

CBSE Answers NCERT Solutions Class 12 Business Studies

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Short Answer Type Questions

Question 1. Define management.

Answer: Management is defined as a process of getting things done with the aim of achieving goals effectively and efficiently.

or

It is a process of designing and maintaining an environment in which individuals working in groups, can achieve selected objectives efficiently and effectively.

Question 2. Name any two important characteristics of management.

Answer: Pervasive and Multi-dimensional

Question 3. Ritu is the manager of the Northern division of a large corporate house. At what level does she work in the organisation? What are her basic functions?

Answer: Ritu is working at the middle level. Her basic functions are (number of functions should be given according to the marks allotted for the question).

1. Interpreting the policies formed by the top level management and acting as a link between top level management and operative management
2. Assigning necessary duties to the employees.

Question 4. Why is management considered a multi-faceted concept?

Answer: Management is considered as a multi-faceted concept because it is a complex activity that has three main dimensions. These are

1. **Management of Work** All organisations perform some work e.g., producing or selling. A work is defined as the goals to be achieved
2. **Management of People** The main asset of an organisation is the human resources. This resource has to be managed in such a manner that it helps to achieve the goals of the organisations.
3. **Management of Operations** All organisations either produce a product or provide a service. This requires a production process which means using an operation to convert the inputs into the output. It is interlinked with both management of work and management of output.

Question 5. Discuss the basic features of management as a profession.

Answer: Basic features of management as a profession: Management as a profession has the following features which are as follows:

1. **Well-defined Body of Knowledge** All professionals are based on a well-defined body of knowledge that can be acquired through instruction.
2. **Professional Association** There are several associations of practicing managers in India, like the AIMA (All India Management Association) that has laid the code of conduct to regulate the activities of their members.
3. **Service Motive** All business organisations aim to provide good quality product or service at a reasonable price thus serving the society.

Thus, we can say management does not meet the exact criteria of a profession but it has some features as a profession

Long Answer Type Questions

Question 1. Management is considered to be both an art and science. Explain.

Answer : Art is the skillful and personal applications of existing knowledge to achieve desired goal. Management is considered an art due to the following reasons

1. **Existence of Theoretical Knowledge** All art subjects are based on theoretical knowledge e.g., written material is available on dancing, time arts, music etc. Similarly there is lot of literature available on management and its branches – finance, marketing, human resource etc.
2. **Personalised Application** The use of this basic knowledge differs from one individual to the other. Two painters, two dancers or two singers all use their knowledge in their own way. Same way two managers who have acquired the same knowledge may use it in their own different ways to get the work done.
3. **Based on Practice and Creativity** All art is practical. It involves creative practice. The more we practice it, the better we become at it. It also requires creativity.

Same way a manager applies his acquired knowledge in a unique manner. More practice makes him a better manager and he also develops his own style of management.

Management is an In-exact Science

1. **Systematised Body of Knowledge** Science is a systematised body of knowledge. Its principles are based on cause and effect relationship. e.g., water evaporates on being heated. Similarly, management is a body of systematised knowledge. All managerial principles have cause and effect relationship.
2. **Principles Based on Experimentation** Scientific principles are first developed through observation and then tested through repeated experimentation. Similarly, management principles are also propounded after observation and repeated experimentation.
3. **Universal Validity** All scientific principles have universal validity. They give the same result wherever applied.

Principles of management do not have universal validity. They have to be adjusted and applied according to the need of the situation.

Thus, management is an in-exact science.

Question 2. Do you think management has the characteristics of a full-fledged profession?

Answer : No, management does not possess all the characteristics of a full-fledged profession. The reasons go as follows

1. **Well-defined Body of Knowledge** All professions are based on a well-defined body of knowledge that can be acquired through teaching – learning process. This feature of a profession is possessed by management as well. There is vast knowledge available on management in the form of definitions, concepts, theories, principles etc.
2. **Restricted Entry** All professions have a restriction on the entry of its practitioners. They have to acquire a specific degree to be professional e.g., LLB for a lawyer, MBBS for a doctor etc. But a manager can be an MBA qualified or not.
3. **Professional Association** All professions are affiliated to a professional association which regulates entry, grants certificate of practice and formulates a code of conduct e.g., all lawyers have to be a member of Bar Council to practice law. It is not compulsory for all managers to be a member of AIMA.
4. **Ethical Code of Conduct** All professions are bound by an ethical code of conduct which guides the behaviour of its members. But as it is not compulsory for all managers to be members of AIMA, they all may not be aware of the prescribed code of conduct of AIMA.
5. **Service Motive** All basic motive to serve their client's interest. e.g., lawyers to get justice for their clients, doctors to treat the patients etc. All managers also work in a manner where by

they show their effectiveness and efficiency in the form of good quality goods provided to the customer at a reasonable price.

Thus, management possesses some characteristics of a profession but not all.

Question 3. Co-ordination is the essence of management. Do you agree? Give reasons.

Answer : Co-ordination plays a vital role as it binds all the other functions of management. It is the common thread of all activities such as purchase, production, sales etc that runs through. Some of the basic features are as follows

1. **Integrates Group Efforts** Co-ordination brings unity to all. It gives a common focus to group efforts.
2. **Ensures Unity of Actions** It acts as a binding force between departments and ensures that all action is aimed at achieving the goals of the organisation.
3. **It is a Continuous Process** Co-ordination is not a one time function but a continuous process. It begins at the planning stage and continues till controlling.
4. **It is an All Pervasive Function** Co-ordination is required at all levels of management due to the interdependent nature of activities of various departments. It integrates the efforts of different departments and different levels.
5. **It is the Responsibility of All Managers** All managers need to co-ordinate something or the other. A manager of production department needs to co-ordinate the work within his department and also with the other departments at the same time.
6. **It is a Deliberate Function** Whatever the managers are doing in an organisation they are doing it knowingly. Co-ordination is one of the most important functions of all managers. Thus co-ordination is also done deliberately. Whatever the managers do, they do it deliberately to achieve the predetermined goals and objectives.

Thus, we can say co-ordination is the essence of management after analysing these points.

Question 4. “A successful enterprise has to achieve its goals effectively and efficiently.” Explain.

Answer : “A successful enterprise has to achieve its goals effectively and efficiently”. Thus, management has to see that tasks are completed and goals are achieved with the minimum resources. Management is thus getting things done with the aim of achieving goals effectively and efficiently. Being effective or doing work effectively basically means finishing the given task. It is concerned with end result, it is achieved or not. Efficiency means doing the work correctly and with minimum cost. If by using less resources more benefits are derived then efficiency has increased. It is thus essential for any organisation to focus on efficiency as well as effectiveness. It is not only important to complete the work correctly but equally important to complete it with minimum cost. In the same manner, it is not only important to reduce cost but equally important to complete the work correctly.

Question 5. Management is a series of continuous inter-related functions. Comment.

Answer : Management is a series of continuous inter-related functions. Each one of them performed to guide and direct the efforts of others.

1. **Planning** Planning is the primary function which runs through all other functions. It is the process of thinking before doing. It bridges the gap between where we are and where we want to go.
2. **Organising** It is the process of defining the formal relationship among people and resources to accomplish the desired goals. It involves
 - (a) Identification and division of work
 - (b) Departmentalisation
 - (c) Assigning of duties
 - (d) Establishing reporting relationships
3. **Staffing** Organisational goals can be achieved only through human efforts. It is the duty of management to make the best possible use of this resource. Thus, placing the right person on the right job is very important. Staffing helps management to motivate, select and place the right person on the right job.

4. **Directing** Directing involves leading, influencing and motivating employees to perform the tasks assigned to them. This requires establishing an atmosphere that encourages employees to do their best. Directing comprises of four elements; supervision, motivation, leadership and communication.
5. **Controlling** Controlling is the management function of monitoring organisational performance towards the attainment of organisational goals. The task of controlling involves
 - (a) Establishing standards of performance
 - (b) Measuring current performance
 - (c) Comparing this with established standards
 - (d) Taking corrective action

Multiple Choice Questions

Question 1. Which is not a function of management of the following?

- (a) Planning
- (b) Staffing
- (c) Co-operating
- (d) Controlling

Answer : (c) Co-operating is not the function of management.

Question 2. Management is

- (a) an art
- (b) a science
- (c) Both art and science
- (d) Neither

Answer : (c) Management has features of both art and science as it relies on practice, thus it an art and it is based on the principles which are the outcome of science. Thus, it is science also.

Question 3. The following is not an objective of management

- (a) earning projects
- (b) growth of the organisation
- (c) providing employment
- (d) policy making

Answer : (d) Policy making is not the objective of management.

Question 4. Policy formulation is the function of

- (a) top level managers
- (b) middle level managers
- (c) operational management
- (d) All of these

Answer : (a) Top level managers focusses on determination of objectives and formulation of policies.

Question 5. Co-ordination is

- (a) function of management
- (b) the essence of management
- (c) an objective of management
- (d) None of these

Answer : (b) Co-ordination brings unity of action and integrates different activities. Thus, it is considered as the essence of management.

Case Problems

1. Company X is facing a lot of problems these days. It manufactures white goods like washing machines, micro-waves, refrigerators and air conditioners. The company's margins are under pressure and the profits and market share are declining. The production department blames marketing for not meeting sales targets and marketing blames production department for producing goods, which are not of good quality meeting customers expectations. The finance department blames both production and marketing for declining return on investment and bad marketing.

Question : What quality of management do you think the company is lacking? Explain briefly. What steps should the company management take to bring the company back on track?

Answer : Co-ordination IS missing in Company X. All the departments are not co-ordinating with each other and that is why they end up blaming each other for the poor performance. To bring co-ordination, management should take the following steps

1. After the goals are established, it should be communicated to all departments well in advance to understand its importance and their role in helping to achieve it.
 2. Managers ensure that all departments co-ordinate with each other.
 3. Wherever is the difference of interest, the managers should try and strike a balance so that they all work in the same direction.
 4. Meetings between the departmental heads of production, marketing, finance etc should be organised on regular basis and in routine to solve problems when they emerge.
2. A company wants to modify its existing product in the market due to decreasing sales. You can imagine any product about which you are familiar.

Question : What decisions/steps should each level of management take to give effect to this decision?

Answer : The three levels of management will work together towards the modification of the product with the motive of increasing sales. The following are the three levels of management.

1. Top Management
2. Middle Management
3. Lower Management

Decisions Taken by Top Management for Increasing Sales

1. Direction of modification.
2. Drafting sales targets and various sales plans and sales incentives.
3. How to enhance the value of the product in qualitative terms?
4. Thinking of the financial requirements.
5. Marketing and promotional techniques required for fastening the sales.

Decisions Taken by Middle Level Management for Increasing Sales

1. Interpretation of the policies framed by top management to the lower level management.
2. Hiring necessary personnel with the required qualities and qualifications.
3. Assigning responsibility as per capability and establishing the supervisor-subordinate relationship.
4. Co-operating with the team members as well as first line supervisors.
5. Taking the feedback and arranging the follow up meeting.

Decisions Taken by Lower Level Management for Increasing Sales

1. Interpretation of planned targets to the actual work force and labourers.
 2. Helping and directing the workers regarding how to carry out the work.
 3. Maintaining standards, quality control and frequent checks
 4. Minimisation of wastage and motivating the workers so that they can deliver up to their maximum potential.
 5. Communicating the grievances and feedback to the middle management and bringing in the changes if required
3. A firm plans in advance and has a sound organisation structure with efficient supervisory staff and control system. On several occasions, it finds that plans are not being adhered to, It leads to confusion and duplication of work.

Question : Advise remedy.

Answer : As per the case, the problem is in co-ordination and in communicating the work schedule. Because the duplication of work implies that there is a lack of co-ordination in between the levels of management as well as there is a problem in communication because the confusion is only arise when the things are not communicated properly.

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Multiple Choice Questions

Question 1. Principles of management are not

- (a) universal
- (b) flexible
- (c) absolute
- (d) behavioural

Answer (c) Principles of management are not absolute as they are flexible behavioral and universal nature

Question 2. How are principles of management formed?

- (a) In a laboratory
- (b) By experiences of managers
- (c) By experiences of customers
- (d) By propagation of social scientists

Answer (b) Principles of management are formed by the experiences of manager as It provides useful Insights into reality.

Question 3. The principles of management are significant because of

- (a) increase in efficiency
- (b) initiative
- (c) optimum utilization of resources
- (d) adaptation to changing technology

Answer (c) Principles of management are Significant because It helps in increasing overall efficiency.

Question 4. Henry Fayol was a

- (a) social scientist
- (b) mining engineer
- (c) accountant
- (d) production engineer

Answer (b) Henry Fayol was a mining engineer and management theorist.

Question 5. Which of the following statement best describes the principle of 'Division of Work'?

- (a) Work should be divided into small tasks
- (b) Labour should be divided

- (c) Resources should be divided among jobs
- (d) It leads to specialisation

Answer (a) Division of work implies division of work into small tasks.

Question 6. 'She/He keeps machines, materials, tools etc ready for operations by concerned workers'. Whose work is described by this sentence under functional foremanship?

- (a) Instruction card clerk
- (b) Repair boss
- (c) Gang boss
- (d) Route clerk

Answer (c) Gang boss, keeping machines and tools.

Question 7. Which of the following is not a Principle of management given by Taylor?

- (a) Science, not rule of the thumb
- (b) Functional foremanship
- (c) Maximum not restricted output
- (d) Harmony not discord

Answer (b) Taylor advocated separation of planning and execution functions. This concept is known as functional foremanship.

Question 8. Management should find 'One best way' to perform a task. Which technique of scientific management is defined in this sentence?

- (a) Time study
- (b) Motion study
- (c) Fatigue study
- (d) Method study

Answer (d) The objective of method study is to find out one best way of doing job.

Question 9. Which of the following statements best describes 'Mental Revolution'?

- (a) It implies change of attitude
- (b) The management and workers should not play the game of one upmanship
- (c) Both management and workers require each other
- (d) Workers should be paid more wages

Answer (a) Mental revolution implies change in the attitude of workers and management towards one another.

Question 10. Which of the following statements is false about Taylor and Fayol?

- (a) Fayol was a mining engineer whereas Taylor was a mechanical engineer
- (b) Fayol's principles are applicable in specialised situations whereas Taylor's principles have universal application
- (c) Fayol's principles were formed through personal experience whereas Taylor's principles were formed through experimentation
- (d) Fayol's principles are applicable at the top level of management whereas Taylor's principles are applicable at the shop floor

Answer (b) Fayol's principles are universally applicable whereas Taylor's principles applied in special situations

Short Answer Type Questions

Question 1. How is the Principle of 'Unity of Command' useful to management? Explain briefly.

Answer Principle of Unity of Command implies that each and every subordinate should have one and only one boss. Orders and instructions should come from only one head. This helps the working of any organisation in the following manner:

1. Authority-responsibility relationship is clearly defined.
2. Subordinates are known for whom they are accountable.
3. Discipline and order is maintained.

Question 2. Define scientific management. State any three of its principles.

Answer Scientific management can be defined as knowing exactly what you want from men to do and seeing that they do it in the best and cheapest way.

Scientific management aims at choosing the best. Method to get the maximum output from the workers the principles of scientific management are mainly applicable to the shop-floor level.

Three principles of scientific management are as follows

1. **Science, Not Rule of Thumb** When different managers use their own different methods to get the work done it is rule of thumb. Taylor believed that there was only one best method to maximise efficiency. Taylor advised that every organisation should compare the results of different methods, test them again and again and finally select one best method of getting the work done.
2. **Harmony, Not Discord** Managers are an extension of the management and serve as a link between workers and the owners. Workers have to take instructions from the managers and managers have to get the work done through the workers. Oftentimes the relation between them is spoilt which is very harmful for everyone-workers, managers and owners. This class conflict should be replaced by harmony between the two. Both should change their thinking towards each other. Both should give importance to each other. This is known as mental revolution.
3. **Co-operation, Not Individualism** There should be complete co-operation between the labour and the management instead of individualism. This principle is an extension of the principle of 'Harmony not discord.' The management and the workers should not compete with each other rather co-operate with each other. Management should consider all good suggestions made by the employees which can help in cost reduction. At the same time, workers should never think of going on strikes in order to get their unreasonable demands fulfilled.

Question 3. If an organisation does not provide the right place for physical and human resources in an organisation, which principle is violated? What are the consequences of it?

Answer The principle of order is violated if an organisation does not provide the right place for physical and human resources.

If this principle is violated then

1. Lots of time will be wasted in locating the different resources.
2. This will lead to delayed decisions.
3. Wastage of energy which will lead to inefficiency and delay in production.
4. Causes hindrance in the activities of business.

Question 4. Explain any four points regarding significance of Principles of management.

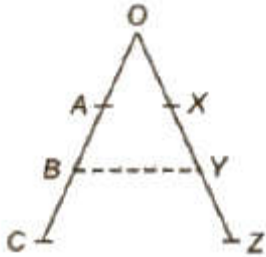
Answer Significance of principles of management

1. **Providing Managers with Useful Insights into Reality** When managers follow principles it adds to their knowledge, ability and understanding of managerial situations and circumstances. This improves managerial efficiency e.g., when managers use principle of delegation then they get more time to concentrate on critical areas of working.
2. **Scientific Decision Making** management principles help in thoughtful decision making. They emphasise on logic rather than blind faith. Here, decisions are based on the objective assessment of the situation.
3. **Optimum Utilisation of Resources and Effective Administration** Principles help the managers to conceptualise the net effect of their decision rather than going for trial and error method resulting in saved time, efforts and energy thereby increased productivity.
4. **Management Training, Education and Research** Principles of management are the base for management theory. As such they are used as a basis for management training, education and research. These principles provide basic groundwork for the development of management as a subject. Professional courses like BBA, MBA also teach these principles as part of their curriculum.

Question 5. Explain the principle of 'Scalar Chain' and gang plank.

Answer Principle of Scalar Chain and Gang plank

The formal lines of authority from highest to lowest ranks are known as scalar chain. According to Fayol, "Organisation should have a chain of authority and communication that runs from top to bottom and should be followed by managers and subordinates.



In the diagram, O is heading 2 teams where A and X are at the same level, B and Y are at the same level and C and Z are at the same level. The line of communication is clearly defined A to B to C and X to Y to Z. Authority responsibility relationship is also very clear. But C and Z cannot directly contact each other. This some times may take lot of time during an emergency to communicate as per the prescribed flow to avoid this problem a system known as 'Gang Plank' was introduced where in C could contact each other and same way B and Y could contact each other.

Long Answer Type Questions

Question 1. Explain the principles of scientific management given by Taylor.

Answer Principles of scientific management are given by FW Taylor

1. **Science, Not Rule of Thumb** When different managers use their own different methods to get the work done it is rule of thumb. Taylor believed that there was only one best method to maximise efficiency. Taylor advised that every organisation should compare the results of different methods, test them again and again and finally select one best method of getting the work done.
2. **Harmony, Not Discord** Managers are an extension of the management and serve as a link between workers and the owners. Workers have to take the instructions from the managers and managers have to get the work done through the workers. Sometime the relation between them is spoilt, which is very harmful for everyone-workers, managers and owners. This class conflict should be replaced by harmony between the two. Both should change their thinking towards each other. This is known as mental revolution.
3. **Co-operation, Not Individualism** There should be complete co-operation between the labour and the management instead of individualism. This principle is an extension of principle of harmony, not discord. The management and the workers should not compete with each other rather co-operate with each other. Management should consider all good suggestions made by the employees which can help in cost reduction. At the same time workers should never think of going on strikes in order to get their unreasonable demands fulfilled.
4. **Development of Each and Every person to His or her Greatest Efficiency and Prosperity** Scientific management also stood for worker development. Taylor believed that workers should be aware of the 'best method'. On the other hand, all organisations should select employee carefully in order to get maximum efficiency. When the duties are allotted, perfect match should be made between the requirements of the job and the capabilities of the worker. Training should be provided to improve the skills further. In this way, efficiency will go higher resulting in prosperity for both workers and company.

Question 2. Explain the following principles of management by Fayol with examples.

- (a) Unity of direction
- (b) Equity
- (c) Esprit de Corps
- (d) Order

(e) Centralisation and decentralisation

(f) Initiative

Answer Fayol introduced general principles of management. Some of them have been explained below.

(a) Unity of Direction All the units of an organisation should be moving towards the same objective. Each group of activities having the same objective must have one head and one plan. Each group should have its own in-charge and on no account the working of two divisions neither be overlapped.

(b) Equity This principle emphasises kindness and justice in the behaviour of managers towards workers. This will ensure loyalty and devotion. Lazy personnel should be dealt sternly and strictly. There should be no discrimination against anyone on account of gender, religion, caste, language or nationality etc. All decisions should be merit-based.

(c) Esprit de Corps This principle emphasises on building harmony and team spirit among employees. In a large organisation, large work force teamwork is very important. Teamwork leads to better co-ordination while working. The head of each team should give credit of good result to the whole team rather than confining it to his own self.

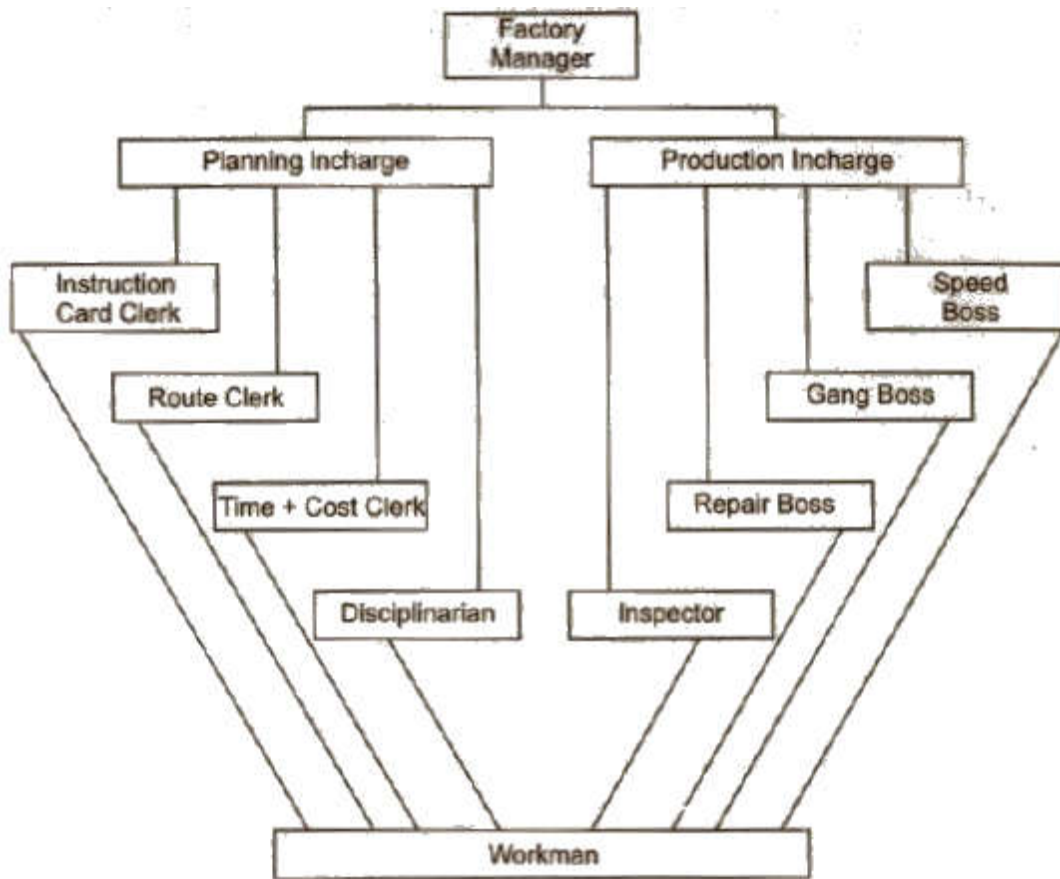
(d) Order A place for everything and everyone in his/her place. Basically it means orderliness. If there is a fixed place for different things in a factory and they remain in their places then no time is wasted in locating them. Same way if every personnel is allocated an area to operate from then his co-workers, head or subordinates, anyone can contact him easily.

(e) Centralisation and Decentralisation Concentration of authority in a few hands is centralisation and its dispersal among more number of people is decentralisation. Fayol believed that an organisation should not work with anyone of them in isolation. A combination of both is important. Simple, easy and work of routine type should be decentralised and critical important type of work should be centralised.

(f) Initiative Initiative means taking the first step with self-motivation. Workers should be encouraged to develop and carry out their plans for improvements according to Fayol. Initiatives should be encouraged. A good company should invite suggestions from employees which can result in substantial cost/time reduction. Rewards can be given to fruitful suggestions.

Question 3. Explain the technique of 'Functional Foremanship' and the concept of 'Mental Revolution' as enunciated by Taylor.

Answer Functional Foremanship: Taylor advocated separation of planning and execution functions. This concept was extended to the lowest level of the shop floor. It was known as functional foremanship.



Under the factory manager, there is a planning incharge and a production incharge.

Under the planning incharge, the work goes as follows

1. Instruction Card Clerk Draft instructions for the workers,
2. Route Clerk Specify the route of production.
3. Time and Cost Clerk Prepare time and cost sheet.
4. Disciplinarian Ensure discipline,

Under the production incharge, the work goes as follows

1. Speed Boss Timely and accurate completion of work,
2. Gang Boss Keeping tools and machines ready for operation by workers.
3. Repairs Boss Ensure proper working conditions of machines.
4. Inspector Check the quality of work.

Mental Revolution

In a factory, the managers served as a link between the owners and the workers. The managers have to get the work done from the workers which created sometimes problem between the two. Taylor emphasized that there should be harmony between the management and workers. Both should realise that each one is important. For this both had to change their thoughts for each other, This is known as 'Mental Revolution'. Management should share the gains of the company with the workers and at the same time workers should work hard and be ready to accept any change made for the betterment of the organisation.

Question 4. Discuss the following techniques of scientific work study

- (a) Time study
- (b) Motion study
- (c) Fatigue study
- (d) Method study
- (e) Simplification and standardisation of work

Answer Some of the techniques of scientific work study are

(a) **Time Study** It determines the standard time taken to perform a well-defined job. The standard time is fixed for the whole of the task by taking several readings. The method of time study will depend upon volume and frequency of the task, the cycle time of the operation and time measurement costs. There are three objectives achieved through time study

1. Determine the number of workers
2. Frame suitable incentive schemes
3. Determines labour costs.

e.g., If standard time taken to do a piece of work is 20 minutes then one work can be done 3 times in an hour and total 21 times (3 x 7 hours per day) the work can be done on a single day.

(b) **Motion Study** Motion study refers to the study of movements like lifting, putting, objects, sitting and changing positions. On close examination of body motions e.g., it is possible to find out three types of motions

1. Motions which are productive.
2. Motions which are incidental.
3. Motions which are unproductive.

Out of the above three workers were motivated to eliminate the third type completely and reduce the second one to the minimum. This helps in increasing productivity.

(c) **Fatigue Study** Fatigue study seeks to determine the amount and frequency of rest intervals in completing a task. A person is bound to feel tired physically and mentally if he does not take rest while working. The next intervals will help one to regain stamina and work again with the same efficiency for e.g., in an organisation working hours are 9 to 5. There is a lunch break of an hour for the workers to take rest similarly. In a school there is a break for the students and teachers after 4 periods of continuous learning.

(d) **Method Study** The objective of method study is to find out one best way of doing the job. Different managers would use their own different methods of getting the work done. But there is always one best method. Right from procurement of raw materials till the final product is delivered to the customer every activity is the part of method study. The objective of whole exercise is to minimise the cost of production and maximise the satisfaction of the customer.

(e) **Simplification and Standardisation of Work** Standardisation refers to the process of setting standards for every business activity e.g., process, raw material, time, product, machinery, methods or working conditions. The objectives of standardisation are

1. To reduce product to fixed types, sizes, features etc.
2. To establish interchangeability of various parts.
3. To establish standards of excellence and quality in materials.
4. To establish standards of performance of men and machines.

Simplification aims at eliminating unnecessary diversity of products. It results in savings of cost of labour, machines and tools. It implies reduced inventories, fuller utilisation of equipment and increasing turnover.

Question 5. Discuss the differences between the contributions of Taylor and Fayol.

Basis	H Fayol	FW Taylor
Perspective	Top level management	Lower level management
Unity of command	Followed	Not followed (functional foremanship)
Applicability	Universal applicable	Application as per the specialised situations
Basis of formation	Personal experience	Observation experimentation
Focus	To improve overall working	Increase productivity
Personality	Practitioner	Scientist
Expression	General theory of administration	Scientific management

Question 6. Discuss the relevance of Taylor and Fayol's contribution in the contemporary business environment.

Answer Relevance of Taylor and Fayol's contribution in the contemporary business environment. Both Fayol and Taylor have given principles of management to improve efficiency in an organisation. Taylor gave us scientific principles of management which are being adopted by all organisations to improve its productivity at the shop floor level, the principles help in giving effective results. In the same manner, Henry Fayol gave in general principles of management which when implemented at any of the levels-top, middle or lower and helps in achieving better co-ordination, remove ambiguity and encourage the employees to improve their work performance.

Case Problems

1. 'F' limited was engaged in the business of food processing and selling its products under a popular brand. Lately the business was expanding due to good quality and reasonable prices. Also with more people working the market for processed food was increasing. New players were also coming to cash in on the new trend. In order to keep its market share in the short run the company directed its existing workforce to work overtime.

But this resulted in many problems. Due to increased pressure of work, the efficiency of the workers declined. Sometimes the subordinates had to work for more than one superior resulting in declining efficiency. The divisions that were previously working on one product were also made to work on two or more products. This resulted in a lot of overlapping and wastage. The workers were becoming undisciplined. The spirit of teamwork, which had characterised the company, previously was beginning to wane. Workers were feeling cheated and initiative was declining. The quality of the products was beginning to decline and market share was on the verge of decrease.

Actually the company had implemented changes without creating the required infrastructure.

Question 1. Identify the principle of management (out of 14 given by Henry Fayol) that were being violated by the company.

Answer Company violated following principles

1. Division of work
2. of command
3. Unity of direction
4. Discipline
5. Subordination of individual interest to general interest
6. Order
7. Initiative
8. Remuneration

Question 2. Explain these principles in brief.

Answer

1. Division of Work As per the case work is not divided among the workers as per their specialisation. As specialisation is the most efficient way to use human efforts and produces more and better work.
2. Unity of Command In the case subordinates had to work for more than one superior. This results in declining efficiency. As per Fayol's principle of unity of command there should be one boss and if it is violated it results in authority is undetermined, discipline is in jeopardy, order distributed and stability threatened. Same we are observing in the above case.
3. Unity of Direction The units of an organisation should be moving towards the same objective. Each group must be having same objective must have one head one plan. But in case first the producers are working on one product then moved to two or more group. Thus, this principle is also violated.
4. Discipline In the case, there is a lack of formalised control as the workers are working beyond their abilities. There is no rules and regulations as well as lack of employment agreement.

5. Subordination of Individual Interest to General Interest Every individual is working better only when the organisation is giving priority to their general interest. In the case, company is only focusing over its objective not on employees.
6. Order People and materials must be in suitable places at appropriate time for maximum efficiency. But In case they are not following the order of anything.
7. Initiative It implies that workers should be self motivated, suggestions should be taken from the employees. It results in substantial cost and time reduction but here they are taking no feedbacks, no suggestions.
8. Remuneration The workers should get the fair wages but in case workers are performing day and night but they are not getting a fair amount for the same. This results that they are feeling cheated.

Question 3. What steps should the company management take in relation to the above principles to restore the company to its past glory?

Answer Following steps should be taken by the company to retain its past glory

1. Work is divided into small tasks and distributed among the employees as per their specialisation.
 2. There should be one boss.
 3. Functions should be performed under one head or one plan.
 4. Formalised control should be maintained.
 5. Proper remuneration and Impressive Incentives should be given
 6. Hierarchical communication pattern is to be followed
 7. Suggestions and feedback should be taken from the employees.
 8. Maintain high morale among employees
2. The management of company 'F' Limited now realised its folly. In order to rectify the situation, it appointed a management consultant 'M consultants' to recommend a restructure plan to bring the company back on the rails. 'M consultants' undertook a study of the production process at the plant of the company 'F' limited and recommended the following changes
1. The company should introduce scientific management with regard to production.
 2. Production Planning including routing, scheduling, dispatching and feedback should be implemented.
 3. In order to separated planning from operational management 'Functional foremanship' should be introduced.
 4. Work study should be undertaken to optimise the use of resources.
 5. 'Standardisation' of all activities should be implemented to increase efficiency and accountability.
 6. To motivate the workers 'Differential Piece Rate System' should be implemented.
 7. The above changes should be introduced apart from the steps recommended in case problem-1 (as an answer to question number 3 of that case problem).

It was expected that the changes will bring about a radical transformation in the working of the company and it will regain its pristine glory.

Question 1. Do you think that introduction of scientific management as recommended by M consultants will result in intended outcome.

Answer Though scientific management IS the best solution but still it Will not be able to give very effective results as It has its own limitations

1. As competition has Increased market research now Will not help much.
2. Appointing professionals which increase the cost.
3. Principle of initiative will not help if functional foremanship will also be adopted.
4. In differential piece wage system only efficient workers may gain, the others will be in pain as they might lose their wages if target not met. This will lead instability which is harmful.
5. Lot of stress will be generated from top to lower level.

Question 2. What precautions should the company undertake to implement the changes?

Give your enunciated answer with regard to each technique in points 1 through 6 in the case problem.

Answer A large number of changes will not be accepted by anyone. So the company should play safe while making any changes.

1. Trained staff can be appointed for few areas and workers can be trained to improve efficiency levels.
2. Production planning to be done with care.
3. Functional foremanship can be introduced but it not lead to clear killing of initiative. Workers should be consulted for suggestions.
4. Optimum use of method, time, motion and fatigue study should be done. ,
5. Standardisation can be implemented for material, machinery and features of product.
6. Financial incentives should be provided to workers to get more work rather than adopting differential piece wage system.



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Multiple Choice Questions

Question 1. Which of the following does not characterise the business environment?

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

Answer (b) Employees does not characterise the business environment

Question 2. Which of the following best indicates the importance of business environment?

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

Answer (d) Identification, Improvement in performance, coping with rapid changes all are the indicators of importance of business environment.

Question 3. Which of the following is an example of social environment?

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

Answer (d) Social environment includes social forces thus, composition of families is the example of social environment

Question 4. Liberalisation means

- (a) integrating among economies
- (b) reduced Government controls and restrictions
- (c) policy of planned disinvestments
- (d) None of the above

Answer (b) Liberalisation means end of license, quota and reduction of government controls and restrictions

Question 5. Which of the following does not explain the impact of Government policy changes on business and industry?

- (a) More demanding customers
- (b) Increasing competition
- (c) Change in agricultural prices
- (d) Market orientation

Answer (c) Change in agricultural prices does not explain the impact of Government policy changes on business and industry.

Short Answer Type Questions

Question 1. What do you understand by business environment?

Answer The term 'business environment' means the sum total of all Individuals, institutions and other forces that are outside the control of a business enterprise but that may affect its performance. The economic, social political, technological and other forces which operate outside the business enterprise are part of its environment.

Question 2. Why it is important for business enterprises to understand their environment? Explain briefly.

Answer It is important for business organisations to understand their environment because of the following reasons

1. **It Enables the Firm to Identify Opportunities and Getting the First Mover Advantage** Environment provide numerous opportunities for business Early identification of opportunities helps an enterprise to use it before instead of losing them to competitors.
2. **It Helps the Firm to Identify Threats and Early Warning Signals** Environmental awareness can help managers to identify various threats on time and serve as an early warning signals.
3. **It Helps in Tapping Useful Resources** Environment is a source of various resources for running a business To engage In any type of activity, a business enterprise assembles various resources called inputs. This can be done better by understanding what the environment has to offer.
4. **It Helps in Coping with Rapid Changes** All types of enterprises facing increasingly dynamic environment In order to effectively cope with these Significant changes, managers must understand and examine the environment and develop suitable courses of action
5. **It Helps in Assisting in Planning and Policy Formulation** Since environment is the source of opportunities and threats, Its understanding and analysis becomes the base for various policies to be framed and strategies to be made.
6. **It Helps in Improving Performance** The enterprises that continuously monitor their environment and adopt suitable business practices are the ones, which not only improve their present performance but also continue to succeed in the market for a longer period.

Question 3. Mention environment the various dimensions of business environment.

Answer

1. **Economic Environment** Interest rates Inflation rates value of rupee and many more are the economic factors that can affect management practices in a business enterprise
2. **Social Environment** The social environment of business Includes the social forces like customs and traditions values, social trends etc
3. **Technological Environment** This includes forces relating to scientific improvements and Innovations which provide new ways of producing goods and services and new methods and techniques of operating a business
4. **Political Environment** This includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business.
5. **Legal Environment** This includes various legislations passed by government authorities and court Judgements It IS important for the management of every enterprise to obey the law of land and for this, enough of knowledge of rules and regulations framed by the government is a pre-requisite for better performance.

Question 4. Briefly explain the following

(a) Liberalisation

(b) Privatisation

(c) Globalisation

Answer The three important features of New Economic Policy, 1991

(a) Liberalisation Under the new economic policy of 1991, the economic reforms that were introduced aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions. They signalled the end of the licence-permit quota raj.

(b) Privatisation The new set of economic reforms that aim at giving greater role to the private sector in the nation building process and a reduced role to the public sector.

(c) Globalisation Globalisation means the integration of the various economies of the world leading towards the emergence of a cohesive global economy. Till 1991, India had a policy which strictly regulated imports in value and volume terms. After 1991, the reforms aimed at Import liberalisation.

Question 5. Briefly discuss the impact of Government policy changes on business and industry.

Answer Impact of Government policy changes on business and Industry

1. Increasing Competition As a result of liberalisation, privatisation and globalisation number of players increased in all sectors and increased competition for everyone.
2. More Demanding Customers Increased competition in the market gives the customer wider choices in purchasing better quality of goods and services, which makes them more demanding.
3. Rapidly Changing Technological Environment New technologies help to improve machines, process products and services. The rapidly changing technological environment creates tough challenges before smaller firms.
4. Necessity for Change After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.
5. Need for Developing Human Resource The new market conditions require people with higher competence and greater commitment. Hence, the need for developing human resources emerged.
6. Market Orientation Earlier, production was taken up first and then selling was done. Now, due to increasing competition and more demanding customers firms have to study and analyse the market first and produce goods accordingly.
7. Loss of Budgetary Support to the Public Sector Public sector have less of budgetary support from the Central Government. Now, they have to generate their own resources and be more efficient in order to survive and grow.

Long Answer Type Questions

Question 1. How would you characterise business environment? Explain with examples, the difference between general and specific environment.

Answer Features of business environment

1. Totality of External Forces Business environment is aggregative in nature as it is the sum total of all things external to business firms.
2. Inter-relatedness Different elements of business environment are closely related to each other. e.g., increased awareness of health care have increased the demand for many health products.
3. Dynamic Nature The business environment is highly dynamic. It keeps on changing. Sometimes there is a change in technology, tastes and preference of consumer etc.
4. Uncertainty The environment cannot be predicted. It is highly uncertain and unpredictable.
5. Complexity Since there are many elements of business environment and they are inter-related and dynamic in nature therefore, it becomes very difficult to understand them as a whole.

Difference between Specific and General Environment There are two types of forces operating in business environment specific and general. Specific forces affect the individual enterprises directly and immediately, e.g., customers, suppliers.

General forces affect the firms and only indirectly e.g., social conditions or political conditions.

Question 2. How would you argue that the success of a business enterprise is significantly influenced by its environment?

Answer Importance of business environment

1. It Enables the firm to Identify Opportunities and Getting the First Mover Advantage
Environment provides numerous opportunities for business success. Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors, e.g., Eureka Forbes introduced Aquaguard and took away the cream of demand.
2. It Helps the Firm to Identify Threats and Early Warning Signals Environment happens to be the source of many threats. Environmental awareness can help managers to identify various threats on time and serve as an early warning signal e.g. Lakme took serious steps to improve the quality and types of products as foreign multinational cosmetics companies started coming to India after 1991.
3. It Helps in Tapping Useful Resources Environment offers various resources for running a business in return the business enterprise supplies the environment. With its outputs such as goods and services for customers, taxes for government. In order to arrange for the best possible resources, better understanding of the environment becomes important.
4. It Helps in Coping with Rapid Changes It is not the fact of change itself that is so important as the pace of change. There are many changes taking place in the environment and at a fast speed. In order to effectively cope with these changes, managers must understand and examine the environment and develop suitable courses of action.
5. It Helps in Assisting in Planning and Policy Formulation Since environment is a source of both opportunities and threats, its understanding and analysis only helps in formulating the best possible policies to handle the future properly.
6. It Helps in Improving Performance Continuous monitoring and adopting changes in an enterprise will help it improve not only their present performance, but also continue to succeed in the market in long run.

Question 3. Explain with examples, the various dimensions of business environment.

Answer Dimension of business environment

(i) Economic Environment It includes the changes in the system due to economic policies made by the government. Reserve Bank of India is the key regulator of country's economic environment since it

- (a) influences the Interest rates
- (b) controls the flow of money in the economy
- (c) regulates the working of banks

Example When the banks reduce the interest rates on long term loans, automobiles and construction industries get a boost to the business as more spending is made on the purchase of homes and cars through loans.

(ii) Social Environment The social environment of business includes the social forces like customs and traditions, values, social trends, society's expectations from business etc. In business terms, these values translate into freedom of choice in the market. Major elements of social environment are

- (a) life expectancy
- (b) shifts in the presence of women in the workforce
- (c) consumption habits

Example Due to the shift in the presence of women in the workforce, the demand for readymade ladies' formal wear, cosmetics, packed/processed food, electronic gadgets has gone up.

(iii) Technological Environment Technological environment includes forces relating to scientific improvements and innovations which provide new ways of producing goods and services and new methods and techniques of operating a business.

Example Because of technological advancement, it has become possible to book railway tickets through internet from home, office etc.

(iv) Political Environment Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold

towards business. It is only of use when a business enterprise can predict its business activities under stable political conditions. Major elements of political environment are

(a) The constitution of the country

(b) The nature and profile of political leadership and thinking of political personalities

(c) Political ideology and practices of the ruling party.

Example After the NEP of 1991, due to globalisation the foreign companies started coming to India, but due to the bureaucratic red tape it became difficult for them to cut through it to do business here. As a result, these companies were discouraged in our country regarding investments. The situation has improved overtime.

(v) Legal Environment Legal environment includes various legislations passed by the Government administrative orders Issued by government authorities, court judgements as well as the decisions rendered by various commissions and agencies. It is imperative for the management of every enterprise to obey the law of the land. Therefore, an adequate knowledge of rules and regulations framed by the government is a pre-requisite for better business performance.

Example There is a government regulation to protect consumer's interest e.g., the advertisements of alcoholic beverages is prohibited.

Question 4. What economic changes were initiated by the Government under the Industrial Policy, 1991? What impact have these changes made on business and industry?

Answer Economic changes initiated by the government under the Industrial Policy, 1991

1. The government reduced the number of industries under compulsory licensing to six.
2. The role of public sector was reduced. It was now limited only to four industries of strategic importance.
3. Disinvestment was carried out in case of many public sector industrial enterprises.
4. Foreign Direct Investment was permitted.
5. Automatic permission was now granted for technology agreements with foreign companies.
6. Foreign Investment Promotion Board (FIPB) was set up to promote and channelise foreign investment in India.

The Indian corporate sector has come face-to-face with several challenges due to government policy changes. Some of them are

1. Increasing Competition The competition has Increased due to entry of new players (private and globalisation).
2. More Demanding Customers Customers today, has become more demanding because they are well-informed. Increased competition in the market gives the customers Wider choice In purchasing better quality of goods and services.
3. Rapidly Changing Technological Environment The rapidly changing technological environment creates tough challenges before smaller firms
4. Necessity for Change After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.
5. Need for Developing Human Resources Earlier, Indian enterprises worked with inadequately trained personnel The new market conditions require people with higher competence and greater commitment Hence, the need for developing human resources
6. Market Orientation Before 1991, all firms worked with production oriented marketing operations. In a fast changing world, there was a shift to market orientation. The firms had to study and analyse the market first and produce goods accordingly.
7. Loss of Budgetary Support to the Public Sector The public sector undertakings have realised that in order to survive and grow, they will have to be more efficient and generate their own resources for the purpose

Question 5. What are the essential features of

(a) Liberalisation

(b) Privatisation

(c) Globalisation

Answer Essential features of

(a) Liberalisation

1. Abolishing licensing requirements In most of the industries a short list. except
2. No restriction on expansion or contraction of business.
3. Free movement of goods and services
4. Freedom in fixing the prices of goods and services.
5. Reduction in tax rates.
6. Simplifying procedures for imports and exports.
7. Making it easier to attract foreign capital and technology to India.

(b) Privatisation

1. The government redefined the role of public sector.
2. Policy of planned disinvestments of the public sector
3. Refining of sick enterprises to the Board of Industrial and Financial Reconstruction.

(c) Globalisation

1. Import liberalisation
2. Export promotion
3. Foreign exchange reforms

Case Problem

Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decision in this regard.

Customers income is rising. People have developed a taste for better quality products even though they may have to pay more. The aspiration levels have increased. The government has also liberalised its economic policies in this regard and permitted even cent per cent foreign direct investment in some sectors of retailing.

Question 1. Identify changes in business environment under different heads – economic, social, technological, political and legal that have facilitated the companies decisions to plan significant investments in organised retailing.

Answer Changes which have taken place In the following areas are as follows

1. Economic Availability of more money because of employment opportunities increasing.
2. Social Tastes of customers are changing. As he is getting more exposure to the outside world his tastes are changing.
3. Technological Technological advancements have led to advanced ways of counting. checking. coding. billing discounts which are convenient for the customer and also retailer.
4. Political Government policies are encouraging developers to go mass construction on real estate. As MNCs are coming to India, they have to be provided an Internationally based infrastructure to operate from.
5. Legal As the government is providing more rights to the consumers, an organised retailing outlets would be more particular in taking care as compared to a small retailer.

Question 2. What has been the impact of these changes with regard to globalisation and privatisation?

Answer Due to globalisation and privatisation, more retailers from India and abroad are encouraged to make investments in organised retailing The competition has increased, the consumers are more demanding and expert working force is required in order to cope up with the changes, which have taken place and are further changing.

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Short Answer Type Questions

Question 1. What are the main points in the definition of planning?

Answer : The main points in the definition of planning are as follows

1. Planning is deciding in advance what to do and how to do.
2. It is one of the basic managerial function.
3. Planning involves setting objectives and developing an appropriate course of action to achieve these objectives.
4. It bridges the gap between where we are and where we want to reach.

Question 2. How does planning provide direction?

Answer : Planning provides direction for action by deciding in advance what has to be done, how to do, when to do and who will do. When we try to seek answers to the above questions, which are well planned then directions are automatically highlighted.

Question 3. Do you think planning can work in a changing environment?

Answer : Planning may not work in a changing environment. The environment consists of a number of dimensions, economic, political, social, legal and technological dimensions. The organisation has to constantly adapt itself to changes. It becomes difficult to accurately assess future trends in the environment. Planning cannot foresee everything and thus, there may be obstacles to effective planning.

Question 4. If planning involves working out details for the future, why does it not ensure success?

Answer : Planning does not guarantee success. The success of an enterprise is possible only when plans are properly drawn up and implemented. Any plan needs to be translated into action or it becomes meaningless. Managers have a tendency to rely on previously tried and tested successful plans. It is not always true that just because a plan has worked before it will work again. This kind of false sense of security may actually lead to failure instead of success.

Question 5. Why are rules considered to be plans?

Answer : Rules are specific statements that inform what is to be done. They do not allow for any flexibility or discretion. It reflects a managerial decision that a certain action must or must not be taken. They are usually the simplest type of plans because there is no compromise or change unless a policy decision is taken.

Question 6. What kind of strategic decisions are taken by business organisations?

Answer : Major strategic decisions include whether the organisation will continue to be in the same line of business or combine new lines of activity with the existing business or seek to acquire a dominant position in the same market.

Long Answer Type Questions

Question 1. Why is it that organisations are not always able to accomplish all their objectives?

Answer : Organisations are not always able to accomplish all their Objectives due to the following reasons

1. **Planning Leads to Rigidity** In an organisation a well defined plan is drawn up With specific goals to be achieved, within a specific time frame. These plans then decide how the work will progress in the future and managers may not be in a position to change it. This creates a problem as flexibility is very important. Always adhering to the plan may not give us the desired results always
2. **Planning May not Work in a Dynamic Environment** The business environment is dynamic, nothing is constant. The business environment is a totality of external forces, where in some changes or the other keep on taking place. Plans decide in advance what has to be done in future. Planning cannot foresee everything and thus there may be obstacles to effective planning.
3. **Planning Reduces Creativity** Planning is generally done by top management. Usually the rest of the members just implement these plans. As a consequence, middle management and other decision makers are neither allowed to deviate from plans nor are permitted to act on their own, thus planning in a way reduces creativity since people tend to think along the same lines as others, there is nothing new or innovative.
4. **Planning Involves Huge Cost** Planning involves huge cost in their formulation. These may be in terms of time and money. The Costs incurred sometimes may not justify the benefits derived from plans.
5. **Planning is a Time Consuming Process** Sometimes plans to be drawn take up so much of time that there is not much time left for their implementation and the objectives to be achieved.
6. **Planning does not Guarantee Success** Any plan needs to be translated into action or it becomes meaningless. Managers have tendency to rely on previously tried and tested successful plans. It is not always true just because a plan has worked before it will work again.

Question 2. What are the main features to be considered by management while planning?

Answer : The main features to be considered by the management while planning are

1. **It Focuses on Achieving Objectives** Planning is purposeful. Planning has no meaning unless it contributes to the achievement of predetermined organisational goals.
2. **It is the Primary Function** Planning lays down the base for other functions of management. All other managerial functions are performed within the framework of the plans drawn. Thus, planning precedes other function.
3. **Planning is Pervasive** Planning is required at all levels of management as well as in all departments of the organisations. The top management undertakes planning for the organisation as a whole. Middle management does the departmental planning. At the lowest level, day-to-day operational planning is done by supervisors.
4. **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.
5. **Planning is Futuristic** The purpose of planning is to meet future events effectively to the best advantage of an organisation. It implies peeping into the future, analysing it and predicting it.
6. **Planning Involves Decision Making** Planning essentially involves choice from among various alternatives and activities. If there is only one possible goal then there is no need for planning. The need only arises when alternatives are available. Planning thus, involves

7. **Planning is a Mental Exercise** Planning is basically an intellectual activity of thinking rather than doing, because planning determines the action to be taken. Planning requires logical and systematic thinking rather than guesswork or wishful thinking.

Question 3. What are the steps taken by management in the planning process?

Answer : The planning process involves the following steps

1. **Establishing Objectives** The first step in planning is to determine objectives which must be realistic, specific and clear so as to specify what is to be accomplished by the network of policies, procedures, strategies etc.
2. **Developing Premises** They include assumptions or forecasts of the future and unknown conditions that will affect the operations of the plans. They provide an idea about the future which facilitates the work of planning.
3. **Identifying the Alternative Courses of Action** The next step in planning is to identify the various alternatives available to achieve the objectives.
4. **Evaluating Alternative Courses** The merits and demerits of different courses of actions are evaluated in the light of objectives to be achieved and their feasibility is judged i.e., how far they will be successful in helping to achieve the objective.
5. **Selecting an Alternative** The next step is to find out the most suitable course to be followed. The efforts are directed towards selecting that course. Which increases efficiency in the organisation by maximising output and profits at the minimum costs.
6. **Implement the Plan** At this step the best alternative chosen is put to use.
7. **Follow Up** Only putting the best alternative to action is not enough. The future is uncertain and dynamic. Therefore, it becomes important to check back whether the plan is giving results or not.

Question 4. Is planning actually worth the huge costs involved? Explain.

Answer : Planning involves huge cost, when plans are drawn up huge costs are involved in their formulation. These are in terms of time, money, effort etc. Detailed plans require scientific calculations to ascertain facts and figures. The costs incurred sometimes may not justify the benefits derived from the plans. There are a number of incidental costs as well (which are indirect) like expenditures on organising a meeting, consultation fees given to professional experts, market survey etc. But despite the high cost no firm can work without proper planning if used properly.

Case Problem

An auto company C Ltd is facing a problem of declining market share due to increased competition from other new and existing players in the market. Its competitors are introducing lower priced models for mass consumers who are price sensitive. For quality conscious consumers, the company is

Question 1. Prepare a model business plan for C Ltd to meet the existing challenge. You need to be very specific about quantitative parameters. You may specify which type of plan you are preparing.

Answer : In such a situation, formulating a strategy would be advisable.

A strategy is a single use plan. It is normally made to fight competition in the market.

The model business plan, i.e., strategy will be

1. It is objective and its purpose is that how much sales it wants to increase over a specified time.
2. The company should then list down its strengths and weakness. This brings in light as to what will be easy and what will be difficult.
3. Aggressive, advertising and sales promotion techniques to be adopted.

Question 2. Identify the limitations of such plans.

Answer : Limitations of the above strategy can be

1. Shortage of funds.
2. Shortage of technical professionals.
3. Top level may not be competent enough to develop a suitable strategy.
4. The company may not be successful in assessing the future plans of the competitors as compared to its own strategy.

Question 3. How will you seek to remove these limitations?

Answer : The above limitations can be overcome by

1. Arranging funds in advance.
2. Effective methods of recruitment should be adopted to ensure availability of effective staff in all departments.
3. Middle level should be encouraged to propose plans in the form of suggestions. After considering all these, a strategy should be planned.
4. The company should be able to assess moves of the competitors.

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Multiple Choice Questions

Question 1. Which of the following is not an element of delegation?

- (a) Accountability
- (b) Authority
- (c) Responsibility
- (d) Informal organisation

Answer (d) Informal organisation is not an element of delegation.

Question 2. A network of social relationship that arise spontaneously due to interaction at work is called

- (a) formal organisation
- (b) informal organisation
- (c) decentralisation
- (d) delegation

Answer (b) Informal organisation implies social interaction amongst people.

Question 3. Which of the following does not follow the scalar chain?

- (a) Functional structure
- (b) Divisional structure
- (c) Formal organisation
- (d) Informal organisation

Answer (d) Informal organisation does not follow the scalar chain.

Question 4. A tall structure has a

- (a) narrow span of management
- (b) wide span of management

- (c) no span of management
- (d) less levels of management

Answer (a) A tall structure has a narrow span of management.

Question 5. Centralisation refers to

- (a) retention of decision making authority
- (b) dispersal of decision making authority
- (c) creating divisions as profit centres
- (d) opening new centres or branches

Answer (a) Centralisation implies concentration of all decision making functions at the apex of the management.

Question 6. For delegation to be effective, it is essential that responsibility be accompanied with necessary

- (a) authority
- (b) manpower
- (c) incentives
- (d) promotions

Answer (a) Authority refers to the right of an individual to command his subordinates. Thus, it is essential that responsibility be accompanied with necessary authority.

Question 7. Span of management refers to

- (a) number of managers
- (b) length of term for which a manager is appointed
- (c) number of subordinates under a superior
- (d) number of members in top management

Answer (c) Span of management is the number of subordinates under a superior.

Question 8. The form of organisation known for giving rise to rumours is called

- (a) centralised organisation
- (b) decentralised organisation
- (c) informal organisation
- (d) formal organisation

Answer (c) As in informal organisation, excess of interactions among people gives rise to rumours.

Question 9. Grouping of activities on the basis of product lines is a part of

- (a) delegated organisation
- (b) divisional organisation
- (c) functional organisation
- (d) autonomous organisation

Answer (b) Divisional organisation implies grouping of activities on the basis of product lines.

Question 10. Grouping of activities on the basis of functions is a part of

- (a) decentralised organisation
- (b) divisional organisation
- (c) functional organisation
- (d) centralised organisation

Answer (c) Functional organisation implies grouping of activities on the basis of functions.

Short Answer Type Questions

Question 1. Define 'Organising'?

Answer Organising is 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.

Question 2. What are the steps in the process of organising?

Answer Organising involves following steps that need to be taken in series

1. Identification and Division of Work Organising process begins with identifying and division of total work into small units.
2. Departmentalisation After dividing the work, related and similar jobs are grouped together and put under one department.
3. Assignment of Duties After departmentalisation, the work is assigned according to the ability of individuals.
4. Establishing Reporting Relationship Assigning duties is not enough. Each individual should also know, who he has to take orders and to whom he is accountable. Thus, reporting relationship helps in co-ordination among various departments.

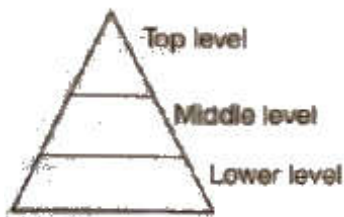
Question 3. Discuss the elements of delegation.

Answer The elements of delegation are as follows

1. **Authority** It refers to the right of an individual to command his subordinates and to take action within the scope of his position. The concept of authority arises from the established scalar chain, which links the various job positions and levels of an organisation. It must be noted that authority is restricted by laws and the rules and regulations of the organisations. Authority flows downward.
2. **Responsibility** Responsibility is the obligation of a subordinate to properly perform the assigned duty. It arises from a superior-subordinate relationship because the subordinate is bound to perform the duty assigned to him by his superior. Responsibility flows upward.
3. **Accountability** Accountability implies being answerable for the final outcome. Once authority has been delegated and responsibility accepted, one cannot deny accountability. It cannot be delegated and flows upwards i.e., a subordinate will be accountable to a superior for satisfactory performance of work.

Question 4. What does the term 'Span of management' refer to?

Answer Is the number of subordinates under a superior or we can say, it means how many employees can be effectively managed by a superior. The span of management, to a large extent gives shape to the organisational structure, e.g., if the number of subordinates under a superior keep increasing when we move downward then the shape of the organisational structure will be as follows.

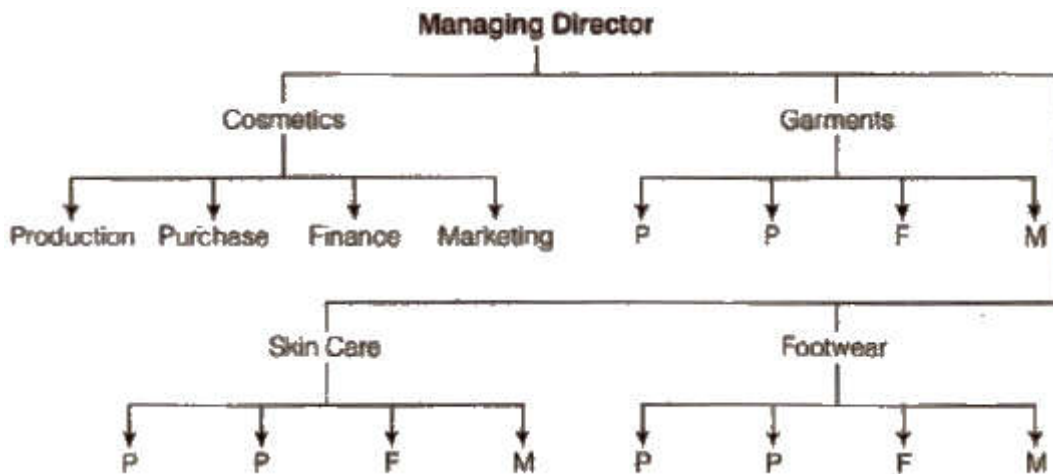


Question 5. Under what circumstances would functional structure prove to be an appropriate choice?

Answer Functional structure would prove to be most suitable when the size of the organisation is large, has diversified activities and operations require a high degree of specialisation. It promotes control and co-ordination within a department, increased managerial and operational efficiency, results in increased profits.

Question 6. Draw a diagram depicting a divisional structure.

Answer Diagram of Divisional Structure



Question 7. Can a large sized organisation be totally centralised or decentralised? Give your opinion.

Answer No large organisation can not be totally centralised or decentralised. Complete centralisation would imply concentration of all decision making functions at the apex of the management hierarchy. Such a scenario would obviate the need for a management hierarchy. On the other hand, complete decentralisation would imply the delegation of all decision making functions to the lower level of the hierarchy and this would finish off the need for higher, managerial positions. Both the situations are unrealistic.

As an organisation grows in size and complexity, there is a tendency to move towards decentralised decision making. This is because, in large organisations those employees, who are directly and closely involved with certain operations tend to have more knowledge about them than the top management, which may only be indirectly associated with individual operations. Hence, there is a need for balance between these co-existing forces.

Question 8. Decentralisation is extending delegation to the lowest level. Comment.

Answer Decentralisation is extending delegation to the lowest level. Decentralisation explains the manner in which decision making responsibilities are divided among hierarchical levels.

Decentralisation refers to delegation of authority throughout all the levels of the organisation.

Decision making authority is shared with lower levels and is consequently placed nearest to the point of action. In other words, decision making authority is pushed down the chain of command.

Delegation is the process and decentralisation is the end result. e.g., If the director give the responsibility to production head to complete the target of 20,000 units and authorise him to hire the workers, production head further shares his responsibility with manager to select the worker.

Manager shares his responsibility with supervisors, who are dealing with workers, authorise him to select workers. Here, the responsibility distributed at every level. That's why we say systematic delegation leads to decentralisation.

Long Answer Type Questions

Question 1. Why is delegation considered essential for effective organising?

Answer Effective delegation leads to the following benefits

1. **Effective Management** By empowering the employees, the managers are able to function more efficiently as they get more time to concentrate on important matters. This makes the working of all the levels effective and efficient.
2. **Employee Development** As a result of delegation, employees get more opportunities to utilise their talent and this may give rise to talent abilities in them. It makes them better leaders and decision makers. Delegation empowers the employees by providing them with the chance to use their skills, gain experience and develop themselves for higher positions.
3. **Motivation of Employees** Delegation helps in developing the talents of the employees. It also has psychological benefits. Responsibility for work builds the self-esteem of an employee

and improves his confidence. He feels encouraged and tries to improve his performance further.

4. **Facilitation of Growth** Delegation helps in the expansion of an organisation by providing a ready workforce to take up leading positions in new ventures. Trained and experienced employees are able to play significant roles in the launch of new projects.
5. **Basis of Management Hierarchy** Delegation of authority establishes superior-subordinate, which management. The extent of delegated are the basis of hierarchy of authority also decides the power that each job position enjoys in the organisation.
6. **Better Co-ordination** Due to delegation work, duties, power all becomes very clear. This helps to avoid overlapping of duties and duplication of effort as it gives a clear picture of the work being done at various levels. Such clarity in reporting relationships help in developing and maintaining effective coordination amongst the departments, levels and functions of management.

Question 2. What is a divisional structure? Discuss its advantages and limitations.

Answer A divisional structure comprises of separate business units or divisions. Each unit has a divisional manager responsible for performance and who has authority over the unit. Generally, manpower is grouped on the basis of different products manufactured.

Merits

1. (i) **Skill Development** Product specialisation helps In the development of varied skills in a divisional head and this prepares him for higher positions as he gains experience in all functions.
2. (ii) **Accountability** Divisional heads are accountable for profits, as revenues and costs related to different departments. can be easily identified and assigned to them. This provides proper basis for performance measurement.
3. (iii) **Quick Decision Making** It promotes flexibility and initiative because each division functions as an autonomous unit which leads to faster decision making.
4. (iv) **Facilitates Expansion** It facilitates growth as new divisions can be added without interrupting the existing operations, by merely adding another divisional head and staff for the new product line.

Demerits

The divisional structure has certain disadvantages

1. **Conflicts** Conflicts may arise among different divisions with reference to allocation of funds.
2. **Higher Cost** Providing each division with separate set of similar functions increases expenditure.
3. **Ignoring Organisational Goals** It provides managers with the authority to supervise all activities related to a particular division. In course of time, such a manager may gain power and in a bid to assert his independence may Ignore organisational interests.

Question 3. Decentralisation is an optional policy. Explain why an organisation would choose to be decentralised.

Answer Decentralisation is much more than mere transfer of authority to the lower levels of management hierarchy. Its importance can be understood from the following points

1. **Develops Initiative Among Subordinates** When lower managerial levels are given freedom to take their own decisions they learn to depend on their judgement. A decentralised policy helps to identify those executives, who have the necessary potential to become dynamic leaders.
2. **Develops Managerial Talent for the Future** Formal training plays an important part in equipping subordinates with skills that help them rise in the organisation, but equally important is the experience gained by handling assignments independently. It gives them a chance to prove their abilities and creates a reservoir of qualified manpower.

3. **Quick Decision Making** In a decentralised organisation, however, since decisions are taken at levels, which are nearest to the points of action and there is no requirement for approval from many levels the process is much faster.
4. **Relief to Top Management** Decentralisation leaves the top management with more time, which they can devote to important policy decisions rather than occupying their time with both policy as well as operational decisions.
5. **Facilitates Growth** Decentralisation awards greater autonomy to the lower levels of management as well as divisional or departmental heads. This allows them to function in a manner best suited to their department and develops a sense of competition amongst the departments. consequently, the productivity levels increase and the organisation is able to generate more returns, which can be used for expansion purposes.
6. **Better Control** Decentralisation makes it possible to evaluate performance at each level and the departments can be individually held accountable for their results. The extent of achievement of organisational objectives as well as the contribution of each department in meeting, the over all objectives can be ascertained.

Question 4. How does informal organisation support the formal organisation?

Answer The informal organisation offers many benefits Important among them are given as follows

1. **Quick Feedback** Prescribed lines of communication are not followed. Thus, the informal organisation leads to faster spread of Information as well as quick feedback
2. **Social Needs** It helps to fulfill social needs of the members and allows them to find like minded people. This enhances their job satisfaction, since it gives them a sense of belongingness in the organisation.
3. **Organisational Objectives** It contributes towards fulfilment of organisational objectives by compensating for inadequacies in the formal organisation e.g., feedbacks on new policies etc can be tested through Informal network.

Question 5. Distinguish between centralisation and decentralisation.

Answer Difference between centralisation and decentralisation

Basis	Centralisation	Decentralisation
Meaning	It refers to the concentration of powers at higher level only.	It refers to the distribution of powers at every level of management.
Authority	Top management retains maximum authority. Middle and bottom level are having low authorities.	Authority is systematically divided at every level.
Suitable	It is suitable for small size organisation.	It is suitable for large scale organisation.
Freedom	Managers have less freedom of actions.	Managers have more freedom of actions.

Question 6. How is a functional structure different from a divisional structure?

Answer Difference between functional and divisional structure

Basis	Functional Structure	Divisional Structure
Formation	It is based on functions performed	It is based on product lines
Specialisation	Functional specialisation	Product specialisation
Responsibility	Difficult to fix responsibility	Easy to fix responsibility
Managerial development	Difficult, as each manager specialises in one function	Easy, as each manager perform multifunctions
Cost	Economical, as no duplication of work	Costly, due to duplication of functions
Co-ordination	Difficult for a multi-product company	Easy, because all functions related to a particular product are integrated in one department.

Application Type Questions

Question 1. Neha runs a factory wherein she manufactures shoes. The business has been doing well and she intends to expand by diversifying into leather bags as well as Western formal wear, thereby making her company a complete provider of corporate wear. This will enable her to market her business unit as the one stop for working women. Which type of structure would you recommend for her expanded organisation and why?

Answer Neha should decide for divisional structure because

1. She will diversify her unit now into varied product lines.
2. Such a structure would enable her to know the profit margins from each product line and accordingly, she can plan and select the specific product for future diversification.
3. It will facilitate further expansion without disturbing the existing units.

Question 2. The production manager asked the foreman to achieve a target production of 200 units per day, but he doesn't give him the authority to requisition tools and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve the desired target? Give Reasons.

Answer No, the production manager cannot hold the foreman responsible for the incomplete work as the foreman was not given authority by the manager. The principle of authority responsibility says that there should be a balance between the authority and responsibility. If the authority given is more, then it leads to misuse of authority and if responsibility is more, then the work will not be completed.

Question 3. A manager enhances the production target from 500 units to 700 units per month, but the authority to draw raw material was not given by him. The production manager could not achieve the revised production target. Who is responsible and which principle was violated?

Answer The manager is responsible for work not being completed. The principle of authority responsibility is violated.

Question 4. A company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing and sales department at Faridabad. The company manufactures the consumer products. Which type of organisational structure should it adopt to achieve its target?

Answer

1. As a company is performing separate functions in separate areas, then it should adopt functional structure
2. The services of experts are common to all products. It will be economical as no duplication will take place.
3. Span of management can be increased as workers will be doing same type of work.

Case Problems

1. A company, which manufactures a popular brand of toys, has been enjoying good market reputation. It has a functional organisational structure with separate departments for production, marketing, finance, human resources and research and development.

Lately to use its brand name and also to cash on to new business opportunities it is thinking to diversify into manufacture of new range of electronic toys for which a new market is emerging.

Question Prepare a report regarding organisation structure giving concrete reasons with regard to benefits the company will derive from the steps it should take.

Answer In the given situation, organisation should shift from functional structure to divisional structure as the company wants to diversify, by adding a new product line. The reasons and benefits are

1. The performance of each unit can be easily assessed,
2. New product lines can be easily added without disturbing the existing units.
3. Decision making is faster.
4. Divisional structure maintains short line of communication with customers and provide better services to them.

2. A company manufacturing sewing machines set up in 1945 by the British promoters follows formal organisation culture in totality. It is facing lot of problems in delays in decision making. As the result it is not able to adapt to changing business environment. The work force is also not motivated since they cannot vent their grievances except through formal channels, which involved red tape. Employee turnover is high. Its market share is also declining due to changed circumstances and business environment.

Question You are to advise the company with regard to change it should bring about its organisation structure to overcome the problems faced by it. Give reasons in terms of benefits it will derive from the changes suggested by you. In which sectors can the company diversify, keeping in mind the declining market for the product the company is manufacturing?

Answer The suggestions are

1. To overcome the limitations of formal organisation, the management should encourage workers to interact and socialise with each other through get together outings. In this way, every one will interact and like minded people will come closer. The net result will be more satisfied workforce.
2. The management should try to decentralise organisation structure.
3. The suggested area where the business can be diversified is textile machineries like embroidery units, sequencing units, buttoning units.

3. A company X limited manufacturing cosmetics, which has enjoyed a pre-eminent position in business, has grown in size. Its business was very good till 1991. But after that, new liberalised environment has seen entry of many MNC's in the sector.

With the result the market share of X limited has declined. The company had followed a very centralised business model with directors and divisional heads making even minor decisions. Before 1991, this business model had served the company very well as consumers has no choice. But now the company is under pressure to reform.

Question What organisation structure changes should the company bring about in order to retain its market share? How will the changes suggested by you help the firm? Keep in mind that the sector in which the company is FMCG.

Answer The company X Ltd is working in a centralised way, which is not giving enough time to the higher officials to think of better policies, strategies to handle the changes in the changing environment. The company should thus get decentralised so that the routine type of work, involving minor decisions can be looked after by the lower levels. This will give/save more time for the directors and divisional heads to plan strategies to fight with competition

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Short Answer Type Questions

Question 1. Briefly enumerate the important sources of recruitment.

Answer There are two Important sources of recruitment



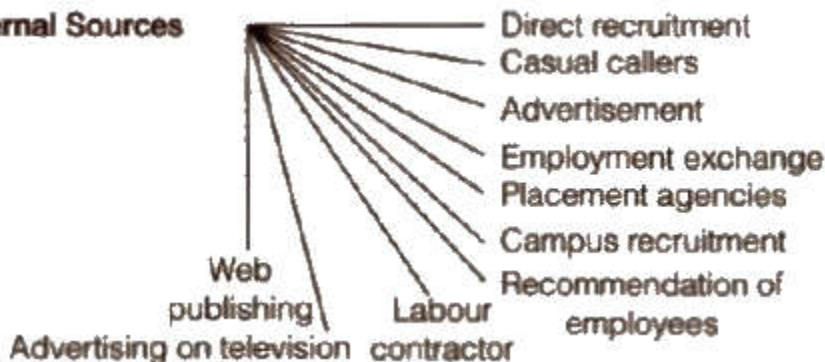
When the firm arranges for manpower from within the organisation then it is known as an internal source

These are of two types

(a) Transfer When we move an employee from one department to the other, from one branch to the other, from one division to another which leads to a change in his/her working environment it is known as a transfer. There is hardly any change in his authority and responsibility.

(b) Promotion When we move an employee to a higher level in the same department, branch, division or different department, branch or division which increases his authority, responsibility and status, it is known as a promotion.

(ii) External Sources



When the firm makes arrangements for manpower from outside the organisation from any of the above given sources, it is known as external sources of recruitment.

Question 2. What is meant by recruitment? How is it different from selection?

Answer Recruitment refers to the process of finding possible candidates for a job. It can be defined as the process of motivating and encouraging people to come and apply for a job in an organisation. Selection is the process of identifying and choosing the best person out of a number of prospective candidates for a job.

If recruitment is positive, selection is negative. Recruitment helps in creating a pool of prospective workforce whereas selection helps in finding the best out of them.

Question 3. Define training. How is it different from education?

Answer Training is the systematic development of knowledge, skills and attitudes required by an individual to perform adequately a given task or job.

Basis	Training	Education
Purpose	Improves current job performance	Increased general knowledge and understanding
Scope	Narrow - improve skills to do a particular job	Wider - develops an individual
Imparted by	Companies, firms	Schools, colleges

Question 4. Distinguish between training and development.

Answer Difference between training and development

Basis	Training	Development
Purpose	It aims at maintaining and improving current job performance.	It is designed to improve the overall effectiveness of individuals.
Level of persons involved	Training programmes are designed for workers at the operative level.	Development programmes are designed for managerial level.
Scope of learning	Training is job oriented.	It is career oriented.

Question 5. Why are internal sources of recruitment considered to be more economical?

Answer Filling of jobs internally is cheaper as compared to getting candidates from external sources because only transfer or promotion has to be done. It does not involve the long process of staffing or selection. It increases the cost in the form of more time, money and efforts in recruiting.

Question 6. What is the importance of staffing function in today's environment?

Answer Staffing is considered to be a key function because it deals With human resource. which is regarded as one of the most valuable resource of any organisation Once an organisation could place the right man at the right Job it is easy to plan, organise. co-ordinate. direct and control the human activities to get the desired results It helps in discovering and obtaining competent personnel. ensures the continuous survival and growth, helps to ensure optimum utilisation of resources and improves Job satisfaction as well.

Long Answer Type Questions

Question 1. Define the staffing process and the various steps involved in it.

Answer Staffing process of the management is concerned With acquiring, developing, employing, remunerating and retaining people or we can say It is the timely fulfilment of the manpower requirements within an organisation.

The following steps are involved in staffing process

(i) Estimating the Manpower Requirements The first step in the staffing process is determining the present manpower Inventory and assessing the present and future manpower requirements of the organisation keeping In mind the production schedule, demand etc.

(ii) Recruitment Recruitment may be defined as the process of searching for prospective employees and stimulating them to apply for jobs in the organisation. For this various sources can be used like transfer promotion, advertising, job consultants etc

(iii) Selection Selection of the prospective is the process of choosing from among the pool Job candidates developed at the stage of recruitment It involves a host of tests and interviews

(iv) Placement and Orientation employee to other employees Orientation is Introducing the selected and familiarising him with the rules and policies of the organisation. He is taken around the work place and

given the charge of the job for which he has been selected Placement refers to the employee occupying the position or post for which the person has been selected

(v) Training and Development All organisations have either in-house training centres or have forged alliances with training and educational institutes to ensure continued learning of their subordinates By offering the opportunities for career advancement to their members, organisations are not only able to attract but also retain its talented staff.

(vi) Performance Appraisal After the employees have undergone a period of training and they have been on the job for some time, there is a need to evaluate their performance The employee is expected to know what the standards are and the superior is to provide the employee feedback on his/her performance. The performance appraisal process, therefore, will include defining the job, appraising performance and providing feedback

(vii) Promotion and Career Planning It is very Important for all organisations to address career related Issues and promotional avenues for their employees. They must provide opportunities to every one to show their potential and in return promotions can be provided.

(viii) Compensation All organisations need to establish wage and salary plans for their employees. There are various ways to prepare different pay plans depending on the worth of the job. Compensation therefore, refers to all forms of pay or rewards going to employees.

Question 2. Explain the procedure for selection of employees.

Answer The important steps in the process of selection are as follows

1. Preliminary Screening It helps the manager eliminate unqualified or unfit Job seekers based on the information supplied In the application forms.
2. Selection Tests An employment test is a mechanism that attempts to measure certain characteristics of individuals These range from aptitudes, such as manual dexterity, to Intelligence to personality.
3. Employment Interview Interview is a formal, in depth conversation conducted to evaluate the applicant's suitability for the Job

4. **Reference and Background Checks** Many employers request names, addresses and telephone numbers of references for the purpose of verifying information and gaining additional on an applicant.
5. **Selection Decision** The final decision has to be made among the candidates who pass the tests. Interviews and reference checks
6. **Medical Examination** Before the candidate is given a job offer he/she is required to go through a medical test.
7. **Job Offer** Job offer is made through a letter of appointment/confirm his acceptance. Such a letter generally contains a date by which the appointee must report on duty.
8. **Contract of Employment** After the job offer has been made and candidate accepts the offer, certain documents need to be executed by the employer and the candidate. There is also a need for, preparing a contract of employment. It includes job title, duties, responsibilities, date when continuous employment starts etc.

Question 3. What are the advantages of training to the individual and to the organisation?

Answer Training helps both the organisation and the individual

Benefits to the Organisation

1. Training is a systematic learning which reduces the wastage of efforts and money.
2. Enhances employee productivity
3. Training helps a manager to handle an emergency situation.
4. Training motivates workers and thus reduces absenteeism.
5. Helps in adjusting to the changing environment (technological).

Benefits to the Employee

1. Better career opportunities due to improved skills and knowledge.
2. Earnings can be increased due to improved performance.
3. Trained workers can handle machines more efficiently.
4. Employees always remain motivated and satisfied.

Question 4. The staffing function is performed by every manager and not necessarily by a separate department. Explain.

Answer Staffing is a function which all managers need to perform. It is the responsibility of all managers to directly deal with and select people to work for the organisation. When the manager performs the staffing function his role is slightly limited. In small organisations, managers may perform all duties related to employees salaries, welfare and working conditions but as organisation grows and number of persons employed increases, a separate department called the human resource department is formed which has specialists in managing people.

Application Type Questions

Question 1. The workers of a factory are unable to work on new machines and always demand for help of supervisor. The supervisor is overburdened with their frequent calls. Suggest the remedy.

Answer Since the workers of a factory are unable to work on new machines, training should be imparted in this case as it is the process of learning new skills and application of knowledge. Whenever, the new machines are installed in business it is the duty of management to provide training in order to achieve the desired goal. As per the case it is mentioned that supervisors are overburdened with their calls. Supervisor had some other work also if he involves in imparting training then his work is suffered. Thus, the management should provide the apprenticeship training programme under this trainee put under the guidance of a master worker. These are designed to acquire a higher level of skill. The master worker performs the job and the trainee observes him performing. When the learner learns all the skills then slowly he starts taking up the job step by step and get full charge on job after some time.

Question 2. The workers of a factory remain idle because of lack of knowledge of hi-tech machines. Frequent visit of engineer is made which causes high overhead charges. How can this problem be removed?

Answer The workers of a factory are not performing because of lack of knowledge of hi-tech machines. Technological change arises the little need for employees to upgrade or alter their skills. Thus, in this case training should be provided by the engineer to one of their supervisor so that he will guide the other workers and able to enhance their productivity. Frequent visit of engineer results in high overhead charges When the training imparted to the supervisor then he equips and handle the situation In the absence of engineer or In case of emergency

Question 3. The quality of production is not as per standards. On investigation, it was observed that most of the workers were not fully aware of the proper operation of the machinery. What could be the way to improve the accuracy?

Answer Workers should be provided off the job training methods where they can be taught how to maintain accuracy related to the proper operations of the machinery. Training makes the employee more efficient and results in high productivity.

Question 4. An organisation provides security services. It requires such candidates who are reliable and don't leak out the secrets of their clients. What step should be incorporated in selection process?

Answer 'Reference check' – this step should be done very carefully. Previous employer can be contacted to check his moral behaviour or conduct. Sincerity etc. The new candidates should be made to sign contract of employment which clearly states that strict action will be taken If found guilty

Question 5. A company is manufacturing paper plates and bowls. It produces 1,00,000 plates and bowls each day. Due to local festival, it got an urgent order of extra 50,000 plates and bowls. Advise how the company will fulfill its order and which method of recruitment would you suggest?

Answer There are two sources; internal and external. If internal source IS used then existing workforce can be asked to work overtime. If external source is used then

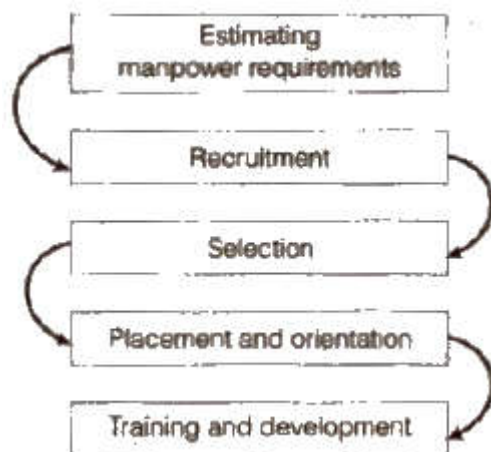
1. existing employees can be asked to recommend names of their friends and relatives.
2. recruitment through labour contractors can also be done.

Case Problems

1. A company X limited is setting up a new plant in India for manufacturing auto components. India is a highly competitive and cost effective production base in this sector. Many reputed car manufacturers source their auto components from here. X limited is planning to capture about 40% of the market share in India and also export to the tune of at least \$ 5 million in about 2 years of its planned operations. To achieve these targets it requires a highly trained and motivated work force. You have been retained by the company to advise it in this matter. While giving answer keep in mind the sector, the company is operating.

Question 1. Outline the process of staffing the company should follow.

Answer X Ltd is planning to set up new plant in India for manufacturing auto components. The prime concern of the company is to hire the manpower who are highly trained and motivated. In order to achieve the targets, the company should follow the staffing process in this manner.



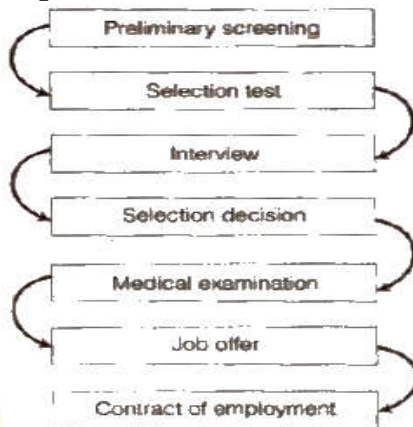
Question 2. Which sources of recruitment the company should rely upon? Give reasons for your recommendation.

Answer The company is establishing a new unit in India. Thus, they should rely on external sources of recruitment. They should adopt this source and through employment exchange, placement agencies, labour contractors they will be able to get the good staff in company.

This recommendation is fruitful because through these sources the company is having a wide choice of candidates. They can get the qualified personnel and bring new blood in the organisation who are highly competitive, will work harder to show better performance.

Question 3. Outline the process of selection the company should follow with reasons.

Answer Through recruitment process organisation receives large number of applications. In order to select the most suitable candidate to perform the job, selection process is to be considered. Following steps are to be taken



Company should follow these steps in series as the first step preliminary screening helps the manager to select among those candidates whose applications are selected.

Second step is selection test. It is to be conducted to check the practical knowledge of the candidate.

Third step interview is to be taken of those candidates who qualify the test. A panel of experts is called which are identifying the best among hundreds.

Fourth step is selection decision. The candidates who pass the test, interview included in selection list and critically examined that they are best or not.

Fifth step is examining their medical fitness. They are efficient or not.

Sixth step is to offer the job, providing them a letter of appointment in which terms and conditions are mentioned.

The final step is contract of employment when candidate accepts the job offer they signed the contract of employment, the employer and candidate exchange certain documents.

Question 4. Which methods of training and development should be Company initiate? Explain giving reasons.

Answer The company can use 'On the job' and 'Off the job' training methods.

The merits or benefits of 'On the job' are

1. It is a practical method.
2. The trainee can contribute towards the real/actual work. (iii) Separate arrangements need not be done.

If the 'Off the job' methods are used then the benefits derived are

1. Vestibule training helps in avoiding modern and expensive equipment from being damaged.
 2. Conference helps in to develop conceptual knowledge, reduce resistance to change etc.
2. A major insurance company handled all recruiting, screening and training processes for data entry/customer service representatives. Their competitor was attracting most of the qualified, potential employees in their market. Recruiting was made even more difficult by the strong economy.

and the 'job seeker's market: This resulted in the client having to choose from candidates who had the 'soft' skills needed for the job, but lacked the proper 'hard' skills and training.

Question 1. As an HR manager what problems do you see in the company?

Answer The human resource manager may face the following problems

- (i) Lack of trained workforce
- (ii) Lack of sufficient personnel to provide customer services.
- (iii) Inefficient maintenance of data.

Question 2. How do you think it can be resolved?

Answer Following steps can be taken to resolve these problems

- (i) Proper training of the personnel.
 - (ii) Provision of incentive based schemes.
 - (iii) Proper data base should be maintained by the company provide efficient services. in order to
3. A public transport corporation has hired 1,000 buses for the different routes for the passengers of metropolitan city. Most of the 3,000 crewmen (drivers, conduct, helpers etc) of these buses have been found to be wanting in satisfactorily dealing with public and daily commuter. They seem to be little interested in the job and the job seem to have lost all meaning to them.

Question 1. As manager of the public transport company what measures do you suggest to improve the working of crewman in question?

Answer The following measures can be taken to improve the working of crewmen.

- (i) Along with wages/salary various other facilities should be provided to them like education for their children, insurance etc.
- (ii) Working hours should be between 7 to 8 per day
- (iii) Intervals should be provided.

Question 2. Is it possible to modify their behaviour by planning a suitable type of training? Suggest one.

Answer Yes, it is possible to modify their behaviour by planning 'coaching' training programme as in this programme superior guides and instruct the trainee as a coach. He suggests the changes required in behaviour and performance of the employee. Coach gives due importance to the objective of individual and objectives of organisation. Thus, effective coaching motivates the employees to perform their best ability.

4. Ms Jayshree recently completed her post graduate diploma in human resource management. A few months from now a large steel manufacturing company appointed her as its human resource manager. As of now, the company employs 800 persons and has an expansion plan in hand which may require another 200 persons for various types of additional requirements. Ms Jayshree has been given complete charge of the company's human resource department.

Question 1. Point out what functions is she supposed to perform?

Answer Ms Jayshree as HR manager is required to perform the following functions

- (i) Recruitment
- (ii) Prepare job description
- (iii) Preparing compensation and incentive plans
- (iv) Arranging training programmes
- (v) Making welfare schemes for employees
- (vi) Handling grievances of employees
- (vii) Handling labour dispute

Question 2. What problems do you foresee in her job?

Answer She may face the following problems

- (i) Properly qualified candidates may not be available.
- (ii) Demand for wages may go higher.
- (iii) After providing training the workers may leave the organisation.
- (iv) Trade unions may bring unreasonable demands.

Question 3. What steps is she going to take to perform her job efficiently?

Answer Following steps can be taken by her to perform her job efficiently

- (i) She should make use of all the possible sources of recruitment.
- (ii) She should frequently consult the experts and also observe the policies followed by competitors to recruit and retain the workforce.
- (iii) Maintaining cordial relationship With trade unions and encouraging them to act as one big family.

Question 4. How significant is her role in the organisation?

Answer Her role is very significant in the organisation. She is a human resources manager and concerned with timely procurement of competent manpower and ensuring its effective and efficient utilisation so as to survive along with the three main objectives; organisational, individual and societal.

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Multiple Choice Questions

Question 1. Which one of the following is not an element of direction?

- (a) Motivation
- (b) Communication
- (c) Delegation
- (d) Supervision

Answer (c) Delegation is not an element of direction.

Question 2. The motivation theory which classifies needs in hierarchical order is developed by

- (a) Fred Luthans
- (b) Scott
- (c) Abraham Maslow
- (d) Peter F Drucker

Answer (c) Abraham Maslow gave the hierarchy of five human needs.

Question 3. Which of the following is a financial incentive?

- (a) Promotion
- (b) Stock incentive
- (c) Job security
- (d) Employee participation

Answer (b) Stock incentive is a financial incentive which is a employee stock option with a tax benefit.

Question 4. Which of the following is not an element of communication process?

- (a) Decoding
- (b) Communication
- (c) Channel
- (d) Receiver

Answer (b) Communication is not the element of communication process, it is understood as a process of exchange.

Question 5. Grapevine is

- (a) Formal communication
- (b) Barrier to communication
- (c) Lateral communication
- (d) Informal communication

Answer (d) Informal system of communication is referred as “Grapevine”.

Question 6. Status comes under the following type of barriers

- (a) Semantic barrier
- (b) organisational barrier
- (c) Non semantic barrier
- (d) Psychological barrier

Answer (b) Status related to organisation, Thus, it is a organisational barrier.

Question 7. The software company promoted by Narayan Murthy is

- (a) Wipro
- (b) infosys
- (c) Satyam
- (d) HCL

Answer (b) Narayana Murthy promoted Infosys.

Question 8. The highest level need in need Hierarchy of Abraham Maslow

- (a) Safety need
- (b) Belongingness need
- (c) Self actualisation need
- (d) Prestige need

Answer (c) Self actualisation need is the highest level of need as it refers to the drive to become what one is capable of becoming.

Question 9. The process of converting the message into communication symbols is known as

- (a) Media
- (b) Encoding
- (c) Feedback
- (d) Decoding

Answer (b) The process of converting message into symbol is known as Encoding.

Question 10. The communication network in which all subordinates under a supervisor communicate through supervisor only is

- (a) single chain
- (b) inverted
- (c) wheel
- (d) free flow

Answer (c) In the wheel network, the communication takes place in such a manner that subordinates under a supervisor communicate through supervisor only.

Short Answer Type Questions

Question 1. Distinguish between leaders and managers.

Answer Difference between Managers and Leaders

Basis	Manager	Leader
Existence	A manager exists only in a formal organisation structure.	A leader can be found in both formal and informal organisation structure.
Focus	The focus of a manager is on achieving the organisational goals.	The focus of a leader is on fulfilling aspirations and expectations of his followers.
Authority	A manager possesses formal authority.	A leader enjoys acceptance authority.
Functions	Manager performs all functions of an organisation i.e., planning, organising, directing, controlling.	Leader performs only one function i.e. directing.

Question 2. Define Motivation.

Answer Motivation is defined as inducing, inspiring and stimulating a person to perform with their best ability, to accomplish the goal. It depends upon satisfying needs of people. In the words of Farland, "motivation is the way in which urges, desires, aspirations or needs, direct control and explain the behaviour of human beings".

Question 3. What is informal communication?

Answer The social interactions, gossips, friendly talks and non official matters which are discussed among different members of organisation who are not officially recognised is known as informal communication or we can say the communication that takes place without following the formal guidelines of communication is said to be informal communication. This type of communication establishes the personal relationship among employees. It is flexible, dynamic and no records of information communication are maintained under this. Informal communication system is generally referred to as "Grapevine".

Question 4. What are semantic barriers of communication?

Answer While communicating a message, misrepresentation of communication causes misunderstanding on account of use of wrong words, lack of vocabulary skills, faulty translations, different interpretations is known as semantic barriers. It is concerned with the problems which arise in the process of encoding and decoding of message into words or impressions. Main causes of semantic barriers are listed below

- (i) Badly expressed message
- (ii) Symbols with different meanings
- (iii) Faulty translations
- (iv) Unclear assumptions
- (v) Technical jargon
- (vi) Body language and gesture decoding

Question 5. Who is a supervisor?

Answer Supervision means instructing, guiding, monitoring, motivating and observing the activities of employees from over and above. The person who is performing the work of supervision is known as supervisor. Supervisor is the link between management and subordinates. He is the person who translates the policies and

plan of management to the subordinates and revert back the complaint, suggestions and feedback of subordinates to management.

Question 6. What are the elements of directing?

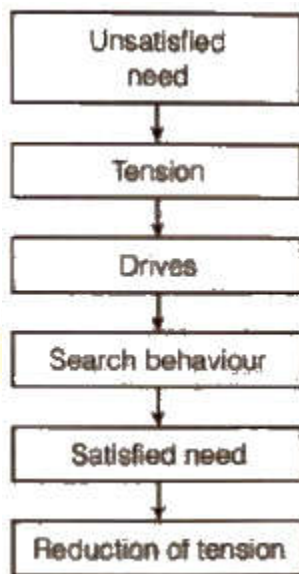
Answer Directing comprises of four elements

- (i) Supervision It can be understood as the process of guiding and instructing the efforts of employees.
- (ii) Motivation The process of encouraging the employees in order to help them in achieving the desired goals is known as motivation
- (iii) leadership It is the process of influencing the behaviour of people by making them strive voluntarily towards achievement of organisational goals.
- (iv) Communication It is the process of exchange of ideas, Views, facts, feelings etc between or among people to create common understanding

Question 7. Explain the process of motivation.

Answer Motivation process is based on how unsatisfied human need gets satisfied and results in reduction of tension.

The steps of motivation process are as follows



- (i) **Unsatisfied Need** The need of an individual which is not satisfied.
- (ii) **Tension** Unsatisfied need creates tension
- (iii) **Drive** This tension creates drive and an Individual starts looking for alternatives to satisfy the need.
- (iv) **Search Behaviour** Then he starts behaving as per chosen option.
- (v) **Satisfied Need** After opting the chosen behaviour his need got satisfied.
- (vi) **Reduction of Tension** The fulfillment of need results in relieving of tension.

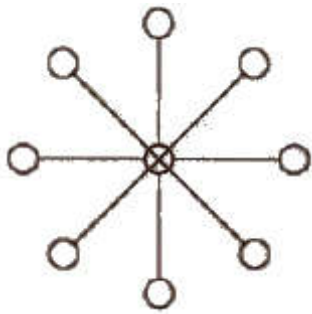
Question 8. Explain different networks of grapevine communications.

Answer Grapevine communications may follow different types of network they are

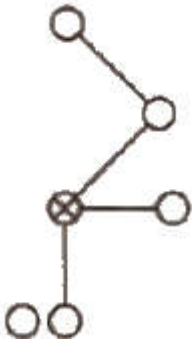
- (i) **Single Strand Network** Each person communicates to the other in sequence.



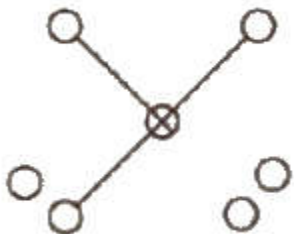
- (ii) **Gossip Network** Each person communicates with all on non-selective basis.



(iii) **Probability Network** The Individual communicates randomly with other Individual



(iv) **Cluster Network** The individual communicates with only those people whom he trusts



Long Answer Type Questions

Question 1. Explain the principles of Directing.

Answer Principles of Directing

- (i) **Maximum Individual Contribution** This principle emphasises that directing techniques must help every employee to contribute to his maximum potential in order to achieve the organisational goals. It should help in bringing out unused or dormant potential of an employee to improve the efficiency of the organisation. e.g., suitable and appropriate Incentives should be given to encourage employees to improve their performance.
- (i) **Harmony of Objectives** Most of the time It happens that the organisational objectives and Individual objectives move in opposite directions, The person In charge of a team of workers should guide and Instruct his team In such a manner that they realise the Importance Of both the objectives
- (ii) **Unity of Command** This principle insists that a person in the organisation should receive Instructions from one superior only. If Instructions are received from more than one, it creates confusion, conflict and disorder In the organisation Adherence to this principle ensures effective direction.
- (iv) **Appropriateness of Direction Technique** According to this principle. appropriate motivational and leadership technique should be used while directing the people based on subordinate needs capabilities. attitudes etc, e.g.. combination of both monetary and non-monetary Incentives should be used to elicit the right response from the employees.
- (v) **Managerial Communication** Directing should convey clear Instructions to create total understanding to subordinates Through proper feed back the manager should ensure that subordinate understands his instructions clearly.
- (vi) **Use of Informal Organisation** Informal groups or organisations exist within every formal organisation and every manager should spot and make use of such organisations for effective directing

(vii) **Leadership** While directing the subordinates managers should exercise good leadership as it can influence the subordinates positively without causing dissatisfaction among them.

(viii) **Follow Through** Mere giving of an order is not sufficient Managers should follow It up by reviewing continuously whether orders are being implemented accordingly or any problems are being faced by the subordinates.

Question 2. Explain the qualities of a good leader. Do the qualities alone ensure leadership success?

Answer Some of the qualities required by all leaders are

(i) **Physical Features** It is believed that good physical features attract people. Height, weight, health, appearance determine the physical personality of an individual.

(ii) **Knowledge** A good leader should have required knowledge and competence Only such person can instruct subordinates correctly and influence them

(iii) **Integrity** He should be a role model to others regarding the ethics and values A leader should possess high level of integrity and honesty.

(iv) **Initiative** A good leader never waits for opportunities to come to his way rather he grabs the opportunity and use it to the advantage of organisation.

(v) **Communication and Motivation Skills** A leader should be a good communicator. He should have the capacity to explain his ideas and make the people to understand his ideas. He should also understand the needs of people and motivate them through satisfying their needs.

(vi) **Self Confidence** A high level of self confidence is very important for any leader He should not lose his confidence even in most difficult times A person who is not himself confident will never be successful in providing confidence to his followers

(vii) **Decisiveness** Leader should be able to take decisions while managing the work. Once he is convinced about a fact, he should be firm and should not change opinions frequently.

(viii) **Social Skills** A leader should be sociable and friendly with his colleagues and followers. He should understand people and maintain good human relations with them.

Many times, the success of an organisation is attributed to the leader, but due credit is not given to the followers. Many followers related factors like their skills, knowledge, commitment, willingness to co-operate team spirit etc make a person an effective leader It is said that followers make a person, a good leader by acceptance of leadership. Therefore both followers and leaders are playing a vital role in leadership process.

Question 3. Discuss Maslow's Need Hierarchy theory of motivation.

Answer Maslow's need Hierarchy Theory of Motivation Motivation is a psychological term and the needs of an employee play an important role in motivation. In order to study motivation various researchers developed theories on them. Among them Abraham Maslow's need Hierarchy theory is considered of worth. As per him, there exists a Hierarchy of five needs these are

(i) **Basic Physiological Needs** These needs are most basic in the hierarchy and corresponds to primary needs. Food, clothing shelter are a few examples of this type of need Basic salary helps to fulfill these needs.



- (ii) **Safety/Security Needs** When the basic needs satisfied, people start thinking of future. These needs provide security and protection from
- (iii) **Affiliation/Belonging Need** These needs refer to human feeling of belongingness. We all as human beings look forward to being accepted In the society e.g. friendship.
- (iv) **Esteem Needs** These include factors such as self-respect, autonomous status, attention An individual wants a respect and recognition from others in this need
- (v) **Self-actualisation Needs** It is the highest level of need in the hierarchy It refers to the drive to become what one is capable of becoming The needs include growth self-fulfillment and achievement of goals etc.

Question 4. What are the common barriers to effective communication suggest measures to overcome them?

Answer Common Barriers to Effective Communication Managers in all organisations face problems due to communication barriers These barriers may prevent a communication or filter part of it or carry Incorrect meaning due to which misunderstanding may be created. Therefore all managers should take some steps to overcome these barriers.

There are broadly four groups of barriers

- (i) **Semantic Barriers** Semantic barriers are concerned with problems and obstructions In the process of encoding and decoding of message Into words or -expressions Normally such barriers result on account of use of wrong words, faulty translations. different interpretations etc. These are discussed below
 - (a) **Badly Expressed Message** Sometimes the message is not communicated correctly by the manager because of inadequate vocabulary, usage of wrong words. omission of needed words etc.
 - (b) **Symbols with Different Meaning** A word may have several meanings Receiver has to perceive one such meaning for the word used by communicator.
 - (c) **Faulty Translations** Sometimes while translating If incorrect translation is done due to poor command over both the languages then meaning of the message changes This leads to cause different meanings to the communications.
 - (d) **Unclear Assumptions** Sometimes communication may have certain assumptions which are subject to different interpretations the one should always clear the meaning of what he is instructing the worker to do, so that the worker has no doubts in his mind.
 - (e) **Technical Jargon** Sometimes specialists may use technical words in their communication by which the receiver IS not aware Therefore, they may not understand the complete conversation.
 - (f) **Body Language and Gesture Decoding** The body movement and body gestures plays an important role in conveying the message. If there is no match between what is said and what is expressed In body movements, communications may be wrongly perceived.
- (ii) **Psychological Barriers** Emotional or psychological factors acts as barrier to communications e.g., a person who is warned cannot understand what is being told. Some of the psychological barriers are
 - (a) **Premature Evaluation** Sometimes people evaluate the meaning of message before the sender completes his message. Such premature evaluation may be due to preconceived notions.
 - (b) **Lack of Attention** If the mind is pre-occupied then the result is non-listening of message by receiver act as a major psychological barrier.
 - (c) **Loss by Transmission and Poor Retention** When message passes through various levels. successive transmission of message results in loss of information. It happens mostly with oral communication. Also people cannot retain the information for a long time if they are inattentive or not interested.
 - (d) **Distrust** If the communicator and communicate do not believe on each other. they can not understand each others message in its original sense as they are not giving importance to the information exchanged.
- (iii) **Organisational Barriers** The factors related to organisation structure, authority relationships, rules and regulations may sometimes act as barriers to effective communication some of these barriers are
 - (a) **Organisational Policy** If the organisational policy is not supportive to free flow of communication, it may hamper effectiveness of communications.
 - (b) **Rules and Regulations** Rigid rules and cumbersome procedures may be a hurdle to communication similarly, communication through prescribed channel may result in delays.

(c) **Status** Status of superior may create psychological distance between him and his subordinates. The people working at higher level may not allow his subordinates to express their feelings freely.

(d) **Complex Organisational Structure** In an organisation where there are number of managerial levels, communications get delayed and distorted as number of filtering points are more.

(e) **Organisational Facilities** For smooth clear and timely communication proper facilities are required like frequent meetings, suggestion box, internet connection, Inter-com facility. Lack or ineffectiveness of these facilities may create communication problems.

(iv) **Personal Barriers** The personal factors of both sender and receiver may exert influence on effective communication. Some of the personal barriers are

(a) **Fear of Challenge to Authority** If a superior feels that a particular communication may affect his authority negatively then he/she may not speak it out clearly and openly.

(b) **Lack of Confidence of Superior on his Subordinate** If superiors do not have confidence on their subordinates, they may not seek their advice or opinions.

(c) **Unwillingness to Communicate** Sometime subordinate may not be prepared to communicate with their superiors if they think that it may adversely affect their interests.

(d) **Lack of Proper Incentives** If there is no reward for communication then employees may not be motivated to communicate e.g., if there is no reward or appreciation for a good suggestion, the subordinate may not be willing to offer useful suggestions again.

Some measures which can be adopted by organisations to improve communications are

(i) **Clarify the Ideas Before Communication** The entire message to be communicated should be studied in depth, analysed and stated in such a manner that it is clearly conveyed to subordinates. The message should be encoded in simple language which is understandable.

(ii) **Communication According to the Needs of Receiver** All managers should be aware of the understanding level of his/her subordinates. He should adjust his communication and select the words according to the education and understanding levels of subordinates.

(iii) **Consult Others Before Communicating** Before communicating anything, others who are linked with it in some way or the other should be taken into confidence for developing a better plan.

(iv) **Be Aware of Languages, Tone and Content of Message** The language used for communication should be understandable to the listener. The tone of the appropriate and the matter should not be offending to anyone.

(v) **Convey Things of Help and Value to Listener** It is always better to know the interests of the people with whom you are communicating. If the message relates directly or indirectly to such interests and needs, it certainly evokes response from communicatee.

(vi) **Ensure Proper Feedback** The receiver of communication may be encouraged to respond; process may be improved to communication. The communication by the feedback received to make it more responsive.

(vii) **Follow up Communication** There should be a regular follow up and review on the instructions given to subordinates. Such follow up measures help in removing hurdles if any in implementing the instructions.

(viii) **Be a Good Listener** Manager should be a good listener. Patient and attentive listening solves half of the problems. Managers should also give indications of their interest in listening to their subordinates.

Question 5. Explain different financial and non-financial incentives used to motivate employees of a company.

Answer Financial Incentives Financial incentives refer to incentives which are in direct monetary form or measurable in monetary term and serve to motivate people for better performance. The financial incentives used in organisations are listed below

(i) **Pay and Allowances** For every employee, salary is the basic monetary incentive. It includes basic pay, DA and other allowances. Salary system consists of regular increments in the pay every year and enhancement of allowances from time to time.

(ii) **Productivity Linked Wage Incentives** Several wage incentives aim at linking payment of wages to increase in productivity at individual or group level.

(iii) **Profit Sharing** Profit sharing is meant to provide a share to employees in the profits of the organisation. This serves to motivate the employees to improve their performance and contribute to increase in profits.

(v) **Co-Partnership/Stock Option** Under these Incentives schemes, employees are offered company shares at a set price which is lower than market price. The allotment of shares creates a feeling of ownership to the employees and makes them to contribute more for the growth of the organisation.

(vi) **Retirement Benefits** Several retirement benefits such as provident fund, pension and gratuity provide financial security to employees after their retirement. This acts as an Incentive when they are in service in the organisation.

(vii) **Perquisites** In many companies perquisites and fringe benefits are offered such as car allowance, housing, medical aid, and education etc over and above the salary. These measures help to provide motivation to the employees/managers.

Non-financial Incentives Incentives which help in fulfilling our psychological, emotional and social needs are known as non-financial incentives. Some of the non-financial Incentives are:

(i) **Status** Status means ranking or high positions in the organisation. Whatever power, position, prestige an employee enjoys in the organisation are indicated by his status. Psychological, social and esteem needs of an individual are satisfied by status given to their job.

(ii) **Organisational Climate** This indicates the characteristics which describe an organisation and distinguish one from the other. Individual autonomy, reward orientation, consideration to employees, etc. are some of the positive features of an organisation. If managers try and include more of these in an organisation helps to develop better organisational climate.

(iii) **Career Advancement Opportunity** Managers should provide opportunity to employees to improve their skills and be promoted to the higher level jobs. Appropriate skill development programmes and sound promotion policy will help employees to achieve promotions. Promotions have always worked as tonic and encourages employees to exhibit improved performance.

(iv) **Job Enrichment** Job enrichment is concerned with designing jobs that include greater variety of work contentment, require higher knowledge and skill, give workers more autonomy level and responsibility and provide opportunity for personal growth and a meaningful work experience.

(v) **Employee Recognition Programmes** Recognition means acknowledgement with a show of appreciation. When such appreciation is given to the work performed by employees, they feel motivated to perform/work at higher level. e.g.,

- (a) Congratulate the employee
- (b) Displaying names of star performers
- (c) Installing awards
- (d) Distributing mementos

(vi) **Job Security** Employees want their job to be secure. They want certainty about future income and work so that they do not feel worried on these aspects and work with greater zeal. There is only one problem with this Incentive i.e., when people feel that they are not likely to lose their jobs, they may become relaxed.

(vii) **Employee Participation** It means involving employees in decision making of the issues related to them. In many companies, these programmes are in practice in the form of joint management committees, work committees, canteen committees etc.

(viii) **Employee Empowerment** Empowerment means giving more autonomy and powers to subordinates. Empowerment makes people feel that their jobs are important. This feeling contributes positively to the use of skills and talents in the job performance.

Application Type Questions

Question 1. The workers always try to show their inability when any new work is given to them. They are always unwilling to take up any kind of work. Due to sudden rise in demand a 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.

Answer “The supervisor can take help of monetary incentives to motivate the workers. Their wages can be linked to productivity; they can earn more incentives besides wages by producing goods. Supervisor should also play the role of a good leader and encourage them to accept any kind of work as it would lead to increase exposure to the industry and better job prospects.

Question 2. Workers of a factory often come to the production manager with the grievances. The production manager finds himself overburdened with so many tasks advise a way to relieve the production managers.

Answer To overcome the problem the production manager should take the following measures

- (i) Arrange necessary training programmes
- (ii) Prepare a work schedule
- (iii) Recommend the cases of the workers for promotion, rewards, transfer, punishment etc.
- (iv) Proper availability of materials, machines and tools for the workers
- (v) Delegate some of his authorities.

Question 3. In an organisation employees always feel they are under stress. They take last initiative and fear to express their problems before the manager. What do you think is wrong with the manager?

Answer The manager should adopt more friendly approach towards the workers. The manager should encourage a system of two-way communication, provide an outlet to workers to share their feelings, suggestions and problems.

Question 4. In an organisation all the employees take things easy and are free to approach anyone for minor queries and problems. This has resulted in everyone talking to each other and thus resulting in inefficiency in the office. It has also resulted in loss of secrecy and confidential information being leaked out. What system do you think the manager should adopt to improve communication?

Answer Excess of everything is bad. More use of Informal communication is resulting in this problem. A proper chain of command should be established. Only the necessary information should be passed through chain of command. The employees will not be allowed to communicate at all levels. This will save time and more discipline.

Case Problem

Y limited is a bank functioning in India. It is planning to diversify into insurance business. Lately, the Government of India has allowed the private sector to gain entry in the insurance business. Previously, it was the prerogative of LIC and GIC to do insurance business. But now with liberalisation of the economy and to make the field competitive other companies have been given licenses to start insurance business under the regulation of Insurance Regulatory and Development Authority.

Y limited plans to recruit high quality employees and agents and exercise effective direction to capture a substantial part of life and non-life insurance business.

Question 1. Identify how the company can supervise its employees and agents effectively. What benefits will the company derive from effective supervision?

Answer The company can supervise its employees and agents by taking the following steps

- (i) Training programmes should be organised
- (ii) Make them understand the various policies so that they can convince their clients.
- (iii) Establishing targets for them and also monetary incentives.
- (iv) Regularised system for submission of periodical reports of their performance.

The benefits of the above steps will be

- (i) Trained personnel will give better performance. They can improve upon their skills
- (ii) Knowledge of the products of the Insurance company will ensure better satisfaction for the clients.
- (iii) They will compete to give better performance and earn higher incentives.
- (iv) It will help in identifying the areas where workers and agents need specialised training programmes.

Question 2. What financial and non financial incentives can the company use for employees and agents separately to motivate them. What benefits company will get from them?

Answer Incentives for Employees

(i) Financial

- (a) Productivity linked wage incentive
- (b) Bonus
- (c) Co-partnership
- (d) Employee stock option
- (ii) Non-financial

- (a) Job-security
- (b) **Status**
- (c) Employee empowerment
- (d) Employee recognition programme

Incentives for Agents

(i) Financial

- (a) Commission
- (b) Bonus like paid vacation

(ii) Non-financial Incentive

- (a) Cordial relationship
- (b) Career advancement opportunity
- (c) Job enrichment
- (d) Recognition programmes like certificate of merit etc.
- (e) Company achieves the motivation among the employees and they will contribute more in achieving targets.

Question 3. How can the company ensure that higher order needs i.e., the esteem and self actualisation needs are met?

Answer The higher order needs can be satisfied through

- (i) Career advancement opportunity
- (ii) Assignment of challenging job
- (iii) Perquisites
- (iv) Participation in management decisions

Question 4. Identify the qualities of leadership in this line of business that the company manager must possess to motivate employees and agents.

Answer The qualities of leaders which the manager of the Insurance company must possess are

- (i) Intelligence
- (ii) Good communication skills
- (iii) Self confidence, integrity and honesty
- (iv) Good listener
- (v) Pleasing personality

Question 5. Give a model of formal communication system that the company can follow. Identify the barriers in this model, how can they be removed?

Answer The most suitable model for formal communication



Barriers to Effective Communication

- (i) **Barriers Due to Organisational Structure** An organisational structure is complex with numerous levels in between which creates distance between the top management and the workers. With long lines of communication, there is possibility of message losing its significance.
- (ii) **Psychological Barriers** Everyone perceives information in the light of their own experiences, prejudices and thinking
- (iii) **Inability to Communicate** The lack of ability to communicate leads to misunderstanding and confusion. Different people have different meaning for same words.
- (iv) **Status and Position** Sometimes, effective flow of communication is hampered by status and position of the sender and receiver.

Measures to Overcome the Barriers

- (i) Clarity in the thoughts of the sender is must for effective communication.
- (ii) The sender should try to make the message meaningful and understandable.
- (iii) Message should be precise and to the point.
- (iv) The sender should always take the feedback from the receiver.

Question 6. How can informal communication help to supplement formal communication model given by you in answer to question?

Answer Informal communication takes place outside the official channels of communication. It fills the gaps that might exist in the formal communication. Merits of Informal communication are

- (i) It helps the members to discuss the matters which cannot be discussed at the official level.
- (ii) It is a way of knowing the reactions and opinions of the people about a change.
- (iii) It helps in building team spirit,
- (iv) The information flows at a faster speed.



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Multiple Choice Questions

Question 1. An efficient control system helps to

- (a) accomplishes organisational objectives
- (b) boosts employee morals
- (c) judges accuracy of standards
- (d) All of the above

Answer (d) Efficient control system helps to accomplish objectives, boosts employee morals, judges accuracy of standards, analyse deviations.

Question 2. Controlling function of an organisation is

- (a) forward looking
- (b) backward looking
- (c) forward as well as backward looking
- (d) None of the above

Answer (c) Controlling is forward looking because it does not end only by comparing past performance with standards. Controlling is backward looking because it postmortems all past activities to set future standards. Thus, controlling is both forward as well as backward looking.

Question 3. Management audit is a technique to keep a check on the performance of

- (a) company
- (b) management of the company
- (c) shareholders
- (d) customers

Answer (b) The purpose of management audit is to review the efficiency and effectiveness of management of the company.

Question 4. Budgetary control requires the preparation of

- (a) training schedule
- (b) budgets
- (c) network diagram
- (d) responsibility centres

Answer (b) Budgetary control is a technique in which all operations are planned in advance in the form of budgets.

Question 5. Which of the following is not applicable to responsibility accounting?

- (a) Investment centre
- (b) Accounting centre
- (c) Profit centre
- (d) Cost centre

Answer (b) Accounting centre is not applicable to responsibility accounting.

Short Answer Type Questions

Question 1. Explain the meaning of controlling.

Answer Controlling means ensuring that activities in an organisation are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of desired goals. Controlling is, thus, a goal-oriented function. Controlling is a very important managerial function. Because of controlling, a manager is able to compare actual performance with the planned performance. In order to control the activities at all levels, a manager needs to perform the controlling function.

Question 2. Planning is looking ahead and controlling is looking back comment.

Answer Planning and controlling are inseparable Planning is the primary function of every organisation it is the thinking process, which means looking ahead or making plans that how desired goal is achieved in future thus It is called a forward looking function on the other hand controlling is a systematic function which measures the actual performance with the planned performance.

It compares and analyses the whole process of an organisation and takes correcting actions. Thus, it is a backward looking function but the statement "Planning is looking ahead and controlling is looking back" is partially correct because it should be understood that planning is guided by past experiences and the corrective action initiated by control function which aims to improve future performance. Thus, planning and controlling are both backward looking as well as forward looking functions.

Question 3. 'An effort to control everything may end up in controlling nothing'. Explain.

Answer It's a well known fact that "Jack of all master of none" when we start controlling everything it results in controlling nothing because it is not possible at one time to control various activities as this process may neither be economical nor easy. Control thus focuses on KRAs (Key Result Areas). It means instead of controlling all activities, control where the critical points go wrong and by which organisation suffers. Thus, KRAs are set as critical points and one should be aware that he has to control what.

Question 4. Write a short note on budgetary control as a technique of managerial control.

Answer Budgetary control is a technique of managerial control in which all operations are planned and this will help us in knowing how much we have to spend in order to achieve the future result. It compares the actual result with budgetary standards. This comparison reveals the necessary actions to be taken so that the organisational objectives are accomplished. Budgeting offers the following advantages

1. Budgeting focuses on specific and time bound targets.
2. Budgeting standards is a source of motivation to the employees they set the against which their performance will be appraised and thus, enables them to perform better
3. Budgeting helps in optimum utilisation of resources by allocating them according to the requirements of different departments.
4. It helps the management in setting standards.

Question 5. Explain how management audit serves as an effective technique of controlling.

Answer Management audit is a technique which helps measuring the efficiency and effectiveness of management. It is a comprehensive and constructive review. Thus, we can say it is defined as the review of the functioning performance and to improve its efficiency in future period hence it serves as an effective technique of control. Following points are proving the same

1. It helps to locate present and potential deficiencies in the performance of management functions.
2. It helps to improve the control system of an organisation by continuously monitoring the performance of management.
3. It ensures updating of existing managerial policies and strategies in the light of environmental changes. This results in efficient controlling of management.

Long Answer Type Questions

Question 1. Explain the various steps involved in the process of control.

Answer Controlling is a systematic process involving following steps

(i) Setting Performance Standards The first step in the controlling process is setting up of performance standards. Standards are the criteria against which actual performance would be measured. Standards can be set in both quantitative as well as qualitative terms

Some of the qualitative standards are cost to be incurred, product units to be produced, time to be spent in performing a task etc. Improving goodwill and motivation level of employees are examples of qualitative standards.

(ii) Measurement of Actual Performance Once performance standards are set, the next step is measurement of actual performance. Performance should be measured in an objective and reliable manner. Some of the techniques used for measuring the performance are personal observation, sample checking performance reports etc.

(iii) Comparing Actual Performance with Standards This step involves comparison of actual performance with the standards. Such comparison will reveal the deviation between actual and desired results. Comparison becomes easier when standards are set in quantitative terms. For instance, performance of a worker in terms of units produced in a week can be easily measured against the standard output for the week.

(iv) Analysing Deviations Some deviations in performance can be expected in all activities. It is therefore, important to determine the acceptable range of deviations. Also, deviations in key areas of business need to be attended more urgently as compared to deviations in certain insignificant areas. Critical point control and management by exception should be used by a manager in this regard.

(v) Taking Corrective Action The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within acceptable limits. However, when the deviations go beyond the acceptable range, especially in the important areas. It demands immediate managerial attention so that deviations do not occur again and standards are accomplished. In case the deviations cannot be corrected through managerial action, the standards may have to be revised.

Question 2. Explain the techniques of managerial control.

Answer The various techniques of managerial control may be classified into broad categories

(i) Traditional Techniques Those techniques which have been used by the companies for a long time now are traditional techniques. However, these have not become obsolete and are still being used by companies.

(a) Personal Observation Personal observation enables the manager to collect first hand information. It also creates a psychological pressure on the employees to perform well as they are aware that they are being observed personally in their job.

(b) Statistical Reports Statistical analysis in the form of averages, percentages, ratios, correlation etc. Present useful information to the managers regarding performance of the organisation in various areas. Such information when presented in the form of charts, graphs, tables etc enables the managers to read them more easily and allow a comparison to be made with performance in previous periods and also with the benchmarks.

(c) Break-even Analysis It is a technique used by managers to study the relationship between costs, volume and profits. It determines the probable profits and losses at different levels of activity. The sales volume at which there is no profit, no loss is known as break-even point. It is a useful technique for the managers as it helps in estimating profits at different levels of activities.

(d) Budgetary Control It is a technique of managerial control in which all operations are planned in advance in the form of budgets and actual results are compared with budgetary standards. This comparison reveals the necessary actions to be taken so that organisational goals are accomplished. A budget is a quantitative statement for a definite future period of time for the purpose of obtaining a given objective. It is also a statement which reflects the policy of that particular period. It will contain figures of forecasts both in terms of time and quantities.

(ii) Modern Techniques Modern techniques of controlling are those which are of recent origin and are comparatively new in management literature. They provide a new thinking on the ways in which various aspects of an organisation can be controlled

(a) Return on Investment Return on Investment (ROI) is a useful technique which provides the basic yardstick for measuring whether or not invested capital has been used effectively for generating reasonable amount of return. It can be calculated as under

$$\text{ROI} = \frac{\text{Net income}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Total investment}}$$

ROI provides top management an effective means of control for measuring and comparing performance of different departments. It also permits departmental managers to find out the problem which affects ROI in an adverse manner.

(b) Ratio Analysis It refers to analysis of financial statements through computation of ratios. The most commonly used ratios are

- **Ratios Liquidity** ratios are calculated to determine short term solvency of business.
- **Ratios Solvency** which are calculated to determine the long term solvency of business are known as Solvency ratios.
- **Ratios Profitability** ratios are calculated to analyse the profitability position of a business.
- **Ratios Efficiency** They are calculated to determine the efficiency of operations based on effective utilisation of resources.

(iii) Responsibility Accounting Responsibility accounting is a system of accounting in which different sections, divisions and departments of an organisation are set up as 'responsibility centres'. The head of the centre is responsible for achieving the target set for his centre. Responsibility centres may be of the following types

(a) Cost Centre A cost or expense centre is a segment of an organisation in which managers are held responsible for the cost incurred in the centre but not for the revenues e.g., production department

(b) Revenue Centre A revenue centre is held responsible for generating revenue e.g., marketing department.

(c) Profit Centre A profit centre is responsible for both cost and revenue e.g., repair and maintenance department

(d) Investment Centre An investment centre is responsible not only for profits but also for investments made in the centre in the form of assets.

(iv) Management Audit Management audit refers to systematic appraisal of the overall performance of the management of an organisation. The purpose is to review the efficiency and effectiveness of management and to improve its performance in future periods. It is helpful in identifying the deficiencies in the performance of management functions. The main advantages are

- Helps to locate weaknesses.
- It helps to improve control system.
- Ensures updating of existing managerial policies and strategies in the light of environmental changes.

(v) PERT and CPM Programme evaluation and review technique and critical path method are important network techniques useful in planning and controlling. These techniques are especially useful in planning, scheduling and implementing time bound projects involving performance of a variety of complex, diverse and inter-related activities. These techniques deal with time scheduling and resource allocation for these activities and aim at effective execution of projects within given time schedule and structure of costs.

(vi) Management Information System MIS is a computer based information system that provides information and support for effective managerial decision-making. A decision maker requires up-to-date accurate and timely information. MIS provides the required information to the managers by systematically processing a massive data generated in an organisation. Thus, MIS is an important communication tool for managers.

Question 3. Explain the importance of controlling in an organisation. What are the problems faced by the organisation in implementing an effective control system?

Answer Control is an indispensable function of management. Without control the best of plans can go away. A good control system helps an organisation in the following way

(i) Accomplishing Organisational Goals The controlling function measures progress towards the organisational goals and brings to light the deviations if any and indicates corrective action. It thus guides the organisation and keeps it on the right track so that organisational goals might be achieved.

(ii) Judging Accuracy of Standards A good control system enables management to verify whether the standards set are accurate and objective. An efficient control system keeps a careful check on the changes taking place in the organisation and in the environment and helps to review and revise the standards in light of such changes.

(iii) Making Efficient Use of Resources By exercising control a manager seeks to reduce wastage and spoilage of resources. Each activity is performed in accordance with pre-determined standards and norms. This ensures that resources are used in the most efficient and effective manner.

(iv) Improving Employee Motivation A good control system ensures that employees know well in advance what they are expected to do and what are the standards of performance on the basis of which they will be appraised. It, thus motivates them and helps them to give better performance.

(v) Ensuring Order and Discipline Controlling creates an atmosphere of order and discipline in the organisation. It helps to minimise dishonest behaviour on the part of the employees by keeping a close check on their activities.

(vi) Facilitating Co-ordination in Action Controlling provides direction to all activities and efforts for achieving organisational goals. Each department implemented employee is governed by pre-determined standards which are well co-ordinated with one another. This ensures that overall organisational objectives are accomplished.

Although controlling is an important function of management, it suffers from the following limitations also:

(i) Difficulty in Setting Quantitative Standards Control system loses some of its effectiveness when standards cannot be defined in quantitative terms. This makes measurement of performance and their comparison with standards a difficult task. Employee morale, job satisfaction and human behaviour are such areas where this problem might arise.

(ii) Little Control on External Factors Generally an enterprise cannot control external factors such as government policies, technological changes, competition etc.

(iii) Resistance from Employees Control is often resisted by employees. They see it as a restriction on their freedom. For instance, employees might object when they are kept under a strict watch with the help of Closed Circuit Televisions (CCTVs).

(iv) Costly Affair Control is a costly affair as it involves a lot of expenditure, time and effort. A small enterprise cannot afford to install an expensive control system. It cannot justify the expenses involved. Managers must ensure that the costs of installing and operating a control system should not exceed the benefits derived from it.

Question 4. Discuss the relationship between planning and controlling.

Answer Planning and controlling are inseparable; they are twins of management. A system of control pre-supposes the existence of certain standards. These standards of performance which serve as the basis of controlling are provided by planning. Once a plan becomes operational, controlling is necessary to monitor the progress, measure it, discover deviations and initiate corrective measures to ensure that events conform to plans.

Planning is clearly a pre-requisite for controlling. Controlling cannot be accomplished without planning. With planning there is no pre-determined understanding of the desired performance; planning seeks consistent, integrated and articulated programmes while controlling seeks to compel events to conform to plans.

Application Type Questions

Following are some behaviours that you and others might engage in on the job. For each item, choose the behaviour that management must keep a check to ensure an efficient control system.

1. Biased performance appraisals.

2. Using company's supplies for personal use.
3. Asking a person to violate company's rules.
4. Calling office to take a day off when one is sick.
5. Overlooking boss's error to prove loyalty.
6. Claiming credit for someone else's work.
7. Reporting a violation on noticing it.
8. Falsifying quality reports.
9. Taking longer than necessary to do the job.
10. Setting standards in consultation with workers.

You are also required to suggest the management how the undesirable behaviour can be controlled.

Answers

1. To avoid biased appraisal, performance appraisal should be taken by a committee of experts.
2. The statement are not so expensive, so it can be ignored.
3. Strict and Immediate disciplinary action should be taken.
4. Mass bunking should not be allowed.
5. Secret suggestion box can be used to collect feedback about the boss for appraisal.
6. Performance records of employees to be maintained.
7. If minor can be over looked
8. Strict quality control techniques should be used.
9. Time and motion study should be used to fix standard.
10. The use of scientific techniques can help in fixing the most feasible and optimum standards.

Case Problem

A company M limited is manufacturing mobile phones both for domestic Indian market as well as for export. It had enjoyed a substantial market share and also had a loyal customer following. But lately it has been experiencing problems because its targets have not been met with regard to sales and customer satisfaction. Also mobile market in India has grown tremendously and new players have come with better technology and pricing. This is causing problems for the company. It is planning to revamp its controlling system and take other steps necessary to rectify the problems it is facing.

Question 1. Identify the benefits the company will derive from a good control system.

Answer When company starts following a good control on operations, it leads to derive benefits which are

1. Helps in achieving desired goals.
2. Judging accuracy of operations.
3. Making efficient and effective use of resources.
4. Improving employee morale.
5. Ensuring proper flow of orders and the whole system is in discipline.
6. It facilitates the co-ordination and Improve the performance of every Individual.

Question 2. How can the company relate its planning with control in this line of business to ensure that its plans are actually implemented and targets attained?

Answer Company relates its planning with control in this line of business by implementing effective control system as this will help in two aspects planning makes controlling effective and efficient whereas controlling improves future planning because it is like a postmortem of past activities to find out deviations from the standards and in order to ensure that its plans are actually implemented and targets are attained they will take the help from controlling process as it is a systematic process and it leads to following benefits

1. **Setting Up of Standards** In this step, company set some targets against which the actual performance is measured.
2. **Measuring of Performance** In this step, company is able to measure the performance and evaluating that what is actually done by the employees.

3. **Compare Performance** After evaluating the actual result, company compares the actual performance with the planned one this helps in knowing that the desired goal is achieved or not.
4. **Analysing Deviations** This refers to the difference between actual and desired performance. It helps in knowing to the company that the deviation is positive or negative. It needs focus on which part rather than analysing whole.
5. **Taking Corrective Measures** Final step is to know the type of operation and trying to remove this deviation and in future it matches with the plans.

Question 3. Give the steps in the control process that the company should follow to remove the problems it is facing.

Answer The company should follow these steps in a systematic manner

1. Setting performance standards
2. Measurement of actual performance
3. Comparison of actual performance with standards
4. Analysing deviations
5. Taking corrective actions

Question 4. What techniques of control can the company use?

Answer The company should follow the modern techniques to control the system

(i) ROI (Return on Investment) It is a useful technique of controlling overall performance of a company. It indicates how resources are being used, facilitates balanced use effectively of capital employed, focuses on profits and relates them to capital invested.

(ii) Responsibility Accounting Under this technique, organisation is divided into centres which is responsible for overall growth of various departments. Responsibility centres in the organisation are

- (a) **Cost Centre** Under this, one can check the production and operational cost.
- (b) **Revenue Centre** Sales or marketing departments come under this, it is responsible for generating revenue.
- (c) **Profit Centre** Profit = Revenue - Cost. It ensures the actual profit derived from the business.
- (d) **Investment Centre** This centre ensures the optimum use of assets and it makes use of return on investment.

(iii) MIS (Management Information System) It is a control technique which provides information and support for effective managerial decision making. It provides accurate information to the managers, helps in planning, controlling, provides cost effective information and many more.

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Multiple Choice Questions

1. The cheapest source of finance is

- (a) debenture
- (b) equity share capital
- (c) preference share
- (d) retained earning

Answer (d) Retained earning is the cheapest source of finance.

2. A decision to acquire a new and modern plant to upgrade an old one is a

- (a) financing decision
- (b) working capital decision
- (c) investment decision
- (d) dividend decision

Answer (c) Investment decision is related to careful selection of assets in which funds will be invested by firms. Thus, the above case comes under the investment decision.

3. Other things remaining the same, an increase in the tax rate on corporate profits will

- (a) make debt relatively cheaper
- (b) make debt relatively less cheap
- (c) no impact on the cost of debt
- (d) we can't say

Answer (a) If the tax rate on corporate profit will increase it makes debt relatively cheaper.

4. Companies with higher growth pattern are likely to

- (a) pay lower dividends
- (b) pay higher dividends
- (c) dividends are not affected by growth considerations
- (d) None of the above

Answer (a) Companies who are having the higher growth pattern are likely to pay lower dividends.

5. Financial leverage is called favourable if

- (a) return on investment is lower than cost of debt
- (b) return on investment is higher than cost of debt
- (c) debt is nearly available
- (d) if the degree of existing financial leverage is low

Answer (b) If ROI is higher than cost of debt financial leverage in this case called favourable.

6. Higher debt equity ratio (Debt/Equity) results in Equity

- (a) lower financial risk
- (b) higher degree of operating risk
- (c) higher degree of financial risk
- (d) higher EPS

Answer (c) Higher debt equity ratio results in higher degree of financial risk.

7. Higher working capital usually results in

- (a) higher current ratio, higher risk and higher profits
- (b) lower current ratio, higher risk and profits
- (b) higher equitably, lower risk and lower profits
- (d) lower equitably, lower risk and higher profits

Answer (a) If the working capital is higher it results in higher current ratio, higher risk and higher profits.

8. Current assets are those assets which get converted into cash

- (a) within six month
- (b) within one year
- (c) between one and three year
- (d) between three and five year

Answer (b) Current assets are those assets which are converted in cash in one year.

9. Financial planning arrives at

- (a) minimising the external borrowing by resorting to equity issues
- (b) entering that the firm always have significantly more fund than required so that there is no paucity of funds
- (c) ensuring that the firm paces neither a shortage nor a glut of unusable funds
- (d) doing only what is possible with the funds that the firm has at its disposal

Answer (c) Financial planning means deciding how much to spend and on what to spend it ensuring that the firm paces neither a shortage nor a glut of unusable funds.

10. Higher dividends per share is associated with

- (a) high earnings, high cash flows, unusable earnings and higher growth opportunities
- (b) high earnings, high cash flows, stable earnings and high growth opportunities
- (c) high earnings, high cash flows, stable earnings and lower growth opportunities
- (d) high earnings, low cash flows, stable earnings and lower growth opportunities

Answer (c) Higher dividend per share includes higher earnings, high cash flows, stable earning and lower growth opportunities.

11. A fixed asset should be financed through

- (a) a long term liability
- (b) a short term liability
- (c) a mix of long and short term liabilities
- (d) None of the above

Answer (a) Fixed assets financed through long term liability.

12. Current assets of a business firm should be financed through

- (a) current liability only
- (b) long term liability only
- (c) partly from both types i.e., long and short term liabilities
- (d) None of the above

Answer (c) Current assets are financed through long and short term liabilities.

Short Answer Type Questions

Question 1. What is meant by capital structure?

Answer Capital structure refers to the mix between owners and borrowed funds. It represents the proportion of equity and debt.

Capital Structure = (Debt/Equity)

Question 2. Discuss the two objectives of Financial Planning.

Answer Financial Planning strives to achieve the following two objectives

1. **To Ensure Availability of Funds whenever These are Required** This includes a proper estimation of the funds required for different purposes such as for the purchase of long term assets or to meet day-to-day expenses of business etc.

2. **To See That the Firm Does Not Raise Resources Unnecessarily** Excess funding is almost as bad as inadequate funding. Efficient financial planning ensures that funds are not raised unnecessarily in order to avoid unnecessary addition of cost.

Question 3. What is 'financial risk'? Why does it arise?

Answer It refers to the risk of company not being able to cover its fixed financial costs. The higher level of risks are attached to higher degrees of financial leverage with the increase in fixed financial costs, the company is also required to raise its operating profit (EBIT) to meet financial charges. If the company can not cover these financial charges, it can be forced into liquidation.

Question 4. Define a 'current assets' and give four examples.

Answer Current assets are those assets of the business which can be converted into cash within a period of one year. Cash in hand or at bank, bills receivables, debtors, finished goods inventory are some of the examples of current assets.

Question 5. Financial management is based on three broad financial decisions. What are these?

Answer Financial management is concerned with the solution of three major issues relating to the financial operations of a firm corresponding to the three questions of Investment, financing and dividend decision. In a financial context, it means the selection of best financing alternative or best investment alternative. The finance function therefore, is concerned with three broad decisions which are as follows

1. **Decision** The investment decision relates to how the firm's funds are invested in different assets.
2. **Financing Decision** This decision is about the quantum of finance to be raised from various long term sources and short term sources. It involves identification of various available sources of finance.
3. **Dividend Decision** This decision relates to distribution of dividend.

Dividend is that portion of profit which is distributed to shareholders the decision involved here is how much of the profit earned by company is to be distributed to the shareholders and how much of it should be retained in the business for meeting investment requirements.

Question 6. What is the main objective of financial management? Explain briefly.

Answer Primary aim of financial management is to maximise shareholder's wealth, which is referred to as the wealth maximisation concept. The wealth of owners is reflected in the market value of shares, wealth maximisation means the maximisation of market price of shares.

According to the wealth maximisation objective, financial management must select those decisions which result in value addition, that is to say the benefits from a decision exceed the cost involved. Such value addition increases the market value of the company's share and hence results in maximisation of the shareholder's wealth.

Question 7. Discuss about working capital affecting both the liquidity as well as profitability of a business.

Answer The working capital should neither be more nor less than required. Both these situations are harmful. If the amount of working capital is more than required, it will no doubt increase liquidity but decrease profitability. For instance, if large amount of cash is kept as working capital, then this excessive cash will remain idle and cause the profitability to fall. On the contrary, if the amount of cash and other current assets are very little, then lot of difficulties will have to be faced in meeting daily expenses and making payment to the creditors. Thus, optimum amount of both current assets and current liabilities should be determined so that profitability of the business remains intact and there is no fall in liquidity.

Long Answer Type Questions

Question 1. What is meant by working capital? How is it calculated? Discuss five important determinants of working capital requirements.

Answer Working capital is that part of total capital which is required to meet day-to-day expenses, to buy raw materials, to pay wages and other expenses of routine nature in the production process or we can say it refers to excess of current assets over current liabilities.

Working Capital = Current Assets – Current Liabilities

Factors affecting working capital requirement are

(i) Nature of Business The basic nature of a business influences the amount of working capital required. A trading organisation usually needs a lower amount of working capital compared to a manufacturing organisation. This is because in trading, there is no processing required. In a manufacturing business, however, raw materials need to be converted into finished goods, which increases the expenditure on raw material, labour and other expenses.

(ii) Scale of Operation The firms which are operating on a higher scale of operations, the quantum of inventory, debtors required is generally high. Such organisations, therefore, require large amount of working capital as compared to the organisations which operate on a lower scale.

(iii) Production Cycle Production cycle is the time span between the receipts of raw materials and their conversion into finished goods. Some businesses have a longer production cycle while some have a shorter one. Working capital requirement is higher in firms with longer processing cycle and lower in firms with shorter processing cycle.

(iv) Credit Allowed Different firms allow different credit terms to their customers. A liberal credit policy results in higher amount of debtors, increasing the requirements of working capital.

(v) Credit Availed Just as a firm allows credit to its customers it also may get credit from its suppliers. The more credit a firm avails on its purchases, the working capital requirement is reduced.

Question 2. Capital structure decision is essentially optimisation of risk-return relationship. Comment.

Answer Capital structure refers to the mix between owners and borrowed funds. It can be calculated as **(Debt/Equity)**.

Debt and equity differ significantly in their cost and riskiness for the firm. Cost of debt is lower than cost of equity for a firm because lender's risk is lower than equity shareholder's risk, since lenders earn on assured return and repayment of capital and therefore they should require a lower rate of return. Debt is cheaper but is more risky for a business because payment of interest and the return of principal is obligatory for the business. Any default in meeting these commitments may force the business to go into liquidation. There is no such compulsion in case of equity, which is therefore, considered riskless for the business. Higher use of debt increases the fixed financial charges of a business. As a result increased use of debt increases the financial risk of a business.

Capital structure of a business thus, affects both the profitability and the financial risk. A capital structure 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.

Question 3. A capital budgeting decision is capable of changing the financial fortune of a business. Do you agree? Why or why not?

Answer Investment decision can be long term or short term. A long term Investment decision is also called a capital budgeting decision. It involves committing the finance on a long term basis, e.g., making investment in a new machine to replace an existing one or acquiring a new fixed assets or opening a new branch etc. These decisions are very crucial for any business. They affect its earning capacity over the long-run, assets of a firm, profitability and competitiveness, are all affected by the capital budgeting decisions. Moreover, these decisions normally involve huge amounts of investment and are irreversible except at a huge cost. Therefore, once made, it is almost impossible for a business to wriggle out of such decisions. Therefore, they need to be taken with utmost care. These decisions must be taken by those who understand them comprehensively.

A bad capital budgeting decision normally has the capacity to severely damage the financial fortune of a business.

Question 4. Explain factors affecting the dividend decision.

Answer Dividend decision relates to distribution of profit to the shareholders and its retention in the business for meeting the future investment requirements.

How much of the profits earned by a company will be distributed as profit and how much will be retained in the business is affected by many factors. Some of the important factors are discussed as follows

(i) Earnings Dividends are paid out of current and past year earnings. Therefore, earnings is a major determinant of the decision about dividend.

(ii) Stability of Earnings Other things remaining the same, a company having stable earning is in a position to declare higher dividends. As against this, a company having unstable earnings is likely to pay smaller dividend.

(iii) Growth Opportunities Companies having good growth opportunities retain more money out of their earnings so as to finance the required investment. The dividend in growth companies is therefore, smaller than that in non-growth companies.

(iv) Cash Flow Position Dividends involve an outflow of cash. A company may be profitable but short on cash. Availability of enough cash in the company is necessary for declaration of dividend by it.

(v) Shareholder Preference If the shareholder in general, desire that at least a certain amount should be paid as dividend, the companies are likely to declare the same.

(vi) Taxation Policy If tax on dividend is higher it would be better to pay less by way of dividends. As compared to this, higher dividends may be declared if tax rates are relatively lower.

(vii) Stock Market Reaction For investors, an increase in dividend is a good news and stock prices react positively to it. Similarly a decrease in dividend may have a negative impact on the share prices in the stock market.

(viii) Access to Capital Market Large and reputed companies generally have easy access to the capital market and therefore, depend less on retained earnings to finance their growth. These companies tend to pay higher dividends than the smaller companies which have relatively low access to the market.

(ix) Legal constraints Certain provisions of the Company's Act place restriction on pay outs as dividend. Such provisions have to be adhered, while declaring dividends.

(x) Contractual Constraints While granting loans to a company, sometimes the lender may impose certain restrictions on the payment of dividends in future. The companies are required to ensure that the dividends does not violate the terms and conditions of the loan agreement in this regard.

Explain the term 'trading on equity'. Why, when and how it can be used by a business organisation?

Answer Trading on equity refers to the increase in profit earned by the equity shareholders due to presence of fixed financial charges. When the rate of earning or Return on Investment (ROI) of a company is higher than the rate of interest on borrowed funds only then a company should opt for trading on equity. Let us consider the following example

	Company 'X'	Company 'Y'
Share Capital	₹ 10 lakhs	₹ 04.00 lakhs
Loan @ 15% p.a.	—	₹ 06.00 lakhs
	₹ 10 lakhs	₹ 10.00 lakhs
Profit before interest + Tax	₹ 3 lakhs	₹ 03.00 lakhs
Interest	Nil	₹ 00.09 lakhs
Profit before tax	₹ 3 lakhs	₹ 02.01 lakhs
Tax @ 50%	₹ 1.5 lakhs	₹ 1.05 lakhs
Profit after tax	₹ 1.5 lakhs	₹ 1.05 lakhs
Share capital	₹ 10 lakhs	₹ 4.00 lakhs
Rate of return on share	15%	26.25%

It should be clear from the above example that shareholders of the company 'X' have a higher rate of return than company 'Y' due to loan component in the total capital of the company.

Case Problem

'S' Limited is manufacturing steel at its plant in India. It is enjoying a buoyant demand for its products as economic growth is about 7% – 8% and the demand for steel is growing. It is planning to set up a new steel plant to cash on the increased demand it is facing. It is estimated that it will require about ₹ 5,000 crores to set up and about ₹ 500 crores of working capital to start the new plant.

Question 1. What is the role and objectives of financial management for this company?

Answer Role of Financial Management Financial management is concerned with the proper management of funds it involves

1. Managerial decisions relating to procurement of long term and short term funds
2. Keeping the risk associated with respect to procured funds under control.
3. Utilisation of funds in the most productive and effective manner
4. Fixed debt equity ratio in capital.

Objective of Financial Management

The objective of financial management is maximisation of shareholder's wealth. The investment decision, financial decision and dividend decision help an organisation to achieve this objective. In the given situation S limited envisages growth prospects of steel industry due to the growing demand. To expand the production capacity, the company needs to invest. However, investment decision will depend on the availability of funds, the financing decision and the dividend decision. However, the company will take those financial decisions which result in value addition i.e. the benefits are more than the cost. This leads to an increase in the market value of the shares of the company.

Question 2. Explain the importance of having a financial plan for this company. Give an imaginary plan to support your answer.

Answer Importance of financial plan for the company

1. Financial Planning ensures provision of adequate funds to meet working capital requirements.
2. It brings about a balance between in flow and out flow of funds and ensures liquidity throughout the year.
3. It solves the problems of shortage and surplus of funds and ensures proper and optimum utilisation of available resources
4. It ensures increased profitability through cost benefit analyses and by avoiding wasteful operations
5. It seeks to eliminate waste of funds and provides better financial control.
6. It seeks to avail the benefits of trading on equity.

Financial Plan of S Ltd

Total finance required; Fixed capital = ₹ 1,000 crores

Working capital = ₹ 100 crores

Source of finance : 2:1 Ratio i.e.,

50% finance collected by issue of shares and 50% by borrowed funds.

Question 3. What are the factors which will affect the capital structure of this company?

Answer Capital structure refers to the proportion in which debt and equity funds are used for financing the operations of a business. A capital structure is said to be optimum when the proportion of debt and equity is such that it results in an increase in the value of shares. The factors that will affect the capital structure of this company are

(i) Equity Funds The composition of equity funds in the capital structure will be governed by the following factors

(a) The requirement of funds of S Limited is for long term. Hence, equity funds will be more appropriate

(b) There are no financial risks attached to this form of funding

(c) If the stock market is bullish, the company can easily raise funds through issue of equity shares.

(d) If the company already has raised reasonable amount of debt funds, each subsequent borrowing will come at a higher interest rate and will increase the fixed charges.

(ii) Debt Funds The usage and the ratio of debt funds in the capital structure will be governed by factors like

(a) The availability of cash flow with the company to meet its fixed financial charges. The purpose is to reduce the financial risk associated with such payments which can further be checked by using 'debt' service coverage ratio

(b) It will provide the benefit of trading on equity and hence will increase the earning per share of equity shareholders. However, 'return on investment' ratio will be the guiding principle behind it. The company should opt for trading on equity only when return on investment is more than the fixed charges.

(c) Interest on debt funds is a deductible expense and therefore, will reduce the tax liability

(d) It does not result in dilution of management control.

Question 4. Keeping in mind that it is a highly capital intensive sector, what factors will affect the fixed and working capital. Give reasons with regard to both in support of your answer.

Answer The working and fixed capital requirement of 'S' Limited will be high due to the following reasons.

1. The business is capital intensive and the scale of operation is large.
2. Heavy investments are required for building up the production base and for technological upgradation.
3. In case of steel industry, the major input is iron ore and coal. The ratio of cost of raw material to total cost is very high. Hence, higher will be the need for working capital
4. The longer the operating cycle, the larger is the amount of working capital required as the funds get locked up in the production process for a long period of time
5. Terms of credit for buying and selling goods, discount allowed suppliers and to the customers also determines the quantum working capital.

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Multiple Choice Questions

1. Primary and secondary markets

- (a) compete with each other
- (b) complement each other
- (c) function independently
- (d) control each other

Answer (b) Primary Market and Secondary Market complement each other as primary market deals with the issue of new securities and secondary market also helps the fresh Investor to enter in the market.

2. The total number of Stock Exchanges in India are

- (a) 20
- (b) 21
- (c) 22
- (d) 23

Answer (d) There are 23 stock exchanges in India. List of stock exchanges in India are Bombay, National, Regional, Ahmedabad, Bengaluru, Bhubaneswar, Calcutta, Cochin, Coimbatore, Delhi, Guwahati, Hyderabad, Jaipur, Ludhiana, Madhya Pradesh, Madras (Chennai), Magadh, Mangalore, Meerut, OTC Exchange of India, Pune, Saurashtra Kutch, Vadodara.

3. The settlement cycle in NSE is

- (a) T+5
- (b) T+3
- (c) T+2
- (d) T+1

Answer (c) The settlement cycle in NSE is T + 2.

4. The National Stock Exchange of India was recognised as stock exchange in the year

- (a) 1992
- (b) 1993
- (c) 1994
- (d) 1995

Answer (b) NSE was incorporated in 1992 and was recognised as a stock exchange in April 1993.

5. NSE commenced futures trading in the year

- (a) 1999
- (b) 2000

(c) 2001

(d) 2002

Answer (b) In 2000, NSE commenced future tradings.

6. Clearing and settlement operations of NSEs carried out by

(a) NSDL

(b) NSCCL

(c) SBI

(d) CDSL

Answer (b) NSCCL carried out the clearing and settlement operations of NSE.

7. OTE was started on the lines of

(a) NASDAQ

(b) NYSE

(c) NASDAQ

(d) NSE

Answer (a) OTE (Over The Counter Exchange of India) established on the lines of NASDAQ (National Association of Securities Dealers Automated Quotations).

8. To be listed on NSE, the minimum capital requirement for a company .

(a) ₹ 5 crores

(b) ₹ 3 crores

(c) ₹ 6 crores

(d) ₹ 1 crore

Answer (b) In order to have its securities listed the companies should have a minimum capital of ₹ 3 crores.

9. A Treasury Bill is basically

(a) an instrument to borrow short term funds

(b) an instrument to borrow long term funds

(c) an instrument of capital market

(d) None of the above

Answer (a) Treasury Bills are an instrument to borrow short term funds. These are issued by RBI on behalf of the Government of India.

Short Answer Type Questions

Question 1. What are the functions of a Financial Market?

Answer Financial market plays an important role in the allocation of scarce resources in an economy by performing the following four important functions

1. Mobilisation of Savings and Channelising Them into the Most Productive Uses A financial market facilitates the transfer of savings from savers to investors. It gives choice to the saver of different investments and thus, it helps to channelise surplus funds into the most productive use.
2. Facilitate Price Discovery In a financial market, the households are suppliers of funds and business firms represent the demand. The interaction between them helps to establish a price for the financial asset which is being traded in that particular market.
3. Provide Liquidity to Financial Assets Financial markets facilitate easy purchase and sale of financial assets. Holders of assets can readily sell their financial assets through the mechanism of financial market.
4. Reduce the Cost of Transactions Financial markets provide valuable Information about securities being traded in the market. It helps to save time, effort and money that both buyers and sellers of a financial asset would have to spend to try or otherwise find each other

Question 2. "Money Market is essentially a Market for short term funds." Discuss.

Answer The money market is a market for short term funds which deals in monetary assets whose period of maturity is up to one year. These assets are close substitutes for money. It is a market where

low risk, unsecured and short term debt instruments that are highly liquid are issued and actively traded everyday. It enables the raising of short term funds for earning returns. The major participants in the market are the Reserve Bank of India, Commercial Bank, Non-Banking Finance Companies, State Governments, Large Corporate Houses and Mutual Funds.

Question 3. What is a Treasury Bill?

Answer A treasury bill is an instrument of short term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by the RBI on behalf of the Central Government to meet its short term requirement of funds. Treasury bills are issued in the form of a promissory note. They are highly liquid and have assured yield and negligible risk of default. They are issued at a price which is lower than their face value and repaid at par. Treasury bills are available for a minimum amount of ₹ 25,000.

Question 4. Distinguish between Capital Market and Money Market.

Answer Difference between Capital and Money Market

Basis	Capital Market	Money Market
Duration	It deals in medium and long term securities.	It deals in short term securities.
Investment used	Equity shares, preference shares, bonds, debentures are the common instruments.	Commercial paper, treasury bill, trade bill, certificate of deposit are the common instruments.
Safety	Capital market is risky.	Instruments here are highly secured.
Expected return	Higher returns on investment.	No or low risk involved leads to lesser returns.
Participants	Individual investors, financial institutions corporate houses etc.	RBI, Commercial Banks, financial institution mutual funds.

Question 5. What are the functions of a Stock Exchange?

Answer The efficient functioning of a stock exchange creates a conducive climate for an active and growing primary market following are the important functions of a stock exchange

1. **Providing Liquidity and Marketability to Existing Securities** The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. Thus provides both liquidity and easy marketability to the existing securities in the market.
2. **Pricing of Securities** Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market.
3. **Safety of Transactions** The membership of a stock exchange is well-regulated and its dealings are well defined according to the existing legal framework which ensures that the investing public gets a safe and fair deal on the market.
4. **Contributes to Economic Growth** A stock exchange is a market in which existing securities are resold or traded. This process of disinvestment and reinvestment saving gets channelised into productive investment avenues. This leads to capital formation and economic growth.
5. **Spreading of Equity Culture** The stock exchange plays a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.
6. **Providing Scope for Speculation** The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner.

Question 6. What are the objectives of the SEBI?

Answer The overall objective of SEBI is to protect the interest of investors, promote the development and regulate the securities in market. This may be elaborated as follows

1. To regulate stock exchanges and the securities industry to promote their orderly functioning.
2. To protect the rights and interests of investors, particularly individual investors to guide and educate them.
3. To prevent trading malpractices and achieve a balance between self-regulation by the securities and its statutory regulation.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc with a view to making them competitive and professional.

Question 7. State the objectives of the NSE.

Answer NSE was setup with the following objectives

1. Establishing a nationwide trading facility for all types of securities.
2. Through an appropriate communication network, ensuring equal access to investors.
3. Through electronic trading system, provides a fair, efficient and transparent security market.
4. It enables shorter settlement cycles and book entry settlements. (v) Meeting international benchmarks and standards.

Question 8. What is the OTCEI?

Answer The OTCEI is a company incorporated under the Companies Act, 1956. It was set up to provide small and medium companies an access to the capital market for raising finance in a cost effective manner. It is fully computerised, transparent, single window exchange which commenced trading in 1992. This exchange is established on the lines of NASDAQ the OTC exchange in USA. It has been promoted by UTI, ICICI, IOBI, IFCI, LIC, GIC, SBI capital markets and can bank financial services.

It is a negotiated market place that exists anywhere as opposed to the auction market place, represented by the activity on securities exchange. Thus, in the OTC exchange, trading takes place when a buyer or seller walks up to an OTCEI counter, taps on the computer screen, finds quotes and effects a purchase or sale depending on whether the prices meet their target.

Long Answer Type Questions

Question 1. Explain the various money Market Instruments.

Answer Money Market Instruments

1. **Treasury Bill** A treasury bill is an instrument of short term borrowing by the Government of India maturing in less than one year. They are also known as Zero Coupon Bonds issued by Reserve Bank of India on behalf of the Central Government to meet its short term requirements of funds. They are issued in the form of a promissory note. They are highly liquid and issued at a price which is lower than their face value and repaid at par. Treasury bills are available for a minimum amount of ₹ 25,000.
2. **Commercial Paper** Commercial paper is a short term unsecured promissory note, negotiable and transferable by endorsement and delivery with a fixed maturity period. It is issued by large and creditworthy companies to raise short term funds at lower rates of interest than market rates. It usually has a maturity period of 15 days to one year. The issuance of commercial paper is an alternative to bank borrowing for large companies that are generally considered to be financially strong. It is sold at discount and redeemed at par.
3. **Call Money** Call money is a short term finance repayable on demand, with a maturity period of one day to fifteen days, used for inter-bank transactions. Commercial Banks have to maintain a minimum cash balance known as cash reserve ratio. Call money is a method by which banks borrow from each other.
4. **Certificate of Deposit** Certificates of deposit are unsecured, negotiable, short term instruments in bearer form, issued by Commercial Banks and development financial institutions. They can be issued to individuals, corporations and companies during periods of tight liquidity when the deposit growth of banks is slow but the demand for credit is high. They help to mobilise a large amount of money for short periods.

5. **A Commercial Bill** A commercial bill is a bill of exchange used to finance the working capital requirements of business firms. It is a short term negotiable, self-liquidating instrument which is used to finance the credit sales of firms, when goods are sold on credit, the buyer becomes liable to make payment on a specific date in future.

Question 2. What are the methods of floatation in Primary Market?

Answer The primary market is also known as the new issues market. It deals with new securities being issued for the first time. There are various methods of floating new issues in the primary market

(i) Offer Through Prospectus This 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. The issues may be under written and also required to be listed on at least one stock exchange. The contents of the prospectus have to be in accordance with the provisions of the Companies Act and SEBI disclosure and investor protection guidelines.

(ii) Offer for Sale Under this method securities are not issued directly to the public but offered for sale through intermediaries like issuing houses or stock brokers. In this case, company sells securities enblock at an agreed price to brokers who, in turn, resell them to the investing public.

(iii) Private Placement Private placement is the allotment of securities by a company to institutional investors and some selected individuals. It helps to raise capital more quickly than a public issue. Access to the primary market can be expensive on account of various mandatory and non-mandatory expenses.

(iv) Rights Issue This is a privilege given to existing shareholders to subscribe to a new issue of shares according to the terms and conditions of the company. The shareholders are offered the 'right' to buy new shares in proportion to the number of shares they already possess.

(v) e-IPOs 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 Initial Public Offer (IPO). SEBI registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company. The issuer company should appoint a registrar to the issue having electronic connectivity with the exchange. The issuer company can apply for listing of its securities on any exchange other than the exchange through which it has offered its securities. The lead manager co-ordinates all the activities amongst intermediaries connected with the issue.

Question 3. Explain the Capital Market reforms in India.

Answer The National Stock Exchange is the latest, most modern and technology driven exchange. NSE has setup a nationwide fully automated screen based trading system. The NSE was setup by leading financial institutions, banks, insurance companies and other financial intermediaries. It is managed by professionals, who do not directly or indirectly trade on the exchange. The trading rights are with the trading members who offer their services to the investors. The Board of NSE comprises senior executives from promoter institutions and eminent professionals, without having any representation from trading members.

Objectives of NSE

1. Establishing a nationwide trading facility for all types of securities.
 2. Ensuring equal access to investors all over the country through an appropriate communication network.
 3. Providing a fair, efficient and transparent securities market using electronic trading system.
 4. Enabling shorter settlement cycles and book entry settlements.
- (v) Meeting international benchmarks and standards..

Within a span of 10 years, NSE was able to achieve its objectives for which it was set up. It has been playing a leading role as a change agent in transforming the Indian capital market.

Question 4. Explain the objectives and functions of SEBI.

Answer Objectives of SEBI (already discussed in of short answer type questions)

Functions of SEBI

Keeping in mind the emerging nature of the securities market in India, SEBI was entrusted with the twin task of both regulation and development of the securities market. It has certain functions

Regulatory Functions

1. Registration of brokers and sub-brokers and other players in the market.
2. Registration of collective investment schemes and mutual funds.
3. Regulation of stock brokers, portfolio exchanges, underwriters and merchant bankers and the business in stock exchanges and any other securities market.
4. Regulation of takeover bids by companies.
5. Calling for information by undertaking inspection conducting enquiries and audits of stock exchanges and intermediaries.
6. Levying for or other charges for carrying out the purposes of the act.
7. Performing and exercising such power under Securities Contracts Act. 1956, as may be delegated by the Government of India.

Development Functions

1. Training of intermediaries of the securities market.
2. Conducting research and publishing information useful to all market segments.
3. Undertaking measures to develop the capital markets by adopting a flexible approach.

Protective Functions

1. Prohibition of fraudulent and unfair trade practice like making misleading statements, manipulations, pricerigging etc.
2. Controlling insider trading and imposing penalties for such practices.
3. Undertaking steps for investor protection.
4. Promotion of fair practices and code of conduct in securities market.

Question 5. Explain the various segments of NSE.

Answer NSE provides trading in the following two segments

1. Whole Sale Debt Market Segment This segment provides a trading platform for a wide range of fixed income securities that include central government securities, treasury bills, state development loans, bonds issued by public sector undertakings, floating rate bonds, zero coupon bonds, index bonds, commercial paper, certificate of deposit, corporate debentures and mutual funds.
2. Capital Market Segment The capital market segment of NSE provides efficient and transparent platform for trading in equity, preference, debentures, exchange traded funds as well as retail government securities.

Case Problems

1. 'R' Limited is a real estate company which was formed in 1950.

In about 56 years of its existence the company has managed to carve out a niche for itself in this sector. Lately, this sector is witnessing a boom due to the fact, that the Indian economy is on the rise. The incomes of middle class are rising. More people can afford to buy homes for themselves due to easy availability of loans and accompanying tax concessions.

To expand its business in India and abroad the company is weight various options to raise money through equity offerings in India. Whether to tap equity or debt, market whether to raise money from domestic market or international market or combination of both? When their to raise the necessary finance from money market or capital market. It is also planning to list itself in New York Stock Exchange to raise money through ADR's. To make its offerings attractive it is planning to offer host of financial plans products to its stakeholders and investors and also expand it's listing at NSE after complying with the regulations of SEBI.

Question 1. What benefits will the company derive from listing at NSE?

Answer Following are the benefits the company can derive from listtng at NSE

1. NSE provides nationwide trading facility for all types of facilities.

2. The liquidity and best available prices for the securities are ensured by the processing speed of the exchange.
3. The NSE network is used to disseminate information and company announcements across the country.
4. Enabling shorter settlement cycles and book entry settlement.

Question 2. What are the regulations of SEBI that the company must comply with?

Answer Following are the regulations of the SEBI for new issue that the company must comply with

1. Prospectus has to be attached with every application.
2. Objective of the issue and cost of project should be mentioned in the prospectus.
3. Company's management, past history and present business of the firm should be highlighted in the prospectus.
4. Subscription list for public issue should be kept open for a minimum of 3 days and maximum of 10 days.
5. Collections agents are not allowed to collect application money in cash.
6. Issue should make adequate disclosure regarding the terms and conditions of redemption security conversion and other relevant features of the new Instrument so that an investor can make reasonable determination of risks returns. safety and liquidity of the instrument The disclosure shall be vetted by SEBI In this regard

Question 3. How does the SEBI exercise control over 'R' Limited in the interest of investors?

Answer SEBI will exercise control over 'R' limited by

1. Prohibiting fraudulent and unfair trade practices In the securities market unfair trade practices include price rigging. making misleading statements
2. Prohibiting insider trading I.e., restricts the persons having access to price sensitive information about the company to take undue advantage of it.
3. Examining that adequate disclosure about the terms and conditions of redemption, security conversion and other relevant features of the new Instrument at the time of issue is made so that an investor can make reasonable determination of risks returns. safety and liquidity of the instrument.

Index	Current	Previous	% Change
S&P CNX Nifty	3641.1	3770.55	-3.43%
CNX Nifty Junior	6458.55	6634.85	-2.66%
CNX IT	5100.5	5314.05	-4.02%
Bank Nifty	5089.05	5251.05	-4.05%
CNX 100	3519.35	3640.35	-3.32%

World Markets

Index	Current	Previous	% Change
NYSE Composite	8926.82	9120.93	-2.13%
NASDAQ Composite	2350.57	2402.29	-2.15%
Dow Jones IA	12076	12318.6	-1.97%
S & P 500	1377.95	1406.6	-2.04%
Nikkei 225	16676.9	17178.8	-2.92%

The above figures are taken from the website of National Stock Exchange of India. They illustrate the movement of NSE stock indices as well as world stock indices on the date indicated.

Question 1. What do you mean by a stock index? How is it calculated?

Answer Stock index refers to the index used to capture the movement of the stock market. It is a barometer which measures overall market trend through a set of stocks which are representatives of

the market. An ideal index must represent changes in the prices of securities and also show the price movement of different classes of shares. Most of the stock market uses the following 3 methods of calculating index.

1. **Price Weighted Index** An index reflecting the sum of the prices of the sample share in a certain year/month/week/day with reference to a base year.
2. **Equal Weighted Index** An index reflecting the simple arithmetic average of the price relatives of a sample of shares in a certain period with reference to base year.
3. **Value Weighted Index** It is an index reflecting the aggregate market capitalisation of the sample shares in certain period in relation to base year.

Question 2. What conclusions can you draw from the various movements of NSE stock indices?

Answer There is a downward swing in the stock market. While comparing the previous and current index of NSE we can say that there is a depression in the market as index is down for all the sectors.

Question 3. What factors affect the movement of stock indices? Elaborate on the nature of these factors.

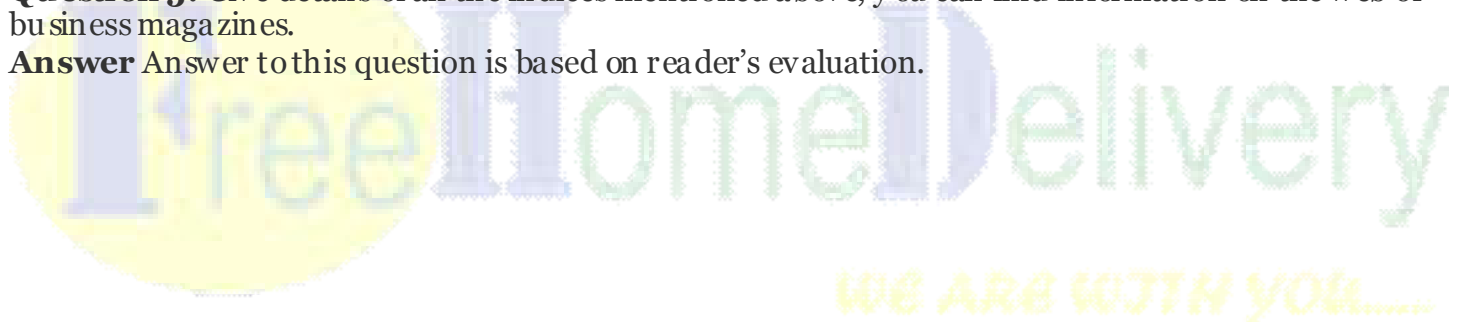
Answer The fall in the domestic market, as given in the above table, can significantly be attributed to the market sentiments of world market. We can see the world indices and NSE indices are moving in the same direction.

Question 4. What relationship do you see between the movement of indices in world markets and NSE indices?

Answer There is direct relation between NSE indices and world market indices. As there is negative trend in world index, it brings negative trend in NSE index also.

Question 5. Give details of all the indices mentioned above, you can find information on the web or business magazines.

Answer Answer to this question is based on reader's evaluation.



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Very Short Answer Type Questions

Question 1. Explain the advantages of branding to marketers of goods and services.

Answer Branding is an important function performed by a marketer. It has following advantages to the marketers

- (i) Enables marking product differentiation.
- (ii) Helps in advertising and display programmes.
- (iii) Differential pricing.
- (iv) Ease in introduction of new products.

Question 2. List the characteristics of a good brand name.

Answer Following are the characteristics of a good brand name

- (i) It should be short, easy to pronounce, recognise and remember e.g., Rin, Vim.
- (ii) It should suggest product's qualities e.g. • Genteel, Rasna.
- (iii) It should be distinctive e.g., Zodiac.
- (iv) It should be versatile to accommodate new products which are added to the product line e.g, Maggie, Videocon
- (v) It should be capable of being registered and protected legally.
- (vi) Chosen name should have staying powers e.g., it should not get out of date.

Question 3. What is the societal concept of marketing?

Answer The societal concept of marketing means an extension of marketing concept. Apart from the consumer satisfaction, it pays attention to the social, ethical and ecological aspects of marketing.

Question 4. List the characteristics of convenience products.

Answer Following are the characteristics of convenience products

- (i) These goods are purchased at convenient locations with least efforts and time.
- (ii) They have regular and continuous demand.
- (iii) They are purchased in small quantities and per unit price is low.
- (iv) They are mostly branded and have standardised price.
- (v) The competition is high as the supply is greater than the demand.
- (vi) Sales promotion schemes play an important role in the marketing of such products.

Question 5. Enlist the advantages of packaging of a consumer products.

Answer Importance of Packaging

- (i) Helps in raising the standard of health and sanitation.
- (ii) Helps in self service outlets as consumer own what to buy. can easily decide on his
- (iii) Innovative opportunity e.g., new types of packaging availability have made it easier to market the product.
- (iv) Product Differentiation Packaging is one of the very important means creating product differentiation.

Question 6. What are the limitations of a advertising as a promotional tool? Enlist.

Answer Following are the limitations of a advertising

- (i) Less forceful
- (ii) Lack of feedback
- (iii) Inflexibility
- (iv) Low effectiveness

Question 7. List five shopping products purchased by you or your family during the last few months.

- (i) Curtains
- (ii) Shirts
- (iii) Cosmetics
- (iv) Travelling bags
- (v) Hand bags

Short Answer Type Questions

Question 1. What is marketing? What functions does it play with process of exchange of goods and services? Explain.

Answer Marketing is a total system of business activities designed to plan, price, promote and distribute want satisfying goods and services to present and potential customers. Marketing is concerned with exchange of goods and services from producer to consumers which involves many activities.

(i) **Gathering and Analysing Market Information** This is done to identify the needs of the customers and take various decisions for the successful marketing of the products and services.

(ii) **Marketing Planning** Another important activity or area of work of a marketer is to develop appropriate marketing plans, so that the marketing objective of the organisation can be achieved.

(iii) **Product Designing and Development** The design of the product contributes to make the product attractive to the target customers.

A good design can improve performance of a product and also give it a competitive advantage in the market.

(iv) **Standardisation and Grading** Standardisation refers to producing goods of predetermined specification which helps in achieving uniformity and consistency in the output which reduces the need for inspection, testing and evaluation of the products.

Grading is the process of classification of products into different groups, on the basis of its features such as quality, size etc. It ensures that goods belong to a particular quality helps in releasing higher prices for high quality output.

(v) **Packaging and Labelling** Packaging refers to designing the package for the products. Labelling refers to designing the label to be put on the package. Packaging provides protection to the product and also helps in its promotion. Labelling helps in self service.

(vi) **Branding** Brand names help in creating product differentiations i.e., how the product can be distinguished from its competitors.

(vii) **Customer Support Service** Marketing management relates to developing customer support service such as after sales services, handling customer complaints. All these aim at provides customer satisfaction which is a key to marketing success.

(viii) **Pricing of Product** Price is an important factor affecting the success or failure of a product in the market. The marketers have to analyse properly the factors determining the price of a product.

(ix) **Promotion** Promotion of products and services involves informing the customers about the firm's product, its features etc and persuading them to purchase these products. It includes four methods advertising, sales promotion, personal selling and publicity.

(x) **Physical Distribution** The important decisions areas under physical distribution include managing inventory, storage, warehousing and transportation of goods from one place to the other.

(xi) **Transportation** Transportation involves physical movement of goods from one place to another. A marketer has to perform this function very efficiently keeping in mind the nature of product, cost, location of target market etc.

(xii) **Storage or Warehousing** In order to maintain smooth flow of products in the market, there is a need for proper storage of the products. Further, there is a need for storage of adequate stock of goods to protect against unavoidable delays in delivery or to meet out contingencies in the demand. Wholesalers and retailers are playing an important role.

Question 2. Distinguish between the product concept and production concept of marketing.

Answer Difference between Product and Production Concept

Basis	Product Concept	Production Concept
Main focus	The focus of the product concept is on quality of the product.	The focus here is on quantity of the product.
Means	It is achieved through continuous improvement in the quality.	It is achieved through increased production leading to lower costs.
Objective	Profit maximisation through quality improvement.	Profit maximisation through increased production.

Question 3. Product is a bundle of utilities. Do you agree? Comment.

Answer Yes, product is a bundle of utilities, which is purchased because of its capability to provide satisfaction of certain need. A buyer buys a product or service for what it does or service for what it does for her or the benefits it provides. There can be three types of benefits, it provides to a customer

(i) functional benefits

(ii) psychological benefits

(iii) social benefits.

e.g., the purchase of a motorcycle provides functional utility of transportation, but at the same time satisfies the need for prestige and esteem and provides social benefit by the way of acceptance from a group by riding it.

Question 4. What are industrial products? How are they different from consumer products? Explain.

Answer Industrial products are those products, which are used as inputs in providing other products e.g., raw material, engines, tools, lubricants etc.

The difference between consumer products and industrial products is based on their ultimate use and nature of purchases.

Basis	Consumer Product	Industrial Product
Buyer	Consumer is the buyer.	Industrial units and the processors are the buyers.
Motive	It is purchased for personal consumption.	It is bought and used for making other products.
Number of buyers	Number of buyers of consumer products is large.	Number of buyers is limited in case of industrial products.

Question 5. Distinguish between convenience product and shopping product.

Answer Difference between Convenience and Shopping Product

Basis	Convenience Product	Shopping Product
Shopping efforts	No or very little efforts are made in purchasing such products.	Considerable time is devoted in purchasing such products.
Cost	These products have low per unit cost.	Unit price of such products is high.
Retail outlets	Number of retailers is large.	Number of retailers is less.
Customer base	There is regular and continuous demand from the same set of customers.	They cater to a large customer base.

Question 6. Products is a mixture of tangible and intangible attributes. Discuss.

Answer In marketing, product is a mixture of tangible and intangible attributes which are capable of being exchanged for a value, with ability to satisfy customer needs. Beside physical objects, include services, ideas, persons and places in the concept of product. Thus, product may be defined as anything that can be offered in a market to satisfy a want or need. It is offered for attention, acquisition, use or consumption.

Question 7. Describe the functions of labelling in the marketing of products.

Answer Label on a product provides detailed information about the product, its contents, methods of use etc. The various functions performed by a label are as follows

(i) Describe the Product and Specify its Contents One of the most important functions of labels is that it describes the product, its usage, cautions in use etc and specify its contents.

(ii) Identification of the Product or Brand A label helps in identifying the product or brand e.g., we can easily pick our favourite soap from a number of packages only because of its label.

(iii) Grading of Products Labels help grading the products into different categories. Sometimes, marketers assign different grades to indicate features or quality of the product e.g., different type of tea is sold by some brands under Yellow, Red and Green label categories.

(iv) Help in Promotion of Products An important function of label is to aid in promotion of the products. A carefully designed label can attract the customer to purchase. So, many labels provide promotional messages, some show discount or other schemes etc.

(v) **Providing Information Required by Law** Another important function of labelling is to provide information required by law. e.g., the statutory warning on the package of cigarette or pan masala – ‘Smoking is injurious to health’ or ‘Chewing tobacco causes cancer.’

Question 8. Discuss the role of intermediaries in the distribution of consumer non-durable products.

Answer The term channels of distribution refers the facilitate to the movement of goods and services and their title between the point of production and point of consumption, by performing a variety of marketing activities. Following are the functions performed by the channels of distribution

(i) Accumulation It aims at holding the stock to match between the consumer demand and supply condition, warehousing helps in maintaining continuous flow of goods and services.

(ii) Promotion The marketing channels also help in promoting the demand for the product by displaying demonstrating and participating in various promotional activities organised by the producers.

(iii) Negotiating The marketing channels are the intermediaries between the producers and the consumers. They attempt to reach final agreement on price and other terms of the offer, so that transfer of ownership is properly affected.

(iv) Risk Taking Risk taking is the basic responsibility of the intermediaries. It may arise out of physical deteriorations, changes in price levels, natural calamities, change in fashion etc. These are unavoidable as they hold sufficiently large and variety of inventories till the sale of stock.

(v) Grading/Sorting Grading is the process whereby they sort the products on the basis of different sizes, qualities, moisture contents and so on. It helps us realising the time value for the product and at the same time ultimate consumer feels satisfied with the uniform quality of the product.

(vi) Packaging The products are packed in the small tradable lots for the convenience of the consumer.

(vii) Assembling/Assortment Marketing channels aim at satisfying the needs of the customers. The products desired by the consumer may not be available in the market. They procure such goods from different sources, assemble or assort them as per the requirements of the consumers.

Question 9. Explain the factors determining choice of channels of distribution.

Answer The choice of channels depend on various factors, which are discussed as follows

(i) Product Related Factors The important product related considerations is deciding the channels. It includes whether the product is an industrial product or a consumer product. Industrial product require shorter channel and consumer products require longer channel.

(ii) Company Characteristics The important company characteristics affecting the choice of channels of distribution include the financial strength of the company and the degree of control it wants to hold on other channel member. Direct selling involves lot of funds to be invested in fixed assets say starting own retail outlets or engaging large number at sales force. Similarly if the management want to have greater control on the channel member, short channels are used but if the management do not want more control over the middlemen, it can go in for longer channel or large number of intermediaries.

(iii) Competitive Factors The choice of channel is also affected by what the competitor has selected as its channel. Sometimes, firm may decide to go for the same channel and sometimes absolutely opposite.

(iv) Market Factors Important market factors affecting the choice of channel of distribution include size of market, geographical concentration of potential buyers and quantity purchased.

(v) Environmental Factors Sometimes environmental factors also helps in deciding the channel of distribution. e.g., in a depressed economy, marketers use shorter channels to distribute their goods in an economical way.

Question 10. Explain briefly the components of physical distribution.

Answer The main components of physical distribution are as follows

(i) Order Processing If a firm takes more time to process the order, then the consumer remains dissatisfied. Therefore, order processing has to be made faster by using information technology.

(ii) Inventory Control Inventories ensure the availability of the product as and when consumer demand arises. There are various factors which influence a firm decision regarding the level of inventory e.g., degree of accuracy of sales forecast, cost of blocking of the working capital etc.

(iii) Warehousing It refers to the storage of goods from the time of production to the time of consumption. Warehousing is important as it creates time utility.

(iv) Transportation It creates place utility. It refers to the carrying of raw materials or finished goods from one place to another. The most important thing to be kept in mind is that the value addition by transportation should be greater than the cost of transportation.

Question 11. Define advertising, what are its main features? Explain.

Answer Advertising is defined as the impersonal form of communication which is paid for by the marketer to promote some goods or services. It is commonly used as the promotional tool of the company. The important features of advertising are as follows

(i) Paid Form Advertising is a paid form of communication which means the sponsor has to bear the cost of communication with the prospects.

(ii) Impersonality There is no direct face to face contact between the prospect and advertiser. It is therefore, referred as the impersonal method of promotion.

(iii) Identified Sponsor Advertising is undertaken by some identified individual or company, who makes the advertising efforts and also bears the cost of it.

Question 12. Discuss the role of 'Sales Promotion' as an element of promotion mix.

Answer Sales promotion includes those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness, such as display, shows and

exhibitions, demonstrations and various non-current selling efforts not in the ordinary routine, The main objectives of sales promotion activities are

- (i) Creation of demand for the product.
- (ii) Educating the consumers about new products or new uses of the old product.
- (iii) Building the brand loyalty for the product among the consumers.

Long Answer Type Questions

Question 1. Define Marketing. How is it different from selling? Discuss.

Answer Marketing is a total system of business activities designed to plan, price, promote and distribute want, satisfying goods and services to present and potential customers.

Difference between Selling and Marketing

Basis	Selling	Marketing
Starting point	The selling starts after production has taken place.	It starts even before goods are produced.
Main focus	To sell the product.	To satisfy the consumer.
Means	It is achieved through advertisement personal selling and sales promotion.	It is achieved through integrated marketing.
Ends/Profit maximisation	Profit maximisation is achieved through volume of sales.	Profit maximisation is achieved through customer satisfaction.

Question 2. What is the marketing concept? How does it help in the effective marketing of goods and services?

Answer Orientation of marketing implies that focus on the satisfaction of customers need, is the key to the success of any organisation in the market. All the decisions in the firm are taken from the point of view of the customers. e.g., What product will be produced, with what features and at what price shall it be sold or where shall it be made available for sale will depend on what do the customer wants.

Marketing concept helps in effective marketing of goods and services by using the following

- (i) Identification of market or customer who are chosen e.s the target of marketing effort.
- (ii) Understanding needs and wants of customers in the target market.
- (iii) Development of products or services for satisfying needs of the target market.
- (iv) Satisfying needs of target market better than the competitors.
- (v) Doing all this at a profit.

Question 3. What is marketing mix? What are its main elements? Explain.

Answer Marketing mix refers to the combination of four basic elements known as four P's – Product, Price, Promotion and Place.

The various components of marketing mix are

- (i) **Product Mix** Product mix basically concerns with the features related to a product e.g., range, quality, size, labelling, packaging, branding etc. All products must satisfy consumer needs and expectations. It aims at providing good quality products at fair prices.
- (ii) **Price Mix** It includes decisions relating to price determination, discounts and allowances credit terms. It covers pricing objectives and pricing policies. Price should cover not only cost of production and selling expenses but also a reasonable profit margin. The price policy adopted by the enterprise should not only be cost based but also demand based and competition based.
- (iii) **Place Mix** Place mix links the seller and buyer. The choice of channels of distribution and transport are the two major issues here. There are various factors which help in deciding the channel e.g., the time and the place, where the goods have to reach or transportation. It is the nature of goods, place of destination, cost and availability etc.
- (iv) **Promotion Mix** It refers to all marketing activities to increase the volume of sales of the product of an enterprise. It consists of means of marketing communication with a view to informing and

persuading the prospective buyers to buy a certain product. It includes advertising, personal selling, publicity and sales promotion.

Question 4. How does branding help in creating product differentiation? Does it help in marketing of goods and services? Explain.

Answer Branding helps a firm in distinguishing its products from that of its competitors. This helps the firm to secure and control the market for its products. If products were sold by generic names, it would be very difficult for the marketers to distinguish their products from its competitors. Thus, most marketers give a name to their product, which helps in identifying and distinguishing their products from their competitors product. This process of giving a name or a sign or a symbol etc to a product is called Branding.

Question 5. What are the factors affecting determination of the price of a product or service? Explain.

Answer There are number of factors which affect the fixation of the price of a product. Some of the important factors in this regard are discussed as below

(i) **Product Cost** The cost sets the minimum level or the floor price at which the product may be sold. There are broadly three types of cost-fixed costs, variable costs and semi variable cost. Total cost IS the sum of all these three. Generally, all firms try to cover all their costs, atleast in the long run. In addition, they aim at earning a margin of profit over and above the costs.

(ii) **The Utility and Demand** The utility provided by the product and the Intensity of demand of the buyer sets the upper limit of price, which a buyer would be prepared to pay. In fact the price must reflect the interest of both the parties to the transaction – the buyer and the seller. The buyer may be ready to pay up to the point, where the utility from the product is atleast equal to the sacrifice made in terms of the price paid. The seller would, however, try to cover the costs. According to the law of demand, consumers generally purchase more units at a low price than at a high price.

(iii) **The Extent of Competition in the Market** The price is also affected by the nature and degree of competition. The price will tend to reach the upper limit in case there is less degree of competition while under free competition, the price will tend to be set at the lowest level.

(iv) **Government and Legal Regulations** In order to protect the interest of public against unfair practices in the field of price fixing, Government can intervene and regulate the price of commodities. Government can declare a product as essential product and regulate its price.

(v) **Pricing Objectives** Pricing objectives are another important factor affecting the fixation of the price of a product or a service. Apart from price maximisation, the pricing objectives of a firm may include,

(a) **Obtaining Market Share Leadership** If a firm objective is to obtain larger share of the market, it will keep the price of its products at lower level, so that greater number of people are attracted to purchase the products.

(b) **Surviving in a Competitive Market** If a firm is facing difficulties surviving in the market because of intense competition or introduction of a more efficient substitute by a competitor.

(c) **Attaining Product Quality Leadership** higher prices are charged to cover high In this case, normally quality and high cost of R&D (Research and Development).

(vi) **Marketing Methods used Price Fixation** Price is also affected by other elements of marketing such as distribution system, quality of salesmen employed, quality and amount of advertising, sales promotion efforts, the type of packaging, product differentiation, credit facility and customer service provided.

Question 6. What do you mean by 'Channels of distribution'? What functions do they play in the distribution of goods and services? Explain.

Answer People, institutions, merchants and functionaries, who take part in the distribution of goods and services are called 'Channels of Distribution'. Channels of distribution are set of firms and individuals that take title or assist in transferring title, to particular goods or services as it moves from the producers to the consumers.

Channels of distribution smoothen the flow of goods by creating possession, place and time utilities. They facilitate movement of goods by overcoming various barriers. The important function performed by middlemen are

(i) **Sorting** Middlemen procure supplies of goods from a variety of sources, which is often not of the same quality, nature and size. These goods are sorted into homogeneous groups on the basis of the size or quality.

(ii) **Accumulation** This function involves accumulation of goods into larger homogeneous stock, which help in maintaining continuous flow of supply.

(iii) **Allocation** Allocation involves breaking homogeneous stock into smaller, marketable lots to sell them to different types of buyers.

(iv) **Assorting** Middlemen build assortment of products for resale. There is usually a difference between the product lines made by manufacturers and the assortment or combinations desired by the users. Middlemen produce variety of goods from different sources and deliver them in combinations, desired by customers.

(v) **Product Promotion** Middlemen also participate in some sales promotion activities, such as demonstration, special display, contests etc. to increase the sale of products.

(vi) **Negotiation** Channels operate with manufacturers on the one hand and customer on the other. They negotiate the price, quality, guarantee and other related matters with customers, so that transfer of ownership is properly affected.

(vii) **Risk Taking** In the process of distribution of goods, the merchant middlemen take title of the goods and thereby assume risks on account of price and demand fluctuations, spoilage, destinations etc.

Question 7. Explain the major activities involved in the physical distribution of products.

Answer Physical distribution covers all the activities required to physically move goods from manufacturer to the customers. Important activities involved in the physical distribution include transportation, warehousing, material handling and inventory control.

(i) **Order Processing** In a typical buyer-seller relationship order placement is the first step. Products flow from the manufacturers to customers via channel members while orders flow from customers to manufacturers. Therefore, a good speedy and accurate system of order processing becomes a necessity.

(ii) **Transportation** Transportation is the means of carrying goods and raw materials from the point of production to the point of sale. It is one of the major element in the physical distribution of goods. It is important because unless the goods are physically made available, the sale can not be completed.

(iii) **Warehousing** Warehousing refers to the act of storing and assorting products in order to create time utility in them. The basic purpose of warehousing activities is to arrange placement of goods and provide facilities to store them. The need for warehousing arises because there may be difference between the time a product is produced and the time it is required for consumption. Generally, the efficiency of a firm in serving its customers will depend on, where these warehouses are located and where are these to be delivered.

(iv) **Inventory Control** A very important decision in respect of inventory is deciding about the level of inventory. Higher the level of inventory, higher will be the level of service to customers but the cost of carrying the inventory will also be high because lot of capital would be tied up in the stock. The decision regarding level of inventory involves prediction about the demand for the product. A correct estimate of the demand helps to hold inventory and cost level down to a minimum. The major factors determining inventory levels include,

(a) Firm's policy regarding the level of customer service. Higher the level of service, greater will be the need to keep more inventories.

(b) Degree of accuracy of the sales forecast. In case more accurate estimates are available, the need for keeping very high level of Inventory can be minimised.

(c) Responsiveness of the distribution system i.e., ability of the system to transmit inventory needs

back to the factory and get products to the market.

(d) Cost of inventory, which includes holding cost, such as cost of warehousing, tied up capital etc and the manufacturing cost

Question 8. 'Expenditure on advertising is a social waste'. Do you agree? Discuss.

Answer The opponents of advertising say that the expenditure on advertising is a social waste as it adds to the cost, multiplies the needs of the people and undermines social values. The proponents, however argue that advertising is very useful as it increases the reach, brings the per unit cost of production down and adds to the growth of the economy.

Following are the points of criticism

(i) **Adds to Cost** The opponents of advertising argue that advertising unnecessarily adds to the cost of product, which is ultimately passed on to the buyers in the form of high prices. It is line that advertisement of a product cost lots of money but it helps to increase the demand for the product as large number of potential buyers come to know about the availability of the products, its features etc and are persuaded to buy it. This increases the demand and therefore the production. As a result, the per unit cost of production comes down as the total cost is divided by larger number of units.

(ii) **Undermines Social Values** Advertising undermines social values and promotes materialism. It breeds discontentment among people as they come to know about new products and feel dissatisfied with their present state of affairs. This criticism is not entirely time. Advertisement in fact helps buyer by informing them about the new products which may be Improvement over the existing products.

(iii) **Confuses the Buyers** Another criticism against advertisements is that so many products are being advertised which makes similar claims that the buyer gets confused as to which one is true and which are should be relied upon. e.g., there are so many brands of soaps, shampoos. cars. TVs. cell phones etc which are advertised. The supporters of advertisement, however argued that we are all rational human beings who make our decisions for purchase of products on factors, such as price, style, size, etc. Thus the buyers can clear their confusion by analysing the Information provided on the advertisements and other sources before taking a decision to purchase a product.

(iv) **Encourages Sale of Inferior Product** Advertising does not distinguish between superior and inferior products and persuade people to purchase even the inferiors products. The desired level of quality will depend on the economic states and preferences of the target customers. Advertisements sell products of a given quality and the buyers will buy, if it suits their requirements.

(v) **Some Advertisements are in Bad Taste** Another criticism against advertising is that some advertisements are in bad taste. They Show something which is not approved by some people. Some advertisement spoil the relationship between employer and employee, husband and wife etc.

From the above discussion, we have learnt that through advertisements are criticised but still they have their own advantages. It is not a social waste, rather it adds value to the social cause by giving a boost to production and generating employment.

Question 9. Distinguish between advertising and personal selling.

Answer Difference between Advertising and Personal Selling

Basis	Advertising	Personal Selling
Nature	Advertising is indirect and impersonal communication.	Personal selling is direct face to face communication.
Coverage	It is a means of mass coverage.	Only limited people can be contacted at a time.
Medium	It involves use of oral, written + visual messages.	It is dependent on oral messages.
Cost	It is economical method.	It is costly.
Feedback	It lacks direct feedback.	It facilitates direct, immediate feedback.
Suitable	It is suitable for all types of products.	It is more suitable for product in the introductory stages of product life cycle.

Application Type Questions

Question 1. As marketing manager of a big hotel located at an important tourist destination, what societal concerns would be faced by you and what steps would you plan to take care of these concerns? Discuss.

Answer

The societal marketing concept holds that the task of any organisation is to identify the needs and wants of the target market and deliver the desired satisfaction in an effective and efficient manner, so that the long term well-being of the consumers and the society is taken care of. In case any business activity encourages pollution, deforestation, storage of resources, population explosion, then its benefits can not be justified. As marketing manager of a big hotel located at an important tourist destination certain care need to be taken regarding environment

(i) Proper drainage facility

(ii) In-built plant for re-cycling the waste

(iii) Solar geysers to be used

(iv) Rain water harvesting

(v) proper maintenance of greenery-lawns, parks, gardens

(vi) CNG based vehicles to be used to provide transport facility to the guests.

Question 2. Suppose you are the marketing Vice President of an insurance company, planning to design a new mediclaim policy for senior citizens. What information would you like to collect to perform this task and how will you collect such information? Discuss.

Answer The following information about the senior citizens should be collected

(i) Age of the senior citizen

(ii) Their source of income

(iii) Medical background

(iv) Present working states

There are various sources of collecting the above information – personal visits, questionnaires, medical reports from nursing homes, doctor clinics etc.

Question 3. What shopping products have been purchased by you/your family in the last six months? Make a list and specify what factors influenced the purchase of each of these products.

Answer The following shopping goods were purchased by my family

(i) Clothes Price, fashion, occasion for which they were bought.

(ii) Refrigerator Brand, price, features, looks, durability.

(iii) Shoes Size, price, brand, material used.

(iv) Furniture (study table) Design, quality, finishing, comfort level, cost.

Question 4. What information is generally placed on the package of a food product? Design a label for one of the food product of your choice.

Answer The following information is normally placed on the package of food product

- (i) Name of the product
- (ii) Brand name
- (iii) Veg /Non-veg sign (green/red dot)
- (iv) Price
- (v) Manufacturing date and date of expiry
- (vi) Ingredients
- (vii) Net weight
- (viii) Directions for use
- (ix) FPO mark
- (x) Preservatives used

Question 5. For buyers of consumer durable products, what 'customer care services' would you plan as a manager of a firm marketing new brand of motorcycle. Discuss.

Answer For marketing motorcycles, the following customer care services can be planned

- (i) Specified period warranties
- {ii} Easy monthly instalments
- (iii) Exchange offer
- (iv) 0% finance scheme
- (v) Free servicing

Case Problem

Nokia takes four-lane road to consumers.

NEW DELHI After having grabbed a king size 79% share of the 15,000 crore mobile handset market in India, Nokia India has found a new way of connecting people.

The mobile handset manufacturer has embarked upon a brand new retail strategy that is based on a classification of its consumers into four major groups that separates people in terms of usage, income level and lifestyle.

The classification is based on an extensive survey - the Nokia Segmentation Study -that was carried over two years involving 42,000 consumers from 16 countries. It studied the impact lifestyle choices and attitudes have on the mobile devices consumers buy and how they use them.

The strategy, which was announced globally in June last year, is being unfolded in India now. While the nitty-gritty of the new strategy is still being worked out, it is likely that the company would follow separate marketing strategies for the four different segments. The advertising campaigns could be different for the segments.

Nokia's entire product portfolio has now been re-aligned towards these four groups to address the specific needs of each. The first of these segments Live, aimed a first time users whose basic need is to stay in touch with voice as the main driver, would have basic handsets low on features and price.

"These may be functional phones but the target group for these phones range from SEC C (low socio-economic class) to SECA1 + (very high socio-economic class) markets", says Nokia India marketing head Devinder Kishore. The second segment Connect looks at more evolved users who look for more functionality and features and connectivity. Accordingly, phones in this segment would have GPRS, camera and music capabilities.

The next two categories, Achieve and Explore, are aimed at high-end users and have Nokia's top-end handsets. e.g., Achieve segment looks at enterprise users who need to have business functionalities in their phones. Nokia's new E-series has been put under this segment with handsets having QWERTY keyboards and full Internet capabilities.

Aimed at high-end lifestyle users, Explore would be the most prominent segment for the company in the coming years. Says Nokia India multimedia business director Vineet Taneja, "This segment would see the most vibrant growth in the coming year. It will look at five different areas-applications, imaging, mobile, TV, music and gaming. We are fast developing (the ecosystem to support these areas."

Nokia acquired music solution and content provider LoudEye and GPS solution provider Gate5. It is all slated to launch its most high-profile handset, which boasts of having a 5 mega pixel camera and GPS capabilities apart from iPod quality music, in February.

Says Taneja, "There is increasing demand for convergence and multiple functionalities in high-end handsets. The N-series will try to address that". Nokia feels that the new platform strategy wherein different handsets are launched under a platform, like the N-Series, will become a status and style statement and drive numbers.

Question 1. Identify the four market segments that Nokia plans to address as per the news report above.

Answer Live, Connect, Achieve and Explore.

Question 2. What is the basis of classification of the market used by the company?

Answer SEC Socio-Economic Class, usage and lifestyle

Question 3. What do you mean by realignment of product portfolio? Illustrate this from the case above.

Answer It means that whatever product Nokia is planning to develop now, it will be according to the needs of the consumers. The four different handsets are Live, Connect, Achieve and Explore, being planned keeping the needs of four different types of users.

Question 4. Identify the points that can be highlighted in marketing campaigns for each segment.

Answer The points that can be highlighted in marketing campaigns for each segment can be

(i) Latest model

(ii) Reasonable price

(iii) Better performance

(iv) Advanced technology

(v) Consumer friendly

Question 5. What are the different considerations in the mind of consumers of each segment while purchasing mobile phones as given in the above case?

Answer Different considerations in the mind of each segment while purchasing mobile phones are

(i) The first of these segments Live, aimed at first time users whose basic need is to stay in touch with voice as the main driver. So, here price of the phone is the main consideration.

(ii) The second segment connect looks at more evolved users who look for more functionality and features and connectivity. So, here the features of the phone as well as an economic price tag are considered.

(iii) The next two categories, Achieve and Explore, are aimed at high-end users. So here the uniqueness of the handset and its business functionalities are the main points considered by the consumer.

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True or False

State whether the following statements are true or false.

1. Consumer protection has a moral justification for business.

Answer True

2. In addition to rights, a consumer also has some responsibilities.

Answer True

3. A complaint can be made to a district forum when the value of the goods or services in question, along with the compensation claimed, exceeds ₹ 20 lakhs.

Answer False

In district forum complaint can be made when goods or services, along with the compensation claimed, does not exceed ₹ 20 lakhs.

4. The Consumer Protection Act provides for six consumer rights.

Answer True

5. ISI is the quality certificate mark used in case of food products.

Answer False

ISI is certification mark on electrical goods and FPO mark on food products

6. Under the Consumer Protection Act, a complaint can be filed by a consumer for a defective good also for deficiency in service.

Answer True

Short Answer Type Questions

Question 1. Explain the importance of consumer protection from the point of view of business.

Answer A business can not survive without paying attention on protecting – the consumers interest and adequately satisfying them. This is important because of the following reasons

1. Long Term Interest of Business BUSIness firms should aim at long term profit maximisation through customer satisfaction. Satisfied customers not only lead to repeat sales but also provide good feedback to prospective customers and thus help in increasing the customer base of business.
2. Business uses Society's Resources Business organisation uses resources which belong to the society, thus they have a responsibility to supply such products and render such services which are in public interest.
3. Social Responsibility A business has social responsibility towards various interest groups. Business organisations make money by selling goods and providing services to consumers. Thus, consumers form an important group among the many stakeholders of business and like other stakeholders, their interest has to be well taken care of.
4. Moral Justification The moral duty of any business is to take care of consumer's interest and securing them from exploitation. Thus, a business must avoid insecure loss, exploitation and unfair trade practices like defective and unsafe products. adulteration. false and misleading advertising hoarding. black marketing etc.
5. Government Intervention A business engaging in any form of exploitation time trade practices would invite government intervention or action. Thus, it is advisable that business organisation voluntarily resort to such practices, where the customers need and interests will be taken care of.

Question 2. Enumerate the various Acts passed by the Government of India which help in protecting the consumer's interest?

Answer The Indian legal framework consists of a number of regulations which provide protection to consumers. Some of these regulations are as under

1. The Consumer Protection Act, 1986 The Act provides safeguards to Consumers against defective goods, deficient services, unfair trade practices etc.
2. The Contract Act, 1982 The Act lays down the conditions in which the promises made by parties to a contract will be binding on each other.
3. The Sale of Goods Act, 1930 The Act provides some safeguards and reliefs to the buyers of the goods in case, the goods purchased do not comply with express or implied conditions or warranties.
4. Essential Commodities Act, 1955 The Act aims at controlling, production, supply, distribution and price of essential commodities.
5. The Agricultural Produce Act, 1937 The Act prescribes grade standards for agricultural commodities and livestock products.
6. The Prevention of Food Adulteration Act, 1954 The Act aims to check adulteration of foods articles and ensure their purity, so as to maintain public health.
7. The Standards of Weights and Measures Act, 1976 It provides protection to consumers against the malpractice of under-weight or under-measure.
8. The Trade Marks Act, 1999 The Act prevents the use of fraudulent marks on products and thus provides protection to the consumers against such products.
9. The Competition Act, 2002 The Act provides protection to the consumers In case of practices adopted by business firms which hamper competition in the market.

10. The Bureau of Indian Standard Act, 1986 The bureau has two major activities: formulation of quality standards for goods and their certification through the BIS certification scheme. The bureau has also set up a grievance cell, where consumers can make a complaint about quality of products carrying the ISI mark.

Question 3. What are the responsibilities of a consumer?

Answer A consumer should keep in mind the following responsibilities while purchasing, using and consuming goods and services

1. Be aware about various goods and services available in the market, so that an intelligent and wise choice can be made.
2. Buy only standardised goods as they provide quality assurance. Thus, look for ISI mark on electrical goods. FPO mark on food products and Hallmark on jewellery etc.
3. Learn about the risks associated with products and services.
4. Read labels carefully, so as to have information about prices, weight, manufacturing and expiry dates etc.
5. Assert yourself to get a fair deal.
6. Be honest In your dealings. Choose only from legal goods and services.
7. Ask for a cash-memo on purchase of goods and services. This would serve as a proof of the purchase made.
8. File a complaint in an appropriate consumer forum in case of a shortcoming in the quality of goods purchased or services availed.
9. Form consumer societies which would play an active part in educating consumers and safeguarding their interests
10. Respect the environment, avoid waste, littering and contributing to pollution.

Question 4. Who can file a complaint in a consumer court?

Answer A complaint can be made by

1. Any consumer.
2. Any registered consumer's association.
3. The Central Government or any State Government.
4. One or more consumers. on behalf of numerous consumers having the same Interest.
5. A legal heir or representative of a deceased consumer.

Question 5. What kind of cases can be filed in a state commission?

Answer A complaint can be made to the appropriate state commission when the value of the goods and services, along with compensation claim exceeds ₹ 20 lakhs but does not exceed ₹ 1 crore. The appeals against the orders of a District Forum can also be filed before the state commission.

Question 6. Explain the role of consumer organisations and NGOs in protecting and promoting consumers' interest.

Answer Consumer organisation and NGOs perform several functions for the protection and promotion of interest of consumers. In India, these associations are performing lots of functions some of them are

1. Educating the general public about consumer rights by organising training programmes, seminars and workshops.
2. Publishing periodicals and other publications to impart knowledge about consumer problems, legal reporting, reliefs available and other matters of interest.
3. Carrying out comparative testing of consumer products in accredited laboratories to test relative qualities of competing brands and publishing the test results for the benefit of consumers.
4. Encouraging consumers to strongly protest and take an action against unscrupulous, exploitation and unfair trade practices of sellers.
5. Providing legal assistance to consumers by providing aid, legal advice etc in seeking legal remedy.

6. Filing complaints in appropriate consumer courts on behalf of the consumers.
7. Taking an Initiative in filing cases in consumer court in the interest of the general public, not for any individual.

Long Answer Type Questions

Question 1. Explain the rights and responsibilities of a consumer.

Answer The Consumer Protection Act provides six rights to consumers. They are as follows

1. **Right to Safety** The consumer has a right to be protected against goods and services which are hazardous to life. e.g., sometimes we purchased the food items of low quality which causes severe problems. Thus, in this case, we should purchased good quality and FPO labelled products,
2. **Right to be Informed** The consumer has a right to have complete information about the product. which he intends to buy including its ingredients, date of manufacture, price, quantity, directions for use etc. Under the legal framework of India manufactures have to provide such information on the package and label of the product.
3. **Right to Choose** The consumer has the freedom to choose from a variety of products. The marketers should offer a wide variety of products and allow the consumer to make a choice and choose the product which is most suitable.
4. **Right to be Heard** The consumer has a right to file a complaint and to be heard in case of dissatisfaction with a good or a service. It is because of this reason that many enlightened business firm shave set up their own consumer service and grievance cells.
5. **Right to Seek Redressal** The Consumer Protection Act provides a number product, of reliefs to the removal of defect consumer including replacement of the in the product, compensation paid for any loss or injury suffered by the consumer etc.
6. **Right to Consumer Education** The consumer has a right to acquire knowledge about products. He should be aware about his rights and the reliefs available to him in case of a product service falling short of his expectations Many consumer organisations and some enlightened businesses are taking an active part in educating consumers in this respect.

Consumer Responsibilities

A consumer must be aware about these responsibilities while purchasing, using and consuming goods and services

1. Consumer must be aware of all their rights.
2. Consumer must be careful while purchasing a product.
3. He should file complaint for the redressal of genuine grievances.
4. Consumer must buy a standardised good.
5. He should ask for a cash-memo on purchase of goods and services.

Question 2. What are various ways in which the objective of consumer protection can be achieved? Explain the role of consumer organisations and NGOs in this regard?

Answer There are various ways in which the objective of consumer protection can be achieved

(i) **Self Regulation by Business** Socially responsible firms follow ethical standards and practices in dealing with their customers. Many firms have set up their customer service and grievance cells to redress the problems and grievances of their consumers.

(ii) **Business Associations** The associations of trade, commerce and business like Federation of Indian Chambers of Commerce of India (FICCI) and Conference of Indian Industries (CII) have laid down their code of conduct which lays down for their members the guidelines in their dealings with the customers.

(iii) **Consumer Awareness** A consumer, who is well informed about his rights and the reliefs, would be in a position to raise his voice against any unfair trade practices or exploitation.

(iv) **Consumer Organisations** Consumer organisations plays an important protecting role in educating consumers about their rights and them. These organisations can force business firms to avoid malpractices and exploitation of consumers.

(v) Government The Government can protect the interests of the consumers by enacting various legislations. The legal framework in India encompasses various legislations which provide protection to consumer, the most important of these regulations is the Consumer Protection Act, 1986. The Act provides for a three-tier machinery at the District, State and National levels for redressal of consumer grievance.

Role of Consumer Orgs and NGOs

Discussed in Q. 6 of Short Answer Type Questions.

Question 3. Explain the redressal mechanism available to consumers under the Consumer Protection Act, 1986?

Answer For the redressal of consumer grievances, the Consumer Protection Act provides for setting up of a three-tier enforcement machinery at the District, State and the National levels.

(i) District Forum A complaint can be made to the appropriate District Forum when the value of goods or services, along with the compensation claimed, does not exceed ₹ 20 lakhs. In case the aggrieved party is not satisfied With the order of the District Forum, he can appeal before the State Commission within 30 days.

(ii) State Commission A complaint can be made to the appropriate State Commission when the value of the goods or services, along with the compensation claimed, exceeds ₹ 20 lakhs but does not exceed ₹ 1 crore. The appeals against the orders of District Forum can also be filed before the State Commission. In case the party is not satisfied with the order of the State Commission, he can appeal before the National Commission within 30 days of the passing of the order by State Commission.

(iii) National Commission A complaint can be made to the National Commission when the value of the goods or services, along with the compensation claimed exceeds ₹ 1 crore. The appeals against the orders of a State Commission can also be filed before the National Commission. An order passed by the National Commission in a matter of its original jurisdiction is appealable before the supreme court. This means that only those appeals, where the value of goods + services in question, along with the compensation claimed, exceeded ₹ 1 crore and where the aggrieved party was not satisfied with the order of the National Commission, can be taken to the Supreme Court of India.

Case Problem

Now, filing complaint is just, a click away. Filing a complaint in a consumer court's going to get a lot easier by the end of this year, virtually. No matter which part of the country you're in, it's going to happen at the click of a mouse.

The project, called Confonet (Computerisation and Computer Networking of Consumer Fora), is being executed on a turnkey basis by the National Informatics Centre (NIC).

"Online registration of complaints, the government hopes, will promote e-governance, transparency, efficiency and streamlining of consumer fora", said an official in the consumer affairs ministry. Of ₹ 48.64 Crore set aside for the project, the government has released ₹ 30.56 crore so far, the official added.

"Besides software development and testing, networking and project implementation, integration and site preparation, it will include purchase of hardware for all the 583 District fora, 35 state commissions and the National Commission", the official said.

At present, computer systems and system software have been delivered to 25 state commissions and 300 District fora – never mind (the fact that it's sometimes a long wait before the hardware is finally unpacked and set up in some of the districts. Meanwhile, training of staff, sometimes in the classroom and sometimes through e-learning sessions, are in full swing.

"But just setting up an online complaint filing system won't ensure a strong consumer protection movement in the country for that we're working on GenNext and the best way to do that is to go to schools", the official said.

The government is, therefore, involving school children to form consumer clubs, so as to involve them in various consumer welfare activities.

Part of the funding for running the club is to come from various state governments, with an equally matching grant from the Centre. However, a number of state governments are yet to sanction the fund – some of these include Uttar Pradesh, Madhya Pradesh and Kerala

Question 1. What new measure is the ministry of consumer affairs taking to make filing a complaint easy?

Answer Online registration of complaints has been initiated by the ministry of consumer affairs to make filing of complaint easy.

Question 2. What roll can you as a student play to contribute to the cause of consumer protection?

Answer A student can play an active role in bringing out an awareness campaign on 'Consumer Protection'.

1. Special assemblies can organised to show the display of consumer rights and responsibilities
2. When school organises any exhibition the commerce students can put a stall and give demonstration on responsibilities of a consumer,
3. The Biology and Chemistry laboratories can be used for testing adulterated goods. (e.g milk, paneer, spices etc).
4. Essay writing competitions, debate competition and quiz can be organised to promote the awareness on consumer protection,
5. Encourage students to boycott goods/eatables which are adulterated or defective in school canteen.
6. To set up voluntary complaint centre for consumer guidance and counseling,

Question 3. What scenario of consumer protection do you foresee when the measures proposed in the above news report are implemented?

Answer With the Implementation of online registration, educated and technology friendly consumer will gain but in my opinion the unaware, ignorant and Simple consumers who still are far away from e-governance would stand in need of the 3 forums working efficiently and effectively Thus both the systems should work parallel, hand in hand to protect the interests of different types of consumers.

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Multiple Choice Questions

1. Entrepreneurs undertake
 - (a) calculated risks
 - (b) high risks
 - (c) low risks
 - (d) moderate and calculated risks

Answer (b) It is generally believed that entrepreneurs take high risks as there is no assured career for them and secondly for a higher return the person takes higher risk.

2. In Economics, which of the following is not a function of the entrepreneur?

- (a) Risk-taking
- (b) Provision of capital and organisation of production
- (c) Innovation
- (d) Day-to-day conduct of business

Answer (d) Day-to-day conduct of business is not the function of the entrepreneur.

3. Which of the following statements does not clearly distinguish between entrepreneurship and management?

- (a) Entrepreneurs found the business; managers operate it
- (b) Entrepreneurs are the owners of their business; managers are employees
- (c) Entrepreneurs earn profits; managers earn salaries
- (d) Entrepreneurship is once for all activity; management is a continuous activity

Answer (d) Entrepreneurship is once for all activity, The concept behind it is not cleared. Through this point, it is typical to understand the difference between entrepreneurship and management.

4. In the roles and functions of the entrepreneur identified by Kilby, which of the following is not an aspect of 'political administration'?

- (a) Dealing with public bureaucracy
- (b) Managing human relations within the firm
- (c) Introducing new production techniques and products
- (d) Managing customer and supplier relations

Answer (c) Introducing new production techniques and products is not an aspect of 'political administration'. It comes under the 'Technology' Identified by Kilby.

5. Which of the following attitudes is not generally associated with successful entrepreneurship?

- (a) Investing in R&D
- (b) Live your business day-by-day
- (c) Innovate and improvise continually
- (d) Produce as per customers' requirements

Answer (b) Live your business day-by-day is not the attitude associated with successful entrepreneurship.

Short Answer Type Questions

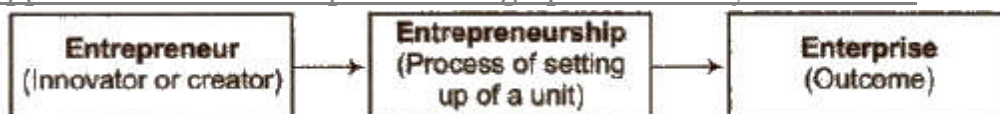
Question 1. Clarify the meaning of the terms 'entrepreneur', 'entrepreneurship' and 'enterprise'.

Answer Entrepreneur The owner of a business is known as Entrepreneur or we can say that the person who set-up his business. He is the co-ordinator, or organiser of resources and gives shape to the business.

Entrepreneurship It is the dynamic process of interaction between the person and the environment. It means starting up one's own business, concerned with strategic decisions of resource allocation and involves huge risk to create value and earn profit.

Enterprise The output of the entrepreneurship process is known as the Enterprise. It is something attempted to be performed. It provides employment opportunities, professional opportunities and business

opportunities which helps in building up the economy of a nation.



Question 2. Why is entrepreneurship regarded as a creative activity?

Answer Entrepreneurship is a creative activity as an entrepreneur converts raw materials into useful goods and services, it involves creation of value, introduction of new products, discovery of new

markets and technologies. Successful entrepreneurs keep focusing on innovative ideas and skills to produce efficient and effective results. Thus, an entrepreneur is innovator and this process is creative.

Question 3. "Entrepreneurs undertake moderate risk". Elaborate this statement.

Answer "Entrepreneurs undertake moderate risks". It implies that an entrepreneur assures various supply of the projects, he agreed to pay salaries, wages, rent whether the venture succeed or not. Secondly, the person who opted a career in entrepreneurship takes a bigger risk as there is no assured pay off. It is said that it is a 50 : 50 situation means loss and profit both are unpredictable. Success depends upon the observations, calculations of risk, skills and confidence. Risk is not centred to one problem it involves many issues like fluctuation in price, taste and preference fashion, risk of strikes, lock outs etc. It becomes the essential feature of the entrepreneurship which is to be focused more and more.

Question 4. How entrepreneurship result in increasing the spectrum and scope of economic activities?

Answer Development does not mean only the betterment of existing but it means the overall betterment across the geographical, sectoral and technological scope. Entrepreneurship results in diversification of economic activities by creating employment, business opportunities, stabilising the demand and supply factors as under developed countries caught in the vicious cycle on the demand as well as supply side. Thus, it helps in overcome from this situation. GDP originates from Industry and services increases. Entrepreneurs through their decisions to direct from the stale sectors and invest in green field sectors brings a virtual transformation of the economy from under developed to developed status. Thus, we can say entrepreneurship result in increasing the spectrum and scope of economic activities.

Question 5. Describe briefly the role of achievement motivation in entrepreneurship.

Answer Entrepreneurial motivation is important to learn as' different individual motivated differently and for the success of an enterprise following needs are to be focused to motivate an entrepreneur

(i) **Need for Achievement** It implies a desire to accomplish something In order to accomplish the task one can use the creativity, talent, organise physical resources, explore and use opportunities, overcome from the obstacles and attain a high standard.

(ii) **Need for Power** It is concern with influencing people or the behaviour of others moving in the same direction to attain the objectives. Need for power means authority required to control the activities of an enterprise.

(iii) **Need for Affiliation** people to conform It implies among other things a tendency of the to the wishes and norms of those whom they value. Entrepreneurs are believed to be low on affiliation but they should focus and trace the elements of affiliation for the successful career and for the development of standardised goods and services for others.

(iv) **Need for Autonomy** It means a desire for independence and being responsible and accountable to oneself rather than some external authority for performance. Every body needs freedom to some extent as it is very difficult to take orders and work all the time as per the boss.

Long Answer Type Questions

Question 1. Describe briefly the steps involved in starting a new business.

Answer Setting up and running of business unit is a very crucial decision which is taken by an entrepreneur. He performs several functions like assembling inputs, market analysis, sales strategy, risk factors, financial analysis and many more. But in order to start a new business following steps are to be taken

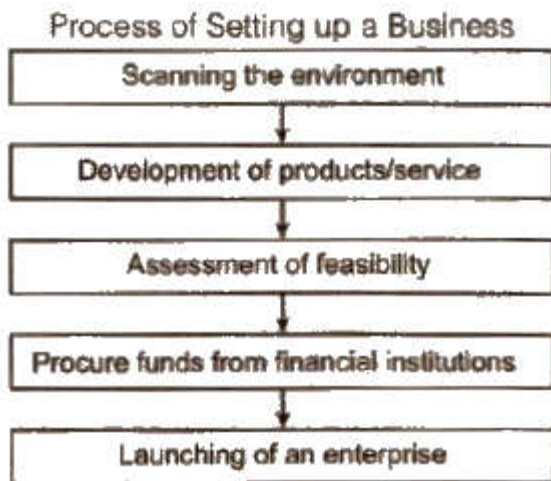
(i) **Scanning the Environment** The complete awareness and understanding of business environment Is known as Environment scanning An entrepreneur scan business opportunities and risks involved. After the analysis, he use these opportunities and market them in much better way.

(ii) **Development of Product** It is second step after scanning the environment an entrepreneur starts assessing scarce resources, assembling inputs and starts the production of goods and services.

(iii) **Feasibility Analysis** It refers to the analysis which helps in knowing the practical possibility. An entrepreneur starts looking the feasibility like technical feasibility helps in knowing that the idea should be converted into reality using available technology, similarly economic feasibility helps in knowing the cost involved in production and after selling it will earn profit or not. The business plan starts after the feasibility report.

(iv) **Funding Agencies** Finance is the back bone for the business activity. An entrepreneur needs finance to carry on the business that's why they prepare business plan which is to be submitted before the financial institutions and if they satisfy they fund the project.

(v) **Establishing of an Enterprise** After getting the fund, an entrepreneur has to take legal permission and clearance from various agencies in order to establish an enterprise.



Question 2. Examine the nature of relationship between entrepreneurship and economic development.

Answer There is a mutual relationship between economic development and entrepreneurship. Entrepreneurship development leads to economic development of the country by contributing in GOP and process of economic development gives an opportunity for expansion and growth. Following points explain the relationship between economic development and entrepreneurship

(i) **Contributing to Gross Domestic Product (GOP)** Income is generated in the process of production. Entrepreneurs generate income via organisation of production, it results in increasing the value of GOP directly.

(ii) **Capital Formation** Entrepreneurs use their own funds and encourage various investment opportunities to invest in companies. This leads to capital formation.

(iii) **Generation of Employment** Every new business gives the opportunity of employment to the people with different abilities, skills and qualifications. It becomes a source of livelihood to those who do neither have capital to earn interest or nor have the land to earn rent.

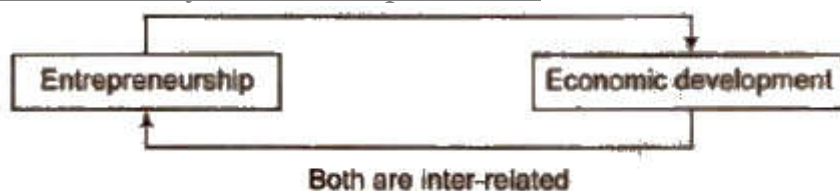
(iv) **Improves Economic Efficiency** Entrepreneurs improve economic efficiency by improving the process, reducing waste, increasing yield and bring technical progress. In this way, entrepreneurship results in economic development. On the other hand, economic development provides following opportunities for the growth and expansion of enterprise.

(a) Well developed financial in the economy

(b) Opportunities to raise and avail funds from various financial institutions.

(c) Lower rate of interest and moderate inflation. (d) Availability of factors of production.

(d) Availability of factors of production



Question 3. Clarify how motivation and abilities impact on individuals decision to choose entrepreneurship as a career.

Answer Motivation and ability can positively reinforce each other. Persons having abilities search for the exposure and focus to start a new business. They take decisions logically with the personal courage and strive hard to acquire the necessary competencies to realise their dreams. Following competencies contribute towards effective performance and success

- (i) Entrepreneur must take initiative to set up an enterprise.
- (ii) Recognise the opportunities and grab them as early as possible.
- (iii) Must strive for success.
- (iv) He must collect important informations.
- (v) Entrepreneurs must set up quality standards.
- (vi) Must be committed towards the completion of task.
- (vii) Concern for conservation of time, money and effort.
- (viii) Entrepreneurs must have ability to do product planning.
- (ix) Must have ability to diagnose the problem and take required steps to solve It.
- (x) Entrepreneur must be confident.
- (xi) Conveying one's vision and convincing others of its values.
- (xii) He must seek the support of others.
- (xiii) Providing leadership.
- (xiv) Ensuring the progress of venture. (xv) Concern for employee's welfare.

On the other hand, motivation is required to understand because entrepreneur's objective is profit maximisation and it can only be achieved when employees are motivated in such a manner that fulfillment of enterprise's objective may also lead to satisfy employees basic needs. In this way, entrepreneurship career proves to be a success for an individual motivation and ability both goes hand to hand

Application Type Questions

Question. Anshuman was very industrious sales executive with a small herbal cosmetic manufacturer. He earned a good salary and commission on the business, he brought for the firm and had very good command over the Delhi market for which he had virtually become indispensable. He was aware of the enviable position he held in the firm and thought aloud "The key to success in any business is the sale of its products. The beginning and end of the business cycle is nothing but sale and 'other' people working in the factory to manufacture products are mere cogs in the business machine set in motion by sales people. So, why carry this burden and get only a tiny share of the prosperity of the firm? Instead others enjoying the fruits of my labour, why should I not start my own business?" Should Anshuman take a leap? Give reasons for your answer.

Answer Anshuman was a good industrious sales executive with a small herbal cosmetics. As per my opinion, Yes, he should start his own business as he is experienced, had a very good command over the market. he had marketed the products very well, maintain good relations with customers. He is good in marketing management. Thus, he can produce goods as per the customers, use effective promotional techniques, take care of customer

Case Problem

Inspiring Feat: Daily Wage Labourer Turns Entrepreneur

A landless woman from Bihar has been nominated among the top 25 farmers in Asia by a Mexican website.

Forty five years old Lalmuni Devi was a daily wage labourer when she decided to take destiny into her own hands and transformed herself into a successful mushroom farmer. Today she manages to make Rs. 12,000 every year for an investment of only Rs 600.

Her feat finds mention on a Mexican website that has grouped her as the top 25 inspirational farmers in its photo gallery.

“I am a poor woman. I thought that mushroom farming would profit henceforth I started it. Now, I can earn a living for my family”, said Lalmuni Devi. Successful Enterprise

The success story has caught on with many women in the Azadpur village on the outskirts of Patna. “It is effortless farming, which we can even do in our village. Working in the scorching heat is very tiring. Mushroom farming generates more profit”, said Urmila Devi.

Lalmuni and other landless women have been encouraged by the Indian Council for Agriculture Research to take up mushroom farming.

It is to help the poorest of the poor through alternative livelihood support system. For that we have chosen a village where people have no land and they have to share croppers”, said Dr AR Khan, Principal Scientist, ICAR, Patna.

Lalmuni's efforts have paved the way for many other landless women to take up mushroom farming and earn a livelihood for their family with little effort.

Question 1. What inspiring feat did Lalmuni Devi perform?

Answer A forty five years old woman Lalmuni Devi from Bihar was a daily wage labourer, then she decided to transform herself by starting mushroom farming. This step proved an Inspirational feat and she was among the top 25 farmers in Asia by Mexican website.

Question 2. Do you feel that you can also become an entrepreneur?

Answer Lalmuni efforts have paved the way for others. Similarly, we can also become an entrepreneur and for that we should have following qualities

(i) Initiate the business

(ii) Grab the opportunities

(iii) High quality work

(iv) Efficiency

(v) Risk taking abilities

(vi) Concern for employee's welfare

Question 3. What qualities of entrepreneur did Lalmuni Devi exhibit?

Answer In the given case, Lalmuni have following qualities

(i) She decided to transform herself into an entrepreneur,

(ii) She recognised the opportunity and grab it.

(iii) She managed efficiently and effectively,

(iv) She was a chaser and faced the difficulty,

(v) She was self confident.

(vi) She took required steps to solve the problems.

Question 4. entrepreneur? What

How are the benefits and can you guard against the risks of risks? becoming an (Teachers should motivate students highlight to do the qualities so, Help that of entrepreneurs is available from and the Government of India is listed on the website www.india.gov.in.)

Answer Benefits of an entrepreneur

(i) They are the owner of the business,

(ii) No worries of job, compensation and reward.

(iii) They earn profit.

(iv) They have full authority to take decisions.

Risks of an Entrepreneur

(i) Market risk

(ii) Financial risk

(iii) Risk in product planning

(iv) Risk of Innovative technologies

In order to secure from the risk, an entrepreneur should analyse the market well, study about the innovative technologies, prepare the business plan so that financial institutions granted the fund, adopt the best ideas for product planning.

