

**LIST OF MEMBERS WHO REVIEWED THE  
SUPPORT MATERIAL FOR  
BUSINESS STUDIES OF CLASS-XII  
2016-2017**

- |   |                            |
|---|----------------------------|
| 1. Ms. Poonam Khanna<br>Vice principal<br>(Team Leader) | GGSS, Azadpur Village      |
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| 4. Mr. Hitender Virani<br>(Lecturer Commerce)           | RPVV, Shalimar Bagh        |
| 5. Mr. Ishwar Singh<br>(Lecturer Commerce)              | RPVV, Narela               |
| 6. Mr. Anu Nanda<br>(Lecturer Commerce)                 | SKV, No-1, Model Town      |
| 7. Ms. Asha Seth Kakker<br>(Lecturer Commerce)          | GGSSS, Qadipur             |
| 8. Mr. Vishal Sharma<br>(Lecturer Commerce)             | GBSSS, Old Seema Puri      |
| 9. Mr. Susheel Kumar<br>(Lecturer Commerce)             | GBSSS, Bawana              |
| 10. Dr. Vivek Bansal<br>(Lecturer Commerce)             | GBSSS, D-Block, Mangolpuri |

## Business Studies (Class XII Syllabus)

	Units	Marks
<b>Part A</b>	<b>Principles and Functions of Management</b>	
1	Nature and Significance of Management	16
2	Principles of Management	
3	Business Environment	
4	Planning	14
5	Organizing	
6	Staffing	20
7	Directing	
8	Controlling	
<b>Part B</b>	<b>Business Finance and Marketing</b>	
9	Financial Management	15
10	Financial Markets	
11	Marketing Management	15
12	Consumer Protection	
<b>Part C</b>	<b>Project Work</b>	20
	<b>Total</b>	<b>100</b>

**QUESTION PAPER DESIGN**  
**BUSINESS STUDIES (CODE No. 054)**  
**CLASS XII**

Time: 3 hrs

Max. Marks - 90

S. No	Typology of Questions	Learning Outcomes & Testing Skills	Very Short Answer (VSA) 1 Mark	Short Answer-I (SA-I) 3 Marks	Short Answer -II (SA-II) 4 Marks	Long Answer (LA) 5 Marks	Essay Type 6 Marks	Total Marks	% Weigh tage
1	<b>Remembering-(Knowledge based)</b> Simple recall questions, to know specific facts, terms, concepts, principles, or theories, Identify, define, or recite, information)	<ul style="list-style-type: none"> <li>Reasoning</li> <li>Analytical Skills</li> <li>Critical Skills</li> </ul>	2	1	1	1	–	14	17%
2	<b>Understanding</b> (Comprehension to be familiar with meaning and to understand conceptually, interpret, compare, contrast, explain, paraphrase, or interpret information)		2	2	1	–	1	18	23%
3	<b>Application-</b> (Use abstract information in concrete situation, to apply knowledge to new situations, Use given content to interpret a situation, provide an example, or solve a problem)		2	1	1	1	1	20	25%
4	<b>High Order Thinking Skills (Analysis &amp; Synthesis</b> - Classify, compare, contrast, or differentiate between different pieces of information, Organize and/or integrate unique pieces of information from a variety of sources)		2	1	2	-	1	19	24%
5	<b>Evaluation-</b> (Appraise, judge, and/or justify the value or worth of a decision or outcome, or to predict outcomes based on values)		–	-	1 (value based)	1	–	09	11%
	<b>TOTAL - 2 projects (10 marks) 20</b>		8x1=8	5x3=18	6x4=24	3x5=15	3x6=18	80(25) project (20)	100%
	Estimated Time (in minutes)		8 min	20 min	50 min	37 min	50 min	165 min+15 min. for revision	

## CHAPTER 1

### NATURE AND SIGNIFICANCE OF MANAGEMENT

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

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

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

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

#### Characteristics of Management:

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

3. **Multidimensional:** It is multidimensional as it involves management of work, people and operations. Every organisation is established for doing some work like school provides education, a factory produces etc. The management has to ensure the participation, of its people in the realisation of the organisation goal. Also management needs to conduct the various operations such as production, sale, purchase etc.
  4. **Continuous:** Management is not a process which can be performed once and for all, but it is a continuous process. Functions of management like planning, organising, staffing, directing and controlling continuously need to be done.
  5. **Group Activity:** It is a group activity since it involves managing and coordinating activities of different people as a team to attain the desired objectives.
  6. **Dynamic function:** It is a dynamic function since it has to adapt according to need, time and situation of the changing environment. For example, McDonalds made major changes in its 'Menu' to survive in the Indian market.
  7. **Intangible Force:** Management is such a force that cannot be seen, only its presence can be felt. When the goals of an organisation are being realised in accordance with its plans, we can say that the management of the organisation is good.
- Q.1** An educational institution as well as a business organization both need to be managed. Which characteristic of management is highlighted here? (Universal)
- Q.2** "In an organization, the employees are happy and satisfied, there is no chaos and the effect of management is noticeable." Which characteristic of management is highlighted by this statement? (Intangible Force)
- Q.3** In order to be successful an organisation must change its goals according to the needs of environment. Which characteristic of management is highlighted here? (Dynamic)
- Q.4** Management is multi-dimensional. Give any 2 dimensions of it. (Work, People)

**Q.5** Which feature of management is highlighted when it is said that it is present in all types of organisations and at all levels. (It is all pervasive).

**Objectives of Management**

**A. Organizational objectives:** It refers to the utilisation of human and physical resources available in the organisation, considering the interest of all stakeholders.

**1. Survival –** Management of an organisation must ensure the survival of the organisation by earning enough revenues to cover costs.

**2. Profit –** It plays an important role in facing business risks and successful running of business activities.

**3. Growth –** Management must ensure growth which can be measured by increase in sales of product etc.

**B. Social objectives:** It refers to the consideration of the interest of the society during managerial activities. For e.g. - to save environment from getting polluted etc.

**C. Personal objectives:** It refers to the objectives to be determined with respect to the employees of the organisation.

**Q.1** One of the objectives of management is to consistently create economic value for various constituents of the society. Give two examples of this objective.

**Ans.** Social objectives of management.

(i) Using environment friendly method of production.

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

**Q.8.** Sana Ltd. is a company producing Fans. The company's profits are enough for the survival and growth. The management of the company believes that a satisfied employee creates a satisfied customer, who in turn creates profits that lead to satisfied shareholders. So, it pays competitive salaries and perks to all its employees. All the employees are happy working in the organisation because of personal growth and development.

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

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

**Ans.** Yes, the management of Sana Ltd. is fulfilling all the objectives-organisational objectives, social objectives and personal objectives.

### **Importance of Management**

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

### **Management as an Art**

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

1. **Existence of theoretical knowledge:** In every art, systematic and organized study material should be available compulsorily to acquire theoretical knowledge.
2. **Personalised application:** The use of basic knowledge differs from person to person and thus, art is a very personalised concept.

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

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

### **Management as a Science**

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

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

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

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

### **Management as Profession**

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

- 1. Well-defined body of Knowledge:** All the professions are based on well-defined body of knowledge.
- 2. Restricted Entry:** The entry in every profession is restricted through examination or through some minimum educational qualification.



3. **Professional Associations:** All professions are affiliated to a professional association which regulates entry and frames code of conduct relating to the profession.
4. **Ethical Code of Conduct:** All professions are bound by a code of conduct which guides the behaviour of its members.
5. **Service Motive:** The main aim of a profession is to serve its clients.

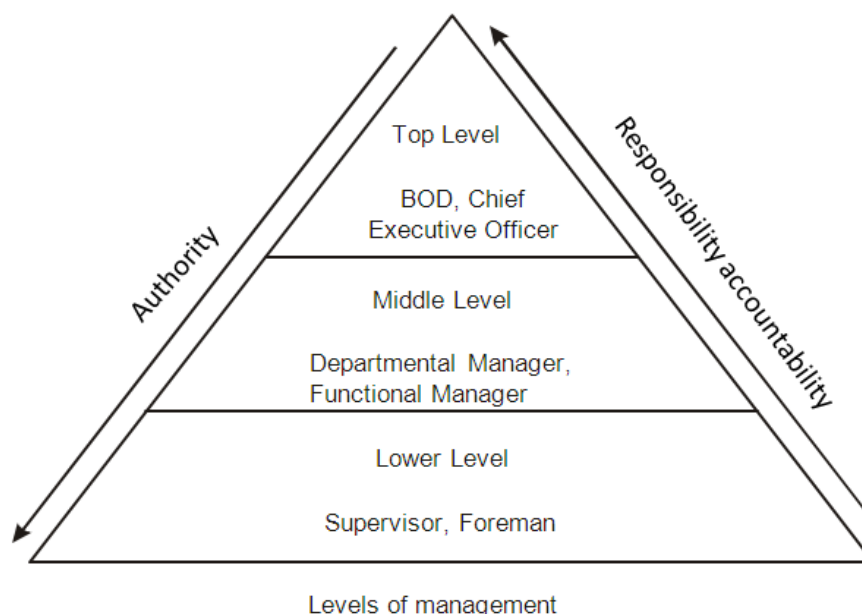
**Conclusion:-** Management does not fulfil all the features of a profession and thus it is not a full-fledged profession because anybody can proclaim to be a manager; prescribed compulsory educational degree or license is not required. Besides there are not any formal ethical codes which are required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

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

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

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

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



### **Top Level**

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

Chief task is to integrate and to coordinate the various activities of the business, framing policies, formulating organisational goals & strategies.

### **Middle Level**

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

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

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

Consists of Foremen and Supervisor etc.

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

**Q.10** At which level of management, are the managers responsible for the welfare and survival of the organization? (Top level)

**Q.11** Managers at the top level spend more time doing this function of Management. Name it. (Determine policies)

**Q.12** Rakesh is working as Regional Manager in ABC Ltd. Name the level at which he is working. (Middle Level)

**Q.13** Name the level at which the managers are responsible for implementing and controlling the plans and strategies of the organisation? (Middle Level)

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

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

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

**Q.** Identify the functions of the management: —

- a) Motivating employees and giving instructions to them to perform the tasks assigned to them.
- b) Recruitment and selection of the personnel.
- c) Finding out deficiencies in implementation of plans.

**Ans.** (a) Directing; (b) Staffing; (c) Controlling.

### **Co-ordination**

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

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

### **Characteristics of Coordination**

1. **Coordination integrates group efforts:** It integrates diverse business activities into purposeful group activity ensuring that all people work in one direction to achieve organizational goals.
2. **Coordination ensures unity of action:** It directs the activities of different departments and employees towards achievement of common goals and brings unity in individual efforts.

3. **Coordination is a continuous process:** It is not a specific activity matter, it is required at all levels, in all departments till the organization continues its operations.
4. **Coordination is all pervasive function:** It is universal in nature. It synchronizes the activities of all levels and departments as they are interdependent to maintain organizational balance.
5. **Coordination is the responsibility of all managers:** It is equally important at all the Three-Top, Middle and Lower levels of management. Thus it is the responsibility of all managers that they make efforts to establish coordination.
6. **Coordination is a deliberate function:** Coordination is never established by itself rather it is a conscious effort on the part of every manager. Cooperation is voluntary effort of employees to help one another. Effective coordination cannot be achieved without cooperation of group members.

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

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

It is needed in all management functions:

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

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

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

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

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

### **Needed at all levels of management**

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

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

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

## NEED FOR COORDINATION

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

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

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

**Q.** Mention two elements of coordination. (Integration and Balancing)

## **QUESTIONS FOR PRACTICE**

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### **Very short answer type question (1 mark)**

- Q.1** “Planning, Organising, Staffing, Directing and Controlling” is the sequence of functions in a process. Name it. (Management)
- Q.2** Production Manager of Kavya Ltd. tries to produce goods with minimum cost. Name the concept which is being focussed by management. (Efficiency)
- Q.3** In order to be successful, an organization must change it according to the needs of the environment which characteristic of management is highlighted in the statement? (Dynamic)
- Q.4** Which force binds all other functions of management? (Coordination)
- Q.5** Radhika Ltd. uses environment friendly methods of production. Identify the objective it is trying to achieve. (social objectives)
- Q.6** Your uncle is serving as a foreman in a factory. At what level of management is he working? (Lower Level)
- Q.7** ‘Management provides judgement and vision’. Explain? (Dynamic)
- Q.8** Identify the nature of management when it is practiced as personalised application of existing knowledge to achieve desired results. (Management is an art)
- Q.9** Mr. Gaurvav is working as the Finance Manager of XYZ Ltd. At what level of management is he working? State any two functions being performed by him (Middle Level)
- Q.10** The General manager- GM of ‘Radhaswami Kidswear Limited’, Mr. Sahil Radhaswami, has divided all the employees of his company into three levels (Top Level, Middle level and Lower Level) At the Top Level the General Manager and Board of Directors themselves work. The Middle Level work is looked after by the four Departmental managers like the Production Manager, Purchase manager, Sales Manager and Finance Manager.

The Lower Level is constituted of one supervisor of each of the four departments. These Supervisors look after the daily activities of their subordinates.

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

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

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

((i) Continuous process (ii) Group activities)

## CHAPTER - 2

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### PRINCIPLES OF MANAGEMENT

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#### Concept of Principles of Management

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

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

#### Nature of Principles of Management

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

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



‘capsules’ of selected management wisdom to be used carefully and discretely”.

### **Significance of the Principles of Management**

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

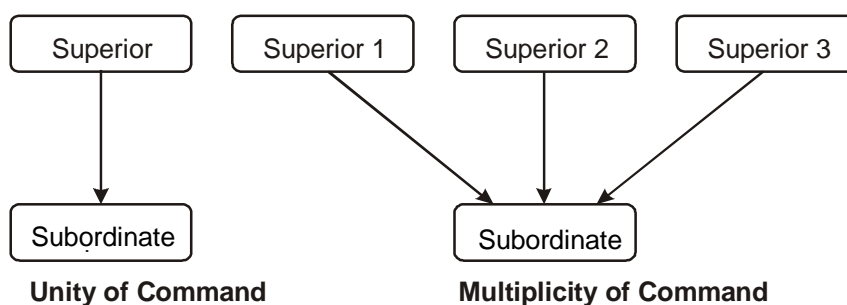
- 1. Providing managers with useful insights into reality:** Management principles guide managers to take right decision at right time by improving their knowledge, ability and understanding of various managerial situations and circumstances.
  - 2. Optimum utilization of resources and effective administration:**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

## Fayol's Principles of Management

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

### Principles of Management developed by Fayol

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



**Q.4** The production manager of Bharat Ltd., instructs a salesman to go slow in selling the products whereas the marketing manager is insisting on fast selling to achieve the target. Which principle of management is being violated in this case. Write one of the consequences of violation of this principle. (Unity of command, Reduces the efficiency)

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

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

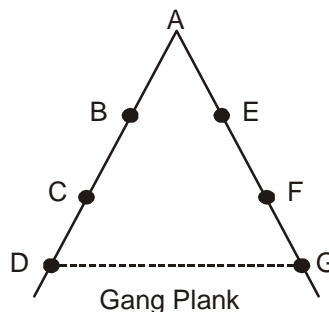
<b>Basis</b>	<b>Unity of Command</b>	<b>Unity of Direction</b>
(1) Meaning	One subordinate should receive orders from & should be responsible to only one superior.	Each group of activities having same objective, must have one head.
(2) Aim	Prevents dual subordination.	Prevents overlapping of activities.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

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

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

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

- 4. Centralisation and Decentralisation:** Centralisation means concentration of decisions making authority in few hands at top level. Decentralisation means evenly distribution of power at every level of management. Both should be balanced as no organization can be completely centralised or completely decentralised.
- 5. Scalar Chain:** The formal lines of authority between superiors and subordinates from the highest to the lowest ranks is known as scalar chain. This chain should not be violated but in emergency employees at same level can contact through Gang Plank by informing their immediate superiors.



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

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

- Q.5** Rakesh and Rahim are employed in the same company. They are working at same position and performing similar functions. But Rakesh is getting more salary than Rahim. Which principle of management is being violated? (Equity)
- Q.6** In an organization employees are transferred frequently; which principle of management is being over looked. (Stability of personnel)
- Q.7** Name and explain the principle of management according to which a manager should replace 'I' with 'we' in all his conversations with workers? (Espirit De Corps.)
- Q.8** State one positive effect of the Principle- "Unity of Command." (The efficiency of subordinate's increases)
- Q.9** Why did Fayol introduce Gang Plank in the principle of scalar chain? (to contact with the employees of equal rank in case of emergency).
- Q.10** Nikita and Salman completed their MBA and started working in a multinational company at the same level. Both are working hard and are happy with their employer. Salman had the habit of backbiting any wrong reporting about his colleagues to impress his boss. All the employees in the organization knew about it. At the time of performance appraisal, the performance of Nikita was judged better than Salman. Even then, their boss, Mohammad Sharif decided to promote Salman stating that being a female, Nikita will not be able to handle the complications of higher post.
- (i) Identify and explain the principle of management that was overlooked by this multinational company.
  - (ii) Identify the values which are being ignored quoting the lines from the above para.

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

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

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

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

## **SCIENTIFIC MANAGEMENT**

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

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

### **Principles of Scientific Management**

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

There should be scientific study and analysis of each element of job rather than adopting old rule of the thumb approach on a hit and miss method. Encourage “thinking before doing”

**2. Harmony, not discord:**

There should be complete harmony and proper understanding between management and workers in achieving the organisation goals.

**3. Cooperation not individualism:**

Taylor emphasised on the importance of cooperative group efforts between the management and workers in achieving the organisation’s goal and not individualism.

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

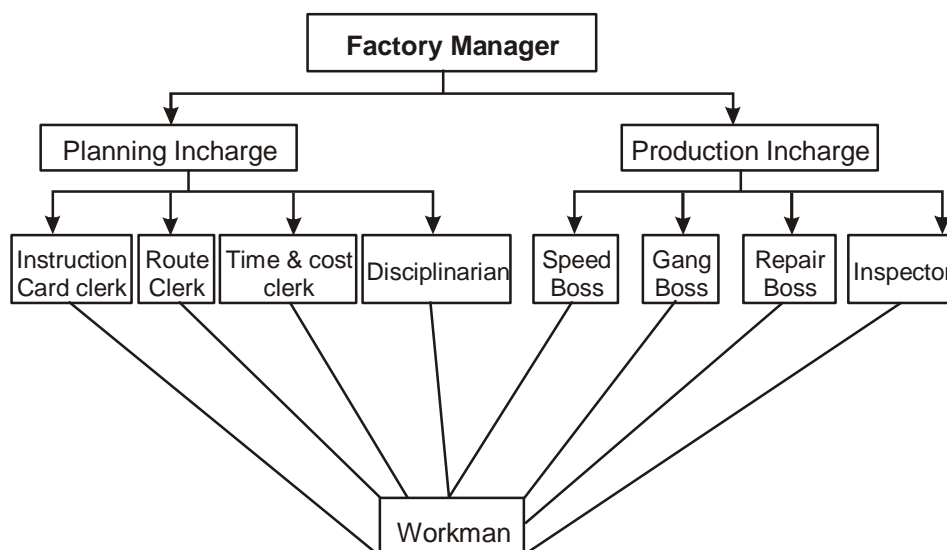
The management should scientifically select the workers; assign job as per their physical, mental and intellectual capabilities; and train them as per the job requirement.

- Q.11** Which principle of scientific management suggests the introduction of scientific investigation and analysis of management practices? (Science not rule of thumb)
- Q.12** Scientific management is useful for which type of organisation? [Hint: Manufacturing/Industrial organisation]

### **Techniques of Scientific Management**

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

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



#### **Planning Incharges :**

1. **Route Clerk** to specify the exact sequence and route of production.
2. **Instruction card clerk** is responsible for drafting instructions for the workers.
3. **Time and cost clerk** to prepare time and cost sheet for the job.

4. **Shop Disciplinarian** to ensure discipline and enforcement of rules and regulations among the workers.

**Production Incharges:**

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

**Q.13** Name the technique of scientific management which focuses on separation of planning and execution functions. (Functional Foremanship)

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

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

**C. Method study:**

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

**Q.14** In a Company, the Factory Manager appointed only one foreman for the work of production, planning, execution and supervision of workers. However, that foreman is not efficient in planning and execution.

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

**D. Motion Study**

- Making a thorough analysis of various motions being performed by a worker while doing a particular task.



- Identifying and determining the ideal productive movements.
- Eliminate the unproductive movements and equipments.

#### **E. Time study**

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

#### **F. Fatigue study**

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

#### **G. Differential Piece Wage System**

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

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

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

#### **H. Mental Revolution**

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

- Q.15** Name the technique of scientific management which helps in establishing interchangeability of manufactured parts and products. (Standardisation of work)
- Q.16** Which technique of scientific management aims at elimination of superfluous varieties sizes and dimensions of the product. (Simplification of work)
- Q.17** Name the technique of Taylor which is one of the strongest motivator for a worker to reach standard performance. (Differential piece wage system)
- Q.18** Explain the technique of scientific management that is extension of “Principle of Division of work” and specialisation? (Functional foremanship)

### **Fayol versus Taylor**

#### **TAYLOR V/S FAYOL**

<b>Basis</b>	<b>Henry Fayol</b>	<b>F.W Taylor</b>
1.Basis of formation	Personal Experience	Observation
2. Focus	Improvement in the overall administration	Concentration on improving the productivity
3. Applicability	Universally applicable	Applicable only to specialised situations
4.Perspective	Top level management	Lower level-shop floor level
5.Personality	Practitioner and known as the father of General management	Scientist and known as father of scientific management

6.Human element	More importance given to human element; e.g. Principle of equity, stability of tenure	More importance attached to increasing the production than to the human element
7.Emphasis	Greater emphasis on tools and standardisation of work i.e. General Theory of Administration	Emphasis on principles and theory of general administration i.e. Scientific Management
8.Unity of Command	Staunch proponent that orders should be received from one boss.	Did not feel that it is important as under functional foremanship a worker received orders from eight specialists.

## **QUESTIONS FOR PRACTICE**

- Q.1** Which principle of Henry Fayol does functional foremanship violate? (Unity of command) (1)
- Q.2** A sales person is asked to finalize a deal with customer. The marketing manager allows him to give a discount of up-to 10% but the Finance Manager allows him to give discount of upto 25%. Which principle is violated here? (Unity of command) (1)
- Q.3** "Workers should be encouraged to develop and carry out their plan for development." Identify the principle of management (Fayol)involved here. (Initiative) (1)
- Q.4** Principles of Taylor and Fayol are mutually complementary. One believed that the management should the gain with the workers while the other suggested that employees compensation should depend upon the earning capacity of the company and should give them a reasonable standard of living. Identify and explain the principles of management by Tayol and Fayol referred to in para? (1)
- [Hint: Fayol – Remuneration, Taylor – Harmony not Discord (Mental Revolution)]
- Q.5** A manager should have the right to punish a subordinate for wilfully not obeying a legitimate order but only after sufficient opportunity has been given to his/her case. Identify the principle of management highlighted here. (Authority and Responsibility) (1)
- Q.6** Fayol insists that good sense and experience are needed to ensure fairness to all employees who should be treated as fairly as possible. Identify the principle of management. (Equity) (1)
- Q.7** Name and explain that principle of Fayol which suggest that communication from top to bottom should follow the official lines of command. (Scalar chain) (3 Marks)

**Q.8** The production manager of an automobile company asked the foreman to achieve a target production of 200 scooters per day. But he did not give him the authority to requisition tool and materials from the stores department. Can the production manager blame the foreman if he is not able to achieve the desired target? Explain briefly the principle relating to the situation. (No, Production Manager can't blame the Foreman. Principle- Authority and Responsibility)

## CHAPTER - 3

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### BUSINESS ENVIRONMENT

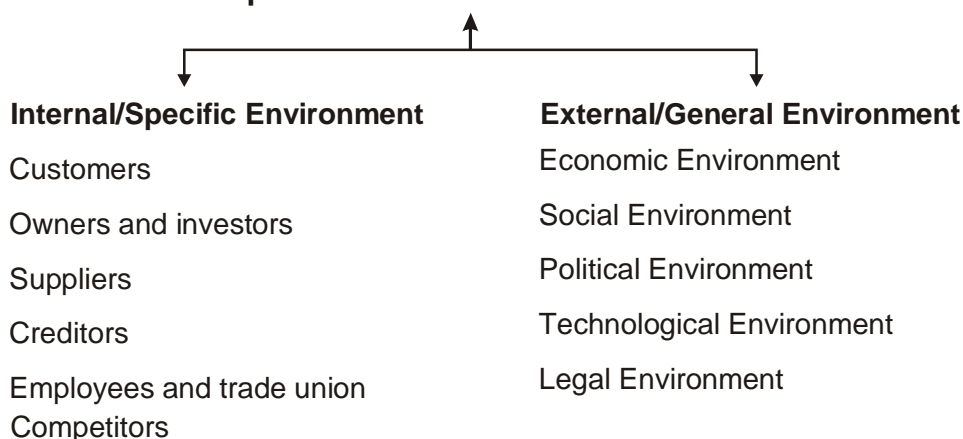
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Business environment means the sum total of the factors which influence the business and over which the business has no control. The study of business environment enables the managers to identify threats and opportunities.

#### Features of Business Environment

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

#### Components of Business Environment



3. **Inter-relatedness:** All the forces/factors of a business environment are closely interrelated. For example, increased awareness of health care has raised the demand for organic food and roasted snacks.
4. **Dynamic:** Business environment is dynamic in nature which keeps on changing with the change in technology, consumer's fashion and tastes etc.
5. **Uncertainty:** Business environment is uncertain as it is difficult to predict the future environmental changes and their impact with full accuracy.

6. **Complexity:** Business environment is complex which is easy to understand in parts separately but it is difficult to understand in totality.
7. **Relativity:** Business environment is a relative concept whose impact differs from country to country, region to region and firm to firm. For example, a shift of preference from soft drinks to juices will be welcomed as an opportunity by juice making companies while a threat to soft drink manufacturers.

- Q.1** Business Environment includes both specific and general forces. List any two. (Specific- Investors and customers, general- social and political)
- Q.2** “Demand for sarees may be high in India but almost negligible in Europe”. Which feature of business environment is highlighted here. (Relativity)

### **IMPORTANCE OF BUSINESS ENVIRONMENT**

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1. **Identification of opportunities to get first mover advantage:** Understanding of business environment helps an organisation in identifying advantageous opportunities and getting their benefits prior to competitors, thus reaping the benefits of being a pioneer.
2. **Identification of threats:** Correct knowledge of business environment helps an organisation to identify those threats which may adversely affect its operations. For example, Bajaj Auto made considerable improvements in its two wheelers when Honda & other companies entered the auto industry.
3. **Tapping useful resources:** Business environment makes available various resources such as capital, labour, machines, raw material etc. to a business firm. In order to know the availability of resources and making them available on time at economical price, knowledge of business environment is necessary.
4. **Coping with Rapid changes:** Continuous study/scanning of business environment helps in knowing the changes which are taking place and thus they can be faced effectively.
5. **Assistance in planning and policy formulation:** Understanding and analysis of business environment helps an organisation in planning & policy formulation. For example, ITC Hotels planned new hotels in India after observing boom in tourism sector.

- 6. Helps in Improving performance:** Correct analysis and continuous monitoring of business environment helps an organisation in improving its performance.

## **Economic Environment in India**

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

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

- 1. Liberalisation:** It means freeing of Indian Industry from all unnecessary government controls and restrictions. Abolishing licensing requirements; Freedom in deciding the scale of business; removals of restriction on movements of goods and service; reduction in tax rates; freedom in fixing prices; simplifying procedures; making it easier to attract foreign investment.
  - 2. Privatization:** Giving greater role to private sector in the nation building process and reduced role of public sector; Disinvestment in many Public Sector undertaking etc., Setting up of BIFR to revive sick units in public sector enterprises suffering losses. It aimed at improving efficiency and performance of government undertakings, reducing budgetary deficit & better utilization of national resources.
  - 3. Globalization:** It means integration of various economies of the world leading to the emergence of cohesive global economy. The measures taken by the Government include trade liberalization which includes import liberalization; Export Promotion through rationalization of tariff structure; Foreign exchange liberalization; increased interaction among global economies under the aegis (protection/support) of World Trade Organization. It resulted in addition of Export duty, Reduction of import.
- Q.3** Give any one factor responsible for New Economic Policy of liberalization, privatization and globalization. (Economic development of the country)
- Q.4** Can the effect of various factors of business environment on business be recognised separately? (No, as the factors are related to each other)



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

- 1. Economic Environment:** It has immediate and direct economic impact on a business. Rate of interest, inflation rate, change in the income of people, monetary policy, price level etc. are some economic factors which could affect business firms. Economic environment may offer opportunities to a firm or it may put constraints.
- 2. Social Environment:** It includes various social forces such as customs, beliefs, literacy rates, educational levels, lifestyle, values etc. Changes in social environment affect an organisation in the long run. Example: Now a days people are paying more attention towards their health, as a result of which demand for mineral water, Diet coke etc. has increased while demand of tobacco, fatty food products has decreased.
- 3. Technological Environment:** It implies using new and advanced ways/techniques of production. A businessman must closely monitor the technological changes taking place in the industry as it helps in facing competition and improving quality of the product. For Example, Digital watches in place of traditional watches, artificial fabrics in place of traditional cotton and silk fabrics, booking of railway tickets on internet etc.
- 4. Political Environment:** Changes in political situation also affect business organisations. Political stability builds confidence among business community while political instability and bad law & order situation may bring uncertainty in business activities. Ideology of the political party, attitude of government towards business, type of government-single party or coalition government affects the business. Example: Bangalore and Hyderabad have become the most popular locations for IT due to supportive political climate.
- 5. Legal Environment:** It constitutes the laws and legislations passed by the Government, administrative orders, court judgements, decisions of various commissions and agencies. Businessmen have to act according

to various legislations and their knowledge is very necessary. Example: Advertisement of Alcoholic products is prohibited and it is compulsory to give statutory warning on advertisement of cigarettes.

**Q.5** Identify the type of dimension of business environment related to the following:

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

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

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

- 1. Increasing Competition:** Delicensing and entry of foreign firms in Indian market has increased the level of competition for Indian firms.
- 2. More Demanding Customers:** Now customers are more aware and they keep maximum information of the market as the result of which, now market is customer/buyer oriented. Now products are produced keeping in mind the demands of the customers.
- 3. Rapid Changing Technological Environment:** Rapid Technological advancement has changed/improved the production process as a result of which maximum production is possible at minimum cost but it leads to tough challenges in front of small firms.
- 4. Necessity for Change:** After New Industrial Policy, the market forces (demand & supply) are changing at a very fast rate. Change in the various

components of business environment has made it necessary for the business firms to modify their policies & operations from time to time.

- 5. Need for Developing Human Resources:** The changing market conditions require people with higher competence and greater commitment. Hence there is a need for developing human resources which could increase their effectiveness and efficiency.
- 6. Market Orientation:** Earlier selling concept was famous in the market now its place is taken by the marketing concept. Today firms produce those goods & services which are required by the customers. Marketing research, educational advertising, after sales services have become more significant.
- 7. Reduction in budgetary Support to Public Sector:** The budgetary support given by the government to the public sector is reducing thus the public sector has to survive and grow by utilising their own resources efficiently.

## **QUESTIONS FOR PRACTICE**

- Q.1** It is the process by which government control over the industry is being loosened. Give the term to which this statement is trying- to indicate. (Liberalisation)
- Q.2** “The understanding of business environment enables the firm to identify opportunities.” What is meant by ‘opportunities’ here?
- Q.3** “It may be difficult to know the extent of the relative impact of the social, economic, political, technological or legal factors on change in demand of a product in the market.” Which feature of business environment is highlighted by this point? (Complex)
- Q.4** ‘Understanding of environment by business managers enables them not only to identify and evaluate, but also to react to the forces external to their firms.’ In the light of this statement, explain by giving any five points why in the present day competitive market, it is essential for a business enterprise to remain alert and aware of its environment.
- Q.5** Just after declaration of Lok Sabha Elections 2014 results, the Bombay Stock Exchanges price index (Sensex) rose by 1000 points in a day. Identify the environmental factor which led to this rise giving reason. Also, explain any two other dimensions of business environment. (Political)
- Q.6** Lately many companies have planned for significant investment in organised retailing in India. Several factors have prompted their decisions in this regard- customer income is rising. People have developed a taste for better quality product even though they may have to pay more. The government permitted 100 percent Foreign Direct Investment in some sectors of retailing.
- Identify the changes in business environment under different dimensions, quoting the lines from the above para.
- Q.7** The court passed an order to ban polythene bags as:
- I. These bags are creating many environmental problems which affect the life of people in general.

- II. Society in general is more concerned about quality of life.
- III. The government decided to give subsidy to jute industry to promote this business.
- IV. Innovative techniques are being developed to manufacture jute bags at low rates.
- V. Incomes are rising and people can afford to buy these bags.

Identify the different dimensions of Business Environment by quoting the lines from the above particulars.

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

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

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

## **ANSWER AND HINTS**

**A.6** Customer income is-----Economic environment.

People have-----Social environment.

The government permitted----Economic environment.

**A.7** (I) Quality of life- Social environment.

(II) Subsidy to jute- Economic environment.

(III) Innovative techniques- Technical environment.

(IV) Income are rising- Economic environment.

**A.8** (a) “The court issued the order----- -- - smokeless” -----Legal.

(b) “Abiding by this order-----produce any smoke at all.”  
(Technical environment)

(c) “The Government also announced -----industrial units.”  
(Political environment)

## EVALUATION QUESTIONS

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### UNIT-I

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- Q1.** X Ltd. was manufacturing water heaters. In the first year of its operations, the revenue earned by the company is less. The Co. analysed the reasons of less revenue. After analysing the company decided: -
- (a) to reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very reasonable rate.
  - (b) to start manufacturing solar water heaters and reduce production of electric water heaters slowly.
  - (i) Which functions of management are indicated here? [Hint: Planning & Controlling].
  - (ii) Which dimension of business environment is applied here? [Social]
  - (iii) State any two values which the company wanted to communicate to the society.
- Q2.** XYZ Ltd. Co., manufacturing cosmetics and enjoying a predominant position in the industry has grown in size. Its business was very good till 1991. But after that new liberalized environment has seen the entry of many MNCs in this sector with the result that market share of XYZ has declined. The company followed a very centralised business model with directors and divisional heads making even minor decisions.
- (a) Which function of management is being indicated here?
  - (b) What dimension of environment is implicit in this case? Indicate by quoting the lines from above para. [Hint: (a) Organising (b) Political]
- Q3.** Meera, Chairperson of Sunshine Ltd. feels that she is only responsible for the successful management of company because other persons are

working according to the plans and policies framed by top level management only.

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

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

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

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

[Hint : (a) Management as an art

(b) Harmony, not Discord

(c) Discipline.

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

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

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



**Q6.** Mr. Bali, the Production manager of classic Ltd. is successfully running his department. He has created such an environment that no one becomes hurdle in anybody's work, but all of them are ready to help each other. Mr. Bali has been observing a change in market for last few days. In the past they used to produce goods according to their will and with a little bit of effort could sell them. But now they have to produce goods as desired by the people. When Mr. Bali investigated to know the reasons for this change, he came to know that on account of positive policies of the govt., running the business had become easy. Due to this, several new people had entered the business. Consequently, competition has increased and now the control of the market had slipped out of the hands of producers into the hands of customers.

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

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

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

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

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

**Q8.** Mr. Singh is working as the General Manager in a chain of hotels. Keeping a watch over the business environment is included in his routine. For the last few days Mr. Singh has been observing that the Govt. is taking special interest in Tourism Industry. The receipt of foreign exchange and employment promotion are its reasons. On the basis of this news he decided to set up hotels at several tourist places. They established several hotels before other companies considered this issue. Very soon, their hotels became well-known in the market. Behind the fame of this company another reason was that this company was giving its employees not only the responsibility but also the authority of completion of work. The environment being to their liking now they had started meeting their managers with the latest ideas, which are taken by the company.

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

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

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

(b) (i) Principle of Authority & Responsibility

(ii) Principle of Initiative

(c) Top level Management.]

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

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

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

- (a) Which technique of scientific management will be suitable for the company and why?
- (b) Which principle of management given by Henry Fayol is being ignored by the co.? Explain briefly.
- (c) Which factors of Business environment are affecting the Co? Identify the type and factors.

[Hint: (a) Mental revolution

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

(c) External Factors - Customers

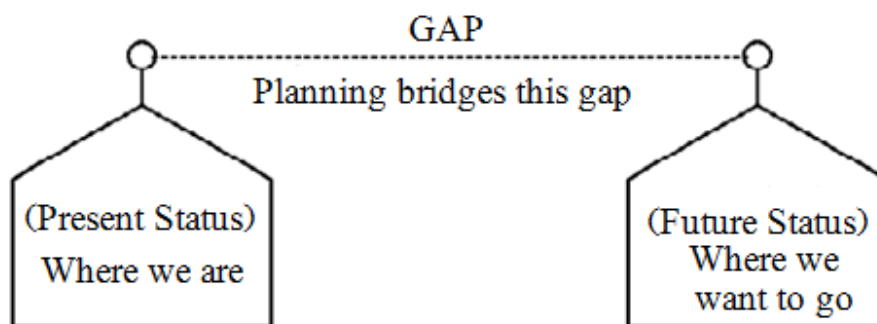
Internal Factors - Employees].

## CHAPTER – 4

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### PLANNING

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#### Concept

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

#### Importance of Planning

- 1. Planning provides directions:** By stating in advance how the work is to be done, planning provides direction for action. If there was no planning, employees would be working in different directions and the organization would not be able to achieve its goals efficiently.
- 2. Planning reduces the risk of uncertainty:** Planning is an activity which enables a manager to look ahead, anticipate changes, consider the impact of changes and develop appropriate responses.
- 3. Planning reduces wasteful activities:** Planning serves as the basis of coordinating the activities and efforts of different departments and individuals whereby useless and redundant activities are mentioned.

- 4. Planning promotes innovative ideas:** Planning is the first function of management. Managers get the opportunity to develop new ideas and new ideas can take the shape of concrete plans.
- 5. Planning facilitates decision making:** Under planning targets are laid down. The manager has to evaluate each alternative and select the most viable option.
- 6. Planning establishes standards for controlling:** Planning provides the standards against which the actual performance can be measured and evaluated. Control is blind without planning. Thus planning provides the basis for control.
- Q.1** Which function of management bridges the gap between where we are and where we want to go? (1)
- Q.2** It is the managerial function which enables a manager to look ahead and anticipate changes. Identify the function and explain its importance. (5)

## Limitations of Planning

### (A) Internal Limitations

- 1. Planning leads to rigidity:** Planning discourages individual's initiative & creativity. The managers do not make changes according to changing business environment. They stop taking or giving suggestions and new ideas. Thus detailed planning may create a rigid framework in the organization.
- 2. Planning may not work in dynamic environment:** Planning is based on anticipation of future happenings and since future is uncertain and dynamic, therefore, the future anticipations are not always true.
- 3. Planning involves huge costs:** When plans are drawn up, huge cost is involved in their formulation.

4. **Planning is time consuming:** Sometimes plans to be drawn up take so much of time that there is not much time left for their implementation and it is not feasible in emergencies.
5. **Planning does not guarantee success:** The success of an enterprise is possible only when plans are properly drawn and implement. Sometimes managers depend on previously tried successful plans, but it is not always true that a plan which has worked before will work effectively again.
6. **Planning reduces creativity:** In planning, work is to be done as per pre-determined plans. It is decided in advance what is to be done, how it is to be done and who is going to do it. Moreover, planning is done by top management which leads to reduction of creativity of other levels of management.

#### **(B) External Limitations**

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

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

**Q.1** X.Ltd. Company does not consider ideas and thoughts of employees and acts according to earlier formulated plan. Identify the above limitation of planning and explain other limitations too. (6)

**OR**

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

### **FEATURES OF PLANNING**

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

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

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

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

**3. Planning is pervasive:**

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

**4. Planning is futuristic:**

Planning essentially involves looking ahead and preparing for the future.

**5. Planning involves decision making:**

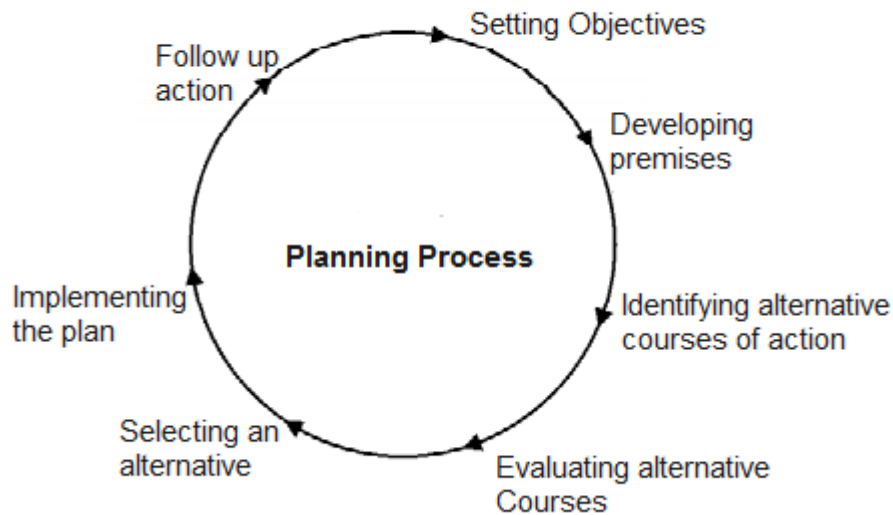
Planning essentially involves choice from among various alternatives and activities. If there is only one possible course of action, there is no need for planning because there is no choice.

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

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

**7. Planning is continuous:**

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



### Planning Process

- 1. Setting Objectives:** The first and foremost step is setting objectives. Objectives may be set for the entire organization and each department.
- 2. Developing premises:** Planning premises are the assumptions about the likely shape of events in future. It forecasts the obstacles, problems or limitations in the path of the effective planning because of which the plans may deviate. Planning premises supply relevant facts & information relating to future.
- 3. Identifying alternative courses of action:** Once objectives are set and premises are developed, the next step would be to act upon them. All the alternative courses of action should be identified.
- 4. Evaluating alternative Courses:** The next step is to weigh pros and cons of each alternative. Each course will have many variables which have to be weighed against each other. Example: Cost-Benefit analysis.
- 5. Selecting an alternative:** After comparison and evaluation, the best alternative is chosen for reaching organizational objectives. On the basis of



merits, demerits, resources and consequences, the best plan has to be adopted, which must be the most feasible, profitable and with best negative consequences.

- 6. Implementing the plan:** Once the plans are developed they are put into action. Successful implementation of the plan ensures understanding and whole-hearted cooperation of all the employees.
- 7. Follow up action:** To see whether plans are being implemented, activities are performed according to schedule. In case of any deviations, changes are made in the plans.

- Q.1** The director of Infra Ltd. set the target to increase current year sale by ₹ 500 cr. For increasing the sales of the current year, he also kept in mind future forecast and assumptions. Then he searched different ways to increase sale such as sales promotion, network marketing and other activities. After that he held meeting with sales manager and made necessary changes to achieve target. Identify the different stages of planning process quoting the relevant lines. (6)

### **TYPES OF PLAN**

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

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

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

- 1. Objectives:** Objectives are defined as ends for the achievement of which an organization goes on working. They may be designed as the desired future position that the management would like to reach. The first and foremost step of the planning process is setting organizational objectives. Examples increasing sales by 10%, Getting 20% return on Investment etc. Objectives should be clear and achievable.

2. **Strategy: Strategies** refer to future decisions defining the organizational directions and scope in long run. It is comprehensive plan which includes: (i) Long term objectives, (ii) Adopting a particular course of action, (iii) Allocating resources necessary to achieve the objectives.
3. **Policy:** Policies refers to the general guidelines which brings uniformity in decision-making for achievement of organizational objectives. They provide directions to the managers of an organization. They are flexible as they may be changed as per requirement. Example, selling goods on cash basis only, reserving some post for women in the organization.
4. **Procedure:** Procedures are those plans which determine the sequential steps to carry out some work/activity. They indicate which work is to be done in which sequence/way. They help in the performance of work. Procedures are guides to action. Example: Process adopted in the Selection of Employees.
5. **Rule:** Rules are specific statement that tell what is to be done and what not to be done in a specified situation. They help in indicating which points are to be kept in mind while performing task/work. Rules are rigid which ensure discipline in the organization. Example: 'No smoking in the office premises'. Violation of rules may invite penalty.
6. **Method:** Methods are standardized ways or manner in which a particular task has to be performed. There may be many ways/methods of completing a task but that method/way must be selected by which work can be done early at the minimum possible cost. Methods are flexible. Example, various methods of training are adopted by an organization to train its employees like apprenticeship training, vestibule training etc.

### **SINGLE USE PLAN:**

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

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

1. **Programme:** A programme is a single use plan containing detailed statements about project; outlining the objectives, policies, procedures,

rules, tasks, physical and human resources required to implement any course of action.

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

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

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

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

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

**3) Difference between objectives and policy**

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

**4) Difference between Policy and Procedure**

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

- Q1.** “We do not sell on credit”. This statement is related to which type of plan.  
(1)
- Q.2** Planning strangles the initiatives of the employees and compels them to work in an inflexible manner. Which limitation of planning is highlighted here.  
(1)
- Q.3** Identify the type of plan which is time bound and linked with measurable outcome? (Hint- Budget)  
(1)
- Q.4** A company is manufacturing garments. The manager wants to increase profits by purchasing new high speed machines or increasing the sale price or using waste materials in manufacturing stuffed toys. He decided that “using waste material” is the best solution for him.
- (a)** Identify the concept of management involved.
- (b)** Mention the steps involved in the above process by quoting the lines from the question.  
(3)
- Q.5** In Chak De movie, Shahrukh Khan becomes the coach of the girl’s hockey team. He knows that he has to prepare the girls for the international hockey matches and win the cup. For this he prepares a long term plan and thinks of ways of how to beat the opponent team. He coaches the girls to play in different ways like defensive, offensive, etc. At the outset of the match, he explains who will open the match, and how the ball will be passed by one player to another step by step. Identify all the types of plans mentioned above State them along with lines which refer to them in the above paragraph. (Objective, strategy, procedure, method)  
(4)
- Q.6** The production manager of a company received the complaint that the quality of the goods was not good. After investigation it came to light that the machines had become very old. That is why they were unable to achieve standardised quality. The production manager developed several options by way of solution to this problem. Example, getting the machines repaired, purchasing new local machines, purchasing new imported machines, if possible taking machines on rent etc. The CEO of the company wanted the list of options to be smaller, so that a thorough

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

- (a) Identify the concept described in the paragraph given above. (Planning Process)
- (b) What do you understand from the fact of company fixing the maximum investment limit on options? (Developing Premises)  
(1+2=3)

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

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

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

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

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

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

## CHAPTER – 5

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### ORGANISING

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#### Meaning of Organising

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

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

#### Organising process

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

1. **Identification and Division of Work:** It involves identification and division of total work to be done into specific activities (called jobs) in accordance with previously determined plans. By dividing the work, the burden of work can be shared among the employees. It facilitates specialization of work & skills. Duplication of work can be avoided by dividing the work into manageable activities.
2. **Departmentalisation:** The second step in organizing is to combine or group similar or related jobs into larger units called departments, divisions or sections. They can be grouped on the basis of functions, products, customers and territories etc. Departmentalization is done to achieve coordination & to facilitate unity of efforts.
3. **Assignments of duties:** Once departments have been formed each of them is placed under the charge of an individual called departmental head (e.g., production manager, finance manager etc.). Jobs are then allocated to the members of each department according to their skills and qualifications.

4. **Establishing Reporting Relationships:** Merely allocating work is not enough. Each individual should also know from whom he has to take orders and to whom he is accountable. It helps in coordination amongst various departments.
- Q.1 It is the function of management which establishes relationship and deploys resources. Identify the concept and explain the steps involved in the process of the concept.
- Q.2 Identify the function of management which coordinates human efforts and physical resources to achieve organisational goals.

### Importance of Organising

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



important issues related to growth & innovation. This also develops the subordinates' ability and helps him to realize his full potential.

7. **Expansion and growth:** It helps in growth & diversification of an enterprise by adding more job positions, departments, product lines, new geographical territories etc.

**Q.1** A manager is responsible to solve conflicts regarding authority and responsibility amongst employees and create fruitful environment to work as a unit. Identify the function of management and explain its importance.

### **Organizational Structure**

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

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

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

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

#### **Narrow span of management:**

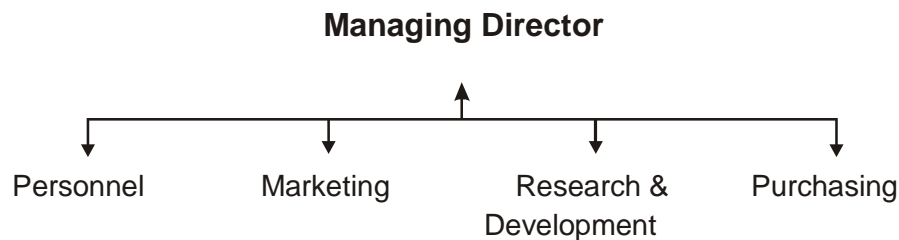
Results in tall structure whereas wider span of management results in flat structure.

### **TYPES OF ORGANISATION STRUCTURE**

- A. Functional structure
- B. Divisional structure

**(A) Functional Structure:** In functional structure activities are grouped and departments are created on the basis of specific functions to be

performed. For example, all the jobs related to production are grouped under production department, sales departments etc.



### **Suitability**

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

### **Advantages:**

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

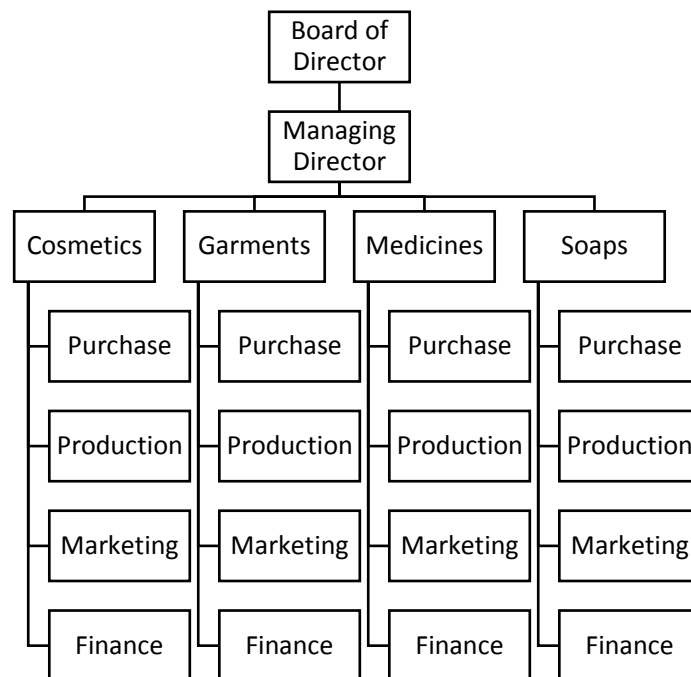
### **Disadvantages:**

1. **Ignorance of organizational objectives:** Each departmental head works according to his own wishes. They always give more weight to their departmental objectives. Hence overall organizational objectives suffer.

2. **Difficulty in Inter-Departmental Coordination:** All departmental heads work as per their own wishes which leads to coordination within the department easier but it makes inter-departmental coordination difficult.
3. **Hurdle in complete development** – because each employee specializes only in a small part of the whole job.

### (B) Divisional Structure

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



#### Suitability:

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

## Advantages

1. **Quick decision-making:** Divisional manager can take any decision regarding his division independently which makes decisions quick and effective.
2. **Divisional results can be assessed:** Divisional results (profit/loss) can be assessed easily. On this basis any unprofitable division can be closed.
3. **Growth and Expansion:** It facilitates growth and expansion as new divisions can be added without disturbing existing departments.

## Disadvantages

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

**Q.1** Vimal cloth Ltd. was manufacturing only fabrics. After having great success in fabric business the directors of Vimal cloth Ltd. acquired three new manufacturing units and started selling multi-products in domestic market. (Electronics, Mobile phone, Cements) They decided that an individual who has capability and competence to handle responsibility would head each unit. The vacant position will be filled by women candidate only.

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

(6)

**Q.2** Rohan a sole proprietor was running food catering business in North Delhi. He got great success and profit margin in this business. Due to excess demand in the market he expanded his business and separated departments as Purchase, Production, Finance and marketing.

Which type of organisational structure would you suggest him? Enumerate its two benefits. (2)

## **FORMAL ORGANISATION**

This structure is designed by the management to achieve organizational goals in which the responsibilities, authority and mutual relationships among all the employees working in an enterprise are clearly defined. It can be functional or divisional.

### **Features**

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

### **Advantages**

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

## Disadvantages

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

## INFORMAL ORGANISATION

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

### Features

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

### Advantages

1. **Speed:** Prescribed lines of communication are not followed which leads to faster spread of information.
2. **Fulfilment of social needs** – enhances job satisfaction which gives them a sense of belongingness in the organization.

3. **Quick solution of the problems** – because the subordinates can speak without hesitation before the officers, it helps the officers to understand the problems of their subordinates.

#### Disadvantages

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

#### Difference between Formal Informal organisation

Basis	Formal Organisation	Informal Organisation
<b>1. Meaning</b>	It refers to the structure of well-defined authority and responsibility.	It refers to the network of social relationships which develop automatically.
<b>2. Nature</b>	Rigid & Stable	Flexible and unstable
<b>3. Authority</b>	Arises by virtue of position in management.	Arises out of personal qualities.
<b>4. Adherence to rules</b>	Violation of rules may lead to penalties and punishments.	No such punishments.
<b>5. Flow of communication</b>	Takes place through the scalar chain.	Not through a planned route. It can take place in any direction.
<b>6. Purpose</b>	To achieve planned organizational objectives	To satisfy social and cultural needs and fulfil common interest.

<b>7. Formation /origin</b>	Deliberately planned and created by management.	Emerges spontaneously as a result of social interaction among employees.
<b>8. Structure</b>	Well-defined structure of tasks & relationships.	No clear-cut structure because of complex network of relationships.
<b>9. Flow of authority</b>	Authority flows from top to bottom i.e. downwards.	Authority flows vertically as well as horizontally.
<b>10. interdependence</b>	Independent.	Depends on formal structure.

**Q.1** The employees of a software company have formed a dramatic group for their entertainment and recreation. Name the type of organisation so formed and steps its features. (4)

**Q.2** The Principal of SPS Public School ordered the staff that they will be allowed to sit in the staffroom situated in their block. No teacher will be allowed to sit in another staffroom. During school's hours, teachers can meet teachers of their department only for work related matters. He wants each teacher to strictly work as per rules and directions given by him.

1. Identify the type of organisation in this and state disadvantages of such organisation.
2. State the value violated in the above case. (5)

### Delegation of Authority

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



## Process/Elements of Delegation

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

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



## Difference between Authority, Responsibility and Accountability

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

## Importance of the Delegation of Authority

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

## Decentralisation

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

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

### Importance of Decentralisation

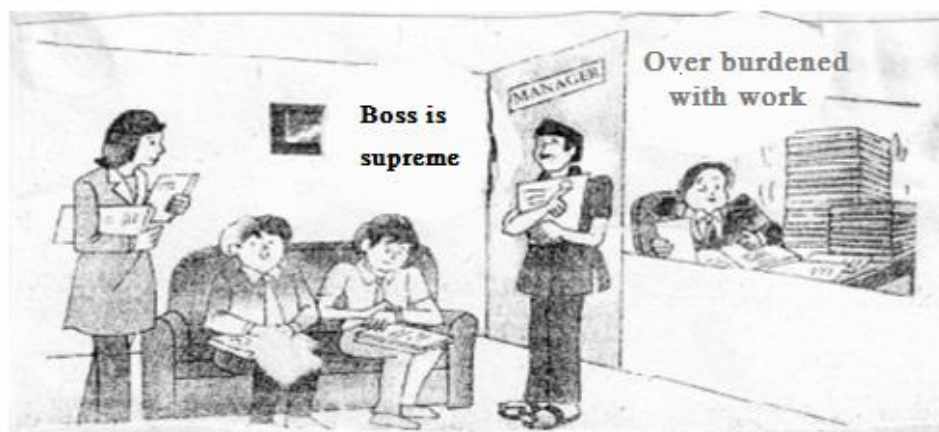
1. **Develops initiative amongst subordinates:** It helps to promote confidence because the subordinates are given freedom to take their own decisions.
2. **Quick and better decisions:** The burden of managerial decisions does not lie in the hands of few individuals but gets divided amongst various persons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

### Difference between – Delegation & Decentralization

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

**Q.1** This picture show that Boss of the organisation is overburdened and takes the maximum decisions herself which results inefficient functioning.

1. Identify which organisational activity is missing and explain its importance.



2. Identify the value which is violated in the picture.  
(Hint- Delegation of Authority) (5)

**Q.2** Vishal is Production Manager in an Auto Company. He held a meeting with production unit including Supervisor, Foremen and Employees. He sets the target to produce 1000 units in one month and assures them to give full Co-operation. He delegates powers to operational level to achieve the targets in the time.

1. Identify organisational activity which Vishal communicated to his subordinates and explain its benefits.
2. Identify the value involved in above case. (5)

### 1 MARKS QUESTIONS

**Q.1** "If we delegate authority, we multiply by two, if we decentralise it we multiply it by many". Name any one concept to which this statement is related.

**Q.2** Which of the following is an ideal situation?

- A. Authority > Responsibility
- B. Authority = Responsibility

- Q.3** 'Identifying and dividing the work' is the first step in the process of one of the functions of management. Identify the functions.

### **3-6 MARKS QUESTIONS**

- Q1.** A Manager increased the production target from 500 units to 700 units per month but the authority to draw raw material was not given by him. The employees were not able to meet the new target. Who should be held responsible for this and which principle has been violated here? Explain. (4)
- Q2.** A company is manufacturing washing machines. There is a well-defined system of jobs which is clear and defines authority, responsibility and accountability in the company. But people are not allowed to interact beyond their officially defined roles. As a result, the company is not able to adopt the changing business environment. The work force is also not motivated due to lack of social interaction. The company is facing problems of procedural delays and inadequate recognition to creative talents.
- I. Suggest how the organisation can overcome the problems faced by it.
  - II. Give any two benefits it will derive from your suggestion. (4)
- Q3.** Ishita Ltd. is manufacturing female wears only. Now company wants to expand its business and also wants to manufacture male wear and kids wear for different market segments. Which type of organizational structure should it adopt to achieve its target? Give arguments in support of your answer. (3)
- Q4.** Manager of XYZ Ltd. is over burdened with routine work and is unable to concentrate on its objectives and other important issues of the firm. To solve this problem which management concept should be followed by manager? Also explain the related function. (3)
- Q.5** A truck manufacturing company has its registered office in Delhi, manufacturing unit at Gurgaon and marketing department is located at Faridabad. The company manufactures different type of trucks. Which type of organisational structure should it adopt? Give reason. State any three advantages of this organisation structure. [Hint: - 'Functional structure'] (2+3= 5)

**Q.6** “The responsibility of a firm should be divided among various levels such as top level, middle level, and lower level”. Identify the concept of management function and state its importance (2+3= 5)

**Q.7** Royal Ltd. decided that whenever a person reaches a particular age he will be promoted. Influenced by this plan of the company several employees of from other companies also joined the firm. But within few days they realized that the firm has pre-determined relation structure without free communication.

On the basis of this, answer the following questions.

- (i) Identify the type of plan. (1)
- (ii) Identify the type of organization described here. (1)
- (iii) Point out any 2 limitations of this type of organization. (2)

## CHAPTER – 6

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### STAFFING

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

#### Need and Importance of Staffing

1. **Obtaining Competent Personnel:** Proper staffing helps in discovering and obtaining competent personnel for various jobs.
2. **High Performance:** Proper staffing ensures higher performance by putting right person on the right job.
3. **Continuous Growth:** Proper staffing ensures continuous survival and growth of the enterprise.
4. **Optimum Utilization of Human Resources:** It prevents underutilization of personnel and high labour costs.
5. **Proves Job Satisfaction:** It improves job satisfaction and morale of employee.

#### Human Resource Management (HRM)

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

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

**Staffing as a part of Human Resource Management:** The scope of Human Resource Management is wider than staffing. It involves staffing, keeping personnel records, providing expert service and other works.

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

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

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

## **PROCESS OF STAFFING**

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

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

2. **Recruitment:** It refers to identification of the sources of manpower availability and making efforts to secure applicants for the various job positions in an organization.
3. **Selection:** It is the process of choosing and appointing the right candidates for various jobs in an organization through various exams, tests & interviews.



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

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

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

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

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

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

- (1) Briefly explain the process of staffing which the company has to follow.
- (2) Identify the value followed by the Company.

## RECRUITMENT

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

## **(B) Sources of Recruitment**

**(A)** Internal Sources

**(B)** External Sources

### **(A) Internal Sources of Recruitment**

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

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

### **Advantages of Internal Sources Recruitment: -**

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

### **Limitation of Internal Sources**

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

## External Sources of Recruitment

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

1. **Direct Recruitment:** Under the direct recruitment, a notice is placed on the notice board of the enterprise specifying the details of the jobs available.
2. **Casual callers:** Many reputed business organisations keep a data base of unsolicited applicants in their office. This list can be used for Recruitment.
3. **Advertisement:** Advertisement in media is generally used when a wider choice is required. Example– Newspapers, Internet, Radio, Television etc.
4. **Employment Exchange:** Employment exchange is regarded as a good source of recruitment for unskilled and skilled operative jobs.
5. Campus recruitment and labour contractors can be used for the purpose.

## Merits of External Sources

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

## Limitations of External Sources of Recruitment

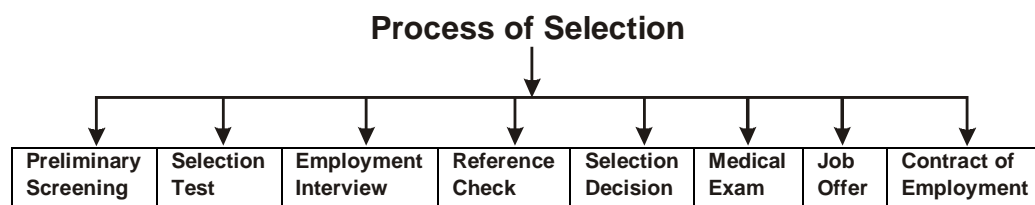
1. **Dissatisfaction among existing employees:** Recruitment from outside may cause dissatisfaction among the employees. They may feel that their chances of promotion are reduced.

2. **Costly process:** A lot of money has to be spent on advertisement therefore this is costly process.
  3. **Lengthy Process:** It takes more time than internal sources of recruitment.
- Q.** Rohan the Director of Petro Chemical Company wants from produce Bio Gas from waste garbage and useless material. He decides that this manufacturing unit will be set up in rural and backward area of Bihar where people are suffering from poverty and unemployment. Rohan wants to deploy people from local surrounding areas. He also wants to give opportunity to the persons qualified from technical institutions to join his unit.
1. Identify the function of Management which is concerned with deployment of personnel in his unit.
  2. Identify the sources of recruitment used quoting the lines from above para.
  3. Name two values followed above. (6)

## SELECTION

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

### PROCESS OF SELECTION



The successive stages in selection process are:

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

2. **Selection Tests:** These tests include,
- (a) Psychological tests which are based on assumption that human behaviour at work can be predicted by giving various tests like aptitude, personality test etc.
  - (b) Employment test for judging the applicant's suitability for the job.
3. **Employment Interviews:** The main purpose of interview is
- (a) to find out suitability of the candidates.
  - (b) to seek more information about the candidate.
  - (c) to give the candidate an accurate picture of job with details of terms and conditions.
4. **Reference Checks:** Prior to final selection, the prospective employer makes an investigation of the references supplied by the applicant. He undertakes a thorough search into candidate's family background, past employment, education, police records etc.
5. **Selection Decisions:** A list of candidate who clear the employment tests, interviews and reference checks is prepared and then the selected candidates are listed in order of merit.
6. **Medical/Physical Examination:** A qualified medical expert appointed by organization should certify whether the candidate is physically fit to the requirements of a specific job. A proper physical exam will ensure higher standard of health & physical fitness of employees thereby reducing absenteeism.
7. **Job Offer:** After a candidate has cleared all hurdles in the selection procedure, he is formally appointed by issuing him an Appointment Letter. The broad terms and conditions, pay scale are integral part of Appointment Letter.
8. **Contract of Employment:** After getting the job offer, the candidate has to give his acceptance. After acceptance, both employer and employee will sign a contract of employment which contains terms & conditions, pay scale, leave rules, hours of work, mode of termination of employment etc.

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

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

1. Identify and state the next three steps for choosing best candidates.
2. Also identify two values which Nishant wants to communicate.



## **Training**

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

## **Development**

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

## Benefits of Training

### (A) To the Organisation

- (i) **Systematic Learning:** Training is a systematic process of learning. It is better than hit and try method which leads to wastage of money & efforts.
- (ii) **Higher Profits:** Increases employees productivity both in terms of quantity and quality learning to higher profits.
- (iii) **Reduce absenteeism and employee Turnover:** Training increases employee's capability and morale. Employees do not think of leaving the organisation as they know that they can perform their job better.
- (iv) **Minimises the need of Supervision:** It increases the efficiency and skills of employees thus reducing the need of supervision and control.



### (B) To the Employees

- (i) **Better Career Options:** Improved skills and knowledge due to training lead to better career options of the employees.
- (ii) **Better Earning Capacity:** Better performance by an employee help him to earn more.

- (iii) **Increases morale of employees:** It increases the satisfaction level and morale.
- (iv) **Check Accidents:** It makes the employees more efficient to handle the machines. Thus, they are less prone to accidents.

### Comparison of Training and Development

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

### Training Methods

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



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

1. **Apprenticeship Training:** Under this, the trainee is placed under supervision of an experienced person (master worker) who imparts him necessary skills and regulates his performance. The trainee is given stipend while learning so that he/she can enjoy “earn while you learn” scheme.
2. **Internship Training:** Under this method an educational institute enters into agreement with industrial enterprises for providing practical knowledge to its students by sending them to business organizations for gaining practical experience.
3. **Induction training** is a type of training given to help a new employee in settling down quickly on the job by becoming familiar with the people, the surroundings, the job and the business. The duration of such type of training may be from a few hours to a few days. The induction provides a good opportunity to socialize and brief the newcomer with the company’s overall strategy, performance standards etc. If carefully done, it saves time and cost (in terms of effectiveness or efficiency etc.).

(B) **Off the Job Method:** They are used away from the place of work. It Meaning “learning before doing”. It is provided by experts either from within or from outside the organisation. It is more expensive and more time consuming.

**Vestibule Training:** The training is given in a classroom, where actual work environment is simulated wherein employees are trained on dummy models instead of using original equipment. This method is extremely useful when employees are required to handle expensive, delicate and sophisticated equipment.

## 1 MARK QUESTIONS

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

- Q.2** Manu a Chief Engineer in a Co., using highly sophisticated machines and equipments, wants that every employee should be fully trained before using those machines and equipments. Suggest and describe the best method of training that Manu can use. **[Vestibule Training]**
- Q.3** Ramesh is working under the guidance of Harish, a Carpenter, for the last three years to learn the different skills of this job. Name and explain the method of training Ramesh is undergoing. **[Apprenticeship Training]**

### **3-6 MARKS QUESTIONS**

- Q.1** An accountant is sent to learn the new software for accounting to prepare the books of accounts faster and accurately. He was further sent for orientation to improve his motivational and conceptual skills.
- (a) Identify and explain the two concepts explained above.
  - (b) Differentiate these concepts on the basis of suitability, method used and nature. (5)
- Q.2** Under this method employee learn by doing. Employees are trained while they are performing the job and senior worker or mentor provides them technical knowledge. But the biggest disadvantage of this method is wastage of material and accidents.
- (c) Identify the method of training stated in above lines.
  - (d) Explain any two techniques used in above said method of training. (6)
- Q.3** Name the Training Method in which:
- (i) A newly appointed employee is acquainted with the organisation.
  - (ii) Trainee Learns under the guidance of a master worker.
  - (iii) Trainee learns on the equipments he/she will be using. (3)

**Q.4** The General Manager of 'Indemnity Ltd' was addressing employees during 'employee recognition program' function. He stressed: "employees should make all efforts to increase their market value. To achieve this objective, they should increase their capacity and efficiency. They should also make such endeavour as to get job satisfaction. Not only that it is equally essential that they should concentrate on minimizing the accidents".

(i) Which concept of management was the General Manager stressing in the function? (1)

(ii) Identify and explain the type of incentive discussed above. (2)

**Q.5** Based on "Performance Appraisal Report (2016).", the HR manager of 'Gamma Ltd' adopted the following ways of training for improving the quality of output and providing more job satisfaction to the employees:

a) Mr. Ganesh- was in the company so that he could practice the theoretical knowledge acquired by him from his college.

b) Mr. Rahul- was provided a dummy model of machinery to do practice on it.

c) Mr. Shekhar- was asked to work with an expert for specific period of time so that he learns by observation.

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

**Q.6** 'Pure Energy Ltd' imported a new hi-tech machine from Japan for manufacturing high quality and low cost solar panels in India. After a month, the report of Production Manager reflected a decline in quantity and quality of production. On investigation, it was found that there was lack of technical knowledge and skills amongst the employees for using these hi-tech machines. This resulted in high-overhead charges as well as frequent visits of engineers was required from Japan.

(i) Suggest what should be done to increase the quality and quantity of production. (1)

(ii) Also state, how the employees will be benefited from your suggestion. (1)

(iii) State any value which 'Pure Energy Ltd.' is following. (1)

(iv) Identify the functions of management discussed above. (1)

**Q.7** In order to decrease the cost of production and increase quality of work. XYZ Ltd. decided to modernise their plant. Now it is necessary to provide the knowledge of new technology to workers.

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

**Q.8** Teja Ltd. received 22,495 applications for the post of fifty supervisors. Preliminary, screening was done and 3,545 applications were filtered. Various steps of selection process were taken and finally fifty candidates as supervisor were selected. They were directly posted to their respective posts. After one-month performance appraisal of these candidates was conducted. It was found that out of 50, eight were not able to perform as per standards as they were facing practical problems while handling machines.

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

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

**Q.9** The workers of 'Vyam Ltd' are unable to work on new and hi-tech machines imported by the company to fulfil the increased demand. Therefore, the workers are seeking extra guidance from the supervisor. The supervisor is overburdened with the frequent calls of workers. Suggest how the supervisor, by increasing the skills and knowledge of workers, can make them handle their work independently? Also state any three benefits that the workers will derive by the decision of the supervisor. (4)

**Q.10** A company has its own recruitment policy to fill the vacant posts with suitable employee.

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

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

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

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

**Q.11** Smita has been working as a assistant Manager in Johson Enterprises for the last ten years. She was very popular amongst her colleagues because of her commitment and dedication towards the work. When the manager senior to her retired, all her colleagues thought that now Smita would be promoted. But to everyone's surprise the vacant post was filled by an outside, Mrs. Rita. Smita felt demoralised and her performance started declining. She would abstain herself often and could not meet her targets.

Mrs. Rita was a good leader who would not only instruct her subordinates but would also guide and inspire them. She noticed Smita's behaviour and felt that her performance could be improved. She started involving Smita in decision making-issues related to the organisation and made her a part of high level joint-management committee. Smita was now punctual in office and her performance started improving.

(i) Identify the function of management being performed by Rita.

(ii) Name the element of the above function of management which helped Rita to improve Smita's behaviour.

(iii) State any three features of the element identified in (ii) above. (5)

**Q.12** Orient Ltd. expanding its business operations. All the departmental heads were asked to fill up "Manpower Requisition form and estimate the annual requirement of – skilled and unskilled workers"

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

Requirement of skilled workers – 89

Requirement of unskilled workers – 265

After this, Recruitment and further selection procedure was followed.

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

## CHAPTER – 7

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### DIRECTING

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#### Meaning

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

Directing comprises of:

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

#### Features:

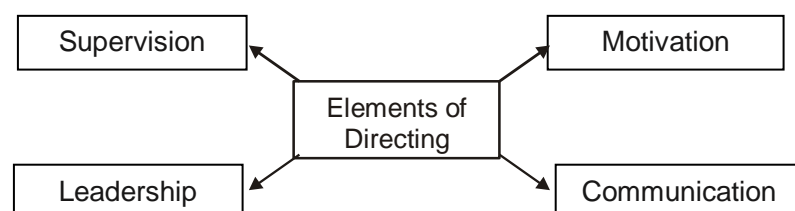
- 1. **Directing initiates action:** The other functions of management prepare a set-up base for action, but directing initiates action in the organisation.
- 2. **Directing takes place at every level of Management (Pervasive):** Every manager from top executive to supervisor performs the function of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

#### Importance

- 1. **Initiates Action:** It helps to initiate action by the people in the organisation towards attainment of desired objectives. The employees start working only when they get instructions and directions from their superiors. It is the directing function which starts actual work to convert plans into results.

2. **Integrates Employee's Efforts:** All the activities of the organisation are interrelated so it is necessary to coordinate all the activities. It integrates the activities of subordinates by supervision, guidance and counselling.
  3. **Means of motivation:** It motivates the subordinates to work efficiently and to contribute their maximum efforts towards the achievement of organisational goals by satisfying their needs.
  4. **Facilitates change:** Employees often resist changes due to fear of adverse effects on their employment and promotion. Directing facilitates adjustment in the organisation to cope with changes in the environment. Directing instills the spirit of cooperation and commitment among work force.
  5. **Stability and balance in the organisation:** Managers while performing directing function instruct, guide, supervise and inspire their subordinates in a manner that they are able to strike a balance between individual and organisational interests.
- Q.1** A nationalised Indian bank is going to introduce some major changes in accordance with directions of RBI. Workers under influence of Trade Union are showing resistance as they fear losing their job. Which function of management can remedy the situation? (1)
- Q.2** 'Look Good Cosmetics Ltd' offers commission to its sales manager in addition to the fixed salary. To earn more commission, the manager wants to increase sales. He recommends management to introduce the scheme of "one nail paint free when buying three lipsticks." But higher officials reject the scheme as this may cause loss to the firm. Which function of management can solve the clash? (1)

#### Elements of Direction



1. **Supervision:** It means observing the subordinates at work to see that they are working in accordance with plans and to help them in solving their problems. The important thing in supervision is that it involves face to face contact between superiors and subordinates. Supervisor's position is immediately above the worker.
  2. **Motivation:** In the context of an organisation motivation means stimulating employees of all levels to work with greater enthusiasm and more efficiency for the accomplishment of the objectives of the enterprises. It involves arousing needs and desires in people so as to initiate and direct their behaviour in a purposive manner.
  3. **Leadership:** Leadership is the activity of influencing people to strive willingly for organisational goals. Leadership indicates the ability of an individual to maintain good interpersonal relations with followers and motivate them to contribute for achieving organisational objectives. Managers at all levels are expected to be the leaders of their subordinates.
  4. **Communication:** It is the process of exchange of information between two or more persons to reach common understanding.
- Q.1** Mr. Khanna has recently joined an 'Interior Decoration' firm after completing MBA from America. He feels human resources are the most important resources in the company. So,
- (i) It is important to develop mutual understanding amongst them to inculcate the sense of co-operation and coordination.
  - (ii) There is a need to monitor their progress and guide them
  - (iii) They need to be induced and stimulated to act in desired manner.
    - a) Identify which function of management is referred above.
    - b) Name the elements of function (in Q.1). (2)

## **Supervision**

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

1. **Link between workers and management** because the supervisor explains management policies to workers and brings workers problems to the notice of the management.



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

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

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

The relationship with the supervisor is a very good incentive to improve the motivation level of the employees while guiding the employees, the supervisors encourage the subordinates to perform to their best capacities.

7. **Optimum utilisation of resources :** All the activities are under the observation of supervisor so less wastage and optimum utilisation of resources is possible.
- Q. Mr. Banerjee keeps on checking the workers at work. He provides “on the job Training” wherever required. At which post is Mr. Banerjee working?
- Q. Mr. John is a supervisor in Britannia factor. He always explains managements’ policies to workers, brings workers problems to the notice of management. He always motivates the workers. He is friendly but maintains discipline. What values does Mr. John present? (any two)

## II. Motivation

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

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

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

### **Features**

1. **Motivation is an Internal feeling:** Motivation is an internal feeling which means it cannot be forced on employees. The internal feeling such as need, desire, aspiration etc. influence human behaviour to behave in a particular manner.
2. **Goal Directed Behaviour:** It induces people to behave in such a manner so that they can achieve their goals. A motivated person works towards the achievement of desired goals.
3. **Motivation can be either positive or Negative:** Positive motivation means inspiring people to work better and appreciating a work that is well done e.g., pay increase, promotion, recognition. Negative motivation means forcing people to work by threatening or punishing them. e.g., issue of memo, demotion, stopping increments etc.
4. **Complex Process:** It is a complex and difficult process. Individuals differ in their needs and wants and moreover human needs change from time to time.
5. **Continuous Process:** Human needs are unlimited and so they keep on changing continuously, satisfaction of one need gives rise to another. As soon as one need is satisfied another need arises. So managers have to continuously perform the function of motivation.

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

- a) Motivation helps to improve performance levels of employees as well as the organisation.
- b) Motivation helps to change negative attitudes of employee to positive attitudes.
- c) Motivation helps to reduce employee turnover.
- d) Motivation helps to reduce absenteeism in the organisation.

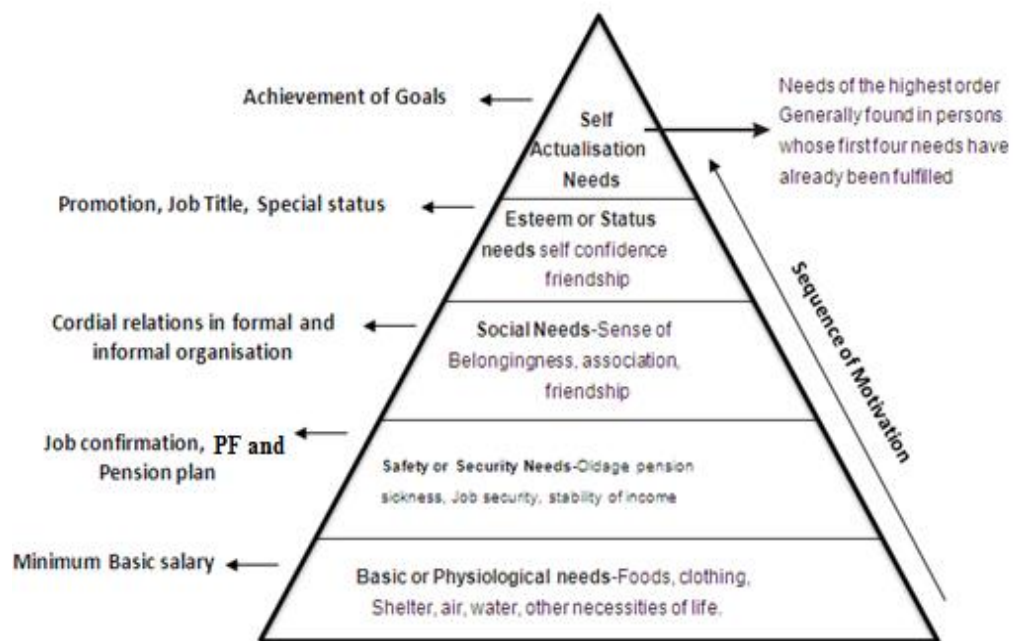
- e) Motivation helps managers to introduce changes smoothly without resistance from employees.

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

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

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

### Organisational examples



**Pyramid representing Maslow's Need Hierarchy**

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

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

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

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

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

7. **Employee participation:** It means involving employees in the decision making.
8. **Employee empowerment:** Means giving more autonomy and powers to subordinates.
- Q.1 Rahul is an engineer in Jacob Ltd. He works very hard and it is observed by Production Manager. But he never appreciates the efforts of Mr. Rahul. Name the element of Direction not exercised by production Manager.
- Q.2 Zumroo was working as a clerk in Hindustan Ltd. since last three and a half years. He was working with full diligence. His boss noticed his performance and gave him "Confirmation letter". Which kind of Zumroo's need was satisfied?

### III. Leadership

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

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

#### Features of leadership

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

#### Styles of Leadership.

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

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

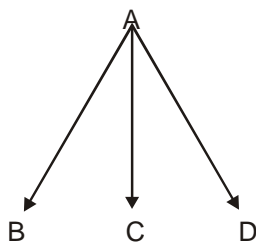
### **I. Autocratic or Authoritarian Leader**

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

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

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

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



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

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

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

**Q.** Mr. Khanna, Manager (Operation) is always bossing people around. He never consults his team and does not pay head to their problems, which style of leadership is he following? What values are lacking in his style of functioning?

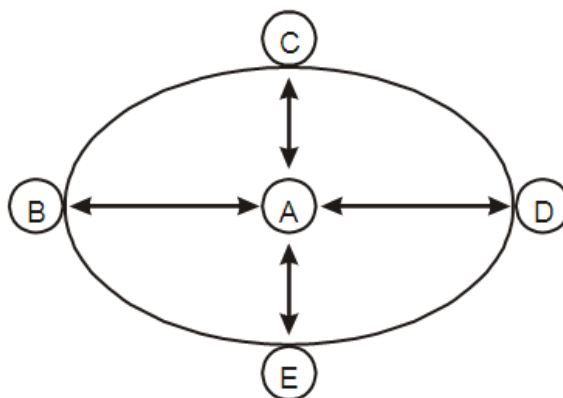
**Q.** Charu says leadership is required only for less efficient subordinates while chanda says that leadership is required for all. Who is correct? Why?

## 2. Democratic or Participative Leader

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

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

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



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

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

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

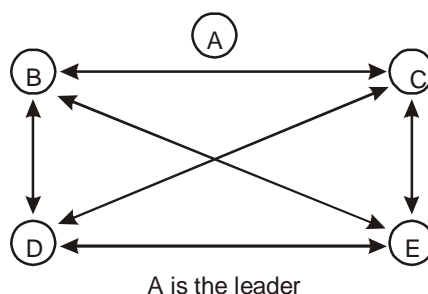
This style should NOT be used:

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

### 3. Laissez Faire or Free Rein Leader

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

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



**(Subordinate - Centered - Leadership)**

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

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

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

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



- Q.** In Manik Ltd., selection process is very fair, scientific and standardised. Competent, laborious employees with good work culture are selected. As a result, subordinates are efficient, responsible and take initiative in every activity. Which kind of leadership style would be suitable in Manik Ltd.
- Q.** Pramod was a supervisor at 'Annapurna Aata' factory. The factory was producing 200 quintals of aata every day. His job was to make sure that the work goes on smoothly and there was no interruption in production. He was a good leader who would give orders only after consulting his subordinates and work out the policies with the acceptance of the group. Identify and describe the leadership style being adopted by Pramod. (3)
- Q.** Alok is view supervisor of Ram, Rahim and Khan. He consults all his subordinates while framing work schedules. They provide suggestions and Alok considers such suggestions if they are productive. Which leadership style is followed by Alok? What would be the benefits of such leadership style to the organisation. (3)
- Q.** Ekta is a very strict foreman. She punishes late comers by reporting negatively in observation reports of workers. Due to which the wages of those workers who come late, decline considerably. Which kind of motivation is applied by Ekta? Do you think, by doing so, the late comers can be regulated? Explain. (3)

## **Communication**

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

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

## **Elements of Communication Process**

1. **Sender:** Who conveys his thoughts or ideas.

2. **Message:** Ideas, feelings, suggestions, order etc.
3. **Encoding:** Converting the message into communication symbols such as words/pictures etc.
4. **Media:** Path/Channel through which encoded message is transmitted to receiver e.g., face to face, phone call, internet etc.
5. **Decoding:** Converting encoded symbols of the sender.
6. **Receiver:** Who receives communication of the sender.
7. **Feedback:** All those actions of receiver indicating that he has received and understood the message of the sender.
8. **Noise:** Some obstruction or hindrance to communication like poor telephone connection, inattentive receiver.

### **Importance of Communication**

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

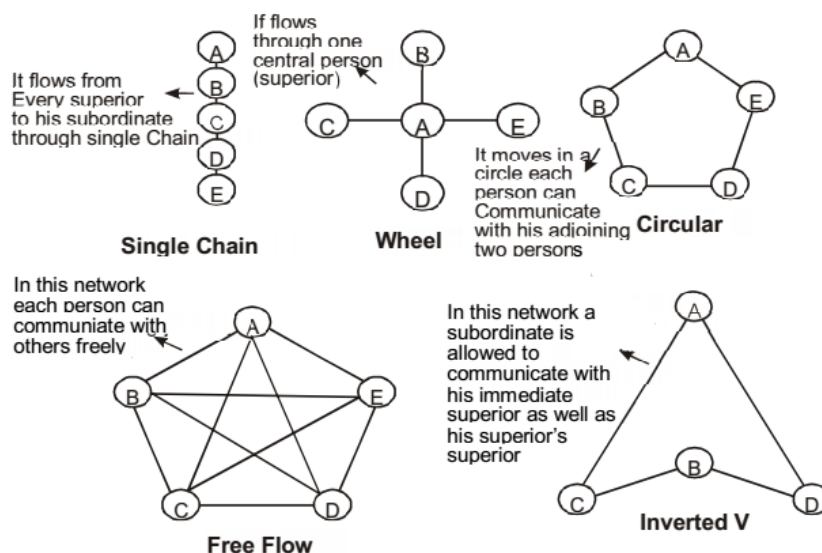
- Q1.** You are working as Human Resource Manager. General Manager sent a message to you, which you received and understood well. Is the communication process complete? Give reason. (1)
- Q2.** Give one example of 'Noise' in the process of communication. (1)

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

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

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

### Communication Networks of a Formal Communication



## Merits and demerits of formal communication

### Merits :

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

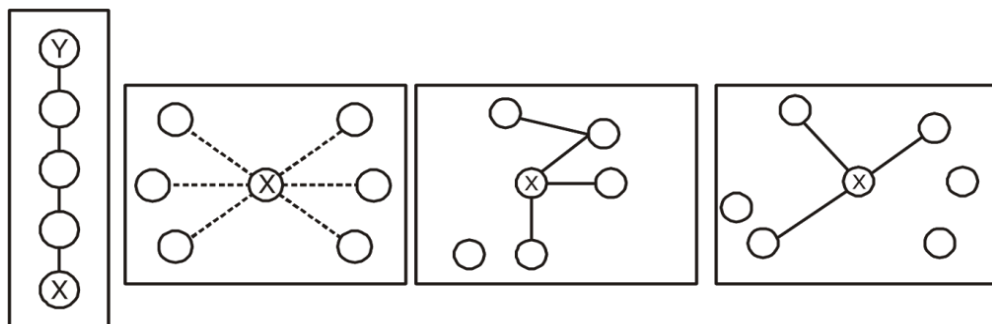
### Demerits:

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

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

### Grapevine or Informal Communication Networks

1. **Single Strand:** Each person communicates with the other in a sequence.
2. **Gossip:** Each person communicates with all on non-selective basis. A person shares the information with many other people in his social group.
3. **Probability:** The individual communicates randomly with other individuals.
4. **Cluster:** The individual communicates with only those people whom he trusts.



Single Strand

Gossip

Probability

Cluster

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

### **Merits :**

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

### **Demerits :**

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

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

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

## **Barriers to Effective Communication**

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

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

### **Psychological/Emotional barriers**

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

### **Organisational Barriers**

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

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

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

1. Fear of challenge to authority may withhold or suppress a particular communication.

2. Lack of confidence of superior in his subordinates.
3. Unwillingness to communicate. e.g., fear of punishment/demotion.
4. Lack of proper incentives stops the subordinates to offer useful suggestions.

### **Improving Communication Effectiveness**

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

## **Questions for Practice**

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

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

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

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

**Q.3** Neeraj, a sales representative of 'Omida Ltd' has changed seven jobs in the last one year. He is a hard working person but is not able to finalise deals with the customers due to his inadequate vocabulary and omission of needed words. Sometimes he uses wrong words because of which intended meaning is nor conveyed. All this creates a misunderstanding between him and his clients.



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

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

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

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

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

1. Which functions of management are referred in the above? (1)
2. Identify quoting lines, the elements of one of the functions referred in above para. (4)
  - i) (Staffing, Directing)
  - ii) (Leadership, Communisation, Supervision, Motivation)

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

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

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

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

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

[Hints: 1. Divisional structure; 2. Campus recruitment; 3. Democratic, Free rein, Authoritative; 4. Providing employment opportunities to females.]

**Q.7** The psychology lecture of MBA students of 'Ikon Institute' was going on. The lecturer discussed that some employees have the desire for status or ego of self-respect and recognition.

Some have the desire to be what they want to be.

Some aspire for acceptance and sense of belongingness.

Some need defence against unexpected problems in future.

1. Identify the topic of psychology lecture. (1)
2. Identify the desires of employees discussed above along with, how can a manager fulfil such desires respectively. (4)

[Hints: 1. Human needs, Motivations; 2. Esteem needs, Self-actualisation, Social needs, safety/security need]

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

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

- Mr. Arun, the marketing manager co-ordinates all his activities with production manager.
- Mr. Amit (finance manager) has prepared cash budget and communicated it to his two accountants.
- Mr. Rakesh (store manager) has requested/ suggested the purchase manager - Mr. Ankush that special temperature controlled warehouse is required to keep chemicals and cosmetics.
- The marketing manager Mr. Arun has given feedback to production supervisor, Mr. Ved regarding complaints in recently launched bleach cream.

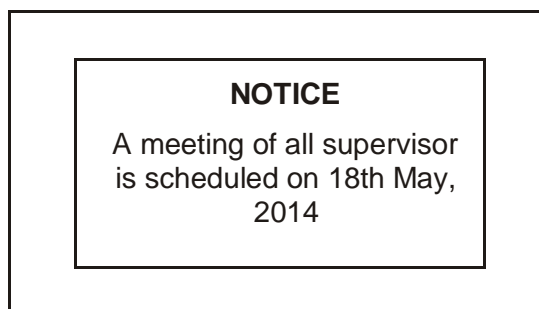
1. Which specific source of recruitment is used by the company (1)
2. Identify different forms of communication referred in above paragraph (4)

[Hints: 1. Management consultants; 2. Horizontal communication, Vertical (downward), Vertical (upward), Diagonal communication]

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

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

**Q.10**



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

**Q.11** Kareena is working in an MNC' She has been given an option to buy the shares of the company at an amount less than the market price because of her performance as an incentive. Katrina has been awarded "Employee of the month" award. Which forms of incentive is being referred here. Explain the incentives along with any other three incentives. (4)

**Q.12** You are a soft skill trainer who trains people in their speaking & writing skills. What ideas can you give to the trainees about improving their communication effectiveness?

**Q.13** Manoj is working as a supervisor in Galaxy Ltd. He listens to worker's suggestions and grievances. He rewards the workers for good suggestions and handles the grievances timely. He insists on free flow of communication to solve the conflict among mgt. and workers. While scheduling the duties, he also consults the workers.

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

## CHAPTER – 8

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# CONTROLLING

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### Meaning & Definition

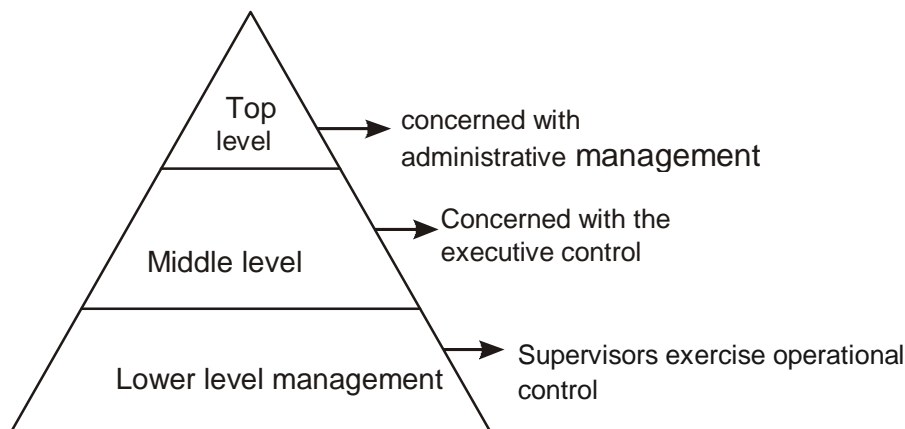
Controlling means ensuring that activities in an organization are performed as per the plans. Controlling also ensures that an organisation's resources are being used effectively and efficiently for the achievement of predetermined goals.

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

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

### Nature of Controlling/Features of Controlling

1. **Controlling is a goal oriented function:** Controlling as a function of management ensures that the overall directions of individuals and groups are consistent with short and long range plans of the organization. So it is completely a goal oriented function.
2. **Controlling is an all pervasive function:** Controlling is a function which is applicable to all types of organizations and at all levels.





### **Controlling is applicable to all forms of organization**

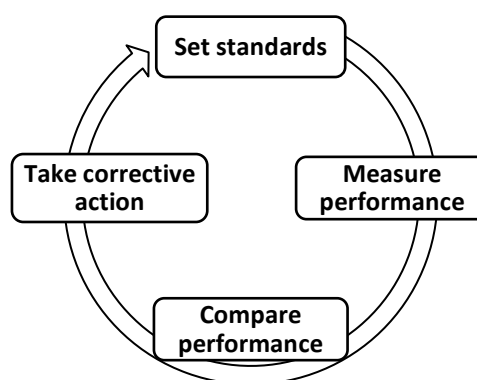
3. **Controlling is a continuous function:** Control is not a onetime activity. Rather, it is a dynamic process that involves constant analysis of actual and planned performance. The resultant deviations, if any, are corrected as per the need of the situation.
4. **Controlling is both a backward looking as well as forward looking function:** Effective control is not possible without analyzing our past mistakes. So from this point of view, we can call it backward looking. But the business environment is ever changing and controlling helps bring in changes in the organization in a conducive manner. So we cannot ignore the forward looking aspect of it as well.
5. **Controlling is a dynamic process:** Since controlling requires taking reviewable methods, changes have to be made wherever possible.
6. **Controlling is a positive process:** George Terry says, the function of controlling is positive – it is to make things happen, i.e. to achieve the goal within stated constraints, or by means of the planned activities. Controlling should never be viewed as being negative in character – as a hurdle in getting objectives won. Controlling is a managerial necessity and a help, not an impediment or a hindrance.

### **Importance of Controlling**

1. **Controlling helps in achieving organizational goals:** The controlling function measures progress towards the organizational goals and brings to light/indicates corrective action.

2. **For Evaluating/Judging accuracy of standards:** A good control system enables management to verify whether the standards set are accurate or not by careful check on the changes taking place in the organizational environment.
  3. **Making efficient use of resources:** By the process of control, a manager seeks to reduce wastage of resources.
  4. **Improves employee's motivation:** A good control system ensures that employees know well in advance what they are expected to do & also the standard of performance. It thus motivates & helps them to give better performance.
  5. **Facilitating Coordination in action:** In controlling each department and employee is governed by predetermined standards which are well coordinated with one another. Control provides unity of direction.
  6. **Ensuring order and discipline:** Controlling creates an atmosphere of order and discipline in the organization by keeping a close check on the activities of its employees.
- Q.** If planning is done carefully and accordingly other functions of management are going in the right direction, then there is no need of the controlling function of management. Do you agree with this statement? Give reasons in support of your answer.

### Controlling Process



## Controlling Process

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

Standards can be set in both quantitative as well as qualitative terms. It is important that standards should be flexible enough to be modified whenever required. Please note that standards should be attainable and time bound.

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

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

- a) **Critical point control (CPC):** It is neither economical nor easy to have a check on all the activities of an organisation. Hence, the manager should pay more attention on those activities which are important and critical to the success of an organisation. These are known as Key Result Areas-KRA's.
- b) **Management by Exception (MBE):** A manager should take corrective action when there is exceptional deviation i.e. when they cross the permissible limit or acceptable range. Deviations within acceptable range are ignored.



5. **Taking Corrective Action:** The final step in the controlling process is taking corrective action. No corrective action is required when the deviations are within the acceptable limits. But where significant deviations occur corrective action is taken.
- Q. “Comparing the actual performance with laid standard, finding out deviations and taking corrective action is an important process of a function of management.” Name the process.

### **Limitations of Controlling**

1. **Little control on external factors:** Generally no enterprise can control external factors such as government policies, technological changes, competitions etc.
2. **Resistance from employees:** Control is often resisted by employees. They see it as a restriction on their freedom e.g. Employees may resist and go against the use of cameras to observe them minutely.
3. **Costly affair:** Control is a costly affair as it involves a lot of expenditure of time and efforts.
4. **Difficulty in setting quantitative standards:** Control system loses some of its effectiveness, when standards cannot be defined in quantitative terms. In the absence of quantitative standards, comparison with standards becomes difficult.

### **Relationship between Planning and Controlling**

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

1. **Planning is pre-requisite for controlling.** Plans provide the standard for controlling. Thus, without planning, controlling is blind. If the standards are not set in advance managers have nothing to control.
2. **Planning is meaningless without controlling.** It is fruitful when control is exercised. It discovers deviations and initiates corrective measures.
3. Effectiveness of planning can be measured with the help of controlling.

4. **Planning and controlling both are forward looking:** Planning is a future oriented function as it involves looking in advance and making plans based on forecasts about future conditions.

Controlling is referred to as looking forward because the corrective action in controlling is taken to prevent the recurrence of the deviations in future.

5. **Planning and controlling are both looking back:** Planning is looking back because new planning is guided by the problem identified in the past.

Controlling is looking back as it compares the actual performance with standards. This involves scrutinising the events after they have taken place.

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

Planning makes controlling effective whereas controlling improves future planning.

## **Questions for Practice**

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

**Q.5** Mr. Ankit is the chief manager in a well-known MNC, producing shoes. He called the production manager of his unit and told him to keep a constant watch on all the activities of his respective unit so that there is no possibility of adverse results. As long as the company runs its operation employees at all levels will adopt it to achieve results.

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

[Controlling (i) Goal oriented, (ii) Continuous process, (iii) Pervasive function]

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

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

1. Which function of management has been ignored above? (1)
2. Discuss the steps to be undertaken in respect of the ignored function to remedy the situation. (4)
3. State the value being followed by the company. (1)

[Hint: Controlling]

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

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

- Organising, controlling
- Departmentalisation, Critical point control, Controlling by exception.

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

Clue 1: They are inseparable twins.

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

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

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

(Hints): Planning and controlling

**Q.9**



Name and explain the first three steps of the function of management shown in the picture. (3)

## **UNIT-3**

### **EVALUATION QUESTIONS**

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

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

- (i) Name the functions of management practised by managers. (2)
- (ii) Which management function was totally ignored by the managers at different levels. What would be the benefits? Trilok Ltd. could get, by adopting this "MISSED FUNCTION". (3)

- Ans.** (i) Planning, Organising, Staffing, Controlling  
(ii) Directing (Any three benefits of directing)

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

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

The scheme was implemented. Results were remarkable. Now, workers were satisfied with their jobs. They were producing more than standard output and getting good wages.

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

- (ii) Name the element of Direction initiated by Mr. Raghunath (1)
- (iii) Quoting the lines from above mentioned paragraph, state the benefits of such implementation

**Ans.** (i) Staffing and Controlling

(ii) Motivation

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

- (i) Which kind of leadership style, has Mr. Pratap been adopting (1)
- (ii) List the values ignored by Mr. Pratap. (Any two) (2)
- (iii) Which kind of communication is not taking place among employees. Describe. (2)

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

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

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

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

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

- (ii) By which function of management Shalu was trying to regulate her result. (1)
- (iii) Explain first three steps of the process of such management function. (3)

**Ans.** Hints (i) Motivation  
 (ii) Controlling  
 (iv) First three steps of controlling

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

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

- 1. Identify the kind of communication which took place between Mr. Siddharth and Mr. Allahrakha. (1)
- 2. What step was taken by top mgt. to improve the situation. (1)
- 3. Name & explain the kind of incentive which was given to Mr. Allahrakha. (2)
- 4. State two value which are evident from the way of working of co. (2)

**Ans.** Hints: (1) Informal Communication  
 (2) Remedial Action - repair/Replacement/overhauling  
 (3) Monetary Incentive



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

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

**Ans.** (i) Organising, Controlling  
(ii) Critical Point Control Management by Exception

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

- (1) Which leadership style was adopted by Director. (1)
- (2) Which functions of management were performed poorly? (2)
- (3) Identify the values not followed by departmental heads. (2)

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

**Q8.** Production manager set the annual production target as -  
“Huge amount of Production”.

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

At the end of the year, it was found that actual production was 1,65,000 units. General Manager was not satisfied with the performance as last year 1,90,000 units were produced. But Production Manager was of the

opinion that they have achieved the target of -“Huge amount of production.”

- (i) What was missing in determining the production standards? Explain by highlighting qualities of Good Standard. (Any two) (3)
- (ii) Name two elements of direction mentioned in the paragraph. (2)

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

(ii) Supervision, Motivation

**Q.9** During April, Mrs. Reeta took a class test of 25 marks from the topic “Law of Demand” in Economics. Out of 33 students in class, 09 got less than 10 marks. To improve the performance of their 09 students, she re-taught the topic and conducted slip-tests. Their performance improved but still it was less than 10 marks. She designed MCQ’s and tested their performance again. She found that one of the reasons was poor reading and understanding skills of the students. She took zero period and made the slow learners read and then she asked questions from them. Results improved and students were also happy.

- a) Identify the function of management performed by Reeta.
- b) Write first two steps of this function.
- c) Name two values followed by Mrs. Reeta. (5)

**Q.10** A company was manufacturing ‘LED bulbs’ which were in great demand. It was found that the target of producing 300 bulbs a day was not met by the employees. On analysis, it was found that the workers of the company were not able to achieve the set targets and alternative arrangements were needed.

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

- a) Identify the functions of management discussed above.
- b) State the two steps in the process of each function discussed in the above para.
- c) List any two values which the company wants to communicate to the society. (5)

## CHAPTER – 9

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# FINANCIAL MANAGEMENT

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### Introduction

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

### Meaning of Financial Management

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

### Objectives of Financial Management

#### (A) Primary Objective:

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

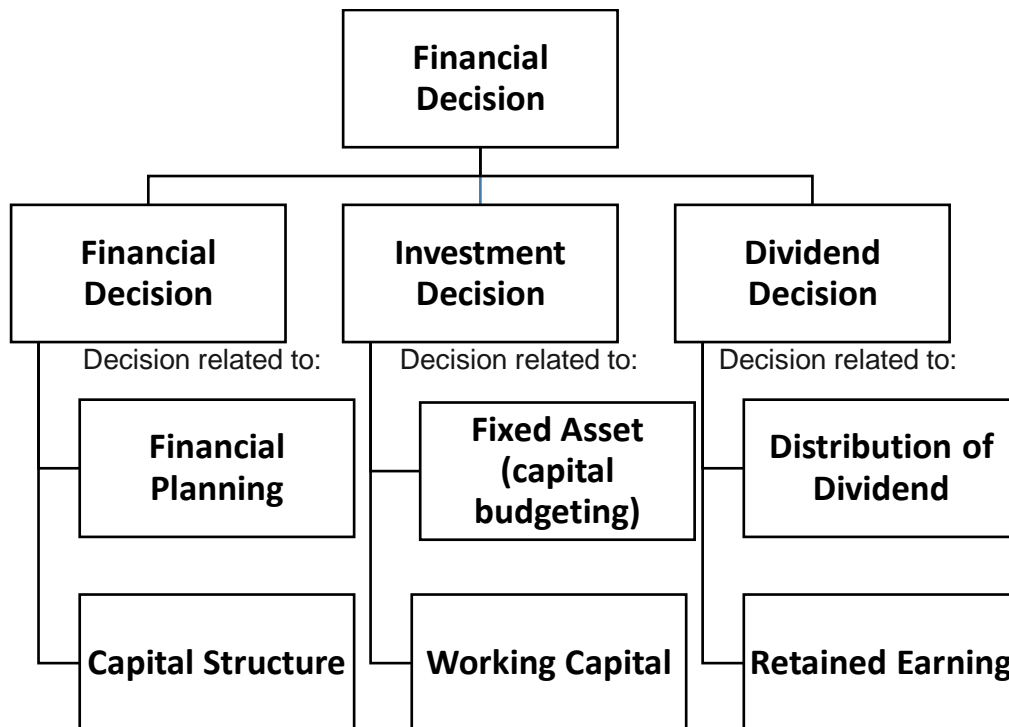
The market price of a company shares is linked to three basic financial decisions and shareholder's wealth maximisation.

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

**(B) Other objectives:**

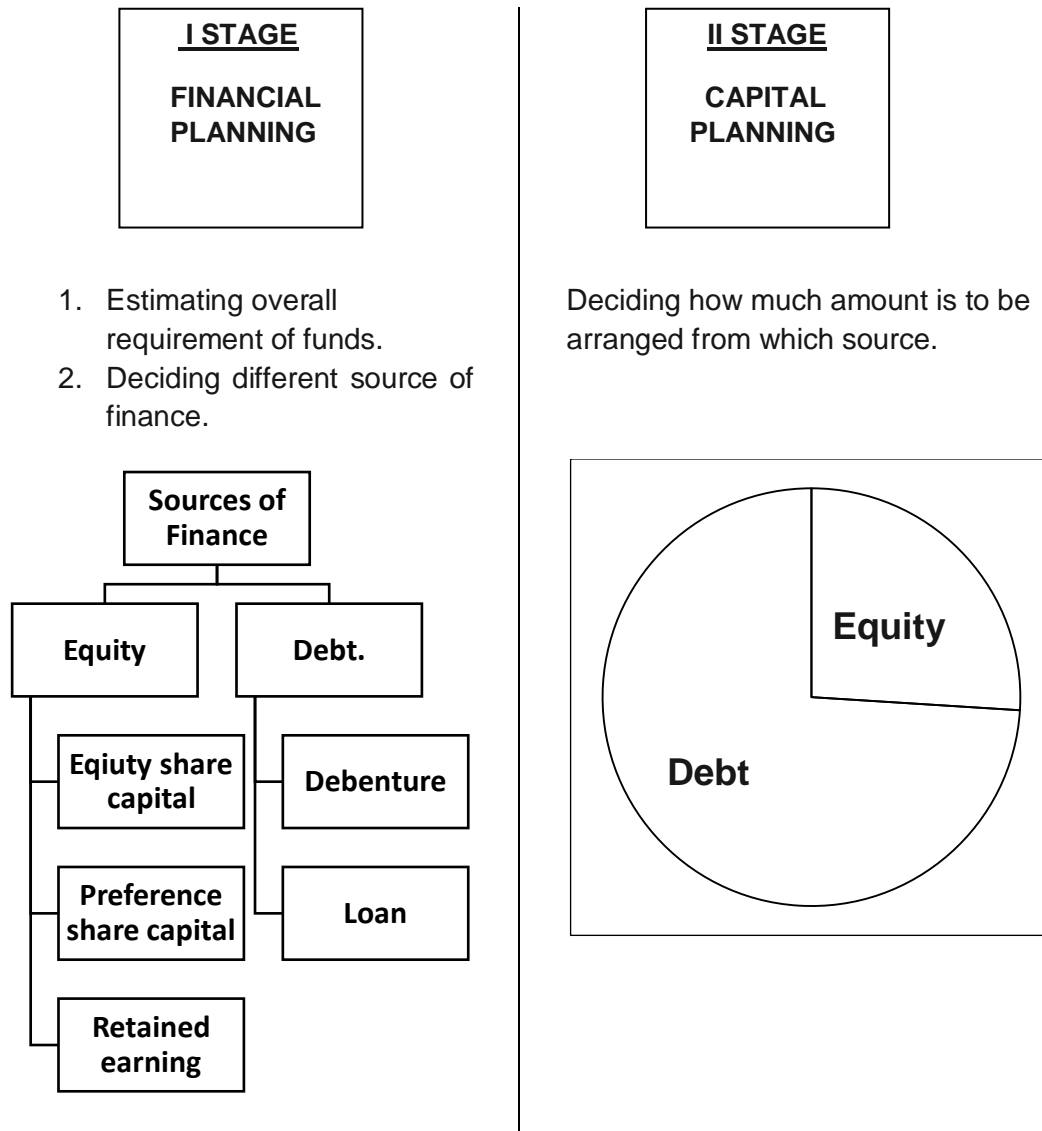
1. **To procure sufficient funds for the organisation:** Adequate and regular supply of funds is to be maintained for smooth operations of the business.
2. To ensure effective utilisation of funds.
3. **To ensure safety of funds :** The chances of risk in investments should be minimum possible.

**Financial Decisions:**



## FINANCIAL DECISIONS

Decision is taken at two stages:



## **FIRST STAGE: FINANCIAL PLANNING**

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

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

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

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

### **Importance of Financial Planning**

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

## SECOND STAGE: CAPITAL STRUCTURE

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

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

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

### Factors affecting Capital structure or financing decision

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

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

	Company X	Company Y	Company Z
Earning before int. and taxes(EBIT) @25% p.a.	2,50,000	2,50,000	2,50,000
Less interest on debt	-----	(50,000)	(50,000)
Profit after tax (available for equity & pref. Share holders).	2,50,000	2,00,000	2,00,000
Less preference dividend.	-----	-----	36,000
No. of equity shares	1,00,000	50,000	20,000
Earnings per share	Rs.2.50	Rs. 4.00	Rs.8.20

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

- Cash Flow Position:** In case a company has strong cash flow position then it may raise finance by issuing debts, as they are to be paid back after some time.
- Interest Coverage Ratio:** It refers to the number of times earning before interest and taxes of a company covers the interest obligation. High interest coverage ratio indicates that company can have more of borrowed funds. Formula for calculating ICR = EBIT/interest.



4. **Return on Investment:** If return on investment is higher than the rate of interest on debt then it will be beneficial for a firm to raise finance through borrowed funds.
  5. **Floatation Cost:** The cost involved in issuing securities such as brokers commission, under writer's fees, cost of prospectus etc. is called floatation cost. While selecting the source of finance, flotation cost should be taken into account.
  6. **Control:** When existing shareholders are ready to dilute their control over the firm then new equity shares can be issued for raising finance but in reverse situation debts should be used.
  7. **Tax Rate:** Interest on debt is allowed as a deduction; thus in case of high tax rate, debt is preferred over equity but in case of low tax rate more preference is given to equity.
  8. **Cost:** The cost of raising funds from different sources are different. The cheapest source should be selected.
  9. **Risk:** The risk associated with different sources is different. More risk is associated with borrowed funds as compared to owner's fund as interest is paid in it and it is repaid also, after a fixed period of time or on expiry of its tenure
  10. **Period of Finance:** For permanent capital requirement, Equity shares must be issued as they are not to be paid back and for long and medium term requirement, preference shares or debentures can be issued.
- Q.1** State the formula for calculating financial leverage. (1)
- [ Hint: Debt/ Equity]
- Q.2** What is the impact of business risk on Capital structure. (1)

- Q.3** A decision is taken in financial management to raise money for long term capital needs of business firm certain sources. What is this decision called? (1)
- Q.4** 'Cost of debt' is lower than the 'Cost of equity share capital'. Give reason, why even then a company cannot work only with debt. (3)
- Q.5** What is favourable financial leverage? (1)
- Q.6** Amita Ltd. does not have any debt in its capital structure but Kajal Ltd. has debt @ 15% in its capital structure. Rate of return of both companies is 20%. Which company enjoys the benefits of trading on equity and why? (3)

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

## INVESTMENT DECISION

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

### Factors affecting Investment Decisions

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

#### Investment proposals

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

Investment should be made in proposal No. 2

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

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

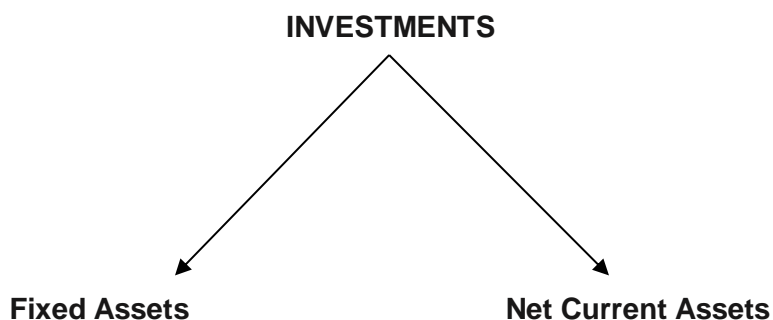
Proposal no. 2 should be chosen as it promises maximum rate of return.

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

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

**Q.1** A decision is taken to put capital of a company in different assets. What is the decision called? (1)

**Q.2** Name the financial decision in which a businessman uses huge amount of funds for using advanced technology in business. (1)



## Fixed Capital

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

### Factors Affecting Requirement of Fixed Capital

1. **Nature of Business** : Manufacturing concerns require huge investment in fixed assets & thus huge fixed capital is required for them but trading concerns need less fixed capital as they are not required to purchase plant and machinery etc.
2. **Scale of Operations** : An organisation operating on large scale requires more fixed capital as compared to an organisation operating on small scale.  
  
For Example - A large scale steel enterprise like TISCO requires large investment as compared to a mini steel plant.
3. **Choice of Technique** : An organisation using capital intensive techniques requires more investment in plant & machinery as compared to an organisation using labour intensive techniques.
4. **Technology upgradation** : Organisations using assets which become obsolete faster require more fixed capital as compared to other organisations.
5. **Growth Prospects** : Companies having more growth plans require more fixed capital. In order to expand production capacity more plant & machinery are required.
6. **Diversification** : In case a company goes for diversification then it will require more fixed capital to invest in fixed assets like plant and machinery.

7. **Distribution Channels** : The firm which sells its product through wholesalers and retailers requires less fixed capital.
8. **Collaboration** : If companies are under collaboration, Joint venture, then they need less fixed capital as they share plant & machinery with their collaborators.

### Working Capital

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

Networking Capital = Current Assets- Current Liabilities

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

**Factor affecting requirement of working capital:**

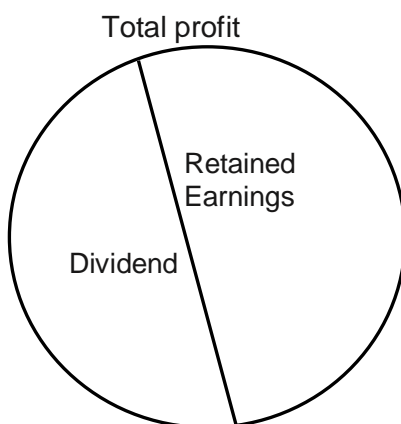
<b>Name of the factor</b>	<b>Requirement of More working capital</b>	<b>Requirement of Less working capital</b>
Nature of business	Manufacturing concern because of processing work.	Trading concern because of no production.
Scale of operation	Large scale operation because of huge inventory.	Small scale operations because of small inventories.
Business Cycle	During boom period because of more production.	During depression period because of less production.
Seasonal factors	Peak season because of more demand.	Lean season, because of low demand.
Credit allowed to customers	Sales on 'credit basis'	Sales on 'cash basis'
Credit availed from suppliers.	Purchase on 'cash basis'	Purchase on 'Credit basis'
Inflation Vs Deflation	During inflation, due to high price level for raw material, wages etc.	During deflation, due to low price level.
Operating cycle/ Turnover of working capital. It is the time period from purchase of raw material to realisation from debtors.	<p><b>Long operating cycle.</b></p> <pre> graph TD     Cash --&gt; RawMaterial[Raw material]     RawMaterial --&gt; WorkInProgress[work in progress]     WorkInProgress --&gt; StockFinished[Stock of finished product]     StockFinished --&gt; CreditSales[Credit sales]     CreditSales --&gt; Debtors[Debtors &amp; B/R]     Debtors --&gt; Cash                     </pre>	Short operating cycle.

Availability of raw material	Higher lead time to acquire raw material, so higher stock of raw material would be needed.	Lower lead time, so less stock of raw material would be needed.
Growth prospects	High growth prospects.	Low growth prospects.
Level of competition	High competition would require high amount of stock keeping.	Low competition would require less amount of stock keeping.
Productive cycle	Long production cycle.	Short production cycle

**Q.1** How is operating cycle related to requirement of working capital?

### **Dividend Decision**

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



## Factors affecting Dividend Decision

1. **Earnings** : Companies having high and stable earning could declare high rate of dividends as dividends are paid out of current and past earnings.
2. **Stability of Dividends** : Companies generally follow the policy of stable dividend. The dividend per share is not altered/changed in case earnings change by small proportion or increase in earnings is temporary in nature.
3. **Growth Prospects** : In case there are growth prospects for the company in the near future then it will retain its earning and thus, no or less dividend will be declared.
4. **Cash Flow Positions**: Dividends involve an outflow of cash and thus, availability of adequate cash is for most requirement for declaration of dividends.
5. **Preference of Shareholders** : While deciding about dividend the preference of shareholders is also taken into account. In case shareholders desire for dividend then company may go for declaring the same.
6. **Taxation Policy** : A company is required to pay tax on dividend declared by it. If tax on dividend is higher, company will prefer to pay less by way of dividends whereas if tax rates are lower then more dividends can be declared by the company.
7. **Stock market reaction**: Increase in dividend is good news for investors and hence market price of the shares increases in the stock market. Decrease in dividend reduces the market price of share.
8. **Legal constraints** : Under provisions of Companies Act, all earnings can't be distributed and the company has to provide for various reserves. This limits the capacity of company to declare dividend.



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

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

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

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

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

## **QUESTIONS FOR PRACTICE**

- Q.1** HCL Company's finance manager has decided to retain its entire profit to meet financial requirement for its growth. Name the type of decision involved.(Dividend) (1)
- Q.2** Tata sons has debt equity ratio of 4:1 and Bajaj has 1:1 debt equity ratio. Name the advantage, Tata sons may have over Bajaj.(Trading on equity) (1)
- Q.3** Dabur India has decided to increase credit limit and duration of credit to its customers to boost its sales. Name the type of decision involved. (working capital) (1)
- Q.4** Bharti Ltd. is a leading mobile company. It is planning to acquire Queen Ltd's (its close competitor) business worth Rs. 1,000 crore. Which financial decision is involved in it? Explain it.(Investment) (3)
- Q.5** Chandra Ltd. is a manufacturer of Laptops. It made a profit of 1000 crores. The director have proposed a dividend of 38%. As a finance manager of the company. What factors would you consider while formulating a dividend policy of the company? (Any four) (4)
- Q.6** Pankaj is engaged in Warehousing - Business Identify the working capital requirements of Pankaj stating the reason in support of your answer. Pankaj is also planning to start his Transport business. Explain any two factors that will affect his fixed capital requirements. (2+2)
- Q.7** Name the factor due to which a petro chemical company requires much higher investment in fixed capital than an information technology company. However both may generate same amount of revenue.(Nature of business) (3)
- Q.8** "Ranbaxy Ltd. has been earning handsome profits since last 15 years. Company enjoy fair goodwill in the market, so company can easily arrange debt as well equity from the market, whenever needed. Therefore company decided to declare dividend with a hike of 15% from, last year."
- Which two components affecting dividend decision have been highlighted in the above paragraph. (2+2)
- (i. Stability of earning ii. Access to capital markets)

- Q.9** “During annual general meeting of Prakash Ltd. CEO, Mr. Rajnesh put the expansion plan for the coming year before shareholders and asked for suitable source of finance to finance manager. Finance manager Mr. Kant proposed issue of debentures than equity with a plan that they can be paid back whenever requirement of funds is over”

In the above paragraph, which component affecting financing decision has been highlighted? Explain the component. (Flexibility) (3)

- Q.10** How does ‘Trading on Equity’ affect the Capital structure of a company?

Explain with the help of a suitable example. (5)

- Q.11** “Tax benefits is available only in case of payment of interest and not on the payment of preference dividend.” Why? (1)  
(Interest is an expense while dividend is an appropriation)

- Q.12** ‘REI Agro Food Ltd ‘is a famous multinational company. Mr. S.K.Nagi is its finance manager. He is making efforts to increase the market value of capital invested by the equity shareholders. He already knew it could be possible only when price of the shares increases and price of shares increase only if financing, Investment and dividend decisions are taken optimally. He did the same and achieved success.

Which objective of financial management has been referred here? Explain. (3)

- Q.13** Jai Bharat Company Ltd. is an auto part supplier company in Guru Gram, Haryana. Its business is spread over several cities. The CEO of company wants to open a factory in Gujrat near Tata Motors Ltd. but due to recession for the last two years, its business is facing slow down. Company needs capital. Rakesh Gupta is CA and financial advisor of the company. He opines that during recession profit falls and investors prefer to invest in debentures to earn fixed income. Therefore, the company should issue debentures.

In this paragraph, which factor affecting financing decision has been highlighted? Explain state of capital market. (3)

## CHAPTER – 10

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### FINANCIAL MARKETS

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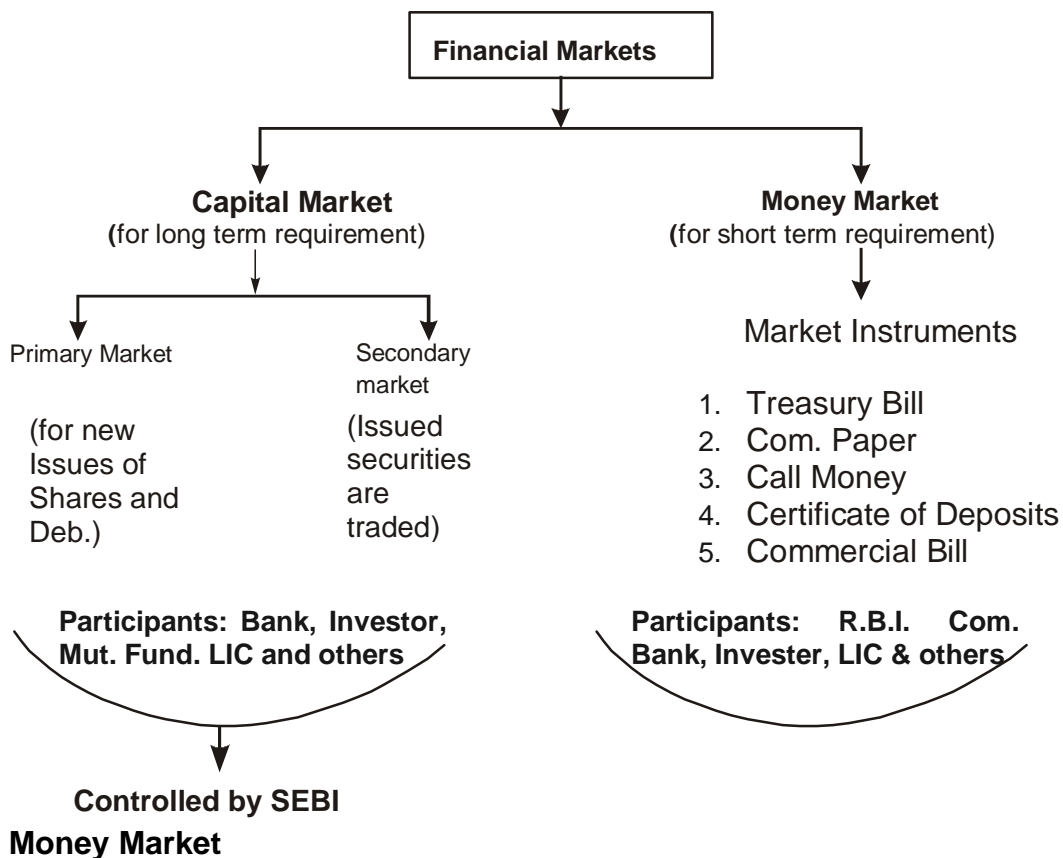
**Financial Market** is a market for creation and exchange of financial assets like shares, bonds etc. It helps in mobilising savings and channelizing them into the most productive uses. It helps to link the savers and the investors by mobilizing funds between them. The persons or institutions by which allocation of funds is done are called Financial Intermediaries. They bring together borrowers and lenders and make funds available to those willing to pay for their use,



#### Functions of Financial Markets

1. **Mobilisation of Savings and channeling them into the most productive uses** : Financial market facilitates the transfer of savings from savers to investors and thus helps to channelize surplus funds into the most productive use.
2. **Helps in Price Determination** : Financial Market helps in interaction of savers and investors which in turn helps in the determination of prices of the financial assets such as shares, debentures etc.
3. **Provides Liquidity to Financial Assets** : Financial market facilitates easy purchase and sale of financial assets. Thus, it provides liquidity to them so that they can be easily converted into cash whenever required.
4. **Reduces the Cost of Transactions** : Financial market provides valuable information about securities which helps in saving time, efforts and money and thus it reduces cost of transactions.

## Types of Financial Markets



It is a market for short term funds/securities whose period of maturity is upto one year. The major participants in the money market are RBI, Commercial Banks, Non-Banking Finance Companies, State Government, Large Corporate Houses and Mutual Funds. The main instruments of money market are as follows:

- 1. Treasury Bills:** They are issued by the RBI on behalf of the Central Government to meet its short-term requirement of funds. They are issued at a price which is lower than their face value and are repaid at par. They are available for a minimum amount of Rs. 25000 and in multiples thereof. They are also known as Zero Coupon Bonds. They are negotiable instruments i.e. they are freely transferable.

2. **Commercial Paper:** They are short term unsecured promissory notes issued by large credit worthy companies to raise short term funds at lower rates of interest than market rates. They are negotiable instruments transferable by endorsement and delivery with a fixed maturity period of 15 days to one year.

This source is usually used for-

- (i) Working Capital requirements
  - (ii) Seasonal needs
  - (iii) Bridge financing)
3. **Call Money:** It is short term finance repayable on demand, with a maturity period of one day to 15 days, used for interbank transactions. Call Money is a method by which banks borrow from each other to be able to maintain the cash reserve ratio as per RBI. The interest rate paid on call money loans is known as the call rate.
4. **Certificate of Deposit:** It is an unsecured instrument issued in bearer form by Commercial Banks & Financial Institutions. They can be issued to individuals. Corporations and companies for raising money for a short period ranging from 91 days to one year.
5. **Commercial Bill:** It is a bill of exchange used to finance the working capital requirements of business firms. A seller of the goods draws the bill on the buyer when goods are sold on credit. When the bill is accepted by the buyer it becomes marketable instrument and is called a trade bill. These bills can be discounted with a bank if the seller needs funds before the bill maturity.

- Q.1 List any two participants of money market. (1)
- Q.2 What is the minimum amount of Treasury bill? (1)
- Q.3 Who is borrower of call money? (1)

- Q.4** Which bearer certificate is issued by banks against the deposits kept by companies and institutions for short period? [Hint: Certificate of deposits] (1)
- Q.5** What is other name of Zero Coupon Bonds? [Hint: Treasury bill] (1)
- Q.6** What is near money? [Hint: All short term securities] (1)

### **Capital Market**

It is a market for long term funds where debt and equity are traded. It consists of development banks, commercial banks and stock exchanges. The capital market can be divided into two parts:

#### **1. Primary Market**

It deals with the new securities which are issued for the first time. It is also known as the New Issue Market. The investors in this market are banks, financial institutions, insurance companies, mutual funds and individuals. It has no fixed geographical location and only buying of securities takes place in the primary market.

#### **Methods of Floatation of New Issues in Primary Market**

- 1. Offer through Prospectus/ Initial Public Offer:** It involves inviting subscription from the public through issue of prospectus. A prospectus makes a direct appeal to investors to raise capital through an advertisement in newspapers and magazines.
- 2. Offer for Sale:** Under this method security are offered for sale through intermediaries like issuing houses or stock brokers. The company sells securities to intermediary/broker at an agreed price and the broker resells them to investors at a higher price.
- 3. Private Placements:** It refers to the process in which securities are allotted to institutional investor and some selected individuals.

4. **Rights Issue** : It refers to the issue in which new shares are offered to the existing shareholders in proportion to the number of shares they already possess.
5. **e-IPOs** : It is a method of issuing securities through an on-line system of stock exchange. A company proposing to issue capital to the public through the on-line system of the stock exchange has to enter into an agreement with the stock exchange. This is called an e-initial public offer. SEBI's registered brokers have to be appointed for the purpose of accepting applications and placing orders with the company.

**Q.1** Identify the method of floatation highlighted in each statement:

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

**Q.2** Pranjal has 500 shares of L&T. L&T comes out with a fresh issue of shares and Pranjal received an offer to buy 1 share of L&T for every 5 shares held by her. Which method of floating new issue is indicated in this case? (3)

## 2. **Secondary Market**

It is also known as the stock market or stock exchange where purchase and sale of existing securities takes place. They are located at specified places and both the buying as well as selling of securities takes place.



### Difference between Primary and Secondary Market

Basis	Primary Market	Secondary Market
1. Securities	Only new securities are traded.	Existing securities are traded.
2. Price of securities	Prices of securities are determined by the management of the company.	Prices are determined by the forces of demand and supply of the securities.
3. Purchase and sale.	Securities are sold to investors directly by the company or through intermediary.	Investor exchange ownership of securities.
4. Place of market	There is no fixed geographical location.	Located at specified places.
5. Medium	Only buying of securities takes place.	Both buying and selling of securities can take place.

**Q.1** Identify the markets highlighted in following statements:

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

**Q.2** Dinesh has 100 equity shares of a company. He wants to sell 500 of these shares. Which market should be approach? Write any three advantages of selling through such a market. (4)

[Hint: Secondary Market (any three advantage)]

- Q.3** Why are money market instruments are more liquid as compared to capital market instruments? (3)  
[Hint: Reliable participants and duration of investment is less]

### **Stock Exchange/Share Market**

A Stock Exchange is an institution which provides a platform for buying and selling of existing securities. It facilitates the exchange of a security i.e. share, debenture etc. into money and vice versa. Following are some of the important functions of a Stock Exchange:-

- 1. Providing liquidity and Marketability to Existing Securities :** Stock Exchange provides a ready and continuous market for the sale and purchase of securities.
- 2. Pricing of Securities :** Stock Exchange helps in constant valuation of securities which provide instant information to both buyers and sellers and thus helps in pricing of securities which is based on the forces of demand & supply.
- 3. Safety of Transaction :** The members of a stock exchange are well regulated, who are required to work within the legal framework. This ensures safety of transactions.
- 4. Contributes to Economic Growth :** Stock exchange provides a platform by which savings get channelised into the most productive investment proposals, which leads to capital formation & economic growth.
- 5. Spreading of Equity Culture :** Stock exchange helps in educating public about investments in securities which leads to spreading of Equity culture.
- 6. Providing Scope for Speculation :** Stock exchange provides scope within the provisions of law for speculation in a restricted and controlled manner.

Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are famous in India.

### Trading and Settlement Procedure on a Stock Exchange

1. **Selection of Broker:** In order to trade on a Stock Exchange first a broker is selected who should be a member of stock exchange as they can only trade on the stock exchange.
  2. Opening Demat Account with Depository.
  3. **Placing the order:** After selecting a broker, the investors specify the type and number of securities they want to buy or sell.
  4. **Executing the order:** The broker will buy or sell the securities as per the instructions of the investor.
  5. **Settlement:** Any trade taking place gets settled within 2 days of the trade date.
- Q. 1** The directors of a company want to modernise its plant and machinery by making a public issue of shares. They wish to approach the stock exchange, while the finance manager prefers to approach a consultant for the new public issue of shares. Advise the directors whether to approach the stock exchange or a consultant for new public issue of shares and why. Also advice them about different methods which the company may adopt for the new public issue of shares.(Consultant) **(3)**

### Difference between Capital and Money Market.

S.No. Basis	Capital Market	Money Market
1. Participants	Financial Institutions, Banks,. Corporate Entities, foreign investors and individuals	RBI, Banks Financial Institutions & finance companies
2. Instruments Traded	Equity shares, bonds preference shares and debentures.call money etc	Treasury Bills, Trade bills, commercial paper.

3. Investment outlay	Does not necessarily require a huge financial outlay.	Entails huge sums of money as the instruments are quite expensive.
4. Duration	Deals in medium & long-term securities having maturity period of over one year.	Deals in short term funds having maturity period upto one year.
5. Liquidity	Securities are less liquid as compared to money market securities.	Money market instruments are highly liquid.
6. Expected return	High return	Low return
7. Safety	Capital Market instruments are riskier both with respect to return and repayment.	Money market instruments are generally much safer with a minimum risk of default.

**Depository Services and DEMAT Accounts:** Keeping in the mind the difficulties to transfer of shares in physical form, SEBI has developed a new system in which trading in shares is made compulsory in electronic form. Depository services system and Demat Account are very basis of this system.

1. **Depository Services:** 'Depository is an institution/organization which holds securities (e.g. shares, debentures, bonds, mutual funds etc.) in electronic form, in which trading is done. The services provided by a Depository are termed as 'Depository Services'. At present there are two depositories in India: NSDL. (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.). which are known as "Depository Participants". (DPs)

### Services provided by Depository

- (i) Dematerialisation (usually known as demat) is converting physical certificates to electronic form.
- (ii) Rematerialisation, known as remat, is reverse of demat, i.e getting physical certificates from the electronic securities.

- (iii) Transfer of securities, change of beneficial ownership.
- (iv) **Players in Online Trading:** Settlement of trades done on exchange connected to the Depository. Now a days on-line paper-less trading in shares of the company is compulsory in India. Depository services is the name of that mechanism. In this system transfer of ownership in shares take place by means of book entry without the physical delivery of shares. When an investor wants to deal in shares of any company he has to open a Demat account. There are four players who participate in this system.
1. **The Depository :** A depository is an institution which holds the shares of an investor in electronic form.
  2. **The Depository Participant :** He opens the account of Investor and maintains securities records. Generally banks work as depository participant.
  3. **The Investor :** He is a person who wants to deal in shares whose name is recorded.
  4. **The Issuing Company:** That organisation which issues the securities. This issuing company sends a list of the shareholders to the depositories.

### **Benefits of Depository Services**

- Sale and Purchase of shares and stocks of any company on any stock Exchange.
- Saves time.
- Lower transaction costs
- Ease in trading.
- Transparency in transactions.
- No counterfeiting of security certificate
- Physical presence of investor is not required in stock exchange.
- Risk of mutilation and loss of security certificate is eliminated.

## **2. Demat Account**

Demat account is the abbreviation of 'Dematerialized Account'. (Dematerialized account refers to an account which an Indian citizen must open with the depository) participant (banks, stockbrokers) to trade in listed securities in electronic form wherein one can hold shares of various companies in the Dematerialized {electronic} form. Access to De-mat account requires an internet password and a transaction password. Transfer and purchase of securities can then be initiated. Purchase and sale of securities on the De-mat account are automatically made once transaction is confirmed and completed.

### **Opening of Demat Account**

A Demat account is opened on the same lines as that of a bank account. Prescribed account opening forms available with the DP, need to be filled in. Standard agreement is to be signed by the client and the DP, which details the rights and obligation of both parties. Along with the form, the client is required to attach photograph, attested copies of residence proof and proof of identity need to be submitted.

### **Benefits of Demat Account**

1. Reduces paper work.
2. Elimination of problems on transfer of shares such as loss, theft and delay.
3. Exemption of stamp duty when transfer of shares.
4. The concept of odd lot stand abolished.
5. Increase liquidity through speedy settlement.
6. Attract foreign investors and promoting foreign investment.
7. A single demat account can hold investments in both equity and debt instruments.
8. Traders can work from anywhere.

9. Automatic credit into demat account for shares arising out of bonus/split/consolidation/merger.
10. Immediate transfers of securities.
11. Change in address recorded with a DP gets registered with all companies in which investor holds securities eliminating the need to correspond with each of them.

### **Securities and Exchange Board of India (SEBI)**

SEBI was established by Government of India on 12 April 1988 as an interim administrative body to promote orderly and healthy growth of securities market and for investor protection. It was given a statutory status on 30 January 1992 through an ordinance which was later replaced by an Act of Parliament known as the SEBI Act, 1992. It seeks to protect the interest of investors in new and second hand securities.

#### **Objectives of SEBI**

1. To regulate stock exchange and the securities market to promote their orderly functioning.
2. To protect the rights and interests of investors and to guide & educate them.
3. To prevent trade mal practices such as internal trading.
4. To regulate and develop a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc.

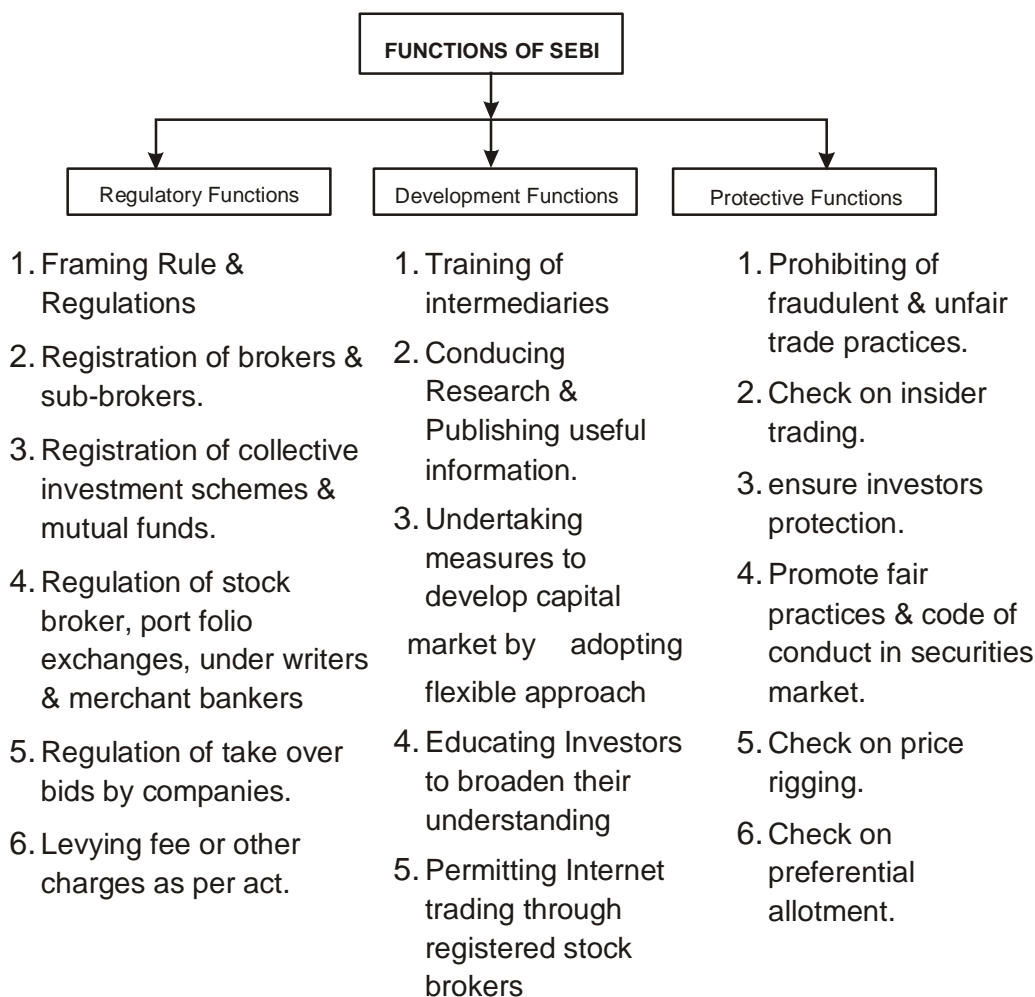
#### **Functions of SEBI**

The SEBI performs three important functions

1. **Regulatory functions:** These functions are performed by SEBI to regulate the business in stock Exchange.
2. **Development functions:** These functions are performed by SEBI to promote and develop activities in stock.

3. **Protective functions:** These functions are performed by SEBI to protect the interest of investors and provide safety on investments.

### Functions of SEBI



- **Check on Price Rigging:** Making manipulations with sole objective of inflating or depressing the market price of securities is called 'Price Rigging'. Such practises are prohibited by law because they can defraud or cheat investors.



- **Check on Unfair Trade Practices:** SEBI does not allow the companies to make misleading statements in prospectus which are likely to induce the sale or purchase of securities by any other person.
- **Check on Insider Trading:** SEBI prohibits 'insider trading' and imposes penalties for such practices. An insider is any person connected with the company who is having price sensitive information (in respect of securities of the company), which is not available to the general public. Directors, promoters, etc. are the insiders. When such directors, promoters, etc. of the company use inside information to make individual profits, it is referred to as 'insider trading'.

**Q.1** Name the organisation which has been established in India to regulate stock exchanges and to protect the rights and interest of investors.  
(1)

**Q.2** Expand the following- CDSL, NSDL, DEMAT (3)

**Q.3** Shabnam wants to invest her savings in share market. What is the base requirement for this? (1)

**Q.4** Julie wants to get her share certificates in electronic form. What is the name of service provided by depository? (1)

**Q.5** Bandhu Limited is a real estate company, which was formed in 1960. In about 55 years of its existence, the company has managed to carve out a niche for itself in this sector. In order to establish itself in India, the company decided to list its securities on BSE, in order to raise money through India market.

State the functions performed by SEBI that make investors comfortable and secured in dealing with Bandhu Ltd. (3)

## **QUESTIONS FOR PRACTICE**

- Q1.** Sudha Ltd. has sold 1 lakh equity shares of Rs. 10 each at Rs. 12 per share to an investment banker, who offered them to the public at Rs. 20 each. Identify the method of flotation.(offer for sale) (1)
- Q2.** Mohan wants to sell 50 shares of Tata Motors. Explain the trading procedure of shares. (5)
- Q3.** Charu is a chartered accountant in Prakash Ltd. During the course of meeting with directors she came to know that as against the previous years, this year company is going to declare handsome dividend offer. It is observed that when such news becomes public then the share-market jumps up. Considering it, Charu purchased large number of company's shares before this news reached the public.
- (1) Identify type of malpractice used by Charu.
- (2) Name the authority which regulates such behaviour. Write any three other functions of this authority. (5)
- Q4.** A company wants to set up a new branch in Chennai. For additional capital company is planning to issue equity shares to public as there is boom period in capital market and public will prefer to invest in shares.
- While analysing the issue, finance manager found that floatation costs of the issue would be high and company is already in liquidity crunch. Company deemed it proper to depend on money market instruments for about six months.
- (i) Identify the method of flotation of capital, mentioned above.(IPO)
- (ii) Besides above shares issue method, mention two other methods.
- (iii) Use of what kind of instrument will be appropriate for the money market. Clarify.(commercial papers)

**Q.5** The Director of Pico Limited decided to declare bonus issue of equity shares to the shareholders in its Annual General Meeting. Immediately one of the Director purchases 20,000 shares from market @ 30 per share and sold them @ 100 share as bonus issue was declared and made capital gain from it. (3)

- (a) Name the practice used by the Director taking the benefits of internal information. (Insider Trading)
- (b) How does SEBI prohibit such practices?

**Q.6** Name the financial instrument which may be used in the following situations:

- (a) A company needs funds to meet floatation cost in order to issue equity shares in the market.
- (b) The instrument that is issued during the period of tight liquidity when the deposit growth of bank is slow but demand for credit is high.
- (c) These are also known as zero coupon bonds and are issued by RBI on the behalf of central government.
- (d) It is used by one bank having surplus funds to meet the funds requirements of another bank facing shortage of funds.

## UNIT 4

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### EVALUATION QUESTIONS

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- Q.1** Pavco Ltd. was declared as a SICK UNIT as it was suffering from losses since last 5 years. To rehabilitate the UNIT, overall financial restructuring of a company was initiated. Mr. Rahul was appointed as new Finance Manager of the company. Mr. Rahul analysed and found that company suffering due to scarcity of capital. He organised new issue of 1,00,000 equity shares of Rs. 1,000 each. Issue was fully subscribed with arranged capital. Mr. Rahul replaced the old plant with new one which was technologically updated and as per the industry demand. Its payback period was 3 years and it was promising a good rate of return. Just after two years, company was turned into a profitable venture.
- (a) Which two decisions are taken by Mr. Rahul as finance manager. Explain them. (2+2)
- (b) In which capital market, shares are issued? Explain. (2)
- Q.2** Managing director of a company was reviewing the newly designed capital structure of company which was framed by Finance Manager. He found that debt component was less than equity. Company was earning good return with sound and stable earnings since last 12 years. MD discussed with Finance Manager, that by having comparative less debt component, earning per share have reduced.
- (i) Name the concept of Financial Management, mentioned here. Explain it with the help of a suitable example. (1+3)
- (ii) In which market, New debentures will be issued by company. Write any two features of such market. (Trading on Equity (1+1))
- Q.3** SABU Ltd. is facing liquidity crunch. Working capital is in shortage and it is finding difficult to pay the suppliers in time. Credit period which is

allowed by suppliers is two months. Finance Manager is of the opinion that for at least three months, company will not have sufficient funds to pay off creditors. Although, it has good financial reputation in market.

- (i) Which short-term financial instrument company should use? (1)
- (ii) In which market short-term financial instruments are issued? (1)
- (iii) Explain any three factors affecting requirement of working capital? (3)

### (Commercial Paper)

**Q.4** GETO Ltd. is a company that produces school bags. Now it wants to produce water bottles also. For such diversification it needs additional capital of Rs. 50 crores, So company decided to float capital by way of equity shares issue to general public as it is boom period in market. But company's cash position is not favourable. In order to arrange working capital, company want to use some money market instruments. It will help in meeting floatation costs.

- (i) Identify the method of floatation of capital as mentioned in the above paragraph. (1)
- (ii) Besides above share issue method, mention two other methods (2)
- (iii) Which money market instruments will be appropriate? Clarify. (3)

**Ans.** Hints: (i) Offer through prospectus  
(ii) Commercial Paper - used for bridge financing (explanation)

**Q.5** A student asked teacher - "How can a company arrange for fixed capital which is to be used in long - term projects?"

*Teacher explained as*

"If company wants to have funds, it can issue shares directly to public or it can sell the whole issue to intermediaries. After subscribing the shares,

shareholders are not bound to keep it with them. They can sell it in the market and get them encased.

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

**Q.6** In 2nd five year plan. "Industrialisation" was the "Main Focus". But the major problem was saving and Investment-Household used to invest in GOLD & Property only. Government had to take initiative for establishing Infrastructure and other basic industries. With pace of economic development, small savings were promoted by establishing an organised market. This market is regulated by SEBI and has attributed a lot in economic development.

(i) Identify the market. (1)

(ii) Name two functions of this market. (2)

**(Secondary market)**

**Q.7** Ravi was a trader dealing in woolen garments. His business flourished and he maintained a good reserve of retained earnings. Ravi expanded his business and started production of "shawls". Operating cycle period off shawls was quite long as Ravi made a policy for "Credit allowed" of four months to attract more customers. He was able to produce a good number of shawls with good quality and hand work.

(i) Name the market, through which working capital needs are satisfied. (1)

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

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

[Money Market, (As a trader less, as a producer-more)]

**Q.8** State Electricity Board under the ownership of state government was privatized in 2001. The company allotted securities to some selected individuals and institutions as this was a faster way of raising funds in public issue without any need for issuing a formal prospect. The company has since then been in operation for 15 years as a private sector company. The company has shown remarkable growth as indicated by rise in revenues, operating profit, profit after tax, resulting into maximisation of wealth of its shareholders. It has increased its assets base by buying fixed assets. As a private sector company, it has paid dividends in accordance with the policies stated in its articles.

- a) Identify and explain, by quoting the lines, the decisions taken by the management in achievement of objectives of financial management after privatisation.
- b) Identify the method of floatation opted by the State Electricity Board.
- c) How has the company maximised the wealth of its shareholders?

**Hint:**

- a)
  - 1. "The Company allotted.....Formal prospectus."  
Financing Decision
  - 2. "It has increased.....fixed assets."  
Investment decision
  - 3. "As a private sector.....articles."  
Dividend Decision
- b) Private placement
- c) By taking balanced finance decision i.e. Financing, Investment and Dividend decision as indicated by- rise in revenue, operating profit.

**Q.9** The Trading procedure on Stock Exchange has been replaced by online screen based electronic trading system. This is mainly done to eliminate problems like theft, fake forged transfers, transfer delays and paper work associated with share certificates or debentures in physical form. This is a process where securities held by the investor in the

physical form are cancelled and the investor is given an electronic entry or number so that he/she can hold it as an electronic balance in an account. This has increased the equity culture among the people.

- a) Identify and state the process mentioned above.
  - b) What is the most important requirement for the process identified in (a)? State.
  - c) State any two values which you think have enhanced the equity culture in the society.
- [(a) Dematerialisation]

**Q.10** Bombay Stock Exchange was established in 1815 and was Asia's first stock exchange. About 6000 companies are listed on this exchange. Where investors purchase and sell their securities as shares, debentures and Bonds. Price of the securities is determined by forces of demand and supply. The members of exchange are called brokers. They provide safe and fair deal to their customers. The Sensex launched in 1986 is made of 30 companies and represent 13 sectors of the economy. The change in Sensex saw the growth of economy. Explain the functions of Stock Exchange, highlighted above (3)

**Ans. Hints**

- (1) Platform for purchases and sale of securities
- (2) Price Discovery
- (3) Economic Growth



## CHAPTER – 11

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### MARKETING MANAGEMENT

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**Market:** is used for a place where the buyers and sellers meet and conduct buying and selling activities. In the traditional sense, the market means a place where buyers and sellers gather to enter into transaction involving the exchange of goods and services but today business can be conducted on telephone, through mail, internet etc. In modern marketing sense the term market has a broad meaning. It refers to a set of actual and potential buyers of a product or service.

**Marketer or Seller:** If a customer is the seeker of satisfaction the marketer is the provider of satisfaction. Marketer can be a person or an organisation who makes available the products or services and offers them to the customer with an intention of satisfying the customer needs and wants.

#### Marketing

Marketing is a social process whereby people exchange goods & service for money or for something of value to them. Anything that is of value to the other can be marketed e.g.

- |                      |                                  |
|----------------------|----------------------------------|
| 1. Physical Products | - T.V., Mobile phone etc.        |
| 2. Services          | - Insurance, education etc.      |
| 3. Person            | - Selection for different posts. |
| 4. Place-visit       | - Agra, Taj Mahal, etc.          |
| 5. Events            | - Fashion show, Films Festivals  |

#### Important Features of Marketing

1. **Needs and wants:**

Need: A state of felt deprivation or feeling of being deprived of something.

Want: Culturally defined object that is potential satisfier of need.

Marketer's Job: Identify needs and fulfil them.

2. **Creating a market offering** : Complete offer for a product of service.
  3. **Customer value** : greatest benefit or value for the money.
  4. **Exchange mechanism** : Exchange of products/services for money/for something of value to them.
- Q. Name the social process by which individuals and groups obtain what they need and want through creating offers.

### **Meaning and concept of Marketing Management**

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

Thus, marketing management process involves:

1. **Choosing a target market:** e.g., a manufacturer may choose to make ready-made garments upto the age of 5 years for children.
2. **Creating demand and attracting more customers in target market :**  
To increase the number of customers by analysing their needs, wants etc.
3. **Creating superior value:** To make the product better than competitors products for customers.

### **Meaning and Concept of Marketing and Selling**

Marketing is a wide term. It refers to a large set of activities of which selling is just one part. A marketer before making the sale does a lot of other activities such as planning the type, design of the product, the price and selecting the distribution outlets at which the same would be available.

**Selling:** Refers to the sale of goods or service through publicity, promotion and salesmanship. The title of the product is transferred from seller to buyer. The entire focus in selling is to convert the products into cash.

### Difference between Selling & Marketing

Basis	Selling	Marketing
1. Scope	It is only a part of process of marketing.	It is a wide term consisting of a number of activities such as identification, customers need etc.
2. Focus	Transfer of the title from seller to consumer.	Achieving maximum satisfaction of customer's needs and wants.
3. Pre-dominance	Product is given priority	Customer is treated as the king
4. Aim	Profits through sales volume	Profits through customer satisfaction.
5. Emphasis	Bending the customer according to the product.	To develop the products as per the customers' needs.
6. Strategies	Promotion and persuasion.	Integrated marketing efforts.

### Marketing Management Philosophies

- 1. Production concept:** Emphasis on Quantity  
Focus: Availability and Affordability.
- 2. Product Concept:** Emphasis on Quality  
Focus: Continuously improving quality, incorporating new factors, product improvement.
- 3. Sales Concept:** Emphasis on Sales volume  
Focus: Attracting and persuading customers, aggressive promotional techniques.
- 4. Marketing Concept:** Identify a need and fill it.  
Focus: Customer satisfaction
- 5. Societal Marketing Concept:** Extension of marketing concept i.e. customer satisfaction with welfare of the society  
Consider social, ethical and ecological aspects of marketing.

## Differences in the Marketing Management Philosophies

Philosophies/ Bases	Production Concept	Product Concept	Selling Concept	Marketing Concept	Societal Concept
1. Starting Point	Factory	Factory	Factory	Market	Market Society
2. Main Focus	Quantity of product	Quality, performance, features of product Product	Existing product	Customer needs	Customer needs and society's well being
3. Means	Availability and affordability of product	improvements	Selling and promotion	Integrated marketing	Integrated marketing
4. Ends	Profit through volume of production	Profit through product quality	Profit through sales volume	Profit through customer satisfaction	Profit through customer satisfaction and society welfare

- Q.** Raman, Joginder, John, Iqbal and Shreya are friends. They are operating different business. Each one has his/her own concept regarding operating their business.

Raman believes in producing products at a large scale. Thereby decreasing the average cost of the products and selling it at a reasonable price.

Joginder focuses on providing best quality products because he believes that a customer always wishes to buy a good quality product. The price of the product is secondary, John is of the belief that most important aspect of business is sales and so he undertakes aggressive selling & promotional effort.

Iqbal believes that his firm can achieve its goals only by identifying the needs of the customer & satisfying them better than the competitors.

Shreya on the other hand feels that her firm has a responsibility towards the society as well. So she provides customer satisfaction along with using techniques which are environmental friendly.

- a) What are the Marketing concepts followed by each of them?
- b) Raman's concept is successful for him because he is into manufacturing & selling iodised salt under the brand 'Healthy salt, this product has a ready market and vast consumer base, also the products is standardised so he can focus on production at a large to cut down the cost per unit. Write any business which can be successfully run by the others using their concepts.  
(Joginder-, John-, Iqbal-, Shreya )

### **Functions of Marketing/Marketing activities**

1. **Marketing research :** Gathering and analyzing marketing information i.e. what the customers want to buy, when they are likely to buy, in what quantities do they buy, from where do they buy etc.
2. **Marketing planning:** Specific plan for increasing the level of production, promotion of the products etc. and specify the action programmes to achieve these objectives.
3. **Product designing and development:** Marketer must take decision like, what-product, which model/size?, brand name?, Packaging?, quality level? So that Customer needs are satisfied
4. **Standardisation and Grading:** Standardisation refers to producing goods of predetermined specifications which help in uniformity and consistency. It reduces the need of inspection, testing and evaluating the products.

Grading refers to the process of classifying the products into different groups. Grading is done for goods which cannot be produced according to predetermined specifications i.e. agricultural products.

5. **Packaging/Labelling:** designing the package for the product and put label on the package.
  6. **Branding:** Creating a distinct identity of the product from that of competitors e.g. Videocon washing machine, Usha Fans, Lux Soap etc.
  7. **Pricing of products:** setting pricing objectives, determining pricing strategies, price level etc.
  8. **Customer support service:** After sales services.
  9. **Promotion:** Informing the customer about the product and persuading the customer to buy the product.
  10. **Physical distribution:** Decision regarding channels of distribution and physical movement of products.
  11. **Transportation:** Physical movement of goods.
  12. **Storage and Warehousing:** Necessary to maintain smooth flow of production and supply.
- Q.1** Which function of marketing requires gathering & analysis of marketing information?
- Q.2** Before buying a thing a customer analyses its cost and the satisfaction that he is to get from it. He will buy the thing only when he feels that its satisfaction will be more than its cost. Seller is to make the thing while keeping in mind this tendency of the buyer. A seller, who does not pay heed to the importance that the buyer gives to the product, certainly lags behind in competition.

Which feature of marketing has been highlighted in the above paragraph?  
(1)

### **Marketing mix**

A set of marketing tools used by a firm to pursue its marketing objectives in a target market. Product, Price, Place and Promotion are the important elements of marketing mix which are popularly known as Four P's of marketing.

## Elements of Marketing Mix

### I - PRODUCT MIX

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

**Product mix** refers to a combination of various features relating to the product or service like quality, size, range, package, warranty etc.

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

1. **Branding-** Giving a name/a sign; a symbol etc. to a product eg.:

Pepsi.



Nike:



#### **BRANDING**

**Distinct Identification of a Product**

Brand



**AIR INDIA**

Brand Name



Brand Mark



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

### Qualities of a Good Brand Name

1. **Simple and Short** : A brand name should be simple and short as Tata, Bata
2. **Easily Pronounceable** : A brand names should be easily pronounceable as Lux, Dalda.
3. **Suggestive** : Brand name should be self explanatory, suggesting the inherent quality of the product as Ujjala suggests more whiteness.

4. **Distinctive:** Brand name should be so distinctive that it highlights itself in the group of other brand names such as : Tide, Perk.

### Advantages of Branding

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

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

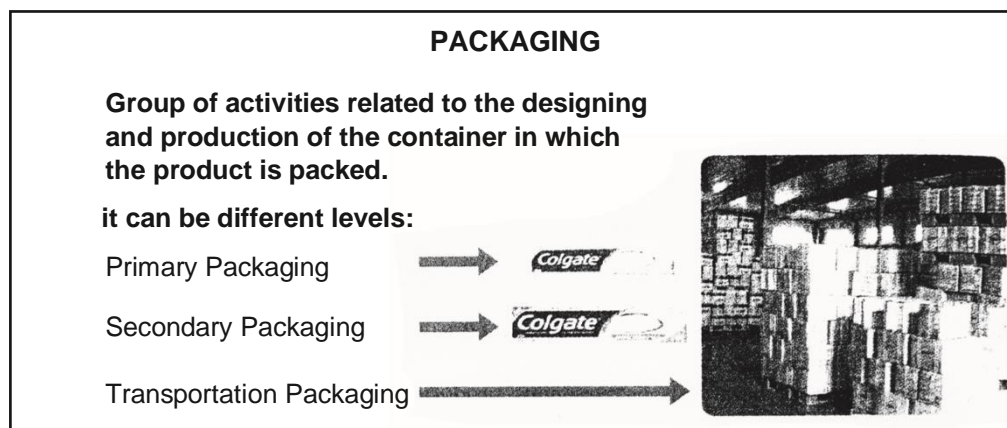
**Q2.** State the advantage of registering 'trade mark'.

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

### Levels of Packaging

1. **Primary Package :** refers to the product's immediate container e.g. toffee in a wrapper, a match box.
2. **Secondary Package:** refers to additional layers of protection that are kept till the product is ready for use e.g. a Colgate toothpaste usually comes in a card board box.
3. **Transportation Package:** refers to further packaging components necessary for storage, identification and transportation e.g. package of toffees are put into corrugated boxes for storing at a manufacturer's warehouse and for transportation.





### Functions of Packaging

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

### Advantages of Packaging

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

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

### **3. Labelling-**

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

#### **Labels perform following functions:**

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

The manufacturer prints all the information related to the product.



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



4. Helps in promotion of products :- Attractive and colourful labels excite the customers and induce them to buy the products. For example :- 40% extra free mentioned on detergent etc.
  5. Providing information required by law :- There is legal compulsion to print batch no., contents, max retail price, weight/volume on all the products and statutory warning on the packet of cigarettes, "Smoking is injurious to health": In case of hazardous/poisonous material appropriate safety warnings need to be put.
- Q1.** 'An important task in the marketing of goods relates to designing the label as it provides useful and detailed information about the products'. In the light of this statement, draw a label for "Tea" and highlight the important information to be provided on it. (3)
- Q2.** One manufacturer of electronic product produces such products which need special care while using it. But the company has not given the instructions to consumers. If you were the manager of the company what steps you would take?
- Q3.** Recently, prices of perfumes, which are one of the major ingredients of agarbattis, have gone up substantially. Since there is keen competition in the agarbatti market, no manufacturer increased the price of agarbattis. In turn, most of the manufacturers opted to reduce the quantity of perfumes in agarbattis to cut their cost of production. This has resulted in decreased quality of agarbattis though their prices have not changed. In order to overcome this problem, Garden Ltd. introduced a new set of agarbattis under the brand name Khushboo. Khushboo agarbattis captured the agarbattis market very quickly.
- (a) Identify the product-related issue involved in the above case and explain its three functions.
- (b) Mention the value which Garden Ltd. adhered to in launching the new set of agarbattis.

## II. PRICE MIX

**Meaning and concept of Price:** Price may be defined as the amount of money paid by a buyer (or received by a seller) in consideration of the purchase of a product or a service. Pricing is crucial for manufacturers, customers and intermediaries. A customer will buy a product only when he perceives that value of a product is at least equal to value of money, which he has to pay in the form of price. Before framing any pricing policy following factors should be considered:

### 1. Pricing Objectives

- (a) to maximise profits in the short term-tend to charge maximum price.
- (b) Obtain large share of the market i.e., by maximising sales it will charge lower price.
- (c) Firm is operating in the competitive market it may charge low price for it.

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

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

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

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

**Q.** ABC Ltd. is introducing a new car in the market. What all factors shall it considers while pricing the car?

## III. Place Mix/Physical Distribution Mix

Covers all the activities required to physically move goods from manufacturers to the customers Important activities include:-

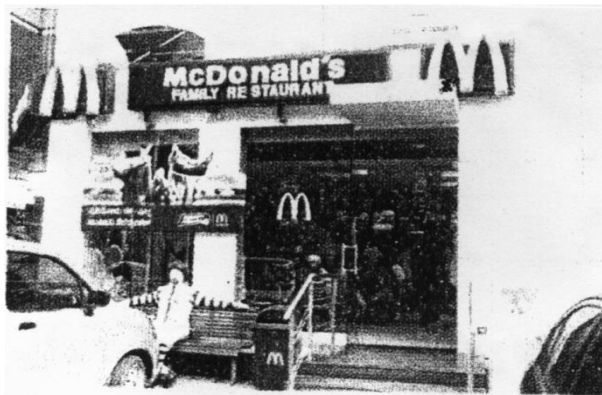
1. **Order Processing** : Accurate & speedy order processing leads to profit & goodwill & vice versa.
2. **Transportation** : Add value of the goods by moving them to the place where they are required.
3. **Inventory control** : Additional demand can be met in less time, the need for inventory will also be low.
4. **Ware housing** : Need arises to fill the gap between the time when the product is produced & time when it is required for consumption.

### **Channels of Distribution**

**Direct Channel** — Manufacturer-Customer

**Indirect Channel** —

1. Manufacturer-Retailer-Customer.
2. Manufacture-wholesaler-Retailer-customer.
3. Manufacture → Agent → Wholesaler → Retailer → Customer

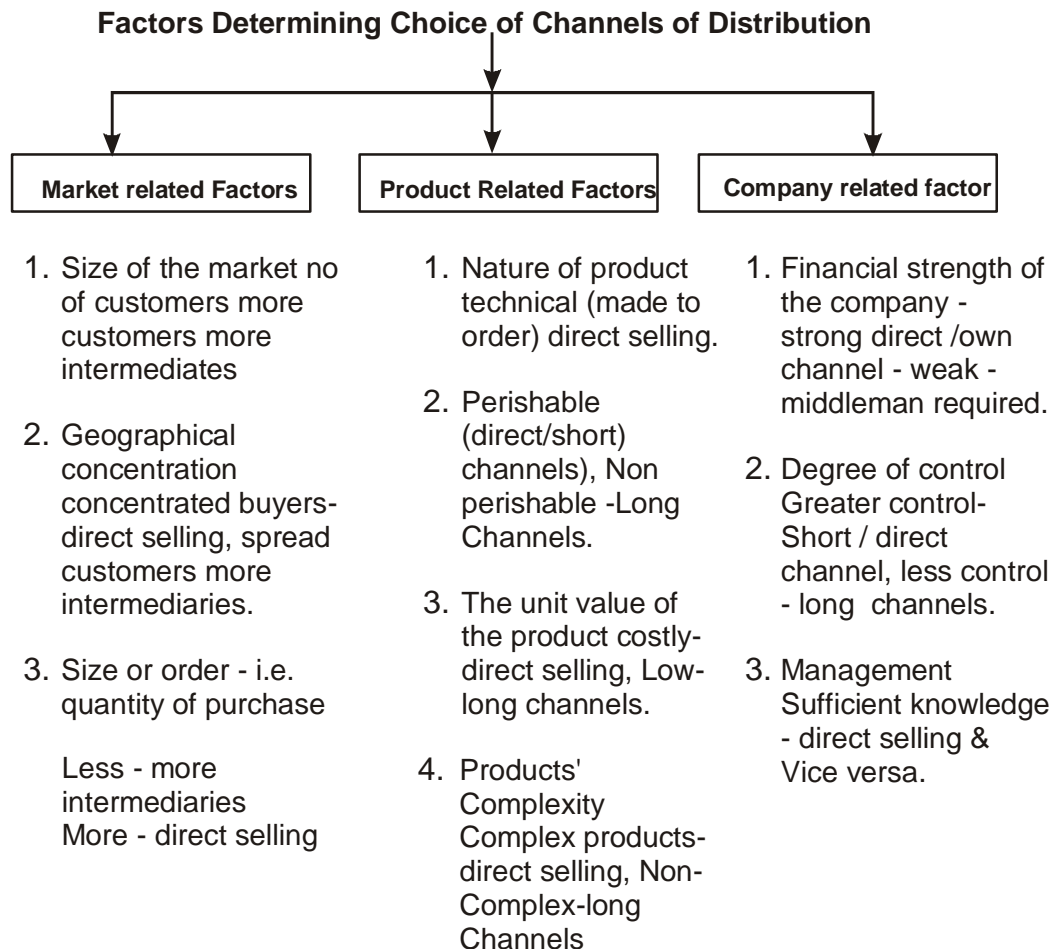


Direct Channel

### **Factors Determining Choice of Channels of Distribution**

Choice of appropriate channel of distribution is a very important marketing decision, which affects the performance of an organisation. Whether the firm

will adopt direct marketing channels or long channels involving a no. of intermediaries is a strategic decision.



- Q.** Simone, a budding entrepreneur wishes to operate a business of Flowers. Since they are perishable in nature, she plans to open a flower shop so that she can directly sell them to the customers. Being a small venture, the number of consumers is also less. So she decides that the direct channel of distribution is better. Her friend, Ankit is a manufacturer of gift. Items. He is confused regarding the level of channel he should follow. Can you guide him regarding the problem? Give points for support of yours answer. (3)

#### IV. Promotion Mix

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

##### Elements of Promotion Mix



##### Tools/Elements of Promotion Mix

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

##### Role or Importance of Advertising

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

**Objections against Advertising :** Though advertising is one of the most frequently used medium of promotion of goods & services but it attracts a lot of criticism/objections against it, which are as follows:

1. **Increased Product Price :** Which is ultimately added to product cost, manufacturers pass this cost to ultimate customers.
2. **Confusion to Customers :** The number of advertisements shown for a single product having different brands confuse the customers and it becomes very difficult for them to make choice.
3. **Encouraging sale of Inferior Products :** In many cases some product features are over emphasized.
4. **Advertisement of Bad Tastes :** Events, models degrade the human dignity.
5. **Undermines Social Values and Promotes Materialism:** It induces the customers to buy more and more products. Because of emphasis on materialism, social relationships are distorted which brings social disorder.

In the changed economic environment of globalisation, advertising is considered as an important tool of marketing. It helps a firm in effectively communicating with its target market, increasing the sale and thereby reducing the per unit cost of production. It is not a social waste rather it adds value to the social cause by giving a boost to production and generating employment.

- Q.1** You have an advertising agency. A manufacturer of consumer product like Soap, Tooth Paste has come to you to help him in promotion of his products. Convince him how advertising can assist in giving boost to his sales?
- Q.2** You are participating in a school debate on the topic 'Role of advertising for the business & society. You have to speak against the topic i.e., on negative fallouts/objections against advertising. Support your topic point wise.



- Q.3** A company makes false claims about getting power from drinking soft drink. What values are lacking in the company?
- Q.4** A commercial unit uses rocks, trees, electric poles, historical managements and walls to advertise its products. Which faults of the company does this advertising policy show?

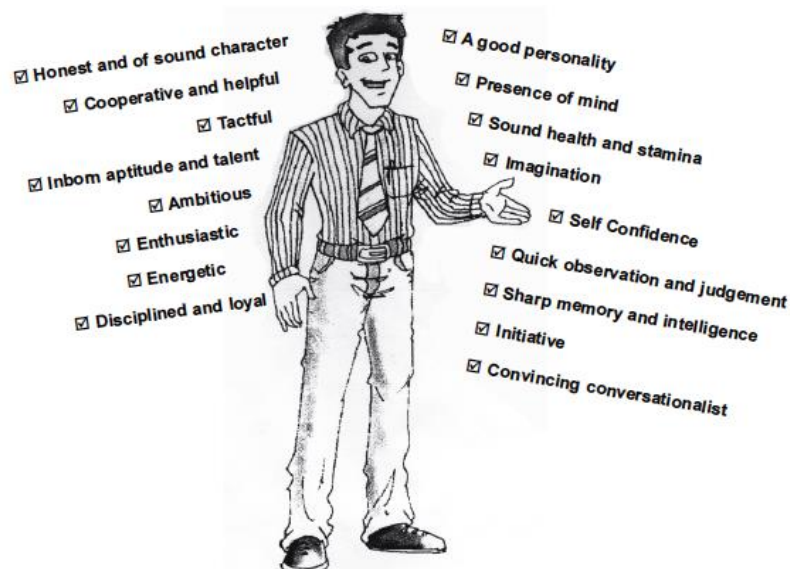
## 2. Personal Selling

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

### Features of the Personal Selling

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

### Qualities of a Good Salesperson



## Qualities of a Good Salesman

1. **Physical Qualities** : Physical qualities include personality health, stamina and tolerance. A salesman can instantly connect with the customers if he is good looking and smart.
  2. **Mental Qualities** : These include mainly skills, mental alertness, imagination and self confidence.
  3. **Technical Qualities** : He should have full and updated knowledge about the product he is selling-Its features, price and variety available. He should be aware of the nature of work carried on by the firm, he is working for.
  4. **Good communication skills** : He should be able to develop a good conversation with the customer. He should be confident while he is communicating and should be able to answer all the queries of the customer satisfactorily.
  5. **Honesty** : It is a very important quality of a good salesman. In order to establish the goodwill of firm he must be honest and sincere in performing his duty. A salesman who resorts to selling inferior goods, charging higher rates, providing wrong information, giving exaggerated claims etc. will cause a decline in goodwill of the firm in the long run.
  6. **Courtesy** : A Salesman who is polite and courteous generates buyer's confidence selling product becomes easy for him.
  7. **Persistent** : "Never give up", is the spirit that a salesman should have. Making the customer buy maximum amount of a product is the ultimate task given to him.
  8. **Capacity to inspire trust** : The salesman should have the convincing power to develop the belief in a customer that the product he is buying is the best product in the market.
- Q.1** Sanjay is a salesman at Croma Store, an electronic goods initiative. He has been awarded 'Employee of the year'. What qualities do you think he must be having to receive the award?

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

### 3. Sales Promotion

Short term incentives designed to encourage the buyers to make immediate purchase of a product/service.



#### Techniques:

1. **Rebate** : Special price to clear off excess inventory.
2. **Discounts** : Price reduced to induce buyers to buy more.

3. **Sampling** : Free sample of a product to customers to try product & learn about it.
4. **Lucky draw** : Lucky draw coupon e.g. purchase an easy product & win a car etc.
5. **Full Finance @ 0%** Easy financing schemes.
6. **Contests** : Competitive events involving application of skills or luck.
7. **Product Combination** : Offering another product as gift along with the purchase of a product.
8. **Instant draws and assigned gift** : Scratch a card and instantly win a prize with the purchase of a TV, T. Shirt, Refrigerator etc.
9. **Quantity Gift** : Offering extra quantity of the product e.g., Buy three LUX soaps and get one free.
10. **Refunds**: Refunding a part of price paid by customer on some proof of purchase.
11. **Usable benefit**: Purchase goods worth ₹ 5000 and get two movies tickets.

**Q.1** Which techniques of sales promotion is being referred to in the below given points:

- (i) Free sample of shampoo pouch with a fairness cream.
- (ii) Upto 50% off on most items.
- (iii) Tooth brush free with Tooth paste.
- (iv) Buy 3 packs of 1 litre juice and get another free.
- (v) Scratch the card and dial a number to win a car.

**Q2.** A tea producer uses such packets/things for packing tea, which can be used, even after consuming the tea, for other purposes. Here, which values are being affected by him?

- Q3.** A company uses same promotional schemes like ‘buy one, get one free’, free samples, free gifts and so on to boost the sales of its products and earn higher profits. This results in unnecessary hike in the prices of the products. In your opinion, is this policy in the interest of society?

## **Public Relations**

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

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

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

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

2. **Press Kits:** It is a comprehensive package of information outlining a company’s products and services most frequently sent to members of the press. It includes

- A brief company biography.
- Information of senior management.
- Comments from customers.
- Reprints of newspaper and magazine articles.
- Photos of products.

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

4. **Newsletter:** It is a printed publication produced at regular intervals focussing on a particular set of people. The content of a newsletter is presented in a writing style that is less formal and letter-like. For example, a newsletter published by a college consists of information about activities conducted during a particular period, special achievements by students or teachers, etc.
5. **Events and Press support:** Special events are acts of news development. The ingredients are time, place, people, activities, drama, showmanship; one special event may have many subsidiary events, such as luncheons, banquets, contests, speeches, and many others as part of the build up.
6. **Conferences and Seminars:** Conferences and seminars are conducted for making people aware about the organization. For example travel companies generally call prospective clients and offer travel packages. The members are contacted through telephones and asked to attend seminar.
7. **Websites:** A website acts as a window for the outside world to know an organization. So it is designed not just to serve as a resource for members, but also to present a positive message to non-members who are browsing through.

## **ROLE OF 'PR' IN AN ORGANISATION**

- (i) Smooth functioning of business and achievement of objectives.
- (ii) Building corporate image that affects favourably on its products. Up keep of parks, gardens, sponsoring sports activities etc.
- (iii) Build interest in the established product and help in launching products.
- (iv) Establishing positive image if products facing adverse publicity.
- (v) Acting as a supplement of advertising in promoting new as well as existing products.

**Q.1** 'Various tools of communication are used by the marketers to promote their products.'

- (a) Why do companies use all tools at the same time?
- (b) Name and explain the most commonly used non-personal tool of promotion which is paid for by the marketer.
- (c) Which tool of promotion will primarily be used for the following?
  - (i) To promote or protect a company's image or its individual products.
  - (ii) An existing product meant for mass usage by literate people.
  - (iii) To introduce a new product to a particular class of people through door-to-door visits.
  - (iv) To attract attention of the people by using incentives.

**Q.2** As a project work in Business Studies subject, the Commerce students of "Knowledge School" thought of setting up a recycling plant to recycle all the waste papers from the school and prepare registers and exercise books to be used by the school students. They approached their Principal who not only appreciated the idea of the students but also gave them consent for the same. The school also decided to donate 50% of the revenue generated from the sale of registers and exercise books to a nearby blind school.

- (a) State the product related decisions which the children have to take.
- (b) Suggest any two factors the children should keep in mind while choosing the right name for their exercise books and registers.
- (c) Identify any two values communicated to the society by this project of 'Knowledge School' (5)

**Q.3** Innovators Ltd. is business from manufacturing water purifier. It has already been manufacturing water purifiers since last 10 years. Now it has

come up with a latest innovation in the field of RO purifiers which will avoid wastage of water. It knows that there are many competitors in the field as Whirlpool, Aquaguard, Zero B, Kent, Eureka Forbes, LG etc.

- (i) Which value is adopted by the company? (1)
- (ii) Suggest which factors should it keep in mind while fixing the price of purifier (any 3) (3)
- (iii) Which channel of distribution should the company adopt? (1)
- (iv) Which is the most appropriate sales promotion methods for this. (1)

**Q.4** Mr. Akshay is the Sales Manager of Nova Ltd. Since last few months, performance of his department has failed to reach the acceptable level. It is a matter of concern for the General Manager. He is keen to mend this dismal situation at any cost. Mr. Akshay made efforts to find out the causes of this situation. He found that the members of his team lacked training and that giving incentive to the buyers was absolutely necessary. To impart training to his team members he set up a training center and appointed a trainer for this purpose. The trainer imparted them necessary training keeping in mind the actual situation. Besides Mr. Akshay launched a scheme for the customers. Under this scheme, a coupon is to be issued to that consumer who buys goods to a specified date. Later on, draw will be taken by a given date and will be distributed among the winners.

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



## CHAPTER -12

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### CONSUMER PROTECTION

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

**Betty Furness, an American Consumer Advocate**

#### CONSUMER PROTECTION

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

**Generally consumers are exploited by:**

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



Protecting consumers from unfair trade practices, adopted by the producers and sellers of goods and services is termed as consumer protection. It not only includes educating consumers about their rights and responsibilities, but also helps in getting their grievances redressed.

#### **Importance of Consumer Protection (from Consumer's point of view)**

1. **Consumers' Ignorance** : Majority of consumers are not aware of their rights and reliefs available to them as a result of which they are exploited. In order to save consumers from exploitation, consumer protection is needed.
2. **Unorganised Consumers** : In India consumers are still unorganised and there is lack of consumer organisations also, thus consumer protection is required.

3. **Widespread Exploitation of Consumers** : Consumers are exploited on large scale by means of various unfair trade practices and consumer protection is required to protect them from exploitation.

**Importance of Consumer Protection**  
(from the point of view of Business)

**Traditional Approach**

Caveat Emptor  
(Let the buyer beware)

**Modern Approach**

Caveat Venditor  
(Let the seller beware)



**Market- Consumer = Zero**

1. **Long term Business Interest** : It is always in the interest of the business to keep its customer satisfied. Global competition could be won only after satisfying customers. Satisfied customers lead to repeat sales and help in increasing customer base of business.
2. **Moral Justification** : It is the moral duty of any business to take care of consumer interest & avoid any form of their exploitation & unfair trade practices like defective & unsafe products, adulteration, false and misleading advertising, hoardings, black marketing etc.
3. **Business uses resources of society**: Every business uses the resources of the society and thus it is their responsibility to work in the interest of the society.
4. **Social Responsibility** : A business has social responsibilities towards various groups like owners, workers, government, customers etc. Thus, customers should be provided qualitative goods at reasonable prices.
5. **Government Intervention** : If a business engages in any form of unfair trade practices then government takes action against it, which adversely affects its goodwill.

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

### **Meaning of Consumer**

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

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

### **Meaning of Consumer Protection**

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

1. To protect and promote the interest of consumers by recognising consumer's rights such as right to safety, right to be informed, right to choose, right to be heard, right to seek redressal and right to consumer education.
2. To provide for a simple, speedy and inexpensive redressal of consumer grievances by setting a 3-Tier enforcement machinery.

### **Rights of a Consumer**

Consumer Protection Act, 1986 has provided six rights to the consumers, which are as follows:

1. **Right to Safety:** Consumer has the right to be protected against products, & services which are hazardous to health & life (should use ISI marked electronic devices).
2. **Right to be Informed:** Consumer has right to have complete information about the product before buying it.



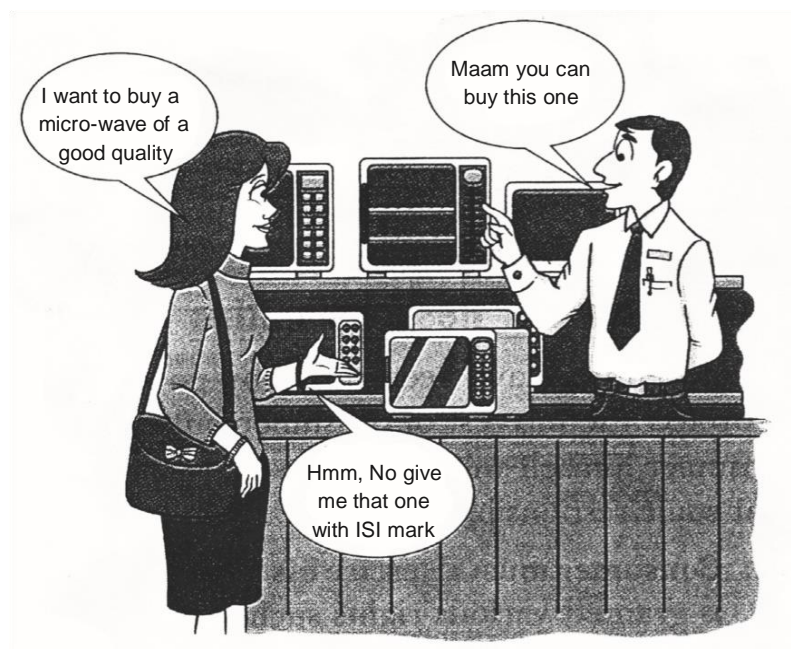
Manufacturing Date (20th Aug., 2016)

Price (Rs. 35)

Quantity (330 ml)

Expiry Date (Best before Jan., 2017)

3. **Right to choose:** Consumer has a right to choose any product out of the available products as per his own decision making.



4. **Right to be heard:** Consumer has the right to file a complaint to be heard in case of dissatisfaction with goods or services (use of grievance cell)
5. **Right to Seek Redressal:** Consumer has the right to get relief in case the product or service falls short of his expectations or is dangerous. He may be provided with replacement/removal of defect or compensation for any loss. Various redressal forums are set up by the Govt. at National and State level.

6. **Right to consumer education:** Consumer has the right to acquire knowledge and to be well informed throughout life. He should be made aware of his rights and reliefs available to him in case of the product or service falls short of his expectations. The Govt. of India has included consumer education in the school curriculum & is making use of media to make consumers aware of their rights.

### Responsibilities/Duties of a Consumer

1. **Consumer must exercise his rights:** Consumers must be aware of their rights with regard to the products or services they buy from the market.
2. **Consumer must be a Cautious consumer:** While buying a product or services, a consumer should read labels carefully.
3. Consumer must file a complaint in an appropriate forum in case of any shortcoming in product/service availed.
4. Consumer must insist on cash memo i.e a proof of purchase is required to file a complaint.
5. Consumer must be quality conscious. He should ask/look for ISI mark on electric goods. FPO mark on food products, Hall mark on jewellery etc.

<u>CONSUMER MUST BE QUALITY CONSCIOUS</u>			
	Hallmark is standard for accurate determination of the precious metal		Agmark is standard for prescribed agricultural commodities and live block.
	FPO aims at standard for manufacture of fruit & vegetable products.		ISI is a standard for electrical goods.

**CONSUMER MUST BE QUALITY CONSCIOUS**



Earthen pitcher signifies the products are environment friendly.

6. Consumer must bring the discrepancy in the advertisement to the notice of the sponsor.
7. Consumer must exercise his legal right. If any of these rights is violated by manufacturer or seller, the consumers must file a complaint with the legal machinery constituted under CPA, 1986.

## **Questions for Practice**

- Q1.** Sonu purchased a medicine from 'Alpha Medical stores' for his wife who had stomach pain. But even after giving the medicine, wife's condition did not improve and she had to be admitted to a nearby hospital for treatment. Doctors on examination found that the medicines given to sonu's wife were spurious. Sonu complained about this to "Alpha Medical Store". As a result Alfa medical decided to file a complaint against the manufactures in the consumer court. Can Alpha Medical store lodge the complaint ? Give reason. (1)
- Q2.** Neha's elder brother purchased "I Phone 6 - Apple" mobile phone for Rs. 65,000 without cash memo from one of his friend-an authorised dealer with a guarantee that the mobile phone will be replaced with a new one if any of its parts become defective within 1 year from the date of purchase. Within 1 month, the mobile stopped working. When Neha's brother approached his friend for replacement of mobile, he refused. Name the redressal agency under the consumer protection act where Neha's elder brother can file the complaint. (1)
- Q3.** Rama, who was a vegetarian, went to a bakery and bought a vanilla cake. On reaching home. She found that it had non-vegetarian content. Neither the advertisement nor the packaging of the product displayed that the product had non-vegetarian content. Will Raman be able to claim compensation? Which right is violated here? (1)

### **THE SALIENT FEATURES AND PROVISIONS OF CONSUMER PROTECTION ACT, 1986**

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#### **Who Can File A Complaint Under CPA, 1986**

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

1. Any consumer.
2. Any registered consumer association.
3. The central or state government.

4. One or more consumers on behalf of numerous consumers having same interest.
5. A legal heir or representative of a deceased consumer.

### **Against whom can a complaint can be filed?**

Consumer Protection Act, 1986 is applicable to all types of undertakings, whether big or small, private or public, or in co-operative sector, manufacturer or a trader, wholesaler or retailer, supplying goods or providing services.

### **Thus, a complaint can be filed against:**

1. The seller, manufacturer or dealer of defective goods. Defect means any fault, imperfection or shortcoming in the quality, quantity or purity of goods.
2. The provider of services if they are deficient in any manner. Deficiency means any imperfection, shortcoming or inadequacy in the quality, nature and manner of performance of services.

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

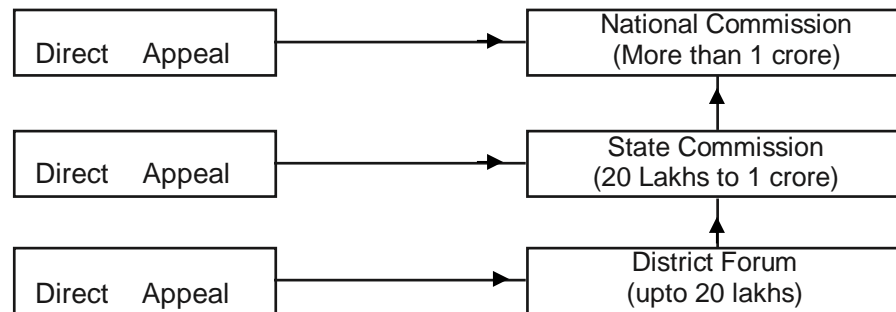
The term service includes any service that is not rendered free of charge.

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



## REDRESSAL AGENCIES UNDER CONSUMER PROTECT ACT, 1986

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



### Redressal Agencies

#### 1. DISTRICT FORUM

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

- (a) It consists of a President and two members, one of whom should be a woman, duly appointed by State Govt.
- (b) It can receive consumer complaints of not more than Rs. 20 lakhs value.
- (c) On receiving the complaint, the district forum shall refer the complaint to the opposite party concerned and send the sample of goods for testing in a laboratory.
- (d) The district forum after being satisfied that goods are defective or there is some unfair trade practice can issue an order to opposite party directing him to either replace or return the price or pay compensation. In case the aggrieved party is not satisfied with the order of district forum. He can appeal before state forum within 30 days of passing an order.

## **2. STATE COMMISSION**

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

- (a) Each commission consists of a president and at least 2 members appointed by state Govt.
- (b) Complaints of at least Rs. 20 lakhs but not more than 1 crore can be filed with state commission.
- (c) On receiving the complaint, the state commission can also refer the complaint to opposite party and send the goods for testing in laboratory.
- (d) The state commission after being satisfied can order to opposite party to either replace or repay or pay compensation.

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

## **3. NATIONAL COMMISSION**

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

- (a) It consists of a President and at least 4 members appointed by Central Govt.
- (b) All complaints are pertaining to goods and services of value more than Rs. 1 crore can be filed with national commission.
- (c) On receiving the complaint, the national commission can also refer it to opposite party and send goods for testing.
- (d) The National Commission has the power to issue orders for replacement or removal and to pay the compensation for loss.

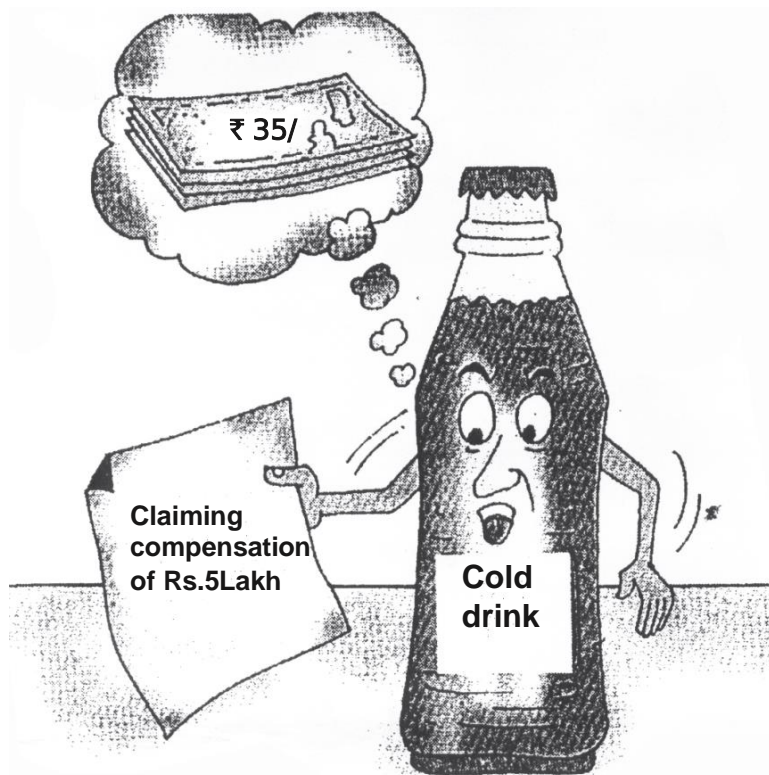
**Q.1** Mukul purchased a house for Rupees 30 lakhs from a housing company and found it being defective. Despite many complaints the defect was not rectified. He filed a complaint in the state commission but was not satisfied with the order. Where can he appeal and in how many days.

**Ans.** National Commission within 30 days of passing of the order of State Commission.

**Q.2** Prabhakar purchased an ISI Mark electric Iron from Bharat Electricals. While using he found that it was not working properly. He approached the seller and complaint for the same. The seller asks the manufacturers to replace this Iron. The manufacturer refused to do so and Bharat Electricals decides to file a complaint in the Consumer Court.

- (i) Can Bharat Electricals do this? Why?
- (ii) Who can file a complaint in this case?
- (iii) Name the Consumer right that can be exercised.
- (iv) Name the values “lacking” in the manufacturers in this case.

**Q3.** Name the Consumer Court where the complaint will be filed by the consumer.



- Q4.** Naresh purchased a 'BMW' car for Rs. 50,00,000 on instalments. He found that the engine of the car was defective. Despite many complaints to 'BMW Motors', the defect was not rectified. He filed a complaint in state commission but was not satisfied with its order. Where can he appeal and within how many days?
- Q5.** A farmer purchased seeds worth Rs. 20,000 from Bharat Fertilisers" for agricultural purposes. The seeds were very costly as they were of hybrid variety. After 6 months he noticed that the agricultural produce was not upto expected standard. He reported this matter to the seller, but he refused to accept the liability. Mention the redressal agency in which he can file a complaint.
- Q6.** On securing 95% marks in class XII, Ram's father gifted him a gold chain. But after 2 months, Ram noticed that the gold chain was losing the shine. He checked the mark on chain and found that it was not a proper hall mark (BIS). He lodged a complaint in the district forum, which rejected it. Not satisfied by the decision of district forum, he was very much disturbed and after 45 days, he decided to appeal further.

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

### **REMEDIES AVAILABLE TO CONSUMERS**

1. To remove the defect in goods or services.
2. To replace the defective product with new one free from defect.
3. To refund the price paid for the product/service.
4. To pay compensation for the loss or injury suffered by the consumer due to product/service.
5. To discontinue the unfair trade practice and not to repeat them.
6. To withdraw the hazardous goods from sale.

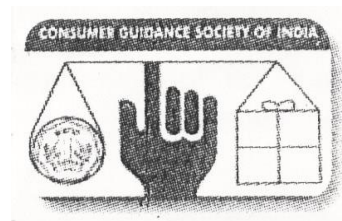
7. To pay any amount (not less than 5% of value of defective goods) to any person, consumer organisation.
8. To issue corrective advertisement to neutralise the effect of a misleading advertisement.

## **CONSUMER AWARENESS**

Some important consumer organization and NGO's engaged in protecting consumer interests are:

1. Consumer coordination council, Delhi.
2. Voluntary organisation in Interest of Consumer Education, Delhi.
3. Mumbai Grahak Panchayat, Mumbai.
4. Consumer Association, Kolkata.

### **CGSI**



5. Consumer Unity and Trust Society Jaipur.

## **Role of Consumer organisations and NGO's**

1. Educating the general public about consumer rights by organising training programmes, seminars and workshops.
2. Publishing periodical & other publications to educate consumers.
3. Providing legal assistance to consumers by providing legal advice etc.
4. Producing films or cassettes on food adulteration, misuse of drugs etc.
5. Filing complaints in appropriate consumer courts on behalf of consumers.
6. Encouraging consumers to take on action against unfair trade practices.
7. Taking an initiative in filing cases in consumer courts on behalf of consumers.

## Ways and Means of Consumer Protection

1. **Government:** Protects the interest of consumers by enacting various legislations like CPA, 1986, Sale of Goods Act 1930, Bureau of Indian Standard 1986 etc. Consumer Protection Act provides for a three-tier machinery at the district, state & national level for speedy & inexpensive redressal of consumer grievances.
  2. **Consumer Organisation:** Force business firms to avoid mal practices & exploitation of consumers.
  3. **Business Association:** The associations of trade, Commerce & business like federation of Indian Chambers of Commerce (FICCI), Confederation of Indian Industries (CII) have laid down their code of conduct for their members in their dealings with the customers.
- Q1.** Geeta's mother bought a facial steamer from "Nova Electricals". Her mother got electric shock while using the steamer and she had to be taken to a doctor. Which remedy is available to her? (1)
- Q2.** Sohan's maid gifted a refrigerator worth Rs. 18,500 to her daughter on her marriage which was later found defective. She being poor and illiterate does not know how to forward her complaint in consumer court. Suggest her, whom can she approach for forwarding her case. (1)
- Q3.** Soni, purchased and used a bleach cream which was expired. She got scars on her face due to this. Give any one relief available to Soni, who suffered scars on her face due to usage of expired bleach cream. (1)

## **Questions for Practice**

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

- (1) Identify and explain the consumer liabilities which have not been discharged by Mr. Aakash.
- (2) Mention the values which have been ignored by the seller as well as of Mr. Aakash.

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

- (1) Where should Tanya file the complaint for the for the cream? Justify.
- (2) Which values have been violated here?

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

**Q4.** Joseph had got a confirmed ticket of Jet Airways. The flight was later cancelled on account of technical problem. Is it a deficiency in service? What relief can Joseph seek in this regard?

### **4 MARKS QUESTIONS**

**Q5.** ‘Sehaj bought Teak wood furniture for his drawing room from “Akshay Decors” of Kirti Nagar, Delhi for Rs. 4 lakhs. At the time of purchase the

firm assured Sehaj about the best quality of the said furniture and gave 2 years warranty starting that if anything goes wrong, the firm shall replace it with a new one or refund the purchase amount. But the dining table and chairs started developing cracks at various places and the polish' became very dull within 30 days of purchase. Sehaj reported the matters to the firm and requested a number of times to replace the furniture. The firm neither paid attention to these requests nor replaced the furniture.

- (1) Identify the consumer rights which have been violated by the furniture manufacturer.
- (2) Where can Sehaj lodge complaint for this?
- (3) Mention the values (2) which have been violated by the firm.

**Q7.** Name the products to which the following quality certification marks are associated.





## UNIT 5

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### EVALUATION QUESTIONS

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

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

- (i) Which channel of distribution were they partners using to sell the readymade garments.  
(1)
- (ii) Name the market which they used to tap financial resources for expansion.  
(1)
- (iii) Which channel of distribution are they planning to adopt now? Explain.
- (iv) Identify the values being adopted by the entrepreneurs. (1+1)

**Q2.** Ashok Kumar, marketing manager of a newly established firm dealing in detergent powder was asked to design marketing strategy for promoting sales of the product.

He called the advertising team, discussed the medium and cost of media, competitors advertising media etc. and finally planned the advertisement for the product.

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

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

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

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

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

[Hint: Public Relations]

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

- (i) In the above paragraph mention has been made of three acts related to the protection of consumer's interest. Quoting the lines, identify them.
- (ii) Also identify two values dedicated to the society as mentioned in the paragraph. (4)

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

Role plays of sample 5 students were as follows:

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

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

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

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

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

1. Identify the marketing management orientations discussed above quoting lines from the above case. (5)
2. Which orientation according to you is the best one and why? (1)

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

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

- (i) Determination of trade and cash discount.
  - (ii) Credit policy, i.e. whether goods to be sold on credit or not.
  - (iii) Period of credit and procedure to be adopted in case of non-receipt of payment even after the expiry of credit period.
- (i) Which function of management is discussed above?  
(ii) Name the type of organisational structure adopted by Beta Ltd. (1)  
(iii) Which variables of marketing is referred above?  
(iv) Discuss any 3 factors which affect the determination of such variables.

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

1. Identify the right and responsibility of the consumer referred to in the above paragraph. (1)
2. Which elements of 'Promotion Mix' have been referred above? (3)

3. Which variable of Marketing has been ignored by the company? (1)
4. Can kamal claim any relief in the above case? (1)

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

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

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

1. Which style of leadership is being practised by Area Sales Managers? (1)
2. Which types of communication took place above? Explain quoting lines from para. (2)
3. Which pricing strategy was the company adopting for selling wheat flour? (1)
4. What according to you can the options for stimulating sales temporarily?(Any 2)? (2)

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

- Q9.** Vyas learnt the art of Ayurveda from his father. He kept practising it under his father's guidance. After reseraching for 2 hrs, he developed a hair oil using natural herbs which could turn grey hair to black again and also aid

in promoting hair growth. Slowly and gradually his successful formula gained a lot of popularity. In order to avoid rush in his clinic, he made the hair oil available at chemist shops in his market.

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

1. Which identify the important product related decision did Vyas forget? (1)
2. Explain the benefits, Vyas would have desired by making such decision well in time? (4)  
(Branding, Trademark)

**Q10.** During the month of June 2015, in a train ‘Pooja Express’ going to Holy Shrine - Mata Vaishno Devi; few people in AC coach were evaluating. The success of the Central Government, their reforms, market scenario, Indian economy etc. Following are the extracts of their discussion: -

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

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

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

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

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

- (i) Which dimensions of business environment have been discussed above?
- (ii) Identify the sales promotion scheme launched by the Co.
- (iii) Identify the importance of Consumer Protection Act from the point of view of consumers. Give one point.
- (iv) Identify the importance of Consumer Protection Act from the point of view of business. Give two points.

## **SAMPLE PAPER**

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### **BUSINESS STUDIES**

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**Time allowed: 3 hours**

**Maximum Marks-80**

- Q.1** Name the level of management responsible for all the activities of first line manager. (1)
- Q.2** Name the activity which increases the importance of the role of subordinates. (1)
- Q.3** Identify the organisation structure which specialises manager in performing specific functions. (1)
- Q.4** State the objectives of motion study. (1)
- Q.5** Name the concept which increases the return on equity shares with a change in the capital structure of a company. (1)
- Q.6** Zeno Ltd. has been producing biscuits since 1991. Market share of the company is quite higher than its competitors. Every year, company is providing good amount of dividend to all shareholders. During Annual General meeting in 2016, company put proposal of diversifying into field of production of 'Cold beverage' with consent of shareholders, dividend of 2015-16 was retained and fixed capital was arranged. Identify and explain the factor affecting the fixed capital requirement of the company for producing 'Cold beverages'. (1)
- Q.7** A soft drink manufacturing concern is spending a lot of money on making good advertisement for their product is depending largely on the quality of advertisement. Name the marketing philosophy followed by the firm. (1)



- Q.8** Mr. Narendra purchased a new car for 5 Lakhs. After a few days it was found that car was defective. To which government agency he can file complaint? State the limits also to file complaints in that agency. (1)
- Q.9** Explain the following features of Planning.
- a) Planning is Pervasive.
  - b) Planning is Mental Exercise. (3)
- Q.10** During the annual function of Rajan Ltd., the employees were interacting with each other. One of the supervisors gave a suggestion to the Manager of his Department. The manager appreciated the suggestion very much. He gave an appreciation letter to the supervisor during the function to encourage him. This had a positive effect on other employees also:
- a) Identify the type of communication used. Give one advantage of such communication.
  - b) Identify the type of incentive referred above. (3)
- Q.11** The HR manager of 'Murti Enterprises' was issued guide line on following by the General Manager:
- (i) "How the employees can perform all the activities more efficiently which are being carried out currently by them." (1)
  - (ii) "How to enable the employees to take upon themselves big responsibilities in future." (2)
- a) Which function of management is being referred above?
  - b) Name the two important concepts discussed in guidelines given to HR manager.
- Q.12** Mohan was holding 100 Equity shares of Arvind Mills Ltd. He went to a share broker to sell these shares. The share broker saw the share certificate. The broker said to Mohan "Convert the physical certificate into electronic form."
- a) Write the name of account which will be opened by Mohan.
  - b) Explain any two benefits of this account. (3)

**Q.13** “The consumer has a right to know about the quality ,quantity, ingredients, date of manufacturing and date of expiry of the product he is buying.”  
Identify the underlined consumer right. Enlist other consumer rights as per consumer protection act also. (3)

**Q.14** “Co-ordination is needed at all levels of management and it is the responsibility of all managers.” Explain. (3)

**Q.15** The court issued the order that it was essential that vehicles should not release harmful smoke and gases. Anyone, Violating this order shall have to pay a heavy fine. Abiding by this order was necessary for the health of people. Making this strict order of the court as the base, “Pran Motors Ltd” resolved to manufacture such vehicles by using modern technology which do not produce any smoke at all. The government also announced to provide help in several ways to set up such industrial units.

- a) Identify the dimensions of Business Environment described in the paragraph above by quoting the relevant lines.
- b) Write any one of the values being followed by the court. (3+1)

**Q.16** Madan Gopal Foods Ltd. is a famous company making different food materials. Mr. Madan Gopal is the managing director of the company. He is fully attached to the employees of his company. This is the reason that before taking every decision he consults all the concerned employees. A suggestion box has also been provided in the company. It is opened once a week. The employees giving positive suggestion are rewarded. Besides all the employees of the company also enjoy full freedom to communicate with any senior officer any time, concerning matters of both types related to their jobs or their personal lives.

- a) Identify the form of organisation described in the paragraph given above and write about two of his advantages.
- b) Which values have been highlighted in this paragraph. Write about any two of them. (4)

**Q.17** Gaba Ltd. a company manufacturing footwear and facing problem of dipping production targets. On recommendation of General Manager, the company consulted an expert. He investigated the matter and concluded:

The Keyman in the management, who assures that the work is done as per plans and instructions was missing from the hierarchy. He acts as a link between workers and management. He keeps a close eye on the workers, checks deviation and takes corrective measures. As a result, the workers start doing effective work in the minimum possible time.

- a) Name the 'Keyman' referred above. (1)
- b) Give suitable headings to the tasks of keyman referred in (a) by quoting lines from the extract. (3)

**Q.18** 'Alpha Ltd.' a multinational company involved in production of different kinds of products, decides to follow aggressive promotional techniques which are:

- a) Offering extra quantity for toiletry products.
- b) Offering clothing products at 20% less than list price.
- c) Offering two movie tickets free with purchase of their products worth ₹ 2000.
- d) Offering free samples of detergent powder.

Identify and explain the above mentioned sales promotion techniques.

(4)

**Q.19** Write the difference between Capital Market and Money Market on the following basis:

- a) Participants.
- b) Instruments Trade.
- c) Liquidity
- d) Risk

(4)

**Q.20** Mrs Renu Natrajan, The Principal of 'Prince Public School' appointed Mr. Sansar Chand as the coach for football team which was to play the final match in the state level tournament. During training the coach inspired the players to make up their mind to win the match in all circumstances. Also he stressed that they had to win the match with the difference of at least five goals from the losing team. He explained special methods to the players for playing both offensive and defensive game. Also he told them about how to beat the opponents. Football would be passed from one player to the other until it reached the goal box of the opposite team. At the end of the training, the coach warned all the players against misbehaving with any of the players of the opposite team, otherwise, they could be punished.

- a) Identify the type of plans mentioned in the above paragraph by quoting lines. (4)
- b) State any one advantage of planning highlighted in the above paragraph. (1)

**Q.21** The Business Studies teacher of class XII organised a game for the students of Commerce Club in a reputed school of Delhi. She made chits and wrote some content on it and therefore folded them. The students who were divided in 4 teams were required to send 1 student each, who will pick up 1 chit, identify name the reward written on it as well as classify it as financial or non-financial.

**Content of the chits was as follows:**

1. Rent free accommodation
2. Dividend participation in management along with regular rewards.
3. Awarding certificates of merits
4. Assignment of challenging jobs

5. Provident fund and gratuity.
6. Permanence and stability of job
7. Honouring for offering valuable suggestions
8. Basic pay and dearness allowance
9. Training and development opportunities
10. Raising the rank or position

Name the rewards written on chits (1 to 10) by classifying them under financial and non-financial incentives. (5)

**Q.22** 'Ultra-tech value homes' is a real estate company in Gurgaon. Mr. Vedu is the Founder Director of the company. Under his able guidance, the company has the record of handing over the projects to its customers either before scheduled time or well in time. The customers are very happy and satisfied. The market value of shares is increasing. Influenced by grand success, CNBC invited Mr. Vedu for a talk show.

His success mantra included the following:

1. Changes in the environment as well as organisation be reviewed and standards be revised.
2. Work of employees evaluated and progress report be prepared.
3. Work of each department and employee be well planned and scheduled with respect to others.
4. Optimum use of human and physical resources.
5. Progress towards goals be mentioned and analysed immediately.
  - a) Identify the function of management referred above.
  - b) Quoting the lines, identify the importance of the function referred above. (a) (5)

**Q.23** Explain "Differential Piece Rate" and "Functional Foremanship" as techniques of Scientific management. (6)

**Q.24** Gama Ltd. is a plastic manufacturing company Debt equity ratio of the company is ideal one i.e. 2:1. Where debt = ₹ 20,00,000 and Equity ` 100,000 (₹ 10 per share). Company wishes to raise its scale of operations from national to international, for which it requires additional capital of ₹ 20,00,000 finance. Finance manager advised to collect the additional capital required from 15% debentures worth ₹ 10,00,000 and ₹ 5,00,000 by equity shares and ₹ 5,00,000 from preference shares, whereas CEO advised him to issue equity shares worth ₹ 20,00,000 as it will work as permanent capital. In your opinion whose advice is appropriate? How? (Show relevant calculations)

(1+5=6)

**Q.25** Sangeeta has recently completed her MBA course. As she had knowledge of the business, she started taking interest in her parental business. Her father used to do wholesale business of wheat. Sangeeta suggested her father to go in for retail business of wheat. Her father agreed. He entrusted full responsibility of new business to Sangeeta.

First of all, she conducted market survey and tried to obtain information regarding the kind of wheat prices and weight of its packing, that the people liked. On the basis of information obtained from the market, she concluded that people liked 'Desi' wheat the most. In order to show that her wheat was distinct from that of other traders, she gave it the name of 'Kudrati Health Food' packed in eco-friendly attractive packs. labelled it properly, determined competitive price and contacted selected retailers to distribute.

Within a few days, Sangeeta was known as a successful trader.

By quoting lines, identify and state various elements of marketing mix.

(6)

# CBSE Question Paper- 2016

## (Set 1)

**Time allowed: 3 hours**

**Maximum Marks: 80**

- (i) Answers to questions carrying 1 mark may be from one word to one sentence.
  - (ii) Answers to questions carrying 3 marks may be from 50-75 words.
  - (iii) Answers to questions carrying 4-5 marks may be about 150 words.
  - (iv) Answers to questions carrying 6 marks may be about 200 words.
  - (v) Attempt all parts of a question together.
- 
- 1. Management is the process of getting things done.' State the meaning of the term 'process' used in this statement. (1)
  - 2. Give the meaning of 'authority' as an element of delegation. (1)
  - 3. Name the type of 'Organisation structure' which promotes efficiency in utilisation of manpower. (1)
  - 4. State the role of 'gang boss' in function foremanship. (1)
  - 5. The size of assets, the profitability and competitiveness are affected by one of the financial decision. Name and state decision. (1)
  - 6. Radhika and Vani who are young fashion designers left their job with a famous fashion designer chain to set-up a company 'Fashionate Pvt. Ltd.' They decided to run a boutique during the day and coaching classes for entrance examination of National Institute of Fashion Designing in the evening. For the coaching center they hired the first floor of a nearby building. Their major expense was money spent on photocopying of notes for their students. They thought of buying a photocopier knowing fully that their scale of operations was not sufficient to make full use of a photocopier.

In the basement of the building of 'Fashionate Pvt. Ltd' Praveen and Ramesh were carrying on a printing and stationary business in the name of 'Neo Prints Pvt. Ltd.' Radhika approached Praveen with the proposal to buy a photocopier jointly which could be used by both of them without making separate investment, Praveen agreed to this.

Identify the factor affecting fixed capital requirements of 'Fashionate Pvt. Ltd.'

(1)

7. Name the marketing function which is concerned with informing the customers about the firm's products. (1)
8. Manuj bought a packet of chips from a local shopkeeper and found that the ingredients given on the label were not legible. He complained about it to the company. The company sent a written apology stating that they will make sure that existing packets are withdrawn from the market and new packets with legible labels are soon made available.

State the consumer right which Manuj exercised.

(1)

9. Explain any three features of 'Planning.' (3)
10. Mr. Shubhendu Bose is the owner of 'Bikmac Enterprises' carrying on the business of manufacturing various kinds of biscuits. There was a lot of discontentment in the organisation and the targets were not being met. He asked his son, Naval, who had recently completed his MBA, to find out the reason.

Naval found that all decision making of the enterprise were in the hands of his father didn't believe in his employees. As a result both the employer and the employees were not able to understand each others messages in the same sense. Thus, the employees were not happy and targets were not met.

- (a) Identify any two communication barriers because of which Bikmac Enterprises was not able to achieve its target.
- (b) State one more barrier each of the types identified in (a) above. (3)



11. Ashish, the Marketing Head, Raman, the Assistant Manager and Jyoti, the Human Resource Manager of 'Senor Enterprise Ltd.' decided to leave the company.

The Chief Executive Officer of the company called Jyoti the Human Resource Manager and requested her to fill up the vacancies before leaving the organisation. Informing that her subordinate Miss Alka Pandit was very competent and trustworthy, Jyoti suggested that if she could be moved up in the hierarchy, she would do the needful. The Chief Executive Officer agreed for the same. Miss Alka Pandit contacted 'Keith Recruiter Ltd.' They were able to recruit a suitable candidate for the company.

Raman's vacancy was filled up by screening the database of unsolicited applications lying in the office.

- (a) Name the internal / external sources of recruitment used by 'Senor Enterprises Ltd.' to fill up the above stated vacancies.
- (b) Also state any one merit of each of the above identified source of recruitment. (3)

12. Mr. Sanjay Nehra was the Chairman of 'Taran Bank,' The bank was earning good profit. Shareholders were happy as the bank was paying regular dividends. The market price of their shares was also steadily rising. The bank was about to announce taking over of 'Vena Bank.' Mr. Sanjay Nehra knew that the share price of 'Taran Bank' would rise on this announcement. Being a part of the bank, he was not allowed to buy share of the bank. He called one of his rich friends Sudhir and asked him to invest ₹ 5 crores in shares of his bank promising him the capital gains.

As expected the share prices went up by 40% and the market price of Sudhir's share was now ₹ 7 crores. He earned a profit of ₹ 7 crores. He gave ₹ 1 crores to Mr. Sanjay Nehra and kept ₹ 1 crore with himself. On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity. SEBI imposed a heavy penalty on Mr. Sanjay Nehra.

By quoting the lines from the above para identify and state any two functions that were performed by SEBI in the above case. (3)

13. State any three functions performed by non-governmental organisations for consumer protection. (3)
14. Explain any four points of importance of management. (4)
15. A recent rate cut in the interest on loans announced by the Banks encouraged Amit, a science student of Progressive School to take a loan from State Bank of India to experiment and develop cars to be powered by fuel produced from garbage. He developed such a car and exhibited it in the Science Fair organised by Directorate of Education. He was awarded first prize for his invention.

Identify and explain the dimensions of business environment discussed in the above case. (4)

16. 'Steelo Ltd.' decided to set-up its steel manufacturing factory in the backward area of Orissa where very less job opportunities were available. People of that area welcomed this effort of 'Steelo Ltd.'. To attract people to work in its factory it also decided to provide many other facilities like school, hospital, market etc. in the factory premises.

'Steelo Ltd.' started earning huge profits. Another competing company asked its production manager 'Aslam' to investigate the reasons of earning huge profits by 'Steelo Ltd'.

Aslam found that in both the companies there was systematic co-ordination among the various activities to achieve organisational goals. Every employee know who was responsible and accountable to whom. 'Steelo Ltd.' was allowing flow of communication in all the directions as per the requirement which lead to faster spread of information as well as quick feedback.

- (a) Identify the type of organisation which permits 'Steelo Ltd.' in free flow of communication in all the directions.
- (b) State another advantage of the type of organisation identified in (a) above.
- (c) State any two values which 'Steelo Ltd.' wanted to communicate to the society. (4)

17. Alfa Ltd.' was dealing in renewable energy. To get the business, the team leader and his team used to travel to different states to give presentation to their clients. As per the policy of the company, the leader used to travel by air, whereas his team travelled by road/train. It was not only time consuming but also at time forced female team members to travel alone.

As a result, the subordinates were not acting in a desired manner to achieve organisational goals. The CEO came to know about it. He called the team leader, discussed the matter with him and decided to change the travel policy of the company. It was decided that all the members including the leader would travel together in future and would usefully utilise the travelling time in discussion with the subordinates about presentation to be given to the clients. This made a positive impact and every member of the team started acting in a manner as desired by the team leader.

State the features of the element of the function of management used by the CEO. (4)

18. A company was marketing 'water purifiers' which were very popular due to their quality and after sales services provided to the customers. The company was a leading company but it ignored the after sales services. As a result, its relations with the customers got spoiled and the image of the company was damaged in the public. Top management became concerned when the profits for the current quarter fell steeply. On analysis it was revealed that ignoring the after sales services was its reason. Therefore, the company took all possible measures to protect and promote its favourable image in the eyes of the public. As a result, the goodwill of the company improved in the society.

(a) Name and state the communication tool used by the marketer in the above case to improve its image.

(b) Also explain role of the tool as identified in part(a). (4)

19. State any four functions of 'Stock Exchange.' (4)

20. Two years ago Madhu employed her daughter in food technology. She worked for sometime in a company manufacturing chutneys, pickles and murabbas. She was not happy in the company and decided to have her own organic food processing unit for the same. She set the objectives and the targets and formulated action plan to achieve the same.

One of her objective was to earn 10% profit on the amount invested in the first year. It was decided that raw materials like fruits, vegetables, spices etc. will be purchased on three months credit from farmers cultivating organic crops only. She also decided to follow the steps required for marketing of the products through her own outlets. She appointed Mohan as Production Manager who decides the exact manner in which the production activities are to be carried out. Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year. Madhu informed Mohan about her sales target for different products, area wise for the forthcoming quarter. While working on the production table a penalty of Rs. 100 per day for not wearing the caps, gloves and apron was announced.

Quoting lines from the above para identify and explain the different types of plans discussed. (5)

21. Arun is working in a multinational company in Gurgaon. He was running temperature for the last many days. When his blood was tested, he was found positive for dengue with a very low platelet count. Therefore, he was admitted in the hospital and a blood transfusion was advised by the doctors. One of his colleagues sent a text message about it to his immediate superior 'Mr. Narain'. Mr. Narain in turn sent a text message to the employees of the organisation requesting them to donate blood for Arun. When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings.

- (a) From the above para quote lines that indicate formal and informal communication.
- (b) State any two features of informal communication.
- (c) Identify any two values that are being communicated to the society in the above case. (5)

22. Explain any five points which highlighted the importance of controlling function of management. (5)
23. Explain any four characteristics of 'principles of management'. (6)
24. 'Viyo Ltd. is a company manufacturing textiles. It has a share capital of Rs. 60 lakhs. The earning per share in the previous year was Rs. 0.50. For diversification, the company requires additional capital of Rs. 40 lakhs. The company raised funds by issuing 10% debentures for the same. During the current year the company earned profit of Rs. 8 lakhs on capital employed. It paid tax @ 40%.
- (a) State whether the shareholders gained or lost, in respect of earning per share on diversification. Show your calculation clearly.
- (b) Also, state any three factors that favour the issue of debentures by the company as part of its capital structure. (6)
25. Ashima purchased a bottle of tomato-sauce from the local grocery shop. The information provided on the bottle was not clear. She fell sick on consuming it. She filed a case in the District Forum under Consumer Protection Act and got the relief.
- (a) Identify the importance aspect neglected by the marketer in the above case.
- (b) Explain briefly the function of the aspect identified in (a) above. (6)

### **MODEL ANSWERS TO CBSE QUESTION PAPER 2016**

1. 'Process' means series of primary functions or activities that management performs to get things done.
2. Authority refers to the right of an individual to command his subordinates and to take action within the scope of his position.
3. Functional structure.
4. The role of 'gang boss' as foreman in functional foremanship is to keep the machines and tools ready for operation by workers.
5. Investment decision/Capital budgeting decision.  
  
Investment decision refers to how the firm's funds are invested in different assets so as to earn the highest possible return to the investors.
6. Level of Collaboration.
7. Promotion.
8. Right to be informed which states that a consumer has a right to have complete information about the product he intends to buy such as, ingredients, date of manufacture, price, quantity etc.

**OR**

Right to be heard which states that a consumer has right to file a complaint and to be heard in case of dissatisfaction with a product or a service.

9. Features of planning (An three points with explanation)
  - (i) Focuses on achieving objectives.
  - (ii) Primary function of management
  - (iii) Pervasive

- (iv) Continuous
- (v) Futuristic
- (vi) Involves decision-making
- (vii) Mental exercise

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

10. (a) Two communication barriers are:
- (i) Organisational barrier/Organisational policy
  - (ii) Psychological barrier/ Distrust
- (b) Organisational barrier: (any two)
- (i) Rigid Rules and regulations may delay communication.
  - (ii) Status of the superior may not allow his subordinates to express their feelings freely.
  - (iii) Complexity in organization structure leads to delay and distorted communication.
  - (iv) Lack of organizational facilities like frequent meetings, suggestion box etc. may discourage free flow of communication.
- (If any examinee has given only the heading, 1/2mark for each heading should be awarded)
- (c) Psychological barrier: ( any one)
- (i) Premature evaluation i.e. evaluating the meaning of the message before the completion of the message may lead to prejudices against communication.
  - (ii) Lack of attention i.e non-listening of the message acts a major psychological barrier.

(iii) Loss by transmission and poor retention may acts as barrier to commission.

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

11. (a) Sources of recruitment used to fill up the vacancies are:

- (i) Promotion
- (ii) Placement Agencies and Management Consultants
- (iii) Casual Callers

(b) Merit of each above identified source of recruitment:

Promotion: (Any one)

- (i) It helps to improve motivation, loyalty and satisfaction level of employees.
- (ii) It has a great psychological impact over the employees because a promotion at a higher level may lead to a chain of promotions at lower level in the organisation.
- (iii) It is more reliable way of recruitment since the candidates are known to the organisation.
- (iv) It is a cheaper source of recruitment.

Placement Agencies and Management Consultants (any one)

- (i) They recommend suitable names to their clients.
- (ii) It helps in enticing the needed top executives from other companies by making the right offers.

Casual Callers: (any one)

- (i) It reduces the cost of recruiting workforce in comparison to other sources.



- (ii) It saves time.

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

12. Functions that were performed by SEBI in the above case were:

- (i) Regulatory function

On regular inspection and by conducting enquiries of the brokers involved, Securities and Exchange Board of India (SEBI) was able to detect this irregularity.

SEBI can call for information by undertaking inspection, conducting enquiries and audit of stock exchange and intermediaries.

- (ii) Protective function

‘The SEBI imposed a heavy penalty on Mr. Sanjay Nehra.’

SEBI controls insider trading and imposes penalties for such practices.

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

13. Functions performed by non-governmental organisation for consumer protection are: (any three)

- (i) Educating the general public about consumer rights.
- (ii) Publishing periodical and other publications.
- (iii) Carrying out comparative testing of consumer products.
- (iv) Encouraging consumer to strongly protest and take action against unscrupulous, exploitative and unfair trade practices of sellers.
- (v) Providing legal assistance to consumers.
- (vi) Filing complaints in appropriate consumer court on behalf of the consumers.

- (vii) Taking initiative in filing cases in consumer courts in the interest of the general public.

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

14. Importance of management: (any four with explanation)

- (a) Help in achieving group goals.
- (b) Increases efficiency.
- (c) Creates a dynamic organisation.
- (d) Helps in achieving personal objectives.
- (e) Helps in development of society.

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

15. Dimension of business environment:

- (i) Economic environment refers to factors and forces concerning means of production and distribution of wealth.

**OR**

Economic environment refers to factors like interest rates, inflation rates and changes in disposable income of people etc. which have an impact on business enterprise.

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

16. (a) Informal organisation.

(b) Advantage of Informal Organisation: (any one)

- (i) It fulfills social needs.

- (ii) It compensates for inadequacies in the formal organisation.

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

- (c) Values which 'Steelo Ltd.' wanted to communicate to the society are: (any two)

- (i) Development of backward regions.
- (ii) Creating employment opportunities.
- (iii) Providing basic amenities to employees.
- (iv) Fulfilling social responsibility.

(Or any other correct value)

17. Features of motivation:

- (a) It is an internal feeling as the urges, drives or needs of human beings which influences human behaviour are internal.
- (b) It produces goal directed behaviour as it stimulates people to accomplish desired goals.
- (c) It can be positive in the form of positive rewards or negative like punishment, stopping increments etc.
- (d) It is a complex process as any type of motivation may not have uniform effect on all the members.

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

18. (a) Public Relations

Public Relations refer to a variety of programmes to promote and protect a company's image or its products in the eyes of the public.

(or any three correct meaning)

(b) Role of Public Relations: (any three point with explanation)

- (i) Press relations.
- (ii) Product publicity
- (iii) Corporate communication.
- (iv) Lobbying.
- (v) Counselling.
- (vi) Smooth functioning of business.
- (vii) Image building.
- (viii) Launching new product.
- (ix) Facing adverse publicity.
- (x) Supplementing advertising.
- (xi) Satisfying interest of different public groups.
- (xii) Building awareness.
- (xiii) Building creditability.
- (xiv) Stimulating sales force.
- (xv) Lowering promotion costs.

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

19. Functions of Stock Exchange: (any four)

- (a) It provides liquidity and marketability to existing securities by allowing the investors a chance to disinvest and reinvest.
- (b) It determines the price of securities on the basis of the forces of demand and supply.
- (c) It ensures safety of transactions as the transactions carried out within an existing legal framework.
- (d) It contributes to economic growth as it indirectly promotes capital formation.

- (e) It spreads equity cult and ensures wider share ownership.
- (f) It provides scope for speculation within the provisions of law.

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

20. The different types of plans are:

- (i) Objective  
‘One of her objective is to earn 10% profit on the amount invested in the first year’.  
An objective is the end which the management seeks to achieve within a given time period.
- (ii) Policy  
‘It has decided that raw materials like fruits, vegetables, spices etc. will be purchased on three months’ credits from farmers cultivating organic crops only ‘.  
Policy is a general guideline which brings uniformity in decision making for achievement of predetermined objectives.
- (iii) Procedure  
‘She also decided to follow the steps required for marketing of the products through her own outlets’.

**OR**

‘She appointed Mohan as a Production Manager who decided the exact manner in which the production activities are to be carried out’.  
It consists of sequence of routine steps on how to carry out activities. It details the exact manner in which any work is to be performed.

- (iv) Budget  
‘Mohan also prepared a statement showing the number of workers that will be required in the factory throughout the year’.

**OR**

‘Madhu informed Mohan about the sales target for different products, area wise for the forthcoming quarters’.

A budget is plan which states expected results of a given future period in numerical terms. It may be expressed in time, money or physical units.

(v) Rule

‘While working on the production table, a penalty of ₹100 per day for not wearing the caps, gloves and aprons was announced ’

A rule is a statement that specifies what is to be done or not to be done

21. (a) Formal communication

‘When the General Manager came to know about it, he ordered for fumigation in the company premises and cleanliness of the surroundings.’

Informal communication

‘One of his colleagues sent a text message about it to his immediate superior Mr. Narain.’

**OR**

‘Mr. Narain in turn sent a text message to the employees of the organisation requesting them to donate blood for Arun.’

(b) Features of Informal communication:( Any two)

(i) It takes place without following the formal lines of communication.

(ii) It arises out of social needs of the employees

(iii) It spreads rapidly.

**(or any other correct feature)**

(c) Values being communicated to the society are: (Any two)

(i) Concern for the environment

(ii) Cleanliness and hygiene

(iii) Concern for safety of human beings

(iv) Sensitivity towards health

**(Or any other correct value)**

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

22. Importance of controlling (Any five points with explanation):

(i) Accomplishing organisational goals.

(ii) Making efficient use of resources.

(iii) Ensuring order and discipline.

(iv) Improving employee motivation.

(v) Judging accuracy of standards.

(vi) Facilitating co-ordination in action

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

23. Characteristics of principles of management: (Any four points with explanation)

(i) Universal applicability

(ii) General guidelines

(iii) Formed by practice and experimentation

(iv) Flexible

(v) Mainly behavioural

(vi) Cause and effect relationship

(vii) Contingent

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

24. 10% and concluded that the shareholders have lost after the issue of debentures since the interest rate is greater than the return on investment.

[marks to be awarded]

[In case the examinee has assumed any other face value and has shown correct conclusion, full credit be given]

- (b) Factors that favour issue of debentures by the company: (Any three)
- (i) A good cash flow position makes debt funding more viable.
  - (ii) High Interest Coverage ratio lowers the risk of company failing to meet its interest payment obligations
  - (iii) High debt service coverage ratio indicates better ability to meet the debt service obligations.
  - (iv) If Return on Investment of the company is higher than the interest rate on debt, its ability to use debt is greater.
  - (v) Lower the cost of debt higher is the ability to employ debt.
  - (vi) High tax rate makes debt relatively cheaper.
  - (vii) If the stock market conditions are bearish, a company may be able to easily raise funds through debt.
  - (viii) If the company does not want dilution of control, it will favour debt as a source of finance.
  - (ix) Inclusion of debt in the capital structure makes the capital structure flexible.
  - (x) If the business risk is lower, its capacity to use debt is higher.
  - (xi) Raising funds through debt involves low floatation costs.

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



25. (a) Labelling
- (b) Functions of labelling: (Any five points with explanation)
- (i) Describes the product and specifies its contents.
  - (ii) Identifies the product or brand.
  - (iii) Helps in grading of products.
  - (iv) Helps in promotion of products.
  - (v) Provides information required by law.

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