24%	15%

**Investment Proposal No. 2 should be selected.**

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

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

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



### **Fixed Capital**

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

### **Factors Affecting Requirement of Fixed Capital**

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

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

### **Working Capital**

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

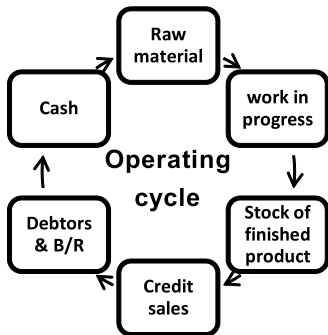


Networking Capital = Current Assets- Current Liabilities

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

**Factors affecting requirement of working capital:**

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

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

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

**Q.2** Name any two seasonal industries.

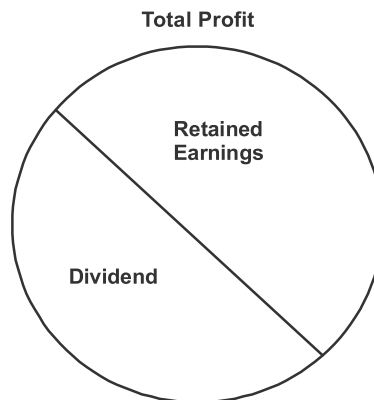
(Woolen industry, ice-cream industry) (1)

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

(Longer operating cycle require more working capital)

### Dividend Decision

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



### Factors affecting Dividend Decision

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

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

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

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

(Dividend decision)

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

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

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

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

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### **Key terms to Crack Case Studies**

#### **Financial Management**

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

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

## Multiple Choice Questions

### I. Match the following.

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

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

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

- (a) Rate of interest 9%

(b) Rate of interest 13%

**Which option is better. Give reason.**

**IV. Higher debt equity ratio results in**

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

- V.**
1. Fixed capital requirement is more (a) If production cycle is longer
  2. Fixed capital requirement is less (b) If credit is availed by the firm
  3. Working capital requirement is more (c) If it is trading concern
  - (d) Working capital requirement is less (d) If it is capital intensive concern

- |             |             |             |             |
|-------------|-------------|-------------|-------------|
| 1) 1. – (a) | 2) 1. – (b) | 3) 1. – (c) | 4) 1. – (d) |
| 2. – (b)    | 2. – (a)    | 2. – (d)    | 2. – (c)    |
| 3. – (c)    | 3. – (d)    | 3. – (b)    | 3. – (a)    |
| 4. – (d)    | 4. – (c)    | 4. – (a)    | 4. – (b)    |

**True/False, give reason in support of your answer.**

1. Companies with higher growth potential pay lower dividends.
2. An 'Advertising agency' needs to have large fixed capital.
3. Trading on equity takes place when ROI is less than the rate of interest.
4. Capital budgeting decisions are very crucial for any business.
5. If cash flow position of a company is weak more debt financing is not recommended.

**Fill in the blanks.**

1. Current assets get converted into cash within a period of \_\_\_\_\_.
2. Inflation will result in an increase in \_\_\_\_\_ capital requirements.
3. Objective of financial management is \_\_\_\_\_
4. An increase in debt raises \_\_\_\_\_ risk.
5. As the financial leverage increases, the cost \_\_\_\_\_ but risk \_\_\_\_\_.

## **Answers**

### **MCQ**

I. – 2,     II. – 1,     III – Option A,     IV. – c,     V. 4.

### **True/False**

1. True because it needs funds for expansion/growth of company.
2. False because it is a service Co. & need not maintain any inventory.
3. False because E.P.S. will be low. ROI should be more than rate of interest.
4. True because they are irreversible.
5. True. It will be difficult for a company to pay interest on time, hence more risk.

### **Fill in the blanks:**

1. 1 year
2. Working
3. maximisation of shareholders wealth
4. Financial
5. decreases, increases

## QUESTIONS FOR PRACTICE

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- Q.1** HCL Company's finance manager has decided to retain its entire profit to meet financial requirement for its growth. Name the type of decision involved.(Dividend) (1)
- Q.2** Tata sons has debt equity ratio of 4:1 and Bajaj has 1:1 debt equity ratio. Name the advantage, Tata sons may have over Bajaj.(Trading on equity (1)
- Q.3** Dabur India has decided to increase credit limit and duration of credit to its customers to boost its sales. Name the type of decision involved. (working capital) (1)
- Q.4** Bharti Ltd. is a leading mobile company. It is planning to acquire Queen Ltd's (its close competitor) business worth Rs. 1,000 crore. Which financial decision is involved in it? Explain it.(Investment) (3)
- Q.5** Chandra Ltd. is a manufacturer of Laptops. It made a profit of 1000 crores. The director have proposed a dividend of 38%. As a finance manager of the company. What factors would you consider while formulating a dividend policy of the company? (Any four) (4)
- Q.6** Pankaj is engaged in Warehousing Business. Identify the working capital requirements of Pankaj stating the reason in support of your answer. Pankaj is also planning to start his Transport business. Explain any two factors that will affect his fixed capital requirements. (2+2)
- Q.7** How is overall financial risk calculated? (1)
- Q.8** How does financial management help in maximisation of shareholders' wealth? (Taking right financial decisions) (1)
- Q.9** How does 'Trading on Equity' affect the Capital structure of a company? Explain with the help of a suitable example. (5)
- Q.10** "During annual general meeting of Prakash Ltd. CEO, Mr. Rajnesh put the expansion plan for the coming year before shareholders and asked for suitable



source of finance to finance manager. Finance manager Mr. Kant proposed issue of debentures than equity with a plan that they can be paid back whenever requirement of funds is over”

In the above paragraph, which component affecting financing decision has been highlighted? Explain the component. (Flexibility) (3)

- Q.11** Jai Bharat Company Ltd. is an auto part supplier company in Guru Gram, Haryana. Its business is spread over several cities. The CEO of company wants to open a factory in Gujrat near Tata Motors Ltd. but due to recession for the last two years, its business is facing slow down. Company needs capital. Rakesh Gupta is CA and financial advisor of the company. He opines that during recession profit falls and investors prefer to invest indebentures to earn fixed income. Therefore, the company should issue debentures.

In this paragraph, which factor affecting financing decision has been highlighted? Explain (State of capital market). (3)

- Q.12** How will increase in number of creditors affect the working capital requirements of a company? (1)

- Q.13** “Tax benefits are available only in case of payment of interest and not on the payment of preference dividend.” Why? (Interest is an expense while dividend is an appropriation) (1)

- Q.14** “Ranbaxy Ltd. has been earning handsome profits since last 15 years. Company enjoys fair goodwill in the market, so company can easily arrange debt as well equity from the market, whenever needed. Therefore company decided to declare dividend with a hike of 15% from, last year.”

Which two components affecting dividend decision have been highlighted in the above paragraph. (2+2)

(i. Stability of earning ii. Access to capital markets)

- Q.15** ‘REI Agro Food Ltd ‘is a famous multinational company. Mr. S.K.Nagi is its finance manager. He is making efforts to increase the market value of capital invested by the equity shareholders. He already knew it could be possible only when price of the shares increases and price of shares increase only if

**QUESTION BASED ON  
Analysis Evaluation and Creation**

Read the following text and answer question No 1-4 on the basis of the same:-

Drug Institute (DI) is an Indian biotechnology and pharmaceutical company. It is now the world's largest vaccines manufacturer by the number of doses produced which include polio vaccines and immuno biological vaccines such as Tetanus Toxoid, Diphtheria, Measles, Mumps, Rubella and Hepatitis-B.

DI has established the most modern laboratories with high-tech machinery and computerised equipment for the production and testing of its life saving biologicals. The production facilities are continuously upgraded to ensure compliance with CGMP regulations and have been accredited by the world health organisation, Geneva.

The drug maker has crossed many milestones in technological advancements and has the flexibility to produce vaccines in more than one plant. Thus facilitating production of large number of doses in the shortest time frame.

In the year 2020, the company partnered with an International drug maker for developing and producing safe and effective vaccine to fight coronavirus infection.

They invested \$200 million for producing several million doses of this vaccine and has imported several expensive manufacturing equipments to build its production capacity.

Their USP is simple– “High on volume and low on costs”.

1. “They invested \$200 million ..... production capacity”.  
Which decision is referred in the above statement? (1)  

(a) Financing decision	(b) Capital budgeting decision
(c) Dividend decision	(d) Working capital decision
2. The fixed and working capital requirement of the company referred in above case would be \_\_\_\_ (Loss/more). (1)
3. “In the year 2020 ..... fight coronavirus infection”. (1)  

(a) Growth prospects	(b) Financing alternatives
(c) Technological upgradations	(d) Level of collaboration

4. Factor affecting working capital requirements of Drug Institute not referred to in the above case is\_\_\_\_\_

(a) Scale of operations

(b) Production cycle

(c) Seasonal factors

(d) Nature of business

[Answer 1 (b), 2 (More), 3 (d), 4 (c)]

**QUESTION BASED ON  
Analysis Evaluation and Creation**

Read the following text and answer question No 1-4 on the basis of the same:-

Online ticketing platform Hook My Show an Indian startup caters to customers who want to attend everything from movies to plays to sporting events. Customers can purchase gift cards, receive offers based on bank patronage, and use the mobile app to buy their tickets.

After raising 60,00,000 in June 2014, the company has been growing yearly at 70% and operates in 2500 of the 10,000 screens across India. Having secured the ticketing rights to both the IP2 and Twenty 20 world cup, Hook My show is expanding quickly with a presence in the UAE and New Zealand this Indian startup is looking at internationalization more seriously now.

It had a share capital of 60,00,000 in 2014. The earning per share in the previous year was 20.50. For diversification it required additional capital of 40,000,00 the company raised funds by issuing 8% debentures for the same during the current year the company earned profit of 8,00,000 on capital employed. It paid tax @40% (Assume that the face value of a share is ₹10)

\*as interest paid on debentures is a tax deductible.

1. Identify the financial decision highlighted above. (1)  

(a) Capital budgeting decision	(b) Financing decision
(c) Dividend decision	(d) Working capital decision
2. State whether the shareholders gained or lost in respect of earning per share on diversification. (1)  

(a) Gain	(b) Loss
(c) No Gain, No loss	(d) None of the above
3. What is the reason for the gain/loss to the shareholders? (1)  
(a) The shareholders of the company lost in terms of EPS because EPS fell from ₹0.50 to ₹0.40 with the use of debt. It is because RoI of the company is less than the cost of debt.

- (b) The shareholders of the company gained in terms of EPS because EPS rose from ₹0.50 to ₹0.60 with the use of debt. It is because ROI of the company is more than the cost of debt.
  - (c) The shareholders of the company neither gained nor lost because EPS remained the same with the use of debt. It is because ROI of the company is equal to the cost of debt.
  - (d) None of the above
4. Identify the factor that favours the issue of debentures by the company as a part of its capital structure. (1)
- (a) Control
  - (b) Tax rate
  - (c) Cash Flow position
  - (d) Cost of debt.

[Answer 1 (b), 2 (b), 3 (a), 4 (b)]

**Q:-** Exee Ltd, is a company manufacturing steel utensils. Recently, due to increased awareness of consumers and their preference for by copper utensils for their health related benefits, the company has decided to start manufacturing copper utensils in Madhya Pradesh. Madhya Pradesh is the leading producer of copper concentrates in India.

Suggest, how the decision related to scale of operations and availability of raw materials can help Exee Ltd in ensuring less capital investment in working capital requirements.

**Q:-** Manpreet Brar is the Sarpanch (Head) of Gurdaspur district in Punjab. She is keen on employing the rural women of her village in some useful occupation as the female artisans of her district are highly skilled.

She has decided to collect small savings of local people and start manufacturing “Punjabi Juttis” and phulkaris which are famous all around the world Since, She has limited resources, she wants to make less investment in fixed capital.

Suggest how the decisions related to scale of operations and choice of techniques can help Manpreet Brar in ensuring a lesser investment in fixed capital.

## ADDITIONAL QUESTIONS FOR PRACTICE

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**Q:-** ‘Smart Stationery Ltd.’ wants to raise funds of ₹40,00,000 for its new project, The management is considering the following mix of debt and equity to raise this amount.

Capital structure	Alternative		
	I (₹)	II (₹)	III (₹)
Equity	40,00,000	30,00,000	10,00,000
Debt	0	10,00,000	30,00,000

Other details are as follows:

Interest Rate on Debt	9%
Face Value of Equity Shares	₹ 100 each
Tax Rate	30%
Earning Before Interest and Tax (EBIT)	₹ 8,00,000

(a) Under which of the three alternatives will the company be able to take advantage of Trading on Equity?

(b) Does Earning Per Share always rise with increase in debt? (4)

2. 'G. Motors' is the manufacturer of sophisticated cranes. The Production manager of the company, reported to the Chief Executive Officer, Ashish Jain that one of the machines used in manufacturing sophisticated cranes had to be replaced to compete in the market, as other competitors were using automatic machines for manufacturing cranes. After a detailed analysis, it was decided to purchase a new automatic machine having the latest technology. It was also decided to finance this machine through long term sources of finance, Ashish Jain compared various machines and decided to invest in the machine which would yield the maximum returns to its investors.

(a) Identify the financial decision taken by Ashish Jain.

(b) Explain any three factors affecting the decision identified in (a) above. (3)

3. Indian equity markets are going through a phase of boom. There is a huge growth potential for innovative technologies. This has resulted in lots of new ventures vying for a market share and old enterprises trying to keep up with the pace with which changes are taking place in the economy. This technological innovation has helped even smaller businesses to compete on a global scale.

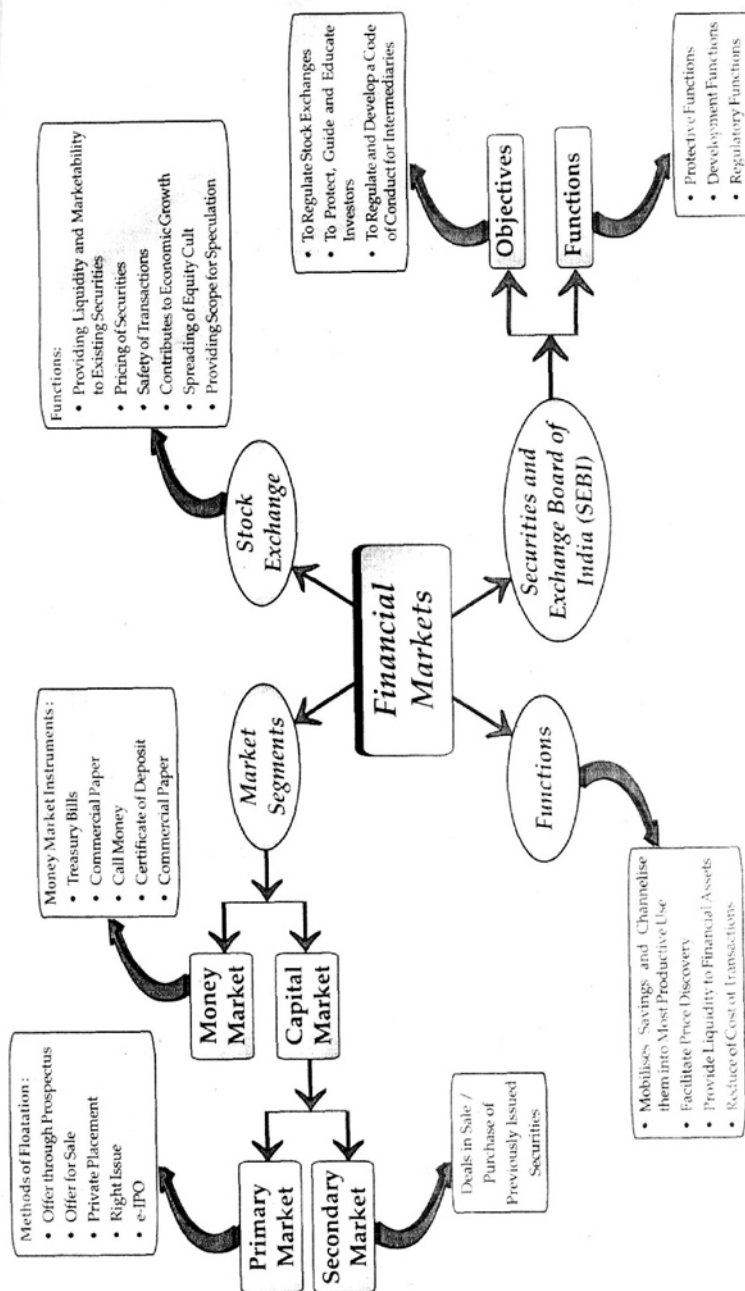
Identify and explain the three factors highlighted above which affect the working capital requirements of such enterprises. (3)

4. Koby Ltd. is an 87-year-old reputed consumer goods company. It is known for offering good quality electronic products at reasonable prices. It has branches all over India. It has a large shareholder base. The shareholders desire that some dividend is paid every year on their investments. Company's management understands that it is important to keep the shareholders happy and satisfied. As a matter of policy, they declare a certain amount of dividend every year out of profits rather than reinvesting the whole as retained earnings.

Identify the factor affecting dividend decision being highlighted in the above situation. (1)

## CHAPTER – 10

# FINANCIAL MARKETS





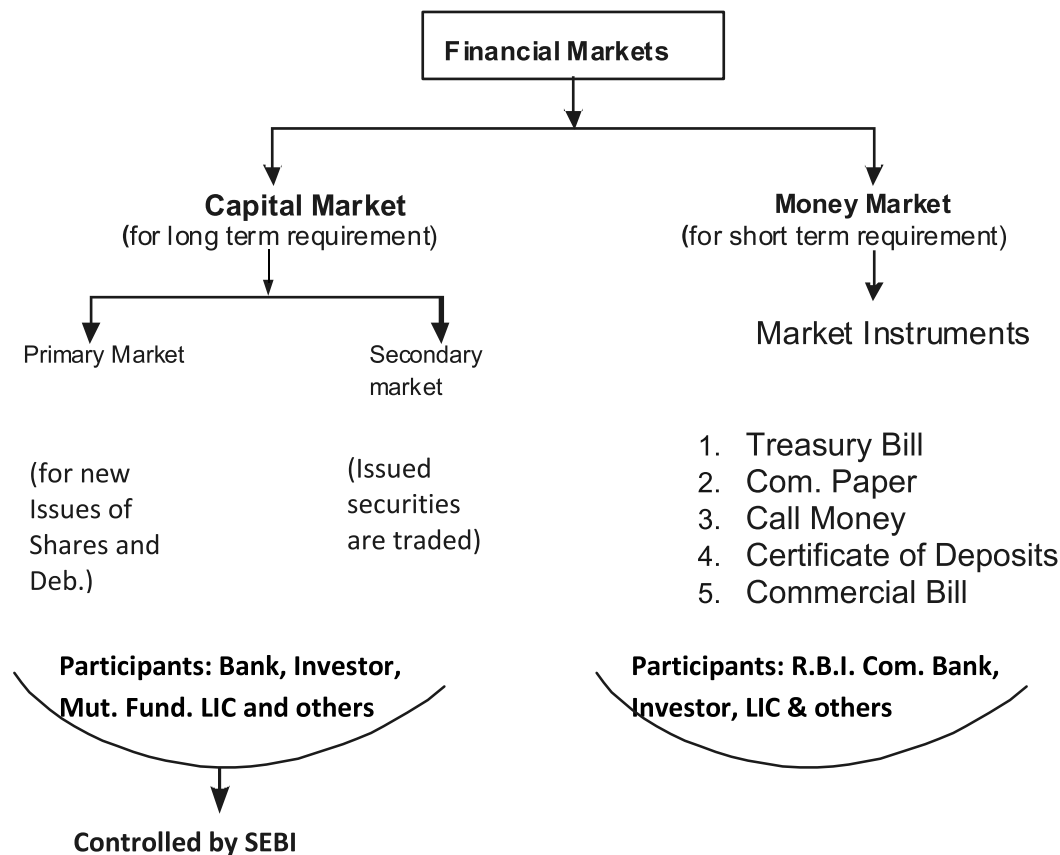
**Financial Market** is a market for creation and exchange of financial assets like shares, bonds etc. It helps in mobilising savings and channelizing them into the most productive uses. It helps to link the savers and the investors by mobilizing funds between them. The persons or institutions by which allocation of funds is done are called Financial Intermediaries. They bring together borrowers and lenders and make funds available to those willing to pay for their use,



### Functions of Financial Markets

1. **Mobilisation of Savings and channeling them into the most productive uses** : Financial market facilitates the transfer of savings from savers to investors and thus helps to channelize surplus funds into the most productive use.
2. **Helps in Price Determination** : Financial Market helps in interaction of savers and investors which in turn helps in the determination of prices of the financial assets such as shares, debentures etc.
3. **Provides Liquidity to Financial Assets** : Financial market facilitates easy purchase and sale of financial assets. Thus, it provides liquidity to them so that they can be easily converted into cash whenever required.
4. **Reduces the Cost of Transactions** : Financial market provides valuable information about securities which helps in saving time, efforts and money and thus it reduces cost of transactions.

## Types of Financial Markets



## Money Market

It is a market for short term funds/securities whose period of maturity is upto one year. The major participants in the money market are RBI, Commercial Banks, Non-Banking Finance Companies, State Government, Large Corporate Houses and Mutual Funds. The main instruments of money market are as follows:

1. **Treasury Bills:** They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. They are issued at a price which is lower than their face value and are repaid at par. They are available for a minimum amount of Rs. 25000 and in multiples thereof. They are also known as Zero Coupon Bonds. They are negotiable instruments i.e. they are freely transferable.

2. **Commercial Paper:** They are short term unsecured promissory notes issued by large credit worthy companies to raise short term funds at lower rates of interest than market rates. They are negotiable instruments transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.

This source is usually used for-

- (i) Working Capital requirements
  - (ii) Seasonal needs
  - (iii) Bridge financing
3. **Call Money:** It is short term finance repayable on demand, with a maturity period of one day to 15 days, used for interbank transactions. Call Money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio as per RBI. The interest rate paid on call money loans is known as the call rate.
4. **Certificate of Deposit:** It is an unsecured instrument issued in bearer form by Commercial Banks & Financial Institutions. They can be issued to individuals, Corporations and companies for raising money for a short period ranging from 91 days to one year.
5. **Commercial Bill:** It is a bill of exchange used to finance the working capital requirements of business firms. A seller of the goods draws the bill on the buyer when goods are sold on credit. When the bill is accepted by the buyer it becomes marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill maturity.

<b>Q.1</b>	List any two participants of money market.	(1)
	[Banks, LIC]	
<b>Q.2</b>	What is the minimum amount of Treasury bill?	(1)
	[₹ 25,000]	
<b>Q.3</b>	Who is borrower of call money?	(1)
	[Banks]	

<b>Q.4</b>	Which bearer certificate is issued by banks against the deposits kept by companies and institutions for short period? <b>[Hint: Certificate of deposits]</b>	(1)
<b>Q.5</b>	What is other name of Zero Coupon Bonds? <b>[Hint: Treasury bill]</b>	(1)
<b>Q.6</b>	What is near money? <b>[Hint: All short term securities]</b>	(1)

### Capital Market

It is a market for long term funds where debt and equity are traded. It consists of development banks, commercial banks and stock exchanges. The capital market can be divided into two parts:

#### 1. Primary Market

It deals with the new securities which are issued for the first time. It is also known as the New Issue Market. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals. It has no fixed geographical location and only buying of securities takes place in the primary market.

#### Methods of Floatation of New Issues in Primary Market

- 1. Offer through Prospectus/ Initial Public Offer :**It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.
- 2. Offer for Sale:** Under this method 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.

<b>Q.1</b>	Identify the method of floatation highlighted in each statement:	
a)	Offer the entire new issue to life insurance company. [Private placement]	(1)
b)	Issue a prospectus to invite public to apply for share. (IPO)	(1)
c)	Use on line system of stock exchange. (e-IPO)	(1)
d)	First ask existing shareholders to apply for new shares as it is compulsory requirement under companies Act. (Rights issue)	(1)
<b>Q.2</b>	What is prospectus?	
<b>Q.3</b>	Pranjal has 500 shares of L&T. L&T comes out with a fresh issue of shares and Pranjal received on offer to buy 1 share of L&T for every 5 shares held by her. Which method of floating new issue is indicated in this case? [Rights issue]	(3)

## 2. **Secondary Market**

It is also known as the stock market or stock exchange where purchase and sale of existing securities takes place. They are located at specified places and both the buying as well as selling of securities takes place.

### **Difference between Primary and Secondary Market**

<b>Basis</b>	<b>Primary Market</b>	<b>Secondary Market</b>
1. Securities	Only new securities are traded.	Existing securities are traded.
2. Price of securities	Prices of securities are determined by the management of the company.	Prices are determined by the forces of demand and supply of the securities.

3. Purchase and sale.	Securities are sold to investors directly by the company or through intermediary.	Investor exchange ownership of securities.
4. Place of market	There is no fixed geographical location.	Located at specified places.
5. Buying/selling	Only buying of securities takes place.	Both buying and selling of securities can take place.

**Q.1** Identify the markets highlighted in following statements:

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

**Q.2** Dinesh has 100 equity shares of a company. He wants to sell 500 of these shares. Which market should he approach? Write any three advantages of selling through such a market. (4)

[Hint: Secondary Market (any three advantages)]

**Q.3** Why are money market instruments more liquid as compared to capital market instruments? (3)

[Hint: Reliable participants and duration of investment is less]

### **Stock Exchange/Share Market**

A Stock Exchange is an institution which provides a platform for buying and selling of existing securities. It facilitates the exchange of a security i.e. share, debenture

etc. into money and vice versa. Following are some of the important functions of a Stock Exchange:-

1. **Providing liquidity and Marketability to Existing Securities** : Stock Exchange provides a ready and continuous market for the sale and purchase of securities.
2. **Pricing of Securities** : Stock Exchange helps in constant valuation of securities which provide instant information to both buyers and sellers and thus helps in pricing of securities which is based on the forces of demand & supply.
3. **Safety of Transaction** : The members of a stock exchange are well regulated, who are required to work within the legal framework. This ensures safety of transactions.
4. **Contributes to Economic Growth** : Stock exchange provides a platform by which savings get channelised into the most productive investment proposals, which leads to capital formation & economic growth.
5. **Spreading of Equity Culture** : Stock exchange helps in educating public about investments in securities which leads to spreading of Equity culture.
6. **Providing Scope for Speculation** : Stock exchange provides scope within the provisions of law for speculation in a restricted and controlled manner.

Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are famous stock exchanges in India.

#### **Trading and Settlement Procedure on a Stock Exchange**

1. **Selection of Broker:** In order to trade on a Stock Exchange first a broker is selected who should be a member of stock exchange as they can only trade on the stock exchange.
2. Opening Demat Account with Depository.
3. **Placing the order:**After selecting a broker, the investors specify the type and number of securities they want to buy or sell.
4. **Executing the order:**The broker will buy or sell the securities as per the instructions of the investor.

5. **Settlement:** Any trade taking place gets settled within 2 days of the trade date.

**Q. 1** The directors of a company want to modernise its plant and machinery by making a public issue of shares. They wish to approach the stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares. Advise the directors whether to approach the stock exchange or a consultant for new public issue of shares and why. Also advise them about different methods which the company may adopt for the new public issue of shares. (Ans. Consultant) **(3)**

**Difference between Capital and Money Market.**

S.No. Basis	Capital Market	Money Market
1. Participants	Financial Institutions, Banks, Corporate Entities, foreign investors and individuals	RBI, Banks, Financial Institutions & finance ecompanies
2. Instruments Traded	Equity shares, bonds, preference shares and debentures.	Treasury Bills, Tradebills, commercial paper, call money etc
3. Outlay Investment	Does not necessarily require a huge financial outlay.	Entail huge sums of money as the instruments are quite expensive.
4. Duration	Deals in medium & long-term securities having maturity period of over one year.	Deals in short term funds having maturity period upto one year.
5. Liquidity	Securities are less liquid as compared to money market securities.	Money market instruments are highly liquid.



6. Expected return	High return	Low return
7. Safety	Capital Market instruments are riskier both with respect to return and repayment.	Money market instruments are generally much safer with a minimum risk of default.

**Depository Services and DEMAT Accounts:** Keeping in the mind the difficulties to transfer of shares in physical form, SEBI has developed a new system in which trading in shares is made compulsory in electronic form. Depository services system and Demat Account are very basis of this system.

1. **Depository Services:** 'Depository is an institution/organization which holds securities (e.g. shares, debentures, bonds, mutual funds etc.) in electronic form, in which trading is done. The services provided by a Depository are termed as 'Depository Services'. At present there are two depositories in India: NSDL. (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.).

#### **Services provided by Depository**

- (i) Dematerialisation (usually known as demat) is converting physical certificates to electronic form.
- (ii) Rematerialisation, known as remat, is reverse of demat, i.e getting physical certificates from the electronic securities.
- (iii) Transfer of securities, change of beneficial ownership.
- (iv) Players in Online Trading: Settlement of trade is done on exchange connected to the Depository. Now a days on-line paper-less trading in shares of the company is compulsory in India. Depository services is the name of that mechanism. In this system transfer of ownership in shares take place by means of book entry without the physical delivery of shares. When an investor wants to deal in shares of any company he has to open a Demat account. There are four players who participate in this system.

1. **The Depository** : A depository is an institution which holds the securities of an investor in electronic form.
2. **The Depository Participant** : He opens the account of Investor and maintains securities records. Generally banks work as depository participant.
3. **The Investor** : He is the person who wants to deal in securities whose name is recorded.
4. **The Issuing Company**: That organisation which issues the securities. This issuing company sends a list of the shareholders to the depositories.

### **Benefits of Depository Services**

- Sale and Purchase of shares and stocks of any company on any stock Exchange.
- Saves time.
- Lower transaction costs
- Ease in trading.
- Transparency in transactions.
- No counterfeiting of security certificate
- Physical presence of investor is not required in stock exchange.
- Risk of mutilation and loss of security certificate is eliminated.

### **2. Demat Account**

Demat account is the abbreviation of 'Dematerialized Account'. Dematerialized account refers to an account which an Indian citizen must open with the depository participant (banks, stockbrokers) to trade in listed securities in electronic form wherein one can hold shares of various companies in the Dematerialized {electronic} form. Access to De-mat account requires an internet password and a transaction password. Transfer and purchase of

securities can then be initiated. Purchase and sale of securities on the Demat account are automatically made once transaction is confirmed and completed.

### **Opening of Demat Account**

A Demat account is opened on the same lines as that of a bank account. Prescribed account opening forms available with the DP, need to be filled in. Standard agreement is to be signed by the client and the DP, which details the rights and obligation of both parties. Along with the form, the client is required to attach photograph, attested copies of residence proof, PAN card number mandatory documents and proof of identity need to be submitted.

### **Benefits of Demat Account**

1. Reduces paper work.
2. Elimination of problems on transfer of shares such as loss, theft and delay.
3. Exemption of stamp duty when transfer of shares.
4. The concept of odd lot stand abolished.
5. Increase liquidity through speedy settlement.
6. Attract foreign investors and promotes foreign investment.
7. A single demat account can hold investments in both equity and debt instruments.
8. Traders can work from anywhere.
9. Automatic credit into demat account for shares arising out of bonus/split/consolidation/merger.
10. Immediate transfers of securities.
11. Change in address recorded with a DP gets registered with all companies in which investor holds securities, eliminating the need to correspond with each of them.

## **Securities and Exchange Board of India (SEBI)**

SEBI was established by Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was given a statutory status on 30 January 1992 through an ordinance which was later replaced by an Act of Parliament known as the SEBI Act, 1992. It seeks to protect the interest of investors in new and second hand securities.

### **Objectives of SEBI**

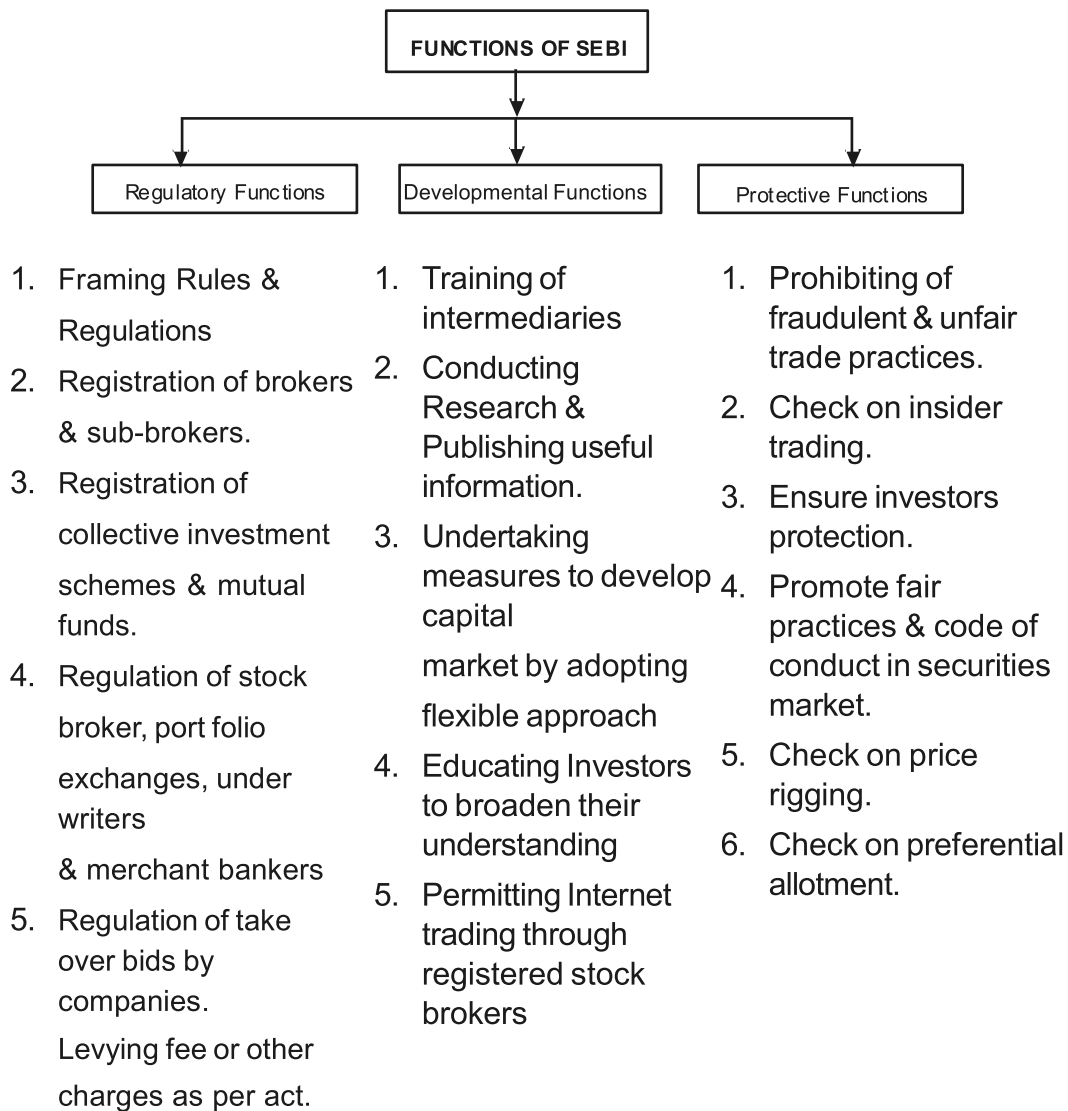
1. To regulate stock exchange and the securities market to promote their orderly functioning.
2. To protect the rights and interests of investors and to guide & educate them.
3. To prevent mal-practices in trade such as insider trading.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

### **Functions of SEBI**

The SEBI performs three important functions:-

1. **Regulatory functions:** These functions are performed by SEBI to regulate the business in stock Exchange.
2. **Developmental functions:** These functions are performed by SEBI to promote and develop activities in stock market.
3. **Protective functions:** These functions are performed by SEBI to protect the interest of investors and provide safety of investments.

## Functions of SEBI



- **Check on Price Rigging:** Making manipulations with sole objective of inflating or depressing the market price of securities is called 'Price Rigging'. Such practices are prohibited by law because they can defraud or cheat investors.

- **Check on Unfair Trade Practices:** SEBI does not allow the companies to make misleading statements in prospectus which are likely to induce the sale or purchase of securities by any other person.
- **Check on Insider Trading:** SEBI prohibits 'insider trading' and imposes penalties for such practices. An insider is any person connected with the company who is having price sensitive information (in respect of securities of the company), which is not available to the general public. Directors, promoters, etc. are the insiders. When such directors, promoters, etc. of the company use inside information to make individual profits, it is referred to as 'insider trading'.

<b>Q.1</b>	Name the organisation which has been established in India to regulate stock exchanges and to protect the rights and interest of investors. (SEBI)	(1)
<b>Q.2</b>	Expand the following-CDSL, NSDL, DEMAT	(3)
<b>Q.3</b>	Shabnam wants to invest her savings in share market. What is the base requirement for this? (DEMAT Account)	(1)
<b>Q.4</b>	Julie wants to get her share certificates in electronic form. What is the name of service provided by depository? (Dematerialisation)	(1)
<b>Q.5</b>	Bandhu Limited is a real estate company, which was formed in 1960. In about 55 years of its existence, the company has managed to carve out a niche for itself in this sector. In order to establish itself in India, the company decided to list its securities on BSE, in order to raise money through Indian market.  State the functions performed by SEBI that make investors comfortable and secured in dealing with Bandhu Ltd.  (Regulatory, Developmental and Protective Functions)	(3)

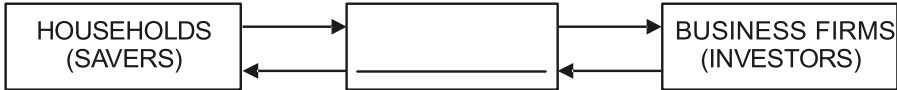
### **Key terms to Crack Case Studies**

1. New issue market — Primary market
2. Market for existing securities — Secondary market
3. Arrangement by which banks borrow from each other to be able to maintain the cash reserve ratio — Call money
4. Bridge financing — Commercial papers
5. Market for short term funds — Money market.
6. Market for medium term and long term funds — Capital market
7. Zero coupon bonds issued by RBI on behalf of Govt. of India — Treasury bills
8. Institution holding securities in electronic form — Depository
9. Holding securities in electronic form — Dematerialisation.
10. Watch dog of securities market — SEBI
11. Allotment of securities to institutional investors — Private Placement
12. Selling shares to investing public through intermediaries — Offer for sale.
13. Offering new shares to existing shareholders — Rights Issue
14. Unsecured instrument issued in bearer form by commercial banks and financial institutions during the time of tight liquidity — Certificate of deposit.
15. A person who accesses and uses the price sensitive information for his personal benefit — Insider Trading.

## Exercise

### I. Multiple choice questions.

1. Instruments with a maturity period of less than one year are traded in the .....  
(a) capital market (b) Bombay stock exchange  
(c) money market (d) National stock exchange

2.   
(a) Business (b) Customers  
(c) Government (d) Financial markets

3. Which of the following money market instruments are also known as zero coupon bond?  
(a) Treasury bills (b) Certificates of deposits  
(c) Commercial papers (d) Call money
4. Primary and secondary markets .....  
(a) Compete with each other  
(b) Complement each other  
(c) Function independently  
(d) Control each other.
5. Which of the following is not a function of SEBI?  
(a) Registration of brokers and sub-brokers  
(b) Undertaking measures to develop financial markets  
(c) Prohibition of insider trading  
(d) Holding securities in electronic form.
6. Hari has 200 shares of Reliance industries. Reliance comes out with a fresh issue of share and Hari received an offer to buy 1 more share of Reliance for every two shares held by him. Which type of issue is discussed here:  
(a) e-IPO's (b) Rights issue  
(c) Private placement (d) Offer for sale
7. .... is the full form of CDSL.  
(a) Central Depository Securities Ltd.  
(b) Control Delhi Services Ltd.  
(c) Central Deposit Services Ltd.  
(d) Central Depository Services Limited.



8. .... are the business hours of stock exchange
  - (a) 9:00 am to 4:00 pm
  - (b) 9:55 am to 3.30 pm
  - (c) 9.30 am to 3.30 pm
  - (d) 9.30 am to 4.30 pm
9. .... is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry.
  - (a) Dematerialisation
  - (b) Depository
  - (c) Demat account
  - (d) all of these.
10. In which year was the SEBI established by the Government of India?
  - (a) 1980
  - (b) 1988
  - (c) 1992
  - (d) 1993

**II. Fill in the blanks:**

1. Treasury bills are available for a minimum amount of ..... and in multiples there of.
2. .... is a market for the creation and exchange of financial assets.
3. .... is short term finance used for inter bank transactions.
4. .... is an institution which provides a platform for buying and selling of existing securities.
5. In India, there are ..... depositories.

**III. Match the following:**

- |                        |   |
|------------------------|---|
| (i) Offer for sale     | (a) Issue of capital to public through online system of stock exchange                |
| (ii) Private placement | (b) Privilege given to existing shareholders  |
| (iii) e-IPO's          | (c) Issue of securities through intermediaries like issuing houses                    |
| (iv) Rights issue      | (d) Allotment of securities to institutional investors and some selected individuals. |

**IV. State giving reasons. Whether the following statements are True/False**

1. Conducting inspections and inquiries is a developmental function of SEBI.
2. T+3 basis, settlement period is followed in Indian stock exchanges.
3. Mobilising savings and channelising them into most productive uses is

called allocative function.

4. Money market instruments are less liquid as compared to capital market securities.
5. Commercial papers have a maturity period of 30 days to one year.

### ANSWER KEY

#### I. Multiple choice questions.

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

#### II. Fill in the blanks:

- |                   |                     |               |
|-------------------|---------------------|---------------|
| 1. 25,000         | 2. Financial market | 3. Call money |
| 4. Stock exchange | 5. two (2)          |               |

#### III. Match the following:

- |          |          |          |          |
|----------|----------|----------|----------|
| 1. – (c) | 2. – (d) | 3. – (a) | 4. – (b) |
|----------|----------|----------|----------|

#### IV. State giving reasons. Whether the following statements are True/False

1. False: It is regulatory function of SEBI.
2. False: T+2, settlement period is followed in Indian stock exchange.
3. True: They facilitate transfer of savings from savers to investors.
4. False: Capital market securities are less liquid.
5. False: The maturity period is from 15 days to one year.

## QUESTIONS FOR PRACTICE

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- 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 flotation.(offer for sale) (1)
- Q2.** 'Primary market contributes to capital formation directly. Whereas secondary markets do so indirectly'. Explain? (2)
- Q3.** Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares. (5)
- Q4.** Charu is a chartered accountant in Prakash Ltd. During the course of meeting with directors she came to know that as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share-market jumps up. Considering it, Charu purchased large number of company's shares before this news reached the public.
- (1) Identify type of malpractice used by Charu. (1)
- (2) Name the authority which regulates such behaviour. Write any three other functions of this authority. (4)
- Q5.** A company wants to set up a new branch in Chennai. For additional capital company is planning to issue equity shares to public as there is boom period in capital market and public will prefer to invest in shares.
- While analysing the issue, finance manager found that floatation costs of the issue would be high and company is already in liquidity crunch. Company deemed it proper to depend on money market instruments for about six months.
- (i) Identify the method of flotation of capital, mentioned above.(IPO) (1)
- (ii) Besides above shares issue method, mention two other methods. (2)
- (iii) Use of what kind of instrument will be appropriate for the money market.

Clarify.(commercial papers)

(2)

- Q.6** Name the institution which is a body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating and controlling the business of buying and selling or dealing in securities. Explain any of its three functions.
- Q.7** The Director of Pico Limited decided to declare bonus issue of equity shares to the shareholders in its Annual General Meeting. Immediately one of the Directors purchases 20,000 shares from market @ ₹ 30 per share and sold them @ ₹ 100 share as bonus issue was declared and made capital gain from it.
- (a) Name the practice used by the Director taking the benefits of internal information. (Insider Trading) (1)
- (b) How does SEBI prohibit such practices? (2)
- Q.8** Name the financial instrument which may be used in the following situations:
- (a) A company needs funds to meet floatation cost in order to issue equity shares in the market.
- (b) The instrument that is issued during the period of tight liquidity when the deposit growth of bank is slow but demand for credit is high.
- (c) These are also known as zero coupon bonds and are issued by RBI on the behalf of central government.
- (d) It is used by one bank having surplus funds to meet the funds requirements of another bank facing shortage of funds. (4)
- Q.9** Kajal has 1000 equity shares of a company. She wants to sell 500 of these shares. Which market should she approach? Give reason in support of your answer. (1)
- Q.10** Jain Ltd. has sold 1 lakh equity shares of ₹ 10 each at ₹ 12 per share to an investment banker, who offered them to the public at ₹ 20 each. Identify the method of floatation. (1)

### QUESTION BASED ON Analysis Evaluation and Creation

Read the following text and answer questions no 1 to 4 on the basis of the same:-

Fast foodies is India's fastest growing quick service restaurant chains. It is the second largest fast food burger brand having 216 restaurants and 8 sub franchised restaurants.

It has an exclusive unit to establish develop and operate fast food restaurant in India. It aims to cater to the Indian tastes and preferences through adding new food offering to its product portfolio.

Fast foodies came up with IPO (Initial Public Offer) on December 02, 2020. It offered equity shares as follows:-

Face Value	-	₹10 per equity shares
IPO Price	-	₹59 to 60 per equity share
Listing at	-	BSE, NSE
Issue size	-	135,000,000 eq shares of ₹10
Fresh issue	-	75,000,000 eq shares of ₹10
Offer for sale	-	60,000,000 eq shares of ₹10

Fast food issued prospectus containing information mandated by SEBI. Link in Time India was the registrar of Fast foodies IPO. Investors who had applied for shares in the IPO could check the share allocation status on the website of Link Intime India. The investors could apply for its IPO by making payment through UPI.

1. Fast foodies offered shares to public in \_\_\_\_\_ (1)  
(a) Money market (b) Primary market  
(c) Registrar (d) SEBI
2. Under e-IPO method of floating new issue, the company appointed \_\_\_\_\_ the issue having electronic connectivity with the stock exchange. (1)  
(a) Broker (b) Registrar  
(c) Sub-broker (d) Underwriter

3. Identify the method of floatation of new issue, not used by fast foodies (1)
- (a) Offer for sale (b) Private placement
- (c) E-IPO (d) Offer through prospectus
4. Full form of IPO is “Indian Public Offer” True/ False\_\_\_\_\_ (1)

**QUESTION BASED ON  
Analysis Evaluation and Creation**

Read the following text and answer questions no 1 to 4 on the basis of the same:-

SEBI established in 1988 by the Government of India was given statutory powers by passing SEBI Act, 1992. the main purpose of setting up SEBI was to safeguard the rights and interests of the investors, reduce malpractices and promote healthy functioning of stock exchange.

Securities and Exchange Board of India (SEBI) in January 2007, imposed a fine of Rs 25 crores on Zelmanus Industries and Rs 15 crore on its chairman, Mansukh Lalwani, for manipulating shares of Zelmanus energy Ltd. (ZEL) in November 2007.

The issue relates to manipulation during the sale and purchase of Zelmanus energy Ltd. shares in cash in November 2007. The market regulator with a view of safeguarding interests of investors found that Mr. Mansukh was the managing director of ZEL and was responsible for the manipulative activities of ZEL.

“Another major breakthrough in the chain of capital market reforms SEBI has introduced new pledging rules for brokers and investors”. The new reforms will bring in some key changes to the existing system by making laws more stringent.

1. SEBI Act was passed in 1988. True/False\_\_\_\_\_ (1)
2. Which function of SEBI is/are discussed in the above case? (1)  
(a) Protective function (b) Development function  
(c) Regulatory function (d) both (a) and (c)
3. “The market regulator ..... activities of ZEL”  
which function of SEBI is highlighted from the above statement. (1)  
(a) Protective function (b) Development function  
(c) Regulatory function (d) both (a) and (c)
4. Another major breakthrough ..... more stringent”.  
These new rules have affected players in the market.  
(a) Underwriters (b) Mutual funds  
(c) Brokers (d) Merchant bankers

Q1. 'Snacko Ltd' is a company engaged in production of potato chips since 1992. Over this period a large number of competitors have entered the market and are putting a tough challenge to Snacko Ltd. its consumers have shifted their preferences to baked or oil free chips instead of fried chips. To face this challenge and to increase its market share the company has decided to purchase new machinery with an estimated cost of 75 crores. To raise the finance the company decided to issue 7% preference shares. The finance department of the company has estimated that the cost of issuing the 7% preference shares will be 10,00,000. The company wants to meet its floatation costs.

Suggest with reason, which instruments of financial market should the company use to meet its floatation costs.

Q2. Nitin Desai, the CEO of 'Texus Ltd' and Amit Kumar the finance Manager were discussing about the avenues of investing the idle funds of the company. Nitin Desai was of the opinion that money should be invested in the capital market whereas Amit Kumar, being more conservative felt that it would be better if the investment was made in the money market since the economy was buoyant the CEO tried to convince Amit that they should take advantage of it and invest the idle funds in the capital market.

(i) Suggest, giving reason, which part of financial market is expected to give a better return in a buoyant economy

(ii) Also suggest what kind of instruments should the company buy?

(iii) Why and how safe are the securities in capital market as compared to the money market.



### ADDITIONAL QUESTIONS FOR PRACTICE

1. Nayar is working as a P.G.T. Commerce in a CBSE affiliated school of Kerala. One day he was teaching about capital market in the class. He informed the class that during 1980's the capital market in India witnessed a tremendous growth because of increasing participation of the public. This ever increasing investors' population and market capitalisation led, to a variety of malpractices on the part of the companies, brokers, merchant bankers, investment consultants and others involved in the securities market. These malpractices and unfair trading practices eroded investors' confidence and multiplied investors' grievances. The Government of India and the stock exchanges were helpless in redressing the investors' problems because of lack of proper penalty provisions in the existing legislation. In view of this the Government of India decided to set up a regulatory body.

(a) Name the regulatory body which the Government of India decided to set up.

(b) Also state any three objectives of the regulatory body identified in part (a) above. (4)

2. Stock exchange acts as a regulator of the securities market. It creates a continuous market where the securities are bought and sold. It gives investors - the chance, to disinvest and reinvest. Through this process of disinvestment and reinvestment, savings get channelized into their, most productive investment avenues. To ensure; that the investing public gets a safe and fair deal in the market, the membership of the stock exchange is well regulated and its dealings are well defined according to the existing- legal framework. It also ensures wider share of ownership by regulating new issues, better trading' practices, and taking effective steps in educating the public -about investments.

Various functions performed by the Stock Exchange are discussed in, the 'above' para. By quoting lines from the above para, state any four functions of stock exchange. (4)

3. Financial market is a market for creation and exchange of financial assets, It helps to link the savers with the investors and directs available funds into their most productive investment opportunity. It also facilitates easy purchase and sale of financial assets through the stock exchange. The stock exchange not only facilitates buying and selling of existing securities but also educates public about how their investments in the financial market can yield good returns.

(a) State two functions performed by financial market in the above case.

(b) Explain two more functions of the stock exchange, other than those stated in the above case

## UNIT 4

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### EVALUATION QUESTIONS

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

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

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

(a) Financing decision, Investment decision (b) Primary market.

**Q.2** Managing director of a company was reviewing the newly designed capital structure of company which was framed by Finance Manager. He found that debt component was less than equity. Company was earning good return with sound and stable earnings since last 12 years. MD discussed with Finance Manager, that by having comparative less debt component, earning per share have reduced.

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

(ii) In which market, will the New debentures be issued by company. Write any two features of such market. (1) Trading on Equity (2) Primary market)

**(1+1)**

**Q.3** SABU Ltd. is facing liquidity crunch. Working capital is in shortage and it is finding difficult to pay the suppliers in time. Credit period which is allowed by

suppliers is two months. Finance Manager is of the opinion that for at least three months, company will not have sufficient funds to pay off creditors. Although, it has good financial reputation in market.

- (i) Which short-term financial instrument company should use? (1)
- (ii) In which market short-term financial instruments are issued? (1)
- (iii) Explain any three factors affecting requirement of working capital? (3)

[(i) Commercial Paper

(ii) Money market]

**Q.4** GETO Ltd. is a company that produces school bags. Now it wants to produce water bottles also. For such diversification it needs additional capital of Rs. 50 crores, So company decided to float capital by way of equity shares issue to the general public as it is boom period in market. But company's cash position is not favourable. In order to arrange working capital, company wants to use some money market instruments. It will help in meeting floatation costs.

- (i) Identify the method of floatation of capital as mentioned in the above paragraph. (1)
- (ii) Besides above share issue method, mention two other methods. (2)
- (iii) Which money market instruments will be appropriate? Clarify. (3)

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

(ii) — Offer for sale, private placement

— Commercial Paper - used for bridge financing (explanation)

**Q.5** A student asked teacher - "How can a company arrange for fixed capital which is to be used in long - term projects?"

*Teacher explained as*

"If company wants to have funds, it can issue shares directly to public or it can sell the whole issue to intermediaries. After subscribing the shares,

shareholders are not bound to keep it with them. They can sell it in the market and get them encased.

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

(Primary market, secondary market)

**Q.6** In 2nd five year plan, "Industrialisation" was the "Main Focus". But the major problem was saving and Investment-Household used to invest in GOLD & Property only. Government had to take initiative for establishing Infrastructure and other basic industries. With pace of economic development, small savings were promoted by establishing an organised market. This market is regulated by SEBI and has attributed a lot in economic development.

(i) Identify the market. (1)

(ii) Name two functions of this market. (2)

(iii) (i) Secondary market

(ii) Promoting Savings, Economic development.

**Q.7** XYZ Ltd. invited public to subscribe for equity shares of Rs. 100 each. Before the issue MD of the company had a deal with foreign company to amalgamate just after this issue. MD did not disclose this important fact in prospectus. It was highly objected, later by shareholders. Concerned Regulating Authority took action and MD was punished and penalised as per regulations.

(i) Identify the kind of capital market referred above. (1)

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

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

**Ans.** (Hints) (i) Primary Market

(ii) Securities Exchange board of India

(iii) To call for information.

- having fee or other charges.

- Training of intermediaries or (Any other)

**Q.8** Avantika and Aanchal are close friends. They did their MBA together and got good placement from college campus as finance manager and production manager respectively in highly reputed companies.

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

- good rate of return.
- Low pay back period.
- less cost & Good pollution control technology.

On the other hand, Aanchal put the workers for production for more hours of work. She did not listen to the workers suggestions and grievances. She did not pay any incentive for good performance.

- (i) Name two financial decisions mentioned in para 2. (2)
- (ii) Quote the factors from above. Which affect the decision to purchase, fixed assets. (Any Two) (2)

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

- (ii) Rate of Return, Payback period.

**Q.9** Talco Ltd. is launching a new range of snacks which are 100% Fat free. Keeping in mind, the health conscious segment of market, company produced these cholesterol free snacks. For financing the production of snacks, company issued 10% debentures. Company was already burdened with fixed cost of salaries, Rent and 8% debentures interest.

- (i) In which market, were the debentures issued? (1)
- (ii) Do you think, issue of debentures was a wise choice Y/N. Justify your answer. (1+2)

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

- (Hints)
- (i) Primary Market
  - (ii) No Company was already burdened with fixed cost.

(iii) - Shares (Equity or Preference)

- Retained Earnings.

**Q.10** Ravi was a trader dealing in woolen garments. His business flourished and he maintained a good reserve of retained earnings. Ravi expanded his business and started production of “shawls”. Operating cycle period of shawls was quite long as Ravi made a policy for “Credit allowed” of four months to attract more customers. He was able to produce a good number of shawls with good quality and hand work.

(i) Name the market, through which working capital needs are satisfied.

(1)

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

(2)

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

(3)

[(i) Money Market, (ii) As a trader less, as a producer-more]

**Q.11** State Electricity Board under the ownership of state government was privatized in 2001. The company allotted securities to some selected individuals and institutions as this was a faster way of raising funds in public issue without any need for issuing a formal prospect. The company has since then been in operation for 15 years as a private sector company. The company has shown remarkable growth as indicated by rise in revenues, operating profit, profit after tax, resulting into maximisation of wealth of its shareholders. It has increased its assets base by buying fixed assets. As a private sector company, it has paid dividends in accordance with the policies stated in its articles.

a) Identify and explain, by quoting the lines, the decisions taken by the management in achievement of objectives of financial management after privatisation.

b) Identify the method of floatation opted by the State Electricity Board.

c) How has the company maximised the wealth of its shareholders?

**Hint:**

- a) 1. "The Company allotted.....Formal prospectus.  
Financing Decision
2. "It has increased.....fixed assets."  
Investment decision
3. "As a private sector.....articles."  
Dividend Decision
- b) Private placement
- c) By taking balanced finance decision i.e. Financing, Investment and Dividend decision as indicated by- rise in revenue, operating profit.

**Q.12** The Trading procedure on Stock Exchange has been replaced by online screen based electronic trading system. This is mainly done to eliminate problems like theft, fake forged transfers, transfer delays and paper work associated with share certificates or debentures in physical form. This is a process where securities held by the investor in the physical form are cancelled and the investor is given an electronic entry or number so that he/she can hold it in an electronic balance in an account. This has increased the equity cult among the people.

- a) Identify and state the process mentioned above. (1)
- b) What is the most important requirement for the process identified in(a)? State. (1)

[(a) Dematerialisation (b) DEMAT account (c) Transparency, efficiency]

**Q.13** Sakshi Ltd, a well known real estate company has managed to carve a niche for itself in this sector. Recently, it was revealed that the directors of the company have used price sensitive information for their own personal interest Adequate public disclosures were also not made. SEBI is considering action against these directors

Name the term used for trading malpractice done by the directors of this company.



**Ans.** Insider trading

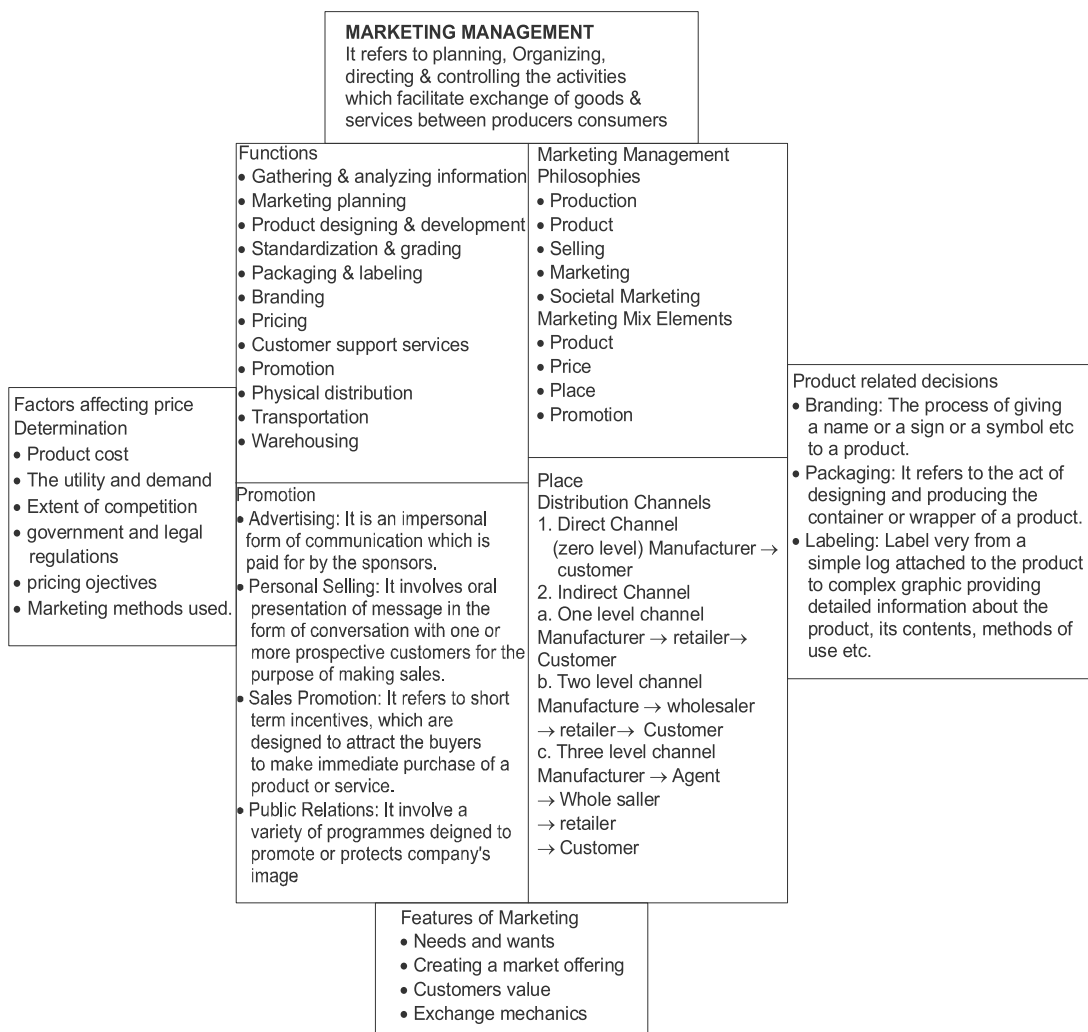
**Q.14** Bombay Stock Exchange was established in 1815 and was Asia's first stock exchange. About 6000 companies are listed on this exchange. Where investors purchase and sell their securities as shares, debentures and bonds. Price of the securities is determined by forces of demand and supply. The members of exchange are called brokers. They provide safe and fair deal to their customers. The Sensex launched in 1986 is made of 30 companies and represents 13 sectors of the economy. The change in Sensex saw the growth of economy. Explain the functions of Stock Exchange, highlighted above (3)

**Ans. Hints**

- (1) Platform for purchases and sale of securities
- (2) Price Discovery
- (3) Economic Growth

## CHAPTER – 11

# MARKETING MANAGEMENT



**Market:** It refers to a place where the buyers and sellers meet and conduct buying and selling activities. In the traditional sense, the market means a place where buyers and sellers gather to enter into transaction involving the exchange of goods and services but today business can be conducted on telephone, through mail, internet etc. In modern marketing sense the term market has a broad meaning. It refers to a set of actual and potential buyers of a product or service.

**Marketer or Seller:** If a customer is the seeker of satisfaction the marketer is the provider of satisfaction. Marketer can be a person or an organisation who makes available the products or services and offers them to the customer with an intention of satisfying the customer needs and wants.

### **Marketing**

Marketing is a social process whereby people exchange goods & service for money or for something of value to them. Anything that is of value to the other can be marketed e.g.

- |                      |                                  |
|----------------------|----------------------------------|
| 1. Physical Products | - T.V., Mobile phone etc.        |
| 2. Services          | - Insurance, education etc.      |
| 3. Person            | - Selection for different posts. |
| 4. Place-visit       | - Agra, Taj Mahal, etc.          |
| 5. Events            | - Fashion show, Films Festivals  |

### **Important Features of Marketing**

#### **1. Needs and wants:**

Need: A state of felt deprivation or feeling of being deprived of something.

Want: Culturally defined object that is potential satisfier of need.

Marketer's Job: Identify needs and fulfil them.

2. **Creating a market offering** : Complete offer for a product of service.
3. **Customer value** : greatest benefit or value for the money.
4. **Exchange mechanism** : Exchange of products/services for money/for something of value to them.

**Q1.** Name the social process by which individuals and groups obtain what they need and want through creating offers.

### **Meaning and concept of Marketing Management**

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

Thus, marketing management process involves:

1. **Choosing a target market:** e.g., a manufacturer may choose to make ready-made garments upto the age of 5 years for children.
2. **Creating demand and attracting more customers in target market** : To increase the number of customers by analysing their needs, wants etc.
3. **Creating superior value:** To make the product better than competitors products for customers.

### **Meaning and Concept of Marketing and Selling**

Marketing is a wide term. It refers to a large set of activities of which selling is just one part. A marketer before making the sale does a lot of other activities such as Gathering and analysing market information and doing market planning, design of the product, the price and selecting the distribution outlets at which the same would be available.

**Selling:** Refers to the sale of goods or service through publicity, promotion and salesmanship. The title of the product is transferred from seller to buyer. The entire focus in selling is to convert the products into cash.

### **Difference between Selling & Marketing**

<b>Basis</b>	<b>Selling</b>	<b>Marketing</b>
1. Scope	It is only a part of process of marketing.	It is a wide term consisting of a number of activities such as identification, customers need etc.
2. Focus	Transfer of the title from seller to consumer.	Achieving maximum satisfaction of customer's needs and wants.
3. Pre-dominance	Product is given priority	Customer is treated as the king
4. Aim	Profits through sales volume	Profits through customer satisfaction.
5. Emphasis	Bending the customer according to the product.	To develop the products as per the customers' needs.
6. Strategies	Promotion and persuasion.	Integrated marketing efforts.

### **Marketing Management Philosophies**

1. **Production concept:**Emphasis on Quantity  
Focus: Availability and Affordability.
2. **Product Concept:**Emphasis on Quality  
Focus: Continuously improving quality, incorporating new factors, product improvement.
3. **Sales Concept:** Emphasis on Sales volume  
Focus: Attracting and persuading customers, aggressive promotional techniques.
4. **Marketing Concept:**Identify a need and satisfying.  
Focus: Customer satisfaction

<b>5. Societal Marketing Concept:</b> Extension of marketing concept i.e. customer satisfaction with welfare of the society  Consider social, ethical and ecological aspects of marketing.  <b>Differences in the Marketing Management Philosophies</b>					
Philosophies/ Bases	Production Concept	Product Concept	Selling Concept	Marketing Concept	Societal Concept
1. Starting Point	Factory	Factory	Factory	Market	Market Society
2. Main Focus	Quantity of product	Quality, performance, features of product	Existing Product	Customer need	Customer needs and society's well being
3. Means	Availability and affordability of product	Product improvements	Selling and promotion	Integrated marketing	Integrated marketing
4. Ends	Profit through volume of production	Profit through product quality	Profit through sales volume	Profit through customer satisfaction	Profit through customer satisfaction and society welfare

**Q.1** Raman, Joginder, John, Iqbal and Shreya are friends. They are operating different business. Each one has his/her own concept regarding operating their business.

Raman believes in producing products at a large scale. Thereby decreasing the average cost of the products and selling it at a reasonable price.

Joginder focuses on providing best quality products because he believes that a customer always wishes to buy a good quality product. The price of the product is secondary, John is of the belief that most important aspect of business is sales and so he undertakes aggressive selling & promotional effort.

Iqbal believes that his firm can achieve its goals only by identifying the needs of the customer & satisfying them better than the competitors.

Shreya on the other hand feels that her firm has a responsibility towards the society as well. So she provides customer satisfaction along with using techniques which are environmental friendly.

- a) What are the Marketing concepts followed by each of them?
- b) Raman's concept is successful for him because he is into manufacturing & selling iodised salt under the brand 'Healthy salt, this product has a ready market and vast consumer base, also the products is standardised so he can focus on production at a large to cut down the cost per unit. Write any business which can be successfully run by the others using their concepts.

(Joginder-, John-, Iqbal-, Shreya )

### Functions of Marketing/Marketing activities

1. **Marketing research :** Gathering and analyzing marketing information i.e. what the customers want to buy, when they are likely to buy, in what quantities do they buy, from where do they buy etc.
2. **Marketing planning:** Specific plan for increasing the level of production, promotion of the products etc. and specify the action programmes to achieve these objectives.
3. **Product designing and development:** Marketer must take decision like, what-product, which model/size?, brand name?, Packaging?, quality level? So that Customer needs are satisfied
4. **Standardisation and Grading:** Standardisation refers to producing goods of predetermined specifications which help in uniformity and consistency. It reduces the need of inspection, testing and evaluating the products.  
  
Grading refers to the process of classifying the products into different groups. Grading is done for goods which cannot be produced according to predetermined specifications i.e. agricultural products.
5. **Packaging/Labelling:** designing the package for the product and put label on the package.

6. **Branding:** Creating a distinct identity of the product from that of competitors e.g. Videocon washing machine, Usha Fans, Lux Soap etc.
7. **Pricing of products:** setting pricing objectives, determining pricing strategies, price level etc.
8. **Customer support service:** After sales services.
9. **Promotion:** Informing the customer about the product and persuading the customer to buy the product.
10. **Physical distribution:** Decision regarding channels of distribution and physical movement of products.
11. **Transportation:** Physical movement of goods.
12. **Storage and Warehousing:** Necessary to maintain smooth flow of production and supply.

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

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

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

(1)

### Marketing mix

A set of marketing tools used by a firm to pursue its marketing objectives in a target market. Product, Price, Place and Promotion are the important elements of marketing mix which are popularly known as Four P's of marketing.

### Elements of Marketing Mix

#### I - PRODUCT MIX

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

**Product mix** refers to a combination of various features relating to the product or service like quality, size, range, package, warranty etc.

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



1. **Branding-** Giving a name/a sign; a symbol etc. to a product eg.:

Pepsi.



Nike:



## BRANDING

### Distinct Identification of a Product

Brand



Brand Name



Brand Mark



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

### Qualities of a Good Brand Name

1. **Simple and Short** : A brand name should be simple and short as Tata, Bata
2. **Easily Pronounceable** : A brand names should be easily pronounceable as Lux, Dalda.
3. **Suggestive** : Brand name should be self explanatory, suggesting the inherent quality of the product as Ujjala suggests more whiteness.
4. **Distinctive**: Brand name should be so distinctive that it highlights itself in the group of other brand names such as : Tide, Perk.

### Advantages of Branding

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

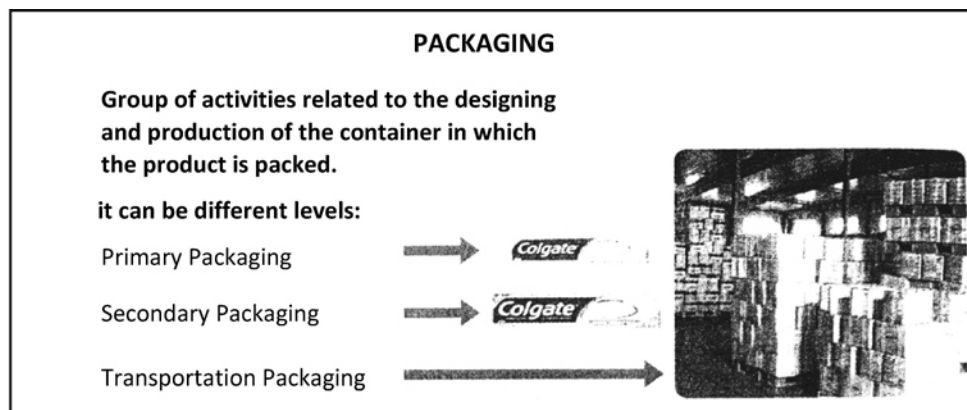
**Q.1** You have come up with a brand name 'Yummy Yummy' for your noodles brand. What qualities do you think are associated with it?

**Q2.** State the advantage of registering 'trade mark'.

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

### Levels of Packaging

1. **Primary Package** : refers to the product's immediate container e.g. toffee in a wrapper, a match box.
2. **Secondary Package**: refers to additional layers of protection that are kept till the product is ready for use e.g. a Colgate toothpaste usually comes in a card board box.
3. **Transportation Package**: refers to further packaging components necessary for storage, identification and transportation e.g. package of toffees are put into corrugated boxes for storing at a manufacturer's warehouse and for transportation.



### Functions of Packaging

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

4. **Product Promotion:** Packaging simplifies the work of sales promotion.

### Advantages of Packaging

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

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

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

### Labels perform following functions:

1. Identify the product: - It helps the customers to identify the product from the various types available. For example: We can easily identify a Cadbury chocolate from the various chocolates by purple colour of its label.
2. Describe the product and specify its contents: The manufacturer prints all the information related to the product.



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



4. Helps in promotion of products :- Attractive and colourful labels excite the customers and induce them to buy the products. For example :- 40% extra free mentioned on detergent etc.
5. Providing information required by law :- There is legal compulsion to print batch no., contents, max retail price, weight/volume on all the products and statutory warning on the packet of cigarettes, "Smoking is injurious to health": In case of hazardous/poisonous material appropriate safety warnings need to be put.

**Q1.** 'An important task in the marketing of goods relates to designing the label as it provides useful and detailed information about the products'. In the light of this statement, draw a label for "Tea" and highlight the important information to be provided on it. (3)

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

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

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

## II. PRICE MIX

**Meaning and concept of Price:** Price may be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service. Pricing is crucial for manufacturers, customers and intermediaries. A customer will buy a product only when he perceives that value of a product is at least equal to value of money, which he has to pay in the form of price. Before framing any pricing policy following factors should be considered:

### 1. Pricing Objectives

- (a) to maximise profits in the short term-tend to charge maximum price.
- (b) Obtain large share of the market i.e., by maximising sales it will charge lower price.
- (c) Firm is operating in the competitive market it may charge low price for it.

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

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

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

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

**Q.** ABC Ltd. is introducing a new car in the market. Which factors shall it consider while pricing the car?

## III. Place Mix/Physical Distribution Mix

Covers all the activities required to physically move goods from manufacturers to the customers Important activities include:-

### 1. Order Processing : Accurate & speedy order processing leads to profit & goodwill & vice versa.

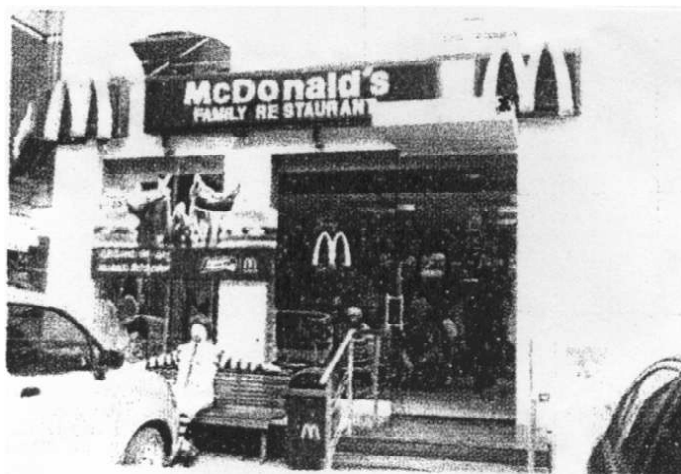
2. **Transportation** : Add value of the goods by moving them to the place where they are required.
3. **Inventory control** : Additional demand can be met in less time, the need for inventory will also be low.
4. **Ware housing** : Need arises to fill the gap between the time when the product is produced & time when it is required for consumption.

### **Channels of Distribution**

**Direct Channel** — Manufacturer-Customer (Zero level)

**Indirect Channel** —

1. Manufacturer-Retailer-Customer. (One level)
2. Manufacture-wholesaler-Retailer-customer. (Two level)
3. Manufacture ! Agent ! Wholesaler ! Retailer ! Customer (Three Level)



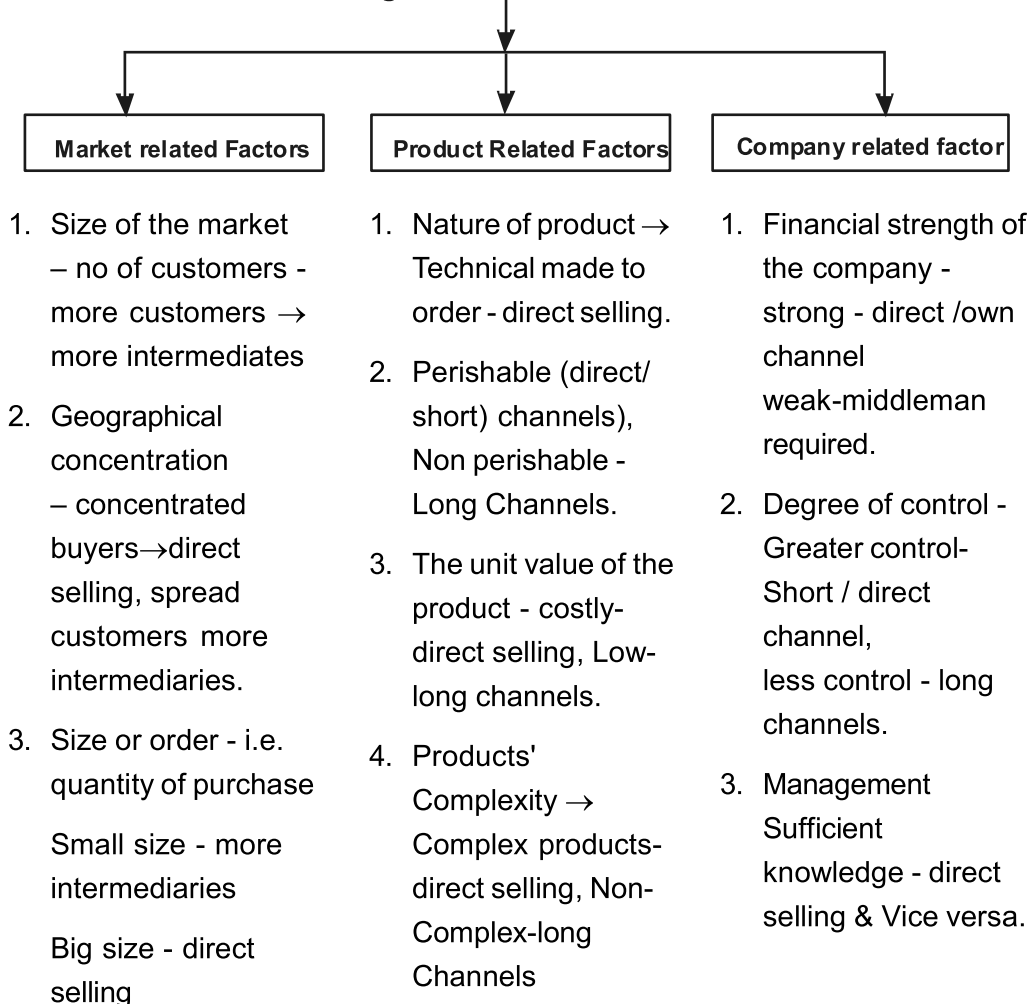
Direct Channel

### **Factors Determining Choice of Channels of Distribution**

**(Not is Syllabus for 2019-20)**

Choice of appropriate channel of distribution is a very important marketing decision, which affects the performance of an organisation. Whether the firm will adopt direct marketing channels or long channels involving a no. of intermediaries is a strategic decision.

### Factors Determining Choice of Channels of Distribution



**Q.** Anandi, a budding entrepreneur wishes to operate a business of Flowers. Since they are perishable in nature, she plans to open a flower shop so that she can directly sell them to the customers. Being a small venture, the number of consumers is also less. So she decides that the direct channel of distribution is better. Her friend, Rajeev is a manufacturer of gift. Items. He is confused regarding the level of channel he should follow. Can you guide him regarding the problem? Give points for support of yours answer.

(3)

#### IV. Promotion Mix

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

##### Elements of Promotion Mix



##### Tools/Elements of Promotion Mix

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

##### Role or Importance of Advertising

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

**Objections against Advertising :** Though advertising is one of the most frequently used medium of promotion of goods & services but it attracts a lot of criticism/objections against it, which are as follows: **(Not is Syllabus for 2019-20)**

1. **Increased Product Price :** Advertising cost is ultimately added to product cost, manufacturers pass this cost to ultimate customers.



2. **Confusion to Customers** : The number of advertisements shown for a single product having different brands confuse the customers and it becomes very difficult for them to make choice.
3. **Encouraging sale of Inferior Products** : In many cases some product features are over emphasized, which way leads to sale of even inferior products.
4. **Advertisement of Bad Tastes** : Events, models degrade the human dignity by means of advertisement.
5. **Undermines Social Values and Promotes Materialism**: It induces the customers to buy more and more products. Because of emphasis on materialism, social relationships are distorted which brings social disorder.

In the changed economic environment of globalisation, advertising is considered as an important tool of marketing. It helps a firm in effectively communicating with its target market, increasing the sale and thereby reducing the per unit cost of production. It is not a social waste rather it adds value to the social cause by giving a boost to production and generating employment.

- Q.1** You have an advertising agency. A manufacturer of consumer product like Soap, Tooth Paste has come to you to help him in promotion of his products. Convince him how advertising can assist in giving boost to his sales?
- Q.2** You are participating in a school debate on the topic 'Role of advertising for the business & society, you have to speak against the topic i.e., on negative fallouts/objections against advertising. Support your topic point wise.
- Q.3** A commercial unit uses rocks, trees, electric poles, historical monuments and walls to advertise its products. Which faults of the company does this advertising policy show?

## 2. **Personal Selling**

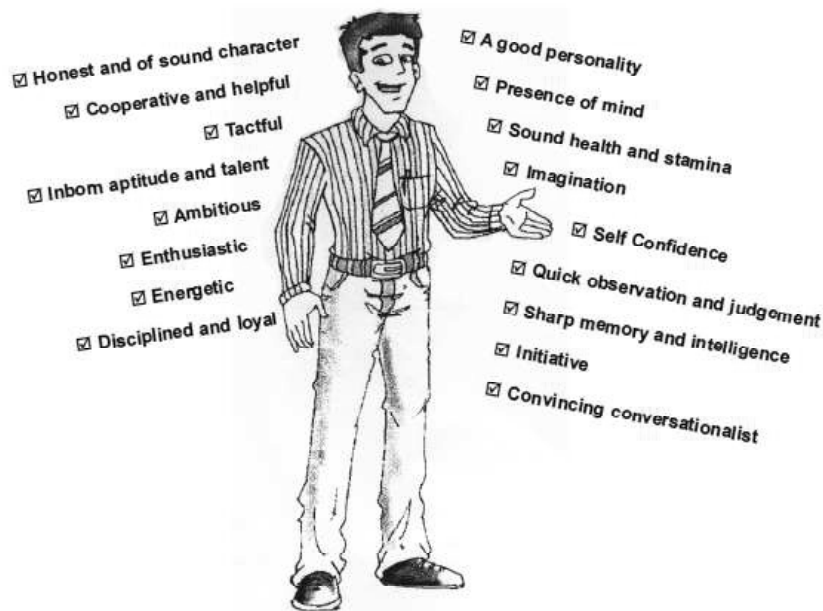
Personal selling consists of contacting prospective buyers of product personally i.e face to face interaction between seller and buyer for the purpose of sale.

### **Features of the Personal Selling**

1. Personal contact is established under personal selling.

2. Oral conversation.
3. Quick solution of queries.
4. Receipt of additional information.
5. Development of relationship with the prospective customers which may become important in making sale.

### Qualities of a Good Salesperson



### Qualities of a Good Salesman

(Not is Syllabus for 2019-20)

1. **Physical Qualities** : Physical qualities include personality health, stamina and tolerance. A salesman can instantly connect with the customers if he is good looking and smart.
2. **Mental Qualities** : These include mainly skills, mental alertness, imagination and self confidence.
3. **Technical Qualities** : He should have full and updated knowledge about the product he is selling-Its features, price and variety available. He should be aware of the nature of work carried on by the firm, he is working for.

4. **Good communication skills** : He should be able to develop a good conversation with the customer. He should be confident while he is communicating and should be able to answer all the queries of the customer satisfactorily.
  5. **Honesty** : It is a very important quality of a good salesman. In order to establish the goodwill of firm he must be honest and sincere in performing his duty. A salesman who resorts to selling inferior goods, charging higher rates, providing wrong information, giving exaggerated claims etc. will cause a decline in goodwill of the firm in the long run.
  6. **Courtesy** : A Salesman who is polite and courteous generates buyer's confidence selling product becomes easy for him.
  7. **Persistent** : "Never give up", is the spirit that a salesman should have. Making the customer buy maximum amount of a product is the ultimate task given to him.
  8. **Capacity to inspire trust** : The salesman should have the convincing power to develop the belief in a customer that the product he is buying is the best product in the market.
- Q.1** Sanjay is a salesman at Croma Store, an electronic goods initiative. He has been awarded 'Employee of the year'. What qualities do you think he must be having to receive the award?
- Q.2** Every organisation desires that it should have goodwill in the minds of all concerned. To establish goodwill, it is essential to have dialogue. It is by way of dialogue that an organisation gets the necessary information. How is it possible?
3. **Sales Promotion**  
Short term incentives designed to encourage the buyers to make immediate purchase of a product/service.



#### Techniques:

(Not is Syllabus for 2021-22)

1. **Rebate** : Special price to clear off excess inventory.
2. **Discounts** : Price reduced to induce buyers to buy more.
3. **Sampling** : Free sample of a product to customers to try product & learn about it.
4. **Lucky draw** : Lucky draw coupon e.g. purchase an easy product & win a car etc.
5. **Full Finance @ 0%** Easy financing schemes.
6. **Contests** : Competitive events involving application of skills or luck.
7. **Product Combination** : Offering another product as gift along with the purchase of a product.
8. **Instant draws and assigned gift** : Scratch a card and instantly win a prize with the purchase of a TV, T. Shirt, Refrigerator etc.
9. **Quantity Gift** : Offering extra quantity of the product e.g., Buy three LUX soaps and get one free.

10. **Refunds:** Refunding a part of price paid by customer on some proof of purchase.

11. **Usable benefit:** Purchase goods worth ₹ 5000 and get two movies tickets.

**Q.1** Which techniques of sales promotion is being referred to in the below given points:

(i) Free sample of shampoo pouch with a fairness cream.

(ii) Upto 50% off on most items.

(iii) Tooth brush free with Tooth paste.

(iv) Buy 3 packs of 1 litre juice and get another free.

(v) Scratch the card and dial a number to win a car.

**Q2.** A company uses some promotional schemes like 'buy one, get one free', free samples, free gifts and so on to boost the sales of its products and earn higher profits. This results in unnecessary hike in the prices of the products. In your opinion, is this policy in the interest of society?

### **Public Relations**

**"The Chartered Institute of Public Relations"** defines Public Relations as 'a strategic management function that adds value to an organization by helping it to manage its reputation'

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

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

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

2. **Press Kits:** It is a comprehensive package of information outlining a company's products and services most frequently sent to members of the press. It includes
  - A brief company biography.
  - Information of senior management.
  - Comments from customers.
  - Reprints of newspaper and magazine articles.
  - Photos of products.
3. **Brochures:** It is a booklet published by the organization which contains the organization's background, its ethics, vision, mission, its past, present and future projects, its CISP, etc. E.g.: brochure given to new employees.
4. **Newsletter:** It is a printed publication produced at regular intervals focussing on a particular set of people. The content of a newsletter is presented in a writing style that is less formal and letter-like. For example, a newsletter published by a college consists of information about activities conducted during a particular period, special achievements by students or teachers, etc.
5. **Events and Press support:** Special events are acts of news development. The ingredients are time, place, people, activities, drama, showmanship; one special event may have many subsidiary events, such as luncheons, banquets, contests, speeches, and many others as part of the build up.
6. **Conferences and Seminars:** Conferences and seminars are conducted for making people aware about the organization. For example travel companies generally call prospective clients and offer travel packages. The members are contacted through telephones and asked to attend seminar.
7. **Websites:** A website acts as a window for the outside world to know an organization. So it is designed not just to serve as a resource for members, but also to present a positive message to non-members who are browsing through.

## **ROLE OF 'PR' IN AN ORGANISATION**

- (i) Smooth functioning of business and achievement of objectives.
- (ii) Building corporate image that affects favourably on its products. Up keep of parks, gardens, sponsoring sports activities etc.
- (iii) Build interest in the established product and help in launching products.
- (iv) Establishing positive image if products facing adverse publicity.
- (v) Acting as a supplement of advertising in promoting new as well as existing products.

### **Exercise**

#### **I. Multiple choice questions.**

1. Identify the main focus of selling philosophy/concept of marketing management.
  - (a) Profits
  - (b) Factory
  - (c) Selling & Promotion
  - (d) Existing product
2. What can improve performance of a product and also give it a competitive advantage in the market.
  - (a) Standardisation
  - (b) Branding
  - (c) Design
  - (d) Promotion
3. Which element of marketing mix includes after sales services offered to the customers.
  - (a) Product
  - (b) Price
  - (c) Place
  - (d) Promotion
4. In addition to product differentiation, differential pricing and introduction of new product, what advantage Branding do have to the marketers.
  - (a) Product identification
  - (b) Status symbol
  - (c) Advertising product
  - (d) Ensures quality

5. The advertisement of a travel agency states the following 'Visit Agra the city of love', 'Udaipur-the city of lakes' and 'Mysore-the city of Gardens'.

What is being marketed by the agency through the advertisement?

- (a) Product (b) Place  
(c) Service (d) Cities

6. Which tool of promotion is an impersonal form of communication, which is paid for by the marketers to promote some goods or service.

- (a) Personal selling (b) Publicity  
(c) Advertisement (d) Sales promotion

7. Direct channel, is the most simple and the shortest mode of distribution, by which the goods are made directly available by the manufacturers to customers. Identify the other name of the Direct Channel of distribution.

- (a) Zero level (b) One level  
(c) Two level (d) Three level

8. Rajni took her niece, Radha for shopping to 'Benetton' to buy her a dress. She was delighted when on payment for the dress she got a discount voucher to get 20% off for a meal of ₹ 500 or above at a famous eating joint. Identify the technique of sales promotion used by the company in the above situation.

- (a) Rebate (b) Discount  
(c) Refunds (d) Usable benefit.

9. Ranjit purchased a bottle of tomato-sauce from the local grocery shop. The information provided on the bottle was not clear. He fell sick on consuming it. He filed a case in the District Forum and got the relief. Which important aspect was neglected by the marketer in the above case.

- (a) Branding (b) Labelling  
(c) Packaging (d) Publicity

10. Ram a Bag manufacturer decides to add a water bottle holder to the existing design of school bags. Identify the marketing management philosophy adopted by Ram.

- (a) Product (b) Production  
(c) Selling (d) Marketing



**II. Fill in the blanks:**

1. Sales promotion refers to short-term incentives, which are designed to encourage the buyers to make immediate ..... of a product or service.  
(a) Sale (b) Demand  
(c) Supply (d) Purchase
2. Advertising is an ..... form of communication which is paid for by the sponsors.  
(a) Personal (b) Impersonal  
(c) Formal (d) Informal
3. When the demand of a product is inelastic, the firm is in a better position to fix ..... prices.  
(a) Higher (b) Lower  
(c) Similar (d) Competitive prices.
4. .... are useful in providing detailed information about the product, its contents, method of use etc.  
(a) Brands (b) Packages  
(c) Labels (d) Design
5. .... is described as the set of marketing tools that a firm uses to pursue its marketing objectives in a target market.  
(a) Product Mix (b) Price Mix  
(c) Promotion mix (d) Marketing Mix

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

1. Grading ensures the buyers that goods conform to the predetermined standards of quality, price and packaging and reduces the need for inspection testing and evaluation of the products.
2. Place mix include activities that communicate availability features, merits, etc. of the products to the target customers and persuade them to buy it.

3. Products which are sold by generic names by the marketers could not be distinguish from the products of the competitors.
4. A tube of Shaving cream usually comes in a card board box which is kept till the consumer start using the shaving cream and it ensure its transportation from place to place easily.
5. Publicity involve a variety of programmes designed to promote or protect a company's image and its individual products in the eyes of the public.

**IV. Match the following and select the most appropriate option.**

- |                      |   |
|----------------------|---|
| 1. 1. Brand name     | 1. Tag  |
| 2. Packaging         | 2. Devil of Onida                             |
| 3. Label             | 3. Card board box                             |
| 4. Brand Mark        | 4. Bata                                       |
| (a) 1 – 4            | (b) 1 – 2                                     |
| 2 – 3                | 2 – 3   |
| 3 – 1                | 3 – 4   |
| 4 – 2                | 4 – 2   |
| (c) 1 – 1            | (d) 1 – 3                                     |
| 2 – 3                | 2 – 1   |
| 3 – 4                | 3 – 4   |
| 4 – 2                | 4 – 2   |
| 2. 1. Direct channel | 1. Paid form of communication                 |
| 2. Indirect channel  | 2. Zero level                                 |
| 3. Publicity         | 3. Two level                                  |
| 4. Advertisement     | 4. Non-paid form of communication             |
| (a) 1 – 3            | (b) 1 – 2                                     |
| 2 – 2                | 2 – 3   |
| 3 – 4                | 3 – 1   |
| 4 – 1                | 4 – 4   |
| (c) 1 – 2            | (d) 1 – 3                                     |
| 2 – 3                | 2 – 2   |
| 3 – 4                | 3 – 1   |
| 4 – 1                | 4 – 4   |
| 3. 1. Quantity gift  | 1. Scratch a card                             |
| 2. Rebate            | 2. Discount upto 50%                          |
| 3. Discount          | 3. 20% extra                                  |
| 4. Instant Draw      | 4. Discount of ` 10,000 for a limited period. |
| (a) 1 – 3            | (b) 1 – 3                                     |
| 2 – 2                | 2 – 4   |
| 3 – 4                | 3 – 2   |
| 4 – 1                | 4 – 1   |
| (c) 1 – 2            | (d) 1 – 2                                     |
| 2 – 3                | 2 – 4   |
| 3 – 4                | 3 – 3   |
| 4 – 1                | 4 – 1   |

- |                          |                                 |
|--------------------------|---------------------------------|
| 4. 1. Production concept | 1. Quality of product           |
| 2. Product concept       | 2. Customer needs               |
| 3. Selling concept       | 3. Quantity of product          |
| 4. Marketing concept     | 4. Increase in existing product |
| (a) 1 – 3                | (b) 1 – 3                       |
| 2 – 1                    | 2 – 4                           |
| 3 – 2                    | 3 – 1                           |
| 4 – 4                    | 4 – 2                           |
| 5. 1. Sales promotion    | 1. Flexible tool                |
| 2. Personal selling      | 2. Confuses the buyers          |
| 3. Advertising           | 3. Utility and demand           |
| 4. Pricing               | 4. spoils product image         |
| (a) 1 – 2                | (b) 1 – 4                       |
| 2 – 1                    | 2 – 1                           |
| 3 – 4                    | 3 – 2                           |
| 4 – 3                    | 4 – 3                           |

### ANSWER KEY

#### I. Multiple choice questions.

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

#### II. Fill in the blanks:

- |        |        |        |        |        |
|--------|--------|--------|--------|--------|
| 1. (d) | 2. (b) | 3. (a) | 4. (c) | 5. (d) |
|--------|--------|--------|--------|--------|

#### III. True/False

- |          |          |         |          |          |
|----------|----------|---------|----------|----------|
| 1. False | 2. False | 3. True | 4. False | 5. False |
|----------|----------|---------|----------|----------|

#### V. Multiple choice questions.

- |        |        |        |        |        |
|--------|--------|--------|--------|--------|
| 1. (a) | 2. (c) | 3. (b) | 4. (d) | 5. (b) |
|--------|--------|--------|--------|--------|

**Q.1** 'Various tools of communication are used by the marketers to promote their products.'

- (a) Why do companies use all tools at the same time?
- (b) Name and explain the most commonly used non-personal tool of promotion which is paid for by the marketer.
- (c) Which tool of promotion will primarily be used for the following?
  - (i) To promote or protect a company's image or its individual products.
  - (ii) An existing product meant for mass usage by literate people.
  - (iii) To introduce a new product to a particular class of people through door-to-door visits.
  - (iv) To attract attention of the people by using incentives. (6)

**Q.2** As a project work in Business Studies subject, the Commerce students of "Knowledge School" thought of setting up a recycling plant to recycle all the waste papers from the school and prepare registers and exercise books to be used by the school students. They approached their Principal who not only appreciated the idea of the students but also gave them consent for the same. The school also decided to donate 50% of the revenue generated from the sale of registers and exercise books to a nearby blind school.

- (a) State the product related decisions which the children have to take.
- (b) Suggest any two factors the children should keep in mind while choosing the right name for their exercise books and registers.

**Q.3** Innovators Ltd. is business from manufacturing water purifier. It has already been manufacturing water purifiers since last 10 years. Now it has come up with a latest innovation in the field of RO purifiers which will avoid wastage of water. It knows that there are many competitors in the field as Whirlpool, Aquaguard, Zero B, Kent, Eureka Forbes, LG etc.

- (i) Suggest which factors should it keep in mind while fixing the price of purifier (any 3) (3)
- (ii) Which channel of distribution should the company adopt? (1)
- (iii) Which is the most appropriate sales promotion methods for this. (1)

**Q.4** Mr. Akshay is the Sales Manager of Nova Ltd. Since last few months, performance of his department has failed to reach the acceptable level. It is a matter of concern for the General Manager. He is keen to mend this dismal situation at any cost. Mr. Akshay made efforts to find out the causes of this situation. He found that the members of his team lacked training and that giving incentive to the buyers was absolutely necessary. To impart training to his team members he set up a training center and appointed a trainer for this purpose. The trainer imparted them necessary training keeping in mind the actual situation. Besides Mr. Akshay launched a scheme for the customers. Under this scheme, a coupon is to be issued to that consumer who buys goods to a specified date. Later on, draw will be taken by a given date and will be distributed among the winners.

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

#### **HOW TO CRACK CASE STUDIES**

- At first read the question asked in the case study.
- Now read the given case carefully and identify the points which will direct you to solve the given case.
- Tips to identify the points to case:
  - If something about variety, after sale service and availability is mentioned that means PRODUCT is being discussed.
  - In relation to Marketing Management philosophy:
    - \* When production/distribution is at large scale (Production concept)
    - \* When quality is improved or features are added to existing product (Product concept)

- Enhancing Public Image (Public relation)
- Measures used for increasing the sale of product (Promotion mix)

**Q.1** 'Beauty Products Ltd' is a natural and ethical beauty famous for offering organic beauty products for men and women. The company uses plant based materials for its products and is the No. 1 beauty brand in the country. Identify the marketing management philosophy being following by 'Beauty Products Ltd.'

**Ans.** Social marketing concept.

**Q.2** A company was marketing water purifiers which were very popular due to their quality and after sales services provided to the customers. The company was a leading company in the market and earning huge profits. Because of huge profits, the company ignored the after sales services. As a result, its relationship with customers got spoiled and the image of the company was damaged in the public. The top management became concerned when the profits for the current quarter fell steeply. On analysis, it was revealed that ignoring the after sales services was its reasons. Therefore, the company took all possible measures to protect and promote its favourable image in the eyes of the public. As a result, the goodwill of the company improved in the society.

- (a) Name and state the communication tool used by the marketer in the above case to improve its image.
- (b) Also explain role of the tool as identified in part (a)

**Ans.** (a) Public Relations is being used as a promotional tool by the marketer. It refers to the practice of managing communication between an organization and its publics in order to create and maintain a positive image about itself and its products.

- (b) The role of public relations as a promotional tool is described below:
  1. Public relations helps to create a positive image about the company in the eyes of various interest holders like consumers,

government, suppliers etc.

2. It helps in launching new products as they may be accepted easily because of good reputation of business.
3. It helps the business to reinstate itself in the wake of controversies or prejudices etc.

**Q.3** Unilever has found a new way to make ice creams by using an ingredient called 'ice structuring protein' which is widely found in nature especially, in fishes which allows them to survive in freezing arctic waters. Combining ISP with stabilizer technology allows to make ice creams that don't melt so easily thereby making it more convenient for small children and consumer in hot countries.

In the context of above case:

1. Identify the component of marketing mix being into consideration by the company.
2. Explain briefly the function of marketing highlighted here.

**Ans.**

1. The component of marketing mix being taken into consideration by the company is 'Product'.
2. **Product designing and development:** Every marketer strives to achieve his marketing objectives by creating offering to satisfy a need or a want. Therefore one of the core functions of marketing is to develop the product in the most effective and efficient way. Every marketer endeavours to add value to his product by introducing constant innovations in the product to enhance both its utility and attractiveness in the eyes of the potential buyers and gain a competitive edge.

**Q.4** Raj is a small entrepreneur involved in the manufacturing of hair wax. He finds that cost of production of 100 gm of hair wax is Rs. 80. He has decided to keep a margin of 20% as profit moreover, he has assessed that there is a cut throat competition in this product segment. In the context of above case:

1. Identify the function of marketing being performed by Raj.
2. State briefly the two factors that he is taking into consideration while

performing the function as identified in part (a)

- Ans.**
1. Pricing is the function of marketing being performed by Raj.
  2. The two factors that he is taking into consideration while performing the pricing function are as follows.
    1. Cost of product:
    2. Degree of competition:



**QUESTION BASED ON  
Analysis Evaluation and Creation**

Q 1. Narle—G a household name since 1938, achieved a unique milestone of selling the maximum number of biscuits during the lockdown. This 5 rupees a pack cookie came handy for many migrants who trekked hundreds of kilometers to get back home. Narle products the makers of Narle-G have grown overall market share by nearly 5% and 80-90% of this growth has come from Narle-G sales. Enhanced distribution reach especially in rural areas has been main booster for sales during the pandemic. Narle-G falls in the below Rs.100 per kg affordable value category-which accounts for one-third of overall industry revenues and accounts for over 50% of sales volume. Narle Products do exercise non-sales communication for good reputation.

1. "Narle-G" signifies—  

(a) Product	(b) Brand Name
(c) Trademark	(d) Brand mark
  
2. Identify relevant 'P' of marketing mix in—  
Enhanced distribution ..... pandemic.  

(a) Price	(b) Place
(c) Promotion	(d) Product
  
3. "Narle-G falls ..... volume".  
As per this statement, credit for high revenue goes to—  

(a) Good Product	(b) Low Price
(c) Heavy Promotion	(d) Good distribution
  
4. "Narle Products do ..... reputation"  
Which component of promotion is highlighted here—  

(a) Advertising	(b) Public Relations
(c) Sales Promotion	(d) Personal Selling

Answer:- [1.b, 2.b, 3.b, 4.b]

**Q2.** India's drugs regulator has granted emergency use authorisation to Terum Institute of India's Covid-19 Vaccine, SHIELD and Nora Biotech's VAXIN. Authorities have readied some 29,000 cold storage facilities across the country and large scale vaccination drive-runs have been conducted in 125 districts encompassing all states. From these cold storages vaccines will be moved to different state-level stores. From there, the shots will be moved by road to hundreds of districts, where local officials will vaccinate pre-registered health care workers at designated facilities. Price for vaccine is set considering expenditure made on research.

1. SHIELD and VAXIN are-
 

(a) Brand names	(b) Trademarks
(c) Brand marks	(d) Name of these
  
2. Authorities have ..... across the country Identify the concept of marketing in above mentioned line.
 

(a) Product	(b) Price
(c) Physical distribution	(d) Promotion
  
3. Identify the factor affecting price in-  
 "Price for vaccine ..... research".
 

(a) Pricing Objectives	(b) Product Cost
(c) Utility and Demand	(d) Govt. and Legal regulations
  
4. "From there ..... hundreds of districts"  
 Identify the component of place mix-
 

(a) Order Processing	(b) Warehousing
(c) Transportation	(d) Inventory Control

Answer:- [1.a, 2.c, 3.b, 4.c]

**Q3.** What information is generally placed on a package of a food product? Design a label for "Noodles" of your choice.

Ans. MRP, expiry date, batch no., date of manufacture etc (Any suitable label)

**Q4.** For buyers of cars, what 'Customer care services' would your plan as a marketing manager of new firm, introducing a new brand of car.

Ans. (Any Suitable Answer)

**Q5.** JTM Ltd launched 'Buddyline', an exercise book and comprehensive stationery brand name comprising of ball pens, gel pens and geometry boxes after identifying the target market and understanding the needs and wants of the consumers of that market. All their products were of good quality and ecofriendly but expensive. They wanted to distinguish their product from that of their competitors. They spent lot of effort, time and money in creating the brand name, as they knew that without a brand name, they can only create awareness for the generic product and can never be sure of the sale of their products. The effort paid off and the demand for the products started growing. The customers liked the brand and became habitual of it. They did not mind paying a higher price.

Over a period of time, it became a status symbol to buy 'Buddyline' brand because of its quality. The consumers felt pride in using them.

(i) Identify the marketing management philosophy followed by JTM Ltd.

(ii) Explain the advantages of branding to the marketers highlighted in the above case.

**Q.6** It has been observed that some advertisements show new lifestyles, which don't have social approval. Moreover the advertising expenditure is ultimately passed on to the buyers. Different competitive brands make it difficult for prospective buyers to decide about the brand to be purchased. Some advertisements are quite offensive and poor in taste. Identify and explain the various objections to advertising mentioned above by quoting lines.

**Q.7** Mehwish Dar is a recognized top business women of her generation in Ganderbal district in Jammu and Kashmir. She is a role model for family business especially for women within them. She attributes much of her success to her grandmother and founder of the company. Her business deals in a wide variety of export quality handicraft like Hand woven shawls, Mufflers and jackets and other handicrafts. She keeps on refining her marketing mix from time to time to make it more appealable and competitive. Keeping in view the specific nature of business she wants to make it sure that her products should be

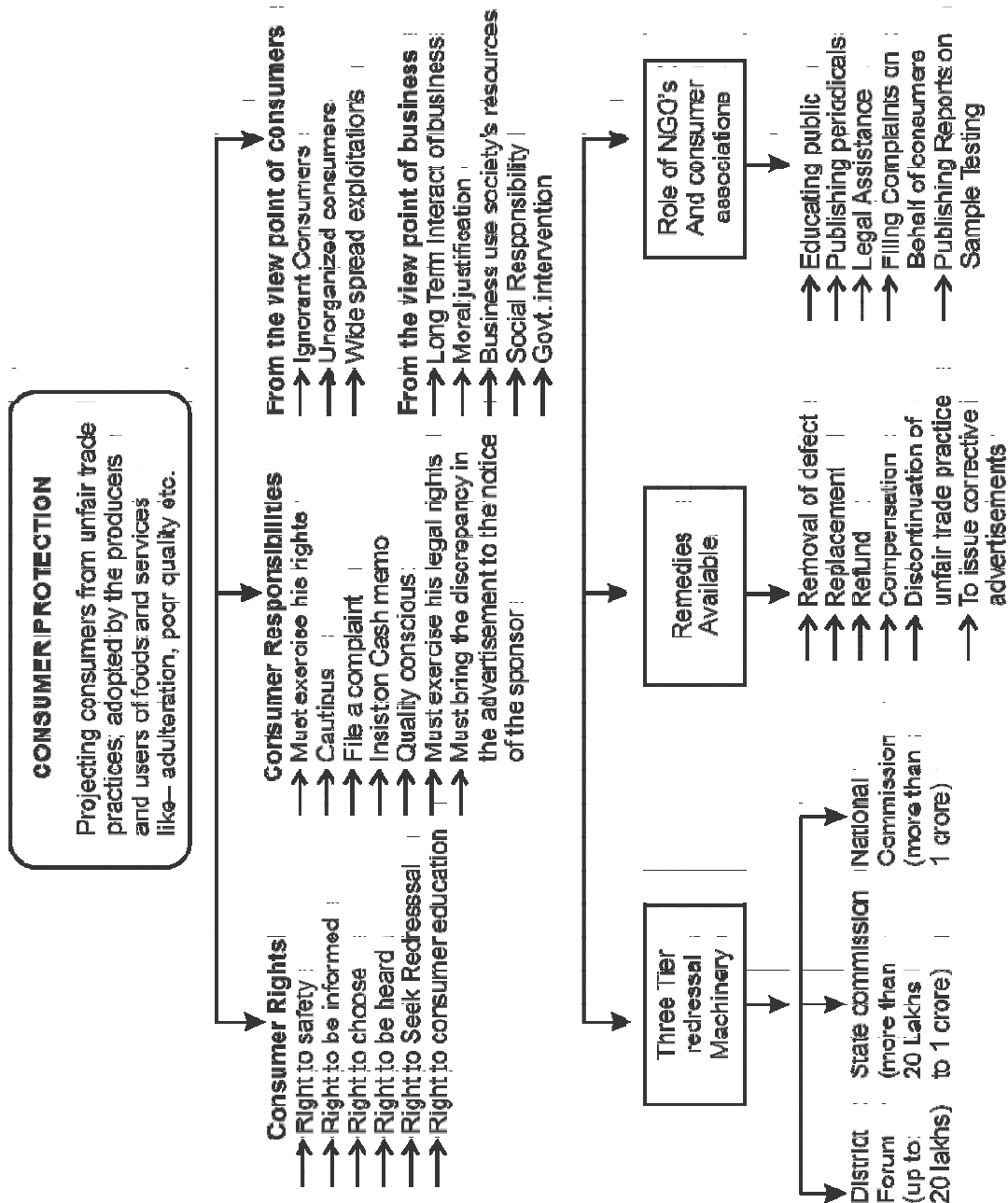
available at right time and at right place to the consumers. Considering Mehwish's business explain different components involved in physical handling and movement of goods from place of production to place of consumption (6)

- Q.8** The announcement of a nationwide lockdown in March 2020 in India due to the spread of Covid-19 dealt a blow to many businesses that were left grappling for their very survival amidst the crisis. But MD, T.S. Bodhi at Milo Ltd. saw an opportunity in the crisis. He was of the view that this was the time for 'Milo' to spruce up its supply chain and marketing activities in order to reach people who were forced to stay indoors 'Milo' ensured a steady supply of milk and milk products across the country during the lockdown by strengthening its supply chain and distribution network, Consumers trusted 'Milo' brand over loose milk. It went ahead with reinventing its 'items' portfolio and launching a range of immunity boosting products such as turmeric, tulsi and ginger milk. To seize the market opportunity, 'Milo' decided to double its marketing expenditure spent on advertising and brand building.

Identify and explain, components of marketing mix of 'Milo' by quoting relevant lines. (6)

## CHAPTER -12

### CONSUMER PROTECTION



Protecting consumers from unfair trade practices, adopted by the producers and sellers of goods and services is termed as consumer protection. It not only includes educating consumers about their rights and responsibilities, but also helps in getting their grievances redressed. Generally consumers are exploited by (1) Adulteration (2) Poor quality etc.

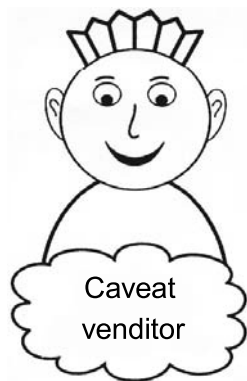
### **Importance of Consumer Protection**

#### **(from Consumer's point of view)**

1. **Consumers' Ignorance** : Majority of consumers are not aware of their rights and reliefs available to them as a result of which they are exploited.  
  
In order to save consumers from exploitation, consumer protection is needed.
2. **Unorganised Consumers** : In India consumers are still unorganised and there is lack of consumer organisations also, thus consumer protection is required.
3. **Widespread Exploitation of Consumers** : Consumers are exploited on large scale by means of various unfair trade practices and consumer protection is required to protect them from exploitation.

### **Importance of Consumer Protection**

#### **(from the point of view of Business)**



#### **Traditional Approach**

Caveat Emptor  
(Let the buyer beware)

#### **Modern Approach**

Caveat Venditor  
(Let the seller beware)

#### **Market–Consumer=Zero**

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

2. **Moral Justification** : It is the moral duty of any business to take care of consumer interest & avoid any form of their exploitation & unfair trade practices like defective & unsafe products, adulteration, false and misleading advertising, hoardings, black marketing etc.
3. **Business uses resources of society**: Every business uses the resources of the society and thus it is their responsibility to work in the interest of the society.
4. **Social Responsibility** : A business has social responsibilities towards various groups like owners, workers, government, customers etc. Thus, customers should be provided qualitative goods at reasonable prices.
5. **Government Intervention** : If a business engages in any form of unfair trade practices then government takes action against it, which adversely affects its goodwill.

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

#### **Meaning of Consumer**

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

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

#### **Meaning of Consumer Protection**

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

1. To protect and promote the interest of consumers by recognising consumer's rights such as right to safety, right to be informed, right to choose, right to be heard, right to seek redressal and right to consumer education.
2. To provide for a simple, speedy and inexpensive redressal of consumer grievances by setting a 3-Tier enforcement machinery.

## Rights of a Consumer

Consumer Protection Act, 1986 has provided six rights to the consumers, which are as follows:

1. **Right to Safety:** Consumer has the right to be protected against products, & services which are hazardous to health & life (should use ISI marked electronic devices).
2. **Right to be Informed:** Consumer has right to have complete information about the product before buying it.



Manufacturing Date (20th Aug., 2016)

Price (Rs. 35)

Quantity (330 ml)

Expiry Date (Best before Jan., 2017)

3. **Right to choose:** Consumer has a right to choose any product out of the available products as per his own decision making.
4. **Right to be heard:** Consumer has the right to file a complaint to be heard in case of dissatisfaction with goods or services (use of grievance cell)
5. **Right to Seek Redressal:** Consumer has the right to get relief in case the product or service falls short of his expectations or is dangerous. He may be provided with replacement/removal of defect or compensation for any loss. Various redressal forums are set up by the Govt. at National and State level.
6. **Right to consumer education:** Consumer has the right to acquire knowledge and to be well informed throughout life. He should be made aware of his rights and reliefs available to him in case of the product or service falls short of his expectations. The Govt. of India has included consumer education in



the school curriculum & is making use of media to make consumers aware of their rights.

### **Responsibilities/Duties of a Consumer**

1. **Consumer must exercise his rights:** Consumers must be aware of their rights with regard to the products or services they buy from the market.
2. **Consumer must be a Cautious consumer:** While buying a product or services, a consumer should read labels carefully.
3. Consumer must file a complaint in an appropriate forum in case of any shortcoming in product/service availed.
4. Consumer must insist on cash memo i.e a proof of purchase is required to file a complaint.
5. Consumer must be quality conscious. He should ask/look for ISI mark on electric goods. FPO mark on food products, Hall mark on jewellery etc.



**CONSUMER MUST BE QUALITY CONSCIOUS**



Earthen pitcher signifies the products are environment friendly.

6. Consumer must bring the discrepancy in the advertisement to the notice of the sponsor.
7. Consumer must exercise his legal right. If any of these rights is violated by manufacturer or seller, the consumers must file a complaint with the legal machinery constituted under CPA, 1986.

## QUESTIONS FOR PRACTICE

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- Q1.** Sonu purchased a medicine from 'Alpha Medical stores' for his wife who had stomach pain. But even after giving the medicine, wife's condition did not improve and she had to be admitted to a nearby hospital for treatment. Doctors on examination found that the medicines given to sonu's wife were spurious. Sonu complained about this to "Alpha Medical Store". As a result Alfa medical decided to file a complaint against the manufactures in the consumer court. Can Alpha Medical store lodge the complaint? Give reason. (No, Alpha stores is purchasing medicines for re-sale) (1)
- Q2.** Neha's elder brother purchased "I Phone 6 - Apple" mobile phone for Rs. 65,000 without cash memo from one of his friend-an authorised dealer with a guarantee that the mobile phone will be replaced with a new one if any of its parts become defective within 1 year from the date of purchase. Within 1 month, the mobile stopped working. When Neha's brother approached his friend for replacement of mobile, he refused. Name the redressal agency under the consumer protection act where Neha's elder brother can file the complaint. (No, because he did not take a cash memo) (1)
- Q3.** Rama, who was a vegetarian, went to a bakery and bought a vanilla cake. On reaching home. She found that it had non-vegetarian content. Neither the advertisement nor the packaging of the product displayed that the product had non-vegetarian content. Will Raman be able to claim compensation? Which right is violated here? (Yes, Right to be informed) (1)

### THE SALIENT FEATURES AND PROVISIONS OF

### CONSUMER PROTECTION ACT, 1986

#### Who Can File A Complaint Under CPA, 1986

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

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

### **Against whom can a complaint be filed?**

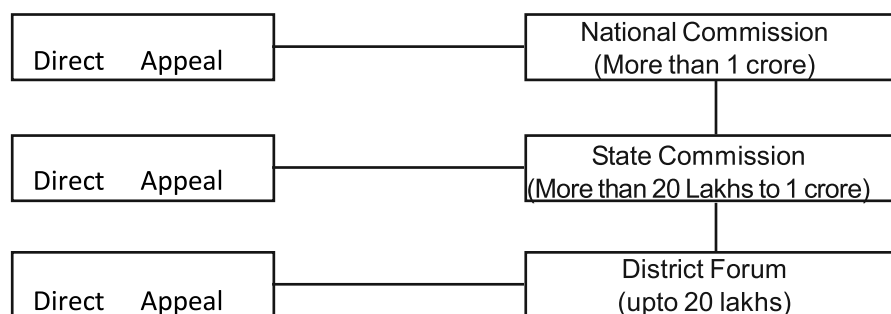
Consumer Protection Act, 1986 is applicable to all types of undertakings, whether big or small, private or public, or in co-operative sector, manufacturer or a trader, wholesaler or retailer, supplying goods or providing services.

### **Thus, a complaint can be filed against:**

1. The seller, manufacturer or dealer of defective goods. Defect means any fault, imperfection or shortcoming in the quality, quantity or purity of goods.
2. The provider of services if they are deficient in any manner. Deficiency means any imperfection, shortcoming or inadequacy in the quality, nature and manner of performance of services.

### **REDRESSAL AGENCIES UNDER CONSUMER PROTECT ACT, 1986**

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



### **REDRESSAL AGENCIES**

	<b>District forum</b>	<b>State Commission</b>	<b>National Commission</b>
Set Up	By state Govt	By state Govt.	By central Govt.
Memebrs	President = 1 other members =2 (atleast one member should be woman)	President =1 other members = atleast two) (Atleast one member should be female)	President = 01 other members = atleast four (Atleast one member should be female)
Value of complaint (Direct appeal)	Upto Rs. 20 lakh	More than Rs. 20 lakh and upto Rs. 01 crore	More than Rs. one crore
Complain handling procedure	Receiving complaint →Information to opposite party → sending sample of goods to laboratory for test → If goods are defective → Appropriate redressal to aggrieved party in form of replacement, compensation etc.	Same procedure as in district forum	Same procedure as in District forum
Re-appeal	Within 30 days of decision to state commission	Within 30 days of decision to national commission	Within 30 days of decision to supreme court

**Note:** Only those cases can be reappealed before Supreme Court which were originally filed in national commission and amount of claim is more than ₹ 1 crore.

**Q.1** Mukul purchased a diesel for Rupees 30 lakhs from an Automobile company and found it being defective. Despite many complaints the defect was not rectified. He filed a complaint in the state commission but was not satisfied with the order. Where can be appeal and in how many days.

**Ans.** National Commission within 30 days of passing of the order of State Commission.

**Q.2** Prabhakar purchased an ISI Mark electric Iron from Bharat Electricals. While using he found that it was not working properly. He approached the seller and complaint for the same. The seller asks the manufacturers to replace this Iron. The manufacturer refused to do so and Bharat Electricals decides to file a complaint in the Consumer Court.

(i) Can Bharat Electricals do this? Why?

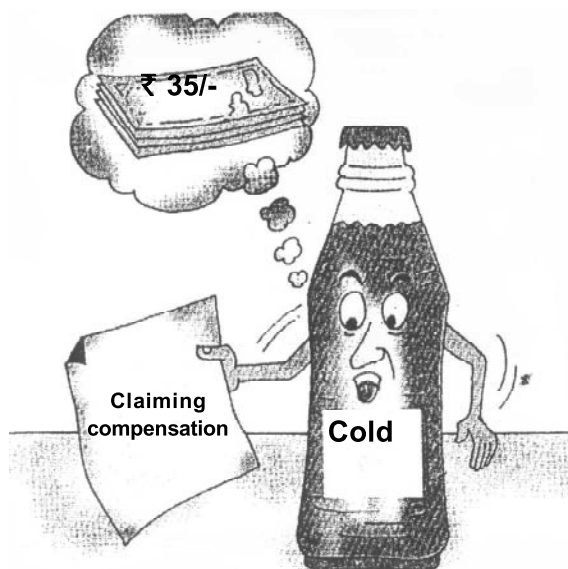
(ii) Who can file a complaint in this case?

(iii) Name the Consumer right that can be exercised.

(No, it has purchased for resale) (Prabhakar, who is the real consumer)

(Right to be heard)

**Q3.** Name the Consumer Court where the complaint will be filed by the consumer.



**Ans.** District Forum

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

**Ans.** To National Commission, within 30 days of decision of state Commission.

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

**Ans.** District Forum

**Q6.** On securing 95% marks in class XII, Ram's father gifted him a gold chain. But after 2 months, Ram noticed that the gold chain was 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.

**Ans.** No, he did not check BIS mark while purchasing. (Reason More than 30 days have passed since decision of district forum.)

#### **REMEDIES AVAILABLE TO CONSUMERS**

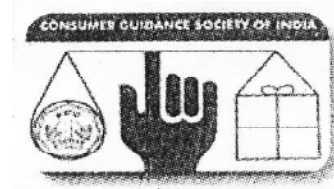
1. To remove the defect in goods or services.
2. To replace the defective product with new one free from defect.
3. To refund the price paid for the product/service.
4. To pay compensation for the loss or injury suffered by the consumer due to product/service.
5. To discontinue the unfair trade practice and not to repeat them.
6. To withdraw the hazardous goods from sale.
7. To pay any amount (not less than 5% of value of defective goods) to any person, consumer organisation.

8. To issue corrective advertisement to neutralise the effect of a misleading advertisement.

Some important consumer organization and NGO's engaged in protecting consumer interests are:

1. Consumer coordination council, Delhi.
2. Voluntary organisation in Interest of Consumer Education, Delhi.
3. Mumbai Grahak Panchayat, Mumbai.
4. Consumer Association, Kolkata.
5. Consumer Unity and Trust Society Jaipur.

**CGSI**



### **Role of Consumer organisations and NGO's**

1. Educating the general public about consumer rights by organising training programmes, seminars and workshops.
2. Publishing periodical & other publications to educate consumers.
3. Providing legal assistance to consumers by providing legal advice etc.
4. Producing films or cassettes on food adulteration, misuse of drugs etc.
5. Filing complaints in appropriate consumer courts on behalf of consumers.
6. Encouraging consumers to take on action against unfair trade practices.
7. Taking an initiative in filing cases in consumer courts on behalf of consumers.

### **Scope of Consumer Protection Act**

The Act applies to all goods and services of any kind other than for commercial purposes provided by any sector - private, public or co-operative. It also covers public utility services.

Any ultimate consumer or registered association of consumers, state and central government can file a complaint under the Act. Complaint can be filed either personally or by post. There is no fee for filing a complaint.



The complaint may relate to defect in the goods, deficiency in service, price variation and unfair trade practice.

### Ways and Means of Consumer Protection

1. **Government:** Protects the interest of consumers by enacting various legislations like CPA, 1986, Sale of Goods Act 1930, Bureau of Indian Standard 1986 etc. Consumer Protection Act provides for a three-tier machinery at the district, state & national level for speedy & inexpensive redressal of consumer grievances.
2. **Consumer Organisation:** Force business firms to avoid mal practices & exploitation of consumers.
3. **Business Association:** The associations of trade, Commerce & business like federation of Indian Chambers of Commerce (FICCI), Confederation of Indian Industries (CII) have laid down their code of conduct for their members in their dealings with the customers.

- Q1.** Geeta's mother bought a facial steamer from "Nova Electricals". Her mother got electric shock while using the steamer and she had to be taken to a doctor. Which remedy is available to her? (Compensation) (1)
- Q2.** Sohan's maid gifted a refrigerator worth Rs. 18,500 to her daughter on her marriage which was later found defective. She being poor and illiterate does not know how to forward her complaint in consumer court. Suggest her, whom can she approach for forwarding her case. (Consumer association) (1)
- Q3.** Soni, purchased and used a bleach cream which was expired. She got scars on her face due to this. Give any one relief available to Soni, who suffered scars on her face due to usage of expired bleach cream. (Compensation) (1)

## HOW TO CRACK CASE STUDIES

- Only affected consumer can file complaint against seller/manufacturer.
- For filling complaint consumer must fulfill his responsibility, i.e., take bill, check dates, etc.
- If case mentions something about making consumers aware (Right to consumer education)
- If case is about some complaint regarding claim then amount should be taken care off:
  - For filling complaint involving compensation of upto Rs. 20 lakhs :- District Forum
  - For filling complaint involving compensation from 20 lakhs to 1 crore:- State Commission
  - For filling complaint involving compensation of more than 1 crore :- National Commission.
  - For filling complaint in Supreme Court: When not satisfied with national commission's order. Only and claim is more than ₹ 1 crore.

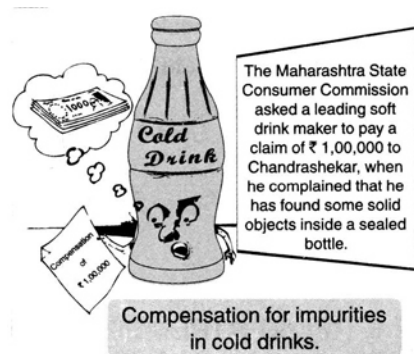
## Exercise

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### I. Multiple choice questions.

1. Golu bought an iron from 'Sidhu Electricals.' She got an electric shock while using the iron. Which consumer right has been violated here.
  - (a) Right to be heard
  - (b) Right to seek redressal
  - (c) Right to safety
  - (d) Right to choose.
2. Caveat Venditor implies
  - (a) Let the buyer beware
  - (b) Let the seller beware
  - (c) Let the Producer beware
  - (d) None of the above.

3. Who cannot be a consumer?
- (a) A buyer of goods/services for considerations.
  - (b) A buyer of goods/services for resale.
  - (c) A person who is purchasing goods for other.
  - (d) None of the above.
4. Consumer has the right to file a complaint in case of dissatisfaction with goods or services in grievance cell. Which consumer right is it.
- (a) Right to seek redressal
  - (b) Right to be heard
  - (c) Right to be informed
  - (d) None of the above.
5. Consumers are suffering due to unfair trade practice, therefore consumer protection is required, implies—
- (a) Consumers' ignorance
  - (b) Unorganised consumers
  - (c) Widespread exploitation of consumers
  - (d) None of the above
6. Look at the picture and find, where the consumer would have complained at first—
- (a) Session court
  - (b) District Forum
  - (c) State commission
  - (d) National Commission



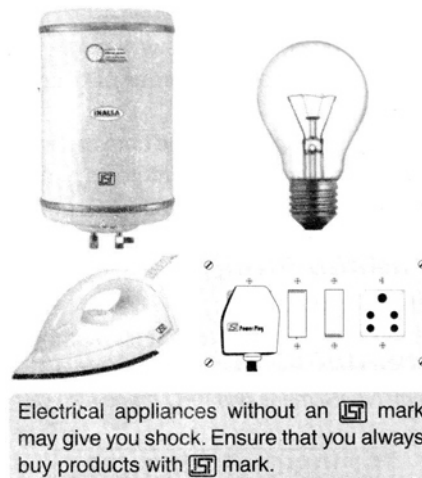
7. Government is actively advertising for 'Jago Grahak Jago' which consumer right is highlighted in the given statement.

- (a) Right to be heard
- (b) Right to consumer education
- (c) Right to seek redressal
- (d) Right to be informed.



8. Which consumer right is being highlighted in the following picture:

- (a) Right to safety
- (b) Right to choose
- (c) Right to be informed
- (d) Right to seek redressal



9. Pooja purchased a car worth ₹ 18 lacs from an automobile company and found its engine defective. She filed a complaint in District Forum. But she was not satisfied with the orders of district forum and decided to appeal further. Suggest her the final highest authority where she could appeal if not satisfied again by the decision of the next highest authority.

- (a) State Commission
- (b) High Court
- (c) National Commission
- (d) Supreme Court

10. Mention the quality mark which a consumer should look for while purchasing jewellery.

- (a) ISI Mark
- (b) FSSAI Mark
- (c) Eco Mark
- (d) Hall Mark

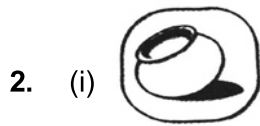
**II. Match the following:**

**CASE**

**RIGHT**

- |  |                          |
|--|--------------------------|
| 1. (i) File a complaint                  | (a) Right to safety      |
| (ii) Selecting the most suitable product | (b) Right to be informed |
| (iii) Checking the pure vegetarian sign  | (c) Right to be heard    |
| (iv) Safe and secure life.               | (d) Right to choose.     |

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



(a) Food products



(b) Electrical appliances



(c) Agricultural products



(d) Environment friendly products



(e) Jewellery

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

- (v) – (e)                      (v) – (b)                      (v) – (a)                      (v) – (e)
- 3. Consideration                      Forum**
- (i) more than 20 lakhs upto 1 crore      (a) National Commission
- (ii) Upto 20 lakhs                      (b) State Commission
- (iii) More than 1 crore                      (c) District Forum
- (a) (i) – (a)                      (b) (i) – (a)                      (c) (i) – (b)                      (d) (i) – (c)
- (ii) – (b)                      (ii) – (c)                      (ii) – (c)                      (ii) – (b)
- (iii) – (c)                      (iii) – (b)                      (iii) – (a)                      (iii) – (a)
- 4. (i) FICCI                      (a) Government**
- (ii) VOICE                      (b) Business Association
- (iii) State Forum                      (c) Consumer Organisation
- (a) (i) – (a)                      (b) (i) – (c)                      (c) (i) – (a)                      (d) (i) – (b)
- (ii) – (b)                      (ii) – (b)                      (ii) – (c)                      (ii) – (c)
- (iii) – (c)                      (iii) – (a)                      (iii) – (b)                      (iii) – (a)
- 5. (i) Satisfied consumers bring                      (a) Business is trustee of**  
repeat sales                      resources
- (ii) Business uses society's                      (b) Long-Term interest of business  
resources
- (iii) Supply good quality products                      (c) Social responsibility  
at reasonable prices
- (a) (i) – (b)                      (b) (i) – (c)                      (c) (i) – (a)                      (d) (i) – (a)
- (ii) – (a)                      (ii) – (b)                      (ii) – (b)                      (ii) – (c)
- (iii) – (c)                      (iii) – (a)                      (iii) – (c)                      (iii) – (b)

**II. Fill in the blanks:**

- Consumer protection Act 1986, applies to all goods and services of any kind other than for ..... proposes.
- A consumer has the right to file ..... and to be ..... in case of ..... with a good or service.

3. Caveat Emptor means .....
4. Consumer Rights Day is observed on .....
5. Only those cases can be appealed in Supreme Court in which claim amount exceeds ₹ ..... and aggrieved party is not satisfied with the order of .....

**III. True/False Suggest with reasons.**

1. A shopkeeper can file a complaint against a producer on request of a consumer.
2. Any complaint exceeding a consideration of ₹ 20 lakhs can be appealed in Supreme Court.
3. Goods or Sample, on complaint can be sent to laboratory for testing by National Commission.
4. If a party is not satisfied with the decision of state commission it can appeal in National Commission.
5. A consumer should get a cash memo while purchasing.

**ANSWER KEY**

**I. Multiple choice questions.**

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

**II. Match the Column**

- |        |        |        |        |        |
|--------|--------|--------|--------|--------|
| 1. (a) | 2. (b) | 3. (c) | 4. (d) | 5. (a) |
|--------|--------|--------|--------|--------|

**III. Fill in the blanks:**

- |                                  |                                      |
|----------------------------------|--------------------------------------|
| 1. Commercial                    | 2. Complaint, heard, dissatisfaction |
| 3. Let the buyer beware          | 4. 15th March                        |
| 5. 1 crore, national commission. |                                      |

**III. True/False**

- |          |          |         |         |         |
|----------|----------|---------|---------|---------|
| 1. False | 2. False | 3. True | 4. True | 5. True |
|----------|----------|---------|---------|---------|

## QUESTIONS FOR PRACTICE

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**Q.1** Himesh after completing his graduation started working with a multinational company in Delhi. But due to ill health of his parents he had to go back to his village. There he noticed that the villagers were literate but ignorant about their rights. Many vegetable vendors were using stones as weights to sell their vegetables. Some shopkeepers were selling food items without having 'FPO mark'. Villagers did not find anything wrong with these practices. So to create awareness among villagers Himesh decided to publish a weekly journal 'Jan Jagriti'. State the 'Right' which Himesh has exercised by doing so.

**Ans.** Right to consumer education.

**Q.2** Manan purchased a house for Rs. 30 lakhs from a housing company and found it being defective. Despite many complaints, the defect was not rectified. He filed a complaint in state commission but was not satisfied with its order. Where can he appeal and within how many days?

**Ans.** National Commission, within 30 days of the passing of the order of the State Commission.

**Q.3** Subu purchased a car for Rs. 1.1 crore and found its engine defective. Despite many complaints, the defect was not rectified. She filed a complaint in National Commission but was not satisfied with its order. Suggest her the appropriate authority where she can appeal.

**Ans.** The Supreme Court

**Q.4** Pragya bought an iron of a reputed brand for Rs. 1500 but it caused an electric shock while it was being used. Pragya wants to exercise her 'Right'. Identify the 'Right' under which she can be protected.

**Ans.** Right to safety

**Q.5** Sohan went to a shopkeeper to buy soap. The shopkeeper forced him to buy a particular brand of soap out of various available brands, irrespective of the willingness of Siddharth. Which right of Siddharth, as a consumer has been exploited.



**Ans.** Right to safety

**Q.6** Name the right of a consumer related in each statement.

(a) The producer should not use aggressive selling techniques to sell his products. **Ans.** Right to be informed

(b) No seller can sell products which are hazardous to life.

**Ans.** Right to safety

(c) In case a consumer has suffered a loss he can get monetary compensation for the loss.

**Ans.** Right to seek redressal

(d) ICICI bank has published a series of advertisements enlightening the consumers about use of credi cards, and hidden conditions in seeking loans. **Ans.** Right to be informed

(e) Packet of Haldiram's chips carry a phone number on which a consumer can file a complaint. **Ans.** Right to be informed

(f) The butter paper wrap on Mc Donald's burger indicates whether it is vegetarian or non-vegetarian. **Ans.** Right to be informed

**Q.7** Which responsibility of a consumer has not been fulfilled in the following cases?

(a) Despite it was written on the cover of the face cream that it should be used only after a patch test, Rina applied it on her face and developed an allergy. **Ans.** She did not follow instructions

(b) The loose spices purchased by Aditi were adulterated.

**Ans.** She did not purchase standardised products

(c) Sahil found a worm in a chocolate but did not tell anyone as he thought it is small amount, so there is no point in making a complaint.

**Ans.** She did not exercise right to be heard

(d) Neeta desperately wanted to watch the movie so purchased the tickets from a black marketeer.

**Ans.** She did not purchase tickets from right source

(e) Rohit did not take cash memo for his mobile to save GST.

**Ans.** He did not get cash memo.

**Q.8** Rita wants to buy a packet of juice. As an aware consumer, how can she be sure of the quality of juice she plans to buy?

**Ans.** By checking FPO (FSSAI) mark, AGMARK.

**Q.9** A shopkeeper sold you some spices claiming that they were pure. Later, tests showed that they were adulterated. What precautions should you have taken before buying and what remedies are available to you now.

**Ans.** 1. Purchase only branded products  
2. Replacement, refund

**Q.10** Non-Government Organisations perform several functions for the protection and promotion of consumers. Name any six functions performed by them.

**Ans.** Consumer education  
— Filing complaint on behalf of consumer  
— Publishing periodicals

## QUESTIONS FOR PRACTICE

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### 3 MARKS QUESTIONS

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

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

- Ans.** He did not check ISI mark. He did not Get a cash memo.

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

Where should Tanya file the complaint for the for the cream?Justify.

- Ans.** She can not file a complain, as she does not have a proof for purchase.

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

- Ans.** Yes, She can recover (Option: Discountinue the unfair trade practice.)

### 4 MARKS QUESTIONS

- Q1.** Sehaj bought Teak wood furniture for his drawing room from “Akshay Decors” of Kirti Nagar, Delhi for Rs. 4 lakhs. At the time of purchase the firm assured Sehaj about the best quality of the said furniture and gave 2 years warranty stating that if anything goes wrong, the firm shall replace it with a new one or refund the purchase amount. But the dining table and chairs started developing cracks at various places and the polish’ became very dull within 30 days of purchase. Sehaj reported the matters to the firm and requested a number of times to replace the furniture. The firm neither paid attention to these requests

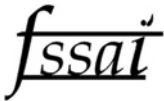



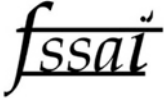



nor replaced the furniture.

- (1) Identify the consumer rights which have been violated by the furniture manufacturer.
- (2) Where can Sehaj lodge complaint for this?

**Ans.** (1) Right to be informed.  
(2) District Forum

**Q2.** Name the products to which the following quality certification marks are associated.

**Ans.**

			
			
(Food Products)	Electrical Products	Agricultural products	(Eco Friendly Products)

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**QUESTION BASED ON  
Analysis Evaluation and Creation**

**Q1.** Jadav Kumar purchased a Tata Nano YZ a car manufactured by Tata Motors Ltd. from Foncorde Motors on Dec 4, 2019. Jadav availed a loan of Rs.4 lakhs for the purchase and made an excess payment of Rs. 40,000 which he was entitled to be refunded as subsidy, being a defence employee. He asked multiple times to Foncorde Motors to refund the excess amount. While the firm initially said that they would inform him about the status of the refund, On April 4, 2020 he was informed that no excess payment was received on purchase from him by Foncorde Motors. Alleging that the firm intentionally did not refund a subsidy even after a lapse of four months from the date of purchase, Jadav filed a complaint with consumer court. The bench noticed that Foncorde Motors' representatives have expressed their regret via mails sent to Jadav, for the delay in refund on more than one occasion and tendered an apology before April 4, 2020. Bench gave verdict– "refund of Rs. 40,000 by Foncorde Motors to Jadav."

1. Keeping in view below mentioned lines, identify the level, where jadav would have filed a complaint.  
"Jadav availed ..... excess amount".  

(a) District court	(b) National forum
(c) State forum	(d) Supreme Court
2. "Alleging that ..... with consumer court."  
Identify the consumer right exercised by Jadav in above mentioned statement.  

(a) Right to safety	(b) Right to be heard
(c) Right to seek redressal	(d) Right to be informed
3. Identify the consumer right in-  
"Bench gave ..... to Jadav".  

(a) Right to be heard	(b) Right to seek redressal
(c) Right to consumer education	(d) Right to be informed

Answer: 1. a, 2. b, 3. b, 4. c

**Q2.** Dev visited 'food Baazar' in city mall in Puna and Purchased some items including two packed ZEN apple Juice of 01 litre each: MRP per bottle was Rs. 80/-. Before leaving the Mall, Dev planned to purchase one more pack, he picked and checked and Found that ZEN apple juice 'best before use' had passed and even then they were still selling the juice. Dev immediately checked his already purchased juices which were already expired and best before use date and elapsed. Dev got surprised and shocked that how the branded shop was selling the defective goods to the customers which are hazardous to health. Dev filed a written complaint on the same day and case was produced before District Forum. District Forum directed 'Food Baazar' to pay a sum of Rs. 50,000/- towards compensation for mental agony, Rs. 10,000/- towards compensation for pain, and Rs. 10,000/- towards advocate fees and cost of litigation to the complainant.

1. As per following quoted line, which responsibility of a consumer is borne by Dev-  
Dev immediately ..... had elapsed.
  - (a) Beware of false advertisement      (b) Do not buy in hurry
  - (c) Cautious Consumer                      (d) Consumer must exercise his rights.
  
2. Which consumer right is violated as per following-  
"Dev got ..... to health."
  - (a) Right to consumer education      (b) Right to seek redressal
  - (c) Right to safety                          (d) Right to choose
  
3. "Dev filed ..... District Forum".  
Which consumer responsibility is fulfilled by Dev as per above mentioned statement.
  - (a) Cautious Consumer                      (b) Do not forget to get receipt
  - (c) Consumer must be quality conscious      (d) Consumer must exercise his legal rights
  
2. Identify the relief remedies offered by District Forum to Dev, by quoting relevant line.

Answer: 1. c, 2. c, 3. d, 4. Award of compensation

“District forum ..... complainant”.

**Q3.** Vaidehi's daughter Rangoli got first position in 12th CBSE examination. To celebrate the success. Vaidehi' bought Vanilia and chocolate flavour icecreams from "Cool Ice Parlour". Her daughter was very happy and the all family members enjoyed the ice-cream at night. Following morning, almost every family member complained about stomach pain and Rangoli was severely sick and taken to doctor. Doctor diagnosed it as food poisoning. Vaidehi went to "Cool Ice parlour, for complaining, but the parlour owner sent her back saying that they are just traders of ice-creams and not manufacturers. Incidentally after one week when Rangoli recovered, Vaidehi visited her sister-in-law alongwith Rangoli, where she listened "Jago grahak Jago" on Radio. She came to know about different NGO's and consumer associations which could help her in many ways. Suggest how such associations could help Vaidehi?

[Hint:- Education about consumer rights, carrying out testing of Ice-cream, providing legal assistance, encouraging consumers to file complaint]

**Q4.** Mannu purchased a photostate machine for Rs. 80 lakh and found it very poor in photostate quality. He complained it to dealer. Dealer sent the mechanic for repair, but the defect was not fully rectified. He filed a complaint in the state commission but was not satisfied with the decision. Suggest him, where he can reappeal further and in how many days

[Hint:- National Commission, 30 days of decision of State Commission]

### **SOME NEW ADDITIONAL QUESTIONS FOR PRACTICE**

**Q5.** The RBI has issued the guidelines on behalf of the government limiting consumers' liability to zero in case of unauthorised transactions that have taken place from their mobile wallets. As per the guidelines, prepaid payment Instrument issuers will be required to provide a contact number and email ID in the transaction alert SMS through which consumers can report the unauthorised transactions or notify objections. Prepaid payment Instruments issuers such as Paytm, Amazon pay, Phone pe and so on must ensure that their customers mandatorily register for SMS alerts and also register for email in order to get timely information about electronic payment transaction done using their mobile wallets. It will help in reducing unscrupulous, exploitative and unfair trade practices.

- (a) Identify the means of consumer protection highlighted above.
- (b) Explain two other ways and means of consumer protection other than identified in (a).

**Q6.** Suman wanted to purchase a sandwich toaster. She checked about the various sandwich toasters available online and compared the prices so that an intelligent and wise choice could be made. Then she went to a nearby market to buy the sandwich toaster. Being an informed consumer, she looked for the correct standardisation mark. The shopkeeper showed her different toasters but was quoting a higher price than the price she had checked online. After negotiating with the shopkeeper, she was able to bring the price down. As a responsible consumer, she asked for a cash memo, against the amount paid for the product and took the toaster home. On opening the package, she found an instruction booklet, which she read carefully. Then she followed all instructions step-by-step and made nicely toasted paneer sandwiches for her family.

(a) State any two responsibilities, which have been discharged by Suman, besides asking for a cash memo.

(b) Explain the two rights being discussed in the above case. (4)

**Q7.** 'VOICE' is an important consumer organisation. It organised workshops in the months of December in Delhi/ NCR for consumers. The theme was 'Organic Food -From Farm to Plate' to spread awareness on the importance of organic farming and to encourage consumers to switch from conventional food that contains chemicals and pesticides to organic food. Expert speakers from farmers' community explained the harmful effects of usage of pesticides in farming and the importance of organic food. People were informed that the organisation regularly tests samples to detect adulteration like presence of heavy metals or pesticides. The results of the tests are published in their monthly magazine 'Consumer Voice' to make people aware of quality of different products. It also provides aid and legal advice to the consumers in seeking a remedy.

State the functions performed by the Consumer Voice for the protection and promotion of consumer interest by quoting lines from the above para.

**Q.8** Mansi booked a flat on 7th floor in 'Basera' project in Chandigarh by depositing a booking amount of Rs 30 lakhs. The builder did not tell Mansi that the upper floors after 5th floor were not approved by Chandigarh Development Authority.



Mansi came to know about this fact from her friend. When she inquired the builder about it, the builder said that approval will come within next three months. Just after one month the builder called her asking for remaining payment of Rs. 40 lakhs failing which she would be charged interest for late payment. However, these facts were not disclosed in the contract of purchase and sale. Mansi filed a case for hiding the information against the builder in the consumer redressal agency and was satisfied with the order passed by the court.

- (a) Explain the consumer rights exercised by Mansi.
- (b) Name the consumer redressal agency which Mansi must have approached to file her case.
- (c) In case, she is not satisfied with the order passed by the concerned redressal agency, will she be allowed to make a further appeal against the order? Explain. (2+1+2)

## UNIT 4

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### EVALUATION QUESTIONS

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**Q 1.** 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.

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

(1)

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

(1)

(iii) Which channel of distribution are they planning to adopt now? Explain.

**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 Personnel 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)

[Hint: 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 exploitation. Similarly measures have been taken to protect the consumers against the losses suffered by them due to such antisocial activities as profiteering, hoarding, black-marketing etc. Not only that, provisions have also been made to protect the consumers against the consumption of adulterated food products.

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

(ii) 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 "Entrepreneurship 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.

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

2. 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.

(i) Which the function of management discussed above?

(ii) Name the type of organisational structure adopted by Beta Ltd.

(1)

(iii) Which variables of marketing is referred above?

(iv) 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 course 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.

1. Identify the right and responsibility of the consumer referred to in the above paragraph. (1)

2. Which elements of 'Promotion Mix' have been referred above? (3)

3. Which variable of Marketing has been ignored by the company? (1)

4. Can kamal claim any relief in the above case? (1)

[Hints: (2) Advertising, personal selling, 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 managers 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.

1. Which style of leadership is being practised by Area Sales Managers? (1)
2. Which types of communication took place above? Explain quoting lines from para. (2)
3. Which pricing strategy was the company adopting for selling wheat flour? (1)
4. 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 reseraching 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 rice in his clinic, he made the hair oil available at 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.

1. Which identify the important product related decision did Vyas forget?
2. Explain the benefits, Vyas would have desired by making such decision

well in time?  
(Branding, Trademark)

(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 lies 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 Question Paper**  
**2021-22 Term 1**  
**Subject: Business Studies**

**Time: 90 minutes**

**Max. Marks: 40**

**General instructions:**

- 1. The Question Paper contains 3 sections.**
- 2. Section A has 24 questions. Attempt any 20 questions.**
- 3. Section B has 24 questions. Attempt any 20 questions.**
- 4. Section C has 12 questions. Attempt any 10 questions.**
- 5. All questions carry equal marks.**
- 6. There is NO negative marking.**

**Section - A**

1. "What distinguishes a successful manager from a less successful one is the ability to put the principles into practice." Which aspect of the nature of management is highlighted in the above statement?
  - a) Management as a science
  - b) Management as an art
  - c) Management as a profession
  - d) Management is an intangible force.
2. \_\_\_\_\_ provides a rational approach for setting objectives and developing appropriate courses of action for achieving predetermined objectives.
  - (a) Directing
  - (b) Staffing
  - (c) Planning
  - (d) Controlling



3. Marketing mix is the set of \_\_\_\_\_ that the firm uses to pursue its marketing objectives in the target market.
- (a) Production tools
  - (b) Promotional tools
  - (c) Marketing tools
  - (d) Selling tools
4. Which level of management is responsible for the welfare and survival of the organisation?
- (a) Top level of management
  - (b) Middle level of management
  - (c) Supervisory level
  - (d) Both (b) and (c)
5. Name the principle of management given by Fayol which when applied would mean that the workers and management both honour their commitments without any prejudice towards one another.
- (a) Discipline
  - (b) Mental Revolution
  - (c) Remuneration of employees
  - (d) Scalar chain
6. A brand or part of the brand that is given legal protection is called \_\_\_\_\_
- (a) Brand Mark
  - (b) Trademark
  - (c) Brand
  - (d) Brand name
7. Identify the dimension of the characteristic of management- “it is multidimensional”, which specifies that the task of management is to make the strengths of human resources effective and their weaknesses irrelevant towards achieving the organisation's objectives.

- (a) Management of work
  - (b) Management of people
  - (c) Management of operations
  - (d) Management of goals
8. \_\_\_\_\_ involves a variety of programmes designed to promote and protect a company's image and its individual products in the eyes of the public.
- (a) Advertising
  - (b) Personal selling
  - (c) Publicity
  - (d) Public relations
9. Which type of organisational structure will you suggest for a firm which has diversified activities and operations requiring a high degree of specialisation ?
- (a) Centralised structure
  - (b) Decentralised Structure
  - (c) Divisional structure
  - (d) Functional structure
10. "Changes or events cannot be eliminated but they can be anticipated and managerial responses to them can be developed." is suggested by the following importance of planning:
- (a) Planning facilitates decision making
  - (b) Planning promotes innovative ideas
  - (c) Planning provides direction
  - (d) Planning reduces the risks of uncertainty.
11. "Grouping similar nature jobs into larger units called departments" is the step in the process of one of the functions of management. Identify the function of management.

- (a) Planning
  - (b) Organising
  - (c) Directing
  - (d) Staffing
- 12 The Statement “Planning is a primary function”, suggests that.....
- (a) Planning precedes other functions
  - (b) Planning requires logical and systematic thinking
  - (c) Plan is framed, it is implemented, and is followed by another plan, and so on
  - (d) Planning is required at all levels of management as well as in all departments of the organisation.
- 13 A major decision area under one of the functions of marketing is the decision regarding marketing intermediaries to be used. Name the function.
- (a) Physical Distribution
  - (b) Gathering and analysing market information
  - (c) Promotion
  - (d) Transportation
14. “The nature of the relationship of our country with foreign countries”, is a major element of which of the following components of the Business Environment?
- (a) Social Environment
  - (b) Legal Environment
  - (c) Political Environment
  - (d) Economic Environment
15. Which of the following statements is incorrect?
- (a) Marketing is a social process
  - (b) Focus of the marketing activities is on customer needs
  - (c) Marketing is merely a post production activity.
  - (d) Marketing mix is a wider term than product mix.

16. Planning is closely connected with \_\_\_\_\_ and \_\_\_\_\_
- (a) Responsibility and accountability
  - (b) Delegation and decentralization
  - (c) Stability and security
  - (d) Creativity and innovation
17. \_\_\_\_\_ is an important function of marketing which is important not only for protection of the product but also serves as a promotional tool.
- (a) Grading
  - (b) Labeling
  - (c) Packaging
  - (d) Branding
18. As part of regulations to be followed by advertisers, the advertisement for a new brand of baby food for infants provides important information for potential buyers that it is “Not recommended for infants under the age of four months”. Which dimension of the business environment is highlighted in the above statement?
- (a) Social Environment
  - (b) Legal Environment
  - (c) Political Environment
  - (d) Economic Environment
19. The principle of management given by Fayol which aims at preventing overlapping of activities is:
- (a) Division of work
  - (b) Unity of Command
  - (c) Unity of Direction
  - (d) Order
20. \_\_\_\_\_ ensures that the subordinate performs tasks on behalf of the manager thereby reducing his workload and providing him with more time to concentrate on important matters.

- (a) Decentralization
  - (b) Delegation of authority
  - (c) Authority
  - (d) Accountability
21. \_\_\_\_\_ is a process of classification of products into different groups on the basis of some important characteristics such as quality, size, etc.
- (a) Standardization
  - (b) Grading
  - (c) Product Development
  - (d) Selling
22. 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 is known as \_\_\_\_\_
- (a) Business environment
  - (b) Social environment
  - (c) Political environment
  - (d) Economic environment.
- 23 Name the concept that refers to the number of subordinates that can be effectively managed by a superior and determines the number of levels of management in the organisation.
- (a) Organisation structure
  - (b) Span of management
  - (c) Hierarchy of authority
  - (d) Delegation of Authority
- 24 Taylor believed that there was only one best method to maximise efficiency. This method can be developed through study and analysis. Identify the principle of Scientific management being discussed above:

- (a) Harmony not discord
- (b) Science not rule of thumb
- (c) Development of each and every person to his or her greatest efficiency and prosperity
- (d) Cooperation not individualism

**Section -B**

25. India has launched its most advanced Geo-imaging satellite which will allow better monitoring of the subcontinent, including its borders with neighbouring countries, by imaging the country 4-5 times a day. The satellite is capable of near real time monitoring of floods and cyclones. The factor constituting the Business Environment being discussed above is:
- (a) Social environment
  - (b) Economic environment
  - (c) Technological environment
  - (d) Political environment
26. Which step in the process of planning will precede the step in which the manager is required to make certain assumptions about the future, which are the base material upon which the plans are drawn.
- (a) Implementing the plan
  - (b) Identifying alternative courses of action
  - (c) Setting objectives
  - (d) Selecting an alternative.
27. "Availability and affordability of the product were considered to be the key to the success of a firm." Identify the concept of marketing management highlighted by this statement.
- (a) Production concept
  - (b) Product Concept
  - (c) Societal concept
  - (d) Marketing Concept

28. Aiming to revive Jammu and Kashmir's attraction as a top location for film shooting the J&K film policy, 2021 offers a host of incentives to the filmmakers, such as subsidies and low long term interest rates, for films with patriotic and certain other themes shot in J&K, for giving work opportunities to local artistes, etc. This will have an impact on business enterprises in the state. Which component of business environment is highlighted above:
- (a) Specific and general forces
  - (b) Technological environment
  - (c) Economic environment
  - (d) Totality of external forces
29. The Topper group is looking to make a foray into manufacturing of semiconductors and it has set up a business to seize the business opportunity and add to its prospects in the long run. The company has already pivoted into a number of new projects like electronics, 5G network equipment, as well as semiconductors. Which economic objective of management does the business seek to fulfill?:
- (a) Survival
  - (b) Growth
  - (c) Profit
  - (d) Efficiency
30. Product cost sets the lower limits of the price, the utility provided by the product and the intensity of demand of the buyers sets the upper limit. So, in case of inelastic demand, total revenue.....when price increases
- (a) Rises
  - (b) Falls
  - (c) Constant
  - (d) Both (a) and (b)

31. "A manager in a conscious manner has to ensure that even where members of a department willingly cooperate, coordination gives direction to the willing spirit." The characteristic of coordination being highlighted above is :
- (a) Coordination is the responsibility of all managers.
  - (b) Coordination is a deliberate function.
  - (c) Coordination integrates group efforts.
  - (d) Coordination is a continuous process
32. For the following two statements choose the correct option: Statement I: Accountability can be delegated Statement II: Responsibility can be delegated completely  
Choose the correct option from the options given below:
- (a) Statement I is correct and II is wrong
  - (b) Statement II is correct and I is wrong
  - (c) Both the statements are correct
  - (d) Both the statements are incorrect
33. The CEO of Radhe Cycles Pvt Ltd. Mr. Kumar wants to get maximum output from the employees at a competitive cost. On the other hand Ramakaant, an employee of the company wants to get the maximum salary while working the least. The Principle of management given by Fayol being violated by Ramakaant is\_\_\_\_\_
- (a) Remuneration
  - (b) Equity
  - (c) Discipline
  - (d) Subordination of individual interest to general interest.
34. Arrange the following steps in the process of organising in the correct sequence:
- (a) Assignment of duties
  - (b) Departmentalisation
  - (c) Identification and division of work
  - (d) Establishing reporting relationship
- Choose the correct option:



- (a) (a); (b); (d); (c)
  - (b) (c); (b); (a); (d)
  - (c) (c); (b); (d); (a)
  - (d) (b); (c); (a); (d)
- 35 The production department at Karishmaa Ltd, a firm manufacturing readymade garments for men has an objective to increase production by 10% but the Sales department does not approve of the increase in production, till changes are brought about in the product to incorporate latest fashion. These kinds of conflicts bring to light the following importance of the force that can help to accomplish the linking of activities of various departments:
- (a) Growth in size
  - (b) Functional differentiation.
  - (c) Specialization
  - (d) Efficiency
- 36 Planning requires logical and systematic thinking rather than guess work. The feature of planning being referred to in the above statement is:
- (a) Planning is a continuous process
  - (b) Planning is futuristic
  - (c) Planning is pervasive
  - (d) Planning is a mental exercise
- 37 Silico Ltd. has appointed the former Consulting executive of Shri Shakti Ltd. Rajan Bahl as its Vice President. What will be his basic task?
- (a) To integrate diverse elements and coordinate activities of different departments.
  - (b) To carry out plans formulated by top managers.
  - (c) To oversee the efforts of the workforce.
  - (d) Help to maintain quality of output.

- 38 The marketing management philosophy which is based on the premise that any activity which satisfies human needs but does not pay attention to the ethical and ecological aspects of marketing cannot be justified is known as:
- (a) Marketing concept
  - (b) Societal marketing concept
  - (c) Production concept
  - (d) Product concept
- 39 Ravi joined a marketing firm as a Sales manager. On his first day in the company, during the orientation programme, the CEO of the company told Ravi that he will have to simultaneously perform the functions of management (planning, organising, staffing, directing, controlling) all the time. Which characteristic of management was the CEO referring to?
- (a) Management is a continuous process
  - (b) Management is all pervasive
  - (c) Management is multidimensional
  - (d) Management is goal oriented
- 40 Unlike professions such as medicine or law which require a practising doctor or lawyer to possess valid degrees, nowhere in the world is it mandatory for a manager to possess any such professional degree. Identify the characteristic of the profession being discussed above which is not being strictly met by management.
- (a) Well defined body of knowledge
  - (b) Restricted Entry
  - (c) Professional Association
  - (d) Ethical code of conduct
- 41 "Following a pre-decided plan, when circumstances have changed, may not turn out to be in the organisation's interest." The limitation of planning being referred to in the above statement is\_\_\_\_\_.

- (a) Planning does not guarantee success
  - (b) Planning may not work in a dynamic environment
  - (c) Planning leads to rigidity
  - (d) Planning is a time consuming process.
- 42 The technique of Scientific Management given by Taylor, which aims to establish interchangeability of manufactured parts and products is \_\_\_\_\_.
- (a) Method Study
  - (b) Motion study
  - (c) Standardization
  - (d) Differential Piece wage system.
- 43 For the following two statements choose the correct option: Statement I: Advertising is an impersonal form of communication Statement II: Advertising lacks direct feedback  
Choose the correct option from the options given below:
- (a) Statement I is correct and II is wrong
  - (b) Statement II is correct and I is wrong
  - (c) Both the statements are correct
  - (d) Both the statements are incorrect
- 44 KTX Group is rolling out an initiative to help create wealth for its employees through the implementation of Employee Stock option. Through motivation and leadership the management will help individuals to develop team spirit, cooperation and commitment to the success of the group. The following importance of management is highlighted above:
- (a) Management helps in achieving personal objectives
  - (b) Management helps in the development of society
  - (c) Management creates a dynamic organisation
  - (d) Management increases efficiency

- 45 If there is a plan to increase production then more labour, more machinery will be required. This step in the process of planning will involve organising for labour and purchase of machinery. Identify the step in the planning process being discussed above.
- (a) Identifying alternative courses of action
  - (b) Setting objectives
  - (c) Selecting an alternative
  - (d) Implementing the plan
- 46 Taylor proposed eight specialists from whom each worker will have to take orders from as part of the technique of Functional Foremanship specified by him. Those with technical, mastery, intelligence and grit may be given\_\_\_\_\_work. Those with energy and good health may be assigned\_\_\_\_\_work.
- (a) Planning, Execution
  - (b) Execution, Planning
  - (c) Production, Planning
  - (d) Implementation, Production
- 47 A person feeling hungry may get food by offering to give money or some other product or service in return to someone who is willing to accept the same for food. The important feature of marketing illustrated above is:
- (a) Exchange mechanism
  - (b) Customer value
  - (c) Creating a market offering
  - (d) Needs and wants
- 48 Assertion : (A) Planning is futuristic  
Reason: (R ) Planning is concerned with the future which is certain and does not require forecast

- (a) Both (A) and ( R ) are correct
- (b) (A) is correct ( R) is incorrect
- (c) Both (A) and ( R) are correct, and R is the correct explanation of A
- (d) Both (A) and ( R) are correct, and R is not the correct explanation of A

### **Section C**

**Read the following text and answer question number 49-54 on the basis of the same.**

'Saarthi', the name has been associated with the manufacturing and sale of Fashion products since 1960, when Kapil Saarthi opened his first retail fashion clothing outlet in Ahmedabad. Sarthi Cosmetics was incorporated in India in 1940, and became a member of the S & M family of companies in 1959. Sarthi Perfumes began operations in Gujarat in an existing administrative S&M facility in 1985. An important difference between S&M and most other companies is that instead of operating as one large corporation it operates as 180 smaller companies each focused on a specific product and area, implying selective dispersal of authority, recognising the decision makers need for autonomy, as decision making authority is pushed down the chain of command. It enables the company to maintain short lines of communication with customers and employees, and accelerate the development of talent.

- 49 Identify the philosophy that is being followed by S&M through which it is dividing the decision making responsibilities among hierarchical levels.
- (a) Delegation of authority
  - (b) Decentralization of authority;
  - (c) Division of work
  - (d) Span of management.

50. 'Why is there, need to apply the philosophy being followed by S&M, with caution?
- (a) As it can cause a delay in communication
  - (b) As it can cause disintegration of the organisation
  - (c) As it can increase the workload of the top management
  - (d) As it can reduce the chances of growth of the firm.
- 51 The application of the philosophy discussed above can foster a sense of competition amongst the departments, which in turn will help the firm in the following manner:
- (a) Facilitates growth
  - (b) Better control
  - (c) Relief to top management
  - (d) Quick decision making.
- 52 Quote the line from above which highlights the importance of the philosophy towards providing management education to employees.
- (a) "Maintain short lines of communication
  - (b) 'Accelerate the development of talent'
  - (c) 'selective dispersal of authority;
  - (d) 'Recognises decision makers need for autonomy'
- 53 As "The decision making authority is pushed down the chain of command" at S&M enterprises, it provides the benefit of quick decision making to the organisation because:
- (a) There is no requirement for approval from many levels
  - (b) Organisation is able to generate more returns
  - (c) There are innovative performance systems
  - (d) It's a means of management education

- 54 The philosophy being followed by S&M is not followed by most other companies. This tells us that the philosophy is :
- (a) Optional
  - (b) Compulsory
  - (c) Limited to superior and his subordinate
  - (d) Merely done to lessen the burden of the manager
- 55 Mohammad Kanjiwal, a beekeeper since April 2021 is now part of the growing tribe of at least 50 urban dwellers across Maharashtra raising bees and harvesting honey in their balconies, rooftops and back gardens. As he had been focussed on eating right the thought of domesticating honey bees to promote healthy consumption habits and seeing honey being cultivated right before his eyes was mesmerising for him. Identify the factor constituting the general environment being discussed above.
- (a) Economic environment
  - (b) Social environment
  - (c) Technological environment
  - (d) Political environment
- 56 Zolo, a marketer of cars having 40 % of the current market share of the country aims at increasing the market share to 70% in next few years. For achieving this objective the manager of the company specified the action programme covering various aspects. Identify the function of marketing discussed above:
- (a) Customer support services
  - (b) Gathering and Analysing market information
  - (c) Product designing and development
  - (d) Marketing Planning

- 57 Style and Fit, a footwear manufacturing company has decided to offer 50 % off on all its products due to the fall in demand of its products as more efficient substitutes have been introduced in the market. Identify the pricing objective included by the firm which has made the firm resort to discounting its product.
- (a) Obtaining market share leadership
  - (b) Surviving in the competitive market
  - (c) Attaining product quality leadership
  - (d) Protect the interest of public
- 58 A sanitizer manufacturing company wants to become a market leader. For this purpose the manager follows an activity with certain logical steps. The first step suggested by him is to increase profits by at least 30% in the next quarter. What will be the last step of the activity being followed by the manager.
- (a) Follow-up action
  - (b) Identifying alternative course of action
  - (c) Setting objectives
  - (d) Evaluating alternative courses of action
- 59 In Shalleen Pvt Ltd. there is one head Shalleen who has two lines of authority under her. One line consists of Sara-Rajat-Abhishek-Ismail-Chris. Another line of authority under Shalleen is Lata-Rupa-Geet-Hussain-Preeti. According to a Principle of Management given by Fayol, If Ismail has to communicate with Hussain who is at the same level of authority then illustrate the route he will have to traverse.
- (a) Ismail-Abhishek-Rajat-Sara-Shalleen-Lata-Rupa-Geet-Hussain
  - (b) Hussain-Geet-Rupa-Lata-Shalleen-Sara-Rajat-Abhishek-Ismail



- (c) Ismail-Chris-Shalleen-Preeti-Hussain
  - (d) Ismail-Abhishek-Rajat-Sara-Lata-Rupa-Geet-Hussain
- 60 According to the technique of Scientific management “Differential Piece Wage system” How much more will a worker making 60 units earn as compared to a worker making 49 units? If the standard output per day is 50 units and those who make standard output or more than standard get Rs. 75 per unit and those below get Rs. 65 per unit.
- (a) Rs. 4500
  - (b) Rs. 3185
  - (c) Rs. 1315
  - (d) Rs. 3250

<b>Q. No.</b>	<b>MARKING SCHEME CLASS XII (2021-22) TERM 1 SUBJECT: BUSINESS STUDIES</b>
1.	(b)
2.	(c)
3.	(c)
4.	(a)
5.	(a)
6.	(b)
7.	(b)
8.	(d)
9.	(d)
10.	(d)
11.	(b)
12.	(a)
13.	(a)
14.	(c)
15.	(c)
16.	(d)
17.	(c)
18.	(b)
19.	(c)
20.	(b)
21.	(b)
22.	(a)

<b>Q. No.</b>	<b>MARKING SCHEME CLASS XII (2021-22) TERM 1 SUBJECT: BUSINESS STUDIES</b>
23.	(b)
24.	(b)
25.	(c)
26.	(c)
27.	(a)
28.	(c)
29.	(b)
30.	(a)
31.	(b)
32.	(d)
33.	(d)
34.	(b)
35.	(b)
36.	(d)
37.	(a)
38.	(b)
39.	(a)
40.	(b)
41.	(c)
42.	(c)
43.	(c)
44.	(a)

<b>Q. No.</b>	<b>MARKING SCHEME CLASS XII (2021-22) TERM 1 SUBJECT: BUSINESS STUDIES</b>
45.	(d)
46.	(a)
47.	(a)
48.	(b)
49.	(b)
50.	(b)
51.	(a)
52.	(b)
53.	(a)
54.	(a)
55.	(b)
56.	(d)
57.	(b)
58.	(a)
59.	(a)
60.	(c)





